Meine Pieter van Dijk (ed.)

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EADI

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Table of Contents

Part I

Overview of the issues and China's success

1 Introduction: objectives of and instruments for China's new presence in Africa

Meine Pieter van Dijk

China is fast becoming a major player in Sub-Saharan Africa (Jacoby, 2007: 34). In 2008 it replaced the European Union (EU) and the United States (US) as Africa's major trading partner. However, we are not just talking about trade; China's Foreign Direct Investment (FDI) and development aid are also increasing rapidly; and aid, investments and trade mutually reinforce each other in the case of China (Asche and Schüller, 2008).[1] This combined use of aid, investments and trade requires political coordination and China has developed a strategy and different policies with respect to Africa, which includes migration to Africa and buying or leasing land for agricultural purposes (Chinese Government, 2008).

There are few systematic overviews of China's involvement in Africa (for example, Alden et al., eds, 2008; Asche and Schüller, 2008; Broadman, 2006; and Manji and Marks, 2007). The picture can be drawn on the basis of different sources such as trade statistics from the World Trade Organization (WTO), the World Bank (2009) and the International Monetary Fund (www.imf.org), statistics on international investments (UNCTAD, 2007) and indicators of development cooperation (OECD, 2009). These data need to be complemented by case studies and recent case studies are now available and will be used (for example, Kragelund, 2007; Large, 2007; Marysse and Geenen, 2009; and Tegegne, 2006). This allows us to ask a series of questions.

This introductory chapter presents the background of China's involvement in Africa. China was present in Africa already in the 1950s and the 1960s. At that time the Chinese leaders supported movements for independence and anti-colonial activities. In the post-colonial era Chairman Mao Zedong supported socialist regimes in particular. The support for the destruction and now for the reconstruction of the Beguela railroad in Angola is an example of long-term Chinese support to Africa.[2] The construction of the TAZARA (Tanzania Zambia Railway Authority) railway line took place in the 1960s. It runs from the Zambian copper mines to the Tanzanian capital and main port Dar-es-Salaam. It was built by the Chinese because no other donor was willing to provide the necessary support to the socialist government of Tanzania.

After the end of the cold war in 1989 the Western nations and the former Soviet Union no longer had to compete for the favors of African governments. In fact the presence in Africa of Russians and Eastern Europeans vanished and new actors came to the scene, among them China, a country that is now very visibly present. It must be said that currently Russia, India and Japan are also all trying again to increase their presence in Africa (Winters and Yusuf, eds, 2007).[3]

Currently the focus of China's presence is much more on trade and investments. Examples are the Chinese involvement in the oil sector in Angola, Nigeria and Sudan (since 1995) and its activities in the mining sector in Congo and Zimbabwe (copper, cobalt, platinum, etc.). China is also looking for cheap food and Chinese State Farms have invested in the agricultural sector in several African countries, including Senegal and Zambia.

To explain their current presence in Africa, the Chinese government likes to refer to this earlier presence in Africa. This common history often facilitated the negotiations to get a foot in the door in the 1990s. China still has a lot of goodwill in numerous African countries because of its involvement in the past. However, the nature of their presence has changed a lot in these last 50 years, as will be shown in this book. Africa has also changed. According to OECD (2008) the economic growth in this continent was at a record high of 5.5 percent per year in 2007. It increased steadily between 2000 and 2009. It was expected that this growth would continue, in particular in the mineral-exporting countries. Some of the experts expect a number of these African countries to become middle-income countries in the next ten years. However, as some of the following chapters will discuss, the global financial crisis of 2008 will also have an impact on African trade and growth.

After making an effort to measure China's presence in Africa, we will go deeper into the underlying policies and development model. What are the objectives behind this new presence of China in Africa and what can we say about the earlier presence in the 1960s and 1970s? The model underlying China's presence will be coined "the Beijing consensus" (Rano, 2004) and will be compared with the so-called "Washington consensus" (Williamson, 2002).[4] Different actors will be distinguished and their motives to act will be listed. In particular, the strategy of the Chinese government with respect to Africa will be analyzed by looking at the main instruments used. The instruments analyzed in Part II of the book are development aid, investments and trade policies, including different types of loans and debt relief. In this introductory chapter we will first give an overview of the major actors and go deeper into the objectives of the Chinese government. In this chapter we will also provide an overview of Chinese aid to, trade with, and huge investments in Africa.

The Chinese actors

The main Chinese actors are listed in Table 1.1, where we also provide an impression of their motives for being active in Sub-Saharan Africa.

Table 1.1 Main Chinese actors active in Africa

Main actors	Main motive
The Chinese government	Tries to implement the government's strategy with respect to Africa and it coordinates the activities of different actors
State-owned enterprises	Go to Africa as part of the official Go out policy (to be discussed below) to assure the supply of raw materials
Private Chinese companies	Go to Africa because they see opportunities there and fear cut-throat competition in the Chinese market
The Chinese Embassy in the country concerned	Informs Chinese firms in the country concerned and coordinates activities of different actors
Chinese people	Have different interests, but are driven by strong economic motives to go and work in Africa

Originally, mainly Chinese state-owned companies entered into joint ventures with Sub-Saharan Africa state-owned companies to secure the supply of commodities from Sub-Saharan Africa. Currently, it is not only the large state-owned enterprises that invest in Africa. Recently Chinese private companies have also become active in Africa. Furthermore, smaller and privately owned Chinese companies are active in this market and sometimes individuals move to Africa and start a business, or do so after their work for a Chinese state-owned enterprise has come to an end.

Eight different objectives behind China's presence

China's strategy with respect to Africa is based on at least eight different objectives and results in specific policies:

1. Assure the supply of raw materials for China, including agricultural products
2. Create a market for Chinese products and services
3. Obtain land for agricultural purposes
4. Channel migration of Chinese people to Africa

5. Gain diplomatic support from African countries
6 Present an alternative to the Western development model
7. Provide an alternative to Western development cooperation
8. Emphasize China's status as a superpower

We want to find out how China is achieving these objectives, to what extent the Chinese government has a strategy leading to its increasing presence in Africa and how we should look at this new phenomenon. The first two objectives mentioned for China's involvement in Africa were assuring the supply of the necessary raw materials and selling its products in Africa. China is not only selling cheap labour-intensive products like textiles and shoes, but also more sophisticated products such as different consumer electronic devices and mobile telephones. China has been very successful in this respect, as will be seen by some of the trade indicators presented below.

China is using product differentiation to promote its exports. It exports products to Africa especially for low-income consumers. Not only the quality of the product, but the price is also adjusted to the market. Chinese shoes, which would fetch fifteen Euros in Europe, can be bought (albeit of slightly different quality) for five Euros on the streets of Addis Ababa in Ethiopia. On top of that the Chinese companies use different marketing channels. The Chinese have developed a network of small Chinese traders, which assures sales in regions where other salesmen don't come anymore. This helps them to capture these African markets for consumer products.

Concerning the third objective, China has also decided to expand its presence abroad by buying and leasing land, as will be discussed in Chapter 6 in the case of Zambia and in Chapter 8 in more general terms. Subsequently, Chinese people are sent to till the land (objective 4). This implies that these farmers and all the other Chinese that have moved to Africa have to be protected, a huge responsibility in a continent with more than 50 countries and almost a million Chinese people.

Another important objective for China's presence in Africa is to gain political influence (objective 5). Examples will be given below. To outweigh the influence of the US and the EU, China is playing the card of being a successful developing country itself, but following a very different development model (objective 6) than the model pushed by Western donors, the World Bank and the International Monetary Fund (IMF), known as the "Washington consensus". The theory behind the two models will be discussed below.

China wants to provide developing countries with development assistance in a different way (objective 7) and it considers stability of the political system as more important than good governance. Stability is important for China itself and it requires continuing economic growth and assuring a constant supply of raw materials for the rapidly growing Chinese industry and hence the Chinese government wants stability in Africa as well. It also means that other objectives, like respecting human rights and protecting the environment, are considered less important for the moment in both China and Africa.

Finally, China is concerned with Western, and in particular American, hegemony in the world and one of its objectives is to become a political world power itself (objective 8), extending its influence to other parts of the world, like Latin America and Africa.

Different ways to measure the presence of China in Africa

There are different ways to measure the presence of China in Africa. These will now be discussed briefly. Its presence can be measured in terms of:

1. The number of Chinese people living and working in Africa
2. The goods and services rendered to African countries
3. Chinese aid going to Africa: grants, soft loans and debt relief
4. The role of Chinese foreign direct investment in Africa
5. Other financial flows between China and Africa: normal loans and export credit facilities

1. *The number of Chinese people living and working in Africa*

There are no data on the exact number of Chinese people currently working in Africa. However, figures are sometimes mentioned for individual countries.[5] Zambia, with a population of twelve million inhabitants, counts at the moment 30,000 Chinese inhabitants in the capital and up to 80,000 in the country in 2006, compared with 300 in 1992 (Asche and Schüller, 2008: 30). South Africa would count 200,000 Chinese, many of whom have entered the country illegally (Pretoria News, 24 August, 2007). If these figures are treated as representative, the total number for recent Chinese settlers in Africa (for 53 countries) would be about 1.5 million, which seems like a very high figure. The figure of 750,000 to one million Chinese living in Africa is mentioned regularly, and Asche and Schüller (2008: 30) provide details for a total of 929,000 Chinese people in fifteen African countries, if the average figure in their table is used, which seems to be a realistic estimate. The presence of so many Chinese people in Africa is not always without problems. Recently the Chinese withdrew 400 Chinese workers from Equatorial Guinea because of protests against its activities there.

2. *The goods and services rendered to African countries*

African countries export a range of products, in particular many natural resources.[6] China, for example, buys wood in Congo Brazzaville and iron ore in South Africa. China is a center of manufacturing activities, which require these raw materials, and it wants to export an important part of its production to other countries, being part of all kinds of global value chains (Schmitz and Messner, eds, 2008).

Broadman (2006) suggests, however, that both China and India's south-south commerce with Africa is about far more than natural resources. He is optimistic that this opens the way for Africa to become a processor of commodities and a competitive supplier of goods and services to these countries. This would be a major departure from Africa's long-established relations with the North. However, countries like Tanzania find it difficult to compete in an international or global context, while their markets are flooded with cheap Chinese products (see Box 1.1). It is also difficult for Tanzania to compete with the other countries in the region, for example South Africa, which is considered to have a very advanced economy.

Box 1.1 An example of global competition: tailors and waste in Tanzania

Informal tailors no longer compete with modern textile and garment industries in Tanzania. They have to produce at lower prices than Chinese textile and garment industries and have to come up with more attractive products than the second-hand clothing from Europe, which is available almost everywhere nowadays.

Scrap metal has already become valuable in Tanzania for exports, and the hope is that people will recover plastic in the future. Currently most of the plastic bottles are compressed and exported to China! Hence, it is important that there will be a plastic recycling plant in Tanzania soon.

Source: Van Dijk (2008)

China's trade with Africa has risen more than tenfold in a decade to 55 billion US$ in 2006 (Financial Times, 17 May, 2007) and reached 100 billion in 2008. The composition is somewhat one sided. Mainly raw materials go to China and industrial products are coming back. China is the most important trade partner for Africa, bigger than the EU and the United States. Trade statistics show trade between China and Africa has increased fourfold in the first five years of this century (Internationale Samenwerking, September 2006: 38). African exports to China increased from some three billion US$ in 2000 to nineteen billion US$ in 2005 and 26.7 billion in 2006. Jacoby (2007: 34) notes a 30 percent annual growth since 2000 and points to the fact that this is now one-fifth of Africa's export. Most of these exports are fuels and raw materials. Imports from China are mainly manufactured products. Imports increased in value terms from 3.5 billion US$ in 2000 to over thirteen billion US$ in 2005 and 28.8 billion in 2006, about 15 percent of total Sub-Saharan African imports. China's trade policy with respect to Africa will be discussed in Chapter 5. Chinese construction firms are also very active in Africa. Their market share is currently more than 50 percent of all construction activities according to the OECD (Financial Times, 17 May, 2007).

China has built up an important foreign currency surplus because it exports more than it imports. It earned almost 2,000 billion US$ in reserves by the end of 2008. That money needs to be used and will be used also in Africa to create Chinese jobs and to see to it that the Chinese economy is not hindered by a shortage of raw materials or a lack of markets. China presents itself as a developing country that has not come to exploit Africa, but rather wants to create win-win situations, while following a different approach than the European model.

3. *Chinese aid going to Africa: grants, soft loans and debt relief*

China is an important source of aid, soft loans and cheap products for Africa; Chapter 3 provides the details. This development assistance certainly helps to build the necessary infrastructure in Africa, although the quality of the infrastructure may be low and the operation and maintenance are not always organized. Infrastructure is a necessary condition for successful economic development, particularly in a continent which is very densely populated. Aid can flow in the form of grants (section 3.1) or interest-free and preferential loans (with a subsidized rate of interest; 3.2), or as debt relief (3.3).

3.1. GRANTS

Recently Chinese aid going to Africa has increased substantially. China has set up a five billion US$ development fund for Africa. The Africa aid package will be tied to Chinese projects, however (Financial Times, 26 June, 2007).[7] Aid will be discussed in detail in Chapter 3. Existing loans and credit lines were estimated to total about nineteen billion US$ in 2006. The countries that receive most of this money are Angola, Equatorial Guinea, Gabon, Republic of Congo and Nigeria (Jacoby, 2007: 34). One notes that these are all oil-producing or other commodities-exporting countries. OECD (2009: 140) puts total Chinese aid at 1 to 1.5 billion US$ in 2006.

3.2. Interest-free loans and preferential loans (with a subsidized rate of interest)

In 2005, China announced in the General Assembly of the UN that it would mobilize an additional ten billion US$ in three years for concessional loans. In December 2006 in Beijing, during the conference of heads of states from Africa, China announced it would probably be Africa's biggest donor by 2010 (La lettre des économistes No. 15, January 2007).

The loans given are conditional in the sense of being tied to Chinese companies, which are obliged to use Chinese products for the projects. Jacoby (2007: 35) notes that repayment of the loans has also sometimes been tied to the export of local commodities. He gives the example of Angola, where Chinese loans are tied to the supply of oil. However, China puts no macroeconomic conditions on its preferential loans, in a part of the world where many countries have just overcome the debt crisis with the help of the Bretton Woods institutions. In this way China does not support the Washington consensus achieved by the World Bank, IMF and a number of donors, and may undermine their efforts. The two Bretton Woods organizations have raised concerns that China's unrestricted lending undermines years of painstaking efforts to arrange conditional debt relief (International Herald Tribune, 3 November, 2006). The Chinese approach goes against the good governance philosophy, which Western donors pushed in the 1990s and which stresses democracy, accountability and the need to find a consensus to avoid conflicts.

3.3. Debt relief

The International Monetary Fund has not yet been restructured in a way that eliminates the possibility that the Fund will have to bail out private banks again in case of an international financial crisis. Instead of going bust, the debts of African countries are usually rescheduled over a longer period, during which they find it difficult to obtain new loans. There is, however, an important development with China coming on the scene as a major lender to developing countries. The country does not work in accordance with the way the other international lenders operate in Africa. Some Western interests say the generosity of the Chinese aid programs, its low-interest loans, debt relief and other gifts, undermine their efforts to foster good governance in Africa (International Herald Tribune, 3 November, 2006). The Financial Times (23 April, 2007) warns that some African leaders can try to use Chinese loans to avoid the conditionalities of the World Bank and the IMF, or to avoid having to hold elections. Also, the donor-constructed notion of accountability could be threatened.

China has provided substantial debt relief already. Besides announcing it was going to double aid by 2009 (to about one billion US$), China has also cancelled one billion Euros of African debt and has announced it will cancel a further one billion Euros (Financial Times, 17 May, 2007). It took the Bretton Woods institutions more than two decades to restructure the debt of most African countries. However, currently countries like Ghana and Nigeria are coming back into the international market by issuing sovereign bonds again (Financial Times, 22 March, 2007). Markets seem to forget quickly and the number of parties involved in international finance has increased, making it easier to issue bonds internationally.

4. *Chinese Foreign Direct Investment in Africa*

The role of the Chinese FDI in Africa is the subject of Chapter 4. Examples of planned Chinese investments in Africa are a commitment to invest 2.5 billion US$ in Egypt, together with the promise to increase trade from two to five billion US$ per year (Jeune Afrique, 24 March, 2007). Similar promises were made in other countries visited by Prime Minister Wen and President Hu during their missions to Africa in 2006.

Since the Chinese government initiated the "go global" strategy for Chinese enterprises in 1998, FDI has been increasing. China's "go out" policy is an important factor in explaining China's investments in Africa. The Chinese government also actively stimulated Chinese private entrepreneurs to start up businesses in Africa. By the end of 2006, China had invested more than ten billion US$ in Sub-Saharan Africa (UNCTAD, 2007). The investments focus on building the necessary infrastructure to explore oil or gas (Financial Times 6 February, 2007), but also serve to develop agricultural, telecommunication and manufacturing activities. In 1991 only 4 percent of the Chinese FDI went to Africa. That percentage has increased to 16 percent in 2001, but fluctuates strongly. Chinese FDI is the result of the rapid economic development in China, the important stock of foreign exchange or reserves China has obtained, and a reorientation of its strategy to invest in industries providing the raw materials for China's manufacturing sector.

It is estimated that only 3 percent of China's total outward FDI stock (or 2.19 billion US$) is spread over 500 FDI projects in 48 African countries. Most FDI in Africa went to Egypt, Nigeria, Sudan and Tunisia in 2006 and the first three are certainly very important for the Chinese. Figures by country will be given for several cases, but unfortunately they come from different sources, which may affect their accuracy and recent nature.

FDI flows to Africa in general have increased substantially since 2000, as shown in Table 1.2. The table gives an impression of the growing importance of capital flows to Asia, Eastern Europe and the Middle East, Latin America and Africa. Also, informal flows of money between and within countries have become more important. They are often not captured in the official statistics; it is also not incorporated in the International Institute of Finance (IIF) figures. Recently attention has also focused on the importance of these remittances for Africa.[8] This is partially grant money for consumption purposes, but some of the money is also used for investments in development. These figures would have to be added to the figures provided in Table 1.2.

Table 1.2 Comparison of capital flows by region over time (US$ billion)

Region	1991	1995	2004	2005	2006	2007
Latin America	33.1	1.3	40.8	70.9	40.4	54.9
Eastern Europe	-6.6	10.3	130.7	204.0	228.2	236.1
Africa/M.East	7.4	9.9	7.7	25.2	29.8	30.9
Asia/Pacific	26.6	60.4	165.8	218.1	254.5	223.0
Total private flows	70.5	81.9	345.1	518.1	552.9	544.9

Source: Van Loon and Van Dijk (1995) and more recent data IIF (2007)

More recent information from the IIF (www.iif.org) on the flows per region shows the distribution of the international capital flows to emerging economies over the four major regions, Latin America, Eastern Europe, Africa and the Middle East, and Asia and the Pacific. It shows a strong increase in the total flows and an unequal distribution of the growth over the four regions, with Africa and Latin America lagging behind the other two regions. In this period of sixteen years the flows to Asia and the Pacific increased by almost nine times, while the amount going to Africa and the Middle East went up fourfold. The most spectacular growth has been registered in Eastern Europe, however. FDI is considered a stable source of foreign finance since it has a long-term goal. It usually also brings technology and access to international markets.

Total FDI inflows in Africa were 30 billion US$ in 2006, twice the 2004 level (UNCTAD, 2007: xvii).[9] These investments mainly go to South Africa and often concern Africa's natural resources. In fact 90 percent of these FDIs are concentrated in ten countries, which shows the concentration of these flows. The importance of FDI from China is increasing rapidly.

Chinese FDI flows comprised 12.5 percent of total investments in Africa in 2005 and accumulated Chinese FDI comprised 10.5 percent of the total inflow in a country like Zambia (UNCTAD, 2007). In that country the stock of Chinese investments in 2005 was 316 million US$ and the flow 41 million US$. China's total capital outflow increased by 32 percent in 2006 and reached sixteen billion

US$ (UNCTAD, 2007: 44). Its outward FDI stock reached 73 billion US$ according to the same source. Although we don't know exactly how much of these investments went to Africa, UNCTAD (2007: 40) notes that China is the fourth largest Asian investor in Africa after Singapore, India and Malaysia.

The China Daily (23 April, 2008) notes that 1,400 Chinese companies employ about 11,000 local people in Africa and have "trained 54,000". They would be active in 49 African countries. The article in The China Daily quotes the Chinese deputy director of the commerce ministry's foreign economic cooperation department as saying that Chinese investors should be aware of risks "such as problems brought about by a slowdown in the global economy, trade protectionism as well as security incidents involving Chinese businesses".

5. *Normal loans and export credit*

The value of existing Chinese loans and credit lines to African countries is estimated to total about nineteen billion US$ in 2006. The loans given are conditional in the sense of being tied to Chinese companies, which are obliged to use Chinese products for the projects.

Box 1.2 An example: Chinese presence in Zambia

China is already present and quite active in Zambia since its independence in 1964. There were only 300 Chinese living in Zambia in 1992. That number has increased to maybe 80,000 Chinese in 2006. There are currently some 200 Chinese enterprises active in Zambia, the largest number of them on two industrial zones created exclusively for the Chinese. Zambia is also the third country as far as Chinese investments in Africa is concerned. China only invested more in Sudan and Angola. In this case the investments concern mainly the mineral sector. China exports copper and cobalt from Zambia.

Chinese investments were 10.5 percent of all Foreign Direct Investments in Zambia in 2006. China was number eight in that country in investments in 2006. These investments are related to Zambia's mining sector, in particular copper mining investments (UNCTAD, 2007). President Hu Jintao visited Zambia in February 2007 to open the first Africa Economic and Trade Co-operation Zone. Chinese investments in Zambia could increase during the next three years to 800 million US$, according to the China Daily (2007).

A Chinese agribusiness group has invested heavily in Zambia, where they lease more than 3,000 hectares, producing chicken and pigs and with an annual turnover of three million US$ (Internationale Samenwerking, September 2006: 37; also in Chapter 6).

Van Pinxteren (2007) attributes the anti-Chinese mood in Zambia to the way "China mistreats and exploits local workers in Zambia" (Financial Times, 8 February, 2007). When an opposition leader wanted to make this a theme of his campaign, the Chinese warned that they would leave Zambia if this man was elected president. Many Zambians considered the Chinese statement to be interference in local politics.

An analysis of the effects of Chinese investments in Zambia is given in a case study by Kragelund (2007; also Chapter 6). He studied the effects of Chinese investments in Zambia using an interesting classification of these investments. They can serve to build up local production capacity, or result in enterprises competing with local companies, or Chinese investments can play a role as a catalyst. In his opinion investments in the construction sector are competing. Local companies could have done the work, or international companies that employ many more local subcontractors and workers. Catalyzing is the role of Chinese investments in the copper sector in Zambia. That sector had been privatized in the 1980s and declined subsequently. It was revived in the 1990s, but China seems to be retrenching in 2009 (just like the Indian mining firm in Zambia) because copper prices have fallen strongly.

Finally Kragelund (2007) considers that the textile and garments industries are examples of building up local capacity. This industry is important for Zambia because about 18 percent of the national income is generated by its activities and about 140,000 farmers grow cotton, although currently of a very low quality. The Chinese are good for two-thirds of the textile and garments sector. There are some positive effects of these Chinese investments for Zambian farmers and local textile and garments companies in Zambia. However, after finishing the Multi-Fibre Agreement in January 2005, China started to export directly from China and the biggest Zambian textile factory is currently closed because of "restructuring".

China's government strategy with respect to Africa

During the Forum on China-Africa Cooperation, a conference of heads of states from Africa in Beijing in November 2006, it became clear that China seeks deeper ties with Africa. The meeting was attended by 47 heads of state out of a total of 53 African countries that have diplomatic relations with China.[10] It resulted in a plan pledging that China will double its aid to Africa and set up a China-Africa development fund to encourage Chinese companies to invest in Africa. The Forum on China-Africa Cooperation resulted in a Three-year Action Program.[11] It promised, for example, to train 15,000 African professionals and to build 30 hospitals, 30 malaria treatment centres and 100 rural schools![12] The document is full of phrases expressing China's good intentions in Africa, like: "peace and development remain the main themes of our times".

The policy note for Africa (Chinese Government, 2008), which was the background document for the Forum on China-Africa Cooperation, shows a systematic approach to improving relations with African countries. The main elements of this strategy are that China-Africa friendship is embedded in the long history of interchange:

> Sincerity, equality and mutual benefit, solidarity and common development are the principles guiding China-Africa exchange and cooperation and the driving force to lasting China-Africa relations.

The Forum strengthened the ties between the government of China and the African nations that were represented. It consolidated plans to continue cooperating in all areas of trade and development. Media attention focused on the economic and political consequences of this new partnership. Annual conferences with African leaders were announced. Five billion US$ were promised in the form of new loans.

China uses a number of principles when dealing with African countries. China emphasizes the role of institutions like the African Union (earlier the Organization for African Union), the New Partnership for African Development (NEPAD, an organization to speed up development in Africa) and regional (trade) organizations. The emphasis is on peaceful cooperation and mutual interests. The policy note puts a coherent vision on the table and develops a strategy to achieve its goals. The goals mentioned explicitly concern the supply of raw materials and the creation of a market for Chinese products and services and to provide an alternative development model for the Washington donor consensus, which is a consensus among Western countries on the preconditions for development.

The model underlying the Washington and the Beijing consensus

For a better understanding of China's approach to Africa it is useful to compare the consensus reached in Beijing during the Forum on China-Africa Cooperation, with what is commonly known as the Washington consensus. In Table 1.3, the Washington consensus is put against the Beijing consensus developed in 2006 during the Forum. Such a comparison is very schematic and is only presented to illustrate the different ways of thinking. It cannot be said, for example, that the Chinese government has made the same systematic effort to spread the Beijing consensus as the World Bank and IMF have made to introduce the economic part of the Washington consensus.

Table 1.3 Washington versus Beijing consensus for achieving economic development

Washington consensus versus	Beijing consensus
In economic terms	
1. Free markets and an important role for the private sector	1. Important role for the government in the economy
2. Loans, but under strict conditions	2. No conditions for soft loans
3. Projects: use local companies to create employment	3. Use Chinese companies, employment and technology
4. Transfer of technology, knowledge and experience (capacity building)	4. No transfer of knowledge and experience
In political terms	
1. Democracy	1. No recognition of Taiwan
2. Liberalization	2. Political support for China in the United Nations and other fora
3. Limited time for political functions (2 times 5 years for example)	3. Stability is important

The two approaches are very different concerning the role of government and the view on political issues. Also Chinese companies active in Africa are not so much interested in transferring knowledge and experience, and the Chinese government is not putting up a lot of conditions for obtaining soft loans. The Chinese government wants a more important role for the government in the economy, but also communist China recommends the use of the market in general and of private (Chinese) firms in particular. It has experienced that the private sector contributes strongly to economic development in China.

There are some contradictions in the table, to which we will come back in the last chapter of the book. On the one hand China shows Africa how a developing country can benefit from globalization, on the other hand Chinese companies invest in Africa, but keep control over their technology. Also the Chinese government may not impose conditions on Chinese loans, but their aid is tied and needs to be spent in China on Chinese goods and services. The fact that the Chinese companies use mainly Chinese labor is a disadvantage for the African country concerned. It means no local employment is created and also that no knowledge and experience are transferred. On top of that the Chinese government sometimes supports regimes that are not supported by the West, like in the case of Zimbabwe.

The critical question is whether this unconditional aid by China is undermining the good governance concept pushed by Western donors and leading to a number of conditionalities for the development assistance the Western donors provide. The World Bank and the IMF were not happy with the Beijing consensus and have indicated that it undermines their policy. The European Investment Bank (EIB) complained that it has to compete with Chinese government banks (Financial Times, 28 June, 2007). Just like the World Bank and the IMF, the EIB complains that the Chinese apply lower moral and environmental standards in their loans, which can lower credit standards.

However, China has a lot of goodwill in Africa. This goodwill is based on the fact that China is a developing country itself and that it also helped Africa in the 1960s and 1970s and the fact that the Chinese are not seen as lecturing the Africans on how to behave and telling them what they should do. However, the debate is also whether China is the last in a series of exploiters of Africa's raw materials, or whether China will really help the Africans "to free themselves from the tyranny of the neo-liberal policies" (Manji and Marks, 2007). In this book we hope to shed some light on these issues and contradictions.

China's instruments used in Africa

The policy note for Africa, which was the background document for the Forum on China-Africa Cooperation, shows a systematic approach to improving the relations with Africa (Chinese Government, 2008). The main instruments for achieving this strategy, as mentioned in the document, are:

1. *Provide more aid and loans*

The facts were given before. President Hu Jiantao announced during the Africa-China Cooperation Forum in November 2006 that China would double its 2006 assistance to Africa by 2009. He also announced that China would provide five billion US$ in preferential credits (of which two billion US$ would be buyers' credit; Jacoby, 2007). Finally it would provide assistance to the social and health sectors and build a conference centre for the African Union. A detailed analysis of China's aid to Africa is the subject of Chapter 3.

2. *Promote trade and investments*

During the Forum, commercial contracts worth 1.9 billion US$ were concluded in various sectors (Jacoby, 2007). The intention was expressed to double bilateral trade to 100 billion US$ by 2010, which was achieved already by 2008. Trade and investments figures of the Chinese in Africa are already impressive, but to increase those it was announced that China would establish three to five more Trade and Economic Cooperation Zones in Africa, comparable to the ones existing already in Zambia (see Chapter 6). Building Trade and Economic Cooperation Zones is also an important instrument of China in its cooperation with Africa. China has also announced an intention to build such zones in Ethiopia and Tanzania. The objectives are twofold. On the one hand to help the country concerned, on the other to make it easier for Chinese enterprises to invest in that country.

3. *Forgive debts*

China has launched an initiative for debt relief. In Beijing, during the Africa-China Cooperation Forum, President Hu Jiantao announced that China would cancel all interest-free government loans due at the end of 2005 that were owed by the poorest and least developed countries in Africa with diplomatic relations with China (Jacoby, 2007). The latter notes that it is important that the volume and terms of loans provided by China to an African country should be compatible with its borrowing capacity. This is determined by the low-income country debt sustainability framework, which usually results in an agreement between these countries and the IMF and World Bank on what they can borrow.

4. *Eventually work to a Free Trade Area*

China's goal is to create Free Trade Areas (FTAs) with African countries or groups of countries. This intention is modeled on the European approach of signing Economic Partnership Agreements (EPAs) with its former colonies in Africa, which are WTO compatible and are based on reciprocity (Van Hoestenberghe and Van Dijk, 2007). These FTAs will be discussed in Chapter 5.

An overview of the book

The first part of the book provides an overview of China's activities in Africa and the background of China's economic success. In this book we focus on a limited number of countries and sectors. Part II deals with the three major instruments China uses in Africa: Chinese aid, its investments going to Africa, and its trade policy with respect to the continent. Each one will be discussed in a separate chapter, before presenting three chapters with case studies. Part III provides a number of case studies, and Part IV the conclusions. The conclusions start with a chapter addressing the extent to which social corporate responsibility can be expected from Chinese companies and a chapter on what can be learned from China's experience in Africa.

After the overview given in this first chapter, the causes of China's success are analysed in Chapter 2 by De Beule and Van den Bulcke. China has a vast army of cheap labor. The agricultural sector contributes only 25 percent to China's GDP, while still more than half of China's 1.3 million people are living in rural areas. It is expected that in the next ten years 200 million people will leave the rural areas and employment will have to be created for them in the cities (Van Dijk, 2007). China has opted for an export-oriented development model and built up a huge production capacity, which it is still expanding to create more employment. It results in a need for more and more energy and other raw materials, much of them coming from Africa. Finally it points to the need for China to conquer foreign markets, to be able to sell its products.

Part II starts with Chapter 3 by Chaponnière about China's aid. The geographical distribution of China's official aid is not really known because China provides no systematic data on aid, only press releases. China may find it difficult to sell to its own poor that so much money is spent on assistance in other developing countries. Chaponnière provides an historical overview and points to the institutions involved. He analyzes the different forms in which aid is provided and its approximate geographical distribution. Then he identifies and discusses the major issues concerning aid to Africa, in particular to what extent Chinese aid will converge towards Western practice or remain an alternative way of dealing with developing countries. The Chinese government considers that Western aid has failed and it proposes a different model of providing aid and achieving development.

Latecomers in international markets have the choice of replacing existing supply or developing new markets (green fields). The Chinese government has chosen the last approach with respect to Africa and the main factors that seem to explain their huge investments in Africa are its energy needs, its search for new markets and the possibility of using its huge balance of payments surplus to invest abroad. To some extent China is globalizing itself, after having benefited so much from globalization during its development process (Van Dijk, 2006)

In Chapter 4, Kragelund and Van Dijk deal with China's investments in Africa. Chinese companies are investing heavily in Africa. Chinese investments in Africa are important and increasing rapidly. It is concentrated mainly in oil-producing countries like Angola, Nigeria and Sudan, or in countries with a lot of raw material, such as Zambia. These investments are made not only by the large state-owned enterprises, but increasingly by the smaller and privately owned ones. This chapter analyzes the importance, the distribution and the effects of these investments, but it is difficult to predict what the long-term impact of these investments is going to be and how China's investment behavior may change because of the current financial and economic crisis.

The effects of foreign investments in general depend on the mode of entry (through direct investments, portfolio investment or loans to local firms), on the local absorption capacity, on the motives of the investors to make the investment and on the policy of the receiving country to accept FDI and on which terms. China's policy with respect to investments in Africa is closely related to the development of its aid and trade policies with regard to Africa. In Chapter 4, China's policy with respect to investments in Africa is summarized. Subsequently different (sometimes conflicting) estimates of Chinese FDI to Africa are presented. The figures tell a story of the increasing importance of FDI as a vector of influence in African economies.

The authors then seek to compare Chinese FDI in Africa with FDI from other sources. It is argued that though similarities exist there are also qualitative differences that warrant a new approach to the study of these investments. An analytical framework to further our understanding of the local consequences of this phenomenon is presented. This framework only deals with effects of Chinese FDI on the domestic private sector, but the consequences of Chinese FDI to Africa are not limited to this sector. Kragelund and Van Dijk question to what extent we can approach Chinese FDI with the same analytical frameworks as the more "traditional" FDI and to what extent we need new analytical frameworks.

Finally trade policies as an instrument are analyzed by Van Dijk in Chapter 5. He compares the trade advantages provided by the EU, the US and China in terms of tariffs, non-tariff barriers, rules of origin and the required reciprocity. Do the EU and the US trade policies compare favorably with China's trade policy with respect to Africa?

In Part III of this book we go deeper into these issues by studying some concrete examples. Chinese investments may impact both positively and negatively on local companies depending on, amongst others, the motives and strategies of the investments. In Chapter 6, Bastholm and Kragelund examine the main motives and strategies of Chinese investments in the following three sectors of the Zambian economy: mining, construction and agriculture. They scrutinise how and to what extent the Chinese state provides advantages for Chinese companies in Zambia as well as in China. They find that the Chinese state is a central player in driving Chinese investments. Chapter 6 also concludes that the majority of Chinese investments in Zambia target either mining, or mining-related activities and that the Chinese state directs and assists these investments at the highest political level. Lastly, the authors hint at how the Chinese state makes use of investments in other sectors to render investments in the mining sector possible.

In Chapter 7, Van Dijk analyzes the involvement of China in Sudan, showing how China operates politically in Africa. This chapter also tries to assess the impact of the Chinese presence in Sudan. First a short review of the history of the cooperation between China and Sudan will be given. Then an overview of recent economic relations will be provided before discussing some of the real issues like the developments in Darfur and to what extent China's arms deliveries have contributed to the current crisis and whether China's diplomacy has helped to find a solution.

The question of the extent to which China did or did not use conditions when providing aid and investing in Sudan is discussed. Finally, the issue of whether China is an alternative for the Western development model will be taken up by looking at the strategic objectives and trade policies of China, the EU and the US with respect to Sudan.

In Chapter 8, a number of other countries are discussed by Van Dijk and the impact of the Chinese presence in specific sectors will be assessed. The chapter brings together the experiences with China's presence in five other African countries and goes into some detail for sectors in which Chinese investors are active. The presence of China in Angola, Congo, Ethiopia, Tanzania and Zimbabwe will be discussed and the experiences in agriculture, textiles, the financial, the construction and the mining sectors will be analyzed.

In Part IV, drawing some conclusions, Knorringa deals in Chapter 9 with responsible production in Africa. Knorringa asks the question whether it is also possible for China to go for socially responsible production in Africa. He first provides a working definition of responsible production by outlining a typology that distinguishes between compliance, risk minimization and value creation strategies, and then adds the Norm Life Cycle model to make this typology more dynamic.

Before using this typology to position existing case studies from Africa, Knorringa introduces the context and looks at private sector development and company social responsibility (CSR) in Africa. In particular he focuses on the role of China in these developments. Subsequently he brings in some additional sobering thoughts to the idea that responsible production will be the way of the future, by showing how the rise of China as a center of global production and consumption may well limit the reach of responsible production. He then concludes by presenting the main findings and outlining suggestions for further research. There is clearly a need for socially responsible production in Africa and a number of useful lessons can be learned from Chinese economic success and from a decade of increased Chinese presence in Africa.

In Chapter 10, Van Dijk draws some conclusions concerning China's activities in Africa. China has different and sometimes conflicting objectives. Also the differences in perception between Western and Chinese researchers on key issues will be analyzed. Van Dijk distinguishes at least four different levels of presence or involvement in Africa. Moreover, Chinese actors change and they play different roles over time. He concludes that China benefited from globalization but does not really help other countries to also benefit, for example from the opportunities provided by higher food and raw material prices. Secondly, he makes the point that the Chinese model is not an alternative for Africa.

Notes

1 Marysse and Geenen (2009) make a convincing case that the Sino-Congolese cooperation agreements cover "all economic relations between the two countries in one text": Chinese aid is part of a larger package of investments and trade deals.

2 The Chinese supported the independence movement in Angola against the Portuguese. According to Internationale Samenwerking (September 2006: 38) the Chinese are currently repairing the Benguela railroad in Angola, which Mao helped to destroy in the 1970s.

3 The Russian aluminium giant Rusal, for example, has plans to expand into new parts of Africa after reviving a smelter in Nigeria (Financial Times, 30 April, 2008).

4 He mentions ten points: fiscal discipline, reordering public expenditure priorities, tax reform, liberalizing interest rates, a competitive exchange rate, trade liberalization, liberalization of inward foreign direct investment, privatization, deregulation and property rights as the ten reforms originally presented.

5 When I lived in Senegal (1973-77) the country counted 20,000 inhabitants of "Lebanese" descent on five million Senegalese, and also a large number of people of Mauritanian descent (the Moors). Not all Senegalese were happy with this and during a conflict most Mauritanians left, while the Lebanese community has gradually become less important.

6 The Netherlands mainly exports used papers and scrap to China, using the empty containers used for exporting Chinese products to the European Union (NRC, July 2007).

7 In a letter to the Financial Times (28 June, 2007), D. Brautigam argues that the Chinese do not tie aid but promote a different approach to economic cooperation. It is not aid, but rather something of mutual benefit that Chinese companies are promoted to invest in Africa. She concludes that investments in Africa could provide more jobs, tax revenues and economic pay-offs than the uncertain experiments that have characterized the foreign aid from the West.

8 According to some IMF estimates informal remittances would be another 150 billion US$ (www.imf.org).

9 Although UNCTAD provides figures on international investments, the investments of China in Africa are not given separately (UNCTAD, 2007).

10 China also hosted the annual meeting of the African Development Bank in 2007 in Shanghai.

11 The next China-Africa summit will take place in South Africa in 2009.

12 The weight Tanzania attached to the Africa-China Forum in Beijing is proven by the fact that the president and the minister of foreign affairs attended, plus some other Tanzanian ministers.

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2 China's opening up, from Shenzhen to Sudan

Filip de Beule and Daniël Van den Bulcke

Introduction

At the end of the 1970s, after years of economic and political isolation, China started an enormous systemic transformation to turn around one of the world's poorest countries. At the beginning of reform, we now know that China was substantially poorer than Sub-Saharan Africa (Dollar, 2008). At that time, China's real gross domestic product per capita was behind all Sub-Saharan countries, except Ethiopia and Tanzania (CICUP, 2008).

Already in the early 1970s Zhou Enlai devised a plan to modernize China's agriculture, industry, defense, and science and technology; but it was not until Deng Xiaoping's resurgence –after Mao Zedong's death– that the necessary political will and social stability were created to make it possible. Although its liberalization policies were very gradual, in less than three decades China has indeed gone through a metamorphosis from one of the most isolated economies in the world to a global economic powerhouse.

Opening to the world and domestic reforms were two complementary policies that succinctly describe the post-1978 period (Naughton, 2007), and both policies were indeed geared towards the modernization of China. This chapter will focus primarily on China's international opening and its inward and outward trade and investment activities, and will also discuss some of the consequences and challenges of these open policies for Africa. In the first section, the open door policy will be briefly analyzed. This section specifically discusses China's policy towards foreign direct investment and trade, and the role of economic development zones. A second section looks at the economic, social and environmental consequences and challenges of China's economic boom. The third section tackles China's internationalization steps in Africa, both in terms of direct investment and trade. The final section draws some conclusions on the impact of China's internationalization, both for the domestic economy and Africa.

Open door policy

Since 1978, the Chinese government has gradually opened up its economy and in 1979 embraced foreign direct investment (FDI) as a vehicle to obtain advanced technology and assistance in achieving its objectives of modernization. FDI in China has expanded enormously, reflecting the evolving changes in economic conditions, investment environments and especially government policies. On the one hand, China's market size and growth, its natural and human resource endowments, its physical, financial and technological infrastructure, have made China into an increasingly attractive investment site for multinationals. On the other hand, China has relied on explicit conditions – many of which were gradually released later on, such as joint ventures, export targets, local content requirements and insistence on technology transfers, to maximize the benefits of FDI to the host economy. The Chinese government thereby systematically tried to strike a balance between the need to attract foreign direct investment (to acquire technology, conquer export markets and earn foreign exchange, and thereby maximize the positive fall-out to the host economy) and the concern to safeguard China's autonomous decision-making authority and direct and control the changeover from a centrally planned to a market economy.

China's first opening step took place when Hong Kong businesses were allowed to sign export-processing contracts with Chinese multinational companies in the Pearl River Delta. Rather than tackle the enormous task of transforming the whole foreign trade system, Chinese policy-makers initially took modest but innovative steps to open up new trade channels in the southern provinces of Guangdong and Fujian. A Hong Kong firm would ship, for example, fabric to a Chinese rural firm and have it sewn into shirts. These Chinese firms would be paid a processing fee. The fabric and shirts were considered to be owned by the Hong Kong firm at all times, which allowed them to avoid the then restrictive foreign trade system (Naughton, 2007).

In today's global economy, trade and investment are increasingly closely linked phenomena. In China as well, the growth of trade has been driven by foreign investment that has itself, to a large extent, been due to the Asian economic boom. Taiwan and Hong Kong very successfully developed labor-intensive manufactured exports during the 1960s and 1970s. From the very beginning of the economic reforms, this success had an important demonstration effect on China because its policy-makers often sought to emulate and repeat these successful examples through economic reform. Later on, the export success of Taiwan and Hong Kong had a more direct effect when their increasing wages and costs pushed production to lower-wage locations on the Chinese mainland.

Proximity, aided by common language, customs and roots, made doing business in the southern coastal provinces of the mainland easy and cheap, after the opening up of the economic system in this part of the country proved to be a permanent policy change.

Initially, four Special Economic Zones (SEZs) were set up in Guangdong and Fujian. These SEZs provided a secure initial footprint for the expansion of export-processing trade. These zones were large regions in which foreign investment was encouraged by lower tax rates, as well as fewer and simplified administrative and custom procedures. Also, investors were allowed duty-free imports of components and supplies, as long as these were used within the zone to produce exports. This system was particularly powerful in Southern China because transaction costs for firms from Hong Kong, Macao and later on Taiwan to operate in the People's Republic China (PRC) were low. For the next fifteen years, exports from Guangdong and Fujian grew twice as rapidly as those from the rest of China. Consequently, those provinces were fundamentally transformed from economic backwaters into crucial nodes in the global trade economy, warranting Guangdong's Tiger status.

None of the provisions of the Chinese export processing trade regime were novel. All had their counterparts elsewhere in Asia and, indeed, around the globe. However, the SEZs served as test beds for domestic economic reforms. For instance, wholly owned foreign subsidiaries were permitted in the SEZs long before they were allowed elsewhere. The SEZs had a great impact on China's economic reform, as they exemplified the pattern of Chinese dual-track policy-making by launching a new system alongside the existing one that either could be merged or could downright replace the old one, once it had proven its worth.

One of the main goals was China's desire to absorb foreign technology, management methods, foreign exchange and foreign capital (Wu, 1989). Another set of objectives was the expected impact on Chinese human capital, such as the provision of employment and training. In the 7th Five-Year Plan, reference was made to the goals and objectives of SEZs, which included the expansion of foreign trade, especially the export of more refined manufactured and processed goods, the acquisition of foreign exchange, and the development of China's own industries to lessen imports. From the very beginning, a major objective was also "the attraction of foreign investment, particularly in technological intensive and export oriented (or foreign exchange earning-oriented) industries". Accordingly, the SEZs were expected to lead in technological importation, to increase exports and to create more foreign exchange earnings for China.

As the first and foremost preoccupation of the Chinese government to open up the economy was the search for technology, it wanted foreign multinationals to set up supply-oriented joint ventures with state-owned enterprises (SOEs) in these zones. The government enforced the balancing of foreign exchange accounts in order to promote exports, on the one hand, and avoid excessive imports, on the other hand. The authorities also tried to increase backward linkages by enforcing localization of supplies. They believed that the SOEs could exploit the MNEs' strengths.

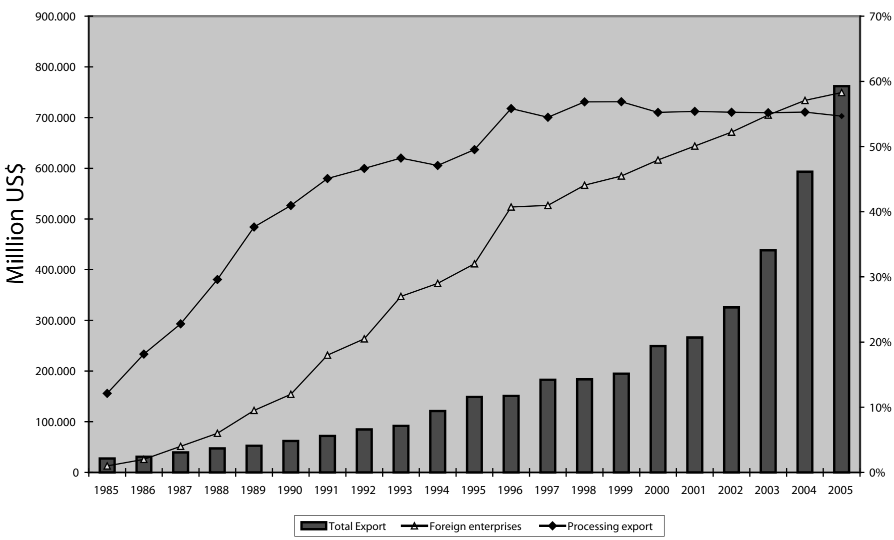
Although Chinese administrators from the outset of the liberalization initiative tried to attract high technological activities to their country in line with their modernization policy, this was not always as successful as originally anticipated. In fact, the SEZs were not immediately successful. In relation to the high hopes they had inspired, they got off to a slow start. Foreign investment from Western firms, especially high-tech investment, was initially disappointing, and the construction of infrastructure was expensive. Although many world-class manufacturers were courted, most of the early incoming investments were low value-adding, labor-intensive, export-oriented screwdriver plants by Overseas Chinese. Contractual, rather than equity, joint ventures and even subcontracting were the preferred mode of "investment," as these emerging multinationals wanted to minimize the risk for the invested capital.

