The China-Africa marriage

Master Thesis

Henrieta Borovska, hebo09ac@student.cbs.dk
9/1/2011

Supervisor: Michael W. Hansen

STU count: 181 798
# Table of Contents

1.0 Introduction ....................................................................................................................... 1

1.2 Research Question ........................................................................................................... 3

1.3 Research Sub-questions .................................................................................................... 3

1.3 Demarcation ..................................................................................................................... 4

1.4 Structure .......................................................................................................................... 5

2.0 Methodology .................................................................................................................... 5

2.1 Methodological Approach ............................................................................................... 5

2.2 Research Strategy ............................................................................................................ 6

2.3 Empirical Data ................................................................................................................. 6

2.4 Assessment of Methodology ........................................................................................... 6

2.5 Philosophy of Science ...................................................................................................... 7

2.5.1 Reliability and validity ............................................................................................... 9

2.6 Time Horizon .................................................................................................................. 9

2.7 Fulfilment of Project Requirements ................................................................................ 9

3.0 Theory and Literature review ......................................................................................... 10

3.1 International Business Perspective ................................................................................ 11

3.1.1 Conventional and Unconventional FDI Theories ......................................................... 12

3.1.2 Theoretical Explanation of FDI from developing countries ....................................... 13

3.1.3 Firm specific (FSAs) and Country specific (CSAs) advantages .................................. 14

3.1.5 The IDP theory ......................................................................................................... 18

3.2 Political economy perspective ......................................................................................... 19

3.2.1 Marxist theory and Weberian approach .................................................................... 20

3.2.2 Realism, Neorealism and Neoclassical realism ......................................................... 20

3.2.3 Liberalism and Idealism ........................................................................................... 24

3.2.3 Economic globalization and the changing role of the state ...................................... 26

3.2.4 Globalization and MNCs ......................................................................................... 28

4.0 Analytical framework ...................................................................................................... 30

5.0 Chinese MNCs winning Africa – evidence ...................................................................... 32

5.1 History of China-Africa relations .................................................................................... 32

5.2 Current development – the nature of China’s Africa strategy ....................................... 35

5.2.1 Trade, financial flows and FDI ............................................................................... 37

5.2.2 China’s public sector and private investors ............................................................ 43

5.2.3 China’s companies active on African continent ...................................................... 45

5.3 Sectorial and Country-by-Country View ....................................................................... 46
5.3.1. Sectorial view ........................................................................................................... 47
5.3.2 Country-by-Country view .......................................................................................... 51
6. What explains Chinese presence in Africa ..................................................................... 64
   6.1 Why is China so successful in Africa? ......................................................................... 65
   6.2 The China Approach .................................................................................................. 67
7. Discussion of findings ....................................................................................................... 69
   7.1 Commercial vs. political nature of Chinese involvement on the continent ................. 69
   7.2 A different perspective ............................................................................................... 69
8. Conclusion .......................................................................................................................... 74
LIST of REFERENCES ........................................................................................................... 75
Appendices .............................................................................................................................. 85
List of Tables
Table 1: Phases of China’s Engagement with Africa .......................................................... 11
Table 2: Top 10 Chinese infrastructure project contractors active in sub-Saharan Africa (2001-2007) .......... 49
Table 3: Selected Agreements between Nigeria and China (2001-2006) ........................................ 52
Table 4: Selected Agreements closed between Chinese Companies and Nigeria ............................. 54
Table 5. Angolan Exports (2010) ....................................................................................... 58
Table 6: Major Export and Import partners of Sudan (2009) ..................................................... 59
Table 7: Factors contributing to Chinese firms being competitive relative to their rivals ..................... 65
Table 8: Economic complementarities between China and sub-Saharan Africa ............................... 66
List of Figures

Figure 1: Growth of Trade and FDI Volumes between China and Africa (2001-2005) ........................................... 42

Figure 2: Chinese Infrastructure Commitments in Sub-Saharan Africa by Country (2001-2007) ......................... 47

Figure 3: SWOT analysis communicated by Chinese suppliers in Ethiopia .......................................................... 62
List of Appendices
Appendix 1: Executive Summary.................................................................85
Appendix 2: Assessed yearly infrastructure investment needs to meet Millennium Development Goals in sub-Saharan Africa, 2005-15.................................................................86
Appendix 3: Bid Participation........................................................................87
Appendix 4: Sectoral and geographic distribution of Chinese-implemented multilateral civil works contracts in Sub-Saharan Africa.........................................................91
Appendix 5: Chinese Population in Africa.....................................................92
Appendix 6: Africa’s Main Trading Partners...................................................93
Appendix 7: Africa’s Proven Oil and Gas Reserves.........................................94
Appendix 8: China in Africa (The Economist 2008).......................................95
1.0 Introduction
The clear presence of Chinese MNCs on the global market place is changing the scenery of international business and politics. Western firms are now being challenged by the upcoming emerging country firms with Chinese MNCs. Thanks to the rapid economic expansion and state support, these multinationals as well as non-state companies from China are expanding abroad to seize key resources and market share across the developing world. Africa, an area rich in natural resources and untapped markets with limited historical relations to China, is now vastly recognized by Chinese MNCs (Alten & Large, 2008).

“We often talk about the rise of Asia. But it really should be called „return of Asia“. The industrial revolution meant that all of a sudden, Europe and America became the dominant center of the world. What we are going to see in the 21st century is Asia gradually returning to being more than half of the world’s population and more than half of the world’s product. This is an important shift.”¹

The tightening relationship between China and Africa is the most evident changing aspect on the continent, both in economic and political terms, since 1991.² The Forum on China-Africa Cooperation in 2006 formally established the “strategic” partnership between China and Africa on the values of sincerity, equality, mutual benefit, solidarity and common development.³ Some see this partnership as potential “win-win” cooperation, while others stress varied benefits and the likely risk. Even though the data to assess the development impacts of Chinese FDI is largely based on press and business sector reports (Crabtree, Sumner 2008), it is becoming obvious that China has an ever bigger position in the global economy and offers different approach to development, as well as distinctly different political opportunities than the Western countries.⁴

The literature and press present the intensifying relations between China and Africa as a “new age of dragon” or a “new way of colonialism” – portraying China as a country that is trying to conquer and exploit the continent. Indeed, as China is much more developed and independent, the context and circumstances surrounding its expansion on the continent and its policy approach are much different than in the past. Most of all, the position of China in the global economy has changed tremendously and the country now plays a major role on the global market place. Thus, this new partnership is seen as less unequal than the one with Western countries, even though this

¹ Joseph Nye; http://www.ted.com/talks/lang/eng/joseph_nye_on_global_power_shifts.html
³ A. Crabtree and A. Sumner: Chinese outward FDI in Africa: How much do we know?
is debatable (Crabtree & Sumner, 2008). “Is it time to say goodbye to traditional partners such as the US and Europe?” (Alden & Large, 2008)

Africa lags behind other developing regions on most indicators of growth and development – per capita income levels, life expectancy, absolute levels of poverty, etc. Thus, Africa’s trade performance and its ability to attract and profit from foreign direct investment (FDI) in have been part of many political debates. A lot of African countries have recently initiated economic and political reforms to improve the environment for private sector development and FDI (Schulpen & Gibbon), because FDI constitutes the major source of know-how and technology, which these countries urgently need (Wei 2004). However, it is often unclear whether the incoming projects and investments contribute to Africa’s development, or are only consistent with the donor’s overall objectives. Similarly, this is the core question of the recent massive Chinese investment in Africa.

Many Chinese MNCs expanding to Africa are state owned (e.g., China Overseas Engineering Corporation, China Roads and Bridges Corporation, China Railway Construction Corporation) and therefore might be driven mainly by political and strategic motives. But recently, higher number of private Chinese companies is expanding in the African market, both in size and capacity (Alten & Large, 2008). Then, it seems that even though political drivers prevailed earlier, the expansion of Chinese FDI is now increasingly driven by economic and commercial concerns (Crabtree & Sumner, 2008). This issue only underlines the importance of the China-Africa relations.

Alden and Large (2008) define the key factors boosting Chinese engagement in Africa. They see it as a combination of desire to expand into new markets as well as a process influenced by international political factors. Africa is critically important to China for its geopolitical position; vast, unexploited market; and richness in resources. Kurlantzick, Shinn and Pei (2006) also point out that Chinese companies might be better positioned to deal with the political risks and other obstacles present in many African countries, as the environment they are used to operate in is more similar than that of Western multinationals. They also discuss that the African countries find China’s state-driven development without political reform very appealing, as it offers new era and different approach to development. China’s renewed interest in Africa, as noted previously, seems to be linked to the dramatic economic rise in China as well as the rising resource security concerns that are related to this positive development. (Kurlantzick & Shinn & Pei, 2006). Based

5 Wei, Yingqi Annie, Balasubramanyam, V.N, Foreign Direct Investment (2004), pg. 172-186
6 http://books.google.com/books?id=k9JT3qRqxzYC&printsec=frontcover&hl=cs&source=gbs_ge_summary_r&cad=0#v=onepage&q&f=false
7 http://books.google.com/books?id=k9JT3qRqxzYC&printsec=frontcover&hl=cs&source=gbs_ge_summary_r&cad=0#v=onepage&q&f=false
on the security concerns, the role and number of Chinese MNCs in the petroleum, gas industry and infrastructure development, is an important feature of the African investment and one of the most interesting changes happening worldwide. To research the role of the Chinese MNCs in Africa and other related assertions more closely, I find it intriguing to pose the following research question:

1.2 Research Question

*How and why are Chinese MNCs winning Africa over?*

1.3 Research Sub-questions

When talking about “China winning Africa over”, I will concentrate on commercial and economic terms of this phenomenon. To illustrate the situation on African continent and to answer the research question, we need to go through several sub-questions as steps to find a viable conclusion:

1) How can China’s presence in Africa be explained theoretically?
2) In what sense is China winning Africa?
3) What explains China’s investment in Africa?

---

*a* [http://carnegie-mec.org/events/?fa=941](http://carnegie-mec.org/events/?fa=941)
1.3 Demarcation

1. Introduction

2. Methodology

3. Theory Applied

4. Analytical Framework

5. Chinese MNCs winning Africa - evidence

6. What explains China’s presence in Africa

7. Discussion of Findings

8. Conclusion
1.4 Structure
The overall purpose of this project is to give an overview of how and why are the Chinese MNCs winning Africa over and to provide explanation of the nature of the current development. This project will therefore seek to analyse whether China’s operations in Africa are based on the political will of the state, international business prospects or natural internationalization. In order to answer these questions, hypotheses discussion will be conducted.

The project is divided into 8 parts. Part one made clear the focus of the project. Part two will explain the methodological approach chosen. Part three will focus on clarifying the basis of the further research by demonstrating the theories. Part four presents the analytical framework. In part five, I will provide evidence on Chinese MNCs winning Africa, as well as the characteristics of the internationalization of Chinese MNCs. This will be further applied to the hypotheses testing and discussion as these combined will produce a qualified framework for analyses of the Chinese operations in the African market. In part five, I will discuss what explains China’s presence in Africa. Consequently, I will seek to discuss the findings that came up from the analysis and on the basis of this discussion summarize the findings of the research project and provide an answer to the research question and sub-questions.

2.0 Methodology
This section will explain and argue for the research methodology used in order to answer the research question of the project. Moreover, it will describe the methodological approach, the research strategy, employed empirical data and sources. At last, I will assess the time horizon of the project as well as the fulfilment of the project requirements.

2.1 Methodological Approach
The research conducted is an interpretivist type of analysis and the primary purpose is to provide a picture of the ever so discussed operations of Chinese firms on the African continent. Since this is not a case study based project, I will actively seek to use the theories applied as well as the concrete information collected to support these. Here, I will combine an academic approach from the requirements of Copenhagen Business School and apply this together with the practical data. As a student, my main objective will be to provide new insights by applying theory from the world of Academia on areas which may be undiscovered or confusingly presented. The way in which I wish to approach the research issue is by triangulating multiple choices of data (Yin, 2003). The triangulation strategy model uses separate quantitative and qualitative methods to balance the weaknesses inherent in one method with the strengths of the other method, as to confirm and cross validate the findings within a single study (Creswell, 2003).
2.2 Research Strategy
In order to generate knowledge and thus reach a conclusion about the subject chosen, I will apply several frameworks of doing business in emerging markets. The dependent variable is that China is winning Africa over, indicated by several factors – such as FDI flows or sectorial presence of the Chinese firms in different African countries. The explanatory variables of the research are presented through hypotheses statement within 3 areas: internationalization perspective, political perspective of the hegemony and the resource based perspective.

2.3 Empirical Data
Through the scope of the project I will use both primary, secondary and tertiary data and mostly quantitative data. The primary data will e.g. be data in the form of market and industry reports as well as sources developed from a wide range of contributors such as governments, unions and independent academics. Some of this primary data will be quantitative and some will be qualitative, thereby conducting a mixed method approach. The secondary data, the core source of my research, will e.g. be data I find through databases, articles and other relevant sources. Tertiary data will be e.g. in the form of indexes, encyclopaedias, citation indexes etc. Limitation of the data used will be further assessed.

2.4 Assessment of Methodology
As previously described I have chosen to focus on certain aspects of the operations of Chinese firms on the African continent. These I find appropriate for answering the research question while at the same time staying within the constraints of the formal requirements. Thereby, I am aware of the delimitations when answering the research question, the sub questions and the related hypothesis.

As the formal requirements determine of number of pages and STU’s, the length of my research project has certain constraints, and consequently it can affect the profundity of the analysis. Time limit is another important factor which could affect the research process, why I have limited myself in regards to choice of analytical models and the depth of the research question.

The current global economic downturn creates conditions which defer from the premises the theories have been built on and lack of reliable and accessible data on this topic – especially in such a case as China. Therefore, seeing that my work is based on an environment which does not coincide with the premises of the theories, I am aware that this may affect the validity of my work. The conclusions of my research should therefore be seen in the light of these delimitations. My exploratory study seeks to explore and understand the current situation of the Chinese
operations in Africa. Currently, there is an extensive pool of different explanations and complex paradigms of why China is important on the African continent. But at the same time, there is no good explanation so far of how the situation looks like. Therefore, within the scope of this project, I will seek to contribute to the transparency of the situation.

The reliability of this research will be critically examined by the usage of numerous sources. By triangulating, the answers found are sought to be consistent and thereby not biased. Since I have chosen theory which is applicable to the qualitative and quantitative data used in the project I am able to produce transparency in terms of sense-making (Saunders et al, 2007). Likewise, similar results will be conquered by other researchers by using the same analytical framework. I will seek to get a diverse range of inputs, thereby triangulating and validating the accuracy of the information and creating a true picture of the pros and cons of the situation on the African continent (Saunders et al, 2007).

2.5 Philosophy of Science

When answering the research question, I have chosen to base my research on the interpretive approach as the philosophy of science. I argue that the social world of business and management is far too complex to lend itself to theorizing by definite “laws”. When looking at the China-Africa problematic, insights into and understanding of this complex situation can be lost if this complexity is reduced fully to a series of law-like generalizations. While looking for details about actions and motivations that are not easily made numeric, by using interpretive approach, I will seek to combine those details into systems of belief whose indices are specific to a case. In the end, when trying to comment about general principles or relationships, by using the interpretive approach I will demonstrate how the general pattern looks in practice.9

In my chosen research approach, I use theory as a lens to open the empirical evidence. To understand the empirical cases, the theory has to be understood and looked at first. On the other hand, to validate the theoretical assumptions, empirical evidence has to be found to either support or deny these assumptions and predictions. Moreover, the research uses both inductive and deductive approach. Theory is used primarily to formulate hypotheses. After, the theoretical framework is revised according to the evidence found. In relation to creativity, Weick (2001) says that “views the way that in which a researcher forms ideas about a subject as a process of a disciplined imagination. When a researcher thinks about a subject or problem, he or she imagines various ways of viewing and operationalizing the subject (the ‘imagination’ element) before making a decision on one or a range of perspectives (the ‘discipline’ element) that are adopted and

9 http://www.questia.com/googleScholar.qst?docId=5001361705
elaborated on in the research.” Thus, research in this sense includes a combination of both deductive reasoning, getting familiar with the available literature, and an inductive reasoning through intuitive and creative thinking. In addition, Weick suggest an active role for the researcher who imagine or interpret theoretical representation, rather than seeing such theoretical representations as deductively following a literature review. Following Philips and Pugh (2005), my research will be based on 1) open system of thought – continuously reviewing, testing and criticizing others’ ideas as well as willingness to propose new ideas, and 2) critical examination of data – request the evidence behind conclusions drawn by others. The first two characteristics require mainly self-reflexion (Law 1994) and willingness to look for information that will deny what is already believed to be the case.

