Issue 2 | June 2013

Peter Dannenberg, Yejoo Kim, Daniel Schiller

Chinese Special Economic Zones in Africa: a new species of globalisation?

Claude Sumata, Théophile Dzaka-Kikouta

The determinants of China’s foreign direct investment in Central Africa: evidence from the Republic of Congo and DRC

Théophile Dzaka-Kikouta, Francis Kern, Chiara Gonella

Chinese economic co-operation with Central Africa and the transfer of knowledge and know-how

Lilliana Avendaño

Lending money: Latin America and China’s New Engagement

Lawrence Mhandara, Charity Manyeruke, Eve Nyemba

Debating China’s New Role in Africa’s Political Economy
African East-Asian Affairs
Issue 2 | June 2013

A publication of the Centre for Chinese Studies at Stellenbosch University, Western Cape, South Africa. The journal is published quarterly and aims to be the premier African-produced publication providing an academic forum for East-Asian affairs. The views expressed in the articles are generally those of the authors and not necessarily those of the Centre for Chinese Studies.

Submissions to African East-Asian Affairs | The China Monitor:
The CCS welcomes contributions for this publication. Please contact the editors using the details below if you would like to submit a piece, or would like guidelines on submissions to African East-Asian Affairs. The CCS reserves the right not to publish submitted manuscripts.

---0---

Editorial Team
Dr Sven Grimm | Editor-in-Chief
Harrie Esterhuyse | Deputy Editor

Design & Layout
Centre for Chinese Studies
---0---

© Centre for Chinese Studies, Stellenbosch University, 2012. All Rights Reserved.

Centre for Chinese Studies
Stellenbosch University Tel: +27 (0) 21 808 2840
P.O. Box 3538 Matieland Fax: +27 (0) 21 808 2841
7602 Email: ccsinfo@sun.ac.za
South Africa Website: www.sun.ac.za/ccs

© Centre for Chinese Studies, Stellenbosch University
All Rights Reserved.

2
Contents

Issue 2 | June 2013

Peter Dannenberg, Yejoo Kim, Daniel Schiller……………………………………04
Chinese Special Economic Zones in Africa:
a new species of globalisation?

Claude Sumata, Théophile Dzaka-Kikouta……………………………………15
The determinants of China’s foreign direct investment in Central Africa:
evidence from the Republic of Congo and DRC

Théophile Dzaka-Kikouta, Francis Kern, Chiara Gonella……………………39
Chinese economic co-operation with Central Africa
and the transfer of knowledge and know-how

Lilliana Avendaño……………………………………………………………………………….61
Lending money: Latin America and China’s New Engagement

Lawrence Mhandara, Charity Manyeruke, Eve Nyemba……………………79
Debating China’s New Role in Africa’s Political Economy
Chinese Special Economic Zones in Africa:
a new species of globalisation?*

By Peter Dannenberg\textsuperscript{i}, Yejoo Kim\textsuperscript{ii}, Daniel Schiller\textsuperscript{iii}

Introduction

Establishing 50 Chinese special economic zones (SEZs) is an integral part of the “Going Global” strategy promoted by the Chinese government (Gonzalez-Vicente, 2011). It is the latest addition to earlier pro-active economic internationalisation measures that comprised development aid and concessional loans, access to natural resources, export market development and outward foreign direct investment (OFDI). Africa became the most important host of the initially planned 19 SEZs worldwide with zones in Zambia (2), Nigeria (2), Ethiopia, Egypt, Mauritius, and Algeria. The developers of these zones were selected via two rounds of

*We thank Sven Grimm (Stellenbosch) and Tom Mockford (Sheffield) for their valuable comments.

\textsuperscript{i} Peter Dannenberg, is a Senior Lecturer at the Institute of Geography at the Universität zu Köln, Germany

\textsuperscript{ii} Yejoo Kim is a Research Analyst at the Centre for Chinese Studies, at the University of Stellenbosch in South Africa. Her research focuses on Chinese investment in Africa and its implications.

\textsuperscript{iii} Daniel Schiller, is a Senior Researcher at the Lower Saxony Institute for Economic Research, Germany.
competitive tenders held by the Ministry of Commerce (MOFCOM) in 2006 and 2007 (Bräutigam and Tang 2011, 2012).

The promotion of SEZs attempts to build on Chinese domestic experiences. Yet, the implementation of these zones in other countries emerges as a new species of globalisation. In the past, various forms of SEZs, for example export processing zones, free trade zones and industrial parks dedicated to foreign investors, were established globally with particular concentration and successes in the emerging economies of Asia. In these cases, governments of the affected countries usually established these zones as enclave spaces by their own initiative with preferential conditions for foreign investors or export-oriented firms (Sidaway, 2007). In the case of Chinese SEZs, the programme is initiated by the Chinese government (MOFCOM) and operated by developers and managers of the zones which comprise of Chinese state-owned enterprises (SOEs), private enterprises or public organisations. The re-territorialisation of the Chinese state abroad is, thus, not only governed and implemented by the central government as a monolithic bloc, but involves regional governments and marketised state branches as independent actors (Gonzalez-Vicente, 2011). Thereby, the Chinese SEZs not only seem to become institutional enclaves within the host countries, but also spaces of trans-national governance.

This guest editorial argues that Chinese SEZs in Africa involve at least three relevant research themes for political and economic geographers: 1) emergence of transnational governance and institutions in enclave spaces, 2) investment motives and location choice factors of Chinese actors in Africa, and 3) implications for development and power relations.

**Transnational governance: grand plan or grand experiment?**

SEZs were a successful instrument to initiate OFDI flows to China during the early reform and opening process. These spatially limited openings allowed for the experimentation with gradual reform steps which could be revoked in case
they proved counterproductive. The Chinese overseas zones programme adopted this approach and is organised as an experimental process that resembles the reform strategy of “crossing the river by feeling the stones” (Bräutigam and Tang, 2012).

The experimental approach is reflected by the sectoral focus of the different zones and the selection of host countries. All SEZs are either both resource and market-driven or aimed at serving various sectors and markets (see below); a number of SEZs are even located in landlocked countries. The differences in stages of development, size of the economy, growth rates, and institutional environments of the host countries underline the strategy of a flexible diversification (see Table 1). Furthermore, the investors in Chinese SEZs in Africa do not exclusively consist of SOEs supervised by the central government, but SOEs of regional governments, private companies, and (potentially) even non-Chinese investors are hosted in the SEZs. The multiplicity of actors involved in the ‘Going Global’ policy is part of the Chinese strategy to involve commercial actors in the exercise of transnational power; termed economic statecraft with Chinese characteristics by Norris (2010).

**Investment motives: market development or natural resource-seeking?**

Dunning’s (1981) investment development path predicts that FDI by countries at a higher stage of development in those at a lower stage has the purpose of gaining access to natural resources or benefitting from low production costs. Thus, vertical FDI, in other words, the relocation of cost-sensitive or resource-intensive parts of the value creation process, are expected to prevail over horizontal FDI, or the relocation of the whole value creation process with the aim to serve the local market (Carr et al, 2004). However, Chinese MNCs seem to diverge from the pattern predicted by Dunning’s (2000) OLI paradigm because cost advantages can still be realised in the home market. Natural resource seeking was the dominant motive of Chinese investors in African countries during the 1990s (Asche and Schüller 2008); gaining access to additional markets for Chinese low-cost products became a major investment motive since the 2000s (Bräutigam and Tang 2011). While
Table 1: Location factors of the six African host countries of Chinese SEZs and South Africa

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Mauritius</td>
<td>0.728</td>
<td>8,040</td>
<td>1,286,051</td>
<td>11.3</td>
<td>0.71</td>
<td>4.0</td>
<td>19</td>
<td>43</td>
</tr>
<tr>
<td>Algeria</td>
<td>0.698</td>
<td>4,470</td>
<td>35,980,193</td>
<td>188.7</td>
<td>0.4</td>
<td>2.4</td>
<td>152</td>
<td>105</td>
</tr>
<tr>
<td>Egypt</td>
<td>0.644</td>
<td>2,600</td>
<td>82,536,770</td>
<td>229.5</td>
<td>1.7</td>
<td>1.8</td>
<td>109</td>
<td>118</td>
</tr>
<tr>
<td>Nigeria</td>
<td>0.459</td>
<td>1,280</td>
<td>162,470,737</td>
<td>244.0</td>
<td>2.5</td>
<td>7.3</td>
<td>131</td>
<td>139</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>0.363</td>
<td>370</td>
<td>84,734,642</td>
<td>30.2</td>
<td>2.1</td>
<td>7.2</td>
<td>127</td>
<td>113</td>
</tr>
<tr>
<td>Zambia</td>
<td>0.430</td>
<td>1,160</td>
<td>13,474,959</td>
<td>19.2</td>
<td>4.2</td>
<td>6.4</td>
<td>94</td>
<td>88</td>
</tr>
<tr>
<td>South Africa</td>
<td>0.619</td>
<td>6,960</td>
<td>50,586,757</td>
<td>408.6</td>
<td>1.2</td>
<td>3.1</td>
<td>39</td>
<td>69</td>
</tr>
</tbody>
</table>

resource-seeking activities were mainly dominated by large state-owned conglomerates, the market-seeking strategy opened the door for private firms and SMEs, increasing the diversity of Chinese actors in Africa.

China’s SEZ strategy reflects the shift towards sectoral diversification and market orientation. While African host countries of Chinese SEZs differ strongly in their location factors (see Table 1), their market is either characterised by a comparatively high development stage for African standards (Mauritius, Egypt, Algeria) or strong economic growth (Nigeria, Ethiopia, Zambia). Resource seeking is still an important motive for Chinese FDI in Nigeria (oil) and Zambia (copper), but production plants for consumer goods (example home appliances, textiles) and investment goods (machinery, construction materials) emerged more recently. The implications of these investments for local firms, the diversification of host economies and their integration in value chains of Chinese firms remain yet unanswered.

Apart from the support of market-seeking FDI, it is likely that geo-political considerations of economic statecraft are also an important driver for the decision of where to establish a SEZ (Norris, 2010). Except for Mauritius and Zambia, all zones are located in countries with large populations and high regional political importance. Good economic and political relations with these countries potentially support China’s long term strategic ambitions in Africa as a whole. However, the interpretation of these facts is debatable and offers room for future research as illustrated by the following two examples. First, no zone developer submitted a proposal for a zone in Tanzania despite the country’s long standing relations with China (Bräutigam and Tang, 2012). Second, South Africa was not chosen as a location for an SEZ, even though it possesses all the attributes necessary to qualify for an attractive FDI destination. A possible explanation is that the institutional environment in South Africa is sufficiently reliable to allow for FDI outside of institutional enclaves; additionally, the political climate towards Chinese
Figure 1: Chinese special economic zones, investments and population in African countries

Sources: Baynton-Glen (2012); wikipedia.org/wiki/Overseas_Chinese (2013)
investors in South Africa was unlikely to be supportive of special economic enclaves.

**Location choice and bargaining power: do formal or informal institutions matter?**

Institutional factors determine the attractiveness of a location for FDI and the efficiency of different entry modes. Meyer et al. (2009) have shown that MNCs cope with unreliable institutional environments by entering host markets via mergers & acquisitions and joint ventures instead of wholly-owned subsidiaries. The strategy of creating institutional enclaves in the host market by setting up SEZs could be interpreted as a way of dealing with institutional uncertainty. The institutional support provided by SEZs seems to be of higher importance for market-driven investments by SMEs and private firms than for large SOEs that are able to create their own institutional environment and have direct access to negotiations with host country governments.

While SEZs provide advantageous formal institutions, many Chinese firms still capitalise on informal institutions and personal networks (Yeung 2006), particularly SMEs and private enterprises. Both, personal networks and SEZs can lower the transaction cost related to FDI in unfamiliar institutional environments, but may also limit the interactions with local actors. In that sense, SEZs could be an indicator of weak institutions and a manifestation of power asymmetries.

The indicators for institutional quality, in Table 1, support the expectation that SEZs are used as a market entry strategy if economic factors are promising but institutions are weak. In addition to measurements of formal institutions, Figure 1 reveals that the host countries for Chinese SEZs are among those that possess the biggest Chinese populations in Africa. Even though the identification of causality for this correlation is still an area for further research, it seems likely that Chinese zones and diasporas are attracted by the same economic interest.

The fact that South Africa does not host a Chinese SEZ is even more notable due
to the fact that it possesses the largest Chinese population in Africa. South Africa is the leading recipient of Chinese FDI, but the rare combination of a comparatively high stage of development, a big market and rather good institutions probably gives it a stronger bargaining position in negotiating the general conditions of FDI (Mlachila and Takebe, 2011). Indeed, South African politicians and labour unions fear that the establishment of Chinese SEZs could lead to low labour standards and the displacement of domestic firms (van der Westhuizen and Grimm, 2013). While this concern also exists in other African countries, local actors might not possess sufficient negotiating power to negotiate the terms for FDI. However, the conclusions of existing studies on the implications of China’s activities in Africa are ambiguous. Yan and Sautman (2013) analysed the Western discourse of Chinese copper mining in Zambia and showed that inaccurate stereotypes are produced since the conditions in Chinese mines are often not worse than in comparable mines of other owners.

Conclusion

The discussion above has shown that the Chinese strategy to establish SEZs in Africa has the potential to become a new species of globalisation. It is unique in its experimental and evolutionary approach towards transnational governance and institutional enclaves. It deviates from existing FDI theories that predict the predominance of vertical FDI at early stages of development. While natural resources were the reason why China became involved in some countries in the past, they are insufficient as an explanation for the recent location of zones. Chinese MNCs focused on market-seeking FDI happens much earlier than expected by theory. Market size and growth potential clearly increases the likelihood for hosting a Chinese SEZ. Despite the positive relationship between institutional quality and FDI in other empirical studies, Chinese SEZs in Africa seem to concentrate in countries with weak institutions. The hypothesis for further research is that there is a negative influence of institutional quality on the likelihood of hosting a Chinese SEZ, because these institutional enclaves become obsolete if
a certain level of institutional quality is reached in the host country and/or the bargaining power of the host country government increases.

The multiplicity of actors involved in or operating alongside the establishment of Chinese SEZs in Africa and the diverse and sometimes contradictory implications for development and power relations leads us to conclude that Chinese SEZs are an important topic on the research agenda of political and economic geography.

Bibliography


Dunning, J.H. 1981: Explaining the international direct investment position of countries: towards a dynamic or developmental approach. Weltwirtschaft-
lichen Archiv, 117(1), 30-64.


Mlachila, M. & Takebe, M. 2011. FDI from BRICs to LICs: Emerging Growth Driver?


Van der Westhuizen, J. & Grimm, S. 2013, forthcoming. Riding the Dragon or


The determinants of China’s foreign direct investment in Central Africa: evidence from the Republic of Congo and DRC

By Claude Sumata\textsuperscript{i}, Théophile Dzaka-Kikouta\textsuperscript{ii}

Introduction

Since the 1990s, mainly through multinational corporations (MNCs), foreign direct investment (FDI) from South-South regions has been growing faster than FDI flows from North-South regions. In the framework of South-South investments, beside other rising Asian economies (India and the Persian Gulf countries) China is an important source of FDI to Africa. Within the African continent itself, South Africa remains the main actor in this context by first channelling investments into the Southern African region then other African countries.

Among the emerging markets is China, which ranks first as a donor, trading partner and investor country in Africa. This tends to reinforce China’s supremacy in Central Africa, as the country is pursuing its appetite or hunger for resources, mainly oil and minerals, despite the financial crisis that erupted in 2008. This strategy seems to be twofold: there is a need in China to secure resources at home

\textsuperscript{i} Claude Samata is Professor of Economics at the Catholic University of Congo, in the Democratic Republic of the Congo.

\textsuperscript{ii} Théophile Dzaka-Kikouta is an Economic PhD at the Ngouabi University of Brazzaville, in Congo Brazzaville. He is also a Guest Researcher at BETA, at the University of Strasbourg, in France.
in order to sustain its economic growth and secondly there is a need for access to overseas markets for broader investments through Chinese companies.

China’s involvement in the Republic of Congo and the Democratic Republic of the Congo (DRC), tends to be at the forefront of many analyses (Alden & Davies, 2006; Wang, 2009; Jansson, 2009; Jansson 2013; & Dussauge, 2010) in attempting to assess the dynamics of current Chinese Official Development Assistance (ODA) and foreign policy. It is worth mentioning that China’s FDI seems to expand considerably in this context and its quest for natural resources seems to follow the same pattern. Another point is the fact that several western countries have raised concerns about the lack of transparency of this dealings and the risk to debt owed them by most developing countries as a direct consequence of this strategy. They seem to raise in this context the self-interest of China and to challenge the real motivations behind its foreign policy. A study by Foster et al (2008) tends to highlight the fact that China is playing a major role in financing main infrastructure projects in sub-Saharan African countries, including investments in oil and mining, through the famous "Angola mode", a sophisticated system of compensation, linking infrastructure programme with oil and other mineral resources.