In order to jumpstart reforms, Deng Xiaoping made his first visit to Shenzhen SEZ in 1984, during which he was able to convince his peers that Shenzhen was indeed a successful experiment. While China's SEZs are currently regarded as one of the first important steps towards the liberalization of China's economy, it is generally forgotten that they were once very experimental and that initially there were serious doubts by certain conservative members of the communist party that they would serve the socialist purposes of the country.

The Chinese government subsequently announced that fourteen coastal cities would open to foreign investment, expanding the open door policy from the initial SEZs to other coastal regions. These new "Open Cities" – including Shanghai – were situated along the coast, and all set up Economic and Technological Development Zones (ETDZs) that offered many of the same provisions as the SEZs. Local authorities were authorized and encouraged to bargain aggressively with potential foreign investors to facilitate investment flows. Shanghai quickly approved the application of the American multinational 3M Corporation to set up a wholly owned subsidiary, even though there was no provision in Chinese law for foreign ownership outside the SEZs at that time. Starting from 1985, China listed the Yangtze River Delta, the Pearl River Delta, and the South Fujian Triangle as open economic zones, thus forming an extensive open economic coastal belt. This belt was later extended further to include the Bohai Sea Rim, Shandong Peninsula, Liaodong Peninsula, Hebei and Guangxi as open economic areas. In essence, China created one gigantic export-processing zone in the coastal provinces.

Figure 2.1 clearly shows the impressive flight that export processing took as a result of these improvements in the economic environment. Before the reforms, only twelve national foreign trade companies were granted monopolies over both imports and exports. Once export-processing firms were allowed to import for export purposes, their share in the Chinese exports dramatically increased over the years towards 50 percent. Similarly, the role and importance of foreign invested enterprises proved vital as an engine of Chinese export growth.

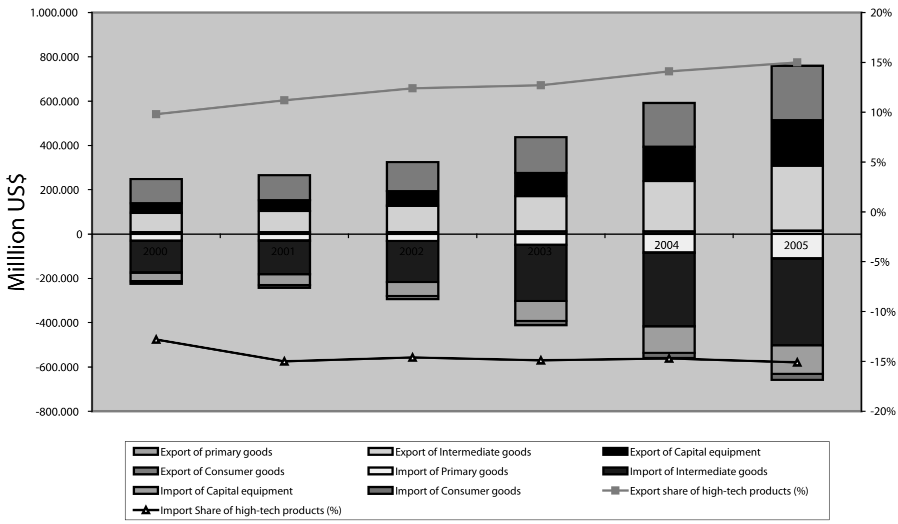
Figure 2.1 Importance of export by export-processing firms and by foreign invested firms



Source: China Statistical Yearbook

Although export structures have been upgraded since the 1980s, China's trade remains largely based on export processing. The share of primary products, such as foodstuffs, agricultural products and mineral fuels, has been reduced from half of the total in 1980 to less than 10 percent, while the share of manufactured exports increased to more than 90 percent. Intermediate goods still make up the lion's share of China's imports, while exports are evenly distributed between intermediate goods and consumer products; although capital goods have slowly increased their share (see Figure 2.2). The share of high-tech products gradually went up from virtually zero in 1985 to about 15 percent of international trade in 2005.

Figure 2.2 Share of different categories of goods in China's imports and exports (2000-2005)



Source: International Trade Centre

The expansion of international trade was facilitated by favorable policies and became more and more driven by FDI and trade within global value chains. For products of buyer-driven chains such as apparel, footwear and toys, China became the preferred global manufacturing location. While many of these goods are produced in factories owned by Taiwanese or Hong Kong investors, some are produced by Chinese-owned firms via subcontracting relationships (Zheng and Sheng, 2006). Yet, the consumption largely takes place in North America and Europe. In producer-driven industries such as computer and IT products, exports are mainly manufactured in factories owned by Western and Taiwanese investors. The share of exports by foreign affiliates in technology-intensive industries rose from 59 percent in 1996 to 81 percent in 2000. It was reported that more than 60 percent of high-tech exports were produced by fully foreign-owned firms and more than 20 percent by partly foreign-owned enterprises (Gu and Lundvall, 2006). For example, high-technology products, such as computers and telecommunications equipment, accounted for 23 percent of China's total exports (China Statistical Yearbook on Science and Technology, 2006). This reflects overall trends in China's innovation system characterized by easy access to foreign technology, while remaining weak in local innovation.

In 1988, the so-called Torch program was launched to encourage the establishment of new technology enterprises as spin-offs from existing R&D institutes and universities. New and high-technology industry development zones were created that became incubation bases for start-ups (Gu and Lundvall, 2006). These zones were introduced at national and lower levels. On the national level, more than 50 high-tech zones have been set up in major cities since 1992. Provincial and other lower-level governments imitated the national level practices and set up their own development zones.

While China is not yet a technological superstate by any means, it is focusing more and more on R&D activities by giving priority to, for instance, integrated circuits and biotechnology. China also granted multinational firms special advantages if they decided to establish high-tech subsidiaries and R&D centers in China in order to promote the transfer of technology. Some 750 foreign-affiliate R&D centers had been established by the end of 2005 (Sun et al., 2007).

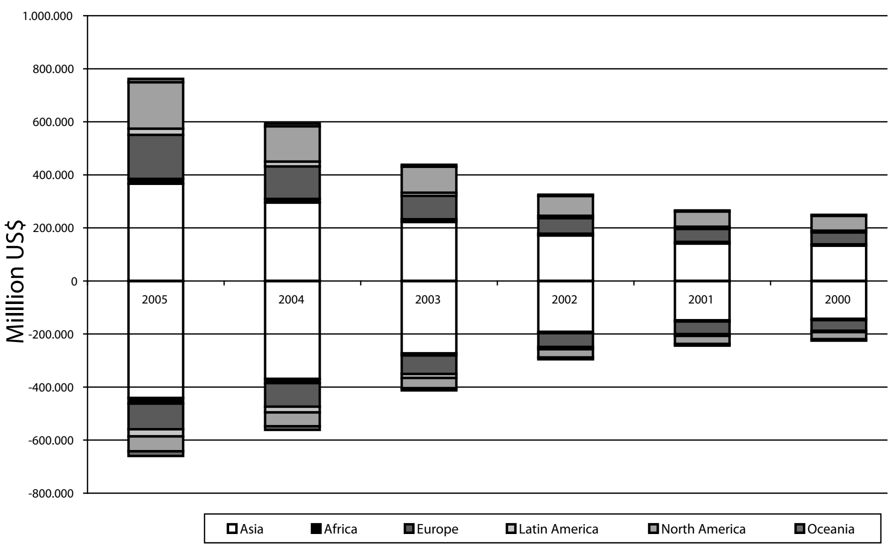
Following Deng Xiaoping's grand tour of the Southern provinces in 1992, the central government adjusted its economic policy in order to speed up economic reform and to further open the economy. It announced the adoption of the socialist market economy strategy and began to create a legal framework to standardize market operations. In addition, the privatization of state-owned enterprises, and the lowering of tariff duties on imports were important measures in further liberalizing the Chinese economy and setting the stage for high economic growth rates and a favorable business environment (Chen et al., 1995).

These policy changes towards a more market-oriented economy also permitted foreign invested enterprises (FIEs) to increasingly sell their products in the domestic market. In 1995, more than 60 percent of the one trillion RMB sales from FIEs were sold on the local market. This represented a 15 percent share of China's market for domestically produced manufactured products. Sales of FIEs were concentrated in transport equipment, electronics and telecommunication equipment, food processing, electrical machinery and equipment, textiles, and chemicals. Together these six industries accounted for more than half of the FIEs' total domestic sales. However, operations by foreign investors in sectors such as retailing, trading, transport, finance and banking (Hirano, 1993) were still limited to certain specific activities and locations. In fact, liberalization of the service sector was still conditional, restrictive and incomplete. China's accession to WTO in 2001 has done much to speed up this process, however.

Since it acceded to the WTO, China has further relaxed various restrictions and regulations governing FDI and MNE operations (Pingyao, 2002). Industries that were restricted to local firms have either been gradually opened up, or the pace of liberalization has been accelerated by the implementation of the country's

WTO commitments. Restrictions on foreign ownership and geographical areas in which foreign enterprises can provide services have been loosened (OECD, 2000). Foreign equity restrictions were relaxed further to allow fully owned operations by foreign investors in selected services that were still subject to ownership restrictions. By 2006, most service industries were partially opened, as foreseen in China's WTO commitments. However, according to the EU and especially the US, the Chinese government is dragging its feet in its commitments, leading to some trade disputes, which are fuelled by the increasing trade surplus of China with the EU and again, especially, the US.

Figure 2.3 Geographical distribution of China's import and export (2000-2005)

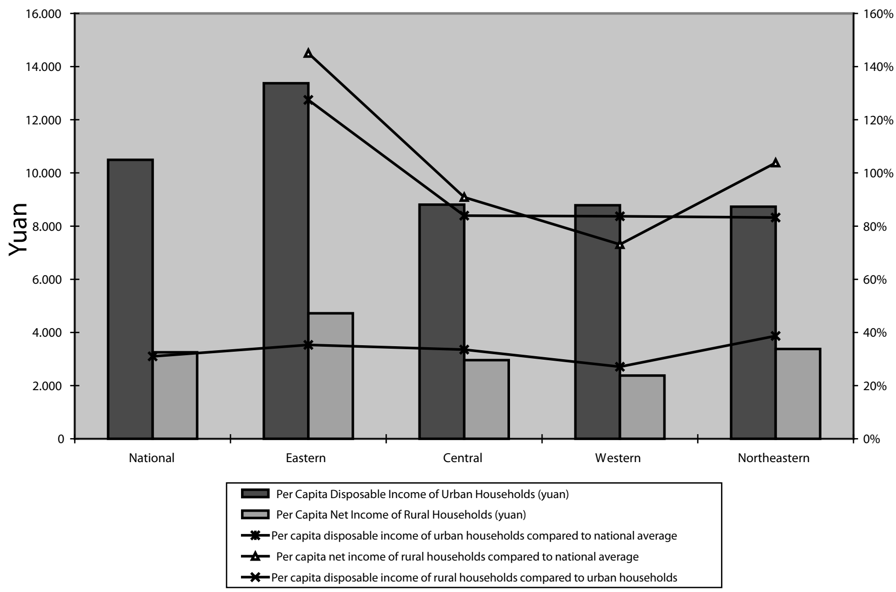


Source: International Trade Centre

Domestic effects of China's open policy

While China's export-driven policy has contributed to its record economic growth figures, it has resulted in some pretty detrimental economic, social and environmental effects. First, the incremental nature of reforms has led to economic divides between coastal and interior provinces but especially urban and rural areas. The income gap has widened dramatically and is rapidly approaching socially dangerous levels. For instance, the rural-urban income divide is staggering – the average annual income of urban residents in China is well over RMB 10,000, which is more than three times that of their rural counterparts. Eastern provinces along the coast outperform the national average by almost 14,000 RMB, as the other regions are all significantly less well off.

Figure 2.4 Geographical comparison of per capita income of rural and urban households (2005)



Source: China Statistical Yearbook

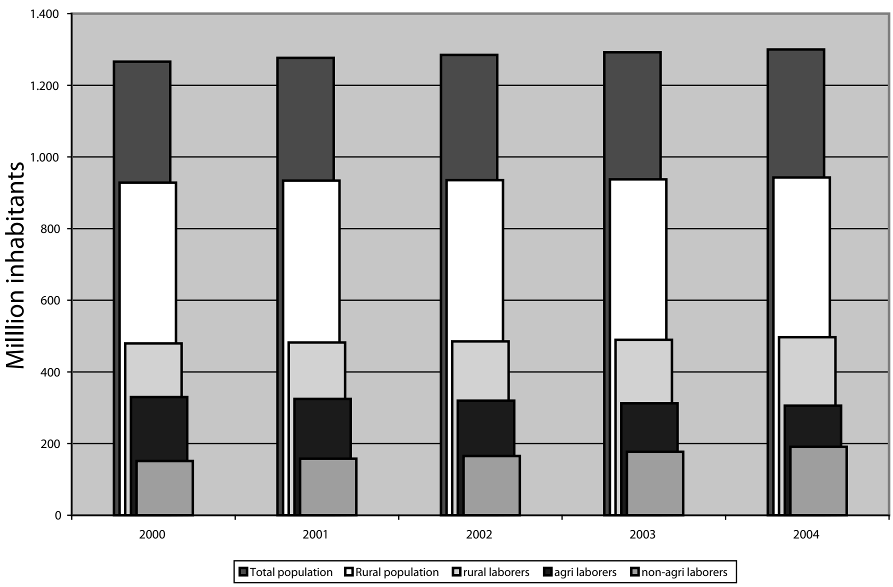
China's countryside counted over 25 million people living in absolute poverty, 50 million with low income and over 22 million urban residents covered by subsistence allowances in 2005 (People's Daily, 2005). International statistics on poverty estimates in China have recently been updated on the basis of new data on prices. Instead of the World Bank estimates of 64 percent of the population below the dollar-a-day poverty line, the number at the start of transition was more likely to be higher than 75 percent. China has made enormous strides in lifting its population out of poverty. Yet, the task was perhaps more gargantuan than most people thought. Although the updated data indicate that 59 percent of the population has been lifted out of poverty, current estimates imply a twofold increase in the poverty headcount from 100 to 200 million people (World Bank, 2008a).

In spite of its, admittedly increasingly leaky, one-child policy, an additional ten million people have to be fed every year. However, in the last decade, more than 20 percent of arable land was diverted to non-agricultural uses, chiefly highways, industries and development zones. Moreover, the opening of so many development zones inevitably implied that local officials would compete against each other to attract foreign investors and offer competing packages of preferential policies. According to incomplete statistics from the Ministry of Land and Resources, 70 percent among the 6,866 development zones across the country were found to have illegally acquired land or were left unused (China Daily, 2004). China subsequently decided to rationalize this proliferation of so-called zones that did not offer sufficient infrastructure and had only resulted in forced displacement of large groups of farmers, often by corrupt officials. More than 4,800 so-called development zones were cancelled, either by suspending the establishment of new zones or quashing already built ones.

As more arable land is taken over for urbanization and industrialization, issues related to changes in land use have become a major source of dispute between the public and the government. Protests against land acquisition and deprivation have become a common feature of rural life in China. Social instability has become an issue of serious concern. The government has reported 74,000 mass incidents, or demonstrations and riots in the countryside in 2004, compared to only 10,000 ten years ago. Excessive and arbitrary taxation was the peasants' foremost complaint a few years ago. Resentment over the loss of farmland, corruption, worsening pollution and arbitrary evictions by property developers are the main reasons for unrest more recently (Goswami, 2007). For instance, although the Olympic Games in Beijing in 2008 were assumed to bring substantial improvements to human rights, China's leadership has not done much to accommodate Chinese workers and citizens. Adding insult to injury, the Olympic Games themselves have led to forced evictions, resettlements, and the like. Economic progress seems to take priority over political, environmental and social progress.

Chinese statistics indicate that there are almost 500 million rural workers. Although more than 300 million farmers are still engaged in agricultural production, their number and share have dropped in favor of employment in industry, construction, services and trade. According to the Rural Research Network in China, there are currently about 200 million surplus rural laborers, most of which are migrant workers in Chinese cities. About one in three of these surplus rural workers are landless peasants. Estimates put the number of landless peasants at 60 million by 2010 (Lu, 2007).

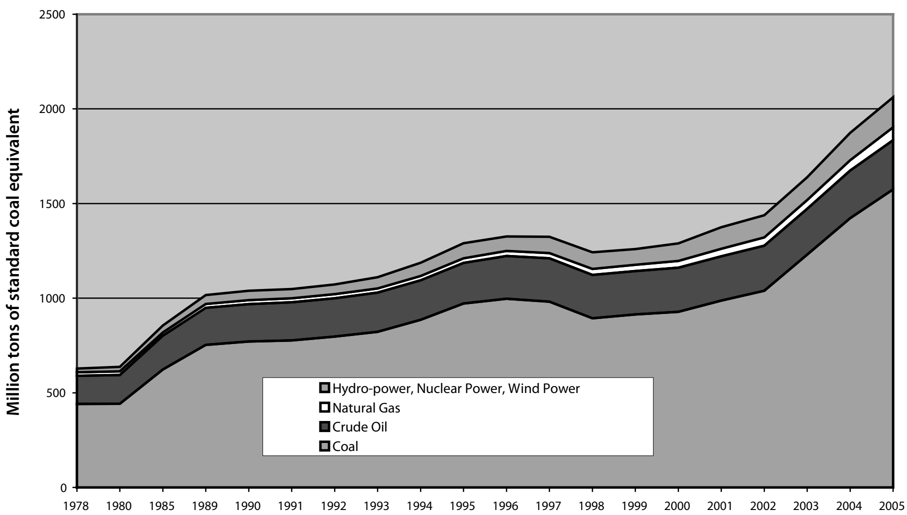
Figure 2.5 Population distribution in rural China in millions (2000-2004)



Source: China Statistical Yearbook

The mindless pursuit of growth has also seriously impacted the environment. Environmental degradation has imposed serious costs on the Chinese economy and reduced the well-being of the Chinese population. Environmental problems are the cause of some 100,000 people dying each year (Naughton, 2007). Estimates of the environmental degradation in China vary from about 5 to 18 percent of its GDP (US Embassy, 2000). Despite a tremendous improvement in its energy efficiency since opening up, China is a significant contributor to the problem of global warming. China is the second-largest source of greenhouse gases, after the US, and its carbon emissions are growing rapidly (World Bank, 2007). In an effort to cut down on air pollution and also mining accidents, the central government has closed thousands of coal mines. Coal nonetheless remains the main source of fuel for China's economic engine (see Figure 2.6).

Figure 2.6 China's energy production

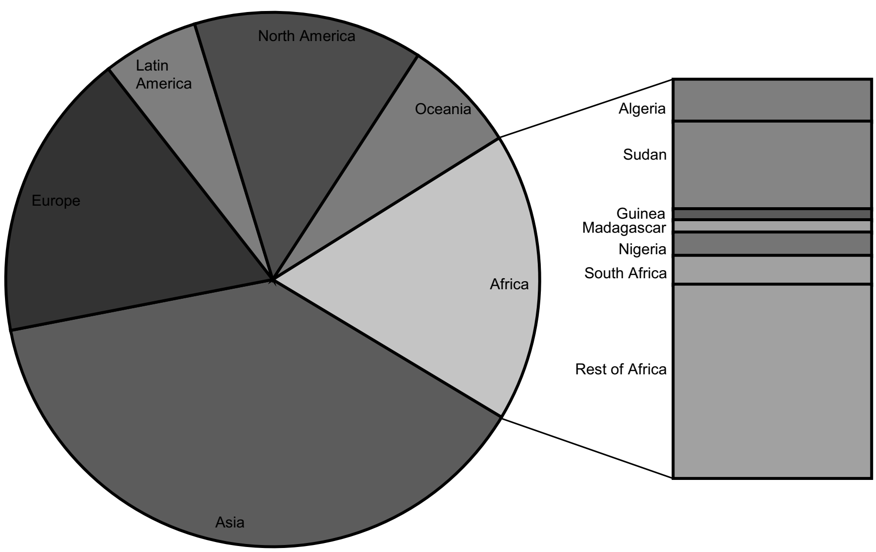


Source: China Statistical Yearbook

To diversify its energy sources, China tried its hand at developing national oil and gas fields. Joint exploration projects were an important aspect of initial inflows of FDI into China. To this day, however, the Maoist industrial role model of Daqing remains the largest field and production site of oil in China. China has subsequently built up relationships with oil-exporting countries for the import of oil, and also tried to set up and acquire energy companies abroad. For example, in 2002, China's state-owned company CNOOC successfully acquired the Indonesian assets of Repsol, a Spanish energy company. Similarly, Petrochina, a subsidiary of CNPC, bought the Indonesian oil and gas assets of US-based Devon Energy Corporation. And in 2005, CNPC itself acquired the North Buzachi oilfield in Kazakhstan through its purchase of the Canada-based PetroKazakhstan. Even mergers such as the unsuccessful attempt by CNOOC to buy Unocal – the eighth largest oil company in the US with extensive oil and gas assets in Asia, reflect the increasing frequency with which Chinese companies are turning to acquisitions to penetrate global markets and achieve global scale (UNCTAD, 2007).

The predominance of deals in the energy sector does not mean that other industries have not become increasingly international as well. The Chinese government has aggressively created national champions through domestic consolidations that are quickly becoming strong enough to compete globally. The Chinese government's State-owned Assets Supervision and Administration Commission (SASAC), charged with restructuring China's most important state-owned companies, is overseeing some 170 companies with combined revenues in excess of 500 billion US$. SASAC's portfolio includes leading companies in major industries such as telecommunications, energy, automobiles, and steel. This new generation of Chinese firms wants to break out of the Chinese home market, and has found many a Western multinational company willing to shed underperforming business units, of which Lenovo's acquisition of IBM's personal computer division is best known (BCG, 2006).

Figure 2.7 Geographical distribution of outward direct investment from China, in particular in Africa



Source: China Statistical Yearbook
Note: Data for Hong Kong and tax havens has not been taken into account

Similarly to inward FDI, most of China's outbound FDI goes to Hong Kong. When abstracting from Hong Kong and Caribbean tax havens' role as a conduit, an analysis of China's outbound investment flows reveals that Asia is the preferred region of destination. Unlike global patterns of investment flows, Africa has become a surprisingly attractive destination for Chinese multinationals, on an equal footing with Europe and the US. Most of the investment has gone to Sudan and to a lesser extent to South Africa and Nigeria, where the energy sector again rears its "ugly" head.

Out of Africa

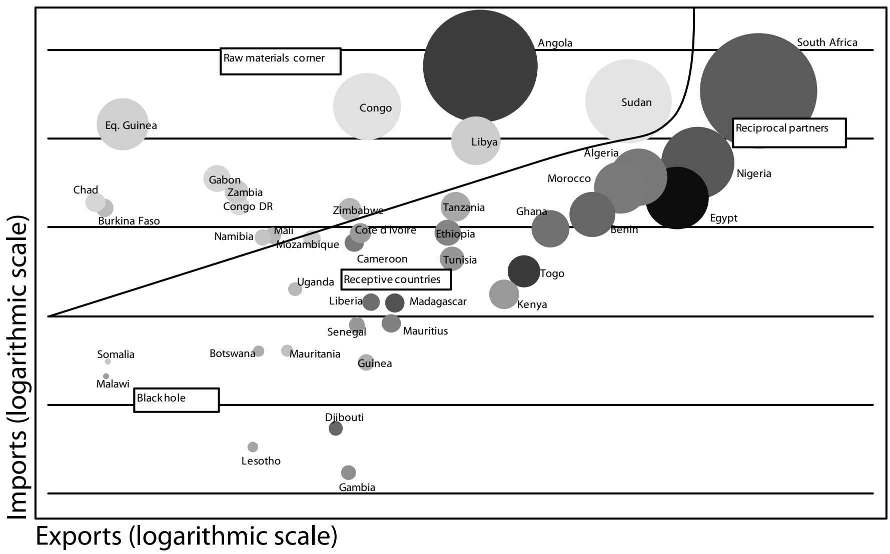
The first Chinese encounters with the African continent date back to the fifteenth century, when the Chinese Hui-ethnic, Muslim-faith admiral Zheng He made seven expeditions to Asia and Africa, as far as Malindi in what is now Kenya. Throughout his travels, Zheng He liberally gave Chinese gifts of silk, porcelain, and other goods. In return, he received unusual presents from his hosts, including African zebras and giraffes that ended their days in the Ming imperial zoo in Beijing.

It wasn't until the Bandung Conference in 1955 that China reconnected with Africa. This crucial period for African independence provided fertile ground for China's political agenda. Against the backdrop of the Cold War, China profiled itself as a leader of the Third World. During the 1960s and 1970s China supported its infant Sino-African relations by providing medical aid, technical expertise and political support in multilateral organizations. The Chinese also built enormous infrastructural projects, such as railways, roads, hospitals, and stadiums in African countries such as Tanzania and Rwanda.

Throughout the 1980s, when the cold war nations were pulling out of Africa and Western development aid halved, China kept up its contacts (Servant, 2005). Once China re-entered into the world economy, a different approach to Africa was needed. Consequently the Sino-African relationships moved from an ideological and political approach to a more pragmatic and economic stance, fostering external trade and foreign investment. China had turned itself into the workshop of the world and set its eye on Africa's raw materials.

The economic importance of Africa for China is twofold. On the one hand, Africa possesses substantial deposits of raw materials and oil that China desperately needs to fuel its tremendous economic growth. On the other hand, Africa represents unexplored market possibilities for Chinese manufactured goods. On the whole, Africa boasts a trade surplus with China, although there are enormous differences among African countries. Some have a positive trade balance due to the export of their raw material deposits, while many of the other countries suffer from an influx of cheap consumer products from China.

Figure 2.8 China's trade with African countries



Source: China Statistical Yearbook
Note: Both axes are on a logarithmic scale. Countries above the line have a trade surplus, while countries below the line have a trade deficit. The size of the bubbles indicates the size of the trade balance.

African countries also import strategically important goods such as arms. Selling arms to African countries helps China strengthen its relationships with African leaders and helps offset the costs of buying oil from them. In return, China gains African allies in the United Nations for its political goals, including preventing Taiwanese independence and diverting attention from its own human rights record. The Chinese believe that human rights are relative, and that each country should be allowed their own definition and timetable for reaching them. Besides, China's not unique in cutting deals with bad governments and providing them with arms (Pan, 2007).

Besides its economic and commercial offensive in Africa, China has engaged in intense diplomatic activity. Since late Chinese Premier Zhou Enlai's three visits to Africa in the 1960s, there have been over 800 exchanges of visits between senior Chinese and African leaders. Since the Forum on China-Africa Cooperation (FOCAC) was established in 2000, economic and trade cooperation between China and Africa has entered a new era of increased interaction. FOCAC laid the foundation for economic cooperation between Chinese and African governments and companies. The Forum acts as a go-between for ministers, diplomats and businessmen. The action plan of FOCAC covers areas such as African exports of agricultural products to China, the participation of Chinese companies in infrastructural works in Africa, the reduction of trade tariffs on raw materials, and the investment of Chinese firms in the African continent. The Chinese government called 2006 the Year of Africa and hosted the annual meeting of the African Development Bank in China in 2007.

China's strategic partnership with Africa was consolidated during the FOCAC top conference in November of 2006. This strategic alliance between China and Africa is based upon the principles of equality and mutual benefit, and focuses on harmonious development and cooperation in economic, political, cultural, and financial domains. It was agreed to increase the volume of trade, which had already grown tenfold between 1995 and 2005 to approximately 40 billion US$, to 100 billion US$ by 2010.

Furthermore, it was decided that a China-Africa Development Fund be set up to assist Chinese companies to invest in Africa. Chinese direct investment in Africa has grown during the last fifteen years to almost one billion US$ a year. Beijing also signed trade and investment agreements, worth about two billion US$, concerning raw materials, textiles, banking, communication and technology. Although much of what China has done in Africa qualifies under aid-for-trade, flows are increasingly put on a commercial footing instead of operated as pure aid channels. Also non-state Chinese firms play an increasingly important role (Wang, 2007).

By 2007, there were more than 800 mainland Chinese companies operating in Africa; some 700 of these were run by private individuals and the rest were medium to large state-owned firms. Although Chinese investments in natural resources have gained more attention, manufacturing firms are an important part of this investment (Brautigam, 2007). Chinese companies see Africa as an excellent market for their low-cost consumer goods, such as shoes or electronics. Some textile manufacturers, for example, are reportedly investing in African factories as a way to get around US and European quotas on Chinese textiles (Pan, 2007). China also intended to establish several special industrial zones in Africa. For instance, the Zambia-China Economic and Trade Cooperation Zone was set up to boost the development of Zambia's light industry and the sectors of construction materials, home electrical appliances, pharmacy, and food processing, and also to increase the country's exports and create job opportunities for locals. These state-sponsored zones will join other industrial parks established by Chinese provinces and private companies in South Africa, Sierra Leone, and other countries (Brautigam, 2007).

The Chinese state-owned companies involved in Africa have invested not only in booming sectors such as mining, fishing, precious woods and telecommunications, but also in activities that the West has neglected, even abandoned, as not sufficiently profitable. In 2004 Chinese investments represented almost one billion US$ of the fifteen billion US$ of foreign direct investment in Africa. In Ethiopia, China is involved in telecommunications; in the Democratic Republic of Congo it has done work for Gecamines, the state-owned mining company; in Kenya it has repaired the road linking Mombasa and Nairobi; and it has launched Nigeria's first space satellite. As an incentive to Chinese nationals, eight African countries have been officially designated tourist destinations (Servant, 2005).

Conclusion

Over the past few decades, few developments in the world economy have been more important and influential than the sudden change of China's policy to open up to the rest of the world. China's economic progress during the reform era that began in 1978 has been one of the great economic success stories of the last three decades. Starting from an almost completely isolated economy in the mid-1970s, China has gradually and systematically liberalized its international trade and investment policies. Since it launched the economic reforms and called for foreign capital participation in its economic development, China has received an extremely large part of the international direct investment flows. While FDI in China experienced rapid growth, its expansion has been subject to certain fluctuations. At particular times Chinese policy-makers have used a system of carrots and sticks to entice and curtail foreign direct investment by gradually adapting and changing the conditions for particular modes of entry, sectors and regions. Yet, the overall trend was one of continued liberalization.

Since the early 1990s, actual FDI inflows into China have averaged more than 50 billion US$ per annum. Although a large number of countries have made investments in China, the primary sources of FDI have been highly concentrated among a small number of investor countries (Chen, 1997a). The largest proportion of the FDI received by China does not come from the so-called Triad economies, namely the US, Japan and EU countries, but from "Chinese" in Hong Kong and other Asian countries. And although the authorities succeeded mainly in attracting overseas Chinese business to the mainland, investors from the Triad have gained some ground over the years.

Foreign, and especially Western-invested firms have performed relatively well in China (Van den Bulcke et al., 2002). These good results for Western multinationals are based on their strong presence in most of the high-tech and capital-intensive industries, such as pharmaceuticals, telecommunications and the automotive sector; their rapid penetration into consumer markets by establishing joint ventures with but also taking over existing Chinese companies, especially in sectors such as food, detergents and consumer electronics; their growing access to service sectors, such as business consulting, finance and insurance, and retailing; and their high export orientation and increasing integration of the Chinese subsidiaries in the regional Asian and global economy. In contrast to Western subsidiaries, overseas Chinese investors from the Asian newly industrializing economies, especially from Taiwan and Hong Kong, have relocated (part or even all of) their export-processing activities to China in order to benefit from the supply of unskilled and cheap manpower in labor-intensive and export-oriented activities, such as textiles (Van den Bulcke and Zhang, 1998).

Foreign affiliates accounted for less than 5 percent of total Chinese exports in 1985, while their share jumped to 60 per cent in 2005. In 1985, exports of primary products represented half of all exports, while in 2005 their share had receded to less than 10 percent and that of manufacturers went up to more than 90 percent. This surge was even more remarkable in technology-intensive products. The share of high-technology industries in total trade increased strongly over the years, inducing a rapid industrial upgrading of the country.

China's performance is all the more remarkable in that its reforms have been gradual and its development has occurred despite extensive, though declining, state ownership and intervention in the economy. Contrary to many other transition economies, China did not opt for quick privatization of its state-owned companies, but followed the gradual approach of stimulating the development of private enterprises, including foreign-invested ones. This gradual approach was also typical for the way in which the liberalization process and the development zones spread out over the country. After having launched its SEZs in the coastal area, the Chinese government set up smaller and more focused economic and technological development zones, first in coastal provinces and later on more in the inland and in the western region. Not only were more zones being established, there was also a proliferation in the type of zones.

The proliferation of the zones in China resembled international locational tournaments, where zones in different countries are competing against each other and the only winners are the companies which succeeded in obtaining extra advantages from such bidding up among potential locations. Although most Chinese administrators understand that such competition has sometimes gone too far, the decentralized system of state, provincial, municipal and local industrial zones is not making life any easier for them. The decision by the national government to cut the number of zones dramatically to avoid inefficient and costly use of land and infrastructural investment is therefore understandable.

While the establishment of special economic zones at the beginning of China's open door policy was a careful attempt to open China's door to the outside world and abandon its isolationist policy, the Chinese leadership today is undoubtedly very proud of these achievements. Almost thirty years after the establishment of the first four SEZs, however, development zones represent not only the good, but also the bad and the ugly in China. Shenzhen, for instance, has transformed itself from a rice paddy to a hotspot in the global economy. It has, in the process, also become a global environmental hotspot, suffering rapid environmental degradation. It has, like most Chinese cities, also attracted millions of migrant workers that have virtually no rights. The new labor law, which makes a labor contract compulsory for all workers in China, will hopefully bring some improvement to their dire situation.

In the countryside, agricultural laborers still represent the majority of workers, albeit less and less so. Some 200 million workers have fled to the cities in search of a better life, some of whom are landless peasants. Estimates put the number of landless peasants at 60 million by 2010. After almost three decades of unprecedented growth, the number of people earning below one dollar a day has fallen dramatically. Using the Chinese government's figures, the number in poverty went down to 42 million by the turn of the millennium. However, as a gauge of a household's standard of living, consumption is often a more telling indicator. Using that measure, well over 200 million Chinese still live on less than one US$ a day, often without access to clean water, arable land, or adequate health and education services (World Bank, 2008b; Shimada, 2005).

China has also become an outward investor, both as a market seeker and a resource seeker. Especially since the turn of the millennium, Africa has received much attention from Chinese state-owned firms in search of natural resources through the promotion of the government-induced "go-global" policy. In its search for sources of fuel for its growing engine of production, China has targeted Africa for its raw materials. China's booming economy, which has averaged almost ten percent growth per year for the last two decades, requires massive levels of natural resources to sustain its growth. China seems to have adopted an aid-for-trade strategy that has resulted in increasing supplies of oil and other raw materials from African countries. China's demand for energy to feed its booming economy has led it to seek supplies from African countries including Sudan, which has led to severe international scrutiny due to its suspected role in the Darfur genocide. China mainly imports materials from Africa to fuel its economy, such as oil, gas, minerals, and wood. Although trade between Africa and China is limited, at least for China, China's import from Africa is important strategically.

As more African countries open their economies to foreign investment, Chinese companies seem to drive a hard bargain. There are concerns over how China operates in Africa, attaching no conditions to aid, paying bribes, underbidding local firms and not hiring Africans. It undermines local efforts to increase transparency and good governance and international efforts at macroeconomic reform by institutions like the World Bank and the International Monetary Fund (Pan, 2007). The Washington consensus could well be supplanted by the so-called Beijing consensus. However, the (rail)roads, bridges, dams, and schools built by Chinese companies are low cost and completed in a fraction of the time such projects usually take in Africa (Servant, 2005). The Chinese have also set up several "comfort" zones to develop local industrial infrastructure and help Chinese firms invest in Africa. The infrastructural improvements could help African countries secure other loans and investment opportunities. Also everyday life is changing for millions of Africans. Cheap Chinese imports mean that – for the first time ever – they can afford new clothes, shoes or radios (Alden, 2007). It seems that the Chinese presence in Africa is contributing to an atmosphere of development, similar to the one which transformed China some three decades ago. This transformation is a welcome, even if unintended result of China's presence in Africa to secure raw materials as well as its search for new markets.

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Part II

Instruments

3 Chinese aid to Africa, origins, forms and issues

Jean-Raphaël Chaponnière

Introduction

China has been one of the engines of the world economy since the beginning of the present decade. Its appetite for raw materials has driven up commodity prices and thus helped to boost growth in Africa (Goldstein et al., 2006; Broadman, 2006, 2008). Trade between China and Africa increased seven-fold between 2000 and 2007, from ten billion US$ to 70 billion US$, making China the leading supplier of the African continent and its second-largest trading partner after the United States. This spectacular growth has halted the marginalization of Africa in world trade that began in 1980. Africa is of course only a modest trading partner for China, but it does have a larger share in China's external trade (3.5 percent)[1] than in world trade. Although trade between China and Africa comes under the heading of South-South trade, in structure it is closer to a North-South pattern of trade as China imports natural resources (oil and ores) and exports manufactured products. As the trade surpluses of the oil-exporting countries (Guinea, Angola, Nigeria, Sudan) are greater than the deficits of the 41 non oil-exporting countries (according to Chinese sources), Chinese-African trade has generated a surplus for Africa up to 2006. In 2007, while prices of natural resources' surged, China ran a surplus in its trade with Africa.

Chinese firms have an increasingly strong presence in Africa. They have gone international only recently (Accenture, 2005), and according to Chinese statistics, Hong Kong is currently the destination for two-thirds of their foreign investment, far ahead of the Virgin Islands and Cayman Islands (20 percent). Chinese firms often use these destinations as investment bridges. This statistical bias can be circumvented by monitoring the international business activity of large Chinese companies (OCO Consulting, 2006) or by using host-country data. The stock of Chinese investment in Africa has been estimated at 1.6 billion US$ as at year-end 2005 (according to UNCTAD, 2007), which amounts to ten percent of total foreign investment in Africa. Around 800 Chinese firms are in Africa, a number close to that of US firms in South Africa. They are primarily present in the oil and mining sectors, as well as textiles, household appliances, bicycle assembly, electronics and telecommunications.[2] State-owned enterprises were the first to move into Africa, and they have been followed by private firms as well as by small ventures. Chinese investment is diversifying into services: in October 2007, the Industrial and Commercial Bank of China (ICBC) invested five billion US$ to buy 20 percent of Standard Bank, the largest South African bank with subsidiaries in eighteen African countries.

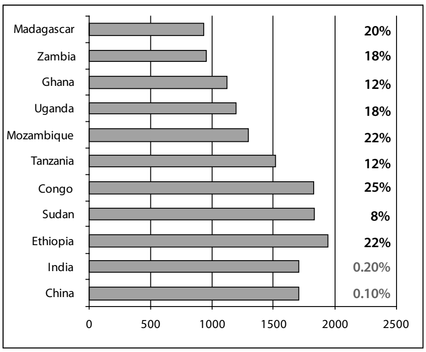
If little is known about the geographical distribution of China's FDI, that of its Official Development Aid (ODA) remains wholly obscure: China provides no statistics on its aid, simply issuing press releases after ministerial visits and conferences. These announcements suggest that China is already a substantial provider of aid to Africa. At the occasion of the third China-Africa Cooperation Forum that was preceded by the first summit meeting, which brought 43 African heads of state to Beijing, the Chinese government announced that its aid to Africa would double between 2006 and 2009, via an increase in soft loans and many social projects. However, although it stressed the growth of its commitment to Africa, the government did not provide any data on the actual amount of its aid in 2006.

Apart from these announcements, it is difficult to obtain hard information on China's aid to Africa. One of the aims of this chapter, which starts with a historical review of Chinese aid from its beginnings in the late 1950s, is to circumvent the lack of robust data and provide an estimation of Chinese aid to Africa. It describes the Chinese institutions involved and the forms in which they deliver aid. After an analysis of the geographical distribution of aid, the chapter discusses the main issues related to Chinese aid to Africa, its evolution in the context of the world recession and its possibilities of either convergence or divergence with aid provided by OECD donors.

A historical view of Chinese aid to Africa

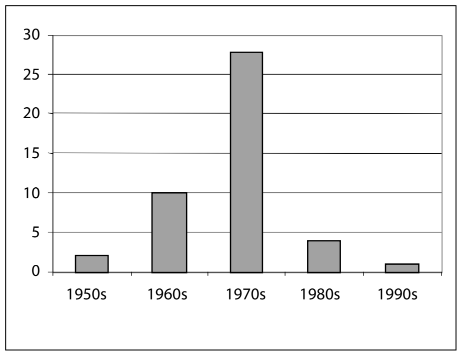
The OECD countries have held a monopoly position in ODA since the 1960s. This position has been shaken by the appearance of new aid organizations in both the North (the NGOs and private foundations such as Bill Gates) and the South. In the 1970s, several Middle Eastern countries entered the donors club, and thirty years later, the OECD created the category of "emerging donors". This category comprises a number of countries – South Africa, Brazil, the CIS countries, China, Korea, India, Malaysia, Thailand and Turkey – that, with the exception of Korea, receive international aid while at the same time providing development aid to other countries. Within this group, not only is China by far the largest donor but it also stands apart from the others in two respects: the amount of aid it continues to receive and its long experience as a donor.

Figure 3.1 ODA to China and Africa in 2003-2005 (in millions of US$ and % of GDP)



Source: OECD Development Assistance Committee (2006)

Figure 3.2 Number of cooperation agreements signed between China and African countries

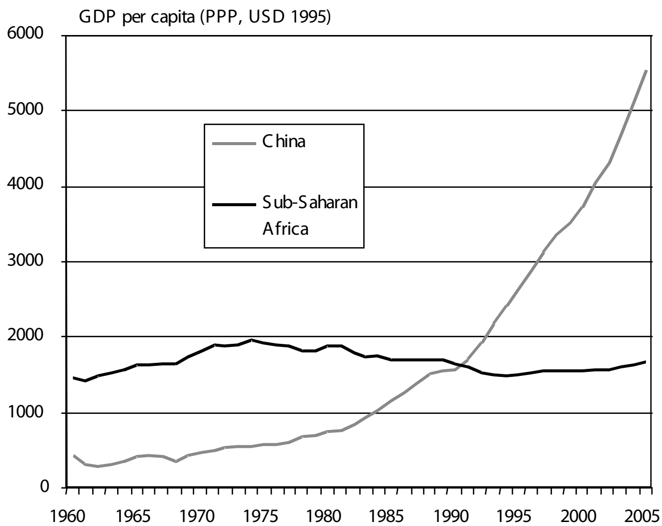


Source: Bräutigam (1998)

China still receives considerable aid, 1.7 billion US$ annually on average (2000-2006). This amount is comparable to that received by several large African countries such as Sudan, Congo, Mozambique and Tanzania (Figure 3.1). Though large in absolute value, this aid makes only a very small contribution (0.1 percent of GDP) to the Chinese economy. China has traditionally been reticent with regard to aid, as it suffered considerably from the withdrawal of Soviet advisors after the Sino-Soviet split. Japan provides half of all aid to China (Takamine, 2006), but its aid will come to an end in 2008 whereas that of the World Bank will continue. Other significant donors include Germany and France. Western donors are eager to provide concessional loans to China in order to enhance their influence.

Where China is concerned, the term "emerging donor" is not appropriate as Chinese ODA dates from the 1950s. After a first experience with Cambodia, China signed an agreement with Egypt in 1956 at the onset of the Suez canal crisis[3] and later on with Algeria. Four years later, Beijing inaugurated its first embassy south of the Sahara and offered assistance to Guinea under President Sékou Touré and to Ghana under N'Krumah. In 1964 and 1965, during two diplomatic rounds that took him to ten African countries[4], Premier Zhou Enlai made a speech in Accra that laid the foundations for Chinese aid by setting forth the "eight principles": equality between partners, mutual benefit, respect for sovereignty, the use of grants or zero-interest loans and easy rescheduling, emphasis on building the self-reliance of the beneficiary and respect for obligations. Finally, the experts dispatched by China to help in construction in the recipient countries will have the same standard of living as the experts of the recipient country. They are not allowed to make any special demands or enjoy any special amenities. Although these principles still govern China's aid policy, their interpretation has changed over time.

Figure 3.3 GDP per capita of China and Sub-Saharan Africa (at purchasing power parity) 1960-2005



Source: CHELEM database, Centre d'Etudes Prospectives et d'Informations Internationales

In the 1960s and 1970s, per capita income in China, on a purchasing power parity basis (Figure 3.3)[5], was well below that of Sub-Saharan Africa. During this period, aid was the main tool of Chinese diplomacy, which used its "soft power" in its rivalry with Taiwan for representation on the UN Security Council and with the Soviet Union over the legitimacy of its ideological positions. While China's engagement in Africa stressed political objectives, one should not forget that it did have an economic component (Kwesi Kwaa Prah, 2007). In the sixties, total Chinese exports were small (half of African exports) and as China was adamant to run into debt, it tried to compensate its trade deficit with Western countries by running a surplus on developing countries. Larkin (1971) wrote that the opening of diplomatic relations with Egypt (1959) was rapidly followed by the establishment of a commercial office in Cairo in order to look at the opportunities of the promising Egyptian market. China's aid continued during the turbulent years of the Cultural Revolution and was stepped up in the 1970s. In 1975, China had more programs in Africa than did the United States. The culminating point was reached in 1976, with the completion of the railway link between Zambia and Tanzania to transport Zambian copper to Dar Es Salaam. The building of this very large-scale project[6] employed 15,000 Chinese workers and it has made China one of the main donors to Africa. At the time, China's aid to Africa was larger than its trade with Africa.

After 1978, the Four Modernizations that shook the Chinese economy did not leave aid policy untouched. The government gave priority to modernizing China, and hence the number of projects in Africa decreased, with greater attention being paid to feasibility. Beijing requested more participation by African countries, and as a result the latter were obliged to pay the Chinese doctors. These changes were explained by Zhao Ziyang during a visit to Africa in 1982. He set forth "four principles" that indicated a slight modification of Zhou Enlai's position and gave more weight to mutual benefit.[7] Although several African countries were resuming relations with Taiwan at the time, political considerations were subordinated to economic considerations. The attitude of the Chinese towards Africa had changed, as the Chinese discovered the opportunities created by market opening (a result of structural adjustment programs) and realized that Africa was an outlet for their consumer goods. This change of course was helped along by the introduction of concessional loans in 1995. After the visit of President Jiang Zemin (1996), the Chinese government decided to help Chinese firms establish themselves in Africa.