Another important feature of the deductive approach and external validity of research is generalization. Opponents say that single cases are not enough for generalizing (Yin 2009). However, these critics also see case studies as comparable to survey analysis were “a sample is used to generalize to a larger universe”. Therefore, external validity gives how much it is possible to generalize from the cases studied in the project, what should or should not be remarked in those cases. Different cases, companies and countries will be deeply analyzed in my project as I argue that there are certain aspects that can be generalized by using a different number of case studies related to several industries in different countries (Yin 2009). However, the data on Chinese investment in Africa are often lacking or are incomplete, as this phenomenon is relatively new and still in the process of constant change and development. To find evidence, one has to look for “the smoking guns” to support the theory and vice versa. Moreover, the process of the expansion of the Chinese MNCs on the African continent takes place while we are attempting to study and explain it.

It is important to assess the limitations to using data inputs. My research is based mainly on external secondary data (periodicals, specialist reports, government statistics, internet, etc.). These data are easy to find and collect and offer a foundation for assessment of the data that is collected. However, these can be too general and vague and may thus mislead the decision making. Moreover, the information may be outdated or unreliable. Therefore, the source of data and reliability of the publisher of this data must be checked. One has to be particularly careful when choosing the sample used for generalization, as it might be too small.

10 http://www.managementstudyguide.com/secondary_data.htm
11 http://www.learnmarketing.net/secondaryresearch.htm
2.5.1 Reliability and validity

When interpreting the results of one’s research, there is a substantial difference in the reliability of quantitative and qualitative research. Silverman argues that qualitative research holds high quality data based on ‘members’ own categories in the context. [...]is possible’. Yet, quantitative data can give very unreliable interpretations as asking and answering can never be standardized and without influence on the outcome compared to qualitative methods. Although this is the case Silverman also suggests that charted figures are not always present in qualitative research, thus the reader will have to rely on the assumptions and interpretations made by the researcher. He proposes to present more detailed information (low-inference) in the research to avoid only relying on the researchers’ interpretation (often high-inference). In the end, Silverman points out that to ensure reliability and validity, one needs to show “your audience the procedures you used to ensure your methods were reliable and your conclusions valid.” Because the data used are drawn mainly from secondary sources, they may not be completely representative. Within my research, I have to stress that to grasp the whole picture of the Chinese investment in Africa and its value (now and in the future), bigger amount of data has to be de-classified as state secret or confidential to allow for transparency and deeper investigation. As already mentioned, the validity and reliability of the research in this paper will be ensured primarily by using the triangulation method.

2.6 Time Horizon

The time horizon of the project considers a development over a longer period of time and takes place in a context of rapid changes. The choice of the Chinese MNC’s in Africa is furthermore captivating as it is a case that is constantly developing as I am writing this project, and it can be characterised as work in progress since the project is doing research on operations that have recently begun to win on importance and will see major changes within the next few years. The study of a particular phenomenon and the definite time-constraint (only the very last semester at MSc. BLC) is very much embodied in the project (Saunders et al, 2007).

2.7 Fulfilment of Project Requirements

This project will aim at incorporating three basic areas from the MSc. BLC programme, namely business administration, the international perspective, and interdisciplinary research methods. It covers the criteria of theory on strategy, organisation and the competitiveness through the eyes of both internationalisation and political perspective.

The business aspect will unfold as a main focus throughout the project. This will be done by conducting an investigation of how Chinese state and private-owned organisations act in a
business world that is constantly intensifying. The reasons for and implications of entering an emerging market will be looked at. The international perspective is evident as the entire project revolves around determining the reason of the internationalization process of the Chinese companies to the African market. Thereby, the project will be multidisciplinary in the sense that I will combine all these perspectives taken from different course curricula. The fact that the project is sought to combine micro factors with meso and macro also goes well in line with the general structure and framework of BLC.

3.0 Theory and Literature review
This chapter is divided into two parts. First part takes into account the International Business theory to explain the Chinese FDI development. Subsequently, the Political economy theory is introduced. Both parts are organized according to dimensions and variables that show presence of these perspectives. The dimensions within International Business theory are the conventional and unconventional theories (mainly the latecomer theory), FSA (firm specific advantage), CSA (country specific advantage) and IDP logic. The dimensions within the Political economy perspective are oriented mainly on the realist and neo-realist explanation of Chinese development, security concerns of the Chinese policy makers, followed by the strategic policy debate. After, the analytical framework and creation of testable propositions deriving from the theories – hypotheses, and indicators to measure whether these hypotheses are valid follows.

The division of International Business perspective and Political Economy perspective is done due to following logic. International business studies focus mainly on the survival and growth of the firm and on the micro level analysis of the choice of the firm in relation to the external constraints. However, Gilpin (2001) suggests that on one hand, “the functioning of the world economy is determined by both markets and the policies of nation-states. The oppositions and cooperation of states interact to create the framework of political relations within which economic forces operate. States set the rules that individual entrepreneurs and multinational firms must follow.” On the other hand, economic and technological powers in the market shape and influence the policies, interests, economic and political matters of distinct states and the political relations among them. Therefore, to understand the running of the global economy and the position of the firms and states in it, both economic and political analyses are necessary. (Gilpin 2001) This validity of proposition is demonstrated in the table below, where the China-Africa relationship development is shown – from the initial political phase until the current commercial nature of the relationship (Wang 2009).

12 Michael Hansen, BSDC course at Copenhagen Business School, Lecture 1
Table 1. Phases of China’s Engagement with Africa

<table>
<thead>
<tr>
<th>Three Stages of China’s Engagement with Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Political Stage</strong></td>
</tr>
<tr>
<td>Mainly political ties</td>
</tr>
<tr>
<td>Infrastructure financing and medical aid</td>
</tr>
<tr>
<td>Determination to find support for the</td>
</tr>
<tr>
<td>Third World</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

Source: The China-Africa alliance (Wang 2009)

3.1 International Business Perspective
Since the initiation of its "go global" government policy (promoting overseas investment of Chinese firms), China's Outward Foreign Direct Investment (OFDI) has grown at an accelerating rate, reaching $246 billion by the end of 2009. The issue of internationalization of Chinese outward FDI has attracted growing attention of researchers - but cannot be understood as a simple catching-up with established MNEs. Conventional theories are often based to explain the behaviour of MNEs from industrialized or developed countries, as the dramatic rise of the “emerging giants” is rather a recent development. It can be therefore argued, that there is a need for alternative or special theories regarding internationalization when it comes to third-world MNEs in order to find and understand their firm specific advantages (FSAs) and country specific advantages (CSAs) when going abroad, as well as understand the unique characteristics of their investment activities. On the other hand, it can also be argued that the existing theories are possibly complementary.

This part will attempt to focus on the main motivations for the emerging multinationals to invest abroad; how do these multinationals differ from others when investing abroad; and how do existing FDI theories explain the investment activities. This is a vital issue that needs attention largely because of the growing importance of the emerging nations as the leading foreign investors (Deng 2003). First, the conventional and unconventional FDI theories, followed by literature on expansion of emerging market MNCs behind the borders of their own country.
(internationalization theory, OLI paradigm, strategic exit, latecomers’ theory). Further, the firm specific advantages, country specific advantages and IDP perspectives as a foundation for emerging market firm internationalization decision-making process are being discussed.

3.1.1 Conventional and Unconventional FDI Theories
Conventional models treat internationalization as the outcome of competitive advantage based on possession of unique assets. The MNC has both ownership advantages and disadvantages. The firm with advantages may invest abroad by exploiting those advantages or by internalizing the markets. This is a typical example of conventional FDI, which is explained well by the existing theory. On the other hand, the firm may be motivated by its own disadvantages in going abroad. (Moon; 2001)

There, in fact, exists a variety of FDI, much of which is not well explained by this ownership-advantage approach or by a static resource-based view of the firm. These investments include strategic response and investment from less developed countries (LDC). One important characteristic of these FDI is that the firm, without any significant ownership advantage compared to its competitors, invests abroad to maintain or enhance its competitive position. These unconventional investments are basically asset-seeking investments and are different from the conventional asset-exploiting investments. LDC firms, just like the DC firms that make strategic investments, are trying to redress an imbalance in their competitive or resource position through their investments. It is the lack of advantage, rather than the exploitation of the existing advantage, which drives such investments. Firms with little significant ownership advantage in the conventional sense also participate in these global investment activities (Moon 2001).

The above discussion implies that the key element of conventional FDI theories is ownership advantage in a broader sense, whether it is ownership advantage per se or the capability of internalizing the advantage or markets. This ownership approach is useful in explaining the behaviour of conventional FDI that is based on firm-specific ownership advantages, but not that of unconventional FDI. As already mentioned above, one of the strongest criticisms of the mainstream FDI theories for explaining outward FDI from developing countries is that they are built on the observations of Western countries (United States and European countries) and so may fail to seize the unique characteristics of MNCs from developing countries. However, the unconventional and latecomer theories are not exactly relevant for the firms in Africa – they are more suitable to challenge Western firms in their own markets through FDI. Therefore, the
conventional thinking might be more appropriate when explaining the FDI flows in between the developing markets.

3.1.2 Theoretical Explanation of FDI from developing countries

The internationalization concept is used by the majority of the international business literature to describe the strategy of multinational enterprise (MNE) (Buckley; Casson; 1976), transaction costs (Hennart; 1998) and monopoly advantage (Hymer; 1960). Internationalization has been viewed as a process of gradually increasing involvement of enterprises in international markets as they learn about foreign markets. Several internationalization theories and models which try to explain why there are international activities assume that “it is more costly for a firm to operate abroad than in its domestic market” and others suggest that “learning how to operate abroad is also more costly than learning how to operate in the domestic market”. The latter proposition incurs what Hymer (1976) explained as a liability of foreigners (Boisot & Meyer 2008).

These views are combined by Dunning (2001) in the OLI paradigm. This dominant analytical framework is composed of three separate interdependent variables. It suggests that the decision to internationalize production is based on ownership advantages (O), location advantages (L) and internationalization - related (I) benefits. Many argue that because this theory was aimed at explaining the behaviour of MNCs from developed countries, it is only doubtful to what extend can it be successfully applied to developing country FDI. Several authors suggest that to successfully describe the latecomer MNEs, an unconventional framework needs to be adopted (Mathews 2002; Moon & Roehl 2001). Nevertheless, the general opinion is that “mainstream theory can be used, but special theories that build on the general theory are necessary too” (Buckley et al. 2007) Also, the eclectic paradigm is criticized for being limited in use to analyse the firm level only. However, it provides a means of assessing evidence on foreign-owned production in a variety of empirical contexts, as a means of determining which theories and which level of analysis are most appropriate to any given set of circumstances (Cantwell, Narula 2001).

Alan Rugman also argues that existing theories of globalization cannot be simply adapted to the case of multinational enterprises (MNEs) from emerging markets. Rugman concludes that, from the viewpoint of international business academic research, it is misleading to believe that emerging market MNEs can follow the same strategies as MNEs from developed economies.15

---

14 Buckley; Historic and Emergent Trends in Chinese OFDI

Lecraw (1993) detects that company’s basis of competitive advantage (on the international level) and the motive that drives its choice of where to invest can contribute to an alternative theory on the internationalization of emerging market firms. Meyer and Boisot (2008) hypothesize that the issue that can explain the exit of Chinese firms from the country at a relatively early stage of development can be explained as a strategic exit from the home country rather than strategic entry into foreign markets. They suggest that the internationalization of these small firms is driven mainly by “local protectionism and inefficient domestic logistics” that increase the costs of doing business at home. An emerging perspective on internationalization supports this view by suggesting that firms invest abroad to “overcome competitive disadvantages originating from their own internal resources or unfavourable domestic institutional environments” (Mathews 2002, 2006; Peng & Deeds 2008; Luo & Tung 2007; Child & Rodrigues 2005). They also argue that there has been a shift in the internationalization theory during recent years. Previously, most of the theories assumed that a firm “must first grow large in the domestic market (on market or product based competitive advantages) and only then goes abroad”, using its established competitive advantages to compensate for the costs of operating in the foreign market. Nowadays, one can observe tremendous development in terms of increasingly active role that the small- and medium-sized enterprises play in international markets (Oviatt & McDougall 1994, 1999; Wolff & Pett 2000).

3.1.3 Firm specific (FSAs) and Country specific (CSAs) advantages

There are only few research efforts that would have tested the influence of firm specific advantages (FSAs) on the decision-making process of the emerging country firms.

Rugman and Verbeke (1981; 1992) consider the FSAs and CSAs being the foundation for international business strategy and present a matrix of country-specific advantages and firm-specific advantages (Rugman, 2007). The FSAs are considered exclusive to the firm, and “can be technology based, knowledge based, production based or they can reflect managerial, marketing or distribution skills” (Rugman & Verbeke, 2003). These elements and unique capabilities further influence the competitive advantage of the firm. The authors stress the importance of entrepreneurship as an important firm specific advantage and further suggests that it may be particularly important in creating and changing other FSAs into dynamic capabilities, as well as creating strategic opportunities for the firm “through successful relationships or negotiations with external parties”. Secondly, political, economic, regulatory, infrastructure or cultural factors form and influence the country specific advantages (CSAs). These are explained as country factors that

---

are unique to the business and stem from “natural resource endowments, labour force characteristics, cultural and economic factors as well as in some cases an appealing country brand” (Marinova et al. 2010).

Similarly to Rugman and Verbeke (1981), Penrose (1959) suggests that key and enduring firm specific assets, such as technological know-how, brand image or distribution know-how, form FSAs that might support firm internationalization (Marinova et al. 2010). At a certain point of development, a firm may have built advantageous strength when it comes to these advantages compared to other firms in the market (Leonard-Barton, 1992; Tallman, 1992; Hu, 1995; Rangan & Drummond, 2004). Moreover, through learning and knowledge acquisition, previous firm or country specific disadvantages may be turned into firm or country specific advantages (Marinova et al. 2010). In addition, Penrose (1995) studies how the resource advantages of large firms can be used to create future growth. “Economies which are attributable to the size of firms may, up to a point, be responsible not only for lower costs of production and distribution of the existing products of larger firms. They may also provide crucial competitive advantages enabling already large firms to grow further. Crucial to this process are the firm’s research activities, enabling the development of new products, and the ability to generate the resources to introduce them” (Nolan 2001).

Further in the theory and literature, it is discussed that emerging countries have special ownership advantages in form of home country embeddedness. Home country embedded FSAs are defined as “capabilities derived from the experience of operating at home and coping with home country conditions”. It is suggested that these skills can become a particular competitive advantage in foreign markets with comparable conditions to the firm’s home market (Cross et al. 2007; Buckley, Cross, et al. 2008). Erdener and Shapiro (2005) state that overseas Chinese firms are able to enter markets unattractive to western, industrialized country firms because they are experienced at operating well in settings considered too risky, uncertain regulatory framework and weak institutions to support the position of the firm on the market. Moreover, the authors suggest that exploitation of firm specific advantages in other developing countries is easier for emerging MNEs than for firms from developed countries thanks to their skills and experience of having similar political and institutional environments and impediments at home (Cross et al. 2007). In fact, when expanding and operating in countries abroad with comparable unfavourable conditions to those at home, the experience and knowledge of how to overcome these hurdles can make Chinese MNEs more successful and more profitable in African countries than their Western rivals (Yiu, Lau and Bruton 2007; Cross et al. 2007). Scott (2002) points out that the unique capability
of Chinese firms of development and relationship-building is a vital source of competitive advantage. Khana and Pallepu add that the “emerging giants” know how to work around institutional voids and hence tailor their strategies to every developing market they wish to operate in. Wells (1977), Kumar and Kim (1984) hypothesize that in general, developing country firms lack new technology. However, their old technology, products and processes are the most suitable to be customized and exploited in less developed country markets (Shenkar & Luo 2004).