Therefore, the purpose of this study is to analyse to what extent Chinese FDI in Central Africa contributes to improving the attractiveness of the host country. It supports the hypothesis that FDI should be empowered through appropriate economic and political governance by recipient countries. In fact, this study is expected to bring new insights and contribute to their sustainable development.

The outline of the study is as follows. The first section deals with the literature review on the motives and strategies of Chinese multi-national companies. Section two focuses on the setting of Chinese MNCs in Central Africa. Section three analyses the impact of the 2008 global economic crisis on Chinese FDI destinations in Central Africa. Section four concludes the paper and draws some policy implications by paying special attention to the opportunities offered by Chinese
FDI for sustainable development of recipient countries in Central Africa.

1. The determinants of the Chinese MNCs: theoretical background

The majority of work on the motives of FDI refers to the four main determinants: firstly, the search for natural resources (resource-seeking); secondly, the search for the markets (market-seeking); thirdly, the search for strategic assets (strategic asset-seeking) to acquire technology, managerial capacities, brands, distribution networks and other assets and lastly, the search for efficiency (efficiency-seeking) to exploit economies of scales, or by securing access to cheaper inputs.

In 2006 and 2009 the United Nations Conference on Trade and Development (UNCTAD) World Investment Report identified three main purposes fuelling FDI from emerging economies to developing countries. As emphasised in the 2009 UNCTAD World Investment Report, “companies and funds from a number of Asian economies that are not, or are less, affected by the financial turmoil may maintain an aggressive strategy for overseas investments and become more important actors on the global FDI scene. Furthermore, for many Chinese and Indian companies in particular, the desire to acquire undervalued assets (such as mineral deposits, technologies, brand names and/or distribution networks) during the global and financial crisis may boost Asian Investments in developed countries” (UNCTAD, 2009).

According to the 2009 UNCTAD World Investment Report on Chinese FDI, trans-national companies (TNCs) are driven by their need to invest abroad in order to secure access to natural resources (oil, gas and mineral deposits) and create assets (technologies, brand names and distribution networks). There has also been a growth in FDI flows to low-income African countries. In 2008, for example, Asian countries’ investments in infrastructure projects in sub-Saharan Africa rose significantly. From 1990 to 2008, Asia’s weight in African trade doubled to 28 per cent. They play a crucial role in financing infrastructure in
lesser developed countries, such as Angola and the Democratic Republic of the Congo.

It could be argued that the search for natural resources was the main motivation of Chinese outward foreign direct investment (OFDI) since the country has committed to invest abroad and the strategy was also mainly fuelled by the exceptional economic growth of mainly China, during these past decades. In this context, Chinese MNCs have targeted some specific countries in Africa and Latin America, richly endowed with natural resources to fulfil their needs of natural resources. The bulk of Chinese FDI in Africa are mainly channelled through state owned enterprises (SOEs) looking for untapped reserves of natural resources, often by linking these investments with ODA programmes and trade. Among the African countries targeted, we can mention those facing an unstable political environment (Sudan, DRC, Angola, Zimbabwe, Niger, Guinea-Conakry; and so on).

Under these circumstances, China does not seem to avoid the troubled areas at risk in order to increase the volume of its OFDI. In some cases, unlike its Western competitors, the Chinese state-owned MNCs have benefited from cheap capital in connection with long-term strategies. In fact, Western companies tend to consider the political instability in African countries as a constraint and this risk assessment tends to limit the opportunity to achieve high levels of FDI (Alden and Davies, 2006).

Taking on board the fact that SOEs constitute the main actors driving overseas Chinese FDI, investment decisions also reflect the political objectives beyond the will of profit maximization. The expansion of Chinese FDI seems to be fuelled by the search for export markets (market-seeking) as FDI flows into China from developed countries have intensified over the past decades. The main reason for this type of FDI by Chinese MNCs is the intense competition faced by Chinese firms in the domestic market, due to the massive entry of FDI into the Chinese market, especially since China’s entry into the World Trade Organi-
However, one can argue that the competition is not only brought by foreign companies into China but also Chinese companies themselves. Consequently, this situation creates many setbacks such as saturation of the Chinese market and lack of financial support, mainly for private companies.

For several years, China has been the largest FDI recipient country among the emerging countries, with US$ 108 billion in 2008 (UNCTAD, 2009). In some cases, the search for export markets is consistent with the strategy deployed by Chinese MNCs to enjoy the benefits of preferential access offered by some countries in order to target developed countries’ markets (for example, invest in Turkey to enter the European Union market) or invest in Africa to benefit from preferential agreements [for instance African Growth and Opportunity Act (AGOA); and Economic Partnership Agreements (EPAs) especially for textiles and clothing] to access developed countries’ markets.

The third motive is related to the search of strategic assets (strategic asset-seeking), and one can mention that unlike the multi-nationals from developed countries, Chinese companies seem not to rely on specific major assets (brands, patents, innovative production processes; and so on). In this context the main difference between the internationalisation of Chinese and the Japanese firms in the 1980s needs to be analysed. While the latter benefited from time to build specific assets: brands (Toyota, Mitsubishi, Sony), technological innovation and dominant domestic market positions, Chinese firms were able to establish, hybrid operations such as partnerships and strategic alliances. These operations, with a remarkable pragmatism and experience in the domestic market, reconciled their financial and technological resources with their international strategy ambitions, while limiting their risk-taking.

2. The dynamics of the Chinese FDI in Central Africa

In this section we will identify trends in regional distribution of Chinese FDI,
motives and strategies applied in the context of the Economic Community of Central African States (ECCAS) and deduce the implementation of Chinese infrastructure projects and territorial attractiveness in Central Africa.

2.1 Trends and structure of the Chinese FDI

Notwithstanding the problem of data sources, most studies agree that the Chinese FDI has become significant after 2000. The annual average FDI outflows over the period 1990-2000, were only US$ 2.1 billion, reaching US$ 56.5 billion in 2009. It is expected that FDI will continue to increase given that China continues to accumulate large current account surpluses and huge foreign exchange reserves. Since 2007, China created a sovereign wealth fund managed by the China Investment Corporation (CIC) with a capital of US$ 200 billion, fuelled by a partial transfer of the reserves of the central bank. The aim was to ensure the setting of a more active use of its surplus via the diversification of its assets abroad. The CIC is working with the State Administration of Foreign Exchange (SAFE) related to the central bank. This public enterprise is responsible for managing the vast foreign exchange reserves by carrying on in its behalf overseas investments (Milelli et al. 2009).

There is some evidence to suggest that the Chinese FDI outflows weighed only one per cent of the world total in 2007. However, this share has nearly tripled to 2.8 per cent in 2008 (Pairault, 2010). For some host countries, particularly in Africa, the percentage of Chinese FDI sometimes accounted for more than ten per cent of the overall FDI to African countries. In terms of global FDI stocks, China’s FDI accounted for US$ 96 billion in late 2007, against just US$ 29 billion for India which, is also a major emerging investor in Africa. Taking a geographic perspective of Chinese FDI destinations, it is clear that Asia remains the largest recipient with 50.4 per cent of the total Chinese FDI over the period 2003-2007, followed by Latin America and the Caribbean with 37.4 per cent (for a discussion of this percentage, see L. Avendaño in this issue). For its part, Africa is the third most important destination of Chinese FDI with 4.2 per cent, placing it before
North America and Europe.

In late 2007, it is estimated that over 7000 Chinese MNCs invested across 173 countries around the world by creating at least 10 000 companies abroad with almost 1000 operating in Africa and in addition, the share of Chinese FDI to Africa has grown steadily. Thus, for Brautigam (2009), using data from Ministry of Commerce of the People's Republic of China (MOFCOM), Chinese FDI share in Africa has more than doubled over five years from 2.6 per cent in 2003 to 6 per cent in 2007. For the same period, Berthélemy (2009) demonstrated that Chinese FDI to Africa grew faster than FDI from other countries.

In terms of sectoral distribution, based on data from MOFCOM, for the period 2002-2005, Huchet and Ruet (2008) highlighted that Chinese MNCs invest first in the primary sector: energy and raw materials (44 per cent), industry (26 per cent), services: trade, distribution, information and communications technology (ICT) (23 per cent) and in other areas such as infrastructure (7 per cent). Cheng and Ma (2008) note that in 2006, over 40 per cent of FDI inflows in China have been directed to the primary sector (oil and mining), 54 per cent to services (trade, finance, construction; etc.) and only 4 per cent went to manufacturing. The 2009 UNCTAD’s World Investment Report highlighted the increase of Chinese FDI overall in the primary sector (agriculture, energy and mining), in connection with mergers and acquisitions in developed countries in 2008.

Among the top 20 African recipients of Chinese FDI, there are five countries in Central Africa exploiting crude oil and minerals: DRC, Congo Brazzaville, Equatorial Guinea, Gabon and Chad. Moreover, this list of the top 20 is dominated by 13 resource-rich countries, with the exception of Mauritius, Egypt, Ethiopia, Madagascar, Benin, Kenya and Tanzania. However, in recent years, it appears from the Chinese data source (2009 Statistical Bulletin of China's Outward Foreign Direct Investment) that the distribution of Chinese FDI in Africa by sector tends to widen in favour of the manufacturing and the services sectors.
2.2 Chinese FDI within the ECCAS: natural resources and export markets

The search for natural resources is the major catalyst of the internationalisation of Chinese MNCs. This trend is corroborated by the situation of Chinese investments in Central Africa which are primarily intended for the oil and mining sectors. It appears that since the 2000s, the three major Chinese oil companies with public capital all invested in oil-producing countries of Central Africa according to their specialisation: China National Petroleum Corporation (CNPC) (exploration and production on-shore), China Petroleum & Chemical Corporation (SINOPEC) (refinery and petrochemicals) and China National Offshore Oil Corporation (CNOOC) (exploration and production offshore).

According to Alden and Davies (2006), Chinese oil companies in Africa deploy three types of managerial strategies. It would be primarily a procurement strategy and vertical integration. Furthermore, this would be an energy security strategy of the Chinese state that seeks acquisitions of energy assets abroad; particularly in Africa, Latin America and the Middle East. Therefore, the Chinese government directly supports its MNCs financially, and links that support to development projects (project aid) and possibly involves diplomacy with the political leaders of the target countries.

It would also be a strategy of partnerships and joint venture allowing Chinese companies to partner with local businesses and / or those of Western countries in foreign markets for technological and managerial learning. For instance the joint venture established in Angola between Sinopec (55 per cent) and the Angolan oil public enterprise, Sonangol (45 per cent) follows this pattern. Sinopec also acquired the Canadian group Addax, already established in Gabon and Congo – Brazzaville for $ 7.2 billion, to benefit from its expertise in offshore exploration in ultra-deep water. Sinopec has kept intact the new structure, keeping management and technical teams of Addax (Brautigam, 2009).

Beside oil, the Chinese state-owned MNCs are designed to ensure China’s demand for mining products whose dependence vis-à-vis imports is growing. In this
regard we know that among the worlds oil-consuming countries, China ranks second (10 per cent of the global oil imports in 2008) after the United States, which became a net oil importer in 1993. Currently Africa imports nearly 35 per cent of the worlds petroleum products (compared to 20per cent in 2005 and 9per cent in 1995). The pattern of the Chinese trade with African countries shows the significant weight of petroleum products (73 per cent), the rest being mainly made up of minerals (iron, copper, cobalt, manganese, platinum, diamonds; and so on.), and wood. In the case of the DRC, the mining sector seems to be at the forefront of Chinese FDI. In this context, Sicomines was established in 2008 in order to produce around ten million tons of copper and cobalt. With two-thirds of the investments owned by Chinese investors, it was expected to deliver at normal prices to China.

According to Beuret and Michel (2008), it is logical to China, with its 50 per cent dependence on imported oil, that out of the “top 20” African recipients of Chinese FDI, 90 per cent is in oil and mining products. In fact, the total Chinese imports from Africa amounted US$ 55.8 billion in 2008. According to Wang (2009), among Chinas "top 10" African suppliers, there were five ECCAS countries that provided 57 per cent of Chinese imports from Africa: Angola (40per cent), Congo - Brazzaville (6.7per cent), Equatorial Guinea (4.1per cent), Gabon (3.2per cent), Democratic Republic of Congo (2.8per cent).

However, as part of the search for export markets, some Chinese companies have recently invested in Central Africa in the manufacturing and the services sector. In accordance with the general trend of Chinese FDI in the world, mergers and acquisitions (as opposed to creation ex nihilo) is the preferred mode of operation in the manufacturing sector in Central Africa. There are some geographic concentrations of Chinese FDI in the two countries in ECCAS with the highest GDP and populations, with more than 15 million people each: Angola (17 million inhabitants, GDP: US$ 58 billion in 2007) and Cameroon (18.5 million, GDP: US$ 20 billion in 2007). Both countries have a comparatively large
domestic market and have a relatively lower risk than other ECCAS countries. In fact, the size of their markets seems to be an asset in this context.

Similarly to the strategy adopted by CHA Group in Hong Kong specialised in textiles and clothing, the search for export markets constitutes a way to benefit from the preferential access policy helping African countries to penetrate Northern markets.

In other cases, the search for external markets is justified by the desire to develop a competitive technology adapted to the needs of host countries: the cases in point would be Chinese FDI in the automotive and electrical equipment sectors in Angola and in the metallurgy and motorcycles in Cameroon. Unlike the primary sector in which investments are of necessity, companies in the manufacturing sector are most often dispersed and are encouraged to have specific geographical location in order to benefit from external economies of scale.

Some evidence suggests that this strategy requires high quality infrastructure and well-trained human resources. Dzaka and Bitemo (2010) have shown for the period 1980-2002, that ECCAS countries endowed with oil and minerals were not attractive from this point of view for FDI in the manufacturing sector. Therefore the strategic importance of Chinese investments in the infrastructure building sector (roads, hospitals), made since the 2000s, should be a fertile ground for growth and poverty reduction in the Republic of Congo and DRC.

2.3 Implementation of Chinese infrastructure projects and territorial attractiveness in Central Africa

The "Angola mode" arrangement linking Chinese ODA and FDI

The "Angola mode" arrangement is a complex process of compensation implemented by China to better manage risk countries in Africa. In fact, the recipient nation can change resources into cash to overcome funds shortages and develop its extractive industries. In many countries such as Angola, Congo - Brazzaville and the Democratic Republic of Congo, this strategy helps China’s state-owned
companies to secure resource-development rights in the recipient country. It links development aid, trade and investment by Chinese enterprises in host countries with significant oil and mineral resources.

According to many authors (Jansson, 2009 and 2013; Wang, 2009; Dzaka-Kikouta, 2008 and 2009): no money is paid directly to African governments, but the Chinese government commissions a public construction firm which usually receives financial support from the Export-Import Bank (Exim Bank), to achieve infrastructure projects with the approval of African governments concerned (Davies, 2008). Therefore, in return for the provision of infrastructure,

**Figure 1: Structure of “Angola mode” arrangement**

- **BENEFICIARY COUNTRY**
  - Awards company license to extract natural resources
  - Instructs company to construct priority infrastructure projects

- **CHINA**
  - CHINESE PETROLEUM COMPANY
    - Provides financial loan for project construction
  - CHINA EXIM BANK

**Source:** Foster et al. 2008)
the African government gives Chinese companies the right to exploit natural resources in the host country, through the acquisition of shares in a public national form of joint venture or production licenses (see figure 1).

A consortium was established between Sonangol and Sinopec in 2006 allowing the Chinese group to secure its supplies of crude oil while fitting into a vertical integration strategy. In addition to the exploitation of crude oil, the construction of a second oil refinery in Lobito, the Sonaref, has been implemented; amounting US$ 3.5 billion, as a joint venture between Sonangol (70 per cent) and Sinopec (30 per cent).

In exchange for these oil contracts, Angola has benefited from “soft loans”, making China the first bilateral donor to Angola, particularly from the Exim Bank, to finance infrastructure projects mainly run by Chinese construction companies which acquired 70 per cent of the contracts against 30 per cent for the local private sector.

Similarly, a concessional loan agreement between China and DRC worth US$ 8.5 billion to the DRC was signed in 2007, based on the "Angola mode", namely infrastructure against mining contracts and joint ventures. Thus, Socomines, a mining joint venture company was formed, between the local public company, Gecamines (32 per cent) and a consortium of Chinese companies (68 per cent) including China Railway Group Ltd, Synohydro Corporation, China Railway Sino-Congo Mining Ltd., Sinohydro Harbour Co Ltd, China Railway Resources Development Ltd.