China's involvement in Africa increased from the year 2000 with the organization of the first China-Africa Forum and the creation of a development fund to finance vocational training, as well as the China-Africa Joint Business Council. On this occasion, China announced the cancellation of 1.2 billion US$ of debt. The second forum was held in Addis Abeba in 2003. In January 2006, the Chinese government published a white paper on China's Africa policy that emphasized the need for a win-win attitude in development cooperation. The holding of the third forum coincided with the summit of heads of state in October 2006, where China announced the doubling of its aid between 2006 and 2009, the creation of a five billion US$ fund comprising three billion US$ in soft loans and two billion US$ in commercial loans, the cancellation of 1.4 billion US$ in debt, the construction of 30 hospitals and training for 15,000 Africans. In addition, it announced the construction of several manufacturing free zones for Chinese investors.

Chinese aid institutions and instruments

China refuses the label of "donor," considering its aid rather as mutual assistance between Southern countries. China presents itself as the largest developing country, while Africa is the continent that contains the greatest number of developing countries. Its solidarity with Africa is based on a shared feeling of humiliation at the hands of the Western powers, which carved up the Chinese empire in the nineteenth century, and of Japan, which occupied China in the twentieth. On the strength of this common experience, China considers that it can empathize more readily with African aspirations than Western countries can.

While Europe perceives Chinese presence in Africa as a new phenomenon, Chinese insist on their anteriority and they are fond of recalling the contacts made in the early fifteenth century by Admiral Zheng He, thirty years before the Portuguese came to East Africa. In addition to their political and historical legitimacy, the Chinese can point to their economic success: between 1978 and 2007, economic growth increased per capita income by a factor of seven and reduced the number of people living on less than a dollar a day by 500 million.[8] This spectacular performance cannot be attributed to the "money doctors." Chinese authorities did not follow the advice of international organizations as they adopted "heterodox" strategies. China learned from the economic experience of Japan, Korea and Taiwan as well as the political experience of Singapore which proved since 1965 that economic openness can co-exist with a single-party system.

China still faces development problems despite its spectacular growth. These problems are particularly acute in the western provinces. Since China itself is still an ODA beneficiary, it is more sensitive to the expectations of African countries than Western donors are.

China's development aid was placed under the authority of the State Council and was initially administered by the Ministry of External Economic Relations, whose minister sometimes held the post of Vice-Premier. In 1982, this ministry was folded into the Ministry of Commerce (MOFCOM), and aid management was assigned to a division of MOFCOM. Each year the Ministry of Finance is instructed to allocate funds to foreign aid that will be disbursed as grants (in kind), interest subsidies for interest-free loans or soft loans. A unit from MOFCOM prepares for bilateral negotiations, administers aid, draws up plans for receiving countries and analyzes projects; it is represented in embassies by the economic advisor. MOFCOM is not the only public institution involved. All of the technical ministries have development aid departments, making some 30 separate bodies. There are also the provinces: the Chinese government is highly decentralized, and some provinces – particularly the coastal provinces – have sufficient resources to open offices abroad (several have done so in South Africa). Following various interviews with government officials and think tanks on the subject, Martin Davies (2008) concludes that Chinese aid spending is quite disorganized and lacks effective coordination.

Established in 1994, the Exim Bank has assets comparable to those of the US Ex-Im Bank as it manages both commercial loans and soft loans. Other banks involved in Chinese overseas aid include the China Construction Bank, which manages the five billion US$ investment fund for Africa, and the People's Bank of China, which is in charge of China's participation in multilateral institutions. China participates in the Bretton Woods institutions and the African Development Bank (AfDB); the annual meeting of the AfDB was held in Shanghai in May 2007. It has also taken equity interests in two regional African banks (those for West Africa and Central Africa) and in the African Development Bank (AfDB). Although it is taking a more active role in these bodies, China has a preference for bilateral aid.

Since the Beijing summit, the foreign affairs ministry has been tasked with monitoring commitments in Africa. These commitments are very difficult to coordinate because of the number of institutions involved. China's ODA system may be headed for change. The government is planning a reform that should lead to the establishment of a national development aid agency. This body would be placed under the supervision of one or more ministries that are apt to have divergent goals: for example, the trade ministry wants support for exports, while the foreign affairs ministry is sensitive about China's image in the world.

Until 1995, China provided aid only in the form of grants – made in kind in the case of health and education projects – and no-interest loans for construction work. Since that year, it has added loans at concessional rates. The weight of no-interest loans and concessional aid has led China to carry out regular remissions of debt.[9]

Aid is delivered with hardly any financial transfer to the recipient country. The African government submits a request to the Exim Bank, and after an evaluation by MOFCOM, the governments sign a framework agreement. When the projects provided for in the agreement have been completed, the Chinese firms present their invoices to the project owner, which passes them on, via its government, to the Exim Bank for payment. The African government's payments of interest and principal are made to the Exim Bank. These financing procedures limit corruption problems. Exim Bank has also innovated by proposing an infrastructure development finance package ("the Angola Mode"). In such a package, the Chinese government mandates a Chinese construction company to build infrastructure projects which are financed by Exim Bank. Simultaneously, the African government offers a Chinese mining or oil company the right to mine natural resources (either by offering equity stakes in a national company or mining licenses). The revenues of the mining operation will first reimburse the investment and later on the infrastructure-related loan. By implementing this scheme, Exim bank hedges the country sovereign risk.[10]

Whereas Western countries are turning towards program aid and budgetary supports,[11] China finances projects only. Major projects such as the Tanzam railway, large public building complexes and sports stadiums have long been the exceptions, as China has emphasized small projects such as introducing rice farming or horticulture and building bridges, roads and hospitals in rural areas. This situation could change with the announced increase in aid.

China also has provided technical assistance for health. According to the Chinese Ministry of Health, by 2005, 15,000 Chinese health workers were active in Africa and these had attended to about 170 million patients in 47 African countries. In 2007, China pledged to build 30 anti-malaria centers in Africa by 2009 as part of a broader health sector training and cooperation scheme.

Chinese teachers are engaged in training African professionals in different fields and in 2006, China pledged to double their number from 7,000 to 15,000 by 2009. In addition, China has pledged to double the number of scholarships offered to African students to 2,400 in 2009; it has also become more active culturally through the creation of the Confucius Institutes.

The scale and geographical structure of Chinese aid

Measuring development aid, be it Chinese or Western, has always been a delicate task. In donor meetings, each participant announces its commitment for the coming year, and the sum of these commitments is made public at the conclusion of the meeting, giving an idea of the amount of support provided by the international community. The problem is that this sum is calculated by adding components that are not comparable, from either the donor or recipient standpoint. A 100 million US$ grant has a budget cost of 100 million US$ for the donor, whereas a 100 million US$ loan has a higher cost for the recipient – as it has to reimburse – and a lower cost, which varies with interest rates, the length of the grace period and the maturity.

The OECD Development Assistance Committee (DAC) is responsible for checking whether the assistance offered by DAC member countries is properly classified as ODA. To be considered as ODA, aid must: i) come from an official institution; ii) benefit a developing country; iii) be intended to foster development, and iv) include a minimum concessional element if it is not a grant. This "grant element" is measured by the difference between the face value of the loan and the discounted value (using a fixed rate of 10 percent) of the borrower's repayment flows (interest and principal); the ratio between this difference and the face value of the loan is the grant element. To qualify as ODA, a loan must have a grant element of at least 25 percent, which rises to 35 percent when the aid is tied to purchase of goods and services produced by the donor. A thirty-year loan of 100 million US$ at the concessional rate of 2.5 percent, with a ten-year grace period, contains a grant element of 60 percent.

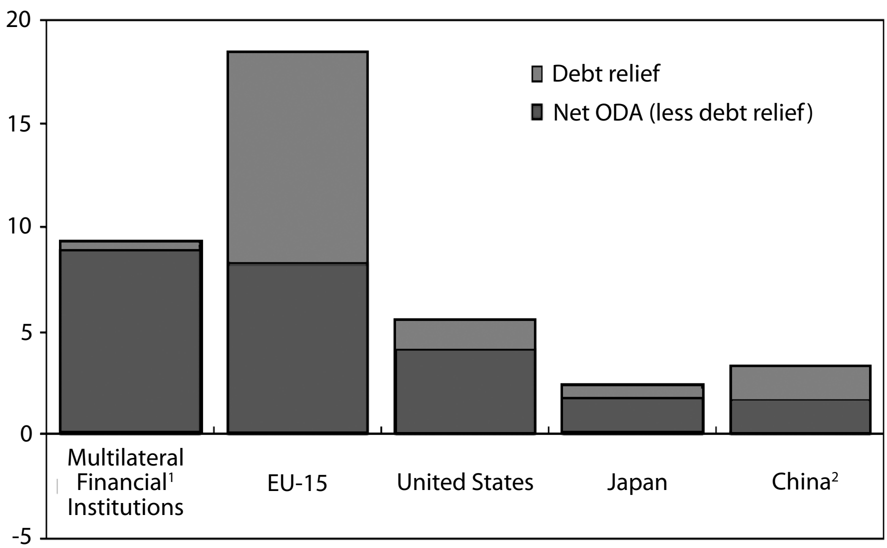
Estimates of the amount of Chinese aid

Although the "emerging donors" have not joined the DAC (even though some of them belong to the OECD), they publish data – in many cases detailed data – on their aid. China, in contrast, provides no statistical data. China's lack of a culture of transparency does not wholly account for this attitude, and other explanations may be put forward. First, the government faces a real problem: to centralize its aid statistics, it must overcome the resistance of a highly compartmentalized public administration as aid is given by different ministries as well as by provinces and cities.[12] Second, if such statistics were published, the government may fear that they would provoke a domestic backlash against aid. Why should the Chinese government provide aid to Mali instead of Anhui province?[13] Not only are China's western provinces poorer than the coastal provinces, but up to 2005 the central government made their situation worse by withdrawing from the social sectors and leaving the provinces to cover their own education and health spending. In a country where civil society is playing a more active role, the government might thus be reluctant to publish data on aid. Lastly, the Chinese government may wish to avoid publishing statistics that indicate the breakdown by beneficiary country, as this would reveal inequality of treatment and raise questions from aid recipient countries.

In the absence of statistics, the only easily available information comes from the statements to the press that close official visits and summits. For example, at the third China-Africa summit in Beijing (October 2006), China promised that aid would double between 2006 and 2009, without specifying how much aid had been provided over the three previous years. These announcements are not accompanied by a disbursement schedule or any breakdown into grants, no-interest loans, soft loans and commercial loans. In some cases the announced "package" comprises both loans and investment intentions. Given the lack of official statistics, a number of authors have attempted to evaluate the amount of China's aid:

– Bräutigam (1998) estimates that China provided 4.9 billion US$ in aid to Africa from 1957 to 1989. This amount is estimated to be equal to half of total Chinese aid over the period and a low percentage of OECD aid to Africa. According to Bräutigam (2007), bilateral project aid amounted to 1.6 billion US$ from 2000 to 2006, an amount that includes loans and grants as well as technical and medical assistance valued at one billion US$ (though worth much more in "volume" terms). Next in order of size are concessional loans (1.5 billion US$) and debt cancellation.
– Kurlantzick (2006), working from African data, estimates Chinese aid to Africa at 2.4 billion US$ in 2004 and considers that a substantial share of it was ODA as defined by the DAC.
– Working from central government budget data, Qi Guoqiang (2007), who is affiliated with the MOFCOM, finds that aid to Africa rose from 300 million US$ a year in 1998 to nearly one billion US$ in 2007. This estimate, which focuses on the "cost to the state" of grants and loans, takes account of neither the provinces' aid activities nor the subsidies granted to Exim Bank for its soft loans. According to one senior official, quoted by Martin Davies (2008),it is estimated that approximately 4.5 billion US$ in aid had been disbursed in 2006.

Figure 3.4 Aid to Africa



Source: Jian Ye Wang (2007)

In an IMF working paper, Jian Ye Wang (2007) finds that Chinese aid to Africa is greater than in most previous estimates. This evaluation seems the most credible (see below). Chinese aid could amount to 10 percent of total aid to Africa if debt relief, which accounts for half of European aid (Figure 3.4), is not taken into consideration.

Other estimates have attempted to determine the terms of Exim Bank loans, which are not published in either Chinese or English. By and large, Exim Bank finance export trade activities of Chinese firms in Africa.[14] Hubbard (2007) identifies 87 projects financed by Exim Bank from 2002 to 2007 on terms that are judged to be concessional; twenty of these projects, representing a total of 500 million US$ in loans, are in Africa. The maturity of such loans is ten to twenty years, the grace period three to seven years and the average interest rate 2.85 percent. Examining an Exim Bank loan, Reisen and Ndoye (2007) show that it met ODA standards and contained a grant element of 40 percent.

The geographical structure of aid

In contrast to the other "emerging donors", China does not limit its aid to its neighbors. China has provided grant and interest-free loans as well as soft loans to North Korea, and South-east Asian countries (Laos, Cambodia, Myanmar, Vietnam, Indonesia and the Philippines), but the coverage of its aid is broader and Africa has always been one of its priorities.

China provides aid to 53 African countries, among which are countries that have not adhered to the "one China" principle. Which countries receive the most aid from China? The available statistics do not allow us to answer this question directly. MOFCOM publishes statistics on what it calls "international cooperation", which show a total of 21 billion US$ in 2004, of which ten billion US$ went to Asia, four billion US$ to Africa and 0.8 billion US$ to Latin America. Under the heading of international cooperation, MOFCOM aggregates all contracts – mostly construction and civil engineering contracts – obtained by Chinese firms in foreign countries, providing a breakdown into capital expenditure, wages paid to Chinese workers and consulting services. These statistics aggregate construction projects that are financed from very different sources and that, for the most part, do not constitute aid. Private financing is used when the work is performed by a Chinese company on behalf of a non-Chinese company;[15] multilateral or bilateral financing is employed when a Chinese firm carries out a project for the World Bank, the African Development Bank or a bilateral donor; and there is Chinese financing as well, in the form of either aid or loans from the Exim Bank. These statistics therefore cannot be used as such. Nevertheless, it is possible to get round this difficulty by working with the data published for each of the African countries by the international development banks. These data specify the national origin of the companies carrying out the projects, which makes it possible to measure the value of projects conducted by Chinese enterprises using multilateral financing (Chaponnière, 2007) for individual African countries. The results show that 25 percent of the African Development Bank's projects (in 2005/2006) and 15 percent of the World Bank's projects in Africa were carried out by Chinese firms. When the value of projects financed by multilateral bodies is subtracted from total international cooperation as measured by MOFCOM, we obtain the amount representing projects financed by Chinese loans plus private projects.

Although we have no way of determining which projects are financed by private firms, we may assume that, in certain countries such as South Africa, Botswana, Mauritius and Nigeria, such projects play an important role, whereas in the poorest countries this is not the case. For the latter countries, the difference between "international cooperation" and the data provided by the multilateral organizations gives a good proxy of Chinese aid.

Our method leads to an estimate of two billion US$ for total Chinese aid to Sub-Saharan Africa, a figure that is fairly close to those of Kurlantzick (2006) and the IMF. This estimate is corroborated by the results of a survey conducted by Goldstein (2007) on Chinese construction firms in Africa. The survey shows that 40 percent of the contracts executed by these enterprises are financed from Chinese funds. According to MOFCOM data, these contracts were worth a total of six billion US$ in 2005, which means that 2.4 billion US$-worth were funded by China.

This approach also gives an idea of the geographical distribution of Chinese aid to Africa. This is shown in Table 3.1 (column 4), which indicates the seventeen largest beneficiaries of "Chinese international cooperation" in 2005, i.e. the figure for international cooperation published by China less multilateral financing.

Have China's geographical priorities in Africa changed? The first two columns of Table 3.1 show Bräutigam's (1998) data for the seventeen main beneficiaries of Chinese aid from 1959 to 1998: in Nigeria, Angola and Botswana, the figures for international cooperation probably include private financing, whereas those for other countries indicate cooperation financed by China.

This admittedly imperfect comparison shows that China's aid and international cooperation to Africa are becoming increasingly concentrated (the first five countries received 38 percent of the total over the 1959-1989 period and 68 percent in 2005). Of the seventeen countries receiving the most aid in 2005, only seven were among the top seventeen in the earlier period (Tanzania, Congo, Sudan, Egypt, Mali, Ethiopia and Algeria). There is thus considerable turnover in the ranking. Countries entering the top seventeen in 2005 include Angola,[16] Nigeria and Botswana, indicating that countries which export oil or raw materials are among the priorities of Chinese cooperation. Due to the spectacular announcements made in 2007 and early 2008,[17] the Democratic Republic of Congo (RDC) will probably rank among the first beneficiary of Chinese international cooperation.

Table 3.1 China's priorities in Africa

Aid per country			"International cooperation" excl. external financing in 2004/05; in millions of US$
	1959-1998		2004-2005
Tanzania	534	Sudan	1 342
Zambia	372	Algeria	1 065
Congo DR	303	*Nigeria*	787
Mauritania	239	*Angola*	305
Sudan	230	Egypt	276
Somalia	220	*Botswana*	265
Congo	205	Tanzania	181
Egypt	193	Mali	169
Guinea	161	Libya	132
Ethiopia	155	Zimbabwe	89
Mali	148	South Africa	82
Madagascar	144	Ethiopia	77
Burundi	125	Mauritius	76
Cameroon	124	Eq. Guinea	75.6
Mozambique	116	Ghana	69
Senegal	108	Congo	68
Algeria	100	Tunisia	65

Sources: Columns 1 and 2, Bräutigam (1998); columns 3 and 4, author's estimates based on MOFCOM statistics and data from the World Bank and the African Development Bank
Note: Countries where cooperation includes projects financed by private firms are in *italics*.

Issues relating to Chinese aid

As OECD countries will probably be unable to meet the pledge made at the Gleneagles summit to double their aid, the rise of a new donor should be welcomed by traditional donors, as it increases the aid to Africa. This is not the case and Chinese aid is considered with suspicion. China is accused of having imperialistic aims, trying to impose a new colonial pact on Africa.[18] Its scramble towards African raw materials is regarded as a threat to the West and some observers think it could lead to conflict (Navarro, 2006).

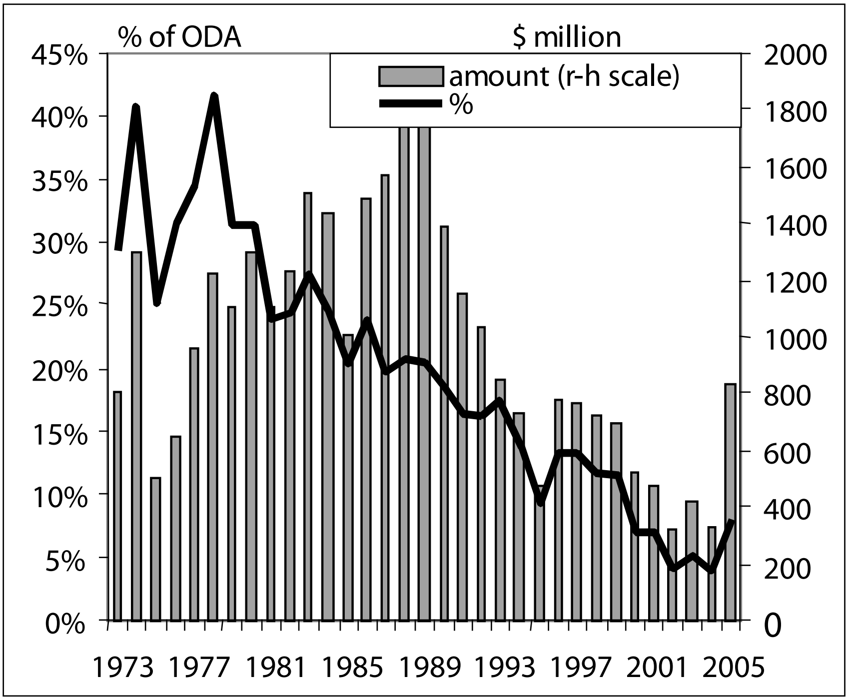
What are the main issues raised by Chinese aid to Africa? Is it in competition with or complementary to Western aid? Is China engaging in free-rider behavior by further indebting countries that have just been granted debt relief, or is Chinese aid in line with the Washington consensus? How effective is its aid and do the Chinese share the Western definition of effectiveness?

Is it Competition?

In the sixties and seventies, China's aid strategy put an emphasis on agriculture and Africa has been the continent that has profited the most from China's agricultural assistance (Mahmoud, 2008). Chinese aid has built pilot farms in more than 40 African countries, engaged in 200 cooperation programs, and sent over 10,000 agro-technicians over the years to train local farmers and provide technical consultancy. Amount wise, Chinese aid is geared towards the construction of infrastructure (which accounts for 70 percent of aid according to Chinese declarations), and the major projects announced recently (railways in Angola, Congo and Gabon, revamping of the Tanzam) will increase the share of this sector in total spending. As stated by one South African observer, quoted by Martin Davies (2007), "even Africa's numerous colonial powers did not have the commitment to invest so substantially in the continent infrastructures and probably were unable to afford it anyway."

Whereas the poor state of Africa's infrastructure is widely recognized to be a major constraint on its development, only a small proportion of Western aid is devoted to infrastructure improvement. This is illustrated by Figure 3.5, which shows infrastructure expenditure financed by the DAC countries from 1970 to 2005 as a share of total development overseas aid. After the excesses of the 1960s, when they participated to the financing of many "white elephants", donors became increasingly reluctant to finance this type of project. During the early nineties, DAC countries (the Helsinki group) agreed to stay away from projects that could eventually be realized by the private sector (Paquement, 1998). However, while Western governments have restrained from financing infrastructure projects, the private sector has failed to engage in such projects. This market failure has opened a window of opportunity for Chinese aid. The OECD's attitude has changed since the early years of the present decade, leading to a slight upturn in ODA spending on infrastructure: in 2005, the amount of such spending had returned to its level of 30 years earlier in current dollars. Thus if one considers its sectoral distribution, Chinese aid appears to be complementary rather than in competition with the OECD countries' aid.

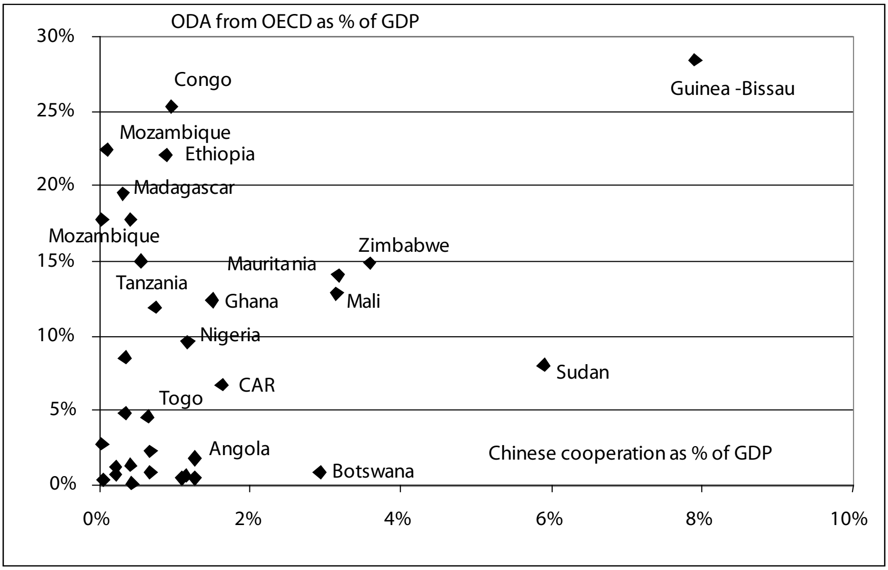
Figure 3.5 Share of infrastructure in ODA to Africa



Source: based on OECD Development Assistance Committee data

Beyond the fact that China is engaged in countries such as Sudan or Zimbabwe which DAC countries are reluctant to assist, what can be said about the geographical distribution of Chinese aid in regard to that of DAC countries? Using the proxy of international cooperation (adjusted by subtracting the amounts represented by multilateral projects) as a percentage of African countries' GDP, Figure 3.6 shows that, here again, the distribution of Chinese aid is more complementary with that of DAC countries than competing. This complementarity is due in part to the fact that China operates in some countries that the OECD countries avoid, namely Guinea-Bissau, Togo and the Central African Republic (CAR). In other African countries, China's international cooperation accounts for a much lower percentage of these countries' GDP than OECD aid.

Figure 3.6 ODA from OECD countries and China's international cooperation, as a percentage of African countries' GDP



How effective is its aid?

China, which remains a major aid recipient (Figure 3.1), is a signatory to the Paris Declaration on Aid Effectiveness, which stresses local ownership, alignment, harmonization, results-based management and accountability. Does China adhere to the Paris declaration when it acts as a donor?

Harmonization starts with the participation at donors meetings. In such events, China's chair has traditionally been empty. This is slowly changing. Chinese start to participate in these meetings where they seldom participate in the debates. As its projects answer to the demand from the governments, China considers that its aid meets both the ownership and the alignment requirements of the Paris declaration. However they do not align their assistance with the Poverty Reduction Strategies (PRSs) launched by the World Bank and IMF in 1999.

Chinese consider their aid as effective if it finances concrete projects such as buildings and roads (Pennies, 2007). From the Chinese point of view, effectiveness should be appreciated at the project level. They view their aid as more effective than Western aid as their projects are carried out quickly and at lower cost than those financed by other donors, and the financing methods they use (see above) obviate corruption problems. Chinese contractors have regularly achieved many of their infrastructure projects with dizzying speed and, as an application of the 8th principle,[19] Chinese experts are paid much less than their Western counterparts and are willing to work in more difficult environments. Chinese argue that, since their projects are achieved on time and at a lower cost than DAC's projects, they meet the effectiveness criteria. This is by and large true, even if they have met with problems in the case of large projects, as has been the case of railway projects in Angola.[20] China does not conduct systematic evaluations of its projects, and while there have been successes (Mamhoud, 2008), discussions with Chinese officials suggest that projects often run into difficulties once the Chinese experts have left.

The Chinese are fond of the adage says that it is better "*to teach a man how to fish than to give him a fish*" and they have emphasized technology transfer by training.[21] Nevertheless, by giving the emphasis to turnkey projects, they have given less emphasis to local capacity building than Western donors. The latter consider the strengthening of the recipient country's institutional capacity to handle a project as a factor of efficiency and ownership.

Among the issues raised by the question of harmonization, is the elaboration of international norms as the Chinese (as donor countries) have not participated in the discussion that led to the Paris declaration on harmonization.

There are some issues to be raised when tied aid is provided. Until the early 1990s, bilateral aid was regarded as a tool for supporting donor exports. This practice has become less common and, according to DAC data, tied aid accounted for only 9 percent of bilateral aid in 2004, while an increasing number of bilateral donors now issue international tender offers, like the multilateral banks. This average figure masks large variations from one country to another, and technical assistance, food aid, and transport of food aid are still often provided by donor countries.

China, like all the other emerging donors, ties its aid to the use of Chinese equipment (according to Chinese sources, 70 percent of China's aid is spent on Chinese goods and services). Given China's level of development, designing its aid to have positive repercussions for the Chinese economy is a justifiable practice. MOFCOM and the Exim Bank issue calls for tender which are restricted to Chinese firms and the basic criteria for soft loans is that Chinese enterprises should be selected as contractors and no less than 50 percent of equipment, materials, technology or services should be sources in China. While, through their Chinese subsidiaries, some Western firms have been selected as subcontractors (such as procurement of turbines or designing of airport facilities) of Chinese-financed projects, a larger number of Chinese firms benefit from the untying of aid, because they regularly submit the lowest bids in response to the tenders of multilateral and bilateral donors.

The competitiveness of Chinese construction firms is well documented. According to a study (DGPTE, 2007), Chinese enterprises control over half of the African market for major construction and civil engineering projects. A survey conducted by Goldstein (2007) shows that Chinese firms operate in a large number of African countries. Their extensive presence is a partial explanation of their success as it reduces the cost of transporting equipment to project sites and, moreover, it is believed that they invoice only the depreciation of their heavy equipment retained in Africa. This explains why they can offer much lower prices than their competitors (one-third of competitors' bids on average). Under these competitive conditions, the untying of Chinese aid and the use of international calls for tender would probably have little impact on the position of Chinese firms in responding to the calls for tender. The speed of Chinese firms in Africa contrasts with the slower pace of a large number of Western-financed infrastructure projects in Africa. However, Chinese contractors have begun to face problems, and in Nigeria and Angola, several large projects have fallen behind schedule.[22] There have been critics of the quality of Chinese workmanship. This depends on the rigor of the inspection system of the host countries. Also, while there are many cases of low standards of Chinese work, equally there are cases of world-class building.

Thirty years ago, Korean companies succeeded in breaking into the Middle Eastern construction market by using Korean labor, in some cases young conscripts doing their military service. Chinese firms use Chinese laborers for the same reasons. This is probably an important factor in their competitiveness, although a survey by the Centre for Chinese Studies of the University of Stellenbosch (2006) on China's involvement in Africa's construction and infrastructure sectors in four countries concludes that Chinese companies examined were usually found to employ a large amount of local labor, 85 to 95 percent of the total workforce. Locals were predominantly employed as low-skilled labor, but there were also many instances of locals in more senior positions. This shows that the perception of Chinese companies bringing their own workers is not always true. The survey shows it varies from country to country; the local employment rate is higher in Tanzania and Zambia, where Chinese companies have a longer presence, compared with Sierra Leone and Angola where they employ very few local workers. Given the competitiveness of Chinese construction firms, China could agree to untie its aid. This decision could be politically very rewarding for the Chinese and international calls for tender would probably have little impact on the position of Chinese contractors in Africa. However, adopting international tender managed by the recipient country may create difficulties within China. Indeed, this transparency mechanism could be detrimental to Chinese firms that used to be selected by MOFCOM or the Exim Bank on unknown criteria.

Some of these workers stay on once their contracts are up, increasing the Chinese presence in Africa. Estimates of the number of Chinese established in Africa are often somewhat fanciful, ranging from 100,000 to one million. A Chinese diaspora already existed in several African countries,[23] and fears over Chinese emigration to Africa are nothing new: the authorities in Guinea and Madagascar were concerned about it as early as 1960.[24] This fear has been revived by recent comments made by the chairman of the Exim Bank about the possibility of extending loans to Chinese farmers wishing to settle in Africa. Fujian and Zhejiang provinces have encouraged emigration to Africa as a source of remittances and of new jobs (Alden, 2007). However it remains to be seen if Chinese rural dwellers will be candidates.[25]

Is China engaging in free-rider behavior?

In March 2007, the former president of the World Bank accused China of following a "free rider" strategy in Africa by lending to countries that had just been granted debt relief. The Heavily Indebted Poor Countries (HIPC) Initiative launched during the 1990s has reduced Africa's external debt from 80 percent of GDP (1995) to 35 percent (2006), at a cost of 64 billion US$ to the international community. Of the 31 countries eligible for this initiative,[26] eighteen have benefited from debt relief. Concern for avoiding a resurgence of indebtedness that could lead to another crisis has led the IMF and World Bank (2004) to develop a Debt Sustainability Framework (DSF). This framework sets a debt ceiling above which the risk of default can become very high; separate ceilings are established for three groups of countries according to their CPIA ranking.[27] The categories of risk (low, moderate and high) determine the appropriate proportions of grants and loans. The DSF is intended as an instrument for coordinating the terms of financing. It has prescriptive force for the IDA (World Bank Group), but it is merely indicative for the other organizations: for example, some have chosen to lend only to low-risk countries, while others are willing to lend to medium-risk countries.

The DSF applies only to those donors that accept its legitimacy. If China refuses to cooperate, the collective effort of the other donors will be much less effective, and this is indeed a criticism that is often raised regarding China's aid policy. However (see Table 3.2), the estimated breakdown of its aid by country shows that the countries to which China provides the most assistance are not those that have enjoyed the largest debt remissions.

Table 3.2 Chinese aid and the HIPC countries

	HIPC debt relief		Chinese cooperation
	Millions of USD	% of GDP	% of GDP
Benin	1 096	24.80	0
Burkina Faso	1 160	20	0
Cameroon	1 298	7.80	0
Ethiopia	3 217	25.20	0.9
Ghana	3 823	35.70	0.7
Madagascar	2 323	49.30	0.3
Malawi	2 227	107.30	0
Mali	1 915	36.40	3.2
Mauritania	850	45.00	3.2
Mozambique	1 992	29.80	0.1
Niger	1 048	30.70	0.6
Uganda	3 397	39.00	0
Rwanda	530	24.80	0
Senegal	2 392	28.70	0.3
Sierra Leone	870	71.60	0
Tanzania	3 728	30.70	1.5
Zambia	2 687	37.30	0.4

Sources: Djoufelkit (2007) and Chinese statistics on international cooperation minus projects financed by multilateral bodies

The Democratic Republic of Congo is in a different situation. This country, classified as being between the decision and completion points, may hope for forgiveness of some of its debt (eight billion US$), but such a decision could be compromised by the announcement of a five billion US$ loan from China (September 2007) to finance major infrastructural projects that is secured by the granting of mining leases.[28] As copper prices plummeted in 2008, DRC is in a dire need of a debt relief from Western donors and the latter want a renegotiation of the China DRC deal. The focus of concern is that the deal would give the Chinese consortium state financial guarantees including some that earmarked government revenues and make China a privileged creditor.[29]

The Washington consensus and the Beijing consensus

Adhering to the principle of non-intervention, China imposes no conditions for its aid, but there are two exceptions to the rule. Breaking off diplomatic relations with Taiwan has long stood as a prior condition for aid from China. This is no longer really an issue, since owing to its economic success, China has "won the war" over UN representation. It now has cooperation agreements with countries that maintained relations with Taiwan. Beijing does, however, expect support for its positions at the United Nations: for example, it requests African support for its opposition to a Security Council seat for Japan or to elect a candidate to a top job in a United Nations organization (a recent example is the World Health Organization). Moreover, the strict secrecy surrounding the publication of data on aid and credit terms to Africa suggests that Chinese authorities may require a contractual undertaking not to publish the data.

Apart from these points, China's aid is not subject to conditionality, in contrast to that of the OECD countries. As long as African countries do not express their willingness for social and environmental responsibility (SER), Chinese firms face no requirements for SER and their method can lead to abuses, as in the example of the Merowe dam in Sudan. It does not comply with international standards, and its construction caused the displacement of the local inhabitants to distant locations where the land was not suitable for farming. The Chinese government recognizes these abuses but, on grounds of non-interference, refuses to take the initiative of requiring SER clauses in contracts.

China's attitude has led Rano (2004) to propose the concept of a "Beijing consensus" as opposed to the Washington consensus. According to Rano, both pursue the same goals but in a different order of priority, with Beijing giving priority to stability and development while the Washington consensus views reforms as a pre-condition for stability and development. Leonard (2008) wrote that the Beijing consensus could be the worst ideological menace to the Western world since the collapse of communism. While the Washington consensus favors privatization, the Beijing consensus encourages the use of public money and a push to protect public property. These differences contribute to the positive image of China in Africa where Asian heterodox strategies have long been regarded with deep interest.[30] Chinese aid is attractive to the countries that are most resistant to reform, such as Angola, which was granted a loan of two billion US$ at a time when it was being called on to account for the disappearance of four billion US$ from the public treasury. It is also attractive to countries that have suffered from instability caused by overly mechanical application of reforms designed according to the Washington consensus.

The 2008 world crisis that led the Western countries to proceed to large-scale nationalization has weakened the ground of the Washington consensus. On this occasion, Chinese vice Prime Minister Wang Qishan said the "teachers have some problems".[31] Nevertheless, while the crisis will reinforce the appeal of the Beijing consensus, this new paradigm does not translate into practical measures. As time passes, circumstances may lead China to change its practice. Loans by the Exim Bank account for a rising share of China's aid commitment, and being more concerned about repayment, it pays closer attention to country risk and becomes more attentive to countries' indebtedness. As a larger number of countries facing difficulties will flock to Beijing, the Chinese government may have to take a closer view of their economic prospects and to differentiate between them.

Conclusion: convergence or divergence?

China's aid to Africa has a long history. In the early 1960s, the first overviews of the subject[32] displayed the same surprise that we see today, though sometimes for different reasons. After decades of turmoil, China was a poor country, where the excesses of the Great Leap Forward caused a famine and millions of deaths in the late 1950s. It was much poorer than the Maghreb countries with which it signed its first aid agreements and than Sub-Saharan Africa, to which it started providing aid in 1960. China, just emerging from the embargo caused by the Korean War, exported very little. Its aid to Africa was greater than its trade with Africa, and it made no investments. Today, trade with Africa is larger than aid and investment. In February 2007, President Hu Jintao announced that trade between China and Africa would amount to 100 billion US$ in 2010 and, thanks to the surge in raw material prices, bilateral trade has exceeded this objective in 2008. This trade may diminish in value as prices have tumbled, but nevertheless China will probably become the largest trade partner of Africa, and one could expect that this will be followed by more investment and that investment will outstrip aid.

At the 2005 Gleneagles summit, the G8 countries gave a commitment to double their aid to Africa, and China made the same promise in Beijing in November 2006. Three years later, it appears that OECD countries are not on track to meet their targets. As they are confronted with the severest crisis since 1929, OECD countries would need to make unprecedented budgetary efforts to reach their objective, since debt cancellations, which account for nearly half of the aid, come to an end. While OECD will not achieve their target, China will probably encounter less difficulty in achieving its objective, even though China may experience a hard landing in 2009.

The fall of raw material prices will directly impact trade relations between China and Africa.[33] Nevertheless, as China will continue to grow and OECD economies will contract, the share of China in African exports will increase in volume while in value it will diminish. Thus the bilateral trade may intensify at a lower level. The world recession has not changed the Chinese view on the strategic importance of Africa. Economic and social problems in China have not prevented Hu Jintao from undertaking a fourth trip in Africa in February where he visited Mali, Senegal, Tanzania and Mauritius. His choice illustrates a sense of continuity (Zhou En Lai visited Mali and Tanzania in the sixties) and by choosing to visit countries that are not primary commodities exporters, he showed that Chinese interest goes beyond the procurement of raw materials. Chinese are preparing for the next Sino-African summit to be held in Cairo in November 2009, and, on this occasion, Beijing will promise to double its aid to Africa between 2009 and 2012. Thus at the end of the present decade, China will eventually be the largest donor to Africa.

China emphasizes the fact that its relations with Africa are distinct and substantively different from those of the West. Nevertheless, the nature of its trade relations with Africa is North-South and this may lead Beijing to adopt Western practices instead of maintaining a friendship between most unequal equals.[34] Will China position itself as an alternative to the OECD or will Western efforts aimed at socializing China as a "responsible" power in Africa influence currently prevailing standards (Alden, 2008)? There is clearly a debate in China between those who think that European aid to Africa has failed and that there is nothing to be learned from the DAC countries' experience and those who take a less black-and-white view both of the Western experience and of the overall results of Chinese aid to Africa. The probable outcome is a trend towards convergence between Chinese and Western practice. World Bank and bilateral donors are discussing MOU with ExIm banks and some have started to cooperate in joint projects with China. This trend will benefit from changes in Chinese practices. On the issue of social and environmental responsibility, for example, an official of the People's Congress stated in January 2007 that Chinese firms could face sanctions if they committed abuses abroad. In March 2007, the National Development and Reform Commission (NDRC) removed Sudan from the latest list of countries with preferred trade status and China will no longer provide financial incentives to Chinese firms investing in Sudan (Gill et al., 2007).

The pace of convergence will depend on the quality of the dialogue established between China and the traditional donors. Chinese embassies have already begun to attend donor round-tables. This dialogue could be improved if all parties made their objectives clear. The Chinese are accused of having a hidden agenda in their "march to Africa" and of assisting African countries only to better strip them of their resources, whereas Western aid is held to be directed exclusively to the well-being of the people. The Chinese make the same criticism in return. If China has an agenda in Africa, so do the United States and European Union, whether that agenda concerns security of supply or migration. Acknowledging these agendas and discussing them would be a first step towards dialogue and cooperation.

Notes

1 Africa accounts for a fairly high percentage of oil (30 percent), several ores and timber (Chaponnière, 2006).

2 If we consider only those investments made since 2002, China would be the second largest foreign investor in Zambia and Madagascar, and the fourth largest in Kenya and Angola. Its oil companies (China National Petroleum and China Petroleum and Chemical) have a strong presence in Sudan, Nigeria, Angola, Equatorial Guinea, Gabon, Congo, Mauritania and Niger. ZTE, one of China's most internationalized industrial firms, has directed one-third of its projects to Africa.

3 China reacted to Egypt's requirements by providing a large amount of food, emergency facilities, equipment and munitions and offered 20 million Swiss francs to buy needed goods and materials. Chairman Mao said this about Egypt's requirement: "*We in China are also ready to do what we can to help Egypt, and our assistance is without any strings attached. If you can pay, you may do so; if you cannot, let it be; we shall provide assistance free of charge. Of course a country with national pride, Egypt may wish to pay back our assistance. An account may be kept for future repayment, or repayment after 100 years... we can do our best to help Egypt.*" Quoted in Gountin (2006).

4 Including Egypt, Tunisia, Algeria, Morocco, Mali, Ghana and Somalia.

5 In 2007, the International Comparison Program of the World Bank lowered significantly (-40 percent) Chinese per capita GDP on a purchasing power parity.

6 The cost of the project amounted to 400 million US$, or 10 percent of the combined GDP of the two African countries at the time.

7 China carried out its first debt-equity swaps with textile firms in Mali at this time.

8 It was China's experience with poverty reduction that led the UNDP to establish the International Poverty Reduction Centre in Shanghai in 2004.

9 At the China-Africa Forum in 2000, China cancelled 1.2 billion US$ in debt for 31 countries. In 2005, President Hu Jintao announced that China would participate in the Heavily Indebted Poor Countries (HIPC) Initiative, and in 2007, MOFCOM granted debt relief for 33 African countries (Davies, 2007, p. 53).

10 Thus in the case of the Democratic Republic of Congo (DRC): i) a loan of three billion US$ finances the construction of a 3,200 km railway between Matandi and Sankya, a 3,400 km road between Lulumbashi and Kisangani, as well the building of several hospitals and two universities and ii) a two billion US$ copper-mining investment is made by a joint venture between Gecamines, the state copper-mining company and Chinese firms (68 percent).

11 According to the Paris Declaration, they are supposed to allocate half of their aid in these forms.

12 Levy (2008) lists over 70 bilateral accords between Chinese and African cities. However, there are conflicting views on the origins (provinces or Ministry of Finance) of the funds provided by provincial governments.

13 Whereas the human development indicator (HDI) for China as a whole (0.74) is higher than that of most countries in Sub-Saharan Africa, the HDI for Sichuan and Anhui provinces is equal to that of Cape Verde; that of Gansu province is close to that of Equatorial Guinea; and those of Yunnan, Guizhou and Tibet are close to those of Gabon, Namibia, Sao Tome and Principe, and the Comoros.

14 According to the Financial Times (29, January, 2008), the Exim Bank had authorized a total of thirteen billion US$ for African projects by June 2007 and disbursed half of that amount. The bulk of this amount has assisted the trade activities of Chinese firms in Africa.

15 This explains why a very large share of China's "international cooperation" goes to Hong Kong.

16 China had previously aided the adversaries of the ruling MPLA.

17 China announced two financial packages, with a total amount of twelve billion US$ to the DRC in The Economist: "A ravenous dragon." 15 March, 2008.

18 The Economist: "The new colonalists, report on China's thirst for resources." 15 March, 2008.

19 According to the 8th principle of the Accra declaration of Chou en Lai "experts who are dispatched by the Chinese government to help recipient countries carrying out construction, should be paid the same as their own experts of recipient countries." Quoted from Goutin (2006).

20 A. Russell, "Infrastructure: Big projects fall behind schedule." Financial Times, 24 January, 2008.

21 Quoted by Gountin (2006), the seventh principle of Chou En Lai's speech states: "While providing technical assistance, Chinese government assures to teach recipients to fully master this kind of technology." Chinese train technicians and management personnel. Through the African Human Resources Development Fund, set up with the purpose of sharing skills, China has trained over 10,000 African professionals in various fields.

22 In early 2007 the Angolese government cancelled plans for an oil refinery to be built by the Chinese outside Lobito and the planned airport outside Luanda has run into difficulties (A. Russell, "Infrastructure: Big projects fall behind schedule." Financial Times, 24 January, 2008).

23 South Africa and Madagascar, where the Chinese took part in railway construction during the colonial period.

24 Charbonnier (1960).

25 Field surveys in Senegal and Mali revealed that Chinese immigrants were not former peasants but former traders in Chinese cities who benefited from their contacts with a Chinese contractor to emigrate to Africa (Kernen and Vuilllet, 2007).

26 To be eligible for the HIPC Initiative, a country must: i) have borrowed from the IDA; ii) have accumulated an unsustainable debt burden; iii) have implemented good macroeconomic policies as part of IMF or IDA programmes; iv) have produced a poverty reduction strategy paper (PRSP). When these criteria are met, the IMF and the IDA decide whether the country is eligible for debt relief (decision point). After at least one year of PRSP implementation, the country reaches the completion point (Djoufelkit, 2007).

27 The Country Policy and Institutional Assessment (CPIA) grades the quality of policies and institutions according to sixteen criteria, grouped under four equally weighted headings: (i) economic management, (ii) structural policies, (iii) social cohesion and equity policies, (iv) public administration and institutions.

28 In this way, the Chinese are seeking to limit their risk. The Exim Bank finances the infrastructure, and the loan granted to Congo will be repaid by the Chinese firms operating the mining concessions.

29 Barney Jopson, "Congo pressed over China deal." Financial Times, 10 February, 2009.
30 In 1913-1915, the Reverend Ravelojoana in Madagascar advocated taking Japan as a model; in the 1980s and 1990s, at the time of the first structural adjustment programmes, African leaders took an interest in the experience of the newly industrialised economies.
31 Quoted by Roger C. Altman, "The Great Crash, 2008." Foreign Affairs, January – February, 2009.
32 Far Eastern Economic Review, "China as a Foreign Aid Donor." 19 January, 1961.
33 According to Chinese statistics, imports from Africa fell by 31 percent from December 2008 and January 2009 – an evolution comparable to that of the total imports of China.
34 As Nyerere once described China-Tanzania relations. From Alden (2008) and quoted from Yu (1970), p. 97.

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4 China's investments in Africa

Peter Kragelund and Meine Pieter van Dijk

Introduction

The Chinese presence on the African continent takes a multiple of (interwoven) forms ranging from migration, development aid (including tariff exemptions and debt relief), trade, and investments (both state and privately driven). Hence, even though this chapter essentially seeks to unpack Chinese Foreign Direct Investments (FDI) in Africa, it will also mention other aspects of Chinese involvement in the continent as the lines between the forms of intervention are blurred (McCormick, 2008).

The recent upsurge in Chinese FDI to Africa is important for several reasons. Firstly, Chinese FDI is much needed. According to Asiedu (2004), Africa needs to fill an annual resource gap of 64 billion in order to meet the Millennium Development Goals (MDGs). Part of this gap will probably be filled with increasing remittances from African migrants to Europe and other destinations, another with increasing FDI. Secondly, Chinese FDI occurs in a period of absolute progress, but of relative decline of FDI to Africa (Kragelund, 2007). Even though absolute FDI flows to the continent reached a historical height in 2005, other parts of the world – including other developing regions – received relatively more FDI (UNCTAD, 2006). Thirdly, FDI is considered a stable source of finance since it by definition has a long-term goal. It usually also brings technology and access to international markets. Fourthly, FDI to Africa has until now been highly concentrated in a few sectors and a few countries (Kragelund, 2007; Mlambo, 2005). Albeit, the lion's share Chinese FDI also targets the primary sector in resource-rich economies, Chinese FDI also targets other sectors of the African economies (Burke, Corkin and Tay, 2007). Fifthly, preliminary evidence suggests that Chinese FDI is qualitatively different from other sources of FDI into Africa (Henley, Kratzsch, Külür and Tandogan, 2008). Lastly, Chinese FDI may turn out indeed to be very important – even for non-resource-rich African economies – when accounted for as a proportion of annual investments in Africa (Sumner, 2005). Hence, not only the absolute size of the flows, but also the size relative to domestic investments and savings is important.