In conclusion, it is said that “home country embeddedness may enable developing country firms to successfully compete with established MNEs as well as other local firms in other developing countries” (Aggarwal & Agmon 1990).

The activities of the firm, competitive pressure and institutional and environmental change have significant impact on the advantages and disadvantages of the firms (Amit & Shoemaker, 1993; Child & Tse, 2001). Advantages can therefore be seen as both time and context specific (Marinova et al. 2010). Dunning (1993) and Wesson (2004) suggest that internationalization might be driven by firm’s ambitions to access and grow new FSAs, such as efficiency or knowledge. Child and Rodrigues (2005) imply that the process of going abroad needs to be viewed through an economic, social and political lens. This approach entails and takes into account features of both home and host context. Therefore, the view of internationalization must be complemented by an institutional view, referring to social and political factors (Marinova et al. 2010).

The institution-based view argues that institutions, which are a set of formal and informal rules (Schmoller) define the rules and norms for functioning of firms and industries, create and enforce formal and informal constraints on the activities of firms and impact their strategic choices (North, 1990 and 1993; Scott, 1995; Peng & Delios, 2006; North, 1990). Peng (2003, 2006) has examined choices that companies make in relation to both positive and negative restrictions and limitations of a specific institutional framework. Therefore, several authors conclude that institutional factors can indeed present a foundation to CSAs and CSDs (Lu & Yao, 2006; Ma et al., 2006; Lee et al., 2007; Zhou et al., 2006; Meyer et al., 2009).

In general, institutions present in emerging markets are considered as unfavourable due to their ineffectiveness to guarantee healthy market functioning and low level of development. Makino et al. (2004) found that besides the fact that the formal and informal institutions impact the way the

---

17 Historic and Emergent Trends in Chinese Outward Direct Investment
business is done and further developed, the differences in institutional framework and backgrounds in emerging markets are tremendous. Further, it is suggested that the main characteristic of the internationalization of latecomers is “a combination of not particularly advantageous CSAs and FSAs”. The latecomer firms are therefore considered to “have been seeking assets rather than exploiting existing assets” (Marinova et al. 2010).

Mathews (2002) defines the latecomer firm as a firm that is a late entrant to an industry by historical necessity, initially resource-poor with several competitive advantages that can help the firm achieve its primary goal of catching-up and strengthen its position in business. The latecomer firm secures its first competitive advantage in recognizing its deficiencies. Moreover, through acquiring and ensuring access to the sources of technology, knowledge and market access via firm to firm linkages the firm also obtains access to the world’s production chains. As one can see in the current situation on the world market, China emerged as a primary outward FDI source. It can be therefore argued that this development falls into the latecomer firm category, rather than ownership advantages exploitation analysis (Child and Rodrigues 2005).

As well as other authors and theory streams discussed, Ramamurti is also seeing the rise of latecomers as a mix of country specific advantages (CSAs) and firm specific advantages (FSAs). But many authors stress that Chinese MNCs as latecomers actually lack FSAs, such as advanced technology or reputable brands, when compared to their rivals from industrialized countries. (Yapak & Karademir, 2010)\(^\text{18}\) Indeed, Rugman and Oh (2008) argue that MNCs from developing markets possess weak FSAs and relatively strong CSAs. To conclude this section, the main ownership advantages that the Chinese MNCs hold seem to be mainly home country based, related or embedded.

One way or another, the discussion of the rise of developing country MNCs points to the important role of the national governments or states in developing countries in facilitating and determining the level and course of the FDI (Aggarwal & Agmon 1990). But, control and restraint of outbound FDI has been a major element of economic rules in numerous developing markets (UNCTAD 1996, 2006). Then again, the strong government support may help the emerging country MNEs to overcome the initial ownership or location disadvantages. This support usually

\(^{18}\) Emerging market multinationals’ role in facilitating developed country multinationals’ regional expansion: A critical review of the literature and Turkish MNC examples
takes place “in form of advantaged access to raw materials, cheap capital, and other governmental benefits” (Buckley et al. 2007; Aggarwal & Agmon 1990). 19

3.1.5 The IDP theory
The Investment Development Path (IDP) theory presents the idea of the interrelationship between a country’s net foreign direct investment and its level of economic development. Even though this theory encompasses many of the previous theories mentioned, it can be seen as an “overarching framework”. In essence, this theory recognizes that the outward and inward FDI position of a country is thoroughly related to a country’s level, nature and structure of economic development and ownership advantages of domestic firms. Consequently, this structural change affects the net outward investment position of the country (Dunning 1981; McCarthy & Marton 2010). Outward FDI is expected to be undertaken only when a country has reached a certain minimum level of development. 20 The eclectic theory of foreign direct investment attributes the dynamic relationship between economic development and net outward investment position of the country to the changes of OLI - ownership, location and internalization advantages (Dunning, 1988). The IDP theory further explains that the countries have a tendency to progress through five stages of development as a reaction to the changing settings of the country’s location-specific advantages and progressive upgrading of domestic firms’ ownership specific advantages (Dunning 1981, Dunning 1986, McCarthy & Marton 2010). Together with these changes, the tendency of being a net recipient to becoming a net source of FDI advances (Dunning 1981, 1986, 2005, Dunning and Narula 1996, Dunning et al 1998). 21

In the stage one that presents a pre-industrialization period, the location advantages of the host country are in general assumed to be insufficient to attract FDI. However, countries rich in natural resources and other valuable assets might be considered as an exception. Local firms have not yet developed firm specific ownership advantages to be able to successfully invest in other markets abroad. In the second stage, the outward FDI is still limited as the local firms are still in the process of development and don’t have sufficient ownership advantages to invest more heavily abroad. However, the FDI inflows are increasing as well as the size and purchasing power of local markets. In the third stage, local firms become more competitive. The outward FDI therefore starts to grow faster and the governments tend to promote outward FDI in sectors with high ownership advantages. In stage four, outward and inward FDI are either at similar level or outward FDI stock is greater. At this stage, the domestic firms are already capable of competing

---

20 World Investment Report 2006: FDI from developing and transition economies – Implications for development
21 World Investment Report 2006: FDI from developing and transition economies – Implications for development
with foreign firms not only in their home market, but also abroad. In the last stage of development, the amount of the outward and inward FDI stock is very similar and the prevailing portion of the FDI inflows is either market-seeking or knowledge-seeking in nature.

The IDP approach also suggests that the changes in the size of inward and outward FDI are not the only change that accompanies the development process of the country. The theory suggests that changes in the structure of these investments occur as well. First, the incoming FDI is normally focused on low or medium knowledge-intensive or resource based industries. At the later stage, inward FDI moves into more technology-intensive industries. Outward FDI also first occurs in low-technology or resource-based industries and then proceeds in high value added activities. This structural upgrading mirrors growing national competitiveness.

Dunning and Narula turn to look at the way that recent technological and organizational changes have impinged upon the governance of both firms and national economies, particularly how they have changed the current discourse on the shape and character of the IDP. They suggest that in the last decade or more, MNE activity has been increasingly motivated by the desire to acquire new competitive advantages, or to protect such existing advantages. Such strategic asset acquiring is typically executed through a series of mergers and acquisitions. The effect of strategic asset seeking investment on the IDP is that it is likely to increase the level of outward investment of all countries, but particularly that from medium income and fast growing industrial nations, as they seek to establish a speedy presence in the most innovatory and dynamic markets of the world.

3.2 Political economy perspective
Political perspective is “defined by building relations between states primarily of a political nature – through economic aid, infrastructure and medical help, or efforts to gain support from other states” (Wang 2009). The international political economy is a specific discipline that is concentrated on the two-way conditionality between economic and political appearances in the international environment (Krpec & Hodulák 2011). Even though the market forces are increasingly winning on importance, “the purpose of economic actions and economic work is given by the rules, standards and interests of the political and social systems”. Eden (1991) further suggests that the economic factors will continue to affect the world economy. However, he adds that even greater role will remain within the political factors (Eden 1991). The concept of political

---

22 World Investment Report 2006: FDI from developing and transition economies – Implications for development
23 http://www.usc.es/~economet/reviews/ijaeqs925.pdf
24 World Investment Report 2006: FDI from developing and transition economies – Implications for development
25 http://knowledge.insead.edu/TheChina-Africaalliance090709.cfm
economy views the state as the key actor in the global system and as the organizer of the international political order. However, Susan Strange suggests that the market is rather a structure than an actor. Therefore, taking over markets at home as well as abroad, the MNE is a proper counterbalance to the state (Eden 1991).

This chapter provides an overview of the political economy perspectives up to date – Marxist and Weberian theory; realism, neo-realism and neoclassical realism; the English school perspective; liberalism, idealism and structuralism; and further discuss the issue of globalization and the subsequent changing role of state and MNCs in the process.

3.2.1 Marxist theory and Weberian approach
Marxism and and Weberian theory are the two dominating traditions of the state theory in political science. The first and older tradition of state theory in political science is the one of Marx and Engels. The second and later tradition of state theory stems from Max Weber.

Leftwich (1993) identifies two main conceptions of Marxist theory. The first and classic conception holds that the state and its institutions are the agents of the dominant class in capitalist society, the bourgeoisie. The state and its agencies act to further bourgeois interests over and against those of other classes. The second and less familiar Marxist conception can be found in Marx’s writings on France (1852/1973). Marx presents the state and its bureaucratic apparatus as autonomous of narrowly bourgeois interests. Later, the idea of the “relative autonomy” of the state in capitalist society was presented. From a developmental point of view, this is a conception of a modernizing state, active and pervasive in the promotion of capitalist development. Gilpin (1987) identified that the importance of Marxism declined as an increasing number of less developed countries started to open their economies to foreign investment through the adoption of liberal measures to “support growth driven by export strategies”. However, Gilpin further says that the Marxist theory “will remain a criticism of capitalism” that, according to this theory, is one of the main reasons of the great differences between the high degree of poverty and excessive wealth, as well as the competitiveness of capitalist economies over market share (Gilpin 1987). The Weberian approach is more concerned with how the state operates and describes the modern state and its bureaucracy. (Leftwich 1993). In comparison to Marx theory, the Weberian approach is less political (Sager and Rosser 2009).

3.2.2 Realism, Neorealism and Neoclassical realism
Political realism is a theory of political philosophy that seeks to clarify and model political relations (Moseley 2005). The link between realism and international theory is still very strong
even in the twentieth century, although less prevailing (Donnelly 2000). Realism has many versions, but the common proposition central to most of them is the proposition that states are the main actors in the world politics and focus primarily on their own security (Jervis 1998). Realists further advocate that there is no other actor that would be able to regulate the interfaces between states (Donnelly 2000). The realist theory views mankind as self-oriented, hungry for power and openly criticizes idealism and stresses that the idealists don’t take into account the factor of power and power relations that primarily form the relationships between states. International institutions, non-governmental organizations, MNEs and other individuals are seen less influential (Grant 2008). Thomas Hobbes argues as well that “human nature is egocentric and leaning towards conflict unless there are conditions under which humans may coexist” (Waltz 1979). While aiming towards national security and own interests, the attempt of the states is to seize as many resources as possible (Waltz 1979). As already suggested, the realist theory further explains the view that the interrelationships between states are based on their power levels. Hence, these are determined by their military and economic competences and experience. Moreover, realists state that the “great powers” that are the most influential in the global arena are awarded special attention (Grant 2008). In addition, realists believe “that a state must constantly have in mind the actions of the states around and must use a realistic approach to solve problems as they come” (Moseley 2005).

Morgenthau (1978) suggests that the interest of the state is superior to norms. He sees the seizing of as much power as possible to be the main aim of the state while first assuring the survival of the country and its population as such. Moreover, he argues that moral aspirations are different from the moral principles legitimate worldwide. Donnelly (2000) further explains the realist view through introduction of the other realists ideas on the role of power in the international relations. Schwarzenberger (1951) talks about “the overriding role of power in international relations”, asking for “the primacy in all political life of power and security” (Gilpin 1986). Subsequently, he introduces Morgenthau’s (1948) view that “the struggle for power is universal in time and space”, as well as Waltz’s (1979) assumption that “the daily presence of force and recurrent reliance on it mark the affairs of nations”. Therefore, he sees security as a factor that

---

26 http://www.questia.com/read/105287467?title=Realism%20and%20International%20Relations
27 sv. Augustin – zkaženost. Člověk chce panovat
28 http://www.suite101.com/content/classical-realism-in-the-world-a43131
30 http://www.suite101.com/content/classical-realism-in-the-world-a43131
31 http://www.iep.utm.edu/polreal/
32 http://en.wikipedia.org/wiki/Realism_(international_relations)
33 http://www.mtholyoke.edu/acad/intrel/morg6.htm
would guarantee “a less dangerous and less violent world, rather than a safe, just, or peaceful one“. In the end, he suggests that statecraft is more about managing the conflict rather than removing it (Donnelly 2000).

When it comes to discussion about the balance of power and hegemony, the realists stress that even though there is a general effort for balance as the most effective system in the international political arena, ideologies, modern nationalism and liberalism undermine the functionality of such equilibrium (Drulák 2003). 35

**Neorealism and The English school**

The English School believes that “the international system forms a ‘society of states’ where common rules and interests allow for more order and stability than the classical realist view advises”36.

Neorealism originates from and is based on the views of the classical realism. The difference between these two streams is that the neorealists focus primarily on the international system rather than on individuals and explaining the human nature. Moreover, the neorealist theory sees the state security as a goal and power as a tool to achieve this aim (Drulák 2003). Waltz (1959) takes over the idea of non-changing and violent nature of the international relations, the concept of the power balance and the superiority of the security dimension of the international system. In other words, they say that although the state remains a core actor, its behavior is influenced by the nature and rules of the international system - factors not on the state level (Drulák 2003). Neorealism differs from the English school in the emphasis on the durability of conflict (Waltz 1979). Neorealists tend to see power in terms of military strength and continuous conflict awareness, while the classical realism take into account the subjective power as well - in terms of ideology power (Kratochvíl 2007).

Gilpin (2001) views that the security, political ambitions, strive for higher efficiency and the interrelations between the global powers (US, Western Europe, Japan, China and Russia) will continue to be the main driver to affect the future of the global economy. He sees the changes in power between the main global actors as a result of technological changes and hunger for supremacy (Drulák 2010). Gilpin (2001) further proposes “that it is highly unlikely that these powers will leave the distribution of the global production and the impact of economic forces on their national interests fully up to the market”.

35 Teorie mezinárodních vztahů
Robert Gilpin’s study of War and Change in World Politics presents a model of the dynamics of system change, based on five propositions (Holsti 2011). The first proposition is that the international system is stable “if no state believes that it is profitable to attempt to change it” (Gilpin 1987). Secondly, “a state will attempt to change the equilibrium if the expected benefits exceed the costs” (Hummel 2007). The third proposition states that “a state will seek change through territorial, political, and economic expansion until the marginal costs of further change equal or exceed the marginal benefits” (Hummel 2007). Moreover, “once an equilibrium between the costs and benefits of further expansion is reached, there is a tendency for the economic costs of maintaining the status quo (expenditures for military forces, support for allies, etc.) to rise faster than the economic capacity to support the status quo” (Gilpin 1987; Hummel 2007). An equilibrium is reached “when no powerful state believes that a change in the system would yield additional net benefits” (Holsti 2011). If the disequilibrium and the redistribution of power in the international system is not resolved, “then the system will be changed and a new equilibrium reflecting the redistribution of relative capabilities will be established” (Hummel 2007). In Gilpin’s (1987) view, varied growth rates of the economic development among states play a major role in “explaining the rise and fall of great powers”.