In return for the loan of Exim Bank, China has been granted rights to exploit mineral resources (reserves of 10 616 070 tons of copper and 626 619 tons of cobalt). According to this agreement the tonnage should be determined for all other valuable minerals. For 25 years, Socomines will produce nearly 10 million tons of copper and 60 000 tonnes of cobalt worth US $ 12 billion. In exchange US $ 6 billion will be directed to infrastructure building for the DRC: rail (US $ 3 billion) and road (US $ 2 billion), social projects, including two universities,
32 hospitals, 5000 social housing units (US $ 758 million). The implementation of these projects by Chinese construction firms was expected to allocate between 10 to 12 per cent of the work to domestic enterprises in the DRC. In 2009, this contract was amended to meet the requirements of the International Monetary Fund (IMF). Initially the Chinese side asked the DRC to secure the repayment of investments if the mining project does not make enough profit. This guarantee has been withdrawn.

Another example of application of the "Angola mode" arrangement is given by Gabon, where the consortium CMEC (Company of China National Machinery & Equipment) /Sinosteel, benefiting from concessional financing from the Exim Bank has obtained since 2006 the sole rights to exploit iron in the Belinga region. This project represents an investment of US $ 3.5 billion or 30 per cent of Gabon’s GDP and the cost required to achieve the necessary infrastructure for the extraction of iron ore would amount to US$ 590 million (Corkin, 2007). The FDI should generate about 30 000 jobs in Gabon of which 80 per cent will be for Gabonese nationals. The China National Machinery and Equipment Corporation (CMEC) - the majority shareholder (85 per cent) in the joint venture and Gabon (15 per cent) - will build a 560 km railway between Santa Clara and Belinga (a deep water port on the Atlantic Ocean) and a hydropower dam to supply electricity mostly to the mining sector.

This project scheduled for 2011 was expected to last 20 years and exploit iron and other related products. China has committed to purchase all ore extracted from Belinga via a compensation contract.

In summary, this strategy seemed to be at the forefront of an unusual use of partnerships and joint ventures to secure access to raw materials. Chinese leaders were expecting to become co-owners of mines and oil fields in countries and businesses will flourish in this context according to the huge demand for resources (Dussauge, 2010).

There is a significant increase in trade and investment flows between Africa and
China since 2000. One can argue that China has rapidly modernising industries and burgeoning middle classes with rising incomes and purchasing power. This situation tends to push growing demand not only for natural resource-extractive commodities, but also for more diversified, non-traditional exports.

According to the current trend of China’s investments, much of the accumulated stock of Chinese FDI in Africa is concentrated in extractive sectors, such as oil and mining. However, greater diversification of China FDI flows to Africa seems to occur today. Despite the immense growth in trade and investment between the two regions, there are significant asymmetries. While Asia accounts for one-quarter of Africa’s global exports, trade between the two continents represents less than 2 per cent of the overall world exports to Asia.

The commitment by China in 2002 of a US$ 2 billion loan for investment in Angola has made ‘the middle kingdom’ one of the most significant players in the Angolan rebuilding process. China’s co-operation with Angola after the nightmare of its independence in 1975 followed the pattern of assisting National Union for the Total Independence of Angola (UNITA) as the People's Movement for the Liberation of Angola – Labour Party (MPLA) was siding with Moscow within the “Cold War”. Afterwards, Angola like many African countries managed to maintain commercial relationship with Beijing.

**Infrastructure projects and knowledge transfer process**

A study by the Centre for Chinese Studies in Stellenbosch (2007) emphasised that the majority of Chinese construction firms operating in Africa have tended to be SOEs: China Overseas Engineering Corporation, China Road and Bridge Corporation, China Railway Construction, and so on. Consequently, they seem to gain significant government support, as part of official development assistance.

In order to win bids, these companies rely primarily on price competitiveness (30 per cent below those of their competitors) because of the low cost of labour
and equipment they import from China. In addition, they often receive financial support from their government but sometimes international donors through multi-lateral and bi-lateral co-financing arrangements (World Bank, ADB, Kuwaiti Foundation). In Africa, the Chinese construction firms occupy second place with 21.6 per cent market share (2005 figure) behind the European groups with 49.3 per cent (Chen et al., 2009).

There are several projects managed by Chinese companies in the countries of ECCAS with financial support from the Exim Bank (Chen et al., 2009). It could be argued that Chinese construction groups across Africa operate primarily in construction (36.4 per cent), water supply (20.7 per cent), transport (13 per cent) and energy (9.8 per cent). The impact on the transfer of knowledge and expertise would be important if the Chinese groups had insured the implementation of the most advanced multi-partnership in order to fulfil the needs of the local partners in terms of transfer of technology and know-how (Dzaka, 2008).

With the exception of South Africa, local construction firms seem to be uncompetitive and thus pose no threat for Chinese companies, because of their low technical and financial capacity and their lack of skilled labour. This tends to limit Chinese incentive to enter into partnerships with these firms and therefore reduces the transfer of knowledge and expertise. Another point is the fact that the Chinese construction firms rely heavily on labour imported from China to carry out their various infrastructure projects in Africa on average 48 per cent of Chinese workers against 51 per cent of African workers and one per cent of workers from third countries (Chen et al., 2009). The imbalance is even more important if one examines the distribution of qualified personnel: the Chinese technicians occupy 91 per cent of management positions, while their African counterparts occupy only eight per cent and technicians from third countries, one per cent. In the latter case, the available data indicates that the one per cent is constituted by highly skilled workers of engineering companies from the OECD and exercise technical control and work supervision to ensure compli-
ance with international standards. This is the case of the German firm Fichtner associated with the China National Machinery & Equipment Import & Export Corporation for the completion of the Imboulou hydropower in Congo - Brazzaville. One can also mention the case of Angola, where a German firm, Galfi Engineering, has been involved in the supervision and quality control of road construction carried out by groups such as Chinese China Road and Bridge Corporation.

In other infrastructure projects with high added value such as ICT, we find that not only do these groups maintain a majority stake but also the direction, namely the strategy of the joint-venture is also dominated by the Chinese partners, while local partners seem to exercise supervisory roles. This is the case for example of the mobile phone company China Telecom Congo (CTC) in the DRC which, since 2001, has been working with Chinese-owned ZTE who has a majority of 51 per cent, with the rest going to local public interest (Corkin, 2008).

The SOEs engaged in infrastructure projects in Central Africa are expected to increase the level of knowledge of the host countries through technology transfer. This strategy constitutes a channel to implement Chinese development aid. It requires a specific state intervention, including public-private partnerships through education and research and development (R&D). Unfortunately, in the Republic of Congo and the DRC, the role of states in the area is so limited that these countries attract little in the promising sectors, with high value added or related to the knowledge economy (electronics, computers, telecom, ICT, biotechnology; and so on).

In Congo - Brazzaville, China Jiangsu International Economic Technical Cooperation, opened over the past years in partnership with the Department of Technical and Vocational Education, vocational training centres to compensate the shortage of local skilled workers and promote the employment of young people. In a US$ 8.5 billion concessional loan concluded in 2007 between China and the DRC, there is a specific clause in the agreement allowing Congolese workers to
occupy 80 per cent of the workforce in all projects in order to fight endemic unemployment. Chinese have to train Congolese staff insuring that the transfer of technology is taking place and one per cent of the investment has to be spent on social operations in the area and around 11 per cent of the amount should be allocated to Congolese enterprises. Under these circumstances, three per cent has to be used to cover environmental costs.

3 The impact of the financial crisis on Chinese FDI in Central Africa

Our field investigations confirm that the financial crisis that erupted worldwide in 2008, has not fundamentally hampered the movement of Chinese FDI to Africa, particularly to countries richly endowed with natural resources, such as those of Central Africa. Milelli et al. (2009) point out that the global crisis has been accompanied with a slowdown in Chinese FDI to developed countries as this dynamic tends to be mainly motivated by market access. Consequently, a deployment of FDI to the countries richly endowed with minerals and hydrocarbons is expected. In this context, the natural beneficiaries should be in Africa and Latin America.

The Sino-African overall trade fell in 2009 compared to 2008 (US$ 91 billion against US$ 107 billion), even though the Chinese Ministry of Commerce (MOFCOM) announced that FDI to Africa has increased by 81 per cent for the first six months of 2009 compared to the same period in 2008, reaching US$ 552 million (Brautigam, 2009).

As highlighted by Pairault (2010), the destination of FDI projects made by the Chinese public groups located in Africa, in 2009, tend to be the third largest in the world with 21.4 per cent of total projects, after Asia without Hong Kong (24.4 per cent) and Hong Kong (21.9 per cent) but ahead of Latin America (10.3 per cent), Europe (10.3 per cent), Pacific (6.4 per cent) and North America (5.3 per cent). In fact, the dynamics of Chinese FDI in Africa is fundamentally based on the commitment of public companies seeking access to natural resources in exchange for infrastructure projects as part of global solutions like Angola es-
establishing a very close link between FDI, ODA and trade.

As Chinese imports from Africa consist mainly of raw materials with demand remaining relatively price inelastic, the solutions offered to African partners from China – raw materials against infrastructure – mean that the decline of African exports to China can only be limited in the short term due to severe financial crisis such as 2008. In the long term also, there should be only marginal reduction of Chinese FDI in Africa because the Chinese SOEs, which are the engine, are supported by a Chinese banking sector relatively unscathed by the financial crisis (Schiere, 2009).

China is trying to invest in Africa in order to diversify its economy and to increase its assets. In fact, the Asian giant is trying to diversify its foreign exchange holdings beyond the significant accumulation of US treasury bonds. Chinese companies tend to be encouraged by the policy of globalisation promoted by their government since 2001. They are seeking to exploit opportunities created by the crisis (falling prices of raw materials and depreciation of the shares of target companies) to operate in mergers and acquisitions. Another point is the fact that they seem to capture strategic assets and seize foreign groups already active in Africa, particularly in the extractive industries (energy and mining) and the banking sector. In this context, a state-owned enterprise, Aluminum Corporation China (Chinalco), for example, acquired a 12 per cent stake in Australian-British mining giant, Rio Tinto, which controls several subsidiaries in Africa in 2008 (Cook et al, 2009; Brautigam, 2009).

Under these circumstances the Industrial and Commercial Bank of China acquired a 20 per cent stake in South African bank Standard Chartered Bank for US$ 5.4. The bank has subsidiaries in over twenty African countries, including in Central Africa. There is some evidence to mention that discussions between partners began in 2007 and shareholder approval was given in October 2008, fuelled by the pressure of the crisis. In this context, it is noteworthy, that China's investment in Central Africa has not been thwarted by the global crisis.
Box 1: The impact of the financial crisis on the mining sector: The case of the Katanga province

Since the fall in copper prices on the world market, from US$ 9000 per ton in August 2008 to just US$ 3,200 at the beginning of 2009 (Financial Times, 2009) more than 40 copper smelters owned by micro and small Chinese private enterprises have closed. It is true that most of these smelters and trading houses are not identified and the World Bank (2008) estimated that out of 325 mining companies operating in Katanga, including the artisanal sector, only 10 per cent are quoted on international stock exchanges. It is known that some Chinese companies (examples include, Huachin, Congo Loyal Mining, and so on) started their mining operations in Katanga, beginning in 2005, following the visit to Beijing by President Joseph Kabila (RAID: Rights and Accountability in Development, 2009). It is understood that out of approximately 70-75 foundries in the formal sector, in 2008, most plants were under control of Chinese entrepreneurs (World Bank, 2010: 36), but also to a lesser extent, Pakistani, Lebanese and Indian entrepreneurs (Jansson 2009: 37 and RAID 2009). For specialists in this sector, the DRC’s foundries can produce one ton of copper for about US$ 3,500 per ton. The Chinese bosses were forced to abandon their business due to bankruptcy and to leave the country in late 2008, only 10 per cent have kept their factories in the Katanga region. On average each foundry employed 150 employees, resulting in the unemployment of more than 6,000 workers who received a monthly salary of US$ 100 corresponding to the minimum wage in the DRC. In general, according to RAID (2009), 300 000 jobs have been lost in the mining sector in Katanga, following the closure of 50 per cent of SMEs due to the financial crisis in late 2008.

In terms of mining in the DRC, there are two aspects relating to the activities of Chinese investors. The first one concerns the well-known mining project led by the Sino-Congolese Socomines Public groups involved in the mining and infrastructure sectors. The second part deals with mining concessions held by Chinese SMEs in partnership with local entrepreneurs. The latter often hold the mineral rights but lacked the capital for the operation of the concession, hence the partnership with private investors in China. Before the crisis, a large group of Chinese entrepreneurs was active in the mining province of Katanga and in the neighbouring province of North Kivu. These investors were operating mainly in mining, especially the melting of copper and cobalt, as well as the marketing of minerals, managing the brokerage (such as in Goma, the provincial capital of North Kivu). Thus, before the crisis, according to various authors (Jansson 2009:24; CCS 2010:75) near 5 000 Chinese were living in Katanga province, including Lumbubashi, the provincial capital, against just 1 000 immigrants in May 2009; most of these immigrant entrepreneurs (most of whom are small traders, like in other African cities) had to leave the country due to the global crisis and its impact on the DRC macro-economic environment (collapse of foreign exchange reserves, depreciation of the local currency: the Congolese franc, weak GDP growth and so on).

Finally, according to a recent study (CCS, 2010) it seems that no private player in the Chinese mining sector in DRC is supported by the Chinese government or public financial institutions. These Chinese enterprises therefore behave like all private companies seeking business opportunities.

Source: Based on field data and literature review
As highlighted by J. Jansson (2013), Chinese involvement in the DRC is currently experiencing some difficulties to sustain activities. In this context, Exim Bank pulled out of the project after offering approximately US$ 1 billion in finance for infrastructure.

**Conclusion**

By the end of the day, it is wise to analyse to what extent Chinese investment in Central Africa could contribute to sustainable development and poverty reduction in host countries. One can mention that China needs to diversify its export markets as growth is driven by raw materials. The commitment of the Chinese SOEs, through long-term strategies with the support of the Chinese state seems to be the cornerstone of stability and sustainability of Chinese FDI in Central Africa.

In order to ensure the adequacy of Chinese FDI to the goals of sustainable development, countries should adopt a clear overall strategies vis-à-vis their partnership with China. Consequently, the Republic of Congo and the DRC must improve their political and economic governance.

The two main challenges related to the growing presence of Chinese FDI in these countries should be highlighted. The first challenge is to improve the management and the system of exploitation of natural resources including minerals and oil. In fact, it is expected to increase their attractiveness by accelerating the modernization of physical infrastructure and human capital to diversify their production base to support sustainable economic growth. This seems to be a *sine qua non* condition in order to build an autonomous framework integrating assimilation of knowledge as well public-private partnerships with China and other emerging countries especially India and Brazil.

These dynamics are significant to take into account when exploring the strategies of MNCs in Central Africa in order to establish how they tend to be different from the Western companies. In this context we need to identify trends in
Claude Sumata, Théophile Dzaka-Kikouta
“The determinants of China’s foreign direct investment in Central Africa: Evidence from the Republic of Congo and DRC?”

regional distribution of Chinese FDI, motives and strategies applied in the context of the Economic Community of Central African States (ECCAS).

Bibliography


Dzaka-Kikouta, T. 2008. L’Aide publique au développement de la Chine aux pays pétroliers et miniers d’Afrique centrale : une béquille indispensable
Claude Sumata, Théophile Dzaka-Kikouta
“The determinants of China’s foreign direct investment in Central Africa: Evidence from the Republic of Congo and DRC?”


Chinese economic co-operation with Central Africa
and the transfer of knowledge and know-how

By Théophile Dzaka-Kikouta, Francis Kern, Chiara Gonella

Introduction

Some emerging countries have increased their commitment in sustaining the poorest regions of the world, particularly those situated in Africa, on their development path, sometimes raising concerns in the international community for the practices adopted. Among these new donors from the Global South, Brazil, Russia, India, China, and South Africa (BRICS), play the most significant role.

Over the past decades, Chinese development co-operation was driven by the ideologies of the Cold War. However, since the 1990s the Chinese approach to development assistance has followed a more flexible strategy, combining pragmatism and the necessity to deal with the needs induced by its spectacular economic growth. In this context, the economic motivations of Chinese aid are to secure and diversify its sources of raw materials, especially oil, and to extend its foreign markets due to the

\[^{i}\] Théophile Dzaka-Kikouta is an Economic PhD at the Ngouabi University of Brazzaville, in Congo Brazzaville. He is also a Guest Researcher at BETA, at the University of Strasbourg, in France.

\[^{ii}\] Francis Kern is a Professor at BETA, at the University of Strasbourg, in France.

\[^{iii}\] Chiara Gonella is a post graduate student at University of Turin, in Italy, and at I.A.E. Lyon, in France.
needs of its industry (Dzaka, 2008).

Consequently, Central African countries, endowed with important natural resources (for example oil, mining resources, and so on), constitute privileged partners for China to launch its win-win strategic partnership. It is often argued that Chinese aid contributes to economic recovery in recipient countries, thanks to the boom of raw material exports towards China and to social well-being improvements through public goods delivery, such as electricity, safe water, education, health, transport and telecommunications. Despite these clear advantages, the environmental impact of Chinese aid often tends to be disastrous. In fact, it seems that Chinese Foreign Direct Investments (FDI) towards Central Africa, mainly in the form of joint ventures benefitting from Exim bank and China-Africa Development Fund (CADFund) concessional lending, do not satisfy the environmental norms as defined by international standards.