In this chapter we will first summarize China's policy with respect to investments in Africa. As hinted at above, the investment policy is closely related to other policies with regard to Africa. Section three presents different (sometimes conflicting) estimates of Chinese FDI to Africa. It tells a story of the increasing importance of FDI as a vector of influence in African economies. Section four then seeks to compare Chinese FDI in Africa with FDI from other sources. It argues that even though similarities exist there are also qualitative differences that warrant a new approach to the study of these investments. Section five presents an analytical framework to further our understanding of the local consequences of this phenomenon whereupon it adopts this framework in an analysis of three sectors of the Zambian economy. This framework only deals with effects on the domestic private sector of Chinese investments. The consequences of Chinese FDI to Africa, however, are not limited to this. Therefore, we also present a broader research program, entitled "Development cooperation and the private sector in Africa," which is undertaken at the Maastricht School of Management in the Netherlands. Section six draws some conclusions.

China's policy with respect to investments in Africa

The China Africa Policy published in January 2006 brings together existing policies that deal with all aspects of the Sino-African relationship. It includes a wide range of policies and strategies concerning politics, economics, education, culture, and health, as well as within military cooperation. It states that the Chinese government encourages and supports Chinese enterprises' investment and business in Africa and will continue to provide preferential loans and buyer credits to this end. The Chinese government is ready to explore new channels and new ways for promoting investment cooperation with African countries, and will continue to formulate and improve relevant policies, provide guidance and service and offer convenience. It continues:

> African countries are welcome to make investments in China. The Chinese government will continue to negotiate, conclude and implement the agreements on bilateral facilitation and protection of investment and the agreements on avoidance of double taxation with African countries. The two sides should work together to create a favourable environment for investment and cooperation and protect the legitimate rights and interests of investors from both sides (Government of China, 2006).

Albeit the China Africa Policy is very weak on how the activities are to be financed, who will initiate them, and how they are coordinated, it hints at the importance China currently gives Africa in economic and political terms. The Beijing Action Plan (2007-2009), successor of the Addis Ababa Plan (2004-2006), builds upon the Africa Policy but the Action Plan includes a number of concrete initiatives. In regard to FDI, the African countries and China pledged to encourage mutual investments, they agreed to conclude Bilateral Investment Treaties (BIT) and to the extent possible, avoid double taxation.[1] Moreover, the partners have established a China-Africa Joint Chamber of Commerce and Industry that shall facilitate further trade and investment between the partners. Of great importance, China stated that it will set up a China-Africa Development Fund to support "*well-established and reputable Chinese companies in making investment in projects in Africa*". Lastly, the Chinese government will set up three to five Economic and Trade Cooperation Zones in Africa (FOCAC, 2006).

China applies several different modalities in order to finance these activities, including grants (in kind – not in cash), loans (ranging from soft loans to loans on purely commercial terms) and debt relief to the recipient countries (see Box 4.1 for an example from Ethiopia). Moreover, the Chinese state provides long-term low-interest loans to the Chinese state-owned companies that invest in African economies (see also Chapter 6 for an example of Chinese support to Chinese companies in Zambia).

Box 4.1 Ethiopia, an example of China's financial activities in Africa

Ethiopia will receive unconditional support from China consisting of:

1. 500 million US$ in concessionary loans
2. 1.5 billion US$ investments in telecommunication and infrastructure
3. 1.5 million US$ for short-term export credits

Most of this is soft loans, loans on favorable terms (low rates of interest) and without the kind of conditionalities that the Bretton Woods institutions (the World Bank and the IMF) impose.

Source: Financial Times (6 February, 2007)

Several Chinese institutions are involved in implementing the policy with respect to Africa. While the Ministry of Commerce (MOC) is a central actor in Chinese aid, it is not the only actor – 23 line ministries and decentralized agencies also provide aid. In fact, the Ministry of Foreign Affairs has the overall responsibility for Chinese foreign policy and the Ministry of Finance administers the overall budget while MOC has the overall responsibility for China's bilateral aid. Within MOC, the Department of West Asia and African Affairs is responsible for overall aid policies; the Department of Foreign Economic Cooperation controls Chinese companies overseas; the Department of Foreign Aid administers Chinese aid projects; and the Economic and Commercial Counsellor's office acts as MOC's extended arm locally. Most development projects, including essential infrastructure to the Economic and Trade Cooperation Zones are financed by the Chinese Export Import Bank that was established a decade ago – first and foremost to back international economic cooperation by providing preferential loans. Moreover, four Chinese Banks, most prominently, the Bank of China, provide cheap loans to Chinese state-owned enterprises in Africa (Kragelund, 2008).

Due to this complicated setup and the lack of clear guidelines, it is no surprise that Chinese aid (and loan) figures are highly disputed. For instance while the Chinese foreign aid in 2005 amounted to 731 million US$ according to the China Official Yearbook (Glosny, 2006), the EU reckons that Chinese aid reaches five billion US$ yearly (Altenburg and Weikert, 2006), and we have quoted OECD in Chapter 1 as 1 to 1.5 billion US$ in 2006.[2] Similarly, data on Chinese loans are flawed. Nevertheless, there is hardly any doubt that the Chinese loans are large and increasing. The Financial Times estimates that Chinese loans to Africa in recent years have reached ten billion US$ per year (Financial Times 6 February, 2007). In 2005, China announced in the General Assembly of the United Nations (UN) that it would mobilize an additional ten billion US$ in three years for concessional loans. In total, in 2006, existing loans and credit lines were estimated to total about nineteen billion US$. The countries that receive most of this money are Angola, Equatorial Guinea, Gabon, Republic of Congo and Nigeria (Jacoby, 2007: 34). One notes that these are all oil-producing or commodity-exporting countries.

However, the loans given are conditional in the sense of being tied to Chinese companies, which are obliged to use Chinese products for the projects. Loans, for instance, from the Chinese Export Import Bank to finance development projects, are only given to Chinese firms and rules stipulate that at least half of the procurement has to come from China (Corkin, 2008). Jacoby (2007: 35) notes that also repayment of the loans has sometimes been tied (he gives the example of Angola) to the supply of oil. However, China puts no broader conditions (for example relating to the desired macro-economic and development policies of the country) to its preferential loans, in a part of the world where many countries have just overcome the debt crisis and are used to highly restrictive structural adjustment and other donor support programs.

Chinese investments in African economies – an overview

Total FDI in Africa doubled between 2004 and 2006. Table 4.1 gives the total picture for different African regions, which shows the increase in North Africa is four times the 2004 level, while the West Africa region also did better than the other regions. In fact, in the Southern Africa region the effects were negative in 2006, due to substantial outflows in Angola and South Africa. In South Africa this happened after 2005, the year the country received a record inflow of 6.2 billion US$.

Table 4.1 Net FDI flows to/from Africa, 2004-2006 (million US$)

Regions	2004	2005	2006
North Africa	6,616	13,528	23,324
West Africa	3,743	4,997	6,841
Central Africa	2,712	3,716	3,786
East Africa	1,318	1,205	1,789
Southern Africa	3,629	6,202	-195
Total	18,018	29,648	35,544

Source: UNCTAD (2007b: Annex table B.1)

The table also shows that FDI to Africa has increased substantially, reaching 35.5 US$ billion in 2006. In terms of countries, the biggest receivers of FDI inflows in 2006 were Egypt (ten billion US$), Nigeria (5.4 billion US$), and Sudan (3.5 billion US$). In fact, ten countries – all important producers of natural resources – received three-quarters of all investments (see Table 4.2). The increase in FDI to Africa is very much linked to the rising commodity prices and suggests that FDI is still concentrated in a few sectors of a few African economies (Kragelund, 2007).

Table 4.2 disaggregates these data. Thereby, it points to two important characteristics of FDI to Africa. Firstly, in contrast to the orthodox dogma of stable capital flows, FDI flows to African economies are highly unstable on a year-by-year basis. South Africa, for instance, ranked eight in 2004, one in 2005, and 53 in 2006. Tunisia, albeit on a smaller scale, also experienced big changes in FDI flow: it ranked nine in 2004, ten in 2005, and four in 2006. Several reasons account for the unstable FDI flows. First and foremost, African economies are relatively small. Hence, year-by-year fluctuations are often caused by one or a few investments. The sharp rise in FDI to South Africa in 2005, for instance, is caused largely by one cross-border merger and acquisition, namely Barclays Bank's acquisition of the Amalgamated Bank of South Africa. Similarly, mergers and acquisitions play a significant role in other African economies. In Tunisia and Nigeria in 2006, respectively 70 and 52 percent of total FDI flows came as mergers and acquisitions. Secondly, FDI flows to African countries are stable in the longer run, that is, the same resource-rich African economies get the lion's share of FDI to Africa. Hence, the top ten receivers of FDI in 2004 received 71 percent of all FDI to Africa. Even though the rank has changed slightly, these very countries received almost 80 percent of all FDI to Africa in the two subsequent years. This makes FDI to Africa much more concentrated than in any other region in the world (UNCTAD, 2005, 2007b: Annex table B.4).

Table 4.2 FDI inflows 2004-2006, ten most important African countries in 2004

	2004		2005		2006	
Country	**US$ mn**	**rank**	**US$ mn**	**rank**	**US$ mn**	**rank**
Egypt	2157	1	5376	2	10043	1
Nigeria	2127	2	3403	3	5445	2
Equatorial Guinea	1651	3	1873	6	1656	8
Sudan	1511	4	2305	5	3541	3
Angola	1449	5	-1303	54	-1140	54
Morocco	1070	6	2946	4	2898	5
Algeria	882	7	1081	7	1795	6
South Africa	799	8	6251	1	-323	53
Tunisia	639	9	782	10	3312	4
Chad	495	10	613	12	700	8
Top-ten total	12780		23327		27927	
Africa total	18018		29648		35544	
Share of total FDI	71%		79%		79%	

Source: UNCTAD (2007b: Annex table B.1)

No doubt, most investments to Africa originate in Europe, the United States, and South Africa, but recently Asian countries have emerged as powerful investors in Africa (and elsewhere). Not only do Asian countries account for the majority of global inward FDI, they also increasingly dominate global outward FDI. While the majority of Asian FDI still targets nearby countries, they have recently become a major player in African economies. Throughout the 1990s, transnational corporations from Asian countries invested heavily in a few textile- and garment-producing countries in South and East Africa in order to overcome trade restrictions. Since then, especially Chinese companies have taken advantage of the fact that a number of resource-rich African countries have been avoided by Western investors due to political instability and bad governance. This has made large-scale investment in resource extractive activities possible (Kaplinsky and Messner, 2008; UNCTAD, 2007a).

Today, China ranks fourth among the Asian investors in Africa in terms of FDI stock (after Singapore, India, and Malaysia) (UNCTAD, 2007a). FDI stock data, however, do not take the most recent upsurge into account. Although data on Chinese investments in Africa are indeed flawed,[3] there is hardly any doubt that Chinese FDI to Africa is increasing rapidly – probably more rapidly than FDI originating from any other place. Corkin (2008) makes a similar argument in relation to the future size of South African and Chinese investments in Africa. Whether one examines the approved Chinese investments by national investment centers on the African continent, which is displayed in Table 4.3, or the totals based on news bulletins and other unofficial sources, displayed in Table 4.4, the trend is the same: Chinese investments are becoming ever more important in Africa.

Table 4.3 Approved Chinese FDI flow to the African continent (US$ million)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
FDI	1.5	7.7	14.5	28	17.7	NA	NA	NA	42.3	85	24.5	30.1	60.8

Source: UNCTAD (2006: Box table II.1.1)

Table 4.4 also hints at the growing importance of smaller (partly private) Chinese investments in Africa. While the average size of investments in the year 2000 was almost two million US$, this figure decreased to approximately 1.4 million US$ in 2006. Hence, even though Chinese investments in the oil sector get the lion's share of public and academic coverage, Chinese FDI increasingly dominate investments in all sectors in many African countries.[4] Based on figures from approved investments in Ghana as well as from the World Bank's recent survey of 450 companies in four African countries, it seems that these companies concentrate their activities in the manufacturing, construction and service sectors (Broadman, 2007; GIPC, 2005).

Table 4.4 Chinese companies in Africa, 1988-2006 (FDI in US$ million)

	1988	1992	1995	1998	2000	2001	2002	2003	2004	2006
Number of companies	>80	ND	ND	ND	499	ND	585	>600	674	900
FDI stock	ND	54	91	259	990	607	ND	872	ND	1,250
Average size of investment	NA	NA	NA	NA	1,98	NA	NA	<1,45	NA	1,39

Source: Africa Research Bulletin (2004, 2006); Broadman (2007); Buckley et al., (2007); Gang (1992); Hilsum (2005); Taylor (2006); Wenping, (2006). ND is no data and NA not able to calculate the ratio

Chinese and other FDI in Africa: differences and similarities

The sheer magnitude and growth of Chinese investments in Africa indeed warrant a more in-depth examination of how and to what extent these flows affect the host economy as well as other resource flows. But to what extent are Chinese investment flows different from other investment flows into Africa? As pointed out above, Chinese FDI to Africa resemble FDI from other sources in its concentration in a few (resource-rich) African economies. Likewise, the motives for investments mirror these of other companies in Africa, namely to get access to markets and resources (Broadman, 2007). Regardless of their origin, these resource extraction activities often fail to benefit the population at large (UNCTAD, 2005), and, like its Western counterparts, large-scale, state-owned Chinese companies have also recently initiated Corporate Social Responsibility (CSR) policies to minimize the negative effects of the investments (or maximize the positive ones) (Lungu and Mulenga, 2005; Oxford Analytica, 2008). Moreover, these companies' close linkage to the strategic interest of their home state is also mirrored in Western companies' oil investments (Alden and Davies, 2006). Regarding central parameters, therefore, Chinese investments do not differ radically from other foreign investments in Africa.

Then why do ever more people – academics and practitioners alike – find the Chinese investments in Africa so interesting? The argument here is that in spite of the fact that FDI to Africa today is very similar to FDI to Africa in the past, and, hence, that Chinese investments remind us of other investments, Chinese investments differ from other sources of investments in certain respects.

Firstly, the internationalization of Chinese corporations is of a relatively recent origin. Though a few Chinese companies operated outside China in the late

1970s, the great wave of FDI originating in China did not take place until after 2001 when the Chinese government adopted the "Go out" policy, which facilitated the internationalization process of Chinese companies. Meanwhile, Chinese companies developed a distinct business model with a typical transnational corporation that is "...heavily reliant upon political support, receives financial backing from the state and is involved in mining and energy industries" (Alden and Davies, 2006: 86).

Secondly, and directly related to the above, the average age of the Chinese firm operating in Africa is considerably younger than, for instance, Indian and South African companies. They also employ more staff per capital invested and they are more widely dispersed (Henley et al., 2008).

Thirdly, Chinese State-Owned Enterprises (SOEs) tend to have a longer-term perspective on investments than their (Anglo-Saxon) counterparts. While Anglo-Saxon companies are governed by corporate financial issues and shareholder value doctrine and, hence, of quick returns on capital employed (Gibbon and Ponte, 2005), the Chinese government allows firms to invest strategically, i.e. put long-term profitability over short-term profitability (Corkin, 2008). The focus on short- versus long-term profits affects the governance structures of the company. Therefore, Chinese State-Owned Enterprises tend to integrate vertically while simultaneously seeking to acquire upstream assets (Alden and Davies, 2006).

Lastly, and linked to it, the Chinese state directly facilitates Chinese companies abroad. Apart from the "Go out" policy and cheap credits, the Chinese government puts up institutional structures to support Chinese enterprises in Africa.[5] Most prominently the Chinese government builds Economic and Trade Cooperation Zones in order to facilitate further investments on the continent. These zones shall act as economic growth nodes – just like the Special Economic Zones in China – and will facilitate greater collaboration between Chinese companies on the continent. In order to fulfill this aim, the Chinese state constructs the essential infrastructure and erects the needed buildings within the zones financed by Chinese development aid and carried out by Chinese companies. As mentioned above, the Beijing Action Plan (2007-2009) sets out to establish three to five such zones in Africa within the next couple of years. Preliminary evidence, however, suggests that Africa will see more zones in the coming years. The first zone, exclusively for Chinese companies, is currently under construction. It is located a stone's throw away from the Chinese-owned Chambishi mine in the Zambian Copper belt and will attract companies that deal with the production and refinement of copper. Due to the criticisms that Chinese actors currently face in Zambia, which amongst others relate to the limited positive spillovers from their investments, the Chinese government is currently laying the foundation for yet another zone – this time in Lusaka and reserved mainly for the light-industrial sector. In addition, Davies (2008) states that the following zones are already planned for: Mauritius (to facilitate regional trade), Dar es Salaam (trans-shipment of mining products from the Copper belt), and Nigeria (manufacturing and assembly of Chinese products).

An analytical framework to assess the effects of Chinese FDI

Given these differences, and connected to the resumed academic interest in Chinese (and other Asian) presence in Africa, several frameworks have been proposed to analyze the local, regional and global implications of the trend. Among the most interesting are Broadman's (2007) classification of "at the border", "behind the border", and "between the border" challenges vis-à-vis economic interactions between the regions, and Kaplinsky's (2008) distinction between complementary and competitive, direct and indirect impacts of Chinese interaction with African economies, which is also useful.[6]

Similarly to the latter, Kragelund (2007) proposes to distinguish between three potential roles of the Chinese investors in Africa, namely that of the catalyst, the capacity builder, and the competitor, and two types of impact on the domestic private sector, i.e. direct and indirect. This framework facilitates an assessment of the variety of Chinese investments that currently flows to African economies. Hence, while an investment in, for instance, resource extraction activities may directly act as a catalyst in an otherwise dormant sector, indirectly the growing demand for resources may influence the value of the local exchange rate and thereby affect the competitiveness of the domestic private. In this respect, it is important also to keep in mind that importing capital goods may have a negative influence on the current-account balance. Investments in a sector characterized by numerous forward and backward linkages and low-tech technology may directly build capacity via technology transfer and employment creation and indirectly be instrumental in bringing about access to third markets. It is, however, important to bear in mind that these benefits depend in particular on the market orientation of the transnational company, i.e. export-oriented companies generally play a more vital role in providing access to markets and build broad-based export capacity in the host country than transnational companies that invest to gain access to a local market. Lastly, (state-assisted) investments in sectors characterized by high domestic activity may directly displace local operators or indirectly force productivity to increase.

Even though some investments may readily be classified according to one of these headings, most investments will most likely play different roles vis-à-vis the domestic private sector, both directly and indirectly. Thus, resource extraction activities not only catalyze investments but may also bring about low cost infrastructure that may or may not benefit other companies. Moreover, as Kaplinsky (2008) rightly points out, it is important to distinguish between different geographical scales and different groups in society. Furthermore, some impacts cannot easily be measured in this framework, such as the indirect impact of large financial surpluses in China (and India) that may cause global interest rates to rise and, thereby, make borrowing more expensive – especially for less creditworthy African economies (Kaplinsky and Messner, 2008).

Notwithstanding these limitations, Kragelund (2007) applied this framework to assess the effects of Chinese investment in Zambia. Based on secondary sources, three sectors were chosen to illustrate the magnitude and type of potential impacts of the recent upsurge in Chinese FDI. Firstly, Chinese investments in the dormant Zambian copper sector in Zambia illustrate the catalyzing role. Secondly, Chinese investments in the Zambian textile and garments industry were an example of building up local capacity. Thirdly, Chinese investments in the construction sector are perceived as being of a competitive nature.

The copper mines in the northern part of Zambia have been the backbone of the Zambian economy since independence (and prior to that – the backbone of the British interest in Northern Rhodesia). However, falling copper prices, nationalization, and mismanagement meant that the mines had become a huge financial burden for the Zambian economy and, driven by the international financial institutions, they were sold in the late 1990s. Among the mines that were privatized was the almost dormant Chambishi mine, which was bought by a Chinese state-led company in 1998. Since then, the Chinese company has invested heavily in the mine, which now employs 2,000 people and produces 50,000 tonnes of copper concentrates annually. Moreover, numerous other Chinese companies, private as well as state-owned, have invested in copper production and refinement, and hence the Chinese state currently puts much emphasis on building physical infrastructure in and around the mines. Even more important, however, the rising Chinese demand for copper has made the mining sector attractive for other investors. While the mines earn Zambia much needed hard currency (by way of increased demand and increased production),[7] this may also lead to uncompetitive industrial developments, such as the appreciation of the kwacha. Moreover, positive spillovers are probably limited because the sector is characterized by only few linkages to the rest of the economy. What is more, salaries are lower and working conditions worse in the Chinese-owned mine than in the other major mines in the area.

In contrast to the mining sector, the textile sector has considerable spin-offs to other sectors of the society. Like the mining sector, the Zambian textile sector is of major economic importance and it is important for employment generation as cotton is the main cash crop for Zambian small farmers (RATES, 2003). The textile industry was also privatized in the 1990s. The result was the establishment of six large companies of which one is in majority Chinese hands, namely the Mulingushi textile mill (originally built in 1983, financed by Chinese aid and inaugurated with an interest-free loan from Beijing). At the time of privatization, the Mulingushi textile mill had been shut down for a while due to operational problems, but within a couple of years the textile mill had become Zambia's largest textile company. Until recently, the company directly employed 2,000 employees. In addition, it had two ginneries and contracted 5,000 farmers controlling 10,000 hectares of cotton farms. Thereby, it became the only company in Zambia that, apart from growing seed cotton, ginning and spinning, also weaved yarn into cloth and produced garments.

The facts notwithstanding, the Zambian textile sector is changing rapidly. Albeit the African Growth and Opportunity Act (AGOA) offers increased preferential access for African exports to the US market (and therefore incentives to invest in the sector), it does not fully make up for the loss of preferences previously provided by the Multi-Fibre Arrangement (Gibbon, 2003; Morris, 2006). Thus, even though the Chinese company, in collaboration with the Zambian state, seemed eager to take advantage of AGOA, competition from Chinese imports became too fierce and by 2007 the textile mill had stopped its operations. The Chinese investment in the Zambian textile industry was thus an example of direct capacity building due to its dense network of linkages in Zambia. Indirectly, the investments could have turned out to be very beneficial indeed, as it would have entailed Zambia to continue to take advantage of AGOA indefinitely, whereas other African countries, dependent on imports of fabric, yarn and thread, will lose preference in a few years.

The construction sector also contributes significantly to Zambia's Gross Domestic Product (GDP). It differs from the other two sectors mentioned. The Zambian construction sector is dominated by locally-owned companies – only a tiny share of the total of almost 1,300 registered construction companies in Zambia is foreign owned – among these, approximately twenty are Chinese (Centre for Chinese Studies, 2006). Domestic small-scale construction companies are concerned with the delivery and maintenance of buildings and infrastructure. Moreover, they supply the foreign companies with input. Large-scale construction projects in Zambia are by and large donor-financed. Lately, Chinese companies have won the bulk of the large-scale tenders (Centre for Chinese Studies, 2006; NCCZ, 2004). These companies do not directly compete with the local companies. Lately, however, several Chinese supply companies have been established in Zambia. This may radically alter the situation for the local companies in the construction sector.

As hinted at above, this framework only allows us to further our understanding of the effects on the domestic private sector of Chinese FDI. Stated differently, it does not take all the other vectors of Chinese presence into account. More importantly, hitherto it is limited only to Zambia. The effects, however, depend to a large degree on local capacities and local regulatory frameworks. It is therefore of utmost importance to broaden the scope of the research.

Several other research programs have been set in motion, for instance the Asian Drivers project referred to above.[8] New research programs are also coming up. Among others, the Maastricht School of Management (MSM) in the Netherlands is currently undertaking the "development cooperation and the private sector in Africa" research project, which seeks to further our understanding of the impact on African economies and in particular the possibilities to develop value chains. The program aims to increase the opportunities and eliminate constraints for African suppliers to be integrated in the regional and international markets. The research focus is on existing value chains to determine their export potential. The question asked each time is: what would be the role of the private sector in Africa and of China's export and investments? Are they competing or are there complementarities?

This research project takes as the point of departure the limited explanatory usefulness of both orthodox theories of international trade, which predicts trade flows on the basis of comparative advantage, and more heterodox theories of trade that include institutional factors (the efforts to create a level playing field), trade in services, and capital flows. These theories point to the importance of political stability and local interests. They emphasize the need to liberalize the financial sector to create new investment opportunities, or bigger markets as major factors explaining capital flows. A lot of the Chinese trade and investments cannot really be explained by these theories and requires a different approach.

Conclusions

There is no reason to believe that Chinese investments alone can fill Africa's external resource gap in order to meet the Millennium Development Goals or speed up economic development. Other sources of finance are needed. This, however, does not mean that Chinese FDI to Africa is insignificant. In contrast, this chapter has shown that although data on Chinese FDI are sparse, Chinese FDI is certainly becoming increasingly important – not only on its own terms, but above all because it is closely linked to other flows from China to the African continent. Moreover, the chapter has pointed to the differences and similarities between Chinese and "Western" FDI in Africa and thus hinted at the extent to which we can approach Chinese FDI with the same analytical frameworks as more "traditional" FDI and to what extent we need new analytical frameworks.

We argue that even if Chinese investments in Africa resemble its Western counterparts in some very important respects, for instance, its focus on primary goods, its motives to invest, and its close links to its home country's geopolitics are different. These are key differences requiring a broader analytical approach. Two approaches have been proposed.

The first approach takes its point of departure in the FDI literature that distinguishes between two different roles vis-à-vis the domestic private sector, namely crowding in (the development and upgrading of private firms to benefit from linkages with Trans National Corporations, TNCs) or crowding out (the distortion of growth of the domestic private sector either directly via competition on the market or indirectly via limiting access to finance and skills (Kumar, 2003). This distinction between capacity builder on the one hand and competitor on the other, however, does not take the catalyzing role of FDI into account: FDI may catalyze domestic private sector development directly through investments in dormant sectors of the economy or by improvement of infrastructure and indirectly via, for instance, increased attention to the domestic market.

The second approach links investments to another vector of interaction, namely trade. The point of departure is general economic theories (this time regarding trade), but due to the interconnectedness of investments and trade with other flows of capital, traditional trade theories cannot fully explain the phenomenon and its consequences for the development of Africa's private sector. The solution suggested by the Round Table Africa project of MSM is to foster a structural cooperation between international businesses, local companies and policy-makers. The market opportunities as identified in the value chain studies will be tabled at value-chain, specific multi-stakeholder consultations. This should lead to new and improved sustainable economic activities in the region through the involvement of international and national investors, civil society and public sector actors.[9]

Notes

1 In order to create a secure investment climate for its investors overseas, China signs BITs and double taxation treaties with African countries. These treaties protect and promote FDI by clarifying the terms for FDI between the signatories. In fact, China has concluded more BITs with African countries than any other economy (Broadman, 2007).

2 Besides the complicated aid setup, the following facts tend to make an accurate aid figure less likely: ministries are understaffed; the Chinese government fears that greater transparency simultaneously may lead to greater demands for aid by recipient countries

(because they are aware that other recipients receive more) and domestic critique due to the widespread poverty in China (Davies, 2007; Lancaster, 2007; Wang, 2007).

3 In general, FDI data do not distinguish between overseas Chinese, state-led Chinese FDI and private investments. Moreover, data from national investment centres do not show actual FDI stocks nor FDI flows, but only investment commitments from investors who obtain investment licenses at these centres. Nevertheless, in most cases it is the only disaggregated FDI data from Africa.

4 Figures by country will be given for several cases, but unfortunately they come from very different sources, which may affect their accuracy and recent nature.

5 For a description of how the Chinese state facilitates and supports Chinese enterprises in Zambia, see Chapter 6.

6 This distinction first saw the light of the day in regard to Asian influence in Africa in Schmitz (2006). A number of more specific frameworks have also been proposed. For instance in the study of trade (Stevens and Kennan, 2006), and of aid (McCormick, 2008).

7 Currently, the development agreements between the major mining companies and the state are being renegotiated. Due to the low world market prices for copper in the late 1990s, the mining companies were able to sign exceptionally profitable deals with the Zambian government. The marked increase in copper prices has made the Zambian government demand a windfall tax on copper (see also Fraser/Lungu).

8 See http://www.ids.ac.uk/go/research-teams/globalisation-team/research-themes/asian-drivers for a description of the program.

9 www.roundtableafrica.net. More information can be obtained from the Sustainable Development Centre (SDC) of MSM, PO Box 1203, 6201 BE, Maastricht, or the African partner, the Eastern and Southern African Management Institute (ESAMI) PO Box 3030, Arusha, Tanzania.

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5 Competing trade policies with respect to Africa

Meine Pieter van Dijk[1]

Introduction

European countries have been active in Africa for centuries. In the 1950s while preparing the Treaty of Rome, the beginning of the European Union (EU), it was France that insisted on special treatment for its former colonies. This resulted in the subsequent Yaounde, Lomé and Cotonou conventions between Europe and the so-called ACP (African, Caribbean and Pacific) countries. The original group of French and British former colonies has been extended to almost all countries in Sub-Saharan Africa, a number in the Caribbean and in the Pacific Ocean. Through the agreements, the EU gave non-reciprocal trade advantages to all ACP countries. Products from these countries, if certain conditions are met, have free access to the EU, meaning no tariffs or custom rights can be imposed. This is a kind of super-preferential system, providing the preferences of the GSP (General System of Preferences) to ACP countries.[2] The problem is that the favorable treatment for Africa has not really increased trade very much and this is one of the reasons for the EU to change its trade policy with respect to Africa, as discussed below.

China's trade with Africa is expanding swiftly. It has increased ten times in the last ten years. South African diamonds, Egyptian marble, Ethiopian sesame, Ugandan coffee, Gabon's lumber and tobacco from Zimbabwe are often mentioned as products exported to China (Ethiopian Herald, 7 February, 2007). China's traditional exports to Africa (like textiles, clothing and furniture) keep increasing, while electrical home appliances, cell phones, motor vehicles and other electronic and high-tech products have begun to pick up.

China is rapidly becoming the main trading partner of Africa (exports plus imports), bypassing the US, and the EU. Although total trade with Africa is only 2.8 percent of China's trade, China's investments in Africa are 3.3 percent of China's total foreign investments (China Statistical Yearbook, 2007: 740). In 2008

China's trade rose to 100 billion US$ (Effect, 21 February, 2009), which is more than one-third more than the year before. And 2008 was the seventh consecutive year of such rapid growth. Europe's share has dwindled from 44 to 32 percent of the continent's foreign trade within a decade (Mold, ed., 2008).

In this chapter we want to find out to what extent China's trade policy is different from the trade policies of the EU or the United States (US) with respect to assuring trade advantages to Africa. The Chinese approach of selective exemption of import duties will be compared with the Economic Partnership Agreements (EPAs) of the EU and the African Growth and Opportunities Act (AGOA) of the US. Do the trade policies of the EU and the US compare favorably to those of China in Africa? To what extent is China in Africa following a different approach than Europe and the US? The comparison is complicated, because China has promised advantages, which are not yet in place and we don't yet have the data to analyze whether these trade policies have really changed the trade flows.

One complication in this comparison is the role of the rules of origin.[3] They specify when a product is accepted as a product originating in a certain country. The EU, US and China have different rules of origin, which is sometimes a real hazard. However, the EU is undertaking a long-overdue review of its rules of origin for all developing countries, which should lead to simplification.

Finally, there is the risk that the current international crisis leads to more protectionism.[4] The current international financial and economic crisis has affected trade with Africa, if only because of lower demand due to lower world trade and because the prices of the raw materials have gone down. Hence the volumes exported are decreasing and there are signs that China is considering closing some of its African mines, like the copper mines or smelters it owns in Zambia.

China's trade policy with respect to Africa

When China joined the World Trade Organization (WTO) at the end of 2001 it indicated that it wanted to diversify its foreign trade flows. This also meant expanding trade with African countries. As far as these countries are members of the WTO, trade is based on what has been agreed during the different rounds of trade negotiations in the framework of the WTO and its predecessor (Van Dijk and Sideri, eds, 1996). This implies that China has agreed most-favored-nation (MFN) clauses with 41 African countries. It also has its own preference system for partner countries, like, for example, South Africa. This country alone is good for about 25 percent of China's trade with Africa and is involved in negotiations on free trade agreements. Such agreements have been concluded already with a number of other African countries.

The Forum on China-Africa cooperation in 2006 in Beijing consolidated plans to continue cooperating in all areas of trade and development. A number of Bilateral Investment Treaties (BITs) were concluded with African countries and lower tariffs for products exported from Africa to China were promised (Berger, 2008).[5] Broadman (2007: 37) notes that high Asian tariff rates on some African products discouraged African exports. China has already introduced a zero tariff on 45 percent of its imports and plans to further lower its tariffs by the end of 2007.[6] At the same occasion in Beijing, China promised to boost trade access for the poorest and least developed African countries by raising the number of their export items that receive zero-tariff treatment. In the three-year action plan, China promised to reduce tariffs on selected African imports, to create more favorable access to China's big market for African countries. All tariffs for Least Developed Countries (LDCs) would eventually be reduced to zero, just like the EU does already with respect to LDCs.

According to the China Daily (14 November, 2007) the number of duty-free product lines has grown in 2007 to 454. Trade is supposed to contribute to the development of a country, but there are all kinds of evidence that Chinese companies are also engaged in the illegal export of tropical timber from Africa and that they are not always complying with local labor and environmental standards, for example in Congo (see Chapter 8). Unrest in the copper mine in Zambia (Chapter 6) owned by the Chinese has been documented, while labor problems have also been reported in Chinese textile factories in Mauritius. These labor issues have been researched and documented by the International Labour Organisation (www.ilo.org).

China's goal is to create Free Trade Areas (FTAs) with African countries. This intention is modeled on the European approach of signing Economic Partnership Agreements (EPAs). In Box 5.1 the trade incentives promised by China to African countries are summarized.

Box 5.1 Trade incentives promised by China to African countries

China promised that import tariffs for products from Africa would be reduced. The number of products for which the zero tariff applies will be increased from 190 to 440. This would make it easier for Africa to export to China. In return the country also wants better access to the markets of these African countries. Finally, China wants to apply the reciprocity required by the WTO and this is one of the reasons for the EU to negotiate the Economic Partnership Agreements (EPAs) with its ACP partners. China promised to help to develop Free Trade Areas (FTAs), where a very low, or no import tariff applies. This idea of reaching an agreement with different Free Trade Areas is a model inspired by the European EPA policy.

In January 2005, the Multi Fibre Agreement (MFA) ended. It limited exports of textile and garments from developing countries to developed countries by imposing quotas (Van Dijk and Sideri, eds, 1996). We knew twelve years in advance that the MFA would run out, but China was one of the few countries anticipating this event by investing heavily in its local production capacity. Earlier Chinese companies had invested in textiles and garments industries in several African countries, which did not use up the textiles export quotas to which they were entitled under the Multi Fibre Agreement (MFA). By the first of January 2005 these factories were no longer needed, and China produced and exported as much textile and garments as it could produce in China and exported them directly to Europe and the US. The results were devastating for some African countries and the markets in Europe and the United States were flooded with Chinese textiles and garments (see Box 5.2).

Box 5.2 China's role in Africa's textile sector decline

The Chinese investments in the textiles and garments sector paid off in 2005. As a result, the export of cotton T-shirts from China to the US, for example, increased 1573 percent (almost sixteen times: The Economist, 28 May, 2005). However, it was not broadly known that before 2005 a lot of these Chinese T-shirts and other garments came from Chinese factories located in African countries, benefiting from the non-used quota of these countries or the duty-free exports to Europe under the Lomé agreement between Europe and the so-called ACP countries. This was one of the bizarre consequences of the MFA.

Source: Van Dijk (2005)

The US and Europe started to realize in April 2005 that something needed to be done. Interestingly, the US and Europe did not emphasize the impact of Chinese textiles exports on their own textile industry (the US had lost a million jobs in this sector since the Second World War; The Economist, 25 May, 2005). They stated that other developing countries in Latin America (according to the US) and in Africa or in Eastern Europe and the Mediterranean Sea area (according to Europe) suffered from these Chinese exports.

European trade policies

Europe already had favorable trade policies in place for its former colonies in the 1960s. A number of agreements defined, among other subjects, the trade relations between the EU and its former colonies. They gave African countries almost unlimited access to the European market, except for certain agricultural products.[7]

Because of the substantial subsidies the EU provides to its farmers it is difficult, however, to compete with agricultural products grown in Europe.[8] Furthermore, the diminishing of subsidies on agriculture by the EU has become negotiable in the current WTO Millennium round, but much depends on the willingness of France to expose its farmers to world market prices and to wean them off subsidies from Brussels.[9] It is not so much the fact that the burden of the subsidies are not sustainable for the EU, but the high world market prices for agricultural products in 2008 contributed to the willingness to review the current system.

Also tariffs for agro-industrial products tended to be higher than the tariffs for raw materials. These agreements did not require reciprocity (providing the same treatment to European exports), while that is one of the fundamental principles of international trade agreements, such as the ones concluded by the World Trade Organization (WTO). So far the EU has managed to get a waiver for its agreements, but since 2000 it has felt the need to make them compatible with the WTO rules. Finally, the EU rules of origin are quite complicated and restrictive.

Already the proposal for the Cotonou convention has admitted "the impact and relevance of the Lomé preferences (its predecessor) have been insufficient to generate a real dynamic" (Van Dijk, 1997). Hence the EU argues in favor of the negotiation of regional or subregional economic cooperation and partnership agreements linked to the overall EU-ACP partnership agreement. The ultimate objective would be to establish Economic Partnership Agreements to increase trade and investments with each of the three ACP regions: Africa, the Caribbean and the Pacific. The first stage of this gradual process would be to negotiate economic cooperation agreements with regional subgroups involved in integration processes, such as the Southern African Development Community (SADC) and the East African Community (EAC). These agreements would include preferential trade arrangements with reciprocity gradually introduced for all ACP countries or groupings, "taking account of the criteria laid down by the European Council concerning such issues as compatibility with WTO rules". The guidelines (EU, 1997) stress the importance of introducing geographical differentiation rather than continuing to deal with the ACP countries as a single block. In the meantime, the EU would offer technical assistance to the ACP countries to allow them to adjust gradually to the rules of international trade and to allow gradual integration in the multilateral trade system. This includes the development of their trading capacities and their ability to attract domestic and foreign investment.

Subsequently, the EU went for negotiating Economic Partnership Agreements (EPAs) with its former colonies in Africa, which are WTO compatible and are based on reciprocity (Van Hoestenberghe and Van Dijk, 2007). The

EU had to change from a Lomé type of agreement to EPAs because the WTO would no longer accept such an agreement, which violates one of the basic principles of trade agreements: what you allow one partner should be allowed to all partners.

The signing of the EPA during an EU Africa summit in Portugal in December 2007 was not without problems. President Wade from Senegal emphasized that Europe is competing with China and that China is a very attractive partner for Africa. He gave two examples. In the first place, the decision to undertake a project would be much shorter when dealing with China than when trying to reach agreement with, for example, the World Bank. Secondly, Wade noted that for the same money Africa could buy two cars in China but only one in Europe. In the end, a limited number of blocks of countries signed and in most cases interim trade agreements were concluded. By the time of the summit, thirteen African countries had signed such interim arrangements (Africa Renewal, January 2008), while the Caribbean countries signed as a block (Trade Negotiations Insights, Vol. 8, No. 1, February 2009). The first kind of agreements are also called EPA light (like those Ghana has signed), while the Caricom agreement is a full EPA. Some described the Lisbon meeting as chaotic and consider that the EPA process is in disarray. Dates have been fixed for further negotiations, but the original deadline has not been achieved for most countries. The gist of the EPAs is summarized in Box 5.3.

Box 5.3 Why Economic Partnership Agreements (EPAs)?

Economic Partnership Agreements (EPA) are the European Union (EU) continuation of the Lomé agreement (later the Cotonou agreement). The EPAs have three new elements:

1. They are between trade blocks, rather than individual countries, although article 37-38 of the Cotonou agreement also allows individual member states to sign an EPA
2. They include reciprocity; EU products should also get free access to the countries in the specific trade block that have signed the agreement
3. For a number of products, African countries have negotiated a period of transition (de facto protection) to allow them to first become more competitive.

The issue is not just tariffs, but also the stringent non-tariff barriers of the EU, such as phyto-sanitary requirements and the so-called tracing requirements, which make it necessary to be able always to track a product to its origin and which makes exporting more difficult for developing countries. Many Third World activists consider that it is high time to do away with all subsidies in agriculture. However, such an agreement can only be achieved in multilateral negotiations, such as the current Doha (or Millennium) round of the WTO, which had come to a standstill in 2007 and does not seem to be moving again, because of the international financial crisis.[10]

Clearly not all actors in developing countries are positive about EPAs. In particular NGOs have criticized the EU over EPAs, questioning in particular to what extent this is a partnership? (The Citizen Tanzania, 14 December, 2007). NGOs consider EPAs a way to defend Europe's interests in its former colonies. Some arguments used are summarized in Box 5.4. Without signing the EPA, some countries lose duty-free access to the European market.

Box 5.4 Critique of NGOs on Economic Partnership Agreements

The editorial of the Zambian newspaper, Business Post (26 February, 2008), starts with the heading "EPAs will harm poor countries". It is suggested that China's ever growing trade with Africa has been a thorn in the flesh for the EU. The EPAs would undermine the ACP countries' economic development and "end up perpetuating economic misery among their people". It explains that the EPAs entail opening up most of the African countries' local markets to goods produced at a lower cost in developed European countries. Secondly, the EPAs will decrease government revenue through loss of tariffs and "undermine the benefit of regional integration".

The editorial does not mention that the cheaper Chinese products are already available and that there are not that many products that Europe can produce more cheaply. It is true that the government will receive fewer duties from imported goods, but a lot of goods are currently smuggled into Zambia, which also does not result in import duties. Finally, it is not mentioned that consumers will get cheaper products and hence their purchasing power goes up.

Source: Business Post (Zambia) 26 February, 2008

The EU has also offered greater access to all least developed countries (LDCs) by leveling up trade preferences to match the best deal under the Lomé convention or the Generalized System of Preferences (GSP; EU, 1997).[11] This became the Everything But Arms (EBA) initiative to facilitate export to Europe by LDCs.[12] This special arrangement for the 50 least developed countries in the world allows these countries the most favorable treatment, granting duty-free and quota-free access to the European market, except for arms. Other countries might be prompted to invest in a LDC to export to the European market. Unfortunately, EBA has restrictive rules of origin and therefore is quite useless for many small countries, which need to work with other countries to obtain the parts necessary for a successful export product. Textiles are a case in point. If good quality threads need to be imported to produce quality export textile and garments the EU would not consider the final product as originating from the exporting ACP country and hence impose a tariff, despite EPA or EBA.

Although the EU is still the most important donor in Africa, it runs some important risks in its relation with Africa. In the first place it has not managed to get broad support for its EPAs. If some African countries continue to refuse to sign these agreements, or if these agreements will still be seen as negative for Africa, it could be that, in particular, the Chinese benefit. They offer similar relations and would like to use African countries to channel their products to Europe on favorable terms. The European market could hence be flooded if China exported on a large scale via Africa, using the low or zero duties that apply, under EPA or EBA.

The Financial Times (21 December, 2007) concluded on the EPA negotiations: "Too many ACPs remain obsessed with clinging to colonial-era trade access to Europe rather than liberalizing among themselves (and) The EU tried stuffing the deals with familiar excess baggage including rules on foreign investment, and used the threat of a less generous scheme to dragoon reluctant countries into signing".

American trade policies with respect to Africa

The US has a specific trade policy with respect to Africa, which is summarized as the African Growth and Opportunities Act (AGOA). This act envisages lower tariffs for exports from African countries. AGOA provides the opportunity to benefit from the US offer of free access to African products for the US market. This applies to quite a number of products. Similar to the EU, the US also offers developing countries through the African Growth and Opportunities Act (AGOA) almost totally free access to the American market. China cannot yet offer such favorable conditions (see Box 5.1). However, AGOA also has rules of origin and the US may exclude countries for political reasons. This is what happened to Zimbabwe, for example.

The AGOA provides incentives to invest in exporting industries in African countries. It makes exports to the US of African products much easier and attractive instead of exporting directly from, for example, China. In particular, the textiles and garments industries have benefited from AGOA. Unfortunately, a lot of the production capacity built up under AGOA was destroyed when the Multi Fibre Agreement ended in 2005 (see Box 5.2).

The EU and US trade policies still compare favorably to China

In Africa, the major superpowers (the US and the Soviet Union) used to compete with each other, for influence, raw materials, markets and political support. The US also always had to compete with Europe in Africa. Except for their African Growth and Opportunities Act (AGOA), which makes exports to the US much easier and attractive, the US does not provide as much development assistance to Africa as the EU. Now the Chinese are beating the US in this respect. However, in terms of investments the EU and the US are still more important than China in Africa and the EU still provides more aid than China, while the EU and the US also still have a lot of influence and goodwill in Africa.

Jacoby (2007) recommends that African states continue with trade liberalization and continue with the development of intra-regional trade and a further division of labor between African states. He expects they would benefit from cooperation with Chinese partners in overcoming market entry hurdles, given the Chinese success in entering Western markets. To maximize their investments from abroad they will have to create a level playing field. To maximize the benefits from Chinese projects, Sub-Saharan African countries should strive to provide more skilled local labor, thus raising employment. Jacoby (2007) adds that moving towards other forms of cooperation, such as joint ventures, promotes technology transfer and more sustainable relations.

Conclusions

The Economic Partnership Agreements (EPAs) failed to convince the ACP countries and only a limited number of countries signed them in Lisbon at the end of 2007. Many Europeans consider the EPAs to be beneficial for Africa. The argument in Europe seems to be: we allowed the continent independence; we gave it development aid, signed the Lomé and Cotonou agreements and are now forced by the WTO to go for EPAs. Many Europeans consider that the EPAs reflect the modern thinking on reciprocity in trade relations and often think it is time for African countries to also try to become competitive in the global economy.

Do the European Union and the United States also compare favorably to China in Africa as far as the trade policy is concerned? Table 5.1 summarizes the findings, noting that all three blocks comply with WTO rules, but have additional packages, such as EPA, AGOA and BITs. Wissenbach (2008) rightly remarks that the "success" of China in Africa does not necessarily mean it's at the expense of an erosion of European influence.