Aron (1966) separates the international politics and the economic studies. He presents a view that the international politics studies deal mainly with unusual situations and non-logical actions, while trying to explain interrelations among them. Moreover, the great number of factors that have an impact on the international system functioning and multiple interests of states make it impossible to predict and manipulate these factors “with identified means leading to specific goals” (Waltz 1979). Aron (1966) also conducts a typology of the international system based on two criteria – homogeneity and polarity. In the homogenous system, the states share core values and acknowledge the right to existence of each other. In case of heterogeneous system, this value-sharing is missing and the ideological struggles occur not only at the international, but also at the inner-state level. This fact destabilizes not only the international system, but also the individual players in this system. Therefore, he favors the power equilibrium. This view contrasts with Waltz (1979), who sees the bipolarity as the most optimistic power division, because it reduces uncertainty and assures stability (Drulák 2010). He claims that “because interdependence has declined rather than increased during the twentieth century, this trend has actually contributed to stability” (Holsti 2011).
Stephen Walt (1987) assumes that, within the environment of anarchy, the status quo of power will function automatically. Therefore, the state in danger will look for allies and will not try to reach a peaceful agreement with the aggressor at a cost of making a sacrifice. Hence, Walt (1987) sees the creation of “counterbalancing alliance” as the best system strategy, as it holds the potential aggressor back (Drulák 2010).

Neoclassical realism

Neoclassical realism is based on the neorealist statement that the international system, and anarchy, constrain the foreign policy options of states, and that states that do not respond to the security imperatives of the system are punished by the system. The key question for neoclassical realists is how we explain foreign policy behavior that differs from the demands of system structure (Lobell et al 2009).

Neoclassical realism has developed as an attempt to complete the view of neorealism. The main issue was that neorealism oriented only at explaining certain political outcomes, but neglected the study of the state’s behavior. Therefore, neoclassical realism adopts the approach of “adding domestic intervening variables between systemic incentives and a state's foreign policy decision”.40 Drulák (2010) adds that “the power division in the international system is an independent variable, national view of the system and national motivations are intervening variables, and decisions on foreign policy strategy are a dependent variable”. Randall Schweller notes that the neoclassical realism approach could be beneficial when explaining both the theories of foreign policy and several types of political effects, since the main method for testing theories used is the process-tracing of case studies.41

3.2.3 Liberalism and Idealism

Liberalism presents a concept of development, enlightenment and rationalism, giving attention to individual, freedom and state restrictions. Even though liberalism draws upon idealism, it denies some of its aspects (f.e. the human nature can be changed for better). Theorists believe that the international system and society can be organized more effectively and that the long-lasting peace and cooperation between nations is possible. They believe that the democratic society that is based on the rights protection and free market mechanism can assure peace in a global merit (Burchill et al 2001). Another feature of liberalism is that it does not see state as a major actor in the international system – high attention is given to institutions, MNEs, public opinion and individuals. It also questions the sharp division between the internal and external political strategies of the state. In this point, Burchill et al (2001) views liberalism as an ‘inside-out’
approach to international relations as liberals favor a world in which the internal determines the external. The major contribution of this theoretical stream is that it understands the international system in many dimensions. It argues that the political and security concerns of the state may not necessarily play a major role and that the economic, ethical, cultural and technological dimensions need to be taken into consideration as well (Drulák 2010).

Neorealism and neoliberalism provide different views of how states follow their interests. On the one hand, neorealists say that states try to gain as much as possible “in comparison to the others, and are thus concerned with relative gains”. In this context, they hypothesize that “states will not cooperate with their counterparts if they expect to gain less”. On the other hand, neoliberals suggest that states are rather concerned with their “absolute gains, hence try to gain the most independent of their rivals” (Burchill et al 2001).

With the collapse of Communism, most of the nations joined the path of liberalism and progress towards peaceful relations with other countries. The states realized that in order to successfully expand trade relations, the economic growth, justice and ethical considerations are far more important than battle for territories and military. “There can be little doubt that the great powers are now much less inclined to use force to resolve their political differences with each other” (Burchill et al 2001).

**Structuralism**

Structuralism is a stream that dominated the development economics during the 1960s. This theory viewed development as “a process of dynamic change” and suggested that when deciding about investing or not, taking into consideration only the market mechanism is unreliable. Therefore, structuralism argued that interventions were needed to support development. Gerschenkron (1962) emphasized that the state plays a vital role in substituting for market in the process of “catching up“. Keynes is also stressing the need for government interventions, but in the advanced countries (Wan-wen Chu)

Structuralists primarily build on Waltz’s (1979) structure concept and add new features so that it better portraits and takes into consideration other historical international systems as well as other important features of international relations that Waltz (1979) neglects. To be exact, this view suggests that even in the anarchist environment, clearly different actors can co-exist (Buzan et al 1993). The authors also differentiate power distribution in different locations (military, political,
ideological, etc). In general, structuralism builds mainly on the views of the English school (Drulák 2010).

The unsuccessful development of the economies in Latin American countries and the so called “East Asian miracle“ raises doubts in regard to the dependency theory and a neoclassical theory “as to how and to what degree the state has the capacity to intervene” (Wan-wen Chu). The dependency theory sees the inability of the periphery to develop a certain level of technological dynamism and technological knowledge transfer as a main reason of the dependency of the periphery in respect to the center. These are the main cause of the underdevelopment of the periphery with respect to the center (Vernengo 2010). Moreover, the main argument of the dependency theory lays in the proposition that the way the poor states are integrated into the world system is making them even poorer (Wan-wen Chu). However, it fails to explain “why the high degree of trade dependency in East Asia did not inflict the damage it was supposed to” (Wan-wen Chu). In this particular case, the neoclassical mainstream stressed that “free markets are efficient and can promote growth everywhere”.

3.2.3 Economic globalization and the changing role of the state
The literature on the effects of globalization is rich and in general suggests that this phenomenon brings foremost “lowering of the obstacles to international trade”. Liberals are keen on removing the state influence when it comes to commercial relations between businesses and individuals and present changes occurring in the era of globalization. Liberals claim that the have a significant influence over not only the shape of the world economy, they also effect the sovereignty of the states and their decision-making in environmental, economic and security matters. These, according to the liberals, have been internationalized considerably. On the other hand, even though realists acknowledge the existence of these changes, they argue that “liberals are premature in announcing the demise of the nation-state” and that “a preferred form of political community, the nation-state still has no serious rival” (Burchill et al 2001). In addition, realists name number of powers the state remains in hold of in spite of globalization – such as control over weapons or the right to tax, authority to bind the country to international law, create political commitments, etc. In many cases, realists question globalization as a sort of sensation, “citing the nineteenth century as period when similar levels of economic interdependence existed”(Burchill et al 2005).

43 The “East Asian Miracle” and the Theoretical Analysis of Industrial Policy: A review
44 Peter Wad (2009), DSGE class, Lecture 2, Copenhagen Business School
The state and politics
Leftwich (2005) defines politics as “all the many activities of cooperation, conflict and negotiation involved in decisions about the use, production and distribution of resources”. Weiss (2003) says that the state has significantly more room to maneuver in the global political economy than globalization theory allows; and that states have room to move because globalization enables as well as constraints economic governance. Weiss argues that we can be more than certain about one point: “We can only make progress on these issues when we stop reducing state power to a particular set of policy instruments of conceptualizing such power as something fixed and finite and, hence, cease assessing transformation against an imagined static past.”

Evans (1997) is talking about the transformation of the state-business relations in the era of globalization. He suggests that state-business relations cannot be interpreted without first specifying the internal structure of the state and the state policy, which shape the character of the business community. Further, Evans says that when state policies succeed in reshaping the business community, they are likely to undercut the very patterns of government-business relations that made the policies effective to begin with. As government-business relations evolve, a more encompassing set of state-society networks that includes institutionalized ties between the state and other social groups may provide a better means of sustaining future transformation and development. Cerny (1997) hypothesizes on the changing political agenda of the state under globalization. He suggests that the interventions of the state move from macro- to micro-economic level and from pursuing comparative advantage to competitive advantage. Moreover, the previous welfare objectives are according to Cerny (1997) being replaced by competition objectives, such as enterprise profitability and liberalization.

Caves reviews the benefits and costs of national government policies and, subsequently, considers some behavioral approaches to public policy, assuming that these are influenced by self-interested actors. As a traditional economist, Caves has been focusing on the efficiency aspects of MNC activities in a world where government regulations are imposed on the MNCs for several reasons. He assumes that “each state attempts to maximize real national incomes” and that “policy making by governments can discriminate between foreign- and home-based MNCs”. The author’s focus on efficiency aspects of MNCs is consistent with internationalization theory’s explanation of the MNCs existence. Many other authors using a transaction cost approach have considered the public policy implications of the MNE in the same way as Caves (Buckley & Casson 1976; Rugman 1981; Hennart 1982; Rugman & Verbeke 2000). On the other hand, Hymer (1976) and many
others have been more interested in the issues of power relations between the MNEs and the nation state.

### 3.2.4 Globalization and MNCs

Burchill et al (2001) say the rising volumes of capital flowing among nations and the gradual relocation of manufacturing centres to developing countries after the collapse of the Bretton Woods system in the early 1970s is undeniable. (Strange 1996, 1998). The desire of the MNCs to cross national borders and seek for opportunities in places that offer significantly lower labor costs and high degree of untapped raw materials is accompanied by the need of the majority of nations to attract these MNCs and further “creation of new centers of production whenever profit opportunities can be maximized”. Liberals see this as “the best way of encouraging much-needed foreign investment in the developing world and establishing a trade profile for countries which might otherwise be excluded from world trade altogether” (Burchill et al 2001). Another study further suggests “a shift away from intra-regional investment in other emerging nations and towards a greater share of new multinationals going direct to developed markets”.

It is said that due to the globalization forces the global companies are losing their national character. Contrasting anticipations concerning the emergence of a globalized economy, MNCs differ steadily in many aspects – “their internal governance, long-term financing structures, in their approaches to research and development (R&D), in the location of core R&D facilities, in their overseas investment and intra firm trading strategies” (Pauly & Reich 1997). In addition, historical ideological background and local state institutions continue to affect the core decision-making of the corporations. Therefore, “markets are not replacing political leadership and the necessity for negotiated adjustments among states” (Pauly & Reich 1997).

Alden and Davies (2006) talk about the rise of the emerging market MNEs from China, Brazil, India and South Africa as a recently uprisng phenomenon. These companies, that are becoming successful and ever more influential players on the global market place, are mainly establishing themselves in emerging market economies following, in most cases, much different strategies than those of the firms in developed markets. Alden and Davies (2006) further explain that these differences are “ranging from differences linked to the historical conditions, institutional background or relationships to international community” (Alden & Davies 2006).

Indeed, as the markets in developed nations are more and more saturated, MNCs are looking for new places to find new, untapped opportunities. Emerging market economies certainly offer

---


chances as well as challenges for fast growth and “potential at the base of the pyramid.” To successfully target markets in developing countries, theorists suggest that companies can only succeed “by recognizing that Western-style patterns of economic development may not work in these environments” (London & Hart 2004). However, the essential phenomenon – emerging economies spawning their own giants – indicates that the global business as we know will develop in a much different way in the future. The current investment flows come “increasingly from south to north and south to south, as emerging economies invest both in the rich world and in less developed countries“ (The Economist 2008). However, traditional economic theory consider the capital flow possible only from developed to developing countries – both when it comes to FDI and “current-account deficits and borrowed from emerging economies (notably oil exporters) with huge surpluses” (The Economist 2008). Companies like these enjoy particular advantages on their way abroad. High level of growth, low costs and growing saturation of the home market drive their choice to go abroad “to compensate for gone market share at home” (BCG; The Economist 2008). In addition, it is suggested that these emerging multinationals possess advantages in terms of quick-decision making ability (as they are often family owned and controlled), easy and cheap financing opportunities offered by state banks, etc. On the other hand, globalization and different levels of development around the world don’t make their uprising particularly easy (The Economist 2008). Jensen discusses the question why do countries seek to attract foreign investors (Nation-States and the Multinational Corporation). The author pays attention mainly to what impact the government policies and institutions have on the investments of MNCs. He argues that the most important factor in this decision-making and FDI flows is political institutions. Therefore, Jensen stresses that “democratic institutions that provide the promise of market friendly policies and institutions that give regional units more representation at the national level are more likely to attract FDI flows” (Jain 2010).

47 http://www.economist.com/node/10498492
48 http://www.economist.com/node/10496684
4.0 Analytical framework

Explanatory variables

Hegemony Perspective

- Realist explanation
- Neo-realist explanation
- Security concerns of China
- Strategic trade policy

International Business Perspective

- IDP Logic
- CSA Logic
- Unconventional Theories
- Latecomers

Dependent variable

Chinese MNCs are winning Africa over (How? Where?)

Perspectives and Hypotheses
In relation to the analytical framework, two main hypotheses are being formulated, based on the two perspectives that serve as explanatory indicators – the Hegemony Perspective and International Business Perspective. In order to answer the research question, these hypotheses will test the reasons of the Chinese investments on the African continent.

**H1:** China is going global in order to secure natural and other resources and its position as a rising global power and world hegemon. Therefore, Africa presents both “resource hub” and strategic trade partner for Chinese MNCs. In essence, Chinese FDI is an expression of the priorities of Chinese foreign policy. Theories that will be applied within this proposition are:

- Realist and Neo-realist explanation (states as the main actors)
- The changing role of the state within economic globalization
- Security concerns of China (population growth, natural resources)
- Strategic trade policy of China (political factors)

**H2:** China’s extensive operations in Africa are a demonstration of China proceeding through the next stage of the natural internationalization process. Hence, China presents a country that is being increasingly competent to outperform European and Western countries in the investment attempts in African countries. FDI is seen a result of internationalization strategies of Chinese MNCs. Theories that will be applied within this proposition to support or deny its truthfulness and validity are:

- IDP Logic (relationship between country’s economic development and FDI)
- CSA Logic (firm’s decision to internationalize based on country specific advantages)
- Unconventional Theories and Latecomers Theory (possession of unique assets vs. FDI orientation)

These views will be discussed in order to provide a paradigm of how the operations of Chinese MNCs look in Africa. I will focus on both the commercial and bilateral side of China-Africa relations, in particular trade relations, FDI, and sector and geographical presence of Chinese MNCs on the continent. I will argue that in most cases, the bilateral and commercial nature of these relations is inseparable. The purpose of this is to show that Chinese interests are not solely political, even though that might have been the case in the past, but the motives are mixed.
5.0 Chinese MNCs winning Africa – evidence
China’s escalating ties with Africa are catching worldwide attention. Many say that “a new Wind from the East is blowing across Africa”, with China becoming inevitable at the global market. Growing attention is also paid to the assessment of impacts of Chinese presence on the continent (Large 2008). African countries and their leaders are open to China’s new approach of non-interference, as well as no preconditions on aid that China offers (Eisenman & Kurlantzik 2006). One of the major contributors to research of China-Africa relations, George Yu, says: “Studying China in Africa is much like pursuing a dragon in the bush. The dragon is imposing but the bush is dense”. This view of China, in contrast to known actions, is the basis of most of the Western definitions of current China–Africa relations within the “historical and political content” (Large 2008).

Some see China’s new strategic partnership with Africa as potential “win-win” cooperation, while others consider potential for threat. Because the data to assess the development impacts of Chinese FDI is largely based on press, business sector reports and other secondary data (Crabtree & Sumner 2008), what do we really know about China’s role on the continent, its background and current development? What is sure is that China plays a much different role in the global economy today and offers an attractive approach to development (Eisenman & Kurlantzik 2006).

First, this chapter will present the historical development of China-Africa ties. Secondly, Chinese MNC strategies, operation and trade flows in Africa will be discussed. After, the role of the state and private sector firms in this development will be reflected on country-by-country view.