Therefore, this paper is will analyse to what extent Chinese development assistance, in which the aid–project component is dominant, is associated to a process of knowledge and know-how transfer towards the oil and mining countries of Central Africa. The paper is organised in two parts. The first one presents the institutional architecture of Chinese aid and the duality of its financing framework, while the second analyses the impact of Chinese development assistance on the transfer of knowledge and know-how towards recipient countries in Central Africa.

1. Institutional architecture of Chinese aid and the duality of its financing design

In this section, different types of Chinese aid and their implementation methods are presented. Then, the focus will be on the duality of the financing scheme of aid and its role through the existence of public goods.

1.1 Typology of Chinese aid and its implementation

Following studies by Davies, Edinger, Naidu and Tay (2008) and Wang (2007),
Chinese aid differs from the aid schemes implemented by traditional donors. Its main components are the following:

- Donations, including technical assistance and debt relief;
- No interest loans. These loans are not necessary reimbursed by beneficiary states. Estimates show that about 90 per cent of this form of debt has been cancelled (Guerin, 2008);
- Concessional loans for industrial and infrastructure projects. This type of debt is necessarily reimbursed. The annual interest rate and the delay of reimbursement vary across countries, but usually the average interest rate is 2 per cent and the average delay is 10-15 years.

Five public institutions are in charge of governing Chinese policy of economic co-operation:

- The Ministry of Commerce (MOFCOM) is responsible for the planning and management of the funds and their disbursement;
- The Ministry of Foreign Affairs (MOFA);
- The China Export – Import Bank (Exim Bank) implements preferential loans for industrial and infrastructure projects.
- The China Development Bank (CDB) has launched the China-Africa Development Fund (CAD Fund) to support Chinese enterprises involved in direct investments in Africa. The bank is particularly active in Central Africa. The China Export and Credit Insurance Corporation (SINOSURE) supports Chinese exports and investments abroad by insuring its clients against a wide range of risks (e.g. commercial risk, country risks linked to trade restrictions, nationalisation or armed conflicts, and so on). Local governments, in particular district and county governments, have become important actors in the decentralised management of Chinese development aid towards Africa.
The Chinese Young Volunteer Corps.

Chinese development assistance has become important and is continuously increasing. According to Alden (2007:6) and Strange (2013:15) the annual inflow of Chinese aid to Africa is about 44 per cent of the total, corresponding to US$ 1 - 2 billion (Chauvet et al, 2007; Christensen, 2010; Bräutigam, 2011). In addition, in 2009 the majority of aid went to Africa (45.7 per cent attributed to 51 countries), followed by Asia (32.8 per cent to 30 countries) and Latin America and Caribbean (12.7 per cent to 18 countries); Oceania accounted for four per cent in the regional share and others are listed as receiving 4.5 per cent (Grimm, Rank, McDonald & Schickerling, 2011).

However, since the 1990s it is possible to observe a decrease of grants and an increase of loans. In 2006, the total of loans and credit lines was estimated at US$ 19 billion and the main recipients were Angola, Equatorial Guinea, Gabon, Nigeria, Congo-Brazzaville (Jacoby, 2007). Except for Nigeria, most of the main recipients of Chinese aid in the continent are Central African countries.

These estimates seem to support the claim that the aid strategy of new donors from emerging markets (BRICS), at least in the case of China, tends to follow the same pattern of traditional donors, as its main objective is to reinforce economic power and geopolitical presence in the host country. Even if it is difficult to measure Chinese commitment in Africa, given the lack of information on aid amounts, it seems that project aid represents the main component of Chinese economic assistance, which is essentially bilateral and in the form of loans. This element explains the reason why Beijing regularly proceeds with debt relief in favour of its African partners (Chaponnière, 2007)\textsuperscript{iv}. According to this author, Chinese aid is channelled by the China Exim bank, the China Development Bank and sometimes by Chinese Embassies, and is used to finance infrastructures. Therefore, Chinese foreign aid differs in several ways from DAC classification, as we can see in table below (Grimm et al, 2011).

The so-called Chinese “package financing” means that development finance
often consists of agreements that mix aid and investment, and/or concessional and non-concessional financing. Chinese state owned enterprises also blur the line between official government finance and private flows, with FDI or joint-ventures coming from firms that are either private or state-owned (Strange et al, 2013:14, Grimm et al, 2011).

1.2 Duality of the Chinese aid financing model

In the financing mechanisms of Chinese assistance towards Africa, it is possible to identify two distinct approaches depending on the type of infrastructure to be supported. Indeed, public goods for social services provision (for example, hospitals, water, schools, universities, and so on), public buildings (for example, parliaments, ministries, stadiums, and so on) and technical assistance are financed by grants and loans with zero or low interest rates with the possibility of debt renegotiation or cancellation. On the contrary, industrial projects (for example, oil and mining projects, projects in the manufacturing sector, and so on) and economic infrastructure

Table 1: Overview of differences in counting aid between China and DAC member States.

<table>
<thead>
<tr>
<th>Included in Chinese aid but not in DAC member statistics</th>
<th>Reported by DAC members, but excluded from Chinese aid figures</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction of sport facilities</td>
<td>Cost for foreign students</td>
</tr>
<tr>
<td>Military assistance</td>
<td>Debt relief</td>
</tr>
<tr>
<td>Subsidised loans for joint-ventures and cooperatives projects</td>
<td>Costs for first year refugees in the donor country</td>
</tr>
<tr>
<td></td>
<td>Administrative costs for aid</td>
</tr>
<tr>
<td></td>
<td>Parts of loans that are commercial</td>
</tr>
</tbody>
</table>

Source: Grimm et al. 2011 :7
projects (for example hydropower, schemes, railways, roads, airports, telecommunications, and so on) are financed by public financial institutions (in general by China Exim bank) and investors. In this case, the financial tools used to deliver FDI are loans at preferential rates and trade credits, with repayment consisting of buy-back contracts, which are awarded to recipient countries, mainly those rich in natural resources, through package deals following the so-called “Angola model” (see Dzaka, 2011:211-213; Guérin, 2008:5; Reisen, 2007:3; Davies, 2008:53-54).

2. Impact of Chinese aid on the transfer of knowledge towards Central Africa

As emphasised by Vicente (2003:9), knowledge-based economies result from a shock and a tight relationship between the tendency to increase the part of intangible capital (such as, education, training, human capital, R&D) and the diffusion of ICT (such as, internet and telecommunication infrastructures). This relation has modified the sources and the speed of innovation and technology progress.

Since the 1990s, economic growth has been sustained by intangible capital, which has soon become the main source of technical progress and increasing labour productivity thanks to the rising role of training, capital productivity (infrastructures, machines, work division), and R&D. The evolution of this form of capitalism has firstly concerned OECD countries, but increasingly, emerging countries (not least so the BRICS group) are also experiencing this dynamic. Emerging countries seem to combine the conditions of the first industrial revolution in Europe, characterised by the spread of wage labour at low cost, and the conditions of a knowledge-based economy, with highly qualified jobs in hi-tech sectors and the creation of innovative enterprises.

China has an impressive scientific and technological potential. Chinese R&D expenses have represented more than one per cent of GDP since 2000 and, in absolute terms, the country ranks third in R&D spending after the USA and
Japan. According to the OECD (2006), China was the second largest scientific country in the world with 800,000 researchers after the USA (1.3 million researchers). Nonetheless, in relative terms the country showed a severe gap when compared to developed countries, with 750 engineers per million of habitants against 1,000 engineers in OECD countries (Africa only has 83 engineers per million people) (Sautman, 2007, 32). In order to bridge this gap, Peking, has recently reformed its universities, following the American model. MBAs are organised in collaboration with international partners. As a consequence, two thirds of the 130 000 Chinese students enrolled abroad are based in the USA, while more than 3 million Chinese students attend local universities. Therefore, China is able to transfer knowledge and know-how through the channels of technical assistance, construction projects and FDI, mainly in the form of joint ventures.

2.1 Technical assistance and transfer of knowledge

With reference to the domain of technical assistance (TA), Chinese aid tends to focus on human capital building by sending experts, especially on “health missions” and “agriculture missions”, and training African students in Chinese universities.

2.1.1 Health sector

Since 1960 up to 2007 more than 20 000 experts in health care were sent on missions throughout the African continent (Mohan and Kale, 2007:12). Chinese commitment in the health sector has been reconfirmed during the FOCAC meeting in 2012, with 1500 experts expected to be sent on mission between 2013 and 2015.

In general, Chinese health missions include twenty physicians per country who are assigned to work in public hospitals, usually constructed by Chinese enterprises during the 1980s. Following our observations, there are two public hospitals in Gabon, one in Libreville and another in Franceville and they are managed by Chinese physicians. In Congo-Brazzaville, there are five public hospitals (three in Brazzaville: Makelele, Talangaï, Mfilou and two in the hinterland: Owando in the north of the country and Louandjili in Pointe-Noire, in the south), which benefits or have
benefited from Chinese health TA. Thanks to professional, relational and cultural proximity, local physicians have been initiated to Chinese medicine practices. Hence, since the year 2000, Central Africa has experienced the creation of many private Chinese clinics managed by Chinese health staff or practicing of Chinese medicine (traditional and modern medicine using Chinese drugs based on medicinal plants), with more competitive prices compared to those of other clinics offering the so-called western medicine. Other than the best value for money, Chinese medicine is popular in African countries as it tends to facilitate the process of rehabilitating local and endogenous knowledge and know-how, which still uses natural remedies. In addition to the legal recognition of the importance of traditional medicine, Sino-African co-operation projects have been launched with the help of the World Health Organisation and are mainly based on the exchange of experience between African and Chinese experts in order to promote traditional medicine in the context of Sub-Saharan Africa (SSA) and to maximise the contribution and complementarities of both types of medicine (traditional and modern medicine). As noted by Meyer (2006:6), these projects are in line with a more general approach of active preservation of cultural and biological diversity.

2.1.2 Agriculture

As far as Chinese agriculture technical assistance is concerned, estimates show that between 1960 and 2007 more than 10 000 experts in agriculture (Mohan et Kale, 2007:12) have been involved in aid schemes, while 40 African countries and 200 agricultural projects have benefited from an intense process of transfer of knowledge through the implementation of agricultural demonstration centres, sometimes in partnership with FAO, aimed at boosting the activities of small local farmers. During the FOCAC meeting in November 2006 in Beijing, it was agreed to create 10 special agricultural technology demonstration centres in Africa, one of which in Congo-Brazzaville and another one in Angola, and to send 10 000 Chinese experts to contribute to the training of agricultural technicians in
recipient countries for the period 2006 to 2010. According to Katusevanako (2002:59-69), in DR Congo, Chinese agricultural TA has allowed the creation of 17 agricultural centres around Kinshasa and in other provinces. In collaboration with local technicians, Chinese engineers were in charge of managing the centres and counselling the neighbouring farmers.

From 1960, in Congo-Brazzaville, Chinese agricultural TA has resulted in the spreading of product and process innovations from Kombe, a public farm and a training centre, and in the dissemination of agricultural techniques in the neighbourhood of Brazzaville. Due to armed conflicts and the shift of agricultural policies towards the abandonment of public farms, this centre has been closed since the 1990s. However, its activities were resumed in 2012 with the support of Chinese technical assistance. In addition to its training mission, the focus will be on the production of livelihoods, such as cassava, the main meal of Congolese people. Sino-African collaboration in the field of agriculture will be further strengthened in 2013-2015, according to the commitments made at FOCAC 2012 entailing missions of experts and academics, the creation of new demonstration centres, and the support given to projects implemented by FAO.

2.1.3 Education and professional training

In addition to medical and agricultural missions, experts involved in Chinese TA facilitate the transfer of knowledge thanks to their involvement in higher education and scientific research in host countries. The Secretary General of the China’s African History Academy stressed that between 1956 and 2003 China has deployed 523 professors in 35 African countries in order to teach courses in more than ten scientific and technical areas (in areas including, mathematics, physics, engineering, agriculture, and so on) both at secondary and higher education level (Xinhua Net, February 4, 2007). Furthermore, between 1995 and 2003, China has delivered 43 training sessions within the Advanced Education and Scientific Research Program in partnership with 21 African countries, including Congo-Brazzaville. Under the programme’s framework, 21 laboratories have been implemented in the following dis-
ciplines: biology, micro-biology, computer science, physics, analytical chemistry, conservation and transformation of food products. During the 1980s, ten Chinese professors were assigned to the University of M. Ngouabi in Brazzaville, mainly at the Faculty of Sciences, while another five received an assignment in Gabon. Chinese commitment in the education sector is expected to be maintained over the period 2013 to 2015, as announced during the FOCAC meeting in 2012: in addition to the 20+20 Co-operation Plan for Chinese and African Institutions of Higher Education, Peking has pledged US$ 2 million per annum to support UNESCO projects in Africa.

The training of African students and professionals is another channel of transfer of knowledge from China to Africa. According to Sautman (2007:22), from the 1950s to 2004 about 18,000 African students were received in Chinese universities with a grant of the Chinese government. During the FOCAC meeting held in November 2006 in Beijing, President Hu Jintao promised that from 2009, the annual number of African student scholarships granted by the Chinese government would increase to 4000, financed through the African Human Resource Fund, compared to the previous 2000, with an average of 40 to 80 grants per country and about 400 granted to students per year for Central Africa. These figures are expected to increase up to 5500 starting from 2012. According to the Chinese Ministry of Education, the share of African students did not reach 3 per cent of total of foreign students in China in 2006, compared to about 7 per cent in USA and 50 per cent in France. Furthermore, most of African students who have graduated from Chinese universities go back home due to administrative constraints in the host country, thus without contributing to the “brain drain” and in contrast to their colleagues studying in the OECD countries, who constitute an important scientific and technical diaspora. For many African graduates who go back to their countries, employability is facilitated either by recruitment in the public sector (in particular in education and health) or by the presence of Chinese investors in their country of origin, especially through joint ventures in oil and mining sectors and in services with high added value (for example tele-
communications and computer engineering). Another factor that certainly plays a major role in easing their integration in local labour market is the limited number of students or workers with Chinese language skills.

2.2 Commitment of infrastructural projects by Chinese multi-national firms and reinforcement of local learning capacity

The main part of Chinese aid to Africa is in the form of project aid and is primarily based on physical and infrastructural projects, thus facilitating partnership with countries rich in natural resources through package deals on the basis of the Angola mode: oil and mining contracts in compensation of infrastructural projects and joint ventures (Dzaka, 2008:2011). According to a study by the Centre for Chinese Studies (CCS, 2007), the majority of Chinese firms operating in Africa in the construction sector are public enterprises (for example, China Overseas Engineering Corporation, China Roads and Bridges Corporation, China Railway Construction, and so on) and they benefit from the political and financial support of the Government. In order to win procurement bids for infrastructural projects, Chinese contractors have to offer competitive conditions: they usually set a price 30 per cent lower than those proposed by other competitors made possible by low labour and equipment costs imported from China (Severino, 2006). In addition, these contractors normally benefit from the Government’s financial support through a package deal, with the China Exim bank playing a central role as stressed above. To a lesser extent, financial contribution is also provided by bilateral or multilateral international donors, such as World Bank, African Development Bank, Saudi Arabian Foundation, and Kuwaiti Foundation through co-financing agreements. According to Chen et al (2007), up to 2007, Chinese groups had the second biggest market share (21.6 per cent) of the construction sector, just after Europe (49.3 per cent, with French groups taking 23.9 per cent of that share). Table 2 presents the major projects committed or in progress in Central African countries with the financial support of the China Exim bank.
2.2.1 New forms of inter-enterprise co-operation

As emphasised by some studies (Dzaka, 1995, 2008), the joint venture is the most advanced form of inter-enterprise partnership with respect to other new forms of international investment (for example management and technical assistance, franchising, and so on), and the advantages for local partners in terms of transfer of knowledge and know-how are huge. As a matter of fact, foreign investors seem to be more interested in the transfer of knowledge and know-how in favour of local partners when involved in a joint venture, owing to their long term financial commitment as stockholders or administrators. In addition, thanks to its multi-cultural dimension, the joint venture is an essential vector of knowledge and know-how sharing which could induce the organization to better economic and social performances.