Table 5.1 Trade policies of the EU, US and China compared on major points

Indicator	Trade policies of the EU	Trade policies of the US	China's trade policy
Tariffs	Zero under EPA or EBA, but restrictive rules of origin	Free access to American markets for African products, but under certain conditions	High tariffs, except for 450 products, which have been exempted
Exceptions	Certain agricultural products[13] under EPA and arms under EBA	Certain countries can be excluded for political reasons	What has been agreed in the Bilateral Investment Treaties
Non-tariff barriers, including rules of origin and necessary health and safety controls	Some non-tariff barriers, like the so-called tracing requirements, which make it necessary to always be able to track a product to its origin	Not such complicated and restrictive rules of origin as the EU EPA. The rules of origin of EPA are less restrictive than for EBA	Exist but in compliance with WTO regulation
Reciprocity	Not under EBA, but eventually under EPA	No	Wants better access to markets of African countries in the future, similar to EPA

China has promised that eventually it will allow more products duty-free into the Chinese market. EPA and AGOA are in principle very favorable trade policies and China cannot match these market access conditions. Although the developing countries criticize the EU for its restrictive rules of origin and the necessary health and safety controls, they can currently usually continue to trade with Europe under the favorable EBA, even if the country has not signed EPA. China's trade policies are more restrictive than those of the US and EU, and it will take quite some time before they are as open towards Africa in trade terms as the US and the EU are through EPA and AGOA. The EU does not simultaneously open its markets for agricultural products from Africa. Hopefully that will happen in the framework of the Doha round of the WTO, when subsidies will be on the agenda.

Broadman (2006) argues that China's trade with Africa is about more than just raw materials. He is optimistic that this trade allows Africa to become a processor of raw materials and a competitive supplier of other goods and services. That would be a big change compared to the past, but the question is how much evidence Broadman can provide for these predictions. Recently some African economists complained that China just wants to get raw materials from Africa to sell manufactured products to the continent (IHT, 3 November, 2006). It reminded them of the colonial period.

Broadman (2007) notes three positive trends in the relations between China and Africa. First there is the prospect for more resource-based, value-added manufacturing exports to China; second, there is a prospect for broader participation in global value chains; and finally there is the diversity among African countries, which is a potential benefit in the case of further regional integration. The book by Broadman (2006) is interesting since he comes up with a number of recommendations to further balance the trade between Africa and China:

1. At-the-border reforms, such as elimination of China's (and India's) escalating tariffs on Africa's leading exports
2. Elimination of Africa's tariffs on certain inputs that make exports uncompetitive
3. Between-the-border improvements in trade facilitation mechanisms to decrease the transaction costs
4. Reforms that leverage linkages between investment and trade, to allow African businesses to participate in global production networks that investment by Chinese and Indian firms can generate.

These measures may work, but they will also benefit China. Hence it is certainly necessary to closely monitor the developments and research, to see to it that Africa really benefits from these trade policies as well.[14]

Notes

1 I wish to thank Maaike Galle and Karel van Hoestenberghe for their comments.

2 The GSP is a system of reduced tariffs for manufactured goods and processed agricultural products imported into the EU. The tariff cuts range from 15 percent to total exemptions.

3 The development of more uniform and flexible rules of origin may be more helpful than additional preferences to developing countries. Eurostep (1997) rightly argues in favor of simplified rules of origin and increased ceilings for import content to promote South-South trade, but the WTO seems to be the best forum to achieve this.

4 Neo-protectionism: the green protectionism in developed countries and imposing labor standards on developing countries.

5 Also the US seeks "trade insurance with bilateral pacts" (Financial Times, 22 March, 2006) and the EU does the same with Asian countries, because the multilateral agreements do not go far enough (NRC, 23 March, 2006).

6 All kinds of other barriers to trade can exist, such as technical barriers, the practice (versus the rules) of customs valuation, import licensing and rules of origin.

7 The negative external impact of the European Union's common agricultural policy is discussed in a separate chapter in Van Dijk and Sideri (eds, 1996).
8 In the early 1990s, Dutch non-governmental organizations (NGOs), jointly with other European NGOs, criticized the export of subsidized EU beef to West Africa. They successfully argued that West African countries should export meat instead of importing subsidized European meat via an Abidjan slaughterhouse built with support of the EU to export Sahelian meat.
9 The competence of the WTO has been extended to new areas such as agriculture, services, trade-related intellectual property rights (TRIPs) and trade-related investment measures (TRIMs).
10 A lot will depend on Europe's willingness to give in as far as protecting agriculture is concerned.
11 At the Ministerial conference of the WTO in Singapore in December 1996, an agreement was reached on the principle of providing a zero tariff for exports from Least Developed Countries.
12 It is based on the generalised system of preferences (GSP 2009-2011), which agrees to important trade preferences for developing countries. GSP is an autonomous trade arrangement through which the EU provides non-reciprocal preferential access to the EU market to 176 developing countries or territories.
13 In particular beef, rum, cocoa and bananas.
14 A series of seminars and publications can help to assess the results of China's presence in Africa over time. Some of the contributions in this book were discussed during seminars of the EADI working group on industrial development, in particular Chapters 1, 2, 6 and 9.

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Part III

Case studies

6 State-driven Chinese investments in Zambia: Combining strategic interests and profits

Anders Bastholm and Peter Kragelund[1]

Introduction

The meeting in November 2006 of 48 African leaders gathered in Beijing, together with their Chinese hosts, President Hu Jintao and Premier Wen Jiabao, to inaugurate the 3rd Forum on China-Africa Cooperation (FOCAC) marked the zenith of Sino-African cooperation. It followed the dramatically intensified political and economic interactions between China and African countries. Figures on trade, aid and investment are increasing rapidly and political ties are growing stronger, as are personal ties between the political elites of China and Africa. This relationship is of immense significance for Africa's political and economic development; and naturally, both media and scholarly attention on the topic is growing.

While overall Foreign Direct Investment (FDI)[2] into Africa is relatively modest (Asiedu, 2004), Chinese FDI to Africa is growing at a very fast pace: China is currently the third most important investor in Africa, and African expectations for the future are high. A recent survey amongst national investment promotion agencies in several African countries ranked China as the third most important future investor after South Africa and the United States (US) (UNCTAD, 2005). In a decade, Chinese FDI stock in Africa has increased almost five times – from approximately 260 million US$ in 1995 to 1250 million US$ in 2006 (Chapter 3). The Beijing Action Plan 2007-2009, the immediate result of the FOCAC, along with China's Africa Policy (from 2006) lays the foundation for strengthening the relationship between China and African countries in the future. In particular, trade and FDI figures are likely to continue growing rapidly, underpinned by political initiatives like, for example, the creation of three to five Economic Trade and Cooperation Zones in Africa; the establishment of the China-Africa Development Fund of five billion US$ to support Chinese investors in Africa; and the provision of a zero-tariff treatment on a large range of African goods.

The purpose of this chapter is to go beyond the all-encompassing type analyses that have characterized most recent writing on the Sino-African relationship. Instead, we take a closer look at one particular aspect of this complex and multifaceted issue, namely Chinese FDI in one African country. This chapter focuses on the ability of the Chinese state to create advantages for Chinese companies that invest in Africa. It seeks to increase our knowledge of the international as well as the local dynamics of Chinese investments in Africa, and heighten our understanding of the terms on which Chinese companies operate in the African context. We use Zambia as a case and scrutinize Chinese investments here and the conditions under which they take place.[3]

FDI is important in the capital formation process in Africa. In fact, external finance currently dominates the majority of African economies, and FDI is a growing source of external finance. Proponents of FDI argue that FDI creates employment, facilitates technology transfer, and improves competitiveness. It should be noted though, that FDI is by no means by definition positive for development. Rather, the developmental effects of FDI are ambiguous, depending on factors such as the motive of FDI, the strategies, the time, and the local absorption capacity (Kragelund, 2007). In order to further our understanding of the consequences of China's FDI in Africa we need first to scrutinize the specific mechanisms and strategies of these investments.

Zambia has been chosen as a case for several reasons: China has been present in Zambia since independence in 1964; Zambia is the third most important destination of Chinese FDI in Africa (Lafargue, 2005) and, next to South Africa, Zambia is the most important destination for Chinese non-oil investments in Africa. Chinese companies invest in practically all sectors of the Zambian economy; to date, more than 200 Chinese companies have invested in Zambia; and the stock of Chinese investment reached 570 million US$ in 2006.[4] These figures are likely to increase significantly as President Hu Jintao, during a visit to Zambia in February 2007, pledged Chinese FDI of 800 million US$ for Zambia.

This chapter is structured as follows. Section two sets out to build a framework to understand why and how Chinese companies invest in Zambia. It departs from the eclectic paradigm and stresses the importance of both home and host factors as well as the institutional context for FDI. This set of theories, however, is criticized for not taking the role of the state into account. Therefore, inspiration is drawn from the literature on transnational corporations (TNC) from emerging economies in order to further our understanding of the specific nature of Chinese FDI. Section three pinpoints the strategic importance of outward FDI (OFDI) for China. While section four provides an overview of Chinese investments in Zambia, section five illustrates how the Chinese state supports Chinese investors in Zambia. Sections six to eight describe Chinese investments in three key sectors of the Zambian economy: mining, construction, and agriculture. Based on these cases, section nine takes a fresh look at the motives for Chinese FDI in Zambia and how the Chinese state facilitates these investments.

Understanding Foreign Direct Investments – bringing the state back in

Among the most widely used approaches to account for companies' internationalization patterns is Dunning's eclectic paradigm, which seeks to enable an analysis of the determinants of FDI by paying attention to firm-internal as well as firm-external factors (Dunning, 2001, 1993). The paradigm conceptualizes a company's decision to invest abroad according to advantages that relate to firm-specific advantages internal to the firm (ownership-advantages (O)); to immobile production advantages (location-advantages (L)), which in combination with the O-advantages, determine where a company invests; and to advantages of choosing a specific organizational setup in a certain setting (internalization-advantages (I)). The OLI-model, as it is named, alongside the investment development path (IDP) hypothesis, which connects a home country's structural features (especially economic development) with patterns of outward FDI (OFDI), form the two central components of the eclectic paradigm.

The relative significance of explanatory factors pertaining to FDI varies with the specific context and scale of analysis. Therefore, the eclectic paradigm should be perceived as a conceptual toolbox from which researchers can pick the most useful tools. The advantages of the paradigm are that it emphasizes the interplay between individual firms and locations, and thus pays attention to the influence of the host – as well as the home country upon flows of FDI. Thereby, the paradigm hits at why companies internationalize. Using Dunning's paradigm, FDI can be categorized into different types, according to investment motives. The four types are: resource-seeking FDI (e.g. access to natural resources); market-seeking FDI (e.g. expand sales in an external market); efficiency-seeking FDI (e.g. increase productivity by localizing production in a host country with low labor costs), and strategic asset-seeking FDI (e.g. internalize strategic assets of other companies, such as technology and management skills) (UNCTAD, 2006).

The eclectic paradigm was constructed largely upon the basis of examples of the internalization process of ideal-type, profit-maximizing (private) Anglo-Saxon TNCs. Only recently it was adapted and applied to an emerging economy context. Therefore, it has been criticized for not taking into account the specific characteristics of TNCs from emerging and transitional economies, stemming from their home-economy contexts (Goldstein, 2007). Based partly on this critique, a large and growing literature has emerged, which seeks to explain the specific phenomenon of emerging economies' OFDI.

The literature of FDI from emerging countries can be divided into two phases. The first relates to the emergence of Third World multinationals, which first gained scholarly attention in the 1970s, and the second relates to the current focus on global top-TNCs from emerging economies. While none of them specifically relates to Chinese OFDI in Africa, they both offer valuable insights into the nature of the internationalization pattern of Chinese enterprises and thereby, also of Chinese OFDI.

The first wave of literature focused on the specific characteristics of companies from non-industrialized countries that operated outside their country of origin. In general, these companies were perceived both as an engine of growth in their home economies and as an effective device to boost South-South cooperation and, thereby, pave the way for an alternative development path. However, this literature stereotyped these companies – often in contrast to traditional TNCs. Thereby, many studies missed out the variety and complexity of the companies (Yeung, 1994).

Notwithstanding this critique, a number of characteristics emerge from the literature. To begin with, this so-called first wave of Emerging TNCs (ETNC) is perceived as a result of market restrictions and export difficulties in the home countries (Mathews, 2006; Yeung, 1999). They were, in other words, pushed to internationalize. In addition, they showed a high degree of geographical proximity, and their comparative advantage was perceived to relate to their ability to minimize economic risks due to ethnic and cultural affiliations between home- and host nations; to their ability to adapt products and processes to local needs; and to their concentration on low-price products. Of particular interest to the study of Chinese OFDI, is Aggarwal and Agmon's (1990) study that highlighted the important (and changing) role of the state to direct and support ETNCs in their internationalization process.

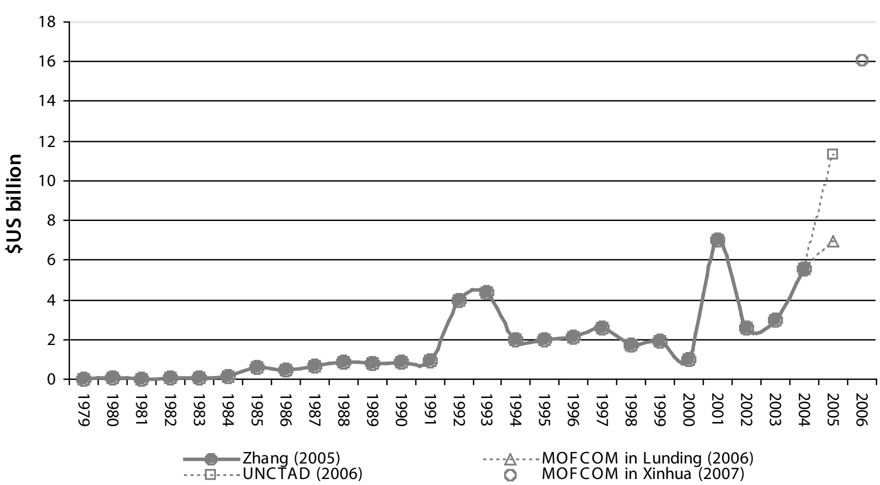
Linked to this, another strand of literature also places emphasis on the active role of the state in the internationalization process. Herein, it is argued that the state has vested interests in the emergence and growth of OFDI from domestic firms as part of the process of the wider national economic development. Not only firms are competing, nation-states are also competing for shares in the world market (Porter, 1990). Therefore, the state, by means of policies; government agencies; and state-owned financial institutions, may play a significant and central role in supporting and shaping the stream of OFDI emerging from their home economy, as is evidently seen in the case of the developmental states of East Asia (Woo-Cumings, 1999).

The second wave of literature on ETNCs departs from the identification of several ETNCs among the global top-500 TNCs. It pays particular attention to the facts and figures of the global top-ETNCs (Goldstein, 2007). Compared to the first wave of ETNCs that were pushed to internationalize, this second wave is pulled to internationalize in order to leverage resources by linking up to firms abroad (Mathews, 2006).

Chinese outward FDI and the role of state policies

Before Deng Xiaoping initiated political and economic reforms in the late 1970s, Chinese OFDI was virtually non-existent. Overseas investments only took place as part of government-sponsored development assistance projects or were intended to facilitate trade. However as a consequence of the changing political discourse in China *vis-à-vis* the outside world, the Chinese State Council passed legislation in August 1979 allowing specific state-owned companies to invest overseas (Lunding, 2006). This political change became the starting point for emerging Chinese OFDI, and, together with the sustained economic growth of the past three decades, it provided the basis for both the emergence and growth of Chinese OFDI.

Figure 6.1 Chinese OFDI flows 1979-2006



However, as depicted in Figure 6.1[5], the reforms did not lead to immediate growth in OFDI. Rather, Chinese OFDI, being limited to certain types of companies, was an insignificant foreign economic activity for many years. Only from the mid-1980s, when the government initiated a liberalization process and allowed other types of Chinese companies to invest overseas, Chinese OFDI took off. In 1992, internationalization of Chinese enterprises was incorporated in the national economic policy (Buckley et al., 2007). Following this, private Chinese enterprises also began to invest overseas (Wu and Chen, 2001). This resulted in an immediate rise in OFDI, as depicted in Figure 6.1. Most OFDI went to nearby Hong Kong where Chinese investors speculated in the real estate and stock markets. This led the Chinese state to tighten up the screening and approval procedures for OFDI (Zhang, 2005). Figure 6.1 also shows the effects of the 1997 Asian financial crisis, which resulted in a general slow-down of Chinese OFDI. Then, in 2001, with the approval of the "Go Out" policy[6] (see below) this tendency was reversed and Chinese ODFI has since grown considerably. If the latest (and highest) figure, reported in Xinhua (2007), is to be believed, China is currently ranked thirteenth on a global scale in terms of OFDI flows with an estimated flow of 16.1 billion US$ in 2006, and a total stock of 73.3 billion US$.

Various factors have contributed to the growth of Chinese OFDI. Economic growth in China in the past three decades has resulted in an accumulation of capital (the stock of foreign exchange reserves is currently surmounting 1.33 trillion US$); an increasing level of human capital; and increased learning amongst domestic firms as a result of "spill-over" effects from inward FDI. Besides the range of economic growth-related factors influencing Chinese OFDI, the Chinese state and its institutions also wield significant influence over Chinese OFDI.

Chinese OFDI originates in a home-economy context with a high degree of political control and with a long tradition of central planning. Hence, Chinese OFDI is still predominantly undertaken by state-owned enterprises (SOEs) (Wu and Chen 2001; Buckley et al., 2007; Woo and Zhang, 2006). These SOEs are instruments of Chinese foreign policy, and the central government plays a determining role in directing FDI activities of the SOEs. Various domestic and international motives for Chinese OFDI have been outlined: Chinese companies are urged to invest overseas in order to get access to new markets as China's industrial capacity in many industries now exceeds the domestic demand; OFDI is used as a means to secure supply of natural resources; OFDI has also been used to circumvent import quotas; to convey technological and managerial capabilities into the Chinese economy from more advanced economies; and lastly to pursue political goals (Wang, 2002).

The so-called "Go Out" policy in China reduced red tape to make procedures more OFDI-friendly. It entitles certain firms to tax incentives, cheap loans, direct or indirect subsidies; and various types of support from state institutions in China and in host-country contexts. In spite of this policy, and in spite of the most recent developments towards streamlining the approval process of investing abroad, Chinese OFDI flows are still restricted and controlled by means of highly bureaucratic application and approval procedures (Sauvant, 2005). The Chinese state, thereby, selectively creates various advantages and disadvantages respectively for domestic firms in accordance with the interests of the state.

Currently the bulk of Chinese OFDI targets nearby countries in Asia, but compared to the size of the host economies, African countries are indeed very important. The total amount of Chinese OFDI to Africa is unclear: data are deficient and different sources mention different figures. Nevertheless, there is no doubt that OFDI to Africa during the 1990s increased, but the importance of Africa in total OFDI sometimes appears exaggerated. Wong and Chan (2003: Figure 6.2), for instance, report that while only 4 percent of Chinese OFDI went to Africa in 1991, this figure increased to 16 percent in 2001. This trend contrasts to other, more recent studies (Schüller and Turner, 2005).

The growing importance of Africa for Chinese companies is shown by the numbers (more than 80 in 1988 and 900 in 2006) and the increased FDI stock (from 54 million US$ in 1992 to 1,250 million US$ in 2006). In less than two decades the number of Chinese enterprises in Africa has increased more than eleven times and the stock of Chinese FDI has increased 23 times in less than fifteen years. Moreover, the growing importance of smaller (partly private) Chinese investments in Africa can be noticed. While the average size of investments in the year 2000 was almost two million US$, this figure decreased to approximately 1.4 million US$ in 2006. Hence, even though Chinese investments in the oil sector get the lion's share of public and academic coverage, Chinese OFDI increasingly dominates investments in all sectors. Zambia is an excellent case to study these non-oil investments. Chinese companies have been present in Zambia since Zambia's independence and Chinese OFDI targets basically all sectors of the economy.

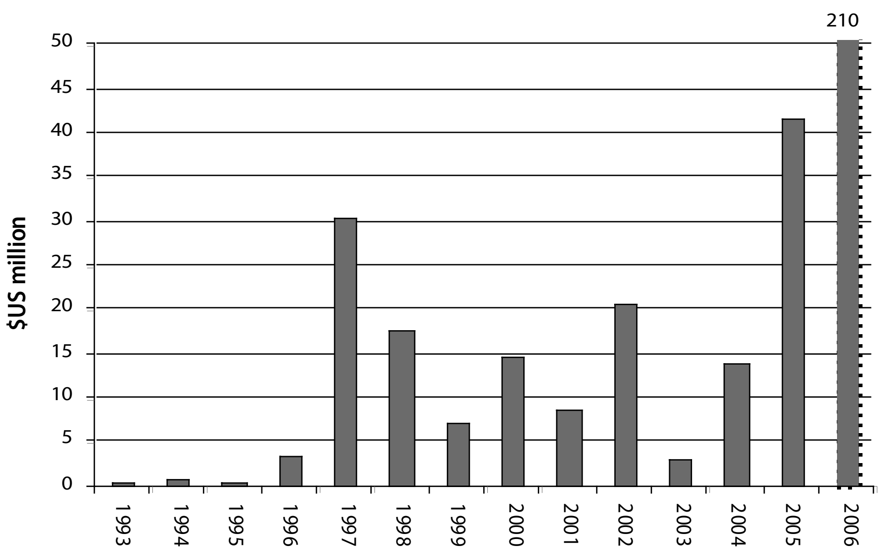
Chinese investments in Zambia

China has invested in Zambia since the country, as the first Southern African nation, established diplomatic ties with China immediately after independence in 1964. The first Chinese investments in Zambia materialized in the form of development aid, and since then, China has undertaken at least 35 development projects in Zambia. During the past decade Chinese investments have changed. By the end of 2006 a total of 200 Chinese companies and FDI stock of more than 570 million US$ was recorded by the Chinese Centre for Investment Promotion and Trade (CCIPT). These investments are characterized by a combination of political and economic interests. But the historical friendship is still an important factor for contemporary Chinese investments in Zambia. Kenneth Kaunda, the first president of Zambia, describes it like this:

> The Chinese investments in Zambia today are different than the investments of the 1960s and 70s – today there is a lot of economic interest (...) [but] I believe that, even today, the history of political friendship between Zambia and China plays a very important role for Chinese investments in Zambia.[7]

Figure 6.2 depicts the development of Chinese investments in Zambia from 1993 to 2006. The numbers represent the amounts registered in investment licenses with the Zambia Investment Centre (ZIC) and thus only provide a rough approximation of real investment figures.[8]

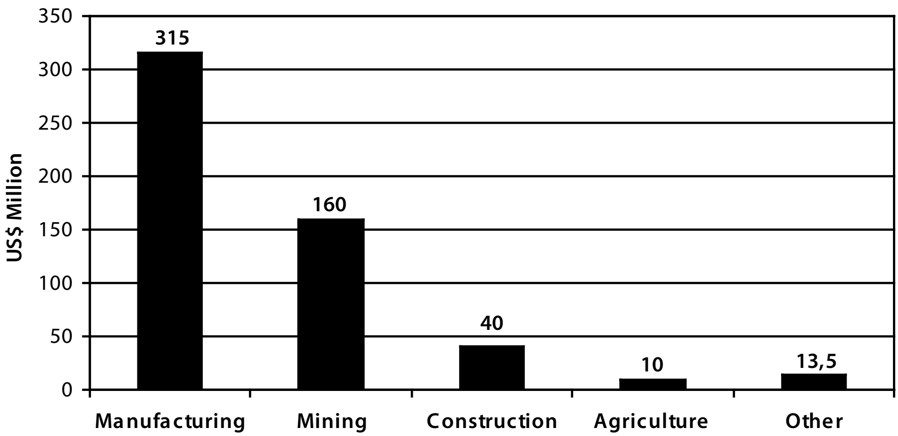
Figure 6.2 Approved Chinese FDI licenses in Zambia 1993–2006



It should be noted though, that the largest Chinese investment in Zambia ever, namely the 200 million US$ Chambishi Copper Smelter, which caused total registered licenses in manufacturing to reach 210 million US$ in 2006, cannot be represented properly within the range of the graph. Moreover, the second largest

Chinese investment in Zambia (the 150 million US$ investment in the Chambishi Copper Mine) is not included in the figure, because this investment was licensed by the Ministry of Mines and Minerals Development and not by ZIC.

Figure 6.3 Distribution of Chinese FDI: the four largest sectors



Even though the Chambishi mine is not registered by ZIC it is included in Figure 6.3, which depicts the sectoral distribution of Chinese investments in Zambia. A large proportion of the value invested in the manufacturing sector (approximately 230 million US$) is closely related to mining activities. The Chambishi mine along with the Chambishi Copper Smelter and Sino-Metals Leach and Acid Products Zambia Ltd., which constitute our mining case, make up more than 60 percent of all Chinese investments in Zambia and they are all subsidiaries of the same Chinese state-led group: the China Nonferrous Metal Mining (Group) Co. Ltd. (CNMC). There are six other Chinese mining investments in Zambia, but these are considerably smaller, below five million US$ each.

Twenty Chinese companies were operating in the construction sector in Zambia in 2006; all of them established in the past ten to fifteen years. Until recently, most of them were state-owned, but the rise of private companies in China has influenced ownership configurations overseas. The Centre for Chinese Studies (2006: 55ff) asserts that half of the Chinese construction companies in Zambia in 2006 were privately owned.[9] Among the Chinese construction companies in Zambia are the large SOE, China Jiangxi Corporation (CJC), and the smaller privately owned company, Zamchin Construction (ZC). CJC is one of the three largest Chinese construction companies in Zambia and has invested six million US$ since 1995, while the ZC, founded in 1998, made an initial investment of around 400,000 US$. Together the two construction companies, which constitute our construction case, form 16 percent of Chinese investments in the Zambian construction sector.

In the agricultural sector, the largest Chinese player is the state-owned China State Farms Agribusiness Corporation (Group) Co. Ltd (CSFAC). CSFAC owns three farms in Zambia, the China Zambia Friendship farm, Jhonken Friendship Farm, and Jhonken Estates. The three investments of CSFAC, which constitute our agricultural case, amount to 2.9 million US$, constituting almost a third of Chinese agricultural sector investments in Zambia.

The Chinese state and Chinese investments in Zambia

The Chinese state backs Chinese investments in Zambia via different channels and at different scales. At the highest political level, the Chinese government lends its support to Chinese investors by means of the FOCAC as well as by paying official state visits to the country.[10] At this level, negotiations concerning Chinese development assistance and investments take place, and Chinese leaders use their authority and access to the Zambian political elite to positively influence the conditions for Chinese investments in Zambia. The relationship between the Chinese government and the Zambian ruling party, Movement for Multiparty Democracy (MMD), is very close. The Chinese government openly supports MMD, both financially and rhetorically.[11] The close and personalized linkages between the Chinese central government (along with its representatives in Zambia at the Chinese embassy) and the Zambian political elite provide the Chinese investors with a very direct channel of communication with the Zambian authorities that may facilitate advantageous investment terms *vis-à-vis* other investors.

Support from the Chinese central government produces a range of more concrete supportive measures in Zambia, in the form of four central organizations set up at the request of the Chinese state to support the Chinese investors in their day-to-day activities, namely the Chinese Embassy, the Association of Chinese Corporations in Zambia (ACCZ), the CCIPT, and the Zambian branch of Bank of China (BOC).

The Chinese Embassy, and specifically the Economic Counsellor's Office, is the most important contact for Chinese investors in Zambia. Here, investors get advice on investment options and crucial support to establish contacts with Zambian authorities and the Zambian elite. The Embassy is the extended arm of the Chinese political leadership and it is directly involved in investment negotiations.

The ACCZ, established in 2005, functions as the Chinese Chamber of Commerce in Zambia with around 60 Chinese member companies. ACCZ was established by political decree of MOFCOM (which also funds it), and falls directly under the authority of the Economic Counsellor's Office in Zambia (with the Economic Counsellor himself presiding over the organization and hand-picking the members of the board amongst the senior management staff of the larger Chinese companies in Zambia). ACCZ takes care of the interests of the Chinese companies both *vis-à-vis* the Zambian public and the Zambian authorities, communicating and promoting the cause of the Chinese investors directly with local authorities and indirectly through public media. ACCZ also educates its members in the rules and regulations of Zambia and handles immigration and labor cases for Chinese companies on behalf of the Chinese Embassy.

The CCIPT, like the ACCZ, is a parastatal organization established in 2002 upon the request of MOFCOM.[12] The primary function of CCIPT is to identify suitable investment options, provide practical support (in the form of accommodation, transport and communication), and facilitate contacts with relevant Zambian authorities for potential or newly arrived Chinese investors.[13]

The last supportive institution in place in Zambia, the BOC Zambia branch, is different from the other institutions as it is not a political organization or institution *per se*. Rather, BOC is a state-owned commercial bank. In the Zambian context, however, BOC's investment is strictly political and entirely non-commercial. This first Chinese bank in Sub-Saharan Africa was established in Zambia by political decree of then vice-premier Zhu Rongji in 1997 with the purpose of facilitating operations of Chinese investors in Zambia. Since it was established ten years ago, BOC has made no profit. BOC is not in Zambia to make profit but to facilitate the day-to-day activities of Chinese companies in Zambia. According to Mr. Zhu, the manager of BOC Zambia, all Chinese investors in Zambia use BOC for daily banking operations and for transferring money to and from China.[14] BOC, thus, is a strategic investment that considerably reduces the difficulties of Chinese investors to manage their banking affairs in a foreign context.

Another concrete outcome of the Chinese state's policy is the opening of the Zambia-China Economic and Trade Cooperation Zone. Hu Jintao was partaking directly in the negotiations over the coming investments in the newly established economic zone, which is situated around the Chambishi mine in the Copperbelt. This zone is the first of three to five exclusively Chinese Economic and Trade Cooperation Zones that, according to the Beijing Action Plan 2007-2009, is to be established in African countries before the end of 2009. This zone will benefit CNMC, which has been assigned by the Chinese government to manage the zone. The aim is to build a production chain centered around CNMC's key enterprises and to create an export hub for locally produced Chinese products to the Southern African region. The Chinese government will strongly support investments in the zone via cheap financial packages, through state-owned banks, and by Chinese development assistance and Hu Jintao pledged a total of 800 million US$ in investments over the next three years.

Chinese FDI in mining

The mining sector is of economic and political importance in both Zambia and China: Zambia is Africa's leading copper producer – the copper mines in Zambia produce almost 60 percent of Africa's copper and copper exports constitute 40 percent of Zambia's total exports. By contrast, China is the world's largest copper consumer – in 2005, it accounted for more than one-fourth of the world consumption, and demand is increasing rapidly. Meanwhile, China's copper production is increasing at a much slower rate and the average grade of ore is very low (between 0.4 to 0.6 percent). China therefore imports large volumes of copper, and Zambia and Chile are the most important suppliers (Streifel, 2006; Hilson and Haselip, 2004; Goldstein et al., 2006; AMM, 2002).

A combination of rapidly growing demand for copper (especially from China and to a lesser degree from, for example, India), falling stocks, and the effect of earlier capacity closures when prices were low, has caused international copper prices to rise rapidly, reaching record nominal highs in 2006 (Africa Research Bulletin, 2006b). Moreover, numerous strikes, technical problems, and lower ore grades have been reported in the most important sourcing countries. Increasing prices and local problems have triggered massive Chinese OFDI in the mining sector in order for Chinese companies to gain a better control of its external resource supply.

The privatization of the Zambian mining sector in the 1990s, set in motion by the international financial institutions, rendered this process possible in Zambia. Among the mines that were privatized was the relatively small Chambishi mine. NFC Africa (a subsidiary of CNMC) bought an 85 percent share of the almost dormant mine for twenty million US$ in June 1998. Chambishi mine is China's first and largest overseas nonferrous metal mine and since the acquisition of the shares the Chinese group has invested a total of 150 million US$ to restore the mine back into production, which happened in 2003. The purchase of the Chambishi mine gives China control over considerable copper resources; the Chambishi mine still only produces between 5 and 10 percent of Zambia's total annual copper output (55,000 tonnes copper concentrates).

Since the initial investment by CNMC, the SOE has invested in two other copper-related productive facilities: the Chambishi Copper Smelter (jointly owned by CNMC, with a 60 percent share, and the parastatal Yunnan Copper Industrial Group) and the Sino-Metals leach plant (where CNMC holds a 70 percent share; and state-owned China Hainan Sino-Africa Mining Investment Ltd. holds a 30 percent share). The construction of the copper smelter is intended to release NFC Africa from its dependence on the South African smelting company Transmine, which purchases around 40,000 tonnes of the produced copper concentrate. The last 15,000 tonnes are sold directly to China, but when the copper smelter came into operation in 2008, CNMC and its partners gained full control of the copper production chain and will export the refined copper directly to China.

According to the management secretary of the NFC Africa, the company would most likely not have invested in Zambia without the support of the Chinese government. The parent company in China benefits from the investment policies and incentives of the Chinese government, and this spills over to the branch in Zambia. Among the most important advantages are loans at favorable conditions in the Exim Bank (for the mine and the leaching plant) and the China Development Bank (for the copper smelter) and the political support on the Chinese diplomatic level. The establishment of the Economic and Trade Cooperation Zone for example is an outcome of the active diplomatic work of the Chinese government. The zone will give Chinese investors in Zambia favorable tax conditions and good infrastructure (provided by means of Chinese development assistance). Particularly, the CNMC will benefit from the zone, because CNMC intends to use it to diversify its economic activities to hedge for the future risk of falling copper prices. The purchase of the Chambishi mine is another example of Chinese diplomatic support playing a crucial role for Chinese investors. Ms Lin says:

> Chinese government officials paid a lot of attention to buying this mine. A lot of government officials were involved (…) The decision [to invest] was made in the CNMC headquarters in China in cooperation with the Chinese government (…) We have a lot of support from the Chinese government (…) I do not think CNMC would have invested in the Chambishi mine without the support from the Chinese government.

Chinese FDI in construction

The construction sector is also of economic importance to Zambia: it contributes greatly to GDP (approximately 9 percent in 2007); it is closely linked to the mining sector; it is dominated by locally owned companies – only a tiny share of the total of almost 1,300 registered construction companies in Zambia are foreign-owned;

it is very labor-intensive; and it is the backbone of the Zambian private sector in as much as it builds essential infrastructure for other sectors to operate (EIU, 2007; NCCZ, 2004). For China, OFDI in the construction sector is first and foremost perceived as an effective means to build closer relations with African governments – relations that, according to the Centre for Chinese Studies (2006), eventually may spur access to resources and increasing political influence. Moreover, ODFI in this sector also facilitates access to new technologies, access to new markets, and a gradual diversification of core competences in the Chinese companies.

The Zambian construction sector covers the building and maintenance of infrastructure such as roads, railways, airports, and bridges, as well as the construction of housing and other buildings. However, not all companies perform all types and scales of work. Rather, the industry structure is essentially dualistic. Large-scale construction projects in Zambia are donor- or government-financed. Competition for these projects first and foremost takes place among foreign companies in Zambia – not with domestic companies. Domestic small-scale construction companies, in contrast, are concerned with the delivery and maintenance of housing and infrastructure. In many cases they act as sub-suppliers for large-scale foreign companies supplying them with, for instance, timber, river sand, bricks, concrete, and steel products.

Lately, Chinese companies have won the bulk of the large-scale tenders in the construction sector in Zambia.[15] Unfortunately, hardly anything is known about the relationship between the Chinese construction companies and Chinese aid. According to the Centre for Chinese Studies (2006), the relationship is indeed very close. Recently, China awarded Zambia a 39 million US$ soft loan to reconstruct transport essential infrastructure (EIU, 2007: 21).

CJC, a Chinese SOE in the construction sector, saw investment and profit possibilities in Zambia and, via a combination of the company's own financial resources and cheap bank loans from Chinese state-owned banks, it established a branch in Zambia in 1995. Thereby, it became one of the first Chinese construction companies in Zambia. CJC Zambia's main customers are the World Bank, the African Development Bank, and the Zambian government, but it also does projects for the Chinese government and bids for tenders for projects related to development assistance from other donors. Competition, however, is increasing. Since the establishment of the branch in 1995 profit margins have dropped from an astonishing 50 percent to approximately 10 percent, but according to CJC's managing director, Mr. Fang, the Zambian market is still very attractive for Chinese construction companies. At least, "*The market in Zambia is still better than the market is now in China*".[16]

Favorable market conditions also led to the establishment of ZC, a privately-owned Chinese construction company in Zambia. In contrast to CJC, Mr. Liu, managing director of ZC, could not get loans from the Chinese government in order to finance his company. Instead, he had to raise capital through family and other personal networks in China.[17] ZC's main customer is the Zambian government. According to Mr. Liu, his company cannot take part in projects financed by Chinese development assistance "*... we don't have much chance for that as a private company (...) I think they just give it to parastatals*". Even though the company is not closely associated with the Chinese state through finance and development projects, it is still a product of the Chinese state's engagement in Zambia, because the managing director and his business partner previously worked for several years in a Chinese parastatal construction company in Zambia. Via the parastatal they gained sufficient experience and knowledge about the Zambian market, which enabled them to start their own business.

Today private Chinese investors can get more support than ZC got almost ten years ago, as the institutional setup of Economic Counsellor's Office, ACCZ and CCIPT, forms a more supportive setup towards private investors than the setup ten years ago.

Chinese FDI in agriculture

From the beginning of the 1960s until the late 1970s, China initiated several agricultural aid projects in Africa. These projects ranged from technical assistance, to fisheries and irrigation schemes (Eadie and Grizzell, 1979). What is most visible today, however, is that there are large-scale experimental farms, which were also established during these years. Initially, they were set up as aid projects, but alongside the general change in the relationship between China and Africa, agricultural cooperation also changed. Chinese farms in Africa today serve as both a mechanism to generate profits and as a safety valve for future food supply problems in China. China's then Vice-Minister of Foreign Affairs, Li Zhaoxing, declared in 2002 that, "*China will make agricultural cooperation with Africa a key area of cooperation in the coming years*" (Peoples Daily, 2002).

Alongside China's rapid population growth, China has been able to increase its food supply by increasing the number and efficiency of its farms. Nevertheless, an upper limit to how much China can increase its food supply may be rapidly approaching. According to Kane and Serewicz (2001), Chinese food supply faces the double problem of industrialization and economic growth. The rapidly growing manufacturing sector in China puts pressure on arable land, and the rising economic prosperity among a large part of the Chinese population affects the diet towards more protein, i.e. more meat. Raising animals for food requires more land than growing crops for direct human consumption. Therefore, the Chinese food supply system has come under pressure, and according to Sanusha Naidu of the Centre for Chinese Studies, China is no longer "food independent" and the African agricultural sector is therefore becoming increasingly interesting for China (Hazelhurst, 2007).

The parastatal CSFAC owns three farms in Zambia. The most renowned is the oldest Chinese farm in Zambia: the China-Zambia Friendship Farm. The farm has been in Chinese hands since 1988, but the farm was not economically viable and CSFAC "saved" the loss-making farm by buying it in 1991, under the instruction of the Chinese Ministry of Agriculture.[18] Since then the parastatal has purchased another two farms in Zambia: the Jhonken Estates; and the Jhonken Friendship Farm. Together the farms mainly produce wheat, eggs, beef and pork for sale in the local Zambian market. None of the farms export any products, which according to the managers of the Friendship Farm and Jhonken Estates is because Zambia has a deficient production of agricultural food products and they both estimate that this situation will keep them from exporting anything for another five to ten years, due to the domestic market conditions. When asked directly about the prospects for exporting to China, the answer from Ms Li Li, managing director of Jhonken Estates, was: "*It is not possible to export to China, mainly because it is too far away and the agriculture there is doing very fine so there is no market*". The argument that China is investing in African agriculture in order to secure the food supply does therefore not apply in the short term in the case of Zambia, but it may still be a long-term political objective.

The Chinese Ministry of Agriculture is central to the investments of CSFAC. The three investments were all financed by loans obtained by the CSFAC headquarters from the Ministry of Agriculture in China. CSFAC's relations to the Ministry of Agriculture are very close since CSFAC was previously an integrated department of the Ministry.

The CSFAC farms are very likely to benefit from development assistance from the Chinese state in the form of the announced establishment of a large-scale agricultural demonstration centre (one of ten to be created in Africa, according to the Beijing Action Plan 2007-2009). The Ministry of Agriculture is furthermore pushing for more Chinese investments in the agricultural sector. Recently, it has sent a large delegation to Zambia to visit the existing CSFAC farms and identify new suitable locations for future investments. The number of Chinese agricultural investments in Zambia is growing. According to Ms Li Li:

> As far as I know there were only two Chinese farms in Zambia, when we invested in Jhonken Estates in 1994, but now I think there are more than twenty Chinese farms in Zambia – and still more are coming in.

The support from the Chinese state is of paramount importance for the existence of Chinese agriculture in Zambia, and of crucial importance for its further progress. Mr. Ma, assistant general manager at the Zambia-China Friendship Farm, formulates it this way:

> Some [agricultural] companies would be facing a very difficult and tough situation without the help from the Chinese government (...) if the government does nothing these farms will go ...may go bankrupt – it's quite possible. They would be in very big problems. (...) The government has to give us support otherwise we would be facing very difficult times.

The state as a driver of Chinese FDI – concluding remarks

China is often accused in the media of only putting Africa high on its agenda in order to secure vital resources for its own development process. Based on investment cases from three key sectors of Zambian economy, this reading of the motives for Chinese FDI to Africa contains both fact and fiction.

It is true that the lion's share of Chinese FDI to Zambia targets mining or mining-related activities. Conditions for these investments are negotiated at the highest possible political level and these investments are closely linked to other investments as well as to more charitable activities in Zambia. FDI in the mining sector is carried out by SOEs and is solely of a resource-seeking kind. Nevertheless, Chinese FDI to Zambia is not confined to mining: Chinese companies also invest in other sectors. Most are in some way mining-related, but some are not.

In the construction sector, all the large-scale Chinese companies are state-owned. They are in Zambia for two reasons: they serve as the extension of the Chinese state in Zambia in order to acquire natural resources and they gain international experience in a protected market. The smaller, privately owned companies, in the Zambian context, find a less competitive market with higher profits than in China. Even though they do not benefit directly from the Chinese state, they benefit indirectly by being part of a closely tied network of Chinese enterprises in Zambia.

In agriculture the Chinese investments are, according to official documents from China, of a charitable nature: China only invests in agriculture because African leaders highlight this specific area as being of utmost importance for African future development (Wu, 2006). No doubt, Chinese investments in the Zambian agricultural sector – also in a historical perspective – have been closely related to China's political objectives, i.e. to be perceived as the leading Third World nation; to gain support for its one China policy; and more recently, to gain access to copper. But today, Chinese companies in this sector also seek new markets, also looking at experiences in other African countries, they are also resource (i.e. land)-seeking investments. FDI in this sector thus serves several purposes. It serves the overall strategy of strengthening political ties; it is part of a plan to guarantee future food supply to China; and it is profitable in itself.

Even though not all investments are directly related to interests of the Chinese state, it is still a very significant player in the Zambian context. The Chinese state is a key driver of strategic investments; directly, via political leverage, and indirectly, via investments that benefit the local political elite. In the market-seeking investments, the Chinese state plays a less dominant but still important role. The very foundation for Chinese investments in Africa lies in the Chinese go out policy. Chinese companies are encouraged to invest abroad. In order to ease this process the Chinese state negotiates access at the very highest political level via bilateral visits and grand events, but support is not confined to this. In Zambia, the Chinese state has created an institutional setup that facilitates and directs Chinese enterprises in the country. Originally, it only catered for the SOEs but with the liberalization process in China, these institutions now also serve the private Chinese companies in Zambia.

The internationalization process of SOEs into Africa is, therefore, to a large extent driven directly by the Chinese state. In order to pursue its economic and political goals, however, private enterprises must also internationalize. These companies are not directly driven by the state but benefit by the work done at all levels by the Chinese state apparatus. Not only do they benefit for instance from the establishment of an Economic and Trade Cooperation Zone, the inclusion in value chains, the creation of large infrastructure projects and so on, they may also take advantage of the information disseminated by Chinese institutions in China as well as in Zambia. Moreover, the Chinese SOEs in Zambia serve as an example to all Chinese enterprises, that it is possible to conduct business in Africa and secondly, that it is profitable.

The direct and indirect interference of the Chinese state in OFDI to Zambia thereby gives Chinese companies access to cheap capital, lays the foundation for economies of scale, and facilitates access to technology, while simultaneously minimizing local competition. It also puts up the necessary infrastructure and lowers trade barriers in the host-country context. Thereby, it creates both O- and L- advantages for Chinese companies in Zambia. These very advantages make Chinese companies competitive *vis-à-vis* both large international players and local companies.

This chapter has provided insights into how the Chinese state drives Chinese OFDI in Zambia. It has pinpointed the linkages between sectors of key strategic importance for China, such as the mining sector and sectors that are, at first sight, less important, but which serve to ease access in key sectors. Moreover, it has emphasized the heterogeneity of Chinese investments in Zambia, an aspect that will become more pronounced in the years to come as more and more private Chinese companies are investing in Africa. In addition, it has hinted at why, given the lack of international experience and the disadvantages of physical and cultural distance, Chinese companies are able to compete in a Zambian setting. Thereby, it has gone beyond the dichotomous position on Chinese presence in Africa and instead pointed to the interconnectedness of all Chinese activities in Zambia and how one player, the Chinese state, regulates these activities.

However, some key questions remain unanswered. First and foremost, how does Chinese FDI affect the Zambian economy? In particular, how do the O- and L- advantages of Chinese FDI affect the competitiveness of local companies? And to what degree will the Chinese state seek to promote cooperation with local partners in order to minimize future critique and thereby avoid the erosion of a valuable relationship? Linked to this, it is important to know how different Chinese companies manage to compensate for different O- and L-advantages in Zambia adopting different organizational setups, and whether this affects how local companies are included in the value chain. Lastly, another question arises: to what degree do other ETNCs benefit from their respective state institutions in the host-country contexts?

ETNCs are becoming a dominant factor not only in Zambia, but all over Africa, and knowledge about the conditions under which they compete is essential in order to further our understanding of the local (as well as international) consequences of this new trend.

Notes

1 This article is based on two papers by the two authors, presented at the Second European Conference on African Studies, Leiden, 11-14 July, 2007.

2 FDI is here defined as an investment by a company resident in one country with the aim of a long-term relationship and control (more than 10 percent) in a company resident in a foreign country. In this paper FDI and investments are used interchangeably.

3 The case study builds upon primary as well as secondary data. Primary data were gathered during fieldwork, undertaken by Anders Bastholm, from June 2 to July 1, 2007 in Zambia, primarily in Lusaka and in the Copperbelt. Information stems from semi-structured qualitative interviews with key informants from Chinese firms and institutions as well as with representatives from key Zambian private sector institutions.

4 Interview with Mr. Fang, Board Secretary, Chinese Centre of Investment Promotion and Trade, 13 June, 2007.

5 Figure 6.1 is compiled using data from various sources. Two different estimates are indicated for the year 2005. This illustrates the discrepancy that exists when dealing with Chinese OFDI figures. According to Xinhua (2007), the 2006 figure is an official figure from

the Chinese Ministry of Commerce (MOFCOM). Nevertheless, extreme care should be taken with regards to Chinese OFDI figures (Goldstein 2007). Different Chinese institutions release different figures. The Ministry of Commerce provides approved OFDI data while the State Administration of Foreign Exchange includes FDI from, for example, Taiwan, Hong Kong, and Singapore "round-tripping" to China. Hence, Figure 6.1 should be seen as an indicator of a growth tendency rather than as a representation of precise OFDI figures.