5.1 History of China-Africa relations
Many observers argue that the literature on China-Africa economic and political relations lacks systematic studies of this boosting phenomenon. Eisenmann and Kurlantzick (2006) claim that the observers have focused separately on development within Africa and domestic situation within China when studying these two actors. Therefore, there has been insufficient research on the interaction between China in Africa over the last decades. Daniel Large (2008) in the “Beyond ‘Dragon in the Bush’: The Study of China-Africa Relations” and Wang (2007) provide a complex overview of the existing literature. Philip Snow (1988) provides an analysis of the post-1949 relations between these two actors; Jackson (1995) focuses on study of China’s Third World foreign policy (Large 2008); Cooley (1965) focuses on ideological conspiracy; Yu (1975) is looking at the dynamics in China-Tanzania relations; Peter Van Ness (1998) discusses the edge between China and Africa after the colonialism age as “a shifting pattern of engagement and engagement and participation”.

indifference” (Large 2008); Alden (2005) provides an analysis of the evolution of Sino-African economic relations since the 1970s; Kennan and Stevens (2005) try to identify potential “winners and losers among African countries” from this relationship; Jenkins and Edwards (2005; 2006) study the effect of trade between China and sub-Saharan Africa on the later country (Wang 2007); Sautman and Hairong (2007) offer a critical view of the “distinctive links” between China and Africa (Large 2008); OECD study pays attention to the positioning of China in certain markets (Goldstein et al., 2006; in Wang 2007). Finally, World Bank research examines “constraints or policy challenges ‘at the border,’ ‘behind the border,’ and ‘between the borders’ for increasing Africa-Asia trade and investment” (Broadman, 2007 in Wang 2007)\(^50\).

In his study, Large (2008) stresses that in the research of Chinese foreign affairs, Africa has been rather neglected, as well as China has not been dedicated adequate amount of continuous research in the African international relations studies. This is attributed to the general assumption that Africa is “not a particularly noteworthy constitutive member of the Third World” and the limited engagement of China on the African continent in post-colonialism. Now, this matter is devoted an incredible attention of the scholars, governments, institutions as well as the public. Because of the conventional sidelining of Africa, “given the impressive scale and scope of its engagement, China’s return to Africa may turn out to be one of the most significant developments for the region in recent years” and in the future, if China decides to continue pursuing its foreign policy on the continent (Tull 2006).

Even though the roots of the China-Africa engagement go back to Bandung conference in the 1950s that aimed at pursuing mutual cooperation in the cultural and economic sphere (Alden & Large & Soares de Oliveira 2008), the current engagement of China in the African countries is rather “a manifestation of the remarkable transformation of the country’s foreign policy over the past 10–15 years” (Tull 2006). The historical ties were built on infrastructure and technical development character of Chinese foreign aid towards the African continent. The massive and well-known Tazara railway project in Zambia is one of the best examples to support this argument (Alden & Large & Soares de Oliveira 2008). During the China’s modernization era (1978), Africa has been given up and re-established as an important issue with the change of both domestic and foreign policies and development (with only small-scale business activities and infrastructure projects towards Africa) (Alden & Large & Soares de Oliveira 2008).

After 1989, the relationship between these two actors was revived. The main driver of this change was the need for China to find a political support after the Tiananmen Square incident in June 1989 (together with “an arms embargo imposed by the US and the European Union”, the criticism of the human rights violation in China (Tull 2006)) and its rising need to secure resources and a new potential market (Sperbee 2009). Alden et al (2008) argue that as China had done towards Soviet Union, “China sought to use its relations with Africa to enhance its position vis-a-vis the US and Taiwan” and “affirm support for the One China principle” (Eisenmann & Kurlantzick 2006). Larkin (1971) observes that the primary motivation of the growing interrelationship between China and Africa was not based on the availability of strategic resources, but was rather driven by political necessities, such as “the strategic competition with Taiwan before and after Beijing’s successful entry into the UN with the support of African votes in October 1971” (Alden & Large & Soares de Oliveira 2008). In addition, the country’s efforts to find friends across Africa are “aimed at safeguarding its interests in international forums and institutions (Eisenmann & Kurlantzick 2006; Tull 2006). The policy actions towards Africa after 1989 had also been directed by the emergence of the US hegemony (Muekalia 2004), as well as the simple fact that “a global foreign policy had become an absolute necessity” (Tull 2006). After the 1990s, Chinese leaders and domestic corporations recognized African market to be very perspective. The subsequent foundation of the Chinese Exim Bank and of Investment, Exploitation and Trade Centers in several African countries was to encompass “investment, resource extraction and trade functions” of the expansion to Africa, as well as to expand imports from African markets (Alden & Large & Soares de Oliveira 2008).

In 1996, the principles of the China-Africa friendship - reliability, sovereign equality, non-interference with the domestic policies, mutually beneficial development, and international cooperation were established to strengthen mutual trust between these two actors51 (Chan 2007). China underlines “that it is a different type of global power - a developing country that understands Africa’s development needs, and is in a better position to support Africa at international trade negotiations” (Kurlantzick & Shinn & Pei 2006)52. In addition, China has existing relationships with countries previously neglected or abandoned by Western nations, such as Sudan, Zimbabwe and Liberia. All its relationships with the countries on the continent are promoted as “bilateral win-win” associations. Beijing's respect of the state sovereignty is

52 http://www.allbusiness.com/international-relations/international-foreign/12325044-1.html
positively viewed by the leaders of African nations which enhances the position of the emerging power\(^53\) on the continent (Kurlantzick & Shinn & Pei 2006).\(^54\)

Even though the fast integration to the world economy could be one of the factors supporting the growth of the Chinese economy, it meant higher vulnerability and dependence on the external factors as well. After the financial crisis in 1997, Asian countries made the stability of the country - both domestic and international – their deliberate goal and adjusted their national and international interests (Weinstein 2005; Tull 2006). Part of this new approach was the extension of the country’s mutual relations with higher number of African countries. Thus, China’s growing commitment on the African continent can be viewed as “a part of a wider policy thrust which manifests itself equally in China’s relations towards other regions of the world” (Alden & Large & Soares de Oliveira 2008).

The Sino-African cooperation was officially commenced at the Forum on China-Africa Cooperation (FOCAC) in Beijing in October 2000. More than 80 ministers from China, 44 African countries and representatives of 17 regional and international organizations met to support “the development of a new, stable and long-term partnership and cooperation in both economic and social sphere\(^55\), equally and mutually beneficial for China and African countries.”\(^56\) Many statistics show that the trade flow and FDI going from China to Africa has increased by almost 800% only between 2002 and 2004. However, the trade flow has strengthened the other way as well, thus stressing the important role of China in African business development (IMF; Chinese Ministry of Commerce; Levitt 2006). In 2010, the total trade value between China and Africa exceeded $120 billion.\(^57\)

5.2 Current development – the nature of China’s Africa strategy
The current interest for China’s involvement in Africa is tremendous (Wang 2009). Only a decade ago, when China was trying to define its position in the international arena, the country’s influence in Africa was very limited. It is clear that current relations between these two actors are developing in a distinctly different environment and under new conditions. Lately, fast growing and more confident and independent China that positioned itself as an important global actor is taking the initiative in many aspects of foreign matters and in the global economy (Wang 2009).

\(^{53}\) Alden (2007) defines Emerging power as “a phrase coined to describe a new group of states which has through a combination of economic prowess, diplomatic acumen and military might managed to move away from developing country status to challenge the dominance of traditional mainly Western powers”

\(^{54}\) http://www.allbusiness.com/international-relations/international-foreign/12325044-1.html

\(^{55}\) http://books.google.com/books?id=k9IT3qRqzYC&printsec=frontcover&hl=cs&source=gbs_summary_r&cad=0#v=onepage&q&f=false

\(^{56}\) http://www.focac.org/eng/ltda/dyjbzhy/C12009/1157577.htm

\(^{57}\) http://www.focac.org/eng/fgx/jnlhz/1833132.htm
China’s mounting industries are heavily influencing country’s goals – “they demand new energy, exporters want new perspective markets, the country needs backing in international organizations and its propaganda seeks support from allies to progress Chinese interests” (Eisenman & Kurlantzik 2006). In addition, Eisenman and Kurlantzik (2006) characterize China’s engagement with Africa as a “resource grab”, as well as a desire to find new open markets. Many observers view the developing relations between China and Africa as “a test for how China will develop as an international power and as a way to better understand how China sees its own potential role in the world” (Wang 2009). In addition, China attempts to spread its culture across the continent, make the two-way tourism flow more attractive and create more business opportunities through long-term relationship building with “African elites” (Eisenman & Kurlantzik 2006). Wang (2009) further suggests that even though Chinese officials defend the country’s interests on the continent as a “brotherhood” with other developing countries, Beijing’s engagement might be “grounded upon a longer timeframe, motivated by economic diplomacy rather than ruthless ideology of the past”. Larkin (1971) suggest that China’s engagement in Africa is driven mainly by political necessities, but Wang (2009) argues that there are more key factors boosting Chinese actions in Africa. He sees them as a combination of dynamic changes in the China’s home market, aspiration to tap new marketplaces and international political factors. The Deputy Prime Minister and Foreign Minister of Ethiopia Hailemariam also says that the perception of China’s investment on the continent being focused on strategic resources in unfounded. He gives an example of his own country – even though Ethiopia lacks strategic raw materials, it still has strong relationship with China (FOCAC 2011). As Philip Snow explains, “the Chinese were not aggressive. Unlike the Portuguese, they stormed no cities and conquered no land … They did not burn, as the Portuguese would, with the urge to impose their religious convictions, to lay siege to African souls. All they sought from Africans was a gesture of symbolic acquiescence in the Chinese view of the world” (Le Pere 2007).

Sperbee (2009) notes that Africa is crucial part of China’s global strategy mainly for “its geopolitical importance, large untapped market and its natural resources – in particular oil and gas”. In addition, the author notes that Chinese companies “are at times better prepared to deal with the political risks that exist in some African countries than Western firms”. Africa is as well a favorable place for China “to make friends”. This means that the African countries, used to the Western type of approach to development, are likely consider “China’s development model of

---

58 http://knowledge.insead.edu/TheChina-Africaalliance090709.cfm
59 http://books.google.com/books?id=kU73q8qzY6C&printsec=frontcover&hl=cs&source=gbs_ge_summary_r&cad=0#v=onepage&q&f=false
60 http://www.worlddialogue.org/content.php?id=401
state-driven development without political reform attractive” (Sperbee 2009)\(^6\), providing an alternative for Africa that could produce greater benefits (Liu Guijin, FCOAC 2011).\(^6\)

The relationship between China and Africa is formed and discussed at summits, informal meetings and multilateral diplomatic initiatives (such as the World Economic Forum on Africa). Examples encompass the conference in Ethiopia in December 2003; the China-Africa Youth Festival in 2004; and the third meeting on the China-Africa Cooperation Forum in Beijing in 2006. The last round of the World Economic Forum on Africa took place on the 6th June 2011 and discussed the future of cooperation between these two actors (Alden 2007). It was acknowledged that China has played a critical role in driving the recent development of Africa. It was as well suggested that to achieve and sustain the mutually beneficial relationship, there is a need for African countries to build up their capacity to ensure maintainable economic development (FOCAC 2011).\(^6\) Chinese representatives pointed out “to the constancy of Chinese solidarity with African interests, especially during the anti-colonial struggle, and their shared history as victims of imperialism as the ground to producing the essential conditions for a common outlook” (Alden 2007). Moreover, the Governor of the Bank of Botswana said that “Though I don’t think China is a panacea to solve all economic issues in Africa, I should say China is a key catalyst” (FOCAC 2011). Indeed, meetings and conferences that are regularly held to strengthen and deepen the China-Africa cooperation give space for China to secure its position of a generous and benevolent actor (Eisenman & Kurlantzik 2006). China has recently become Africa’s largest foreign capital investor, with Africa’s export to China accounting for 10% of its total exports - 2% increase compared to a decade ago (FOCAC 2011).

With the pace of current development, it is expected that China’s leaders and companies will continue pursuing their interests on the continent, support Africa’s development, continue their massive investments and look for new business opportunities to get access to strategic resources on the continent (Wang 2009).

5.2.1 Trade, financial flows and FDI
When looking at the trade relationship between Africa and China, one has to take into consideration two important aspects. Firstly, in this case, we are looking at a specific case of trade between one country and the whole continent as such (with its different economies, entities

\(^6\) [http://www.allbusiness.com/international-relations/international-foreign/12325044-1.html](http://www.allbusiness.com/international-relations/international-foreign/12325044-1.html)

\(^6\) [http://www.focac.org/eng/zfgx/jmhz/t833132.htm](http://www.focac.org/eng/zfgx/jmhz/t833132.htm)

\(^6\) [http://www.focac.org/eng/zxxx/t833132.htm](http://www.focac.org/eng/zxxx/t833132.htm)
and cultures). Secondly, Africa is the poorest inhabited continent in the world with 32 countries and regions in the top 50 world’s poorest countries situated on the continent.64

5.2.1.1 Financial flows and institutions
Finance that flows from China to Africa comes usually in form of intergovernmental loans and trade credits, normally medium- or long-term. This is mainly due to the fact that one of the most active institutions offering such loans and credits on the Chinese side - the China Export Import Bank (ERA 2009), with “an explicit mission to promote trade and development in the originating country” (Foster et al 2008) – sees this approach as the ideal way to safeguard long-term economic interest on the continent rather than short, unsustainable gains. Many authors agree that this approach stems from Chinese culture as such, with “predominant expressive ties, attention to attachment and long-term relationships” (Lee & Dawes 2005; Hofstede 1993)65 and “seeing things in decades” (Chinadaily 2010).66 Thus, it can be said that China is focusing more on the benefits it can gain in the long-term rather than taking into consideration the risk aspects of the investments.67 Even though China ExIm Bank does not provide documentation of data according to region where its activities take place, when looking at the overall picture, there is a clear evidence of considerable growth of financial flows and other operations in Africa (ERA 2009).

Other noteworthy institutions offering financial support to companies willing to invest outside China are the China Development Bank (CDB), Industrial and Commercial Bank of China (ICBC), China International Trade and Investment Corporation (CITIC) and China Export and Credit Insurance Corporation (CECIC). Activities of Chinese banks being backed by the Chinese government are “critical to China’s economic successes in Africa.”68

China’s overall foreign policy in Africa and governmental support has allowed Chinese banks to promote not only domestic business development and consumption but foremost the investment abroad. The China-Africa Development Fund provides assistance to companies that want to start doing business on the African continent. Sinosure - China's official export credit insurance agency - offers export credit and credit insurance to both China's foreign investments and foreign investments into China69 as well as lower interest rates on loans from the China ExIm Bank, the China Development Bank or grants from the Ministry of Commerce (ERA 2009). As mentioned in previous chapters, the growth rate of outward FDI from China to Africa is now at several hundred

64 http://www.th riches.org/world/poorest-countries-in-the-world/
68 http://www.ide.go.jp/English/Data/Africa_file/Manualreport/cia_11.html
percent every year, with over 900 Chinese companies active on the continent, out of which only about 100 are state-owned (ERA 2009). The majority of the companies are then private businesses active in trade, manufacturing, services, communications, agriculture and natural resource development (Foster et al 2008).

China’s centrally planned “going global” strategy has the aim of “increased access to international markets, competitiveness through global competition, and expanding Chinese exports” and encourages Chinese firms to expand abroad and seize opportunities and capture resources (Foster et al 2008). A large portion of China’s firms that decided to go on the internationalization path are influenced by the state policy or state-owned, and thus are specially supported by the government. However, looking at the situation on the African continent, it will be showed that this trend is now changing. Now, there are over 50,000 construction firms in China (f.e. China’s core companies in this industry - China Overseas Engineering Corporation, China Roads and Bridges Corporation, China Railway Construction), employing about 24 million people.

China’s financial support to Africa takes different forms – from concessional loans; export buyers credits; through $5 billion China-Africa Development Fund; opening up China’s market to African exports; creating trade zones in Africa; to debt cancelation, grants and technical support (Foster et al 2008). China ExIm bank provides the largest part of financial support to Chinese contractors in Africa. Projects that are equity-funded by the China – Africa Development Fund or financed directly by Chinese state-owned companies constitute only 5% of the total value of the investment projects in Africa. An important character of the funding is that because most of the loans are preferential or concessional, the precise information of financial terms is not disclosed (Foster et al 2008). Hence, it is not clear to what extent these loans and credits contribute to Africa’s external debt (Alden & Davies 2006).