In contrast to the implantation strategies in the construction sector used in the rest of the world, in Africa Chinese multi-national firms usually choose forms of market penetration such as representative office, agency, strategic alliance, rather than joint ventures. Therefore, their impact in terms of transfer of technology and know-how in host countries is generally limited as shown by several authors (Davies 2008; Ajakaiye, 2006; Boungou Bazika, 2008). Indeed, in Central Africa or elsewhere on the continent (except South Africa), local firms in the construction sector tend not to be major rivals for Chinese groups since their technical and financial capacities are limited, as well as their endowment of skilled labour. Thus, Chinese multinational firms are less interested in creating joint ventures with enterprises in the host countries and seem to rely mainly on imported labour from China to implement infrastructural projects. According to Chen et al (2007:460), these multi-national firms use about 48 per cent of Chinese workers against 51 per cent of African workers and one per cent from other countries. The disequilibrium is more substantial when analysing the distribution of qualified workers involved in Chinese firms’ management. Estimates show that 91 per cent of their management positions are dominated by Chinese
technicians against only eight per cent of positions held by African nationals and ne
per cent by technicians from other countries (Chen et al., 2007). According to avail-
able data, the latter category is constituted by high qualified workers from OECD
engineering groups who are assigned to duties of technical control and work over-
sight in accordance with international standards. Nonetheless, it is important to re-
mind that these figures may not be too distant from the average recorded in enter-
prises from OECD countries investing in Africa. This trend could be also detected
with reference to other infrastructural activities with higher added value, such as
ICT, in which Chinese groups are favourable to establish joint ventures with local
and public partners and usually have the majority of equity. Hence, as noted by
Mainguy (2004:12), the incidence of FDI in terms of transfer of knowledge and
learning effects in host developing countries depends on local capacity of absorp-
tion, on the adequacy of the provided technology to country needs and on the com-
petence of salaries among others. There is a large agreement in the literature that
vertical links between providers and clients are the best channels of technology and
trade information diffusion. From their side, multi-national firms allow providers to
improve the quality of inputs and reduce delays. Therefore, the technological gap
between foreign and national firms should be minimal in order to enhance FDI’s
positive impact on the economy of the host country. This consideration provides
further evidence of the role of joint ventures and public investments in education,
R&D and professional training.

2.2.2 Importance of capacity building in knowledge assimilation

As highlighted by Hoyrup (2004), human capital accumulation is channelled by
continuous training of workers through public and private institutions offering train-
ing programs, as well as by professional training proposed by the firms to their em-
ployees.

Learning-by-doing is another source of improvement of competences. As a matter
of fact, the prolonged co-existence of Chinese and African workers (in general from
two to five years)\textsuperscript{xv} is translated in a community of practice in which best experienc-
es are shared and learning is channelled through a dominant conversion mode of “knowledge socialisation” type (Creplet, Dupouet, Kern and Munier, 2004). These authors define a community of practice as a group of people interacting on the same practice and regularly exchanging experiences. The objective of its members is to develop their competences in a specific craft or profession. In this perspective, communities of practice can be viewed as a means to improve individual competences. For example, Chinese multi-nationals working in Congo-Brazzaville in the construction sector (the case of China Jiangsu International Economic Co-operation) have created centres of accelerated professional training in partnership with the Ministry of Technical and Professional Education lasting less than one year in order to face the lack of local skilled workers and facilitate professional insertion of young Congolese as independent workers. Following this pattern, an agreement was signed in 2007 for a concessional loan of US$ 8.5 billion from China to the DRC: it was based on the “Angola mode” and translated in the creation of Sicomine, a joint venture between the local and public enterprise Gecamines (32 per cent) and a consortium of Chinese enterprises (68 per cent), including the China Railway Engineering Corporation and Synohydro Corporation. The terms of the agreement establish that only one fifth of workers can be Chinese and, in each project, 0.5 per cent of investment must be spent for the transfer of technology and the training of Congolese workers. In addition, it is expected that Chinese contractors award 10 to 12 per cent of activities to local firms.

Finally, with the modernisation of economic and social infrastructures especially through Chinese aid, Central African countries have new opportunities to improve the attractiveness of their territories vis-à-vis other investors and to diversify their productive basis with a good political and economic governance, meaning a better management of the country risk.

Another necessary condition to benefit from these opportunities is to strengthen a strategic vision of development in contrast to a predator approach which
would be unable to avoid the Dutch disease, in other words, the natural resource curse caused by the current boom of raw materials in the world market driven by the increasing demand of emerging countries, especially China. China has been the top oil importer since 2013, surpassing the USA (Financial Times, March 4, 2013). China imported close to 50 per cent of its oil consumption in 2006 after becoming a net importer in 1993. Currently, China ranks as the largest trade partner of Africa, before the USA, with a bi-lateral trade with the continent reaching the peak of US$ 120 billion in 2010 compared to from US$ 10 billion in 2000 (Le Goff, 2012). As stressed by Lafargue (2006), Beijing considers the continent an interesting match of energy and mining raw materials necessary to its economic growth.

Conclusion and recommendations

Chinese assistance has certainly changed the pattern of donors, offering recipient countries the historic perspectives to get connected with one of the motors of the world economy. In fact, without recalling the debate on the “Washington consensus” versus the “Beijing consensus”\textsuperscript{xxvii}, it is possible to assert the growing role of Chinese aid since the 1990s. Even if these forms of aid do not rely on the same criteria followed by traditional DAC donors, they have altered the “cartel” of international creditors and lenders. Its effectiveness in terms of impact on recipient countries seems to be huge, but not limited to the provision of public goods, such as the construction of physical infrastructures and the development of human capital. As a matter of fact, it tends to valorise local workers appraisal in public and private structures, through the creation of professional centres and the training of African students in Chinese universities in order to fulfil the needs of Chinese multi-nationals in Africa. In particular, the training activities carried out in the sector of technology, construction and telecommunication constitute the main difference in comparison to the behaviour of western firms, while Chinese technical assistance through medical and agriculture missions allows the transfer of know-how towards African physicians and agronomists.

This paper has shown that Chinese development co-operation has a positive impact
on oil and mining countries of Central Africa in terms of transfer of knowledge and know-how mainly thanks to technical assistance, but its effects are limited due to the weakness of the autonomous capacity of assimilation of concerned countries.

In order to improve their capacity of knowledge and know-how assimilation, Central African states would have to abandon their predator behaviour and transform the lack of a long term vision into a developmental public behaviour. The region should take advantage of the opportunity offered by Chinese multinational firms as the enterprises involved insure the implementation of economic and social infrastructures as well as the capacity building process.

Nonetheless, Central African countries should consider a three-fold challenge. Firstly, there is an imperative need to modernise physical infrastructures and encourage human capacity building by optimising the impact of Chinese aid within the framework of the win-win strategic partnership, among others. Some evidence emphasise the need of involving other emerging countries (not least: BRICS), especially India which is endowed with an important scientific and technical potential and has an important and ancient diaspora in eastern- and southern-Africa, as well as traditional donors. The second broad and continuing challenge is to transform a rent-seeking economy into an economy based on high added value sectors by rationally using oil or mining rent for capacity building. This approach would support the path towards the development of a knowledge and know-how-based economy, a crucial step for the improvement of comparative advantages in the world market. Finally, the third challenge is to reduce the negative environmental effect of projects financed by China. Consequently, a future research path would be the analysis of Chinese aid impact on sustainable development in recipient African countries.

End notes

iSee Chaponnière, J.R. (2007), La Chine: une aide difficile à mesurer. La Lettre des économistes de l’AFD, no 15, pp. 2-3. According to the author, the estima-
tion of Chinese ODA can be obtained from the difference between the value of the “economic co-operation” with foreign states estimated by the Chinese Ministry of Commerce (MOFCOM) and the amount of multi-lateral financing which involves projects financed by the African Development Bank (AfDB) or the World Bank in which Chinese enterprises act as contractors (that is, 25 per cent of projects financed by the AfDB and 15 per cent of projects financed by the World Bank).

\(^{v}\)See Ministère de l’Economie, des Finances et du Budget (2004), *La Chine, la longue marche vers la société de prospérité moyenne*, Paris, Octobre, p.29

\(^{vi}\)Estimates show that 25 per cent of 10 000 foreign students who receive an American PhD in science and engineering each year are Chinese, while only 11 per cent foreign students are Chinese in the total. Furthermore, China has provided the biggest share of the 86 000 non-American professors and researchers employed by American universities in 2001-2002, that is 18 per cent (See Ministère de l’Economie, des Finances et du Budget, 2004, *Chine, la longue marche vers la société de prospérité moyenne*, Paris, October, p. 29).

\(^{vii}\)http://www.focac.org/eng/ltda/dwjbzjjihys/hywj/t954620.htm

\(^{viii}\)In general the price of a medical consultation in a Chinese clinic is 50 per cent lower than the price of other clinics. In Brazzaville, for example, the fare is 2,000 CFAF (3 €) in a Chinese clinic, compared to 5,000 CFAF (about 8 €) in other clinics.

\(^{ix}\)For example, considering medical co-operation between China and the DRC, the agreement signed in December 1999 in Beijing planned the creation of a centre of training and experience exchange in the medical and health domain as well as the creation of modern facilities to manufacture drugs using local medicinal plants. See Katusevanako (2002:64).

\(^{x}\)The agreement was signed in May 2008 in Brazzaville by the Congolese Minister of Agriculture and the Ambassador of China in Congo. This agreement is in accordance with the measures taken during the China – Africa Summit in Beijing in No-
November 2006. This Summit established the creation of 14 demonstration centres on agricultural techniques in Africa, one of which was due to be constructed in Congo-Brazzaville. See Les Dépêches de Brazzaville, no 474 of Tuesday May 6, 2008:4.

http://www.focac.org/eng/ltda/dwjbzjjhys/hywj/t954620.htm


For example, according to CCS (2007: 26), a Chinese engineer working in Angola is paid US$ 130 per month against US$ 780 for an Angolan engineer working for a rival Portuguese firm. In addition, 50 kilograms of cement imported from China costs US$ 4, compared to US$ 10 for cement produced locally in the DRC and US$ 20 in Congo Brazzaville. Finally, according to Chen et al (2007:459) a bulldozer made in China costs US$ 100 000 compared to US$ 300 000 for a bulldozer made in an OECD country.

On the one hand, commutation between the two groups of workers is facilitated by the use of African translators, usually students at Chinese universities, on the other hand by local linguistic immersion of Chinese workers, facilitated by a long time presence in the host country. In particular, for Lusophone countries like Angola, Chinese workers are recruited preferably in Macao, a province under Portuguese dependence before its reintegration into China, as was the case of Hong Kong at the end of the 1990s.

In compensation with this loan offered by the China Eximbank, China was awarded with a contract of exploitation of mining resources of the DRC (8 million of tons of copper, 200 000 tons of cobalt and 372 tons of gold). During 15 years, Sicomin will produce 10 million tons of copper in order to reimburse US$
12 billion for mining and infrastructure investments. The cost of infrastructures is US$ 6.5 billion of which US$ 3 billion in rail transport projects, US$ 2 billion in roads, US$ 758 million devoted to social projects including two universities, 32 hospitals and 5000 social housing. The commitment of these projects is reserved to Chinese contractors.

For Jean-Michel Severino, General Director of the French Aid Development Agency (AFD April 2001-April 2010), the two policies have similar objectives: stability, development and reforms, but the order of priority is different. Beijing gives priority to stability as a prior condition to development, while Washington considers that reforms have priority. See *La Chine s’installe en Afrique*, Le Monde, October 17, 2006.

**Bibliography**


Dzaka-Kikouta, T. 2011. *L’investissement Chinois en Afrique centrale*. Outre-


King, K. 2007. China’s ambitious training aid for Africa: implications for the mainland and for Hong-Kong. Comparative Education Research Centre, University of Hong Kong.


Lending money: Latin America and China’s New Engagement

By Lilliana Avendaño

Introduction

Recent research highlights that much of Chinese foreign direct investment (FDI) is located in developing countries (UNCTAD, 2006, Morck, Yeung & Zhao, 2008; Gugler & Boie, 2008). At the same time, reports from the Chinese Ministry of Commerce (MOFCOM, 2010) point to sub-Saharan-Africa and Latin America as important destinations for FDI. In addition, other research suggests that there are two fundamental reasons that explain Chinese FDI in both regions: a) the need for oil and raw materials and b) the need for international allies (Chambers, 2006; Lafargue, 2006; Van de Looy, 2006; Hsiang, 2009; Regalado 2009).

However, Sino-African relations have historically been deeper than Sino-Latin American relations. For example, in the 1950s and 1960s China provided assistance to some African countries in the field of agriculture, forestry, food processing, textiles and other light industries, supply and distribution of water and in electric power generation. They also collaborated in the construction of the TaZaRa Railway. In the early 1970s they provided military assistance to several countries in the region who fought for independence, but as the decade progressed, the ideological approach led to a more pragmatic strategy focused on the economic interests of the

\[1\]

\[1\] Lilliana Avendaño is a Professor in the Faculty of Administrative and Social Sciences, at the Veracruzana University, in Mexico.
country (He, 2006). Instead, the Chinese assistance in Latin America was almost non-existent and the ideological support ended when, in the mid-1960s, relations with Cuba deteriorated since the Caribbean country decided to support the Soviet Union in its struggle to secure global hegemony (Li, 1991).

Sino-Latin American relations mostly remained trade based; while Sino-African relations, for their part, include trade, investment and very deep political relations. In addition, China has made more investments in sub-Saharan Africa than in Latin America, creating the Forum on China–Africa Cooperation (FOCAC) and the China-Africa Development Fund (CADFund) to finance various projects. None of these or similar efforts were made in Latin America.

The ties between the People’s Republic of China (PRC) and Latin America and the Caribbean (LAC) started in the early 1960s after the establishment of diplomatic relations with Cuba. Other LAC countries joined the initiative but later Chinese diplomatic offices in countries like Panama, Ecuador, Brazil, Mexico and Argentina were closed and their representatives expelled due to the PRC’s support to the Cuban revolution. However, the improvement in Sino-US relations in the 1970s contributed to the reestablishment of diplomatic relations between China and LAC countries. Since then, relations between them have been characterised mainly by the export of raw materials and food to China and by the imports of textiles, light industrial products and handicrafts in limited quantities from China (Li, 1991). During the following decades, the exchanges remained in the commercial sector with a balance less and less favourable for LACii.

At the beginning of the 1990s Chinese companies began to invest in the LAC. Starting the new century there was a rapprochement between China and Latin America. Regalado (2009) argues that the inclusion of the PRC into the World Trade Organization (WTO) joined with the maturity of their relationship reached in the 21st century allowed significant rapprochement between the two sides. This approach was more relevant to commerce than mere FDI since, dur-
ing the decade, more than 95 per cent of Chinese FDI flows to LAC were invested in the Cayman Islands and the Virgin Islands tax havens. In other words, it cannot be said that China's entry to the WTO boosted trade in LAC but not FDI as in other regions of the world. Also, during those years, the PRC funded several countries in Asia and Africa through concessional loans, many of which were oil-related. However, the PRC did not boost lending in LAC, despite the fact that it is a rich in oil resources region, the same as Africa.

In 2008, the PRC introduced its first policy paper on Latin America and the Caribbean, in order to formalise the terms of agreements and reach more collaborative agreements with the countries of the area in commercial aspects, investment, finance, agriculture, industry, natural resources and energy. This is a very significant event since Sino-Latin American relations in general, as previously mentioned, have been cordial but not exceptionally deep, based primarily on trade.

A major change in Sino-Latin American relations occurred with the beginning of the financial crisis in 2008. From that moment, the PRC became an important source of funding for Latin-American countries, directing 87 per cent of its loans into the energy, mining, infrastructure, transportation, and housing sectors. Export-Import Bank of China and China Development Bank are the main Chinese lenders in LAC becoming an alternative source of funding, especially for those countries trying to gain access to international financing. In the light of the above, the aim of this work is to analyse the scope, circumstances and characteristics of Chinese funding in LAC.

This paper is organised as follows. Section one outlines the economic relations between China and Latin America. Section two describes China’s financial institutions involved in international lending. Section three analyses the scope and characteristics of China’s loans in LAC. Finally, section four presents the conclusions.

1. A brief history of China-LAC economic relations

As mentioned in the introduction, Sino-Latin American relations began early in the
1960s followed by a break mainly due to ideological issues and then a commercial rather than political approach during the 1970s.

After the 1978 economic reform it was clear that the PRC wanted to increase its foreign trade. In fact, their foreign policy was focused on ensuring access to scarce natural resources in the country, to allow the transfer of technology to China and to increase export opportunities for Chinese companies. In addition, the PRC government legalised the emission of FDI through its Fifteen Measures of Economic Reform in 1979. This period of Sino-Latin relations was characterised by the commodity and natural resources trades. Consequently, Chinese enterprises in the region were mainly trading companies. At that time, both China and LAC, showed willingness to diversify their commercial and political relations. Thus, a favourable environment was created to promote Sino-Latin relations.

In the early 1990s, not only trading companies were active in the LAC region, but manufacturing companies were established as well. This was largely because Chinese enterprises discovered that they could transfer low-tech manufacturing and produce goods at a lower cost and dominate the market.