6 This policy framework is referred to with a number of slightly different names which all stem from diverse translations of the Chinese name. Other common translations are: "Step Out", "Going Out", "Going Abroad", and "Going Global".

7 Interview with Dr. Kenneth Kaunda, President of Zambia (1964-1991), 30 June, 2007.

8 Data from ZIC show neither actual FDI stocks nor FDI flows, but only investment commitments from investors who obtain investment licenses at ZIC. Furthermore the licensing procedure has not been centralised with ZIC, which means that not all investment licenses are registered here. Various ministries can provide investment licenses on their own behalf, as well as can local governments. Especially investments in the mining sector are predominantly approved by the Ministry of Mines and Minerals Development (interview with Mr. Sifafula, Manager of Research and Policy Analysis, ZIC, 19 June, 2007). Nevertheless, according to the US Dept. of State (2006), it is the only FDI data available in Zambia.

9 Some of these companies were indeed owned by Chinese nationals in Zambia, operated like the other Chinese companies, i.e. had access to Chinese capital via the local branch of Bank of China, and could use the facility of the Trade Promotion Centre, but they were not strictly speaking the result of Chinese OFDI.

10 The most renowned visit was the recent visit of President Hu Jintao in February 2007, but a number of other Chinese state dignitaries have visited Zambia in recent years, e.g. Vice Premier Zhu Rongji (1995), Premier Li Peng (1997), Foreign Minister Tang Jiaxuan (1999), and a wide range of visits by representatives of Chinese ministries and state institutions (MFA 2003).

11 During the 2006 election, Chinese people publicly supported the MMD campaign (interview with Dr. Francis Chigunta, the Department of Development Studies at the University of Zambia, 21 June, 2007).

12 Similar Chinese investment centres have been established in ten other African countries.

13 Interview with Mr. Fang, Board Secretary, CCIPT, 13 June, 2007.

14 Interview with Mr. Zhu, Manager, BOC, 13 June, 2007.

15 This tendency is not only confined to Zambia. China seems to win a lion's share of the current tenders in the construction sector throughout Africa. According to Singh (2006), Chinese companies won 6.34 billion US$ worth of contracts in 2005. This is the result of a deliberate Chinese strategy. In Mozambique, for instance, Bosten (2006) reports that the Chinese embassy in Maputo actively informs Chinese construction companies about upcoming international tenders.

16 Interview with Mr. Fang, Managing Director, CJC, 18 June, 2007.

17 Interview with Mr. Liu, Managing Director, ZC, 25 June, 2007.

18 Interview with Mr. Ma, Assistant General Manager, Zambia-China Friendship Farm, 19 June, 2007.

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List of Acronyms

ACCZ	Association of Chinese Corporations in Zambia
BOC	Bank of China
CCIPT	Chinese Centre for Investment Promotion and Trade
CJC	China Jiangxi Corporation
CNMC	China Nonferrous Metal Mining (Group) Co., Ltd.
CSFAC	China State Farms Agribusiness Corporation (Group) Co., Ltd
ETNC	Emerging Transnational Corporation
FDI	Foreign Direct Investment
FOCAC	Forum on China-Africa Cooperation
IDP	Investment development path (hypothesis)
MMD	Movement for Multiparty Democracy
OFDI	Outward Foreign Direct Investment
SOE	State-owned enterprise
TNC	Transnational Corporation
ZC	Zamchin Construction
ZIC	Zambia Investment Centre

7 The political impact of the Chinese in Sudan

Meine Pieter van Dijk

Introduction

Sudan is often called the most controversial case in the wave of Chinese engagements with Africa (Large, 2007: 57). In particular, the developments in the Southern and in the Darfur region and the pressure on China in 2008 before the Olympics are important factors in understanding China's role in Africa. Our ambition is not to give a complete overview of the Chinese presence in Sudan, but we would like to understand the reasons for and the impact of the Chinese involvement in this country.

First a short review of the history of the cooperation between China and Sudan will be given. Then an overview of the recent economic relations will be provided before discussing some of the controversial issues like the developments in Southern Sudan and the Darfur region. There are some important questions to be answered. To what extent have China's arms deliveries contributed to the crisis in Sudan? Has China's diplomacy helped to find a solution? We will also study to what extent China did impose conditions when providing aid and while investing in Sudan. Finally, the issue of whether China is an alternative for the Western development model will be taken up by looking at China's actual behavior and policies with respect to Sudan.

The short history of China's presence in Sudan

Sudan is the biggest country in Africa in terms of its size. It is also a country known for its Islamic government and the long-lasting civil war in the South. After a five-decade civil war with the Arab-led north there is now an agreement (signed January 2005 and called the Comprehensive Peace Agreement, or CPA) and there will be a referendum on an eventual secession of the South in 2011.

Currently the conflict in the Western part, in the Darfur region, has caught the attention of the world and will be discussed, since China plays an important role in that conflict.

There are several recent overviews of the developments in Sudan and even papers specifically on China's role in the country (Large, 2007; IKV, 2008 and Ashkenazi et al., 2008). However, a lot has happened since these overview papers on the Chinese in Sudan were published. After a short overview of the history of China's relations with Sudan we will deal with the recent developments, in particular those related to the Darfur region.

Large (2007) notes that Sudan was the fourth country in Africa to recognize the People's Republic of China (PRC) in February 1959. This means the relations between the countries cover half a century. Even before any energy shortage hit the country, China had become active in Sudan. Fortune (20 February, 2006) notes that already in the late 1980s, when US sanctions against Sudan's Islamic government forced US companies out of Africa's biggest country, China's oil company CNPC (the mother company of Petro-China) took over Chevron's discarded assets.[1]

State-owned Chinese oil companies stepped in at a moment when the country was really isolated. The relation with the International Monetary Fund (IMF) had ended because of non-payment and hence Sudan was no longer eligible for World Bank support. The civil war in the south was flaring up and an Islamic economy developed. This is based on promoting participation in private companies rather than on providing loans with interest. Islamic banking does not allow for asking interest and considers participation in a business an alternative. Islamic brotherhoods were very active and a large part of the economy was informal anyway and continued to function in this way. The debt crisis of the 1980s had made it difficult for Sudan to import and export in a regular way. A shortage of foreign exchange added to the informalization of the Sudanese economy.

Sudan's export to China used to be cotton and China would provide aid and "attractive trade arrangements" (we discussed what that means in Chapter 5) to the country. Aid came in the form of projects and some Chinese investments took place prior to China's involvement in the oil sector in the 1990s. As noticed by Chaponnière in Chapter 3, countries exporting oil or raw materials are among the priorities of Chinese cooperation in Africa. Furthermore, China tends to operate in countries that the OECD countries (the club of developed countries) avoid, such as Angola, Guinea-Bissau, Togo, the Central African Republic (CAR) and Zimbabwe.

The Sudanese economic situation

IKV (2008) stresses that oil is an important factor in Sudanese politics. It is the government's main source of income and the driving force for the economy. However, the sector is poorly managed and highly politicized: *"it remains a source of strife and division"*. The report clearly establishes the link between the conflict in the south and oil exploration in that region. IKV (2008: 5):

> Problems began in 1991. The army began chasing the people without warning. They came, they shot and they burned. Why? The SPLA (one of the major liberation movements for the South MPVD) was far away. It was because the Government was greedy for oil and saw any southerner as a threat, a possible supporter of the SPLA.

Easterly (2007: 218) calls Sudan a case of state failure, defined as a country whose government is unable or unwilling to organize the basic services for its population. He dates it back to 1986 and calculated that in the ten years preceding 1986 Sudan was 58 percent of the time under International Monetary Fund programs. The suggestion is that these programs do very little to prevent state failure.[2] In 1983 the civil war began again after a decade of peace. In that year President Numeiry imposed the shari'a (Islamic law) on the whole country, trying to get Islamist support for his unpopular government. Consequently the war flared up again and a peace agreement was signed only in 2005.

In March 2006, the country signed a letter of intent with the IMF (IMF, 2006). Following the peace agreement the Minister of Finance and National Economy and the Governor of the Central Bank of Sudan wrote to the IMF, stating that they had sought to implement economic policies that aimed at maintaining economic stability, fostering growth and reducing poverty. They attached a memorandum on economic and financial policies, which is required in the framework of an IMF staff-monitored program for 2006. This suggests that Sudan is trying to re-establish its relations with the Bretton Woods institutions. The objective could be to benefit from the Heavily Indebted Poor Countries and the Multilateral Debt Relief Initiatives. Secondly, Sudan may want to qualify for World Bank loans again, which could then be used to reconstruct the south and to develop the Darfur region.

The memorandum of understanding with the IMF deals with economic and financial issues and gives a good overview of the Sudanese macro-economic situation, which was pretty disastrous. The memorandum notes that, for example, "broad money" (a measure of money supply) grew by 45 percent, while reserve money growth increased by 35 percent, noting that both variables exceeded the programmed amounts. This is normally a recipe for high inflation. Private sector credit also increased 62 percent in that year. One wonders about the total inflationary effects of such an increase. A number of reforms were announced and an economic growth of 13 percent was assumed in 2006. In 2005 the growth of the Gross Domestic Product (GDP) was estimated to be 8 percent, while inflation was 8.5 percent. The Sudanese dinar also appreciated 8 percent against the US dollar. Sudan increased its payments to the IMF from 30 million US$ in 2005 to 45 million US$ in 2006. This can be seen as steps in the direction of an agreement, which requires a country to settle its previous debts with multilateral organizations. Such an agreement would pave the way for a debt reduction program and the eventual resumption of support from the IMF and the World Bank.

Economic relations with China

Fortune (20 February, 2006) notes that China is Sudan's biggest foreign investor, spending about four billion US$ per year and importing about 7 percent of its oil from Sudan. China has long-term contracts, which allowed it in 2008 to import the oil at prices far below the world market. The contractual price paid in Sudan would be around 65 US$ per barrel, while actual market prices reached 150 US$ per barrel in July 2008. The problem is that Sudan's oil-fuelled economic growth is primarily benefiting a small urban elite and, in particular, people living in the north of the country (Large, 2007: 57).

In Chapter 4 we have given the flows and outflows of Foreign Direct Investment (FDI) for different African countries. Sudan has received in total 1,511 million, 2,305 million and 3,541 million US$ in 2004, 2005 and 2006 respectively, according to UNCTAD (2007). In 2006, more Chinese FDI in Africa only went to Egypt and Nigeria. Given the fact that China is on average good for 10 percent of the investments in Africa in 2006, but China is good for 25 percent of the FDI in Sudan! Fortune (20 February, 2006: 59) concludes that Chinese trade has proliferated so quickly in the past few years that it threatens to eclipse the commercial relationships the US and the EU have nurtured with Sudan for decades.

One-third of the Chinese oil supply now comes from Africa and in particular from Sudan and Angola. The oil exploitation rescued Sudan from dire financial straits in the early 1990s and turned it into one of Africa's fastest-growing economies (Financial Times, 28 January, 2008). The economy has recently grown 12 percent per year and the president has just constructed a new palace, built with an interest-free loan from China. Sudan is one of the few African countries that export more to China than it imports from it. That makes it easier for Sudan to ask for weapons in exchange for its oil export, weapons which can then be used in the south or in Darfur (see Box 7.1). However, China, as a large investor in the Sudanese oil industry, is blamed for not doing enough to resolve the humanitarian crisis in Darfur (Financial Times, 16 July, 2008).

Box 7.1 An overview of the weapons imported by Sudan from China

Croll et al. (2008) give an overview of the weapons imported by Sudan from China. They call it a high-profile case of Chinese arms exports to Africa:

"Starting with the sale of helicopters and fighter aircrafts in the mid-1990s, the export of military equipment to Khartoum has grown in line with the rising importance of Sudanese oil for the Chinese economy. The range of military hardware includes anti-personnel and anti-tank mines, T-59 tanks, 122 mm towed howitzers, assault rifles, machine guns and anti-aircraft guns, as well as ammunition. According to Sudanese government sources, China has also provided the expertise for the development of an indigenous Sudanese arms industry, but so far no verifiable record of domestic production exists."

Source: Croll et al. (2008)

Croll et al. (2008) conclude, "while Beijing's arms exports, like all Chinese-African trade relations are characterized by a blatant disregard for human rights, China is by no means the most important arms supplier to the continent".[3] However, the delivery of arms has certainly contributed to the escalation of the conflict in Sudan.

A failed state is defined in terms of a government unable or unwilling to supply basic services to its population. Ashkenazi et al. (2008) find that in the south, public services are not applied in a uniform manner due to a lack of capacity and security. This is causing resentment among returnees. They are facing conflicting reactions, oscillating between feelings of respect and brotherhood to feelings of suspicion and animosity from those who have stayed. The security situation, as well as a lack of infrastructure, are major constraints for development in the south. Abuses of power by the military in Southern Sudan appear to be common, and acquisition of small arms by the general public remains endemic. The conclusion is that there is little provision for the most vulnerable victims of the war in Southern Sudan and that the majority of assistance comes from the non-governmental organizations (NGOs).

Sudan is one of the countries receiving a lot of aid, and not only from China. The aid is often provided in a very uncoordinated way. The country is at the top of the list receiving Chinese "International cooperation" (excluding external financing) in 2004/05, as described by Chaponnière in Chapter 3, receiving the equivalent of 1,342 million US$. In the period 1959-98, it received in total 230 million US$ and occupied the fifth position after Tanzania, Zambia, Congo and Mauritania.

Because the Chinese government is in favor of putting no conditions on its development assistance, the Chinese support to Sudan is certainly not an alternative for the support from the Bretton Woods institutions in the field of economic policies and management. Concerning the Chinese intervention in Sudan, IKV (2008: 44) concludes that there is a need to:

> take action and pressure Chinese companies and politicians to change their policies." ..."Neither the Chinese government, nor the companies show concern about the massive human rights abuses that occur in Sudan. Neither do they take action to save the Comprehensive Peace Agreement, which is the constitution of the country.

For the humanitarian assistance there is a Sudan consortium with Western donors, China, Kenya, Egypt, Turkey, the World Bank, etc., which meets regularly with or without non-governmental organizations. In May 2008 they met in Oslo (Norway) and concluded there is the need to move to recovery in South Sudan. Agreed principals for such a course are: a transfer of responsibility for aid to the government of South Sudan and making financing more predictable by agreeing on multi-year budget support. Preferably such support would be in line with a government development plan. The donors decided that non-state delivery of the assistance is needed in the interim, but to contribute to building state capacity in the long term.

The donor group meeting in May 2008 in Oslo could not agree on a roadmap for the Darfur region. Some donors had wanted a development roadmap, others considered it to be too early for such plans and so the final communiqué does not mention the matter.

Juba is the capital of the now semi-autonomous South Sudan. The town economy is still stagnating and the development process has barely started. The Financial Times notes that the administration has struggled to manage a unique combination of 1.1 billion US$ of non-humanitarian aid since 2006 and 1.3 billion US$ in annual oil revenues and an influx of UN peacekeepers and tough-minded business people. Hence Juba gives the impression of a vibrant foreign-run economy (Financial Times, 22 January, 2008).

Developments in the Darfur province

Once there was a peace settlement in the south of Sudan, the attention of the world turned to the Darfur region, which is suffering from what some call "ethnic cleansing" and others coin a struggle for resources.[4] There was a universal outcry against these events, but despite the fact that many NGOs and donor organizations have become active in Sudan an effective solution remains elusive.

Riddell (2007: 351) notes that what he calls agencies have launched a series of wide-ranging and high-level advocacy initiatives to draw attention to the humanitarian and linked human rights problems in Darfur. Riddell (2007: 313) mentions the horrific events that have unfolded and persisted in the Darfur region from 2003 onwards. However, despite several efforts, effective solutions have remained elusive. China used its veto to block US-led efforts to impose sanctions on Sudan over the atrocities committed in Darfur.

According to the United Nations, the conflict in the Darfur region has killed 300,000 people and displaced 2.5 million people since 2003. China has received sharp criticism for obstructing attempts by the United Nations Security Council to try to quell the violence in Darfur. It took until 2007 before China was willing to exert some influence on the political leadership in Sudan.

The dirty work in the Darfur region is done by militias, known under the name of Janjaweed militias, which get support from the government in Khartoum. These Arab militias attack Africans, some of whom have been critical about the repression by the north of Sudan. Many villages have been burned down by them and the inhabitants have fled to Chad. The Janjaweed militias terrorize civilians with arson, massacre and rape. Their activity has led to a humanitarian crisis in Darfur. Some US activists argued in 2007 and early 2008 in favor of a boycott of the Olympics in China over Darfur.

Several times peace talks were organized, for example in Libya in October 2007 (Financial Times, 4 October, 2007). The year before, an unsuccessful peace agreement was signed which had promised 30 million US$ of compensation to the different parties involved, to be paid by the international community. These funds were never disbursed, due to "wrangling over whom it will be distributed to" (Financial Times, 4 October, 2007). The newspaper notes that there were competing claims from different ethnic groups and areas of Darfur, as well as from the representatives of specific villages that have been destroyed and from individuals.

It took a long time before the so-called Annan plan for a joint African Union-United Nations (UN) peacekeeping force was accepted and put in place. The so-called rebels in the Darfur region have required that China will not participate in such a UN force (NRC, 26 November, 2007). The force should comprise

26,000 men and officially started January 2008. However, it faced problems getting enough soldiers.

Pressure was put on China to help solve the conflict in Sudan. That led the Chinese government to appoint a special Chinese envoy for Sudan, who was nominated in April 2007. Mid-2007, China managed to persuade the Khartoum government to accept a bigger and better equipped UN/African Union peacekeeping force in the Darfur region. This remarkable event was noted as an example of China's willingness to intervene in African countries' policies: China had put pressure on Sudan (Financial Times, 19 June, 2007). This happened in the wake of growing criticism by Western countries of China's perceived reluctance as Sudan's leading trading partner and top consumer of Sudanese oil to influence the policies of the government with respect to Darfur (Financial Times, 4 October, 2007). The diplomatic offensive brought Liu Gujin, China's special envoy to Africa, to London at the beginning of 2008. He declared that he was working hard to persuade the Sudanese authorities to co-operate with a hybrid UN-African Union peacekeeping force that would be deployed in Darfur (Financial Times, 23 February, 2008).

China's special envoy to Sudan had indicated that China had "privately" exerted pressure on Khartoum over the conflict in Darfur. If that is true, it shows China is willing to interfere in internal affairs if put under pressure. The same Mr. Liu stopped short of criticizing Khartoum and argued that to impose further sanctions, as some people in the West were proposing, would be counterproductive (Financial Times, 19 June, 2007).

Part of the peace negotiations were a discussion on compensation. The Financial Times (4 October, 2007) announced that a 200 million US$ loan from China will form the bulk of a compensation payment that the government of Sudan has pledged to make to the beleaguered Darfur region. This was announced by former US president Jimmy Carter, who visited Sudan at that time with other elderly statesmen like Nelson Mandela. The 200 million US$ loan comes on top of the 100 million US$ coming from the Sudanese government itself. The Financial Times notes that this would mark a significant departure for China, whose financial assistance to African countries is normally provided for trade and infrastructure projects and needs to be spent in China.

The conflict has turned from a high-intensity conflict in 2005-2006 to a low-intensity conflict since this period. Darfur has gone from incident to incident. For example, an "unprecedented attack on an African Union peacekeeping base by a renegade group of rebels, which killed at least ten personnel over the weekend" was reported in 2007 (Financial Times, 4 October, 2007). The newspaper added that the attack underlined that violence in Darfur has evolved beyond a simple conflict between government-backed forces and homogenous rebels.

Mia Farrow, the American actress, launched a campaign in June 2007 to turn the spotlight on Beijing's hosting of the 2008 Olympics as a way of exerting pressure on China to use its leverage to stop Sudan fueling the conflict in Darfur. Steven Spielberg, the famous movie director, decided in February 2008 to quit as an artistic director of the Beijing Olympics. He declared that China's policy on Darfur was the main reason for this decision. These activities may have helped somewhat, but, in particular, a group of NGOs is active in keeping Darfur on the agenda (Croll et al., 2008; IKV, 2008 and Ashkenazi et al., 2008).[5] They produce regular reports and even put advertisements in the Western media, to inform the world about what is going on in Darfur.

Another complication which did not get as much attention as Spielberg's departure was an attack on a Chinese oilfield in Sudan in 2007 (NRC, 26 October, 2007). The attack resembles the attack on Chinese oil workers in Ethiopia, described in Chapter 8. A "rebel movement" attacked an oil field, in this case the Defra oil field in Kordofan. Kordofan is a Sudanese region neighboring Darfur. The article mentions that China as a major investor in Sudan is considered an important pillar of support for the government in Khartoum by the "rebels". Van Hoeymissen (2008) notes that these kinds of events make it more difficult for China to maintain its non-interventionist stance.

However, in February 2008 it was announced that there is a new Sudanese government offensive against the rebels in the western region of Darfur (NRC, 28 February, 2008). This led to large numbers of refugees in Chad and several civilians raped and killed. Earlier that month, 12,000 refugees reached Chad to escape increasing violence.

In July 2008, six Darfur peacekeepers, members of the joint UN-AU peace mission in Sudan's Darfur region were killed in an ambush. A convoy of 40 armored vehicles ambushed the peace force while on patrol in North Darfur (Times of Zambia, 10 July, 2008). The newspaper adds that the UN-AU mission has been struggling to contain the violence and has just 9,000 of the planned 26,000 troops. Other peacekeepers were wounded and a number of others remain missing. Finally, ten vehicles were destroyed and UNAMID (UN-AU Mission In Darfur) was outraged by the attack. So far it is unclear who was responsible for the attack: "Numerous armed groups operate in Darfur: rebel factions, pro-government militias and criminals" (Times of Zambia, 10 July, 2008).

As of February 2009, the Sudanese government has started negotiations with the most important "rebel" groups in Qatar (NRC, 11 February, 2009). Among others, the Islamic fundamentalists that attacked Khartoum in 2008 (the Justice and Equality Movement, JEM) is present and declared it is interested in an all-encompassing peace agreement. These negotiations should be seen against the threat of an arrest of the Sudanese leader Bashir and have also been interpreted as an effort to distract the attention of the possible order to arrest the Sudanese president. NRC (17 February, 2009) even announced that Sudan had reached an agreement with JEM in Qatar about the principles for further negotiations. It is not clear to what extent these are important steps in a peace process, or just ongoing discussions in a continuing conflict.

Indictment of the president

In July 2008, the International Criminal Court (ICC) in the Hague in the Netherlands had announced that the Sudanese president Omar al-Bashir may be indicted because of genocide and crimes against humanity. It is the first time that the Court would indict a president in office. The Argentinean attorney general, Luis Moreno-Ocampo, has formulated ten complaints and three judges will have to decide whether this justifies an arrest. The president is considered the brains behind a plan to annihilate three ethnic groups on the basis of their ethnicity. These groups are the Fur, the Masalit and the Zaghawa. The attorney general is quoted in the newspaper (NRC, 14 August, 2008) as saying: "he could not beat the rebels and hence he went behind their people". He continues: "the motives were largely political. The alibi used was controlling a revolt, but his intention was genocide".

Sudan immediately reacted that an indictment would undermine the peace process in Darfur. The Sudanese governing National Congress Party warned that an indictment could lead to more violence and bloodshed. The United Nations have reacted by withdrawing "non-essential" personnel, around 2,000 people in July 2008 (Financial Times, 16 July, 2008). Mid-February 2009, there were rumors that the ICC was indeed going to issue an order to arrest the Sudanese president (New York Times, 11 February, 2009). Reuter also quoted a diplomat who had said that the ICC had decided to do so, but the ICC officially denied that such a decision had been taken. A Sudan specialist, Alex de Waal, argued in Amsterdam (3 February, 2009) that it would not serve its purpose to arrest Bashir. His main argument is that the rest of the world would not have a party to negotiate with, while important issues like Darfur and the possible independence of the Southern region were on the international and national policy agenda. Several African and Arab countries have protested against the decision to arrest him, pointing to the risk of even more violence in Sudan.

The actual indictment announced in March 2009 will put the UN in a difficult situation. On the one hand, the UN asked for a study of the violation of human rights in Sudan, on the other hand, the UN is currently present in the Darfur region with peacekeepers, whose safety was put in danger by the court's indictment. The journal carries a special box on Beijing's reaction (see Box 7.2). China expressed "grave concern" over the charges by the International Criminal Court in the Hague, the Netherlands.

It is unique that when asked for a reaction by the foreign press, Chinese government officials gave a reaction immediately, and that it took such a strong position in public. The position has been published in full in the Western press (for example in the Financial Times). Two days later, Sudan's envoy to the UN declared that Sudan does not recognize the jurisdiction of the court and added: "With his action against Mr. Bashir, he (the prosecutor) is inviting the rebels to be more intransigent and not to join the peace process" (Financial Times, 16 July, 2008).

Box 7.2 China expresses "grave concern" over charges by International Criminal Court

"China expresses grave concern and worry about the International Criminal Court prosecutor's indictment of the Sudanese leader". The prosecutor of the International Criminal Court was also investigating alleged war crimes by rebel groups seeking to overthrow the Khartoum regime (Financial Times, 18 July, 2008). He said he had the names of two rebel commanders alleged to have been involved in an attack on African Union peacekeepers in the Darfur town of Haskanita last September. The action of the International Criminal Court must be "beneficial to the stability of the Darfur region and the appropriate settlement of the issue, not the contrary". The spokesman of the Chinese Foreign Ministry added that China, "which has a close relation with Sudan would consult with other members of the UN Security Council over the issue".

Source: Financial Times (16 July, 2008)

In the end the Security Council of the UN has the power to delay the arrest for a year if this would be in the interest of peace. The main argument for such a decision would be that the UN does not want to put their troops in Darfur at risk.

China criticized

China has made choices (like supporting Sudan and Zimbabwe), which do not always please Western countries and NGOs. Human rights groups say Chinese arms exported to Sudan fuel the conflict in Darfur (IHT, 3 November, 2006). Chaponnière, in Chapter 3, explains that China publishes no data on its foreign aid. It certainly does not provide data on its arms exports to Sudan. The data on investment published by UNCTAD (2007 and Chapter 4) do not include arms sales, while it is also not very clear from the trade statistics how much and what type of arms have been supplied. Arms would be excluded or be included under different labels, say as imports of textile and garments. Sources like the Financial Times (23 June, 2006) note that China has stepped up sales of arms, including fighter aircrafts. It adds that manufacturing of Chinese weapons and ammunition in Sudan complicates the enforcement of a UN embargo on supplies to militias in the Darfur region.

The Financial Times (23 June, 2008) adds that while China claims it abides by a United Nations embargo on sending weapons directly to Darfur, a panel of UN experts found that Chinese weapons were making their way to Darfur. The special Chinese convoy, Mr. Liu, denies that China is a big supplier of weapons to Sudan, arguing that Chinese sales accounted just for 8 percent of total arms exports to Sudan (Financial Times, 23 February, 2008). He insisted that the total value of Chinese arms sales to developing countries was well below that of the US, Russia, the United Kingdom and Germany, which is somewhat besides the point if we are discussing the problems of arms export to or production of arms in Sudan, instead of exports of arms to developing countries in general.

Conditions when providing aid to investing in Sudan

China's aid is not subject to the type of conditionality we know as the Washington consensus. It also does not apply international regulation concerning the natural environment and forced displacement of people. The building of the Merowe dam in Sudan, with Chinese support, is an example of neglecting environmental conditions. This dam does not comply with international standards with respect to dam building. Its construction caused the displacement of many inhabitants to distant locations where the land was not suitable for farming. According to Chaponnière in Chapter 3, the Chinese government recognizes these abuses but, on grounds of non-interference, refuses to take the initiative of including social and environmental responsibility (SER) clauses in the contracts.

However, there exist all kinds of alleged conditions related to the Chinese support for Sudan. China vetoed UN intervention in Sudan, which may have been part of a deal with the Sudanese government. In the same way, if Chinese companies pay a fixed (low) price for Sudanese oil and supply arms and munitions, this is part of an agreement between the Chinese and Sudanese governments, which may be full of conditions and conditionalities.

Western donors are generally very prudent in Sudan. Only Denmark has recently withdrawn its development assistance because of continuing critique on the producers of "anti-Islam" cartoons. The Netherlands provided 424 million euro during 2005-2007. When the ministers of Foreign Affairs and Development Cooperation were visiting Darfur, they were very prudent not to offend their host because they consider if you are out you have no influence any more and the Chinese will take over the activities, without applying the same ethical standards (NRC, 8 February, 2008).

An alternative for the West: China's policies towards Sudan

Investments are part of broader economic engagements, which have been analyzed in relation to aid and trade policies in Chapters 3 and 5 of this book. Europe and the US have specific trade policies with respect to Africa. Is China really an alternative for the Western development model? More specifically, is China an alternative for the West in Sudan? Yes, when Western donors boycotted Sudan and the country needed help to develop its oil sector. Since 1995, the Chinese have been involved in the oil sector in Sudan. The country was quite isolated at that time and had broken with the International Monetary Fund and was neglected by most other donors because of this and the war raging in the south of the country.

However, the Chinese aid for Sudan is part of a broader strategy. Concerning China's strategy in Africa, one can only conclude that China seeks to assure its oil supply. Friedman (2005: 409) illustrates the point by telling the story of the Strait of Malacca, the narrow passage between Malaysia and Indonesia patrolled by the US. "Chinese strategic planners have become increasingly concerned that the US could choke off China's economy at any time by just closing the Strait of Malacca, and this threat is now being increasingly and openly discussed in Chinese military circles". He considers this just a small hint of the potential struggle for energy and power that could ensue if "the great American dream and the great Chinese dream (we should add that this is also the great Indian dream and the great Russian dream; MPVD) come to be seen as mutually exclusive in energy terms".

China's Foreign Minister denounced the "handful of people trying to politicize the Olympics" (Financial Times, 19 May, 2007). Western governments see China as a country with a significant leverage over Sudan because of its strong trading relationships with Khartoum. China makes a lot of effort to provide the "right picture" of its presence in Sudan.[6] In February 2008, it started a diplomatic initiative to persuade Western public opinion that it is working hard to try to resolve the humanitarian crisis in Darfur (Financial Times, 23 February, 2008). If a country needs to justify its actions so much there are good reasons to follow it critically.

On the one hand, the positive side, the Chinese have become aware of the critique and nominated a special envoy for Sudan in 2007. Sudan is a case where China has been willing to interfere in local affairs, for example when it pushed the government to accept the joint AU-EU peace force in Darfur, but this has had only limited positive effects so far. On the other hand, China is achieving very little in Sudan in terms of contributing to the solution of the country's biggest problems, the conflicts with the Southern and the Darfur regions.

The special envoy, Mr. Liu, denies that China is surprised about the reaction to the Chinese presence in Sudan: "I am sometimes puzzled why China's arms sales are exaggerated by our friends in the media... Is it a misunderstanding or is it intentional?" (Financial Times, 19 May, 2007). He added that they are not going to accept certain efforts to blackmail the Olympics. Finally he said that there are limits to how far China would go to put pressure on Khartoum.

Conclusions

Of all the cases discussed in this book, the involvement of China in Sudan shows most clearly how far China will go to defend its interests in Africa. Here it can be seen what "unconditional aid" and "refraining from intervening in local politics" really mean.

The impact of the Chinese presence in a country depends on the type of activities and the number of Chinese involved. The analysis of Sudan in this chapter and of Zambia in the previous chapter showed the importance of raw materials (oil in Sudan and copper in Zambia) and shows the political consequences of intensive relations. The case of Sudan even threatened the Olympic Games in 2008 and China's commercial interests in Sudan, while in the case of Zambia, political interference of the Chinese was not appreciated.[7]

The Chinese have selected Sudan for investment purposes because of its oil, just like they opted for Angola and Nigeria because of Chinese strategic interests. However, the country wants to assure its supply of oil and does not bother about human rights violations, or poor governance in these countries. In 2007, a lot of critique was voiced with respect to China's intervention in Sudan (Azkenazi et al., 2008; Croll et al., 2008; IKV, 2008). The wave of critique was becoming even stronger in 2008. It implied that China had to make an effort to show its political power in Sudan. Because of its lack of action in Sudan and the troubles in Zimbabwe, where Mugabe is supported by the Chinese, and because of the demonstrations in Tibet and China's violent reaction to these events, China became less popular in a number of countries.[8]

Despite efforts to stress the neutral character of its presence in Sudan and China's emphasis on the win-win nature of its activities, China continues to be seen as an influential ally of Sudan, who could influence its policies (Financial Times, 23 February, 2008). The Chinese themselves consider that China's ties with Sudan have been "unnecessarily politicized", which they consider "unfair and irrational"

(Financial Times, 19 June, 2007). One can conclude that China showed its real face, when investing in Sudan 'without imposing any conditions' and that it does not stick to its own principles of not intervening in local policies and of not imposing conditions on the assistance provided. An argument often heard as to why China is not willing to intervene in human rights issues or allow pressure on local authorities is that it does not want such interference in China's internal affairs and certainly would not like a discussion about its own human rights record.

Although there are strong similarities with European and American policies with respect to Africa, China's policies are different from Western countries dealing with oil countries in three respects. All countries, the EU as well as the US and China, will try to build up good relations with oil-supplying countries, but the actual negotiations in the case of the US and EU are happening through private oil companies. These Western companies usually have to go through a process of competitive bidding, which allows the country to select the best offer. Such an opportunity was not given to Sudan when the Chinese state-owned enterprises started to play a role in Sudan after the departure of the American companies. Finally, Western companies can be held accountable. They usually have critical shareholders and face governments and NGOs in their home country, whether they like it or not (see also Chapter 9).

I would argue that as far as Sudan is concerned, China is different from other donors. In fact, Chaponnière followed the same line of argument concerning Chinese development aid in Chapter 3, and Kragelund and Van Dijk concerning investments in Chapter 4. Both chapters make clear why Chinese aid and investments are different. The Chinese government seems to pursue Chinese interests only, but tries to sell it as a win-win situation, if not as pure development aid. The lack of a clear distinction between aid, trade and investments makes the deals made not very transparent. What we see in Sudan is that it is impossible for a major power to be present and to claim that it can remain neutral.

Notes

1 The second pension fund of the Netherlands decided in January 2008 to stop investing in Petro-China (NRC, 19 January, 2008), because the company is the main player in Sudan and as such a funder of the Sudanese government. The pension fund had raised human rights several times but considered the dialogue as not very cooperative.

2 He is only saying, however, that statistically speaking spending a lot of time under an IMF program is associated with higher risk of state collapse.

3 Only 7 percent of Chinese arms are exported to Africa. China ranks tenth for the period 1998-2007 (Croll et al., 2008). There are also unexpected suppliers, such as the Islamic Republic of Iran (IHT, 8 March, 2008).

4 This is the term used by the UN Secretary General, Ban Ki-moon, when he visited the region in 2007.

5 In particular, "Fatal transactions" is a network of European and African NGOs and research institutions dedicated to the transformation of fatal transactions into fair transactions, which truly contribute to sustainable peace and reconstruction in Africa (Croll et al., 2008).

6 The Financial Times (4 April, 2008) reports that China seeks Public Relations (PR) advisers to counter Tibet anger. It sometimes looks as if they are also struggling with the impression they give by helping the Sudanese government and could use a PR initiative "to understand what people think of them and how they can get their story in the media".

7 Even the Angolan government has made it clear how much influence from China they will accept (Financial Times, 2007). See the next chapter under "the mining sector".

8 After the Sichuan earthquake in May 2008, all critique stopped because the world was now supposed to show its solidarity with the Chinese people.

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8 The impact of the Chinese in other African countries and sectors

Meine Pieter van Dijk

Introduction

So far we have discussed three instruments for China's presence in Africa in detail (aid, investments and trade policies) and dealt with two case studies (Zambia and Sudan). However, most African countries have experienced an increased Chinese presence and China is active in very different sectors. We cannot analyze in this book each and every African country and all the different sectors in which China is active separately. For that reason we will bring together in this chapter the experiences in a few other African countries where China is present and provide some details for typical sectors in which Chinese investors are active. The cases of Angola, Congo, Ethiopia, Tanzania and Zimbabwe will be discussed. The Chinese experiences in agriculture, textiles, the financial, the construction and the mining sector will be analyzed.

How will the development of these African countries be affected by the rapid growth of China's exports and investments? China takes over markets in African countries more easily than it manages to break into European or American markets. Does that mean these African countries will never be able to compete with China in sectors like the production of shoes or textiles? At the moment, production factors like labor, capital, raw materials and entrepreneurship are still important but "*knowledge*" will be a key factor in China's continued industrial growth. China is really investing in research and development and seems to be aware that it cannot continue as a cheap labor producer in the global economy (Van Dijk, 2007). The flow of Foreign Direct Investments (FDI) to Africa and the figures on total trade provide insight into the dynamics of the different regions. They show that African industries are usually not "competing with", but in the best cases "complementary to" Chinese industrial exports and investments in the country concerned (Kragelund 2007, summarized in Chapter 1).

Angola

In Angola, the government was about to reach an agreement with the International Monetary Fund (IMF), when China came along. The IMF promised to lend a few hundred million dollars for the development of the economy, but the Chinese immediately let it be known that they would invest about one billion US$ in Angola. Hence the first bid was rejected and with it the conditions to stimulate sound macro-economic policies and the promotion of good governance. However, Wissenbach (2008) notes about the case of Angola that it is disapproving

> earlier Western speculation of a take-over by the Chinese. Angola used oil diplomacy to extract concessions from China while rejecting an IMF loan, then it dealt China's efforts a blow by cancelling the contract for the building of the Lobito refinery and joining OPEC, while not cutting its ties with the US, IMF, World Bank despite their outrage over the earlier failure of the structural programme negotiations.

The country receives a lot of Chinese aid and China is not only active in the oil sector. It is also involved in repairing the railroads and constructing roads, using lots of Chinese workers. Chaponnière remarks in Chapter 3 that the Chinese are being criticized in Angola and are falling behind on some of the large projects they are carrying out and Wissenbach remarks that the country refuses to do things that would please China. This suggests that African countries do not have to bow to the pressure of the Chinese government if they really have something to offer to China and if a country does not put all its eggs in one (Chinese) basket.

Congo

Congo is another example of a country which had second thoughts concerning China's aid and investment proposals. In 2008, China's intentions to invest on a large scale in Congo surprised the world (Financial Times, 10 May, 2008). Box 8.1 gives a summary of the "$9 billion China deal", also called the "deal of the century".

It is estimated that five billion US$ out of the 9.25 billion US$ will be available to build roads, railways, hospitals and universities. This is infrastructure that can be built in the short run and that would allow President Kabila to show that he did fulfil his election promises. These are the kinds of things politicians like and help them to get re-elected! However, the Financial Times (10 May, 2008) adds that the deal comes at an uncertain cost to Congo, because the country was at a delicate stage in negotiations to secure a write-off of around eight billion US$ of

Box 8.1 "Congo outlines $9 billion China deal"

"The government of the Democratic Republic of Congo has unveiled details of a controversial $9.25 billion agreement that pledges millions of tonnes of copper and cobalt to China in exchange for roads, railways and other infrastructure. The general opinion is that Congo goes for a quick deal, instead of waiting for years for World Bank formulated projects, which then need to be approved and tendered."

Source: Financial Times (10 May, 2008)

external debt when the news broke last year of its plans to enter a barter agreement with Beijing. It is feared that the deal could scupper the debt write-off.

Marysse and Geenen (2009) carried out a critical study of the deal of the century and concluded that it is definitely not a win-win situation, but rather an example of unequal exchange. They make clear that the investments have to be repaid with a guaranteed access to mineral resources and that the terms of reimbursement are not concessional at all: "in contrast to the Chinese discourse, this proves that the Chinese government is only pursuing its commercial and strategic interest".

No wonder that in early 2009 Congo announced that it wanted to get rid of the contract (Volkskrant, 7 February, 2009). The Financial Times (10 February, 2009) reports that the biggest investment deal in Africa is faltering as: "Western donors put pressure on the Democratic Republic of Congo to renegotiate a minerals-for-infrastructure contract". In the NRC (7 February, 2009) it is explained that the current price for copper and cobalt is so low that Congo would have to pay China instead of the other way around. That would be the reason for Congo to try to renegotiate the deal. Already Marysse and Geenen (2009) had calculated that Congo would miss a lot of tax revenues, because China had negotiated tax holidays for the lifetime of the project. The conclusion can be drawn that it is difficult for an African country to negotiate a fair deal with a big country like China, when there are no transparent procedures and there is no competitive bidding, which would allow Congo to select the most attractive bid. In that sense it was a gamble to go for the Chinese deal instead of organizing competition.

The end of the story is even more surprising. The Financial Times had an article (20 February, 2009) with the heading "Chinese copper entrepreneurs flee". It broke the news that more than 40 Chinese-run copper smelters are standing idle in Congo after their owners fled the country without paying taxes or compensating staff at the end of the commodity boom, according to the governor of Katanga province, the province where most of Congo's minerals can be found. The Financial Times adds that the Chinese entrepreneurs who came were part of their country's small-scale, private sector-led engagement with Africa.

The newspaper adds that the abrupt downturn has released resentment over the conduct of some Chinese businessmen in Africa, "where hard bargaining and lack of warmth towards local people won them few friends". The governor himself said, when asked if the Chinese private entrepreneurs would be welcomed back when the price of copper rebounded: "No, no, no. Not as long as I am governor. Katanga is not a jungle. They worked as if it was a jungle." The Chinese ambassador in Congo stressed that the policy is that Chinese entrepreneurs must respect the laws and regulation of the countries where they work.

Ethiopia: China is considered an example

The presence of China in Ethiopia is very visible, for example in the construction sector, but also in the leather and textiles sector, where competing Chinese products have changed the market for local producers.[1] In Ethiopia a lot of industrial products are imported or smuggled into the country. Buses are often imported from India or bought second-hand in China, but also shoes, textiles and food products from abroad are available. In the construction sector, the Chinese have carried out lots of projects in Ethiopia. Among those undertaken by them are the ring road around the capital, Addis Ababa, a low-cost housing project, a stadium and a ministry. It must be noted that the quality of the work is often limited, because no money is available in the city for complementary investments. Improving the quality is also not considered a priority in Ethiopia.

China is also exploring oil in the south of Ethiopia. However, the Ogaden Liberation Front attacked the Chinese oil explorations in Ethiopia and, in April 2007, killed 65 Ethiopian and nine Chinese citizens. A number of Chinese workers in the oil exploration were abducted, but eventually liberated (Financial Times and NRC Handelsblad, 2007). It was speculated for some time that the Chinese government would start to protect the workers with armed guards.[2] However, such a military presence in Africa has not yet been noticed, except under the flag of the United Nations in a few cases (Puska, 2008). Also this was not the first time China had a problem protecting its citizens in Africa. In the Niger Delta in Nigeria, Chinese employees of Chinese oil companies have also been attacked, just like their Western colleagues (Van Hoeymissen, 2008). She concludes rightly that such events make it more difficult for China to maintain its non-interventionist stance. China considers it should protect its people, but finds it difficult to do so. Hence it may eventually also consider a military presence in certain African countries.

The Ethiopian Prime Minister, Meles Zenawi, returned from the summit in Beijing at the end of 2006 with praise for his hosts. More agricultural products would be allowed into China duty-free and the Chinese had pledged some 500 million US$ in concessionary loans for various development projects in Ethiopia. The country will also receive unconditional support from China consisting of 1.5 billion US$ investments in telecommunication and infrastructure and 1.5 million US$ will be available for short-term export credits (Financial Times, 6 February, 2007).

These are soft loans, coming without conditions. This may conflict with the principles of the Washington consensus and may be contrary to the agreements concerning the reduction of Ethiopia's debt with the Bretton Woods institutions. The current Prime Minister, Meles Zewari, refers to the Chinese economic successes when he argues in favor of government-led economic development. He confronts this approach with the World Bank- and IMF-imposed Western development model, the Washington consensus. However, the population, and in particular the Ethiopians living abroad, do not really trust his policies and do not invest as much in their mother country as would have been possible.

The Chinese are also helping Ethiopia to build up an industrial zone (see Box 8.2). It will be named the Ethiopian Eastern Industrial Zone (EEIZ). The Chinese investment group has already signed an agreement with the Ethiopian Investment Authority, and the construction of five projects will begin shortly as part of a total of 80 industrial projects.

Box 8.2 Chinese are helping to build industrial zones in Ethiopia

A Chinese investment group has finalized preparations to construct a private industrial zone some 387km south of Addis Ababa of at least five square km. According to the president of the investment group, 80 industrial projects will be constructed at a cost of five billion Yuan (0.5 billion US$). Over twenty Chinese companies have already shown interest in investing in the industrial zone. Projects will include textile and garments, leather and leather products, food, electrical materials and manufacturing. It is expected that in the next five years jobs will be created for over 20,000 Ethiopians. It is estimated that Ethiopia will benefit from over a billon Birr each year from tax collections, after the tax exemption period ends.

Source: www.klmclubafrica.com, accessed 28 April, 2008

Competing with Chinese manufactured products is a problem for many African countries. However, a competitive advantage can sometimes be found in unexpected sectors. For example, Ethiopia has a lot of potential in tourism and leather. However, private operators take the political system into consideration and study the macro-economic context before deciding whether they will invest in these sectors in Ethiopia. Making such an evaluation is what horticulture farmers choosing between Kenya, Tanzania and Ethiopia have done and also what Ethiopians living abroad are constantly doing (Van Dijk and Pfisterer, 2009). Many prefer Kenya or Tanzania. For the development of the local economy in Ethiopia it is also important that the national government is willing to really decentralize decision power and to stimulate private entrepreneurship, preferably in an innovative and export-oriented environment.

Politically, it is interesting that Prime Minister Meles Zenawi works with the Americans and the Chinese and manages in this way to stay in power. The Americans were not difficult about the cheating during the 2006 elections and then convinced him to go to war in Somalia at the end of 2006.[3] Ethiopian troops were occupying large parts of Somalia and the capital Mogadishu, until they left at the end of January 2009 (NRC, 26 January, 2009). The Financial Times (6 February, 2007) summarized Meles's dealings with China as: "Ethiopia looks east to slip reins of western orthodoxy". In the article it is noted that Ethiopia draws inspiration and a growing portion of funding from the east. Meles considers neo-liberal market reforms the hallmark of the West and the World Bank, but they did not generate the kind of growth Africa was looking for, while it weakened the role of the state. He believes in a strong developmental state and considers China to be the example.

Western countries and in particular the European Union (EU) were more critical about the political developments in Ethiopia. The EU stopped its aid for some time and a small country like the Netherlands went from budget support (showing confidence in the African partner country) to financing projects, which are selected using the criteria applied by Dutch development cooperation.

Meles denies that China's willingness to lend without conditionality is undermining Western aid conditionality and reinforces some of the continent's repressive regimes. According to Meles, "the West assumes that they can buy good governance in Africa. Good governance can only come from inside; it cannot be imposed from outside. That was always an illusion". The reality is of course that Meles' regime is repressive, denying the results of a democratic process in Ethiopia, and that he has managed to pacify the Americans and now uses the Chinese for his purpose. His political model, with no space for real opposition, resembles the Chinese political system. Hence the same question can be asked for both countries, how long will the people still accept this kind of repression (Van Dijk, 2008)? Ethiopia ends up as one of the countries that receives very limited FDI (it is not even coming from China), because investors lack sufficient trust in the long-term policies of the government and because the government is unwilling to sell land, which is all government-owned in Ethiopia (Serbeh-Yiadom et al., 2008).