5.2.1.1.1 China ExIm Bank

China Exim Bank was established in 1994 and is fully owned by the government, without the government assuring the bank’s commitments (Wang 2007). Its executives are selected by and account to the State Council (Moss & Rose 2007). The bank is focused on providing international loans and export credit (commercial lending) and the only institution privileged to

---

70 http://www.simon-griffiths.co.uk/images/Infrastructure%20Investor%20May%202007.pdf
71 http://www.simon-griffiths.co.uk/images/Infrastructure%20Investor%20May%202007.pdf
73 http://www.ide.go.jp/English/Data/Africa_file/Manualreport/cia_11.html
75 http://globalenvision.org/library/3/1444
offer concessional loans to overseas projects (Foster et al 2008; Wang 2007). From its founding until the year 2009, the bank expanded its asset base from $292 million (1994) to $116 billion, providing growing financial assistance to African governments and thus deepening existing commercial ties between China and Africa (Moss & Rose 2006). More than one third of these assets are in African countries as the bank is making a substantial effort to cooperate with private establishments providing funding on the continent on both multilateral and bilateral level. Only by September 2006, it enabled 259 projects in 36 African countries, with the majority aimed at infrastructure development (Alden & Davies 2006). The rapid growth of the bank put it in a position of the third largest export credit agency in the world. China Exim Bank, China Development Bank and China Agriculture Development Bank are governmental institutions set up to promote the government’s long-term “go global” strategy, promote exports, foreign investment (Wang 2007) and competitiveness of Chinese firms in the global competition. The majority of the bank’s financial commitments in Africa (almost 80%) are devoted to infrastructure projects (roads, oil and gas pipelines, water and telecommunications), as well as projects in energy, mining and industrial sectors (Mills 2006). Concrete projects financed by the China ExIm Bank will be presented in the next chapter.

5.2.1.1.2 China Development Bank
The China Development Bank was also established in 1994, with its core aim to build China’s infrastructure and core segments of the economy (road, rail and telecommunication networks; resource extraction; gas pipelines; water projects, and power plants); as well as regions at the West of China (Wang 2007); and to promote infrastructure, agriculture, manufacturing, trade and business development in Africa. Every year it offers substantial financial loans on equity-or fund investments to many enterprises in parallel with the government’s go global strategy and supports Chinese investment on African continent through the China-Africa Development Fund (CADF) (Wang 2007). The fund was outlined at the Forum on China – Africa Cooperation in 2006 and officially established in 2007 to enhance engagement, investment facilitation and incentive mechanism for companies to go to Africa and strengthen ties with Africa, especially in primary industries. The state-backed CADF, with proposed $5 billion funding, enables Chinese companies to develop business links throughout Africa to overcome many challenges of

77 http://www.ide.go.jp/English/Data/Africa_file/Manualreport/cia_11.html
doing business there by providing them with low interest rate on loans and consultation services. The bank committed itself to offer funding worth $5 billion until the year 2011/2012. Since the establishment, the fund has invested in numerous projects on the continent, such as the cotton project in Malawi; agriculture and construction projects in Ethiopia, Zimbabwe and Liberia; power station building in Ghana; trade zone set up in Nigeria; a $10 billion credit from China Development Bank and $600 million from the China ExIm Bank for a global expansion of Huawei technologies; and in 2010 announced\(^85\); and in 2010 declared almost $500 million funding for projects in South Africa and $284 million financing for a copper mine in Democratic Republic of Congo.\(^86\)

The incentives that both China Development Bank and China ExIm Bank offer to their companies when expanding to Africa (especially in cases of resource acquisition) enable these firms to “challenge competitors' bids by as much as 70% and offer vendor-financed loans” and are sometimes impossible for Western companies to match.\(^87\) Western firms may thus not be able to compete with Chinese firms in project bidding or “discount signature bonuses negotiations”.\(^88\) The difference between China ExIm Bank and China Development Bank lies in their core focus. While the first orients mainly on infrastructure development in Africa and thus international financing, the latter is more focused on domestic investment initiatives and started offering foreign lending first through the China-Africa Development Fund described above.\(^89\)

### 5.2.1.2 FDI

There is a two-way flow of FDI between China and Africa (Africapractice 2007; IMF Working Paper 2007; Broadman 2007). However, the exact amount of FDI by Chinese companies is difficult to capture, as “the data on Chinese investment in Africa evidenced by China’s National Bureau of Statistics may not be complete because the dividing line between trade and project financing by China’s financial institutions and direct investment by Chinese firms is often imprecise" (Wang 2007). Moreover, the informal character of many agreements concluded by China’s private business contributes to data being under-recorded (Broadman 2007 in Wang 2007).

According to statistics, the 2010 China-Africa trade value rose from $10.6 billion in 2000 and exceeded $120 billion in 2010. Thus, China is currently Africa’s largest trade partner (FOCAC

\(^{85}\) http://www.ide.go.jp/English/Data/Africa_file/Manualreport/cia_11.html
\(^{86}\) http://www.ide.go.jp/English/Data/Africa_file/Manualreport/cia_11.html
\(^{87}\) http://www.ide.go.jp/English/Data/Africa_file/Manualreport/cia_11.html
\(^{88}\) http://www.ide.go.jp/English/Data/Africa_file/Manualreport/cia_11.html
2011). In addition, China's FDI in Africa grew from $210 million to $1.44 billion between 2000 and 2009, while Africa's FDI in China augmented from $280 million to $1.31 billion in the same period. By 2009, Chinese firms or joint ventures in Africa had engaged approximately 300,000 locals in work, obtained contracted projects on the continent worth $205.2 billion and have built 60,000 km of roads. There has been a positive development on the side of Africa as well, as its export volumes to China account for 10% of its total exports (FOCAC 2011). Mutual tourism is growing as well (Alden & Davies 2006). With its approach and strategy, China has established a strong position on the African market and has in fact surpassed all of the traditional Western partners that had a long term relationship (both political and economic) with their former colonies (Ministry of Foreign Affairs People’s Republic of China 2006). Thus, China is now one of the most important actors on the continent (Tull 2006) and the second most promising global investor (UNCTAD 2010b). On the other hand, Africa offers an untapped market and opportunity for Chinese construction companies in particular to win contracts for construction of roads, railway, schools, power and hydro plants, bridges and other projects in numerous other sectors within the South-South cooperation (Desta 2009). Hence, the concern of China to grow trade relations with Africa has increased the investment ratio and financial commitments to projects aimed at expanding the export capacity and infrastructure development in countries on the continent (Finger 2008).

Figure 1. Growth of Trade and FDI Volumes between China and Africa (2001-2005)

Trade flow

---

91 http://www.fmprc.gov.cn/eng/zxxx/1230615.htm
92 http://faculty.buffalostate.edu/qianx/index_files/ChineseInvestmentAfrica.pdf
93 http://www.aigaforum.com/articles/Chinese_Investment_in_Ethiopia_part2.htm
94 http://www.aercafrica.org/documents/export_supply_working_papers/FingerEvolving_competition.pdf
Foreign Direct Investment

Source: Levitt – Chinese Contractors in Africa: Insights from a Survey

The composition of trade is diverse. The top 20 products China imports from Africa represent 95% of total imports (TRALAC 2009), while oil coming to China from Africa is the most important trade element (64% of total trade in 2009). It has surged growth in the last decade\(^5\), followed by other commodities, such as metals and mineral products, food and agriculture products, (TRALAC 2009). The robust world demand and the subsequent increasing oil prices contributed to stronger ties among Africa and China in terms of trade (Alden & Davies 2006)\(^6\), putting Angola and Sudan to the position of major suppliers to the country (ERA 2009). Subsequently, Chinese oil companies’ such as China National Petroleum Company, PetroChina, Sinopec and China Petroleum, Engineering and Construction Corporation expanded into Algeria, Libya, Niger, Morocco, Mauritania, Mali, Egypt and many more (Alden & Davies 2006). In most of the cases, strategic interests played vital role (ERA 2009). The top 20 exports from China to Africa represent 35% of the total exports. The top export products from China in 2008 were machinery, textiles and clothing, transport equipment and footwear (TRALAC 2009). African interdependence with China remains proportionally small in the global context, but is growing rapidly (Besade et al 2008).\(^7\) China is thus likely to take an increasingly larger share in Africa’s external trade (Alden & Davies 2006).

5.2.2 China's public sector and private investors

China’s engagement with Africa does not involve only governmental ties as before, but involves many different actors that come to the market and influence not only the domestic development in
China, but also contribute to the development in the countries they enter. China’s private companies are now hungry for expansion and heavily supported by the state through many incentives and supporting activities. However, there is a lack of reliable data on their activities in Africa. Yet, it is necessary to look at these companies coming from the private sector to fully understand the China – Africa relationship in economic and trade terms (IMF Working Paper 2007).

The IMF Working Paper (2007) provides an overview of private traders and contractors active on the African continent. It suggests that after reforms in 1985 and trade decentralization, private firms started to play the major role in export and import, mainly after 2005 – activities that were previously a privilege of state-owned companies. Gu (2009) also stresses that “conventional wisdom accepts a strong, directive role for the Chinese government as the powerful motivating and guiding force behind the rapid expansion in Chinese investment in Africa.” Yet, small firms are now seizing business opportunities in the African market, investing in textiles, mining, agriculture and bringing Chinese products to compete with local entrepreneurs (ECOWAS–SWAC/OECD, 2006). Moreover, cooperating with local firms gives these companies detailed knowledge of the market and enables them to build valuable networks, which are becoming more important with the rise of the trade volumes (Wang 2007) – because “advantage comes from unique data that no one else has” (Harvard Business Review 2011).

The Chinese private enterprises today have more operational freedom and base their business decisions on profitability. Additionally, the government supports these businesses in many ways, f.e. by offering them financing options that have previously been offered to the state-owned companies solely. Therefore, the differences between state-owned and private enterprises are slowly diminishing.98 Another encouraging element has been the establishment of the China – Africa Business Council in 2005, set up by China and the UN Development program. The council promotes Chinese firms in numerous African countries (Wang 2007). One of the areas where both private and state-owned companies are active the most is the construction industry in Africa. Typical state-owned companies such as China Overseas Engineering Corporation, China Roads and Bridges Corporation, China Railway Construction Corporation, and Harbin Power Corporation are now in competition with a large number of smaller private companies also coming from China. Even though the large state-owned enterprises are at advantage when it

98 Also, the IMF Working Paper (2007) suggests that since the state is selling shares in the state-owned enterprises, the shareholder structure is often difficult to differentiate
comes to funding and information availability, smaller private firms tend to be more flexible and efficient in project execution (CFCS 2006). Many of the Chinese companies operating in African markets bring their own workforce from China (for several reasons). In some cases, after completing the project, these workers decide to stay on the continent and become sovereign suppliers and service providers, specializing in building, plumbing or engineering (Wang 2007).

5.2.3 China’s companies active on African continent

“China’s goal is not to overturn the world order but instead to participate in this order and to reinforce it and even to profit from it.”

Fu Chengyu, CEO Chinese National Offshore Oil Corporation (Alden & Davies 2006)

Companies that came into public scrutiny as Chinese giants in the world economy are active in variety of industries. As mentioned above, consistent with main concerns of recipient countries and Chinese government, the attention and investments up to now have been in power, rail and ICT sector as well as eminent construction projects (Foster et al 2008). China National Petroleum Corporation (CNPC), Sinopec, China National Offshore Oil Corporation (CNOOC), China Petroleum Engineering & Construction Group (CPECC), China National Oil and Gas Exploration and Development Corp (CNODC), PetroChina, BGP International and China Minmetals Corp operate in the extractive industries (Alden & Davies 2006). In resource-rich countries, these companies are in a direct and heavy competition with world leaders in the oil industry. The necessity to secure sustainable energy supply has led China to more hazardous regions - Niger, Sudan, Mauritania and Equatorial Guinea. In addition, on its expansion and acquisition trail, China is looking for untapped opportunities in countries such as Ethiopia, Kenya and Madagascar as well. To endure its closeness to political official and leaders, Chinese companies tend to create joint ventures with local state owned energy companies – f.e. Sudapet (Sudan), Sonatrach (Algeria), Sonangol (Angola) and the Nigerian National Petroleum Corporation (Nigeria). The initial ventures were done by the CNOOC and Sinopec in Nigeria and Angola, seizing stakes and rights in strategically important oilfields at cost of several billion dollars (ERA 2009). In the information and communication technology industry, Huawei Technologies, ZTE Corporation and Lenovo are well established in the African market in numerous countries (Alden & Davies 2006).

5.3 Sectorial and Country-by-Country View

The Chinese projects database documents numerous cases of Chinese commitments across Africa. Even though the reach of these projects is wide, about 70% of finance is going to countries such as Nigeria, Angola, Ethiopia, and Sudan in sub-Saharan Africa. Only Nigeria accounts for almost 30% (Foster et al 2008). According to the World Bank, 85% of exports from Africa to China come from countries with the largest oil reserves (Angola, Nigeria, the Republic of Congo, Sudan, etc) (Hanson 2008) – while countries like Guinea, Mauritania and Ghana obtain up to $1 billion (Foster et al 2008). Other statistic shows that the countries that trade the most with China (2008) and comprise 62% of China’s trade with Africa were Angola (24 %); South Africa (17 %); Sudan (8 %); Nigeria (7 %) and Egypt (6 %) in terms of total trade (TRALAC 2009). For Nigeria and Angola have long-term ties Western partners, China had to work a strategy to access investments within the energy sector in these countries –first over “exploration and production deals in smaller countries such as Gabon or Equatorial Guinea, to the access to major oil producers by offering unified packages of aid” (Hanson 2008).

Further, China is the main provider of aid to Mozambique, building investment and business-assistance centers in the capital city, offering debt relief as well as noteworthy economic support in other forms. Predictably, Mozambique regards China one of its chief partners (Eisenman & Kurlantzick 2006). And the list goes only, whether we decide to talk about infrastructure projects, aid, debt relief or textile and mining industry building.

101 http://www.cfr.org/china/china-africa-oil/p9557
Eisenman and Kurlantzick (2006) provide that through its tools and strategies, “China has gained access to exploration rights to key oil fields in Nigeria; it dominates Sudan’s oil industry and has access to Angola’s and Algeria’s oil industries; it prospers within the mining sector on the continent; its telecommunication giants hold valuable contracts in many countries (f.e Huawei holds contracts worth $400 million to provide mobile phone service in Kenya, Zimbabwe and Nigeria); it won a contract on a $600 million hydroelectric plant construction at Kafue Gorge; China had guaranteed new development projects in Ethiopia worth $500 million (Harsch 2007); many Chinese firms are also active in South Africa and Botswana’s hotel and building industries; they are well positioned in Sierra Leone and Angola and are building closer ties with South Africa in trade”. African officials are thus considering China being a great authority (Eisenman & Kurlantzick 2006).

5.3.1. Sectorial view
In “Building Bridges – China’s Growing Role as Infrastructure Financier in Africa”, Foster et al (2008) provide a basic overview of the sectorial distribution of the Chinese finance commitments on the continent. According to the authors, in most cases, these resources are split up in infrastructure projects in various sectors. Finances are allocated according to existing bilateral settlements and governmental preferences (Foster et al 2008). Hanson (2008) provides a statistic of the mutual trade development between China and Africa. The author suggests that between

years 2002 to 2007, trade volumes increased from $18.5 billion to $73 billion. Moreover, it surpassed $120 billion in 2010. It is noteworthy that the majority of these investments and trade are allocated in sub-Saharan Africa.\footnote{http://www.economist.com/node/18586448} Main commodities traded that comprised the majority of this increase were strategic resources (with China’s focus oriented on resource-rich countries (Corkin et al 2008)), timber and copper, as well broad category of products made in Africa\footnote{http://www.aercafrica.org/documents/china_africa_relations/Nigeria.pdf} (Ogunkola et al 2008)\footnote{http://www.aercafrica.org/documents/china_africa_relations/Nigeria.pdf}. However, China's FDI in Africa still presents only a small fraction of its over-all FDI (Hanson 2008)\footnote{http://www.cfr.org/china/china-africa-oil/p9557}.