The interest of the companies was mainly market-seeking, but they were also looking for strategic locations, not only for trade and investment purposes, but also to export to third countries (triangulation). This was with two major objectives in mind: a) to elude import tax payment on markets organised in blocs, b) to try to eliminate restrictions imposed by those governments opposed to products "made in China" and to limit the effects of their protectionist instincts. Those investments were located mainly in Brazil, Argentina and Colombia. The first two could allow trade in the MERCOSUR area whereas the last one could open the door to Mexico directly, and eventually to the whole NAFTA area.

With China’s entrance into the WTO in 2001, Chinese trade and FDI expanded all over the world, with Latin America being no exception. Many Chinese companies located in LAC. There were investments in the automotive sectors, ma-
chinery and equipment, electronics, information technology (IT), transport and finance. In other words, Chinese investment in LAC began upgrading the value chain during the decade.

Nevertheless, the most important investments in the region were oriented towards two principal locations: the Cayman Islands and the Virgin Islands, tax havens where Chinese capital could be returned to China (“round tripping”) or be invested in any other country in the world. In other words, most Chinese capital was sent abroad just to have it return as foreign investment in order to enjoy special lower taxes and benefits from the Chinese government.

Between 2003 and 2007 Chinese FDI flows into the Cayman Islands and the Virgin Islands represented more than 90 per cent of the total of Chinese FDI flows into LAC. This suggests that Chinese FDI in Latin America is in fact relatively small compared to Chinese investments in Asia and Africa.

The PRC issued its first policy paper on Latin America and the Caribbean in November 2008. The paper stresses the importance of the relationship between the PRC and LAC, considering it as “strategic” and focusing on diplomacy, bilateral trade and economic relations. As a result, loans to some countries in LAC between 2008 and 2012 amounted to US$ 85.559 billion, while in previous years these loans did not exceed one billion. In fact, Chinese loans to LAC are larger and growing faster in the recent years than those from the international financial institutions (Gallagher, Irwin & Koleski. 2013).

2. Chinese financial institutions involvement in international lending

China Development Bank (CDB) and Export-Import Bank of China (Exim Bank) are the two primary agencies carrying out China’s international lending. Both of them were founded during the 1994 financial reform and are called “policy banks” meaning “tools of the government to support policy objectives”. The “Going Out” policy promoted by the Chinese government has been supported by these two banks financing the overseas activities of Chinese state-owned enterprises (SOEs), mainly
helping SOEs to acquire oil and other natural resources (Gallagher et al., 2013). At the same time, The Guidelines on Risk Management of Loans Extended by Commercial Banks for Mergers and Acquisitions and the Notice on Certain Issues Relating to Foreign Exchange Administration on Offshore Lending by Domestic Enterprises, reinforce this effort as we will see later.

Previous to 1994, the so-called “big four” banks (Bank of China, China Construction Bank, Agricultural Bank of China, and Industrial and Commercial Bank of China) were designed to provide policy loans. With the arrival of the two new banks in 1994, the “big four” were discharged of that activity and were able to deliver commercial loans.

Gradually, the Policy banks have experienced major changes owing to market economy expansion; their role has gained importance and their business has become progressively market-based. For example, CDB used to be focused on infrastructure, construction and other industrial sectors. However, at present it is trying to increase its share in the commercial banking business. CDB underwent commercialisation on 2008 into a joint stock banking institution under the ownership of the Ministry of Finance and Central Huijin Investment Corporation. In 2010, it enhanced its corporate governance mechanisms by developing a complete risk management system for its mid-to-long term loan business; consequently, it could grow into a banking group engaging in direct investments, securities business, leasing services, local branching activities and overseas operations. CDB has been mainly involved in overseas lending and has stressed grassroots financing and international co-operation (KPMG Advisory, 2011).

CDB has created two international representative offices in Egypt and Russia. Through the China-Africa Development Fund (CADFund) it has established offices in Africa. However, those offices are insufficient due to the large number of CDB’s investments in more than 90 countries. As a result, some CDB’s domestic branch offices, for example Henan and Chongqing, are responsible for overseas bank operations. In order to gather country-specific information, estab-
<table>
<thead>
<tr>
<th>YEAR</th>
<th>COUNTRY</th>
<th>BORROWER</th>
<th>LENDER</th>
<th>AMOUNT (US$ MILLION)</th>
<th>PURPOSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>Venezuela</td>
<td>PDVSA and BANDES</td>
<td>CDB</td>
<td>4000</td>
<td>Funding infrastructure, other projects</td>
</tr>
<tr>
<td>2009</td>
<td>Brazil</td>
<td>Petrobras</td>
<td>CDB</td>
<td>10000</td>
<td>Pre-salt oil technology</td>
</tr>
<tr>
<td>2009</td>
<td>Ecuador</td>
<td>Petroecuador</td>
<td>BANDES and PDVSA</td>
<td>4000</td>
<td>Advance payment for Petroecuador oil</td>
</tr>
<tr>
<td>2009</td>
<td>Venezuela</td>
<td>PDVSA and BANDES</td>
<td>CDB</td>
<td>1000</td>
<td>Infrastructure, including satellite</td>
</tr>
<tr>
<td>2010</td>
<td>Ecuador</td>
<td>Petroecuador</td>
<td>PDVSA</td>
<td>20000</td>
<td>80 per cent discretionary, 20 per cent oil-related</td>
</tr>
<tr>
<td>2010</td>
<td>Venezuela</td>
<td>PDVSA</td>
<td>CDB</td>
<td>2000</td>
<td>Funding infrastructure</td>
</tr>
<tr>
<td>2011</td>
<td>Ecuador</td>
<td>PDVSA</td>
<td>CDB</td>
<td>4000</td>
<td>Housing</td>
</tr>
</tbody>
</table>

Table 1: Chinese Loans-for-Oil in Latin America

lish relationships with local officials and businesses, and provide logistical support to visiting CDB officials, the domestic offices send work teams to several countries (BankTrack, 2012).

The Exim Bank is also interested in undergoing commercialisation but it has not formally undertaken to do so. Nevertheless, it has begun to expand the scope of its operations, supporting the “Going Out” policy, covering over 100 countries worldwide, opening three overseas branches by 2010 and lending more than US$ 190 billion. Until now, China Exim Bank has been financed through Ministry of Finance bonds and its main activities are focused on improving foreign trade and economic co-operation (KPMG Advisory, 2011).

There are three regulatory bodies for banks in China: Ministry of Finance (MOF), China Banking Regulatory Commission (CBRC) and State Administration of Foreign Exchange (SAFE).

MOF was created in 1949 and is in charge of the macro-economic management of the state's budget, financial and tax policy, revenues from taxes, treasury bonds, and hard currency reserves. MOF supervises the issuance of T-bonds in addition to the negotiation of loans provided by foreign governments and is responsible for the non-governmental auditing sector. Additionally, it has a major function in the reform of the financial management systems of SOEs and other public institutions, including monitoring budgetary and construction fund spending at local levels.

CBRC is a State Council Directly Administered Office; it was founded in March 2003 to supervise the banking sector. CBRC is mainly composed of bank supervision departments that formerly reported to the People's Bank of China (PBOC). Some elements of the former Central Finance Work Committee are now part of CBRC.

One main responsibility of the CBRC is the application of supervision requirements to push the big four banks to achieve a quality level that allows more uni-
form enforcement of capital adequacy ratios and other regulatory requirements. CBRC controls risk mitigation policies to bring down the non-performing loan ratio of China's big four state banks. In addition, it works to fortify credit-risk management and internal audit controls within the banking sector. The commission's formation further represents an attempt to raise the efficiency and transparency of China's banking sector through the separation of banking supervision from the central bank and is an important stage in the reform of China's state banking industry (US-China Business Council, 2013).

In December, 2008, CBRC launched the, *Guidelines on Risk Management of Loans Extended by Commercial Banks for Mergers and Acquisitions*, that allowed the Chinese banks to provide loans for mergers and acquisitions (M&A) purposes, reducing qualification requirements for offshore lending, expanding the sources of funds for lending, and shortening verification and remittance procedures for lending. The guidelines authorise loans to purchase existing equity interests, subscriptions for new capital, mergers, asset acquisitions, debt restructuring and other similar transactions, excluding the purchase of non-controlling minority stakes. The guidelines were launched owing to the State Council’s desire to increase bank support for M&A transactions as part of an effort to fight the global financial crisis (Benesch, Friedlander, Coplan & Aronoff LLP, 2010).

SAFE was established in 1979 under the Bank of China but was moved in 1982 to PBOC, which functioned as an independent organisation, prior to the 1998 government restructuring. It is responsible for administering the use and flow of foreign exchange, making foreign exchange policy recommendations to the PBOC and overseeing the transfer of foreign exchange out of and into China under the capital account of the balance of payments (Wenbin & Wilkes, 2006; US-China Business Council, 2013).

In June 2009, SAFE launched the *Notice on Certain Issues Relating to Foreign Exchange Administration on Offshore Lending by Domestic Enterprises*. The Notice simplifies the process for financing Chinese companies’ overseas operations by
reducing qualification stipulations for offshore lending, enlarging the sources of funds for lending, and shortening verification and remittance procedures for lending. The notice also permits Chinese enterprises to use their own foreign currency holdings as well as government foreign exchange reserves to make loans to their overseas subsidiaries. The global financial crisis has made it more difficult for foreign subsidiaries of Chinese enterprises to obtain funding abroad. The purpose of the notice is to avoid this situation and facilitate Chinese companies to invest abroad (Benesch, Friedlander, Coplan & Aronoff LLP, 2010).

3. Scope and characteristics of China’s loans in LAC

Prior to 2008, Chinese loans to Latin America were uncommon, not exceeding US$1 billion, according to Gallagher et al (2013). However, since 2008, several factors contributed to increase the number of loans from the PRC in LAC.

First, the PRC needs natural resources to feed its rapidly expanding economy, but it does not have sufficient oil, natural gas, aluminium, copper, or iron ore to satisfy its energy and manufacturing needs. Second, the 2008 financial crisis provided an opportunity to lend money to a number of countries as well as to some enterprises in LAC region where traditional lenders, like the Inter-American Development Bank (IDB), are having hard times. Third, the contraction of credit markets caused main oil and natural gas producers in the world to look for alternative sources of funding to support investment programs, re-finance short-term debts, and sustain social spending. China is a new and growing source of finance for LAC (Table 1), especially for small nations that are usually overlooked by international financial institutions (IFIs) and countries suffering to gain access to international capital markets (Gallagher et al, 2013; Downs, 2011).

According to Li (1991), between 1978 and 1990 there were some agreements on a reciprocal credit line between the Bank of China and its counterparts in LAC, but the credit lines were rarely used because of high fees and little understanding between businessmen on both sides. Nevertheless, in the 2000’s some LAC
Table 2 Bank Loans to Latin America by Sector, 2005–2011 (US$ million)

<table>
<thead>
<tr>
<th>SECTOR</th>
<th>TOTAL</th>
<th>W O R L D BANK</th>
<th>IDB</th>
<th>CHINESE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Health</td>
<td>17 926</td>
<td>8463</td>
<td>9463</td>
<td>—</td>
</tr>
<tr>
<td>Education</td>
<td>7008</td>
<td>4389</td>
<td>2619</td>
<td>—</td>
</tr>
<tr>
<td>Water, Environment</td>
<td>16144</td>
<td>7061</td>
<td>9084</td>
<td>—</td>
</tr>
<tr>
<td>Public Administration</td>
<td>19105</td>
<td>11 013</td>
<td>8092</td>
<td>—</td>
</tr>
<tr>
<td>Finance, Trade</td>
<td>18328</td>
<td>7170</td>
<td>9858</td>
<td>1300</td>
</tr>
<tr>
<td>Housing, Infrastructure</td>
<td>38 098</td>
<td>—</td>
<td>4397</td>
<td>33 701</td>
</tr>
<tr>
<td>Transportation</td>
<td>27 693</td>
<td>7192</td>
<td>8821</td>
<td>11 680</td>
</tr>
<tr>
<td>Energy, Mining</td>
<td>30 061</td>
<td>2565</td>
<td>7576</td>
<td>19 920</td>
</tr>
<tr>
<td>Other</td>
<td>10 651</td>
<td>378</td>
<td>2028</td>
<td>8614</td>
</tr>
<tr>
<td>TOTAL</td>
<td>185 383</td>
<td>48 231</td>
<td>61 937</td>
<td>75 215</td>
</tr>
</tbody>
</table>

*Source: Gallagher et al, 2013*
countries that were sanctioned or/and isolated by the United States, such as Venezuela and Argentina, received loans from the PRC in exchange for oil (Li, 2007). Chinese loans were increasing gradually especially in some countries so that between 2008 and 2011, Venezuela, Argentina, Ecuador and Brazil received 91 per cent of Chinese lending (Gallagher et al, 2013).

Given that in 2009 upstream capital cost decreased about 12 per cent and upstream spending was 15 per cent lower (as a result of the financial crisis) it was cheaper for Chinese national oil companies (NOC’s) to invest in upstream activities. Additionally, at the end of 2010, the NOC’s also had a competitive advantage due to the possibility to use part of the PRC’s US$ 2.45 trillion reserves. Furthermore, the recent appreciation of China’s currency has made buying overseas assets cheaper for the NOC’s (Jian and Sinton, 2011).

CDB and China Exim Bank play a major role in providing funding for oil and gas arrangements. For example, in 2009, CDB had provided no less than US$ 44 billion in loans to resource rich countries. In September 2010, CBD made strategic alliances with China National Petroleum Corporation (CNPC) and China Petroleum & Chemical Corporation (Sinopec). As a result, CDB approved US$ 30 billion loans to CNPC at low rates over the next five years to finance CNPC’s overseas expansion. Simultaneously, China Exim Bank gave concessional loans to Ecuador and Bolivia (Jian and Sinton, 2011; Gallagher et al, 2012). In sum, the financial crisis and the huge China’s reserves made it possible to provide long-term loans to resource rich countries. At the same time, some LAC countries were the indirect beneficiaries of these loans.

According to Dyer et al. (2011) CDB and China Exim Bank gave loans of at least US$ 110bn to developing countries between 2009 and 2010. Jian and Sinton (2011) report of US$ 77 billion in loans delivered by CDB for long term oil and gas supply signed during the same period, 48 per cent of which went to some LAC countries. Gallagher et al. (2013) reveal that, between 2008 and 2012, Chinese banks approximately delivered in LAC US$ 85.559 billion loans,
70 per cent of which were oil-related loans. In other words, most of China’s loans in recent years have been delivered in LAC.

Some projects supported by Chinese banks in LAC are related to the purchase or construction of home gas lines, oil drilling rigs, transportation, infrastructure, telecommunications infrastructure and equipment, roads, mining and steel mill equipment. A salient feature of these loans is that they are often tied to the purchase of Chinese goods or investment from Chinese firms. Therefore, the banks make sure that any machinery or equipment needed for the financed project is bought in China, that is, the money will stay in China (Downs, 2011; BankTrack, 2012; Gallagher et al., 2013).

Chinese banks are lending more money in LAC than The World Bank and Inter-American Development Bank. However, Chinese and Western banks do not overlap considerably in LAC because they provide different size loans to different sectors in different countries (Table 2).

Chinese bank, for example finance countries like Ecuador and Venezuela that have difficulty finding international sources of funding. In addition, Chinese lenders usually finance infrastructure, energy, mining, housing, and transportation; in contrast, Western banks support a range of governmental, social, and environmental projects.

One possible cause is that while the Western banks take into account Millennium Development Goals, Chinese banks copy the aid scheme used by the Japanese in the 1970s (Gallagher et al., 2013). Chinese financing philosophy differs greatly from Western countries. The Chinese government believes in mutual benefit and equilibrium; in being partners instead of donors in financing areas neglected by western financial institutions, as for example infrastructure and housing; in respect for sovereignty with no conditions involved; promotes self-reliance, not dependency, technology transfer through technical assistance and quick results (Brautigam, 2011a).

The roots of this philosophy came partially from the Chinese premier Zhou Enlai who, in 1964, spelled out some of the principles previously enounced. At the same
time, the PRC government learned from Deng Xiaoping’s initiative to ask Japan for a long-term contract to speed up the exploration of coal and petroleum “on the condition of equality and mutual benefit, and in accordance with accepted practices of international trade such as deferred and instalment payments […] where they will supply complete sets of modern equipment required by us, and we will pay for them with the coal and oil we produce” (Brautigam, 2011b:4-5).

Accordingly, Chinese funding seeks to improve the borrower’s economic conditions using commodities to secure commercial loans. In this way a country can finance a project and pay for it with its own commodity production.

Instead, funding from Western institutions has its origins in charitable aid from the colonial era which promotes education and health and, currently, also supports care of the environment (Brautigam, 2009).

**Conclusions**

The global financial crisis provided Chinese banks with an opportunity to undergo a remarkable expansion in LAC. China Exim Bank and CDB have become central actors in the acquisition of oil-related assets and the creation of strategic alliances with resource rich countries. Considering the circumstances, we can say that China Exim Bank and CDB’s loans allowed the reaching of three main objectives: to increase financial gains, expanding at the same time their portfolio of cross-border deals; to support the PRC’s “going out” strategy; obtaining recognition inside and outside China and to encourage China’s national oil companies to build their international upstream portfolio.