Tanzania, more trade with China, but also more exports?

From Tanzania, China imports mainly ores, wooden logs and cotton, while it exports garments, batteries and other consumer goods to the country. The Chinese government has promised to gradually reduce import tariffs for products coming from least developed countries to zero. Tanzania could benefit from this policy by exporting more products and not only raw materials. The long history of China and Tanzania's relations has already been mentioned. It resulted in the railroad from the capital, the port city of Dar es Salaam, to Zambia's mining region. The irony is that these railroads may now be privatized.

Tanzania tries to attract Chinese investors and promotes more joint ventures with the United States (US) and Chinese companies. Although the Chinese are mainly interested in selling their products and in buying raw materials in Africa, a Chinese mission visiting the country in August 2006 made some promises to invest. According to the Tanzanian Guardian (24 August, 2006), the Tanzanian vice-president has pledged government support to investors trying to achieve the goals of the Tanzanian government. The Chinese answered that they seek investments in industry, minerals, agriculture and irrigation and that China has helped Tanzania with the development of an Export Processing Zone (EPZ). These investments should lead to real export, but usually also result in sales in the local market, because the industries in the EPZ are looking for a market for their textiles or garments, in particular the lower quality products, which are difficult to export.

It is not so clear why China would invest in Tanzania in other sectors than raw materials. One can hardly expect the Chinese to play the role that Japan has played for many East Asian tigers, where they promoted industrial development by subcontracting to local firms in these countries. Technical education has also been neglected in Tanzania, meaning that companies have to train their own people. This is one of the factors increasing the costs of production in Tanzania.

The Danish development cooperation financed a project to provide Tanzanian enterprises better access to international markets. Van den Hoestenberghe (2006) notes that the following sectors are particularly ready for Chinese technology transfers, FDI, or for promoting linkages with other sectors of the economy: the transport sector, the mining sector and especially ore and coal. He suggests joint ventures and technology transfer to help Tanzania to process the ore before exporting it. Also other mining products and wooden logs could be processed in Tanzania before being exported. For cotton he suggests that making yarn and doing the spinning and weaving in Tanzania may be an option to be supported by Chinese capital and technology.

Countries like Tanzania find it difficult to compete in an international or global context, while their markets are flooded with cheap Chinese products (Box 1.1 in Chapter 1 gives the example of textiles and garments from China exported to Tanzania competing with the local tailors). An example of the unexpected effects of globalization concerns plastic bottles. It is important that there will be a plastic recycling plant in Tanzania soon. Currently most of the plastic bottles are compressed and exported to China, where the material is reused! Fortunately there will probably come a plant with the help of the UN Industrial Development Organisation (UNIDO). Scrap metal has already become valuable in Tanzania for exports, and the hope is that people will recover plastic in the future for local processing.

When trade statistics are looked at more closely, it turns out that the real dynamic for Tanzania is in the trade with India and China. Their shares in Tanzania's trade have been increasing rapidly over the last years. It is difficult for Tanzania to compete with the top league in the region (South Africa), or even with Kenya, one of Tanzania's partners in the East African Community, which is considered quite advanced as far as industrialization is concerned. Hence China may provide new export opportunities for Tanzania and hence Tanzania is trying its luck, building on long-lasting relations and hoping it will not be disappointed.

Zimbabwe, the wrong type of support

In Zimbabwe, China is providing substantial financial support to president Robert Mugabe and all kinds of support to his ailing government. For example, China helps to solve the problems of the tobacco industry, which suffered a lot from the nationalizations of the white farms. Where Western donors insist on good governance, China is not difficult and accepts a fake democracy and a corrupt administration.

The embarrassing situation for China will come when Mugabe will eventually be replaced. This became clear in April 2008. Reports were made of a Chinese ship carrying arms for Zimbabwe, which had to return from Durban because its cargo of bullets and mortar bombs was not unloaded in South Africa (International Herald Tribune or IHT, 25 April, 2008). Dockworkers, church groups, Western diplomats, human rights workers, trade unionists and religious leaders campaigned against it and had been able to convince the dockworkers and a local judge, who cancelled the permission to bring the weaponry over road to Harare, the capital of Zimbabwe.

The argument used was that the weaponry could be used to carry out an even more lethal crackdown on Zimbabwe's political opposition. The call had also received important backing from the Zambian president, Levy Mwanawasa, who was leading a block of fourteen Southern African states (IHT, 25 April, 2008; he died later in a Paris hospital). At that time, the results of the presidential elections in Zimbabwe had not yet been announced, but the violence used by the government against the opposition increased almost every day. The opposition had to decide to boycott the elections, since the level of repression was unbearable. Hence Mugabe started his sixth presidential term, although only recognized by a limited number of countries so far (by Iran, for example). He was later pressed to accept as a compromise the opposition leader as his prime minister. It was later announced in the press that the ship was unloaded only slightly later in a port in Congo and that the Chinese weapons had arrived in Zimbabwe only a few weeks later (NRC, 2008).

Chinese investments in African agriculture

China is looking for cheap food. For that reason, China is ready to invest in the agricultural sector in Africa. Bastholm (2007) analyzes the Chinese "strategic" investments in the agricultural sector in Tanzania. The Chinese State Farmers Agribusiness group has also invested in Zambia (see Chapter 6), where they lease more than 3,000 hectares (producing chicken and pigs and with an annual turnover of three million US$; Internationale Samenwerking, September 2006: 37). Bastholm and Kragelund pay attention to the role of the Chinese in the agricultural sector in Zambia in Chapter 6. The Chinese are also present in the agricultural sector in countries like Egypt, Sudan and Senegal.

Apart from investments in Africa's agriculture, the Chinese government has also developed official plans to acquire land abroad to secure its food supplies (Financial Times, 9 May, 2008). According to the Financial Times, Chinese companies will be encouraged to buy farmland abroad, particularly in Africa and South America, to help guarantee food security for China. The Chinese Ministry of Agriculture has drafted a proposal, which suggests supporting off-shore land acquisition by Chinese agricultural companies. According to this Financial Times article:

> There are already policies to boost off-shore investments by state-owned banks, manufacturers and oil companies, but off-shore agricultural investments have so far been limited to a few small projects.

The plans to acquire land abroad to secure food supply could face intense opposition in the countries concerned. The Financial Times summarizes as the main arguments against it that it could result in "rising global food prices and deforestation". On the one hand it must be noted that a number of countries face decreasing rural populations (for example in Eastern Europe) and would welcome foreign farmers. On the other hand, nationalist feelings may resist an invasion of Chinese farmers. Box 8.3 shows that China is not the only country with plans to acquire land abroad. A number of Middle Eastern countries have similar plans, while European companies and individuals are investing heavily in the horticulture sector in different African countries, although they are often leasing the land.

Box 8.3 Non-Chinese initiatives to promote agricultural investments in foreign countries

Libya is discussing options to invest in agriculture (growing wheat) abroad in the Ukraine. Saudi Arabia has also said it would like to invest in projects abroad to ensure food security and control of commodity prices. Finally, the Emirates are doing the same in Pakistan.

Horticultural investments are made by, for example, Dutch and French firms and individuals in countries like Ethiopia, Kenya, Tanzania, Uganda and some other East African countries. These countries face similar problems of leasing land to foreigners, which is then not available for local farmers. Similarly, foreigners may be obtaining scarce water, while diverting land from producing agricultural products contributing to achieving local food security.

The Wall Street Journal (11 July, 2008) recently gave an overview of "Rich nations investing in farms of poor ones". The Journal stresses that unless the plans raise the local living standards, they will likely be a failure in the eyes of the local population. The key is how the local population can benefit from these investments.

Source: Financial Times (9 May and 13 May, 2008); and for Tanzania, Van Dijk (2009)

European flower growers also lease land in African countries to export their products to Europe and the US. They argue that the soil and climate are more appropriate for certain flowers. An argument forwarded by the Chinese press for investing in agriculture abroad is that China counts about 40 percent of the world's farmers, but has only 9 percent of the world's arable land. Secondly, Chinese scholars argue that domestic agricultural companies should expand abroad if China is to guarantee its food security and to reduce its exposure to global market fluctuations. It shows another contradiction. China, having benefited from globalization through manufacturing, is not accepting globalization when agricultural production is concerned. In the agricultural sector, other developing and developed countries could benefit from the additional demand for their products. In particular, there is a potential for additional agricultural production in Latin America, Eastern Europe and some of the former republics of the Soviet Union.

Also Africa may be ready for an agricultural revolution given the current world market prices for food products (Kuyvenhoven, 2007).

One can be favorable about the principle of using land in other countries, as long as the sovereignty of the country concerned is respected and foreign investments do not become some new form of imperialism. Countries like Ethiopia are very positive about these investments in horticulture, because they create local employment and help Ethiopia to generate foreign exchange.

Some developing countries exporting agricultural products have become very protectionist the moment agricultural commodity prices started to really increase in 2007. Argentina, Egypt, the Ukraine and Vietnam, for example, have all restricted their exports or have introduced export taxes. This is surprising, because simultaneously these countries put pressure on Europe, Japan and the United States in the Doha round of trade negotiations of the World Trade Organization (WTO) to be less protective with respect to agricultural imports. Such an attitude is also risky for countries like China, which would not be able to get the agricultural products out, which were the fruits of their investments.

Chinese investments in the textile sector affecting Africa

The effect of China's export activities in Africa can be illustrated by the role of Chinese manufacturers producing garments in Africa. Textile and garments exports used to be limited through the Multi Fibre Agreement (MFA), which would set quotas for textile-exporting countries.[4] Everybody knew twelve years before that the MFA would run out, but China was one of the few countries anticipating this event by investing heavily in its local production capacity and it benefited strongly from the new opportunities after 2005 to export textile products. China rapidly increased its textile exports after the termination of the MFA in January 2005. In Tanzania the effects were very limited, because the textile sector had already had problems for a long time and is still in a restructuring process (see Box 8.4 on page 168).

The issue was particularly relevant in 2005. While the EU and the US decided to protect their markets from Chinese exports of textile and leather in 2005 and 2006, China may have diverted its export to Africa and Latin America. African and Latin American countries have suffered very much from the competition of cheap Chinese textile products.[5] The EU and US argued that they took protectionist measures to protect other Third World producers of textiles and garments, because hardly any textiles are produced in the EU or the US any more.

Box 8.4 Negative effects of Chinese textile exports for Tanzania

Textiles from Southeast Asia had already hit Tanzanian textiles and garments before the end of the Multi Fibre Agreement. This competition started in the 1990s when Tanzania opened up its economy. All shops in Dar es Salaam are now filled up with Southeast Asian textiles and Tanzania is mainly producing specific types of textile and clothing, which are demanded in the local market. If one asks Tanzanian traders, they claim that a lot of these textile products and garments are dumped by China, or come from Dubai, but that the Tanzanian government doesn't want to follow up on this information. Good shirts are sold for less than 1,500 Tanzanian Shillings (just over one US dollar), which poor people really appreciate. Some trade experts think that Tanzania should ask the World Trade Organization to set up a joint committee to investigate the dumping. Subsequently the country can then try to restructure its own textile and garments sector.

The impact of China's rapidly increased textile exports after the termination of the Multi Fibre Agreement (MFA) has been devastating for the emerging textile industry in a number of African countries. The markets in Europe, the United States and Africa were flooded with Chinese textiles and garments. Thousands of jobs were lost in countries like Kenya, Lesotho, Swaziland, South Africa and Mauritius due to the flood of Chinese textile and garments (NRC, 4 June, 2005). In particular, South Africa suffered tremendously. The newspaper noted, however, that African consumers benefited greatly from these developments, because cheaper textiles and garments became available locally, which is a blessing for the poor people, who cannot afford the more expensive clothing.

During President Hu's visit to Africa in 2006, South Africa's President Thabo Mbeki raised the question of whether China would develop a colonial relationship with Africa. This question had a lot to do with the negative experience in the South African (and other countries') textile industries with Chinese competition. The Chinese invested in several African countries in the 1980s, which did not use up the textiles export quotas to which they were entitled under the MFA. By January 1, 2005, these factories were no longer needed and China produced and exported as much textile and garments as it could produce itself and exported them directly to Europe and the US.

Construction activities

The role of the construction sector in Zambia was one of the examples in Chapter 6. Also in the case of Ethiopia, the importance of Chinese construction firms was mentioned. A recent example of how Chinese contractors obtain construction jobs in Zambia is given in Box 8.5.

Box 8.5	Chinese contractor to work on Zimba-Livingstone road
The Zambian journal The Post (4 July, 2008) carried the heading: "Chinese contractor to work on Zimba-Livingstone road". It states that the government has granted authority to the Road Development Agency to award a contract for the rehabilitation of the highly dilapidated section of the Zimba-Livingstone road to a Chinese contractor. The contract would define the scope of works on the rehabilitation of 30 kilometers of the 74 kilometer stretch of road. The contract for the rehabilitation of the 30 kilometers has been awarded to China Geo-engineering Corporation (CGC), "which will also be expected to carry out maintenance of the next 42 kilometers into Livingstone".	

Source: The Post (4 July, 2008)

Superficially there are no problems, because the work has been tendered using newspaper advertisements to raise the interest of local and international construction firms. However, reading the article in The Post more closely, it turned out that Zambia had not enough money for the work and that there were still "considerations being done on the design". A previous tender failed last year because "the bidders failed to bid within the terms". Staying within the terms may be difficult, if the design is not fixed and the money is not adequate. The Chinese firm seemed to be comfortable with these uncertainties.

Chinese construction firms active in different African countries receive the news about upcoming tenders from their embassies. They are usually willing to do the construction work at lower prices, but they tend to use mainly Chinese managers and sometimes even Chinese workers, who seem to accept working very hard at relatively low salaries and tend to finish their jobs faster than the local firms. Local construction firms and communities feel very frustrated and this sometimes leads to protests again the policies of Chinese contractors, as was the case of Zambia, which is summarized in Box 8.6 on page 170.

In this case, the Chinese contractor did not want to bring in Chinese workers, but people from other regions. The example makes it clear that the Zambian population has become very sensitive to foreigners carrying out projects without involving the local community. To answer the resistance of the local population to the use of managers from different regions, officials argued with the old slogan: "One nation, one Zambia" and they stressed that the population may scare away potential investors in their region.

Box 8.6	Villagers warned to stop intimidating Chinese contractor
	Under the heading, "Villagers warned to stop intimidating contractor", the Zambia Daily Mail (10 July, 2008) tells the story of a Zambian District commissioner advising villagers to stop intimidating a contractor engaged by the government to construct a 500 million US$ irrigation scheme co-funded by the African Development Bank and the government, which was meant to benefit the local community and reduce the high poverty levels in the area. He added that: "the demand that employment opportunities should only be given to community members would not be entertained". In an editorial in the Times of Zambia (10 July, 2008), it is noted that: "reports that local people have threatened to use violence to stop a Chinese investor from recruiting qualified Zambians from other parts of the country to work on a Government project are disturbing". It is noted that the local people lack the desired qualifications and should listen to the District Commissioner.

Source: Zambia Daily Mail (10 July, 2008) and Times of Zambia (10 July, 2008)

China buying into the African financial sector

The Chinese government has opened a bank in Zambia exclusively for Chinese customers. However, Chinese government-controlled financial institutions are also interested in owning financial institutions in African countries. The largest takeover was the buying of the Standard Bank of South Africa in October 2007, mentioned in Chapter 3. It shows that Chinese investments are diversifying into services. According to Chaponnière in Chapter 3, the Industrial and Commercial Bank of China (ICBC) invested five billion US$ to buy 20 percent of Standard Bank. This is the largest South African bank, with subsidiaries in eighteen African countries. In the financial press it was mentioned that this would make it much easier for Chinese businessmen to transfer money within Africa and between China and Africa.

China involved in African mining and the oil industry

Mineral resources that are important for China in Africa are cobalt, iron and copper. It was recently announced that Chinese oil companies are in energy talks with Nigeria "with a £2.5 billion loan" (Financial Times, 22 April, 2008). The Financial Times adds that China agreed to lend Nigeria this amount for infrastructure projects in a renewed attempt to win access to markets and energy reserves in Africa's main oil exporter. An even bigger deal in the mining and oil sector than the one in Nigeria had been suggested for Congo. It was discussed at the beginning of this chapter. The result of previous Chinese investments is that now more than one-third of Chinese oil supply comes from Africa. China often has long-term contracts, which allows it to import the oil at prices far below the world market. The price paid in Sudan would be around 65 US$ per barrel, while in July 2008 the actual market price was 150 US$ per barrel. The Chinese state-owned oil companies invested in particular in oil and gas in countries like Angola, Nigeria and Sudan. These investments are now very valuable and helped China in 2007 and 2008 to control its inflation, by keeping the price of fuel low.

There were also problems with Chinese employers in the mining sector in Zambia, who refused to pay the legal minimum wage to Zambian workers. The mining sector has very limited forward and backward linkages and the government wants the employers to develop these linkages. However, only the direct employment effects of mining are substantial, just like the tax revenues. But because of increased exports the local currency also tends to gain value because of the investments in the mining sector. This makes it difficult for Zambia to step up its exports of other products. Just like Tanzania, Zambian companies find it difficult anyway to compete in regional markets because of more advanced industrial countries like Kenya, South Africa and China, which supply industrial products at lower prices.

Box 8.7 Labor unrest in Zambian mines

In March 2008, Zambian miners working in the Chinese-owned Chambesi copper mine went on strike. They wanted their salaries to increase from Kwacha 280,000 to 1.2 million per month. About 500 miners demonstrated and stones were thrown to members of management of the mining company, who wanted to talk to the miners. One Chinese manager ended up in hospital and the house of a foreman was burnt down. The problems continued the following day and management put 400 workers temporarily out of work. It was announced that the intention is not to fire them, if they respect that the negotiations have to take place according to the official procedures for agreements on wages and other labor conditions.

Source: Zambia Bulletin No. 122, 9 June, 2008. One US dollar is worth 3500 Kwacha

China's presence in the mining sector has led to labor and environmental issues in Zambia (see Box 8.7). The workers complained about security in the mines and the work conditions. It was noted that the work conditions may have been acceptable to Chinese workers but not for Zambian ones. This is a problem of a different perception of certain (labor, environmental, etc.) standards and we will come back to it in the final chapter. The same problems have emerged in South Africa, where the Minister of Labor criticized Chinese employers saying: "they had no excuse to mistreat workers or pretend to labor inspectors they could not speak English" (Business Day, 26 June, 2008).[6] The Chinese Association of South Africa reacted that the remarks about South Africa's Chinese community were unfounded, irrational and inaccurate.[7]

Conclusions

President Hu presented the Chinese approach to economic development as a political and economic alternative, but it could also hinder Africa's industrial development. "Angel or devil" is the title of a comment provided by Tegegne Worku (2006) in an Ethiopian weekly on China's role in Africa. He is dealing with what he calls the re-rise of China and its impact on Africa. Like Kragelund (2007), he distinguishes countries and industries that compete head to head and stand to lose, while those that complement its economy stand to gain from China's economic growth. This is an opinion about economic development that can be heard more often and is based on the idea that globalization is a zero sum game and if one country gains another has to lose (the opposite is argued by Wolf, 2008). Tegegne (2006) continues that China is a new alternative and that the nature of China's engagement appears to be pure business. It is straightforward with no strings attached, no ideological tint and no fuss about the internal affairs of the countries concerned. However, we saw in this and other chapters that this is to some extent an illusion. China did intervene in Zambia, it did consider a military presence in Ethiopia and has been willing to exert some pressure on Sudan when boycotting the 2008 Olympics was suggested by Western NGOs.

Tegegene (2006) then points to one big advantage for Africa from China's increased presence. Due to China's increasing demand for commodities, their prices have gone up substantially, which has helped a number of commodities-producing African countries to grow faster. However, China also discourages higher value-added production in Africa. He rightly concludes with the question of why we should expect China to be more altruistic than its predecessors.

I also agree with him that it is not a question of angels and devils, but rather of African countries, which should stop letting external parties determine their fate. They should rather start taking their fate into their own hands. Angola and Congo, and to some extent Nigeria, which has recently refused some Chinese deals, are examples of countries which have developed their own reaction to the proposed Chinese presence in their country. It seems like the bigger and richer countries are better placed to develop such a counter-strategy. We will come back to this discussion in the last chapter, where we will also ask the question under which circumstances China's presence would slow down a local development process. Certainly a more united stand would be beneficial, if only for the smaller African countries. A good a priori analysis of the distribution of the cost and benefits may help, and the choice for public-private partnerships in the development of certain sectors would allow the African country concerned to closely monitor the developments and to intervene when the national interests are not being served.

Notes

1 These construction contracts are financed partially under international and partially under bilateral financial support contracts, but sometimes just Chinese development cooperation.
2 This issue is discussed by Puska (2008).
3 The Americans did not want to go back to Somalia after their humiliating drawback earlier and since they are already overstretched with soldiers in Iraq and Afghanistan.
4 In January 2005, the Multi Fibre Agreement (MFA) ended. It limited exports of textile and garments from developing countries to developed countries by imposing quotas (Van Dijk and Sideri, eds, 1996).
5 For an example concerning the leather industry in Ethiopia, see Tegegne (2006).
6 The Chinese in South Africa had gone to court to be declared black for the purpose of benefiting from economic empowerment legislation (Business Day, 26 June, 2008).
7 The association added that it was surprised by his remarks, which conflicted with the constitution and the legislation he was meant to administer. In their words: "His unfounded generalisations about the South African Chinese community are factually inaccurate" (Business Day, 26 June, 2008).

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Part IV

Conclusions

9 Responsible production in Africa: The rise of China as a threat or opportunity?

Peter Knorringa[1]

Introduction

This chapter explores likely impacts of the rise of China on opportunities to enhance responsible production in Africa. Responsible production refers to those situations where lead actors in value chains make a deliberate effort to include, throughout their supply chain, labor and environmental standards that *go beyond* the existing minimum legal requirements. In this way, I use responsible production as an umbrella term, encompassing both Corporate Social Responsibility (CSR) initiatives and Fair Trade activities. This chapter is part of a broader program of research that raises two basic questions in order to begin assessing the development relevance of responsible production. First, how likely is it that responsible production becomes increasingly mainstreamed? Second, to what extent can we expect the "tool" of responsible production to enhance developmental outcomes? In other words, these questions explore the quantitative – reach – and qualitative – depth – importance of responsible production for development. While CSR has been first and foremost a business tool so far, the challenge is to identify where and when it can also become a development tool.

The question that will drive this chapter is whether the increased competitive pressures from Asia are pushing African producers to an ever more desperate race to the bottom, or whether a significant number of examples exist of producers that consciously compete through incorporating higher labor and environmental standards.

This chapter is structured as follows. The next section provides a working definition of responsible production. It outlines a typology that distinguishes between compliance, risk minimization and value creation strategies, and adds the Norm Life Cycle model to make this typology more dynamic. Before using this typology to position existing case studies from Africa in the fourth section, a section briefly introduces the broader context of the case studies by looking at private sector development and CSR in Africa, and the role of China in these developments. Then we bring in some additional sobering thoughts to the idea that responsible production will be the way of the future, by showing how the rise of China as a center of global production and consumption may well limit the reach of responsible production. The final section concludes by presenting the main findings and outlining suggestions for further research.

A dynamic typology of responsible production

Defining responsible production, Fair Trade and CSR seems a simple first step in developing this chapter. However, the confusion in the discussion on the definitions reflects the overall confusion in this area of work. Instead of getting drawn into a survey of the definitional issues in this booming literature, I will try to highlight very briefly the often implicit discourse clashes that thwart agreement on straightforward definitions. For me, responsible production refers to those situations where the lead actors in supply chains make a deliberate effort to include, in dealing with stakeholders throughout their supply chain, labor and environmental standards that *go beyond* the existing minimum legal requirements. In this way, I use responsible production as an umbrella term, encompassing both Fair Trade and CSR initiatives. While CSR is particularly important to investigate the likelihood of broadening the reach of responsible production, as it often involves large, brand-sensitive corporations, Fair Trade initiatives are inherently niche activities that may provide significant demonstration effects of localized depth of responsible production.

This section will continue to first briefly define Fair Trade, and then focus on unpacking the idea of CSR by using a typology of three often cited and partly overlapping CSR strategies. Finally, I add the infrequently used model of the norm life cycle to this typology to provide an often missing dynamic element of process to the CSR debate.

The official definition of Fair Trade has been the result of fierce discussions within the movement, and presently is formulated as follows: "Fair Trade is a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in the South" (FINE, 2001).

The reality of Fair Trade, inevitably, is more unruly. Even for the star product of coffee, it seems clear that it is far from easy to deliver on the very ambitious claims made in Fair Trade documentation.[2] Moreover, and this is probably more important and structural, with their modest turnover and the volatility in consumer tastes, Fair Trade marketing channels simply cannot guarantee a regular demand for particular upgraded indigenous handicrafts from specific groups of specialized artisans from the South. Fair Trade can and does aim to upgrade such producers, and in some cases succeeds in assisting them to "get on the radar screen" of mainstream buyers. Nevertheless, the overall picture seems to indicate that for local development in the South, in whatever sector, Fair Trade on its own cannot achieve significant reach in terms of mainstreaming responsible production.

Many CSR definitions by management scholars not only include that firms need to go beyond what is required by law, but also to go beyond the interest of the firm (McWilliams, Siegel and Wright, 2006).[3] I find this counter-intuitive and counter-productive, as the more sustainable achievements in responsible production are to be found most feasibly in situations where firms can actually increase long-term profitability and sustainability by engaging in CSR as a way to differentiate themselves and their products. In a very critical, forcefully argued recent survey, The Economist (20 January, 2005) even goes one step further and argues that *only* the type of CSR where both profits and social benefits increase makes sense. Given their dislike of the CSR terminology, they prefer to label the situation where higher profits and increased social benefits go together as "good management", so as to differentiate it from three other types of CSR which they feel are flawed.[4] This type of "good management" is what much of the business-school CSR literature refers to as the "business case for CSR" (see below). This implies a win-win situation, often without much emphasis on the inherent conflicts of interests among the different "stakeholders" in such initiatives. Two other recent special issues on CSR by development researchers (International Affairs, 2005, and Third World Quarterly, 2007) shed a very different light on the debate (see e.g. Blowfield, 2005; Jenkins, 2005; Newell and Frynas, 2007). They argue that the development relevance of CSR will remain inherently limited in terms of reach as long as only internationally operating brand-sensitive firms in consumer markets are pushed to behave responsibly, and depth remains limited as long as private sector actors can get away with defining, implementing and evaluating what is to be seen as socially responsible.

Even though philanthropy is often the first association with the idea of CSR, especially in the USA and in many developing countries, in this chapter I focus on the more strategic dimensions of CSR in terms of incorporating responsibility attributes in the day-to-day operation of the firm. In other words, while philanthropy is basically about ways to use profits to "give back to the community", I focus on CSR as part of a business strategy or when CSR "becomes *the way* in which the company does business..." (Chapple and Moon, 2005: 425).[5]

The more strategic CSR literature often uses the following typology of three different but in reality often partly overlapping strategies: 1. Compliance (with existing regulations, laws, conventions and standards), 2. Risk minimization (safeguard brand-name goodwill and company reputation by moving beyond mere compliance) and, 3. Value creation (using CSR activities as a way to compete and essentially differentiate oneself from other companies that offer similar products) (Nelson, 2000: 28). One might argue that "mere" compliance with existing regulations should not be seen as a strategic CSR activity. However, there is more to compliance than initially meets the eye. Regulations are continuously changing, regulations differ by country (and does one take the country of consumption or of production as point of departure?), and regulations can be adhered to by following either the letter or the spirit of the regulation. Moreover, the really significant improvements in the reach of responsible production are made through small improvements that are incorporated by large groups of companies, and by far most companies can be situated under the heading of "1. Compliance". Therefore, so-called "active" compliance behavior is to be seen as a strategic CSR activity.

The three strategic CSR strategies are often visualized as a pyramid, where firms aiming for compliance form the large base of the pyramid, a smaller group of companies with brand-names aim at risk minimization, and an even smaller group of companies uses their responsible behavior as a key competitive tool.

This categorization gains a dynamic perspective by adding the Norm Life Cycle model, a useful tool to analyze the process of how new norms can become mainstreamed (Finnemore and Sikkink, 1998: 898).[6] They distinguish three stages: norm emergence, norm cascading, and norm internalization, with a key role assigned to the "norm tipping" that takes place between the first and second stage (Segerlund, 2005: 5). In the first stage of norm emergence, altruism, empathy, idealism and commitment are seen as the main motives for "norm entrepreneurs" to push, for example, for better labor standards. This refers to the frontrunners in responsible production, in particular the various types of Fair Trade initiatives. Moreover, it also includes those firms that really use their image of responsibility to create value (a well-known example is The Body Shop).

Once a certain critical mass of key companies have adopted such a norm, "norm tipping" brings us to the second stage of norm cascading in which legitimacy, reputation, and esteem become the main motives of companies to join what is now seen as "the right thing to do". This is also where risk minimization comes in. A-brand companies start seeing they need to invest in boosting their responsibility image, in order not to "fall behind" those firms who used to be seen as frontrunners but are now increasingly setting the new level of expected responsible behavior.

In the third stage of norm internalization, the new norm has become a generally accepted minimal standard that all participants need to conform to, and at this stage, for example, new laws on minimum labor standards can further institutionalize the now generally accepted new norm. At this stage also, those firms who focus on compliance need to respond to the changed situation. Adding this dynamic dimension therefore shows that firms need to actively respond to changes in norms, even when they continue to follow the same CSR strategy. Moreover, through this dynamic process of new norms becoming mainstreamed and subsequently internalized over time, the "floor of basic compliance can be raised", and overall compliance requirements can increase over time.

The danger with these types of models is that one might be tempted to think only in terms of inevitable improvements leading up to a steady state of utopia. Obviously, over time companies may move up and down through this model, and it is important not to be naïve about ever reaching a state in which a majority of companies would use their responsibility profile to differentiate themselves from competitors. Nevertheless, I feel this model helps to more systematically assess trends in the occurrence of responsible production. Therefore, combining the Norm Life Cycle model with the more commonly used typology of CSR strategies leads to three different levels of responsible production that will be used below to position the existing case studies on Africa. But first, it is useful to introduce private sector development in Africa and the renewed role of China in African private sector development.

Private sector development in Africa

As many contributions to this edited volume focus on aspects of private sector development in various African countries, it suffices here to briefly and selectively pick out four issues that are important to provide a context to interpret the role of responsible production in Africa. First, an introduction to why private sector development may be seen as part of the problem, but it also has to be part of the solution. Second, to stress that private sector development in Africa faces many daunting challenges to perform this constructive role. Third, while Chinese investments in Africa may at least potentially be part of a solution, they are viewed in very different ways. Fourth, and lastly, it is argued that the role of CSR in addressing broader development issues has been extremely limited, but is at least potentially significant.

To start with the first point, there are several general ways through which the private sector contributes to development in general and poverty reduction in particular, most importantly as the engine of the economy and the main source of employment (when for the moment we include the informal sector in our description of the private sector). At the same time, private sector actors are often seen as exploiting specific groups of workers, destroying local environments, and siding with undemocratic leaders to optimize profits. Therefore, a nuanced approach is a necessary first step in discussing the link between private sector activities and developmental concerns. Most observers agree that private sector growth is a necessary but not sufficient condition for development. Without a growing "cake", it is difficult to imagine sustainable poverty reduction among less privileged groups in society. At the same time, growth as such does not lead automatically to poverty reduction. Including the private sector as an indispensable actor, along with civil society and the state, to deliver development, is only a rather recent phenomena and is still frowned upon by many traditional elements within civil society and the state.[7]

Second, private sector development in Africa faces many structural challenges. A key contribution in this area of work has been a study by Pedersen and McCormick on African Business Systems. They argue that the African business system is characterized by fragmentation, and that despite:

> ... important differences in resource endowments, pre-colonial social structures, colonial rulers and settlement patterns, post-independence industrial policies and donor involvement, the business systems of many African countries have developed in remarkably similar ways. The typical African production and distribution system consists of several distinct segments: a parastatal sector, a formal, large-scale private sector typically dominated by multinational affiliates, and so-called 'non-indigenous' enterprises owned by migrant traders or settlers such as Asians in East Africa, whites in Zimbabwe and Lebanese in West Africa; and finally an 'informal' sector which is mostly African and small-scale, but often contains an important illegal or semi-legal large-scale component. The various fragments interact with each other, but only in limited ways,... (Pedersen and McCormick, 1999: 112-113).

Pedersen and McCormick (2001: 122) also argue that a key problem in many African business systems is that they are fragmented and volatile, which makes developing bridging social capital extremely difficult, especially between small and large firms. Entrepreneurs are caught in risky environments, where they can be confronted with problems beyond their control. Moreover, they often need to base their business relationships on personal relationships because "... monopolistic or illicit tendering practices and the inability of the legal system to secure enforcement of contracts is a major problem" (ibid: 121). Finally, they are exposed to increasingly pervasive rent-seeking and corruption, especially among groups of businesses with political protection, and growing instability because of increasingly predatory states. As a result, small entrepreneurs are boxed into what Mumvuma (2000) calls simple contracting. He finds that "... transactions and associational activities as a consequence are often polarized along religious, racial, gender, ideology etc. lines" (Mumvuma, 2000: 256). In general, a wave of recent studies emphasize several ways in which macro-economic uncertainty and volatility in Africa further inhibits private sector development (Hyden, 1997; Platteau, 2003; Rothstein, 2004).

Third, the role of Chinese investments and the impact of the rise of China on prospects of developing export-oriented sectors in African countries. In a provocative paper, Kaplinsky and Morris (2007) argue that "the entry of China (and to a lesser extent India) into the global economy as a significant exporter of manufactures poses severe problems for export-oriented growth in Sub Sahara Africa" (Kaplinsky and Morris, 2007: 254). They basically argue that the first steps into export-oriented manufacturing, often in sectors like garments, textiles, shoes, are blocked by Asian producers. Without protection, African producers will not be able to compete in these labor-intensive sectors, neither in export markets nor in their domestic markets. The situation looks less bleak for extractive resource-based industries like mining and oil, and for high-value agro-based products like flowers and specialty vegetables. China (and to a lesser extent India) is not so much a competitor in these sectors but has increasingly become a main consumer. China, especially, sees Africa as a strategic supply base to ensure access to resources like oil and minerals (Konings, 2007; Gu et al., 2008). Moreover, China sees opportunities in Africa to sell its products and (re) build political alliances.

For many African rulers, China offers a very attractive alternative to dealing with European and North-American governments and companies. China does not interfere in state sovereignty, and it does not impose a multitude of governance-related conditions in giving aid. More generally, it offers an opportunity to African rulers finally to wriggle out of the Western hegemony (Konings 2007). Therefore, some observers are jubilant about the performance of Chinese investors in Africa. They put forward that while many Western investors and governments may claim to have the interest of the Africans at heart, their paternalistic and self-serving (conditionalities!) behavior in practice might well offer fewer development opportunities as compared to the more straightforward business approach by Chinese investors. By contrast, in Western circles the increased Chinese involvement in Africa is often seen as a negative force, precisely because it does not impose good governance conditionalities on African rulers, and because it makes it more difficult for Western companies to secure cheap access to strategic resources.

Fourth, some authors have more broadly investigated the relevance of CSR to development. According to Blowfield (2007), we have relatively little to be cheerful about as most of the existing information on the impacts of CSR focus on the impacts of CSR on business concerns like effectively adhering to standards and the effects of that on consumer perceptions. In contrast, so far very little information has become available about "how CSR affects the major societal issues it was intended to tackle" (Blowfield, 2007: 683). Unpacking these societal issues, Utting argues that of the four central components of equality, as a key element of development, most CSR initiatives focus on social protection, and more recently also hesitantly on labor and other human rights (Utting, 2007: 697). The other two central components of equality, empowerment and redistribution, hardly feature in the practice of CSR at all.

Obviously, one cannot expect CSR to solve all problems for everyone. Nevertheless, it is important to identify and position the modest but potentially significant contribution of CSR as part of how the private sector operationalizes its relationships with society and the state. Conventional wisdom claims that the private sector drives economic growth, how the state regulates and how civil society acts as a watchdog. Strategic CSR is one way in which private sector actors explore new delineations in the complementary roles of private, state, and civil actors. Moving forward with improving our understanding of the relevance of CSR to development also requires a pragmatic and empirical approach, recognizing that "CSR initiatives work for *some firms*, in *some places*, in tackling *some issues, some of the time*" (Newell and Frynas, 2007: 674).

African case studies on responsible production

This section positions the limited number of existing African case studies that fit within the domain of responsible production, and discusses the extent of Chinese involvement in these cases. But first of all, it needs to be pointed out that many publications on CSR in Africa focus on philanthropy and therefore do not fit into the present classification. One good example of this literature is a paper by Amaeshi et al. (2006) titled "Corporate Social Responsibility in Nigeria: western mimicry or indigenous practices?". They convincingly show how Nigerian CSR has a strong philanthropy focus ("giving back to the community") and is almost exclusively carried out by big business, often multinational companies but also (and that is where the "mimicry" comes in) major domestic companies. They argue that such a focus makes sense because in African countries such initiatives fulfil an obvious need because governments have retreated substantially from social policy. Moreover, and more importantly, they argue that a conception of CSR as philanthropy also fits the socio-cultural heritage of indigenous firms and business leaders:

> … the kinship-network-based system of business organization would imply that businesses first serve the interests of their network members as their primary constituency. Philanthropy, goodness to society and charity are therefore conceived within the moral economy of kin-based solidarity and reciprocity (Amaeshi et al., 2006: 24).

This philanthropic understanding of CSR also makes sense in relation to the issues discussed above: fragmented African business systems characterized by high trust and dependency within groups but very low levels of bridging social capital that enables more generalized norm emergence. CSR researchers often seem to be frustrated by this focus on philanthropy and cannot withstand the temptation to refer to an assumed linear progression in societies from a focus on philanthropy to a more central role for CSR in the core business strategy. However, I think the two models will coexist and may have different weights in distinct settings and time periods. In this chapter I wish to focus on CSR as part of a business strategy. Below, I present a synthesis of existing African case studies which do focus on one or more of the three strategic CSR issues: compliance, risk minimization and value creation.

Dynamic compliance: Raising the "floor of expectation"

Compliance with existing regulations forms the base of the pyramid of strategic CSR (see the second section above). To start with, most regulations like labor laws on minimum wage levels, or freedom of association remain a distant abstraction for workers in the informal sector, the main source of employment in Africa. But also for state-owned and foreign or domestically owned private sector firms in the formal sector, it seems unlikely that we can expect many states in Africa to have the political will and the capacity to enforce implementation upon those firms that resist complying to existing regulations. These structural constraints on legal enforcement at least partly explain the recent popularity of voluntary codes of corporate governance, a way for the "coalition of the willing" to enhance the visibility of their CSR practices.

In recent years, many African countries adopted rather sophisticated voluntary national codes of corporate governance, usually based on or inspired by three well-known codes: the OECD *Principles of Corporate Governance* (1999), the Commonwealth Association for Corporate Governance *Principles for Corporate Governance* (1999), and either the first or second King Report on Corporate Governance for South Africa (1994, 2002), as discussed in Rossouw (2007).[8] The main challenge with these codes of corporate governance is to bring a critical mass of companies under their umbrella, making it increasingly difficult for "respectable" companies to not join such initiatives. Some authors argue that achieving such a critical mass of responsible producers will provide a competitive advantage in attracting foreign investors (Vaughn and Verstegen Ryan, 2006). Other authors debate the possibilities of achieving more generalized (responsible) values in Africa, given that its moral economy has shown an "... inability of its institutions to enforce societal norms" (Adi, 2005: 4; see also West, 2006). While the existing literature diverges on the reasons for a lack of generalized norm emergence, it seems to converge on the observation that for the foreseeable future one should not expect an overall increase in the level of expected responsible behavior. Therefore, the logic of the Norm Life Cycle model, in which the "floor of minimum expectations" can be raised through a cascading effect of a critical mass of companies worried about their corporate image, does not seem to hold for the present reality in Africa. The fragmentation and polarization of business systems and consumer markets go a long way to explain this disruption.

In short, this means that presently in Africa there is limited scope for raising the floor of minimum expectations of corporate responsibility, neither through additional laws and regulations, nor through additional voluntary codes of corporate governance, given the weak and fragmented implementation. The fundamental differences between regulations and voluntary codes of conduct, which are often discussed in the CSR literature (see, for example, Newell, 2005), seem to wither away almost completely in much of the private sector in Africa. The need to rely almost fully on voluntary codes also implies that the final step in the logic of the Norm Life Cycle model does not hold for the present context in Africa. By and large, I do not see a process in which increasing standards of what is to be seen as responsible production at some point become further institutionalized in enforceable national laws.

From risk minimization to the "right thing to do"

Risk minimization occupies the middle section of the pyramid, in between compliance and value creation. A variety of case studies exist that show the importance of risk minimization to the brand name goodwill of especially multinational companies and supermarket chains. In this section a distinction is made between risk minimization by lead actors in global supply chains like flowers and horticulture on the one hand, and extractive industries like oil and mining on the other hand.

The extractive industries are especially dominated directly or indirectly by multinational companies, like oil in Nigeria, or mining in Southern Africa (see, for example, Ameshi et al., 2006; Frynas, 2005). In the case of extractive industries the responsibility issues often zoom in on impacts on local communities, human rights and environmental damage. One might even argue that local community development programs should be seen as part of philanthropy, removed from the core business strategy. However, in the case of, for example, mining and oil in Africa, at least partly because of awareness-raising by campaigning non-governmental organizations (NGOs), it has become imperative for Multi-National Companies (MNCs) to be seen to be addressing these issues, to minimize the risk of damaging their brand name goodwill. At the same time, these MNCs have by and large been successful in limiting the scrutiny of their social performance to rather straightforward technical outcome standards such as the number of schools built. So far, they have been able to prevent being drawn into a process approach that focuses on the empowerment and rights of local communities.

The other type of actors involved in risk minimization are lead actors like supermarkets that nowadays source from Africa. There are many regional and sectoral success stories, like cut flowers from Kenya and Ethiopia, horticultural products from Ghana, wine from South Africa, and more generally a variety of products from those African countries with a more competitive and organized private sector like South Africa, Ghana, and Kenya. It is perhaps not surprising that many of the existing case studies on risk minimization in Africa deal with one or more of the examples mentioned above, especially in those cases where final products are retailed by large companies in Europe which are, for example, members of the Ethical Trading Initiative or less well-known initiatives to enhance responsible production (see, for example, Barrientos and Smith, 2006; Barrientos and Kritzinger, 2004; Ewert and Hamman, 1999; Fig, 2005; Hamann et al., 2005; Hughes, 2001; West, 2006).

In the last decades we have seen a bewildering proliferation of standards and codes. Probably the best-known example of a risk minimization strategy (with some value creation elements in its presentation) is the Ethical Trading Initiative, in which a group of well-known brand name companies work together with trade unions and NGOs to ensure that labor conditions of suppliers "meet or exceed international labor standards". A very recent and in-depth independent study on the Ethical Trading Initiative (Barrientos and Smith, 2006; and at www.ethicaltrade.org) indicates that such international labor standards are successfully met for core workers in core supplier firms, but that the picture becomes more variegated for indirectly employed workers or for smaller firms and farmers who supply to core suppliers of global buyers. While ETI has perhaps received most publicity, many other Multi Stakeholder Initiatives (MSIs) exist. Among MSIs a convergence towards some of the ILO core standards can be seen. Most MSIs include health and safety, working hours, equal treatment of women, and child labor. Controversial remain operationalizations of freedom of association, wage levels (minimum versus prevailing versus living) and the scope of non-discrimination clauses (O'Rourke, 2006). One general trend in these supply chains is that smallholders are likely to be squeezed out of the chain in favor of large-scale commercial farmers who find it much easier to conform to standards (see, for example, Gibbon and Ponte, 2005). In effect, smallholders increasingly depend on niche markets like Fair Trade, as discussed in the next sub-section.

Value creation

The third and last type of responsible production constitutes the top of the pyramid, where firms use their responsibility profile as a Unique Selling Point. Therefore, at least in theory, the key difference between value creation and risk minimization as types of responsible production is that value creation is a proactive approach to responsibility, while risk minimization is a defensive strategy. The first and foremost type of production that springs to mind when looking at value creation is Fair Trade. For Fair Trade initiatives responsible production is at the core of their business model. However, as discussed in Section 2, the reality of Fair Trade is more unruly. Nevertheless, the intrinsic problems related to the model and reality of Fair Trade do not render it useless. On the contrary, they have played a crucial role as norm entrepreneurs, setting an example of how international trade can (at least aim) to be done "differently". Fair Trade has played a catalytic role in raising consumer awareness, especially among middle-class consumers in Europe and the USA. It can be argued that the present fashion for Corporate Social Responsibility (CSR) among leading companies, can at least partly be attributed to the pioneering role of Fair Trade. In the first decade of this millennium, Fair Trade has found it difficult to maintain its niche in the consumer market. Many CSR initiatives of leading brand names in, for example, coffee, and supermarket chains promoting their own brands, have in recent years flooded the market with responsible labels. Consumers have found it increasingly difficult to distinguish between these labels, and Fair Trade appears to be losing its claim to a Unique Selling Point. Mainstream companies have been successful in convincing consumers that their ethical purchasing practices are in effect on par with what Fair Trade offers to producers. At least partly this is a result of a process in which mainstream companies have been able to limit responsibility indicators to relatively straightforward issues such as wages and health and safety issues. As discussed in the subsection on risk minimization, these indicators do not address more controversial issues such as freedom of association or broader equality issues such as empowerment. Moreover, monitoring often remains limited to core workers.

One recent case study from South Africa shows an interesting contrast between the earlier mentioned Ethical Trading Initiative and the Wine and Agricultural Ethical Trading Initiative (WIETA) (Barrientos and Kritzinger, 2006). While ETI involves northern companies, international NGOs and global Union federations, WIETA is a southern-based initiative that links local suppliers, trade unions and NGOs. According to this study, the key difference between the two initiatives is that the localized initiative is much better able to negotiate inclusion of casual workers. Since labor conditions are often more substandard among casual workers, and most codes do not address these workers at all, localized initiatives like WIETA can play a crucial role in strengthening the relevance of standards to local development. In effect, they start addressing the challenge raised by Barrientos and Smith (2007: 727), to move from a compliance approach to a process approach that focuses on empowerment of workers. This can also be seen as a modest first step towards "how CSR affects the major societal issues it was intended to tackle" (Blowfield, 2007: 683).

Chinese presence in responsible production in Africa

On compliance, China's non-intervention policy makes it very unlikely they will play a pro-active or stimulating role in encouraging African countries to raise the floor of expectations. A more important role for Chinese producers can be envisaged in risk minimization strategies. However, the extent to which Chinese producers will be active in risk minimization strategies depends on several factors. First, to the extent that Chinese producers will increasingly own A-brands that have been shown to be more sensitive to risk minimization. Second, to the extent that attention for responsible attributes will become increasingly important among the new middle-class consumers in the global South (see also Section 5 below). One might hypothesize that citizens in the global South might give more importance to environmental issues, as they live – and breath the air – in countries where global production is increasingly concentrated. Third, risk minimization strategies can be important in the food industry, to the extent that Chinese consumers will force companies to ensure food safety. In the Chinese media food safety is a recurrent issue, and many new middle-class households seem to be willing to go to great lengths to ensure safe and healthy food. Finally, no indications have been found of Chinese involvement in value creation strategies. The next section will put these observations in a broader perspective.