In general, the available statistics show that the sectors that receive the majority of investment finances from China are power and transport. While Africa urgently needs to modernize its infrastructure, China has one of the most competitive construction industries in the world. Moreover, the development of this industry demands high level of energy resources that are the main export commodity of most of the African countries. Hence, China is able to finance and realize major infrastructure projects needed for Africa’s economy development in exchange for African resources. Indeed, the sometimes non-existent infrastructure is a major obstacle for doing business and attracting FDI\footnote{http://www.jchs.harvard.edu/bellagio/theme1.pdf}. To put it simply, the major strength of China is that it is able to form “multi-tiered investment packages backed by the state” that grant opportunities and advantages to African countries which firms from other parts of the world cannot compete with\footnote{http://www.ide.go.jp/English/Data/Africa_file/Manualreport/pdf/china_all.pdf}.

Besides the well-known Tazara railway project, built and financed by China, the country has committed around $4 billion to numerous other projects in the railway sector mainly in Nigeria, Gabon and Mauritania (Foster et al 2008). More recently, the Beijing Action Plan (2007-2009) makes specific reference to cooperation in the construction and infrastructure sectors. In particular, numerous Chinese companies, mainly state owned, are investing in restoration of the continent’s roads and railway (Corkin et al 2008)\footnote{http://www.sais-jhu.edu/bin/erj/CorkinetalWorkingPaper.pdf}. 
Table 2. Top 10 Chinese infrastructure project contractors active in sub-Saharan Africa, 2001-2007

<table>
<thead>
<tr>
<th>Contractor and Group</th>
<th>Total value (US$ m)</th>
<th>Sectors</th>
<th>Major countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>China Civil Engineering Construction Corporation (CCECC)</td>
<td>2,500</td>
<td>Transport</td>
<td>Nigeria</td>
</tr>
<tr>
<td>China Hydraulic and Hydroelectric Construction Group Corporation (Sinohydro Corporation)</td>
<td>2,242</td>
<td>Electricity</td>
<td>Congo, Dem. Rep. of; Ghana; Guinea; Sudan; Togo</td>
</tr>
<tr>
<td>Zhong Xing Telecommunication Equipment Company Limited (ZTE)</td>
<td>2,101</td>
<td>Telecom</td>
<td>Angola; Central African Republic; DRC; Ethiopia; Ghana; Kenya; Lesotho; Mali; Niger; Nigeria; Sudan Cameroon; Nigeria</td>
</tr>
<tr>
<td>China Geo-Engineering Corporation (CGC)</td>
<td>1,024</td>
<td>Electricity, Water</td>
<td>Cameroon; Nigeria</td>
</tr>
<tr>
<td>China Guangdong Xinguang International Group</td>
<td>1,000</td>
<td>Transport</td>
<td>Nigeria</td>
</tr>
<tr>
<td>China Gezhouba Group Corporation (CGGC)</td>
<td>1,000</td>
<td>Electricity</td>
<td>Nigeria</td>
</tr>
<tr>
<td>Shandong Electric Power Construction Corporation (SEPCO)</td>
<td>810</td>
<td>Electricity</td>
<td>Sudan, Nigeria</td>
</tr>
<tr>
<td>China National Machinery &amp; Equipment Import &amp; Export Corporation (CMEC)</td>
<td>721</td>
<td>Electricity, Transport, Telecom</td>
<td>Angola; Congo, Rep. of; Ethiopia; Nigeria; Sudan; Senegal; Zimbabwe</td>
</tr>
<tr>
<td>Transtech Engineering Corporation</td>
<td>620</td>
<td>Transport</td>
<td>Mauritania</td>
</tr>
<tr>
<td>China National Aero-Technology Import &amp; Export Co. (CATIC)</td>
<td>500</td>
<td>Electricity</td>
<td>Zimbabwe</td>
</tr>
</tbody>
</table>


As mentioned above, besides transportation, the power sector in sub-Saharan Africa and elsewhere on the continent attracts the largest part of Chinese financing, with the key investor recently being China Ex-Im Bank. In between 2001-2006, financial commitments in this sector and region exceeded $1.7 billion yearly. This corresponds to approximately 0.2 percent of the area’s GDP and exceeds the total amount of certified aid and private investment (Eberhard et al 2008)\(^{111}\). More specifically, China invests foremost in construction of great hydropower schemes, financing over $3.3 billion of the total $5 billion construction of ten main hydropower structures which are supposed to increase the total accessible hydropower generation volume in Sub-Saharan Africa by 30 percent (Foster et al 2008). Given the recent power supply crisis in Africa and the underdeveloped hydro potential in the sub-Saharan region, these hydropower structures are crucial for Africa’s economic development. Thus, China – one of the most key investors in hydro schemes - is an important strategic partner for the continent when it comes to the so needed power sector enhancement.\(^{112}\) Example of power infrastructure projects involve the Merowe block in Sudan; hydropower capacity being built in Zambia; the Congo River block in the Republic of

---


Congo; Bui dam project in Ghana; the Poubara hydropower dam in Gabon; and other projects in Nigeria\textsuperscript{113} (Foster et al 2008).

Foster et al (2008) also present enumeration of other projects of Chinese firms (f. e. the Shandong Electric Power Construction Corporation) in building thermal power stations, namely stations in Sudan: a coal-fired power plant Port Sudan; a gas-fired power plant in Al-Fulah, Rabak and Ogun and Ondo in Nigeria; and electricity transmission projects in Tanzania and Angola\textsuperscript{114}. China commits to and finances projects in the road and water sectors as well. However, even though the quantity of projects financed is substantial, the joint sum that has gone to these sectors does not exceed $700 million (Foster et al 2008).

China is involved in the information and communication technology sector, too. However, to much lesser extent than in other sectors.\textsuperscript{115} Its engagement in ICT usually means investment in nation infrastructure building or ICT equipment supply (mainly in Ethiopia, Sudan and Ghana) to country officials. The financing occurs either through usual business agreements or over high-level financing that lay mines on national telecom executives to purchase Chinese equipment in exchange (Foster et al 2008). The major Chinese companies that provide telecom equipment on the African market are the state-owned ZTE, Huawei, and the French-Chinese Alcatel Shanghai Bell. To mention an example of projects in the telecom sector financed by China, the Chinese government offered Ghana concessional loans (interest-free)\textsuperscript{116} for the National Communication Backbone Infrastructural Project to refurbish and further develop fixed-line communication infrastructure in the country in 2006 (Ministry of Finance and Economic Planning – Republic of Ghana)\textsuperscript{117}. China Mobile and Huawei are also bidding for projects worth millions of dollars in Chad, Mauritius, Kenya, Senegal, Sierra Leone and Tanzania and offer telecommunication goods at very competitive prices.\textsuperscript{118}

In this section, it can be concluded that Chinese companies are becoming a major competitor for other companies in construction as well as other industries. Western firms who used to be of primary importance on the continent cannot match China’s offers – thanks to governmental support, their packages include not only financing, but also cheaper services and cheap skilled Chinese labor. The costs of Chinese companies are often 30-50\% lower, which presents a major

\textsuperscript{113} Realized f.e. by Gezhouba Group Corporation (CGGC) or the China Geo-Engineering Corporation
\textsuperscript{114} Chinese companies CMEC and China Machine-Building International Corporation (CMIC)
\textsuperscript{115} Approximately $3 billion (2001-2007) (Foster et al 2008)
\textsuperscript{116} http://gh.china-embassy.org/eng/xwdt/1649236.htm
\textsuperscript{117} http://www.mofep.gov.gh/china_exim_sign.cfm
\textsuperscript{118} http://www.davidandassociates.co.uk/davidandblog/newwork/China_in_Africa_5.pdf
competitive advantage towards other firms that are actively participating in the industries in Africa.\textsuperscript{119}

5.3.2 Country-by-Country view
To provide a more detailed overview of China winning over Africa, realizing its many projects, this part of the chapter will discuss China’s actions on five sample countries – Nigeria, Angola, Ethiopia, Sudan and Zambia. These countries are located in sub-Saharan Africa, where most of the finance from China flows. Therefore, these present, in my point of view, the best example of China’s expansion on the continent.

5.3.2.1 Nigeria
In the oil production, Nigeria is on the 12\textsuperscript{th} place in the world ranking and is the 8\textsuperscript{th} biggest oil exporter.\textsuperscript{120} Given its large strategic resource base, not surprisingly, Nigeria’s economic growth is powered primarily through the gas and oil industry segment. Between 2000 and 2005, the actual GDP development had been approximately 5.7\%. On the other hand, the development within the non-oil segment of the Nigerian economy is rather insignificant, contributing by a small percentage to GDP (only 1\% of the GDP) growth and country income (2005).\textsuperscript{121}

Nigeria’s home marketplace is massive. Even though seeking promising external market access is of major importance for the country’s future development, problems within the country are currently of primary focus. First of all, to increase the efficiency of the non-oil segment and to react successfully to industry demands requires significant investments in infrastructure building and private sector development. Only these factors together can ensure sustainable growth of Nigerian economy for long term (Ogunkola et al 2008). Until recently, countries from Europe, U.S and Canada presented traditional trading and investment partners for Nigeria and acted as main providers of financial assistance and aid development packages. These normally took form of bilateral and provincial agreements. However, many observers argue that these investments and aid assistance did not have any major effects on the country’s development. It is noteworthy that the exports from the country as well as FDI inflows to Nigeria are formed by and directed to the gas and oil sector to a great proportion. In terms of export, the oil and gas industry accounts for almost 98\%, whereas 40\% of investment inflows are directed to this segment. Thus, the framework of trade and FDI inflows to Nigeria seems to be rather exploitative (Ogunkola et al 2008).\textsuperscript{122}

\textsuperscript{119} http://www.jeuneafrique.com/Article/DEPAFP20090213T1408252/
\textsuperscript{120} http://www.bbc.co.uk/news/10116945
\textsuperscript{121} http://www.aercafrica.org/documents/china_africa_relations/Nigeria.pdf
\textsuperscript{122} http://www.aercafrica.org/documents/china_africa_relations/Nigeria.pdf
Although China and Nigeria established formal diplomatic ties in 1972, the origination of their trade bonds dates back to 1953 (AllAfrica 2011). On the contrary to previous development, Nigeria now finds itself on a positive and favorable growth path for the past decade, engaging itself in numerous diplomatic visits from and to China. These visits (both on high and subnational level) as well as the activities of the Nigeria-China Joint Commission (Utomi 2008; Morrison et al 2008) point out the value China attributes to the country. Not only has Nigeria the oil and gas reserves that China needs. Additionally, the country offers a new prospective market for Chinese goods (BBC 2006). In the table below, major bilateral agreements between China and Nigeria are listed.

Table 3. Selected Agreements between Nigeria and China (2001-2006)

<table>
<thead>
<tr>
<th>Type of Agreements</th>
<th>Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Agreements on Trade, Investment Promotion and Protection (agreements on friendship, mutual trust, mutual economic benefit and common development, consultation and mutual support followed)</td>
<td>2001</td>
</tr>
<tr>
<td>Agreement for Avoidance of double Taxation and Prevention of Fiscal Evasion with respect to Tax and Income</td>
<td>2002</td>
</tr>
<tr>
<td>Agreement on Consular Affairs</td>
<td>2002</td>
</tr>
<tr>
<td>Agreement on Cooperation on Strengthening Management of narcotic Drugs, Psychotropic Substances and diversion of Precursor Chemical</td>
<td>2002</td>
</tr>
<tr>
<td>Agreement on Tourist Cooperation</td>
<td>2002</td>
</tr>
<tr>
<td>Strategic Partnership Agreement</td>
<td>2005</td>
</tr>
<tr>
<td>A memorandum on Understanding on Investment Cooperation between the Federal Ministry of Commerce of Nigeria and Ministry of Commerce of India</td>
<td>2006</td>
</tr>
<tr>
<td>Economic Cooperation Agreement between Nigeria and Xinguang International Group of China</td>
<td>2006</td>
</tr>
</tbody>
</table>


Nigeria is now China’s second-biggest export market and the fourth largest trade partner in Africa, as well as an important source for future petroleum and gas supplies (China-Nigeria Trade Promotion, AllAfrica 2011). Trade and financing commitments between the two actors currently total $7.76 (HE Deng Boqing, 2011). Given the predictions of Goldman and Sachs Group, Nigeria is said to become the 18th largest economy in the world by 2025 and 11th in 2050. A country that has traditionally strong ties to Western economies is thus now of strategic importance to China. As an important international player, Nigerian officials see China as a strategic partner as well, with a vast range of future prospects (AllAfrica 2011). Besides, Nigeria’s strategic positioning in

123 http://allafrica.com/stories/201104060584.html
124 http://news.bbc.co.uk/2/hi/business/4946708.stm
the Gulf of Guinea; 130 million potential customers; strong impact in institutions such as the African Union, Nepad and Ecowas; and, most importantly, its massive oil reserves; contribute to its attractiveness for China. In need for oil and gas, China has backed many of its development packages by oil concessions in the country (ERA 2009).\textsuperscript{125}

From relations based on aid and development, the relationship between China and Nigeria reached a new level and subsequently move to private sector development and higher financial commitments. Numerous Chinese companies (exclusively financed or joint ventures) and major Chinese firms such as China Geological Engineering Company, China Civil Engineering Construction Corporation, ZTE Company, Alcatel-Shangai-Bell and China Putian are active in construction, technology, rehabilitation and expansion of electricity, infrastructure and railway, telecommunications, agriculture sector and strategic resources (Utomi 2008; Morrison et al 2008).\textsuperscript{126} One of the main projects was the reconstruction of Nigerian railway (Uba 2009)\textsuperscript{127}. A cooperation agreement within the agriculture - involving China, Nigeria, and the Food and Agricultural Organization (FAO) - placed several hundred Chinese specialists in dry parts of Nigeria to share their expertise in food production and water preservation (Utomi 2008; Morrison et al 2008).\textsuperscript{128} China Ex-Im Bank financed a great portion of the estimated construction costs of these projects (ERA 2009). Moreover, one of the major banks in China has acquired a stake in Africa’s leading Standard Chartered Bank, which only stresses growing investments and business involvement of China in Nigeria (Utomi 2008; Morrison et al 2008). Furthermore, the plan of creation of a free trade zone in the south-east of the country is being discussed (BBC 2006).\textsuperscript{129} This involvement increasingly impacts the local community in the country, as more and more Chinese enterprises are starting to do business with local companies and communities (Utomi 2008; Morrison et al 2008).\textsuperscript{130}

Other examples include the involvement of China’s large telecom companies ZTE and Huawei in the National Rural Telephony Project (2002) or the construction of power stations in the states of Ogi, Ondo and Kogi (2005). The construction in Ogi in particular, undertaken by Chinese Shandong Electric Power Construction Corporation (SEPCO), settled an agreement for CNPC to purchase 30,000 barrels of oil (daily) from the Nigerian National Petroleum Company for one year in return for financial loan from China ExIm Bank. At last, China Ex-Im Bank made a commitment in 2006 to fund projects worth $5 billion - $2.5 billion contribution to a key Lagos-
Kano railway renewal project; $1 billion for Abuja Rail Mass Transit development; and $1 billion to the Mambilla Hydropower project (ERA 2009). The summary of several interests in Nigerian oil production acquired by Chinese petroleum companies (ERA 2009) are shown in the table below.