For LAC countries, Chinese loans have become an alternative source of funding, especially when the IFIs require excessive conditions. Simultaneously, LAC countries received development loans, which was very important during the worst phase of the financial crisis. Nevertheless, China’s growing influence in LAC raises some questions considering its role in the region’s political and economic development. The United States perceived that China’s presence in LAC has negative implications for its own economic and political hegemony.
Some argue that Chinese loans are empowering anti-American regimes. In contrast, other claims that Chinese growing presence in LAC just transfer external power from one economic power to another. Despite the criticisms, the presence of the PRC in the region is lower than in sub-Saharan-Africa and Asia, in terms of oil investments and loans, so that the implications of their presence in LAC are still unclear. In other words: so far, China is good news for Latin America.

End notes

iiIn the decade of 2000, the trade between China and Latin America showed a deficit most of the years. Currently the structure of LAC’s imports from China is composed of medium and high technological manufactures. Chinese imports from LAC are concentrated in natural resources and products processed from those (Rosales and Kuwayama, 2012, SELA, 2012).

iiiTwo years earlier, in 2006, China had already launched the China’s African Policy White Paper.

ivEradicate extreme poverty and hunger; achieve universal primary education; promote gender equality and empower women; reduce child mortality; improve maternal health; combat HIV/AIDS, malaria and other diseases; ensure environmental sustainability; create a global partnership for development with targets for aid; trade and debt relief.

Bibliography


Debating China’s New Role in Africa’s Political Economy

By Lawrence Mhandara, Charity Manyeruke, Eve Nyemba

Introduction

Since the end of the Cold War and the emergence of rapid globalisation, China’s economic role has gained remarkable prominence in a system once dominated by capital from developed countries. In this way, China’s contemporary visible presence in the international political economy has attracted significant attention in both academic and media discourse across the globe but more importantly in the developing geo-political terrains such as Africa. The discussion of China-Africa relationship at policy levels is therefore compelling against such a background. The common concern has been whether China’s Africa policy marks any significant change in Africa’s international political economy. Trade between the two partners has grown and China is accorded access to supplies of natural resources such as oil.

\(^1\)Lawrence Mhandara is a doctoral fellow in International Relations with the University of Zimbabwe (UZ). He has published a number of articles and book chapters on China-Africa relations. He is currently a lecturer in the Department of Political and Administrative Studies at UZ.

\(^2\)Charity Manyeruke is a PhD holder in International Relations. She has extensively published on global economic issues with the bulk of her work on China-Africa economic partnership. She is also a lecturer in the Department of Political and Administrative Studies at UZ.

\(^3\)Eve Nyemba is a lecturer in the Department of Political and Administrative Studies at UZ. She has published articles in international relations theory.
copper and diamonds among other vital resources. The article seeks to examine the most pertinent question in relation to China-Africa economic relationship: to what extent is Chinese involvement in Africa any different from the hallmarks of neo-colonialism? The argument of the article is divided as follows. It begins with a dissection of the origins of the relations; it then explores the complex relationship through the lenses of the competing views on China’s policy on Africa; a position on whether China exudes the qualities of a neo-colonial power is then taken. The article concludes with proffered recommendations.

The Genesis of the China-Africa Economic Relationship

China has a long history of political contact with Africa and the Han Dynasty is credited for having made the first contact with the African continent around AD 759, with further contacts developed under the Ming Dynasty (Snow, 2011). The fact alone that imperial China never attempted to conquer Africa makes the current ties considered positively. The more recent economic relationship with African countries is neither new as it can be traced back to the Bandung Asia-Africa Conference of 1955 which is widely regarded as the foundation of modern day China-Africa relations.

It is important to note that the relations between the two parties during the greater part of the Cold War were largely political. During this period, China sought ideological support and influence in Africa and this explains the motivation for its remarkably generous support for liberation organisations that were fighting for political independence on the continent. Interestingly, during the nationalist movements era there was some low-level Chinese economic activity in selected destinations on the continent. For instance, visible China-Kenya trade relations began as far back as 1964 and were reinforced in 1978 when China was under the tutelage of Deng Xiaoping (Onjala, 2008). The point to emphasise is that China-Africa economic relations are not a new episode associated with the post-Cold War environment; they have existed for several decades. What is new is the enormity and intensity of the interaction. This change is explained in terms
of the shift in the strategic environment caused by the end of the Cold War. With that, the global political environment changed from one characterised by East-West ideological confrontation to one dominated by Western capitalist ideology. The result was the advent of an epoch of accelerated globalisation where China has assumed a much stronger role within the framework of an international economic order dominated by liberalism.

The consequences of rapid globalisation as a new phenomenon of the post-Cold War international political economy have been largely negative to many developing countries due to the inherent contradictions brought about the process. In addition to the close political history, the burgeoning China-Africa relations need to be conceptualised “as a logical outcome of the marginalisation of Africa in the age of globalisation” (Edoho, 2007: 102). Africans are realising lesser benefits due to their engagement with the West from the colonial times to the era of the “wired world” (Hering, 2008). While globalisation seeks to achieve plausible goals (expand linkages and deepen partnerships) for the international political economy, reality reveals that the process is replete with contradictions: It seeks to “integrate the world politically, fragment it economically, polarise it technologically, and differentiate it regionally” (Edoho Ibid). The contradictions in turn create winners and losers (Guillermo, 2006) where African economies with relatively weak capital bases are viewed as losers while the established and stronger economies that dominate global capital are perceived as winners. Globalisation is perceived as contributing to the marginalisation of Africa (Lawal, 2007). The marginalisation can be explained in terms of the decline in the amount of Western investment, volumes of trade and the levels of economic aid and technical assistance to the region (Edoho, 2007). Presumably, Africa has turned to China to fill the space left by the lack of active engagement in the post-Cold War period.

The cordial China-Africa relations are “informed by the appraisal of the consequences of its colonial experience and the realities of its post-colonial dependent relationship with the West” (Edoho, 2007:102). The end of the Cold War also contributed to the developed economies downgrading the status of Africa among its
strategic allies. During the Cold War, the USA and Soviet Union would compete for loyalty of African states through extending economic and military aid with no or minimal strings attached. Throughout the 1990s, the USA diverted its attention from Africa to other regions such as Eastern Europe leaving a vacuum in Africa which China is nominally filling. By the mid-1990s, China adopted the “Open Door Policy” which created significant momentum for China’s interests in Africa with focus primarily being economic. The Chinese economic reform agenda was well calculated. It gained momentum at exactly the same period when the West was pre-occupied with cementing their political position and projecting their influence elsewhere outside Africa. China seized the opportunity to emerge from the shadows of an ideologically inspired closed economy to become a powerful global economic player in the age of rapid globalisation driven by liberal ideals. The establishment of The Forum on China-Africa Co-operation (FOCAC) in 2000 added steam to the economic relations.

**Contending views on China’s economic policy on Africa**

China’s economic engagement in Africa has become a subject of considerable attention across the globe with scholars, policy makers, journalists and politicians pondering about intentions and purpose of the emerging economic giant on the African continent. Certainly, one must admit the complex nature of the China-Africa relationship which makes it difficult to generalise conclusions. Such difficulties are evidenced by the emergence and prevalence of competing views on the nature of the relationship. This article discusses the competing perspectives under two diametrical dimensions.

**China-Africa relations as a mutually beneficial engagement**

This is a positive, optimistic perspective of China’s engagement in Africa. China is regarded as being driven by the realities of the current international economic order by advancing its economic interest through a sound development partnership with Africa. According to this philosophy, China is viewed as sharing its experiences on modernisation by helping Africa with technical expertise,
developing managerial capacities and imparting techniques that enhance industrial production. It is important to note that this is all happening not because China is imposing itself on Africa but the African governments are “importing” the Chinese experiences out of their own volition. The determinants of Africa’s choice of the Chinese as partners in development are multifarious but mainly rooted in the evolving global politics in as much as the co-operation is viewed as a model of the ‘South -South’ co-operation mantra.

The official pronouncements by partners in the relationship points to mutual satisfaction further suggesting that the engagement is deemed “mutually beneficial”. Speeches from politicians and diplomats from both China and Africa are saturated with the “win-win” slogan. This suggests a degree of shared vision and strategy in realising developmental goals. The relationship is one presumed to be guided by a commitment to mutually recognised principles including equality of partnerships and reciprocal respect founded on shared history and common normative values (Guixuan, 2012). Since Africa has the resources but lacks the capital and technology to exploit them to its own advantage, it is deemed logical to engage partners with acceptable conditions and better placed to export their capital and technology and having been through the experiences of modernisation.

The view of China as a development partner is exemplified in Kenya. The bilateral relationship between China and Kenya has been continuously developing against a strong traditional political bond. Foreign direct investment (FDI) inflows from China to Kenya have become important in recent years due to the loss in Kenya’s competitiveness to attract FDI (Onjala 2008). Generally, the position of African governments with strong political ties with the Chinese government suggests that Chinese investment on the continent has been positive. Felix Mutatiiv stated that “there is no doubt China has been good to Zambia [...], they are bringing investment, world class technology, jobs, value addition. What more can you ask for?” (Polgreen and French, 2007: 115). Such expressions are supported by positive developments in bilateral trade and Chinese investment in Africa since the inauguration of the FO-CAC. To give some earlier examples: In 2004, the volume of trade between China
and Africa hit a new record high of US$ 29.46 billion, an increase of 58.9 per cent over the previous year (Guixuan, 2012). In 2010, China-Africa bilateral trade already topped US$ 115 billion and continued to grow at a rate of 44 per cent annually. Overall, Africa registered a 5.8 per cent growth in 2007, the highest in decades primarily owing to the positive bi-lateral trade with China (Edoho, 2007). In terms of investment in Africa, the Chinese government has extended a US$ 2 billion loan, for infrastructure construction, to Angola in March 2004 in exchange for a contract to supply 1000 barrels of crude oil per day. In Gabon, China National Petrochemical Corporation (SINOPEC) injected a huge investment into the country’s declining petroleum industry. In Nigeria, PetroChina concluded a US$ 800 million deal in July 2005 with the Nigerian National Petroleum Corporation to purchase 30 000 barrels per day for a year. Pessimists and radicals have criticised such deals as part of China’s policy of resource diplomacy. However, the authors hold the view that if the infrastructure-for-resources deals are helping Africa to develop economically then they should continue to be embraced. For instance, the 2007 Angola loan (US$ 2 billion) is used for wide-ranging projects such as rail, road, schools, hospitals and telecommunications projects.

The perspective is further bolstered by the nature of the aid that China offers to Africa. Onjala (2008) observes that China’s aid policy differs significantly from that originating from the Western donors on two aspects: terms and conditions imposed and the aspect of ‘tying’. In relation to the terms and conditions, China’s assistance is politically favoured by the African governments due to the conspicuous absence of political strings attached. China’s ties its aid to using Chinese companies and procurement of materials in China. In the positive perspective, this is considered benign compared to the interference route preferred by governments of developed states. The fact that China does not attach stringent (domestic policy) conditions to its aid does not drown the fact that it is consistent with its foreign policy objectives in the region. China does not take into account political risks in its investments so long as mechanisms for recouping
its investment capital are guaranteed.

**The China-Africa relationship as a zero-sum engagement**

This rather pessimistic perspective characterises China as a power in serious competition with Africa’s traditional co-operation partners to gain access to Africa’s vast resources. This is a radical realist view of China’s involvement in Africa. The proponents of this view subscribe to the philosophy that the realities of the global economy naturally call for the key actors to compete for resources. The fulcrum of the argument is that like the capitalist countries, China’s interest in Africa centres critically on resource exploitation and this defines China’s new role in Africa. The perception considers that the same factors that motivate industrial countries’ interest in Africa (the need to access vast cheap raw materials and abundant natural resources that are critical to maintain the industrial capacity of developed economies) are driving China’s interest in the region. China is the new neo-colonial power in the making because the logic of capital is the same whether those in the driving seat are the Europeans, the Americans or the Chinese (Seifuden, 2010). Rocha (2007:18) argues that “historically, the availability of cheap raw materials and the prospects for huge returns on investment, particularly from the exploitation of natural resources, has always provided an incentive for the expansion and deepening of political and economic ties with Africa.” The demand for resources is compounded by China’s rapid industrialisation which has caused a surge in China’s demand for energy and raw materials (Klare, 2008). By this perspective, China is not philanthropic development partner and the relationship is considered a lopsided one where African governments are mostly embracing China because of its policy of “no political strings” attached as compared to other sources of capital.

The imbalanced trade profile between China and Africa further compounds the negative views of the relationship. Rocha 2008 records that over 70 per cent of South African exports to China are made up of base metals and mineral products including iron ore, aluminium, nickel and platinum and in return, it imports mainly finished goods. In 2006, the then President of South Africa, Thabo Mbeki, warned that if
Africa merely exported raw materials to China and imported Chinese manufactured goods, the continent could be condemned to underdevelopment which would amount to a replication of Africa’s historical relationship with its former colonial powers (Beeson, Soko and Yang, 2010). Incumbent South African President, Jacob Zuma reiterated Mbeki’s concerns over the Chinese trade structures during the fifth FOCAC meeting in the 2012 Beijing meeting. Clearly, China is making significant progress in claiming a sizable share of the African market with huge quantities of relatively cheap products finding their way to the mega-market. The increased volume of Chinese products exported to Africa has a negative effect on the local African manufacturing industries that are pushed out of business. One sector that has been hard-hit by the increased volume of Chinese goods in most countries is the textile manufacturing industry. The impact is also felt across a range of other products such as kitchen ware, wall clocks, watches, food containers and electric goods where displacement of these local products by relatively cheap Chinese products is rapidly taking place (Kaplinsky, 2007 in Onjala, 2008).

Pessimistic perceptions about the relationship also emanate on the targeted sectors of the Chinese capital in most countries that have no oil deposits. While acknowledging the importance of China’s foreign direct investment (FDI) inflows to Africa, it is worth noting that China’s investments are more pronounced in the services sector than the manufacturing sector. As Onjala (2008) notes, in Kenya more enterprises have tended to be in services such as trade with very few firms involved in manufacturing. The situation is similar with Zimbabwe. Moreover, China’s labour conditions have generated intense rebuke among international policy makers, labour activists and development agencies (Alan and Yusuf, 2007 in Onjala, 2008). The importation of labour conditions into Africa through FDI is a cause for concern given the protests already encountered due to poor working conditions.

This critical perspective regards China’s activities as part of the grand plot to
elbow out the developed countries from accessing the African resources and market. This is achieved through rigid adherence to the traditional notions of statehood such as respect for absolute sovereignty and independence and the attendant principles of non-interference in the internal affairs of African states. China seeks to outcompete the West (in other words, the OECD world) for resources and supplant it through dominating the continental market for its low-cost manufactured goods. China’s interest in Africa is determined by its internal political economic dynamics and the realities of rapid globalisation to search for raw materials and a market. This may not be farfetched given the activities of China in some resource rich countries in the region. For instance, Guinea alone accounts for thirteen per cent of global bauxite reserves; DRC and Zambia account for fifty-five per cent of global cobalt. New resources are being discovered in Zimbabwe (diamonds) and oil in Kenya, Uganda and Guinea. In all these countries Chinese enterprises are heavily involved.

China’s activities in the resource rich African countries have brought to the fore serious debates about the resource curse theory, (Karumbidza, 2007 in Mills, & Wang, 2012), with pessimists and radicals alike argue that Africa’s resources are used to guarantee the development of Chinese industries while the region remains underdeveloped and impoverished. Kehbuma (2011:43) argues that “China’s presence in Africa does not benefit the ordinary folk on the street as it does to African governments [...] the target is not to improve the living standards in Africa for the ordinary folk”.

This provokes fears about the possibility of the Chinese and African governments forming elite coalitions and partnerships for economic predation rather than for development. Also implicit in this perspective is the assumption that China’s behaviour is tantamount to the neo-liberal Western powers (Mohan & Powers, 2008). The oil deals in Angola, Nigeria and Gabon highlighted in the preceding section are believed to be another indicator of China’s concern for resource security in China’s foreign policy. This corroborates with projections that China’s future energy demands are unnerving.
Overall, it is estimated that China alone will consume 20 per cent of the world’s energy by 2035. Similarly, according to the China Mining Industries Association, by 2020 19 of the 45 main minerals needed in China will be in short supply (Beeson, Soko and Yang 2010). On this basis, China-Africa relations can be better understood in the Marxist-Leninist framework for understanding international economic relations as reinforced by the fact that China is pursuing capitalist ideals in its activities in Africa. The paradox is that while China has preserved a “closed” political system it has opened its economic system where meaningful concessions are being extracted. Thus, it is debatable whether it makes sense to describe China as a Communist country as it has drifted from the “closed” economic ideals to embracing the capitalist rules that developed countries authored.