The rise of China and the likelihood of mainstreaming responsible production in Africa

While the previous section presented findings on initiatives to strengthen responsible production in Africa, in this section I will put forward some further sobering observations to put these initiatives into a broader perspective. Two trends need to be taken into account. First, the rise of China in the global economy has accelerated the globalization of production and trade. Globalization requires firms to be more flexible. Basically the need for more flexibility at the firm level is "passed on" to workers in terms of more insecure and precarious labor conditions. Moreover, while core workers in final product producers and key supplier firms may enjoy responsible standards and improved employment conditions, due to increased outsourcing the proportion of such core workers seems to be decreasing. The overall picture is one of fewer core workers at global level, and more differentiation through various layers within firms, through local subcontracting arrangements and through international relocation of economic activities.

Moreover, some observers stress that firms and production countries are also facing the pressure of what is called "immiserising growth"[9], where: "... growing ... participation in industrial activities – reflected in the level of industrial activity, the growth in physical trade and the increase in industrial employment – may in fact become associated with declining overall standards of living" (Kaplinsky, 1998: 4). This negative macro-effect is not because of an inefficient allocation of resources, but because of the pressures arising from economic globalization. Kaplinsky concludes that: "in previous eras, participation in industrial segments of the value chain provided the source for sustainable income growth. But, increasingly, in a globalizing economy these industrial niches have become highly competitive, raising the spectre of immiserising growth" (Kaplinsky, 1998: 31). He argues that firms or countries need to identify and exploit specific rents from competitive advantages, but that the main lesson from recent history is that all rents are transitory and that new suppliers in GVCs basically carry out "rent-poor" activities. Again, escaping from this immiserising-growth trap is something that might be achieved by some individual firms or countries, but the general trend is expected to be one of: "... declining real wages and declining real incomes in those countries specializing in rent-poor products. [...]The challenges thus confronting producers everywhere is to upgrade by appropriating whatever categories of rents are within their grasp, but to do so more rapidly than competitors in the knowledge that a rate of innovation lower than the average will result in immiserising growth" (Kaplinsky, 1998: 34).

Many observers may feel that the image of immiserising growth paints a too pessimistic picture, especially when looking at dynamic growth in China. This is not the place to get into this debate. It suffices here to state that our argument does not hinge on immiserising growth to become more or less widespread. To assess the likelihood of mainstreaming responsible production we simply need to be aware that the basic capitalist business model implies that a majority of firms in a particular sub-sector do not produce A-brands with high image vulnerability, but will continue to look for the cheapest acceptable price/quality mix. Given the continued abundant availability of cheap and quickly to be skilled labor for labor-intensive production phases in global value chains, the market wage for this type of labor is not likely to rise in the foreseeable future.

Moreover, China should not only be seen as one of the major workshops of the world; increasingly, it also manifests itself as a key player in major global value chains. For example, Chinese value chain organizers are increasingly setting standards and/or making existing standards applicable or irrelevant, and we do not know enough about how the entry of China in the global economy affects the relevance of for example ILO and FSC standards (Schmitz, 2006: 55). While A-brand consumer goods and A-brand retailers are very vulnerable to the "power of activism" and have in recent years become pro-active in terms of responsible standard setting, this applies much less to the rather invisible Asian intermediaries who are more likely to downplay these logistically more complicated and cost-raising concerns and be at best re-active in terms of responsible standard setting. Given the increasingly dominant role of Asian intermediaries, and their expected minimalist approach to responsible standard setting, this also makes it increasingly difficult for others to remain competitive through following a higher road towards responsible standards setting, except in premium market segments.

The second main trend is that a significant number of new middle-income consumers from "production" countries in the global South are entering the global consumption market. So far, attention on the consumer side has focused on the roughly 800 million middle-income consumers in OECD countries. However, another 600 million to one-and-a-half billion middle-income consumers from the Global South (most visible in countries like China, India, South Africa, Brazil) are likely to have started to significantly influence global consumption patterns. We do not yet know much about the extent to which these new middle-income consumers are more or less or similarly inclined to responsible consumption behavior, nor do we know much about whether CSOs in these "new" consumption countries will be able to effectively wield their potential "power of activism" (Spar and La Mure, 2003) to push companies towards more responsible production. What we can hypothesize is that it is easy to over-estimate the relative importance that most consumers would attach to the labor and environmental impacts of the production and distribution of goods that they (do not) purchase. Many of the new middle-class consumers in the Global South, but also many consumers in OECD countries, probably attach very limited importance to these "additional attributes" of the products they buy, if it means paying a somewhat higher price, except perhaps for identity products like clothing and shoes, and possibly for food and health products. Research indicates that relatively few (around 5 percent) consumers actually use their "consumption as voting" (Shaw et al., 2005), although it needs to be stressed that this type of research is still in its early stages in terms of representativity and has an almost complete OECD focus.

Related to this is an implication for the "Bottom of the Pyramid" thinking (Prahalad, 2005). The Bottom of the Pyramid debate focuses on bringing another four billion relatively poor consumers into the global market realm by "simplifying" existing consumer products, to produce them at cost levels within reach of relatively poor consumers. From the perspective of this study one might argue that such a simplification of product attributes would probably leave no space for "luxury" responsible attributes like, for example, an FSC label. In other words, branded products will increasingly need to find a way to produce a broader variety of simpler products at lower price ranges.

It seems clear that we need additional insights into these interconnected trends of global production and consumption patterns to be able to better assess the potential reach of responsible production. For now, the discussed aspects of the rise of China lead to a picture in which we are probably more likely to experience a further rise in low-road production, and an increased differentiation within low-road production, instead of an inevitable spreading of higher-road production with more responsible attributes. Next to this increasing share of low-road production, we could envisage a significant market segment for some middle and upper income citizens that consume responsibly produced goods supplied by A-branded retailers, and an even smaller niche for Fair Trade products consumed by particularly concerned and action-oriented citizens.

Finally, the fact that two large developing countries (China and India) will join the ranks of the superpowers will not automatically lead to more developmental global value chain governance. Instead, it is perhaps more likely to lead to more hard-nosed capitalism and ruthless competitive behavior in a broader range of product ranges and market segments. What we may expect is quite a long and potentially volatile transition period in which the new global power structure works itself out (Gu et al., 2008). In conclusion, there seems to be very little reason to assume that a drive towards mainstreaming responsible production will gain dominance in this volatile situation.

Conclusion: Responsible production in Africa as an uphill struggle

Responsible production encompasses both CSR and Fair Trade initiatives, and refers to situations where lead firms in supply chains make a deliberate effort to include labor and environmental standards that go beyond the existing minimum legal requirements. This chapter has tried to investigate the extent to which responsible production is practised and might be further mainstreamed in Africa, and to discuss how the rise of China may influence this process. Three responsible production strategies have been distinguished: compliance, risk minimization, and value creation. On enhancing more pro-active compliance, it was found that while many countries in Africa show good intentions, in terms of implementation not much progress has been made. Moreover, Chinese producers or government officials are unlikely to push for raising the floor of expectation. On risk minimization, it was found that brand-name companies do what is necessary to protect their brand name goodwill. They can usually get away with a focus on technical outcome standards, and do not need to engage with a broader development approach that enhances development opportunities for workers and affected communities. Chinese producers play a role in risk minimization strategies to the extent that they own or represent international brand name companies. In the very small niche market of using responsibility attributes as a key differentiation strategy, i.e. for value creation, some modest attempts have been made to enhance localized depth of responsible production through a broader process approach which potentially does enhance development opportunities for workers, including casual workers.

Moreover, two general trends make it unlikely for responsible production to become mainstreamed. Firstly, the rise of China leads to increasing competitive pressures and a likelihood of an increasing share of low-road production in which luxury responsible attributes are not to be expected. Secondly, this might well be further enhanced by the entry of a significant number of new middle-class consumers from the global South, who are unlikely to be more inclined than existing middle-class consumers to pay extra for responsible attributes.

In all, one might conclude that the rise of China mainly poses a threat to enhancing responsible production in Africa. However, such a conclusion hides more than it reveals. The real issue is to further specify in which situations, for what sectors, for which types of activities, the rise of China is to be seen as a threat or an opportunity, and what might be done to alleviate specific threats and make use of particular opportunities. This chapter has provided a modest point of departure for such an endeavour. It has provided an analytical device to position various experiences with responsible production in Africa, and it has illustrated how the approach of Chinese actors may well differ by type of sector and activity. Finally, it has revealed how preciously little we really know about these important processes at this point in time.

Notes

1 An earlier version was presented at an AEGIS European Conference on African Studies, 11-14 July 2007, African Studies Centre, Leiden, The Netherlands. Parts of this chapter are drawn from Knorringa, P. (2007) Asian Drivers and the Future of Responsible Production and Consumption: Exploring A Research Question and Hypotheses for Future Research, *ISS Working Paper No. 442*.

2 Especially in non-food products it is often impossible to actually pay a premium. For a recent study on Fair Trade in the Netherlands, see Knorringa (2003).

3 McWilliams, Siegel and Wright, as guest editors of a Special Issue on CSR in the *Journal of Management Studies*, one of the top business school journals, define CSR as "actions that appear to further some social good, beyond the interests of the firm and that which is required by law" (2006, p 1).

4 These three situations are: 1) "pernicious CSR", where profits increase but social benefits decrease (this is where governments have failed to appropriately regulate the economy), 2) "borrowed virtue CSR", where profits decrease and social benefits increase (this is where shareholders fail to control managers who spend excessively on social programs), and 3) the worst case scenario is both a reduction in profits as well as social benefits which The Economist labels as "delusionary CSR".

5 An alternative way to unpack CSR is to distinguish between modes of implementation (Moon, 2002; Chapple and Moon, 2005): philanthropy, partnerships, foundations, and codes. Philanthropy has the longest history as a way of expressing concern for one's environment, and the scanty existing literature on this point seems to indicate that, for example, Nigerian (Amaeshi et al., 2006) as well as Chinese businesses (Driscoll, 2006) are most used to operationalize CSR as "giving back to the community" through philanthropy. In contrast, European and also American brand names nowadays increasingly work with codes, foundations and partnerships as modus operandi for their CSR activities.

6 This model was developed originally in the context of analyzing state behavior.

7 A particularly vivid description of both the inevitability of including private sector actors and of how they are perceived is given in the opening paragraph of John Sayer's very informative editorial introduction to a recent special issue on the role of the private sector: "No reasoned discussion of equitable growth, the attainment of rights, the effect of globalization on poor people, or the achievement of the Millennium Development Goals can properly take place without considering the role of the private sector. Yet it is surprising how much of the debate on poverty, both at conferences and in publications, focuses on the roles and responsibilities of governments, NGOs, and international aid bodies. In such discussions, the world of business lurks in the shadows, acknowledged uneasily like a tattooed man at a tea party" (Sayer, 2005: 251).

8 Next to South Africa, also Ghana (2000), Kenya (1999), Malawi (2001), Mauritius (2003), Nigeria (2003), Tanzania (2000), Uganda (n.d.), Zimbabwe (n.d.) and Zambia

(2000) have adopted national codes of corporate governance, while Botswana, Egypt, Morocco and Sierra Leone are in the process of developing such codes (Rossouw, 2007).

9 The phrase was initially coined by Bhagwati in 1958, and further developed in Bhagwati (1987).

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10 Conclusions from China's activities in Africa

Meine Pieter van Dijk

Introduction

In this last chapter a number of conclusions concerning China's presence in Africa will be drawn. Not everybody may agree with them. This has to do with the delicate nature of the subject and the normative framework used. It is also due to the lack of data on a number of the deals between the Chinese government and African countries and with a number of contradictions. Our point of departure is that China's new presence in Africa has created new opportunities for African countries (if only because of the higher investments, more trade and aid and higher prices for raw materials) and new challenges (if only to find an adequate African reaction to China's presence), which will be listed below. Our conclusions are listed here and correspond with the ten sections of this chapter:

1. China has several, sometimes conflicting objectives
2. At least four different levels of involvement can be distinguished
3. The roles of the main Chinese actors change over time
4. The activities of the European Union (EU) and the United States (US) still compare favorably to those of China in Africa
5. China benefited from globalization but does not allow the same benefit to African countries
6. The Chinese way of providing development cooperation is not transparent, nor new
7. The Chinese economic and political model is no real alternative for Africa
8. China's presence in Africa implies specific opportunities and threats for Africa
9. There is a need for responsible production by Chinese enterprises in Africa
10. There are a number of contradictions in the eyes of a Western researcher

Finally, some lessons will be drawn from China's own successful economic development and from its more recent commercial and political activities in Africa.

1. China has several, sometimes conflicting objectives

China's presence in Africa is very visible. The year 2006 is sometimes mentioned as the year that China departed from its traditional foreign policy of keeping a low-key profile abroad. In terms used by the Commerce Gazette (Zambia, November, 2007: 4):

> China was no longer willing to watch from the sidelines. China's politics have primarily been defined by the needs for economic development. Finally in 2006 Beijing is acknowledging its status as a major player in the international system. President Hu Jiantao has even developed a theory of international relations.

Not surprisingly, his concept of international relations is that of a harmonious world. However, China's strategy is still primarily defined by the need for economic development at home. China requires imported raw materials and overseas markets for its final products.[1] In due course the country has become more aware of the international dimension of its economic development strategy and that this has meant a more visible presence abroad and not only in Africa.[2]

In Chapter 1 we distinguished eight objectives for China's presence in Africa (see Box 10.1). We will now discuss the evidence collected with respect to each of these objectives and show the conflicts between them.

Box 10.1 Different objectives for China's presence in Africa

1. Assure the supply of raw materials for China, including agricultural products
2. Create a market for Chinese products and services
3. Obtain land for agricultural purposes
4. Promote migration of Chinese to Africa
5. Gain diplomatic support from African countries
6 Provide an alternative to the Western development model
7. Present an alternative for the Western approach to development cooperation
8. Emphasize China's status as a superpower

1.1 *Assure the supply of raw materials for China*

The Chinese are very present in Africa to obtain raw materials, including agricultural products like cotton and to sell their products. On the surface it may seem that Chinese businessmen are only in Africa to acquire raw materials. However, in a globalizing world, obtaining raw materials and selling products requires more than a good marketing agent. Hence China got involved in military and political conflicts, in migration and sovereignty issues, in the problem of acquiring land and of building up diplomatic relations with 54 different countries, and wants to be accepted as a new superpower.

1.2 *Create a market for Chinese products and services*

The Chinese have been very successful in creating a market for Chinese products and services in Africa as measured by the steep increase of the volume of exports to Africa. China is successful because of product differentiation and by building the physical infrastructure and necessary marketing networks. The Chinese product-differentiation strategy has contributed a lot to the success. The products China offers are tailored to the local market, which means the supply of relevant and cheap products to poor African consumers. The Chinese have also successfully developed their own marketing channels deep into the interior of many African countries. At the same time this makes China a serious rival for local industries and Chinese imports have forced many local factories to close down, resulting in job losses as a direct result.

1.3 *Obtain land for agricultural purposes*

China has obtained land for agricultural purposes in a number of African countries. Obtaining land has become the official Chinese policy and China's successes were booked in countries such as Senegal and Zambia.

China is not the only country that needs land abroad for its production of agricultural produce. All kinds of formulas are tried in the world for obtaining additional agricultural products. They range from investing in local agriculture and getting a return by dedicating part of the harvest for the investing country (the Saudis in Indonesia, see Wall Street Journal, 11 July, 2008) to actually obtaining the land and growing products for exports to the buyers' country (China in the case of Senegal). It can be expected that the discussion about sovereignty will flare up in the near future, in particular in countries where land is scarce and in cases where there are local food shortages. However, there are all kinds of precedents of foreign companies or individuals owning land in other countries to grow food, fruits or other cash crops and, if this is an issue, African countries should develop a policy, preferably in the framework of a regional trade organization or under the auspices of the African Union.

1.4 *Promote migration of Chinese people to Africa*

About a million Chinese citizens have moved to Africa and are part of "China incorporated". They serve Chinese objectives (if only because they are employed now) but China also feels a responsibility to protect them. We showed that this may even mean a Chinese military presence in Africa. After the killing of 70 staff members in an oil field in Ethiopia, China considered the need for a military presence in Africa. The more China becomes engaged as a major economic actor and becomes a political player as well in Africa, the more its interests get intertwined with the internal political situation in its partner countries. As Van Hoeymissen (2008) rightly notes, this makes it more difficult for China to maintain its non-interventionist stance.

1.5 *Gain diplomatic support from African countries*

The Chinese also try to mobilize political support in Africa, emphasizing on the one hand that China is also a Third World country. On the other hand, they want to be a superpower. The Third World character gives Chinese diplomats an advantage when pursuing Chinese interests in international organizations, where African countries can constitute a powerful voting block (International Herald Tribune, IHT, 3 November, 2006).

An example of political support was the vote concerning the choice of Beijing as the organizer of the Olympic Games in 2008. In many fora, African countries make up an important voting block, counting almost one-third of all votes in the UN. However, if China wants to be the voice of the developing countries in international organizations, it will have to really offer something to African countries. One may note that China is not very successful in selling its policies, at least not to Western media, where a negative undertone dominates the debate. Finally, it needs political support to avoid Taiwan being recognized as an independent state by too many countries.[3]

1.6 *Provide an alternative development model*

Moeletski Mbeki, the brother of the previous South African president, noticed: "China has offered Africa a new model that focuses on straight commercial relations and fair market prices without the ideological agenda" (IHT, 3 November, 2006). The Chinese claim not to interfere in local politics. However, we have seen examples of Chinese political interference in Sudan (where they used some leverage in Darfur), Zambia (where the Chinese were against a certain presidential candidate) and Zimbabwe (where they supported President Mugabe until the very end).

China can present itself in Africa as a non-colonial power, which has been the victim of colonialism itself at the end of the nineteenth and the beginning of the twentieth century. Economically, it is now very successful and hence it can teach other countries how to achieve economic development while not following the World Bank/IMF recipe. The economic success of China offers Africa not only an alternative for the Western development model, but also a picture of the hard labor that is needed. The African people get an impression of how hard the Chinese workers work, because they see them in many countries constructing roads and buildings and in all kinds of factories. We do not consider the Chinese economic and political model an alternative for Africa and will provide the arguments in section 7 below. President Hu, however, presented the Chinese approach to economic development, during the Forum on China-Africa Cooperation in 2006, as an alternative: not democracy, but stable leadership is important for economic development. This may provide an excuse to leaders of regimes in Ethiopia, Sudan, Uganda and Zimbabwe to seek re-election after serving more than two turns as a head of state.

1.7 China provides an alternative for the Western approach to development cooperation

There are a number of examples of China being an alternative solution for African countries, in particular for those countries that can no longer get unconditional support from Western countries, or the Bretton Woods institutions (the World Bank and the IMF), or not on the right terms. In Chapter 8, the examples of Angola, Congo and Ethiopia were discussed to illustrate this phenomenon.

We have shown, particularly in the case of Sudan, that Chinese aid is not given for altruistic reasons and that the contracts signed can be very disadvantageous for the African partner. In general, the Chinese development cooperation to Africa has enormous consequences for African countries and traditional donor countries and organizations active in Africa may wonder why they do not have the same impact. One reason is that Chinese development cooperation and economic collaboration are not separated, but presented as a package, as was very clear in the case of Congo's deal of the century. Secondly, the Chinese government calls certain types of assistance development "cooperation", but certain loans would not be classified as such by the Development Assistance Committee (or DAC) of the OECD. Finally, since China does not provide systematic data on its development cooperation, the whole process is not transparent and it does not allow a fair evaluation of Chinese development cooperation and a realistic comparison with Western development cooperation.

1.8 *Emphasize China's status as a superpower*

China needs raw materials and markets, but there is another factor that explains why China is so present at the moment. China is implementing a strategy concerning its role in the world. African countries have a contribution to make to achieve this more important role. The country wants to become, eventually, the second or even the first superpower in the world. This strategy is partially economic and partially political. Economically, China wants to control a greater part of different value chains (between the raw material and the final product). Buying IBM Computers (without IBM IT consulting services) was an example of launching the Chinese computer company Lenovo on the world scene, without trying to build up a name itself through years of advertising and supplying cheap and good-quality computers. Politically, it is not always possible to buy companies, particularly not if they have a strategic interest to the country where the activity is currently based. Superpower status also needs to be obtained by playing an active and constructive role in international conflicts, which is currently not really the case, as was discussed in the chapter on Sudan.

Becoming a superpower also means receiving more exposure and critique. There have been several protests against China's role in Africa and examples of this were given in Chapter 6 for Zambia and in Chapter 8 for South Africa. In the latter case, the minister of labor commented on the behavior of Chinese employers. Other examples are given in Box 10.2. The Zambian case has clearly shown that the relations between China and this non-oil exporting country, where China is most engaged, have become very antagonistic; from the presidential candidate Michael Sata, who wanted to kick the Chinese out, to the mine-workers demonstrating against Chinese management. Other examples concern villagers harassing a Chinese construction firm and critique on China's labor, safety and environmental standards in mining towns in Zambia where Chinese companies are active.

Box 10.2	Other examples of critique on China's presence in Africa

1. Touareg rebels: No China in Niger (Volkskrant, 28 June, 2007)
2. US and China fall from global favor (Financial Times, 28 June, 2007)
3. Concerns that cheap Chinese goods will swamp local manufacturing (Financial Times, 8 February, 2007)
4. China mistreats and exploits local workers in Zambia (Financial Times, 8 February, 2007)
5. Are the Chinese on Kenya's side? (Nation, March 2008)
6. The South African president said that China behaved as a colonial power and the people were complaining about the harsh labor conditions in Chinese enterprises, where, for example in Zambia, the legal minimum wage was not paid (IHT, 12 February, 2007).

China not only has a difficult time in Zambia, its citizens have been attacked and abducted also in Ethiopia, Nigeria and Sudan. Wissenbach (2008) has a good point when he stresses that a superpower can also be very weak, for example when it comes to protecting its citizens abroad. It is a positive step that the Chinese government has become more aware of the above-mentioned critique and that it nominated a special envoy for Sudan, for example. It also reassures developing countries that the country looks for win-win situations and not for dominance.

China is determined to become a global power. Just like any other global power, we cannot afford to neglect the question of whether it will be a peaceful or a threatening actor in the global arena. There are many indications that China also wants to be a military superpower (Colijn, 2008)! The principle of non-interference is eroding. The country may consider a military presence in certain African countries and is now considering building warships carrying planes to be able "to defend its territory", but which can, of course, be used for other purposes as well.

2. At least four different levels of presence or involvement can be distinguished

From the cases presented in this book we conclude that there are different levels of intervention in Africa. At least four levels of intervention can be distinguished, taking the aid provided and Foreign Direct Investment (FDI) as criteria (see Table 10.1). Table 10.1 shows clearly that aid is the instrument used in the first stages of involvement, while investments gradually start playing a more important role. This distinction leads to four levels of involvement and each time an example is given of a country which seems to fit in that category.

Table 10.1 Examples of Chinese involvement in Africa through aid and FDI

Degree of involvement	Aid	Foreign Direct Investment
1. China is hardly playing a role	Some aid is given, like in some smaller countries in West Africa	Not yet
2. Countries where China is building up political credit	More aid is provided, for example in Ethiopia and Tanzania	Some local investments are starting
3. Because of historical reasons, lots of Chinese investments	Also, but less important	Starting real FDI: for example in Zambia and South Africa
4. Deeply involved in at least one strategic sector, for example in energy	Also, but less important	Substantial investments: Angola and Sudan

We can deduce from Table 10.1 the importance of historical relations (phase 3) and of specific raw materials (phase 4). Secondly, there is clearly an intervention strategy behind the activities, starting with aid, developing economic activities as the second step and assuring the supply of raw materials and the sales of Chinese manufacturing products, which happen in stages 3 and 4.

The table also mentions two countries where China is deeply involved in the energy sector and where the assistance of the World Bank and the International Monetary Fund (IMF) is less important (Angola and Sudan).[4] Secondly, there are countries mentioned in Table 10.1 that are under the dominant Western development model, the so-called Washington consensus, but which for historical reasons have a lot of Chinese investments (Zambia and South Africa). In the third place, there are countries where China is building up political credit and intends to become more active (Ethiopia and Tanzania). Finally, there are a number of countries where, currently, the Chinese hardly play an important role. In some of the smaller West African countries for example, its role is limited to providing some development cooperation and exporting some basic cheap products from China.

3. Roles of Chinese actors change and the Chinese central government loses control

Different Chinese actors are involved and the role they are playing changes over time. Chinese people are living in Africa, accompanying services (like translators, banks and shops for Chinese people and Chinese restaurants) are going there, Chinese investments are made and Chinese development aid arrives.

Historically, Chinese state-owned enterprises have played an important role in the increased presence of China in Africa. The role of state-owned enterprises in China itself has seen different stages over the last twenty years. In 1995, there were 104,000 state-owned enterprises in China, which formed the backbone of the socialist economy (Van Dijk, 1996). They accounted for 43 percent of the gross value of industrial output and employed about 110 million people. But at least 31 percent was losing money, so reforms were necessary.[5] After 1997, the state-owned enterprises were allowed to privatize. Around 2000, the state-owned enterprises were turned into multinationals, through incentives from the government. After saving the state-owned enterprises from bankruptcy and giving them an important role as multinational companies, the next stage in the Chinese model was to use them as agents of China's foreign policy.

The point is that through China's "go out" policy, the roles of Chinese actors also changed over time. What was the strategy the Chinese government wanted to achieve with their "go out" policy? It is quite similar again to the approach of Western nations. China selected this continent that contains a large number of small countries, which were often confronted with no alternative for what has been coined the Washington consensus and the Western dominance, once the USSR had been dissolved. China has offered the continent an alternative at a moment when a number of countries were longing for it.

The Chinese government wanted to use these former state-owned companies for the supply of energy and other resources. This was, in the first instance, the role of the state-owned enterprises, but they are more and more difficult to control because they have grown, they have been relatively autonomous, and they sometimes have other shareholders as well. Central government in Beijing may have good intentions concerning its policies with Africa, but the Financial Times (23 April, 2007) notes that not all lending institutions in China are under Beijing's control: "A lot of the provincial Chinese governments are active in Africa and they basically just want to grab the minerals and go". This means that the initiatives in Africa are not always coordinated and some may even violate the state level policies.

Also, Chinese private enterprises have become more active in Africa and can create problems. They sometimes do not comply with the local environmental and labor laws in most African countries. The Chinese firms have a tradition of not respecting environmental and wage regulation in China, where ironically the trade unions serve to keep the wages low, rather than defending the workers-rights. These employers try to play the same game in Africa. Once private Chinese and state-owned enterprises have invested in an African country, stability in these countries is also in the interest of the Chinese government. For the reason of stability, Chinese firms are instructed to comply with the local laws, as the Chinese ambassador in Congo mentioned in Chapter 8. And finally, for that reason, the Chinese government was maybe also willing in 2007 to put some pressure on the Sudanese government, regarding the UN presence in Darfur.

With this proliferation of actors, the question is to what extent the Chinese state can still control them and to what extent they will continue to pursue their own interests. In fact the Chinese state at the national level is becoming less important in a capitalist economic development model. The private Chinese sector is becoming increasingly important and tends to move away from the control by the Chinese state. For example, many small Chinese enterprises in Africa are not under the direct influence of the Chinese state anymore and may increasingly pursue their own interests. Hence the conclusion that the roles of Chinese actors have changed and will change over time and the different actors do not always comply with China's central government's strategies with respect to Africa.

4. The EU and US still compare favorably to China in Africa

The presence and activities of the EU and US still compare favorably with what China is doing in Africa. Development cooperation is often judged in terms of whether it succeeded or not in alleviating poverty. There is no reason to assume that the Chinese do a better job than the Europeans or the Americans, if only because the Chinese aid does not have poverty eradication by job creation and the provision of basic services as an overriding objective like European and US development cooperation. Alleviating poverty also depends on local policies and using local tax revenues for that purpose. If governments do not give priority to poverty alleviation, donors (China included) can do very little to correct that. In this respect China is not a good example to follow. Don't forget, China itself is facing the problem that the income distribution is very unequal, which is a potential bomb under its own political stability (Van Dijk, 2006b).

Since the fall of the wall between East and Western Europe in 1989, an old divide in Africa has disappeared. Now there is a risk that a new gap will come into existence between countries that use Western support and countries that favor the Chinese development model. That last model is characterized by less attention for democracy and more support for authoritarian regimes, such as the governments of Ethiopia, Sudan and Zimbabwe. In these countries a lot of money is wasted on civil conflicts or wars with neighboring countries, which is at the expense of economic development. Collier (2007) rightly points out that conflicts and poor governance increase the number of people at the bottom of the world system.

5. Africa can benefit from globalization

China has really benefited from globalization. Van Dijk (2006b) argues that China has benefited more from globalization than, for example, India. China received more FDI, exported more and obtained the latest technology in different ways, playing the globalization card to its service. However, now other countries should also benefit. What is the impact of China's presence? In the first place, one notes higher commodity prices, which have been positive for most African countries. Secondly, China gives a new content to the globalization process. So far, many researchers have considered Africa to be excluded or marginal in the globalization process. In this book it is shown that the continent is very much the next frontier!

China could now help Africa to benefit more from globalization. That will not happen if too many strict conditions are imposed on African countries (for example, the low fixed prices for oil exports from Angola and Sudan), or when instead of allowing African countries to increase their agricultural exports it wants to take agricultural production in its own hands by buying or leasing land and sending Chinese farmers. China has always globalized on its own terms, which was possible in developed countries. However, in the case of Africa, the interests of the African countries need to be taken into account as well.

It is clear that China is more and more present in Africa to develop its own economy and to boost its status as a superpower. It is less clear who finally benefits from this presence. It is certainly China but African countries could also gain more from China's increased presence. African countries may often be too small to deal with China on an equal footing and for that reason regional trade blocks (like SADC and the EAC) and the African Union should promote regional trade and defend Africa's interest vis-à-vis competing nations.

6. The Chinese way of providing development cooperation is not transparent

The examples of Congo and Sudan have shown that the Chinese way of providing development cooperation is not transparent and does not necessarily create a win-win situation. The fact that development cooperation, investment policies and political agreements are all part of one deal may seem an innovation, but also mean that if one of the three goes wrong, the other instruments used are at risk as well. When the presidential candidate, Michael Sata, would have been elected in Zambia, the Chinese government threatened to withdraw from the country. This would not only have affected political relations, but also the development cooperation, trade relations and the investments in the mining industry in Zambia. Similarly, the Congolese government now wants to renegotiate its "deal of the century", as explained in Chapter 8. Finally, Nigeria is trying to end some contracts because it does not consider them as beneficial to Nigeria (Financial Times, 2008). These are signs that China is facing more and more problems with its approach to development cooperation.

China has created new opportunities for African countries to receive support. The real question is who finally benefits from this Chinese presence in Africa. Will African countries be better able to compete in the world markets, or are their products pushed out of these markets by Chinese products? Many developments influence industrial development in the world. This makes it extremely difficult to ascertain which changes in Africa's industrial performance are caused by China, but the presence of all these cheap industrial products certainly makes it more difficult for a number of African countries to develop their own industrial sector. The fact that the Chinese development aid does not even pass through the budget of the receiving African country makes controlling whether the money is used properly easier for the Chinese government. However, this may be good governance on the Chinese side, but does not promote ownership of the project in the receiving country.

7. The Chinese model is not an alternative for Africa

China's presence is through its aid, trade and investments. Chinese companies and workers can be observed in a large number of African countries. The physical presence is through hard-working Chinese labor, but China's presence is also noticed when people are buying cheap industrial products like shoes, textiles and watches. The Chinese government would like to provide an alternative economic and political model to the Washington consensus by emphasizing an important role for the state in the economy, but with an important role for the market and the private sector as well.

We do not think the Chinese model is an alternative for Africa and will try to substantiate this claim by first discussing the economic part of the model and then the political part. There are many theories why Africa is relatively low developed (Easterly, 2006). Some claim that it is poor since it still specializes in exporting primary products, while suffering from the resource curse (Collier, 2007). Others blame the lack of Fair Trade opportunities (Stiglitz, 2006). It is certainly not a question of lack of entrepreneurship (Van Dijk, 2005), nor any single variable explaining its slow development. Factors sometimes mentioned are: lack of democracy, lack of good governance, lack of leadership, etc. These explanations are all too simple for a complex historical reality.

The most important political aspects of the Washington model are democracy and good governance and loans are only granted under strict conditions. The so-called Beijing model is a welcome alternative for many African countries because in this model the government can play an important role in the economy. The World Bank and the IMF would not favor that. The Beijing consensus also demands few conditions for the provided loans. A third difference lies in the use of Chinese workers and technology. The Chines de-emphasize the need for a transfer of knowledge and experience. This is not in line with the Western approach, which has high ideals of teaching Africans how to fish, rather than giving them a fish, and emphasize the need to transfer knowledge and know-how.

China's economic success provides Africans with a new example, if African leaders want to see successful development experiences elsewhere. Finally, China has become a source of finance for a number of developing countries. However, is easy finance undermining good governance or does it help to create the necessary infrastructure? China's presence has also provoked debate about whether China is the latest in a line of exploiters of Africa's rich natural resources, or does China's engagement enable African countries "to free themselves from the tyranny of the neo-liberal policies"? (Manji and Marks, 2007). This statement seems to be beside the point. In a globalization process, a level playing field is created and all countries will have to compete or remain marginal. China is a good example of how a country can also benefit from liberalization policies. There seems to be little space for alternative models of economic development in a global economy. Countries have to compete in the world market. They can only try more social policies at home, if they can afford this and the government gets public support for it.

The "Chinese" economic development model is one that may have been most appropriate in China from 1978 to 2008, but it is conditioned by China's history, its culture and the possibility to quickly absorb the technology developed in other parts of the world in the post Second World War period. The model is a combination of historical realities and cultural characteristics and cannot just be transplanted to other countries. Strategic thinking, hard work and seizing opportunities are the main elements that would also apply elsewhere. We do not consider the Chinese model an alternative to the Washington consensus. In the first place it is not a coherent economic strategy and no conditions are formulated to make it a success. Secondly, some of the elements of the Beijing consensus are specific to China's situation and not necessarily relevant for African countries. Finally, small African countries cannot play the same role as China in the global economy and will have to specialize in some specific products, where they may have a competitive advantage.

8. China's presence in Africa implies opportunities and threats for Africa

Another way of looking at the effect of China's presence in Africa is in terms of what is an opportunity for Africa and what is threatening the continent? We will conclude that China's presence in Africa implies not only opportunities but also threats for Africa, that need to be dealt with.

What are the opportunities?

For most African countries getting trade finance, loans on soft terms, and buying industrial products at a low price provides an opportunity which is greatly appreciated. China also provides development assistance and gives the example of what hard working and strict discipline can achieve. Contradictory to its jargon of state control, the Chinese are also in favor of the market and private sector development and show how a country can benefit from globalization.[6]

Rising prices of raw materials, due to increased demand for raw materials by emerging economies like China, are helpful for most African countries and the increased prices have stimulated growth rates of a number of African countries, for example Tanzania (Van Dijk, 2009). The Chinese contributed and still contribute to the development of a good infrastructure in many African countries. This is one of the preconditions for successful economic development. Most of the points mentioned are positive. There are however also a number of threats, although not all countries see these phenomena as such.

What is threatening?

In the first place Chinese labor replaces local labor. Secondly, Chinese companies compete with local companies causing losses of jobs and closure of local factories. Their imports also go at the expense of traditional European contractors and suppliers. More importantly, China provides support to and is sometimes legitimating African regimes which are violating human rights in their country.

Finally, the country puts no conditions on its loans in a part of the world where many countries have just overcome the debt crisis. In this way it undermines the Washington consensus achieved by the World Bank, IMF and a number of donors and may undermine their efforts to promote good governance. The Bretton Woods organizations have raised concerns that China's unrestricted lending undermines years of painstaking efforts to arrange conditional debt relief (IHT, 3 November, 2006).

9. Socially responsible production in Africa

There is a need for responsible production by Chinese enterprises, as argued in the previous chapter, but Chinese companies still have a long way to go, if only because they are not really used to this approach in China. This is again a topic where the African Union could play an important role. The requirements and incentives should not only concern the Chinese companies, but also apply to EU, US and African companies.

10. There are a number of contradictions in the eyes of Western researchers

The perception of issues sometimes differs between Western and Chinese researchers. Croll et al. (2008) emphasize that different scientific disciplines tend to look differently at China's role in Africa. The economists are concerned:

> about China's grabbing for Africa's energy resources and cite unfair trade practices and rising global prices. Representatives of fair trade and labour groups are keeping a critical eye on social and environmental standards in Chinese factories abroad.

What are the lessons from China's activities in Africa?

What are the lessons from China's activities in Africa? A lot can be learned from China, not least from the examples of what a strategic vision and hard work can achieve. Somewhat unexpectedly, China promotes the role of the market and the private sector abroad, and it shows developing countries that they can benefit from globalization (Van Dijk, 2006b). The first concern of the Chinese government is to create employment in China; they achieve this by stimulating Chinese industries to export and by bringing a number of their people to Africa.

The different chapters in this book have raised a number of critical questions about China's presence in Africa, which have not all been fully answered:

1. Will African countries be able to compete with China and, in particular, with Chinese products in African and European markets?

   They have to, but will find it difficult if they do not develop a common strategy in their regional trade organizations or in the framework of the African Union.

2. What will be the long-term effect of China's presence in Africa?

   This is difficult to say; Africa, on the one hand, benefits from the investments and the increased economic activities. On the other hand, Africa does not want to be exploited by a new colonial power and hence has to put the conditions in place to avoid this. By preference that should happen at the pan-African level.

3. Is China really still a developing country or only trying to win favors by posing as a developing country?

   China is clearly playing the card of being a developing country and to some extent it is a developing country. However, in its undertakings with Africa it acts just like any other developed superpower.

4. Is China's aid really unconditional and can you still claim China is not intervening in local politics?

   On these two points the book has been very clear. China's aid is not unconditional and China has intervened in local politics a number of times.

5. Can Chinese companies afford not to pay the legal minimum wage abroad, if there is a free trade movement, which fights for better labor conditions?

   Of course they cannot neglect local labor and environmental laws, but entrepreneurs may try and hence they need to be supervised closely, but not all African countries have the institutions capable of doing that.

6. Will China use Africa to export its products duty-free to Europe?

   It would certainly try to do so if the European trade policies would allow them. That is why the rules of origin for trade, described in Chapter 5, are so complex and not easy to change. Unfortunately they rule out many possibilities for export from African enterprises as well.

7. Can China produce in an environmentally friendly way in Africa if it does not do so at home?

   This issue was raised in Chapter 9, and although Knorringa was not very optimistic about the corporate social responsibility of Chinese entrepreneurs, he also indicated that there is no alternative for this and that Chinese and African governments have to push Chinese and other enterprises in this direction.

8. Why do the Chinese workers do the work that local people could have done?

   This is unacceptable and an African-wide policy will need to be developed to avoid this.

   On the positive side we have also learned from the history of China that development may start with educating the poor and providing the necessary basic health care and a basic infrastructure. Once at that level of development, it is free trade and competition in the global economy. We learned that in China local governments can fruitfully compete with each other to attract foreign direct investments, or local investments, which would then contribute to employment, local revenues and development in general. Van Dijk (2006a) analyzes the role of districts (small administrative units) in big cities as an example of good urban management, because they compete with each other to attract economic activities.

Conclusions

China can be considered an opportunity and a threat for Africa. We do not expect Africa is going to make it just with agriculture and mining, although these sectors can generate the money necessary for the development of the rest of the economy. Also, in Africa the adagio applies: cities are the engines of growth, rather than the old adagio: rural development first (Van Dijk, 2007). However, other sectors like tourism, horticulture, agriculture and agro-based industries should be developed as well.

The conclusion must be that China has a highly political past in Africa, although at an early stage China's political interests were largely trying to persuade African governments not to recognize Taiwan as a separate country. Its increased presence makes it much more difficult for China to refrain from interfering in local circumstances. China's interests have increased because of the investments made and the number of Chinese people living in Africa.

Now that the presence of China has become much more multi-faceted, it could not possibly be positive in all respects. There are contradictions that cannot be solved. Some have been listed in Box 10.3. The image of being a developing country is difficult to reconcile with one of a superpower. The Chinese government knows its economic interests, but likes to present its activities as a sign of solidarity between developing countries. At the same time they want to play a more important role in the world and prevent Taiwan being recognized as an independent country. However, some of the Chinese policies go against helping Third World countries. One of the questions often raised is about the Chinese companies and projects bringing lots of Chinese workers to Africa. If China is reluctant to transfer technology, or if it uses mainly its own management and workers, there is no transfer of technology and there is no building up of local capacity.

In the same way, the principle of non-interference is difficult to combine with protecting one million Chinese living in Africa. Finally, China has concluded long-term contracts with Sudan and Angola for the purchase of oil. However, if these are contracts with prices far below the world market prices these deals do not benefit Angola, Congo or Sudan, and then China is behaving just like a neo-colonial power.

Box 10.3 Contradictions concerning China's presence in Africa

1. Being a developing country and at the same time wanting to be a superpower
2. Having to defend a million citizens (and important investments) in Africa and China's policy of non-intervention
3. Going for long-term fixed and stable low prices for African commodities and assuring that the country concerned also benefits from price increases in the future
4. Going for a strong role of the government and an important role for the (private) enterprise sector
5. China still receives aid itself and is becoming a major donor in Africa

The debate about China's role in Africa is a normative debate focusing on issues like: what really motivates the Chinese to play such an active role in the continent and who really benefits from it? The conclusion of this book is that China is not very different from the other superpowers in the sense that it is looking after its own interests first. That means it needs Africa's raw materials to keep its industrial sector going and it needs markets for its final products. It is different, however, in the way it provides its aid and links its aid, trade and investment policies and negotiates as a government on behalf of Chinese companies and individuals.

China's presence in Africa is not without problems. From the cases studied, it turns out to be important to analyze the history of the relationship to understand what has happened. The impact of China's presence depends, among other factors, on the type of activities and the number of Chinese involved. The analysis of Sudan and Zambia showed the importance of raw materials (oil in Sudan and copper in Zambia) and the political consequences of an important presence. The case of Sudan even threatened the Olympic games in 2008, while in the case of Zambia, political interference of the Chinese contradicts China's claim that it does not want to get involved in local politics.

There is another side to the coin. Since the fall of the wall in 1989, the old East-West divide has disappeared in Africa. It is no more socialist versus capitalist inclined countries.[7] Now, through China's activities in Africa, a new divide may come into existence, between countries relying on Western support versus those favoring the Chinese approach to development. The latter would then be characterized by:

1. Less attention to democracy, and more focus on political stability, which may mean keeping regimes in place that make their population suffer
2. Promoting an authoritarian type of leadership, as, for example, in Ethiopia, Uganda, Sudan and Zimbabwe
3. Stressing an important role for the government in the economy, but alongside a role for the market in general and the private sector in particular
4. A preference for development cooperation coming with no strings attached, to the extent that this is possible
5. No interference in other countries' domestic affairs, and no interventions, even if human rights are violated systematically (Sudan) or if elections are fraudulent (several countries)

China is suffering the costs of its image because of a number of incidents which were mentioned in this book. It may want to limit these costs in the future, but that will require playing the game by the rules, instead of trying to determine the rules, or just using the rules Chinese companies are used to at home. To some extent, China suffers from the fact that because it is considered as a communist monolithic state, everything that happens in Africa by Chinese citizens or Chinese companies is considered the direct responsibility of the Chinese government, which of course is more and more difficult to defend if the number of actors and their independence is growing as we have been arguing.

The real issue is to what extent Africa itself will eventually be able to benefit from China's presence and be able to compete with China in sectors like leather, textiles and food processing. The benefits depend on the negotiations, and smaller countries may find it more difficult to get a fair deal. They could take advice from international organizations or other countries, but much also depends on the transparency of the negotiations and the possibility of introducing real competition between interested parties.

The competition between Chinese and African industries will not only take place in Africa, but also in other markets. Much will depend on whether Africa as a continent will be able to develop a common stand to China's advance and whether African countries are ready to design common economic policies to define their relations with their major partners: the EU, the US and China. The African Union could be instrumental in this respect and has already changed its name to express the ambition of creating one big Union of African countries, something somewhat similar to what Europe has achieved over the past 50 years.

How do the Africans themselves see this active role of China in their continent? We have learned in this book that they are quite aware of what is happening, but some stress the advantages (Tegegne, 2006) and some warn of the risks (President Mbeki). The spirit seems to be that we have had the Arabs, the Europeans, the US, the Japanese, and now let us benefit from the Chinese. Foreigners come and go! For example, during the current financial crisis we see signs that China is retreating from Africa, but we do not know how long this will last.

Similarities with European and American policies with respect to Africa

The EU as well as the US and China will try to build up good relations with Africa, in particular with oil- and mineral-supplying countries. However, the actual negotiations in the case of the US and EU are happening through private oil or mining companies. In the case of China it is often the Chinese government that negotiates with an African government to hammer out a deal. The often painful negotiations between Europe and developing countries concerning the Partnership Agreements show that Europe wants more from African countries than just economic partnerships. The EPAs failed to convince the ACP countries that this was a new form of partnership with the EU and only a limited number of countries signed them in Lisbon at the end of 2007. Europeans consider free-trade agreements a win-win situation for every country. They argue that these agreements should also lead to further integration of the countries concerned, in the world economy in general and between countries participating in the FTA in particular. The EU itself started as an effort to integrate economically and was very successful in this respect. Now the challenge is to also become a monetary and eventually a political union.

These Western companies usually have to go through a process of competitive bidding, which allows the country to select the best offer. Such an opportunity was not given to Angola and Sudan when Chinese state-owned enterprises started to play a role in the exploration of their natural resources.

Finally, Western companies can be held accountable. They usually have critical shareholders and face governments and NGOs in their home country, whether they like it or not. The EU and the US should think about making the model they offer more attractive to African countries. The EPA trade offer will need to be rethought.

Notes

1 Different researchers define the strategy differently. Wissenbach (2008) gives as the short summary of China's strategy three words: revival, recognition and re-unification.
2 For example, Ellis (2009), who analyzes the rapidly expanding ties between China and the Latin American region.
3 The Chinese insistence on support for its one China policy is eroding. China now also supports some African countries that also deal with Taiwan.
4 Recently Sudan is trying to come to terms with the IMF. See Chapter 7.
5 Before 1997 it was not allowed to use the word "privatization" in China; the correct term would be "restructuring the state-owned enterprises".
6 According to The Financial Times (13 September, 2005) one should be careful with the classifications private or public in China. Different sources suggest that many enterprises are still under public control. Chinese sources suggest that 28,000 foreign-funded enterprises produce 27 percent of China's total industrial output and 57 percent of its exports (China Daily, 16 January, 2007). Van Dijk (2007) suggests that the private sector has become more important in China and is now responsible for three-quarters of economic output and employment.
7 There may still be something like a divide between countries with important Islamic activists (Somalia and Sudan) versus countries where religion does not play an important role or is currently suppressed.

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Index