The FOCAC, among many other initiatives, is also considered part of China’s ‘summit diplomacy’ calculated to consolidate strategic partnership with resource rich African countries (Beeson, Soko and Yang, 2010). Critics presume that China’s “Going Global Strategy” is a typical variety of an emerging state capitalism in Africa which would perpetuate the structure of dependency and underdevelopment which is already in place and block Africa’s efforts to overcome its developmental ills. A strong case can be made that the Chinese government has been realising their economic objectives with relative ease due to its prevalent positive political rating by the majority of governments in Africa who have described China as “an all-weather friend”. This has become common parlance with top politicians in Africa. The negative perception holds a strong view that such positive appraisal of China mainly emanates from the democracy-hating governments in the region – particularly in Zimbabwe – who embrace China in return for international political protection in the face of Western hostility (The Zimbabwean, 21 December 2012).

The radical argument even goes further to suggest that China is not only seeking to control Africa’s resources and the market but also aiming to colonise the re-
region: it accused of being engaged in a ‘smart colonisation’ project. It is considered ‘smart’ in the sense that it is devoid of coercive elements and also the fact that it is met with no or little resistance from the African governments. As Alden (2009) notes, more than 800 Chinese firms are doing business in 49 African countries and the deepening China-Africa ties have witnessed the influx of Chinese citizens into Africa. Estimates indicate that over one million Chinese were living in Africa, by February 2011, up from a mere 100 000 Chinese in 1990. Fears are raised that this influx could be analogous to the settler colonialism prevalent in Africa when the industrialised countries began their colonial project. Such sentiments are drawn from the experiences of colonialism which began as positive trade, then slave trade and ultimately colonisation of the region. Gaye (2007) presumes that China is not in Africa for a philanthropic reason but “another imperial power pursuing its national interest, and it can be an unreliable partner despite its claim to build a true equal partnership with Africa.”

Assessing China’s Behaviour: neo-colonialist or not?

When colonial powers succumbed to pressure to grant Africa political independence, they departed politically and left other systems well under their control, including the economy. This meant that decolonisation did not result in the colonial powers ceding their grip on the economic levers of the African economic machinery. Political independence, which was grudgingly granted in most cases, was followed by other strategies of economic control that included “aid” for economic development to the continent. This perpetuation of structures of colonialism, while at the same time talking about independence, has become known as neo-colonialism. Neo-colonialism has re-surfaced with the deepening of global interdependence and the concomitant economic inequalities between the developed and developing countries.

The philosophy of denouncing neo-colonialism was originally popularised by the Nkrumaimism ideology which sought to articulate a vision for the African society in the process of decolonisation. Currently, the philosophy has become the rallying
point for a group of conservative African nationalists who are seeking to preserve the Nkrumah legacy. Primarily, the target was, and still is, to eliminate dependence of Africa on developed countries which was structurally induced by the continent’s historical circumstances. So the vocal criticism of neo-colonialism, in intent and purpose, seeks to unbundle the illusions of nominal independence. It accentuates on the dispersal of dependence on developed countries. Yet, sustainable economic development can hardly be achieved with real independence from powerful economies. Thus, although desirable, the objective of eliminating dependence as a strategy for development in the era of globalisation is perhaps impossible; rather, minimising the level and impact of such dependence could be the basis for a realistic policy outlook. At this stage, Africa should not alienate their traditional partners for the sake of China which, paradoxically, co-operates with those economies.

The International Monetary Fund (IMF) and the World Bank (WB) sponsored Structural Adjustment Programmes of the 1980s and early 1990s in Africa are often cited as examples of neo-colonialism. The loans and economic aid packages extended to Africa by these institutions are alleged to have plunged the continent into debt since the greater number of the borrowing governments could hardly repay the loans they borrowed. The economic relationship with the developed countries through these lending institutions is regarded as one of domination and propagating dependence. The state of African debts owed to the developed countries through the multi-lateral institutions is unsustainable. Zimbabwe’s debt to donors from developed countries and the multilateral institutions is over US$ 10 billion. This is despite the adoption of the Highly Indebted Poor Countries (HIPC) initiative in 1999 which was a strategy implemented by IMF and World Bank to help poor countries to clear their international debt obligations. The initiative was generous, but left the problems of debt in poor countries largely unresolved.

In so far as African governments have succeeded in denigrating the IMF and
World Bank for their aid and loan structures, it is equally important to lay the blame squarely on the African politicians as well. From a policy point, African leaders should be bold enough to admit state failure. Borrowing is a facility for ailing, if not failing, states. African governments borrow with a high expectation that the facilities would improve economic governance and enhance the effectiveness of public service delivery. In more direct terms, borrowing is admitting failure of governments to deliver public goods. Economic malfunction is therefore a microcosm of political failure.

Perhaps, the pertinent question is whether Africa is in the same predicament as a result of the engagement with China: is China perpetuating the same trend; can its engagement satisfy the yardstick of a neo-colonial power as defined by the desire to dominate and induce dependence?

If neo-colonialism is defined by domination and inducing dependence, then China’s policy is loaded with neo-colonial pretences although the relations are still at their infancy. China’s loans to Africa, which mainly come through the China Development Bank (CDB) and China Export and Import Bank (Exim Bank of China), have been attached to modest interest rates which are mutually agreed upon by the respective governments and China. China offers a mixture of facilities depending on the nature of the project. For instance, through the Exim Bank, China offers concessional loans with interest loans which are as low as 0.5 per cent per annum with the recipient country given the option to pay over a period of up to twenty years. Zimbabwe is a beneficiary of one such a scheme with US$ 300 million worth of concessional loans having been disbursed to the Southern-Africa country (Shunkang, 2012). The Exim Bank also offers the Buyer’s Credit Facility for other projects in Africa whose interest rates are between two and three per cent per annum (Interview with official in Ministry of Finance International Debt Department, 28 December 2012, Zimbabwe).

In extending this aid, China is not keen on interfering in the manner in which the borrowed funds are used as long as the borrower has the capacity to service the
loan. It could be argued that by so doing, China is developing a nuanced policy approach which appears benign to the Africans but also has the potential to bring Africa under Chinese dominion. Despite the political risks in some countries, China has channelled significant investments into Africa. This policy should therefore be queried. Political instability remains the constant threat on the continent. Guinea, Mali, DRC, Zimbabwe, Mozambique, Central Africa Republic and Sudan are few examples of countries that continue to be plagued by varying kinds of conflicts yet they have benefitted from Chinese foreign direct investments.

One then wonders what the motivation is in the whole partnership. Could it be that China is the big brother of emerging elite coalitions, of a predator nature, by investing where there are high political risks? Could it be that the China-Africa partnership is fast developing into what political scientist James Robinson termed “extractive institutions”? By avoiding human rights censure in dealing with African governments, China is promoting policies and practices that are designed to capture the wealth and resources of Africa for the benefit of a small section of the African society which is politically connected. China is dominating the continent by proxy, or in other words, using the political leadership to implant economic dependence.

The acquiescence by African leaders to whatever the Chinese actors seek in Africa, especially the failure to address labour conditions and importation of sub-standard but cheap Chinese products as well as the open glorification of China by African leaders has negative implications: firstly, it emboldens China’s current policy and works against commitment to improve their business philosophy; and secondly, it paves way (or it could be an incubator) for mental colonisation. The attitude so far has been that many African leaders have tended to stifle open criticism of China’s policy. Censure of Chinese policy is often pitched at the same level as political opposition.

The majority of African leaders have proved to be bedfellows with international
censure on good governance and human rights let alone to its own internal dissenting voices. It comes not as a surprise that China is favoured primarily and clearly for political considerations. The award of economic favours to China in the form of preferential investment contracts can be regarded as a form of political bribery that is part of a strategy to use China to underwrite political survival of political partners in Africa, particularly those who do not owe their political careers to popular legitimacy. It is a matter of public record that many governments in Africa are indebted to Chinese government support for their survival; government officials on the continent have openly acknowledged this. For example, speaking at the recent visit of a high ranking Chinese politician, the president of Zimbabwe, Robert Mugabe, expressed gratitude to China for helping him defend his rule in the face of international censure (The Zimbabwean, 10 June 2013). But the elite coalitions between the Chinese investors and African political leadership have escalated corruption and inequality. The paradox of Africa’s positive economic growth is that it is not matched with reduction in inequality. Countries such as Mozambique, Angola, Gabon and Nigeria which have recorded high growth rates against massive Chinese investments in the mining sector have failed to reduce poverty rates and inequality.

China’s policy is also weak in relation to enhancing the manufacturing capacity of Africa. Since 1996, the average poverty rate in sub-Saharan-African countries has fallen by one percentage point a year. Average growth rates of 4.7 per cent have been recorded across many African economies between 2000 and 2011, and in most cases credit has been given to Chinese investments.

However, the share of GDP represented by manufacturing has remained low despite high Chinese investment activities. The durability of Africa’s economic growth is a matter of serious doubt without a firm commitment to improve manufacturing capacity of the continent. By and large, the economic growth in many parts of Africa is possible largely because of high commodity prices offered mainly by China which claims the biggest share of the continent’s exports. This is not a stable prospect for sustainable growth since commodity prices rise and fall unexpectedly. Africa needs a partner which helps it develop the capacity to initiate economic plans
that would protect it when the downturn arrives.

Enhancing international competitiveness of the nascent industries is the major challenge which confronts African countries that depend on limited range of raw materials for export earnings. The manufacturing sector anywhere in Africa, perhaps with the exception of South Africa, still accounts for an insignificant share of the total GDP. Many African countries’ exports are dominated by primary products and lack diversity. There is need therefore to move towards natural-resource based export-oriented industrialisation. There must be a gradual increase in the share of processed products in the continent’s export profile. Chinese policy is evading this route.

Furthermore, Africa lacks trade support services. This includes trade financing facilities to improve infrastructure. The result is that most companies are not keen on developing this sector due to prohibitive factors such as high costs of production due to infrastructure problems such as power cuts and shortage of water. China has the technology for low cost production which it can transfer at affordable rates. Yet, the will has been either slow or simply insignificant.

A crucial point further is that the majority of African economies are driven by the informal sector. There is need to support manufacturing and engineering sciences in institutions of higher learning to improve the capacity of existing informal businesses. Alternatively, the sector could be the basis for expanding manufacturing businesses to match international standards by improving the quality of products. This will certainly improve international competitiveness of Africa’s products. Strong performance of manufactured exports from Chinese companies in Africa should be able to transform Africa into an emerging export platform in the medium- to long-term.

For investors to be attracted into the manufacturing sector there must be provision of enticing incentives for the promotion of primary-commodity processing and resource-based manufacturing. This can only be achieved through a comprehensive and coherent policy framework that is both medium- and long-term.
The success or sustainability of such a policy depends crucially on the establishment of effective coalitions of development between African governments, the private sector and international multi-lateral and bi-lateral development partners such as China. In the absence of such coalitions the African economy is fast evolving towards dependency on China’s relatively advanced economy.

Some facts about how Chinese firms are conducting business in Africa surely distinct those from multi-national corporations from developed countries that have been on the continent for lengthy periods, and this fact has often eclipsed objective analysis of China’s overall policy on Africa. Most of the Chinese companies investing in Africa are either fully or partially state owned although they operate as private companies across the continent. For example, in Zimbabwe, there is the Anhui Foreign Economic Construction Company (AFECC). The company is operating within the confines of the country’s laws relating to investment and registration of companies namely; The Indigenisation and Economic Empowerment Act and the Companies Act. The Chinese company formed a joint venture with indigenous Zimbabweans to venture into mining based on a share structure of 51 per cent for indigenous Zimbabweans and 49 per cent to the Chinese. Profits are disbursed based on this share structure. The resource is benefiting the locals more than the expatriates as a result. The joint venture company is also employing more Zimbabweans than expatriates and it is one of the few companies at the centre of economic recovery efforts in the country by virtue of its line of business. The joint venture company has also embarked on corporate social responsibilities in the business operation area by developing modern infrastructure such as modern hospitals, schools and housing units for the villagers in the area (Interview with marketing manager, 20 December 2012, Zimbabwe). Such activities have become the basis for public relations by both African politicians and the Chinese government to depict China as seeking to “help” Africa than to exploit its resources yet the impact of the policy is seldom exposed, perhaps for clear political calculations.

At the risk of over-simplicity, China’s current economic offensive on Africa may eloquently illustrate the evolution towards what can be perceived as economic colo-
Nialism. The rapid influx of Chinese nationals working in Africa and China state enterprise emerging in the extractive industry and exporting raw products with little effort to develop the manufacturing capacity are evidence to this effect. In so far as economic co-operation enhances economic development, African governments must estimate all the hazards at this point to take the necessary counter-measures than to reject the partnership.

Under the slogan of “win-win” co-operation, the temptation for African countries is to surrender to Chinese will which paves the way for domination and dependence, the essence of neo-colonialism which the continent purports to be resisting. The “win-win” rhetoric is indeed as such because the African political elite seem to be “winning” political protection from international censure in exchange for China’s economic access to Africa. The argument is that strategies of domination evolve and assume subtle dimensions and the “win-win” mantra could be one. The dangers of an attitude of euphoria about China’s seemingly generous gestures are hereby underscored. Apparently, China’s instruments of control and forcing Africa into dependence are different from the traditional ones but the impact might be the same.

In summary, although Africa is benefitting from its partnership with China, the question as to whether China is seeking dominion and propagating dependence of Africa on itself deserves debate and subsequent policy consideration. African leaders thus far have tended to downplay this debate for political considerations. China’s policy is likely to be a “path-breaker” for Africa’s political economy but the impact of its policy will continue to stir suspicions revisited. However, China remains a partner with the potential to offer itself as an alternative partner for African perennial economic ills (Shai, 2012).

Conclusion and Recommendations

China-Africa relations should be understood on the basis of the reality of international political economy where benefits extracted from any engagement are asymmetrical. Therefore, wishing away China-Africa economic relations simply
because of lack of equity and balance in benefits defies reality. The relationship is strong particularly because of historical ties and political expediency. However, the extent to which the relationship survives is largely dependent upon the Chinese and African elites’ political will to address the fear that China is seeking to command African resources and subject the continent to economic dependence.

The commitment and speed with which China-Africa partnerships including diplomatic initiatives such as FOCAC move to address concerns related to cheap imports and developing Africa’s manufacturing capacity have the potential to drown Africa’s fears. The Chinese government needs to recognise that Africa needs industrialisation more than any other continent and should support manufacturing plants rather than aiming at the increasing exports of finished goods. More importantly, African governments which rule predominantly commodity-reliant countries need to have clear strategic policies for industrialisation in order to foster international competitiveness. China’s government policy needs to facilitate this transition of African economies from exporter of primary goods to exporter of quality processed goods by unlocking the manufacturing potential on the continent, if the slogan of partnership is meant in a profound way.

China-Africa relations are dynamic and therefore, there is a need to constantly monitor and reassess the various agreements to ensure conformity with the principles and values of the long history of co-operation. Chinese companies operating in Africa should in their own long-term interest guard against exploitation of the host and ensure that labour conditions in Chinese enterprises are in line with the host’s practice and above all in conformity to International Labour Organisation Standards. In short China’s interest in Africa should not be allowed to follow the experiences of Africa under colonialism which treats Africa as a source of resources, and a market for finished goods and cheap labour.

End Notes

iv Felix Mutatu was the Minister of Finance in Zambia under the government of
President Banda.

‘The term ‘resource diplomacy’ is used to refer to China’s international demand for developing countries resources to sustain its industrial capacity.

vi The concept of economic predation suggests that partnerships and coalitions are formed to ensure regime survival and elite self-enrichment rather than development. Where development occurs, it is considered incidental. See Eldred Masunungure and Michael Bratt, “The anatomy of political predation: leaders, elites and coalitions in Zimbabwe (1980-2010).

vii ‘Going Global strategy’ is a Chinese policy of relaxing restrictions on investment abroad and extending incentives to Chinese companies operating overseas.

Bibliography


Francis, B.  2012. “Regime theory and China-Africa economic relations: New or old order?” Department of European Union International Rela-


Shunkang, X. Ambassador of the People’s Republic of China to Zimbabwe, 2012 “Sino-Zimbabwe relations”, a seminar presented at the University of Zimbabwe held on 3 May 2012.
AFRICAN EAST-ASIAN AFFAIRS

African East-Asian Affairs

is a publication of the Centre for Chinese Studies at Stellenbosch University, Western Cape, South Africa.

The journal is published quarterly and aims to be the premier African-produced publication looking exclusively at African and East-Asian affairs.

Editorial Team
Sven Grimm
Harrie Esterhuysen

Design & Layout
Centre for Chinese Studies

Contact Us

Centre for Chinese Studies
Stellenbosch University
Tel: +27 21 808 2840
Fax: +27 21 808 2841
Email: ccsinfo@sun.ac.za
www.sun.ac.za/ccs
@ccs_stell
facebook.com/ccs.stell