Table 4. Selected Agreements closed between Chinese Companies and Nigeria

<table>
<thead>
<tr>
<th>Year</th>
<th>Chinese Company</th>
<th>Agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 2005</td>
<td>Petro China</td>
<td>Joint agreement with the Nigerian National Petroleum Corporation (NNPC) to import 30,000 barrels daily for five years</td>
</tr>
<tr>
<td>January 2006</td>
<td>CNOOC</td>
<td>CNOOC purchased 45% of an oil block in the Niger Delta, worth $2.7 billion</td>
</tr>
<tr>
<td>2006</td>
<td>CNPC</td>
<td>An acquisition of a 51% stake in the Kaduna refinery and a license for other oil blocks, worth $2 billion</td>
</tr>
<tr>
<td>September 2009</td>
<td>CNOOC</td>
<td>Enduring talks between CNOOC and Nigerian government about an offer to buy 6 billion barrels of oil - corresponding with one sixth of the verified reserves in Nigeria – worth $30 billion</td>
</tr>
</tbody>
</table>
| 2010          | CSEC            | Nigeria's state-run oil firm NNPC and China State Construction Engineering Corporation (CSCEC) have closed a $23 billion deal and cooperate with Chinese authorities and banks to construct refineries and a fuel complex in Nigeria (BBC 2010).

To reach their goals, Chinese oil companies like Sinopec have nourished their pursued relations with local oil businessmen and government representatives that have a say in the oil industry in Nigeria (ERA 2009). The Nigerian National Petroleum Company officials are saying that they are “expecting to extend the current technical and commercial ties between China and Nigeria over a memorandum of understanding” (Shehu Ladan, BBC 2010). But the Nigerian government has recently proclaimed that “foreign companies must invest in developing Nigeria's infrastructure and economy first, before they can benefit from its oil and gas exports” (BBC 2010). With China heavily investing in infrastructure projects in Nigeria (amounting to billions of dollars), its future on the Nigerian oil and gas market looks positive in the future prospects (BBC 2006). CNPC got a hold of four blocks in Nigeria's licensing round in July 2005 and took a 51% stake in the Kaduna refinery worth $2 billion, after it offered to build a railroad system and power stations (ERA 2009).
5.3.2.2 Angola

Since the end of the 27-year civil war in 2002 that started in 1975, Angola has focused on rebuilding its country and economic development, driven mainly by high international prices of oil (CIA Factbook 2010). The average GDP growth rate for the past 5 years had been estimated at 10.5% (CIA Factbook 2010). Although the global recession hindered the economic growth in the short term, the country seems to be on a trail of positive development. The major export articles are oil, diamonds, coffee and other mineral resources. Oil and diamonds present about 95% of exports and 85% of governmental income (2009). Oil production, the key part of the country’s revenues and development, is in hands of state-owned Sonangol Group Company which “collaborates with international oil companies through joint ventures and production sharing agreements” (Africappractice 2007).

Closer political and economic relationship between China and Angola commenced in 1984 when the two countries engaged in their initial trade agreement. In 1988, the Joint Economic and Trade Commission was created. Due to the civil war, China’s involvement in project financing began only after 2002. Since then, mutual trade gradually augmented and topped $120 billion in 2010 (Zhao 2011), with oil contributing $21 billion. Official statistics from China’s customs service show that between January and May 2011, trade between China and Angola increased by 1.20%. In the same period China imports from Angola dropped by 0.6%, while the sales of goods imported to Angola increased by 26.5%. At present, Angola is China’s dominant business partner in Africa (Zhao 2011) as well as the major source of crude oil for China (Corkin 2006). It is therefore not surprising that “about 70% of contracts in a $2billion Chinese-funded project in Angola in 2004 were reserved for Chinese companies” (Corkin 2006). Angola is thus said to be an illustration of China’s petro-diplomacy. For instance, China ExIm Bank offered Angola’s government a credit worth $2 billion in exchange for oil. Observers view these types of deals of mutual benefit for both countries. It removes the pressure for strengthening fiscal clarity in the current political setting in Angola, while it strengthens the Chinese position in the country’s oil industry (Tull 2006). Most of the Chinese-Angolan cooperation agreements existing are related to energy, mineral resources, infrastructure development, and financial aid. China is a key

137 http://www.davidandassociates.co.uk/davidandblog/newwork/China_in_Africa_5.pdf
138 http://www.davidandassociates.co.uk/davidandblog/newwork/China_in_Africa_5.pdf
142 http://www.davidandassociates.co.uk/davidandblog/newwork/China_in_Africa_5.pdf
143 http://www.davidandassociates.co.uk/davidandblog/newwork/China_in_Africa_5.pdf
financial provider that enables the infrastructure development in the country. Loans that have been offered to Angola by now are said to be in amount of seven billion dollars (Writers 2008). The Economist Intelligence Unit points the attention to the most recent collaboration agreements signed between Angola and China in May 2011. These stress the growing relationship and economic inter-reliance of these two partners through fast trade increase over the years (Afrol News 2011).

In 2002, China donated $3 billion to the infrastructure re-construction and development projects in Angola. This donation, as many others, was oil-backed (Africapractice 2007). Two years later, China ExIm Bank contributed another $2 billion credit that enabled the government in Angola to restore the electricity, water, road and telecommunication infrastructure that was damaged during the civil war in the country. This credit was again oil-backed, with Angola supplying China with 10,000 barrels of oil per day. These types of deals, projected to help Angola reconstruct its infrastructure, usually come with a very low interest rate (at 0.25%) and a long repayment period (typically 15-17 years) (Corkin, 2006). In addition, tied to the credit provided by China was the agreement on “preferential contract awarding”. This meant that “approximately 70% of the public tenders for the construction and civil engineering contracts for Angola’s reconstruction would be awarded to 35 Chinese state-owned enterprises approved by the Chinese government and compiled by China’s ExIm Bank” (Davies 2007). The remaining 30% would be distributed within the local private sector firms in Angola to boost their involvement in the bidding process. According to this arrangement, Chinese enterprises obtained contracts to mainly infrastructure building in Angola worth over $3bn (in years 2004-2006) (Davies 2007).

Other important credit scale ups provided by China ExIm Bank came in January 2005, March 2006 and in 2007, when the bank increased its funding (oil-backed) to government in Angola by first $1billion, $3 billion and $2 billion in 2007 to put up-coming infrastructure projects in practice (Africapractice 2007). The importance of this credit extension has to be seen in light of Angola having difficulties to attain loans from international financial institutions, the IMF in particular. The capital that is often secured by the state of China and China ExIm Bank allows Chinese enterprises to be less risk-adverse when investing in Africa. In general, not many Western companies can compete with this approach and engagement (Davies 2007).
In March 2006, Sinopec and Angola’s state-owned Sonangol agreed to form Sonangol-Sinopec International to develop Angola refinery at Lobito, exploit crude oil\textsuperscript{150} and bid mutually for other oil blocks of their interest (f.e. Block 17 and 18 in (Petroleum Intelligence Weekly 2006)).\textsuperscript{151} Sinopec is reported to have a 75% stake in the $3bn project\textsuperscript{152}, while the remaining 25% is held by Sonangol (Africappractice 2007).\textsuperscript{153} From 2010, Sonangol Sinopec International Ltd. runs as a subsidiary of Sinopec Corporation Hong Kong International Limited.\textsuperscript{154,155}

Angola’s Mundo Startel and Chinese giant ZTE closed an agreement for securing, execution, processing and maintenance of New Generation Network projects in the country throughout the year 2005 (Southwood 2005). Besides this project, ZTE signed an agreement with the National Telecommunications Institute to realize several other projects (Southwood 2005). On the top of that, ZTE will invest $400 million in the country. Majority of this investment will be dedicated to fix line network expansion and development (Writers 2008).\textsuperscript{156} In 2008, presidents of China and Angola signed several deals that contributed to the expansion of China-Angola economic relations, mainly in infrastructure and construction sector where China has experience in large-scale projects. Moreover, Angolan government hopes to close financing agreements in water sector projects (Writers 2008).\textsuperscript{157}

The most important commodity traded between China and Angola is a crude oil. This commodity comprised over 95% of Angola’s exports with China being a noteworthy actor (Economist Intelligence Unit).\textsuperscript{158}

\textsuperscript{150} http://elibrary.worldbank.org.esc-web.lib.cbs.dk/content/book/9780821375549;jsessionid=7nd3ecvcnm6ei_z-wb-live-01
\textsuperscript{151} http://www.highbeam.com/doc/1G1-146123859.html
\textsuperscript{152} http://elibrary.worldbank.org.esc-web.lib.cbs.dk/content/book/9780821375549;jsessionid=7nd3ecvcnm6ei_z-wb-live-01
\textsuperscript{153} http://www.davidandassociates.co.uk/davidandblog/newwork/China_in_Africa_5.pdf
\textsuperscript{154} http://investing.businessweek.com/research/stocks/private/snapshot.asp?privcapId=61894867
\textsuperscript{155} http://www.afdevinfo.com/htmlreports/org/org_69866.html
\textsuperscript{156} http://www.energy-daily.com/reports/Angola_president_signs_agreements_with_China_999.html
\textsuperscript{157} http://www.energy-daily.com/reports/Angola_president_signs_agreements_with_China_999.html
Even though Chinese firms are established in the Angolan market to a great extent, companies coming from Western countries – traditional partners of African countries for decades - keep their strong position in Angolan oil industry as well (such as ExxonMobil (U.S.), TotalFinaElf (France), BP (UK), and Agip/Eni (Italy)).\(^{159}\) Nonetheless, China was able to build a significant advantage above them all – it ties its oil agreements to credits and financing of infrastructure building and reconstruction. An example showing that this strategy works is the Block 3/80 refinery where both Sinopec and Total desired to gain production license in 2004. Sinopec succeeded in the competition by offering financing worth $2 billion guaranteed by China ExIm Bank.\(^{160}\) Thus, not only are China’s low-interest and requirement-free loan offers appealing, they come with much-needed infrastructure construction promises that Angola badly needs. Moreover, they offer a diversification opportunity for Angola in terms of its trade partners.\(^{161}\) Therefore, it is expected that Sino-Angolan relationship will remain substantial for the coming years. China will most probably continue to seize opportunities in Angola’s oil industry, while Angola will remain to be attracted by infrastructure building arrangements.\(^{162}\)

### 5.3.2.3 Sudan

Sudan is one of the main exporters of crude oil in the world. Its economy flourished especially between 1999 and 2008 thanks to the completion of a major oil-export pipeline (Pinaud 2006)\(^{163}\) commencement of exporting its oil production, high oil prices, and substantial levels of incoming FDI. According to CIA World Factbook, due to the world financial crisis, Sudan's real GDP rose only by 5.2% through 2010 in comparison to over 15% in between 2006 and 2007. The most important industry sectors are oil, services and agriculture. Crude oil and petroleum are the vital

---


\(^{163}\) [http://africa.berkeley.edu/Sudan/Oil/SudanOilFactsheet-Sept06.pdf](http://africa.berkeley.edu/Sudan/Oil/SudanOilFactsheet-Sept06.pdf)
export articles of Sudan, together with cotton and sesame.\textsuperscript{164} Agriculture remains important as it employs up to 80% of local work and comprises one third of the country’s GDP (CIA Factbook 2011). The main partners in trade in 2009 were:\textsuperscript{165}

<table>
<thead>
<tr>
<th>Exports</th>
<th>Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>58.3%</td>
</tr>
<tr>
<td>Japan</td>
<td>14.7%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>8.83%</td>
</tr>
</tbody>
</table>

Table 6. Major Export and Import partners of Sudan (2009)

Sudan is one of the main crude oil exporters to China\textsuperscript{166}. Bilateral cooperation between China and Sudan has extended following the Forum on China-Africa Cooperation in 2006 and now occurs in numerous segments – energy, contracting, construction, human resource development, etc. (Sudan Tribune 2007).\textsuperscript{167} According to the most recent statistics, at present, China procures over 60% of Sudanese oil production and 71% of country’s exports. Country’s rich strategic resources base - crucial for China’s future growth given the size of its economy and population – makes now 300 000 barrels a day available for China (ERA 2009)\textsuperscript{168}, which accounts for 6 to 7% of China’s oil imports (Sayani 2011).\textsuperscript{169} In addition, the China National Petroleum Corporation (CNPC) claims that almost 50% of its foreign oil production comes from Sudan (Africapractice 2007).\textsuperscript{170} China is the largest investor in Sudan and brings around 80% of the governments revenues (Sayani 2011).\textsuperscript{171}

Since 2001, China provided Sudan with financial resources in amount of $1.3 billion to support its infrastructure building projects - El Gaili Combined Cycle Power Plant (2001) and the Qarrei thermal station (2002) - as well as both gas-fired and coal-fired thermal capacity development actions – f.e. in Port Sudan and Rabak (Foster et al 2008). In 2004, the largest hydropower building development in Africa and China’s largest overseas projects to date has been commenced - the $1.2 billion Merowe dam project aimed at developing country’s electricity coverage and distribution (ERA 2009).\textsuperscript{172} Chinese companies participating at the construction of the dam and transmission lines building (ERA 2009) were China International Water & Electric Corporation, Sinohydro Corporation, Harbin Power Engineering and China - Jilin Province Transmission.\textsuperscript{173}

\textsuperscript{164} http://www.economywatch.com/world_economy/sudan/export-import.html
\textsuperscript{165} http://www.economywatch.com/world_economy/sudan/export-import.html
\textsuperscript{166} http://www.davidandassociates.co.uk/davidandblog/newwork/China_in_Africa_5.pdf
\textsuperscript{167} http://www.sudantribune.com/sudan-oil-minister-says-energy-22865
\textsuperscript{168} http://www.ide.go.jp/English/Data/Africa_file/Manualreport/pdf/china_all.pdf
\textsuperscript{170} http://www.davidandassociates.co.uk/davidandblog/newwork/China_in_Africa_5.pdf
\textsuperscript{172} http://www.ide.go.jp/English/Data/Africa_file/Manualreport/pdf/china_all.pdf
\textsuperscript{173} http://www.industcards.com/hydro-egypt-sudan.htm
Outside hydropower, China has participated in construction of thermal power stations in Sudan (Foster et al 2008). In 2005, the China’s Shandong Electric Power Construction Corporation was contracted several thermal power station development projects in the country. Moreover, Sinohydro Corporation was awarded a $300 million contract to extend the road infrastructure system in Sudan by almost 500 kilometers (ERA 2009). Projects awarded to Chinese firms in 2008 in the total value of $1.5 comprised construction of the Al-Fulah power station ($680 million), the Dongola-Halfa pipeline ($120 million) and the $100 million Dibaybat-Malakal road (ERA 2009). Besides power and hydro stations construction, China has funded development of oil and pipeline infrastructure, refinery development and capacity expansion projects (Foster et al 2009) and invested heavily in developing ports and harbors in Sudan, installing bridge cranes and in modernization of water-supply in the country (Sayani 2011). The China National Petroleum Corporation (CNPC) was awarded a project already in 1995 and has invested, together with the Chinese government, more than $4 billion in development projects in Sudan by 2006. These projects constituted foremost pipeline and oil transport systems building (AfricaPractice 2007). In collaboration with Greater Nile Petroleum Operating Company, where CNPC owns a 40% stake, the companies have financed projects in the country in the total value of more than $8 billion (UNCTAD 2007).

“We in the Red Sea State are picking the fruits of the great progress in the Sino-Sudanese relations where Chinese companies have implemented many development projects in the state. “(Sayani 2011)

5.3.2.4 Zambia
The China-Zambia ties commenced when Zambia was under the protectorate of Great Britain (Mwanawina 2008). In 2000, the Forum on China-Africa Cooperation (FOCA) became the basis of new relationship between China and Zambia and created new opportunities as well as challenges in the country’s development efforts. In 2006, China announced its development strategy for Zambia in the African Policy Paper, focused on orienting foreign policy towards economic and development issues. Zambian government sees the blooming relations with China as a sign of promoting fair trade and economy growth – with the help of enormous

175 http://www.ide.go.jp/English/Data/Africa_file/Manualreport/pdf/china_all.pdf
176 http://www.ide.go.jp/English/Data/Africa_file/Manualreport/pdf/china_all.pdf
177 http://elibrary.worldbank.org/esc-web-lib.ceb.dk/content/book/9780821375549;jsessionid=7nd3ecvcm6ei.z-wb-live-01
179 http://www.davidandassociates.co.uk/davidandblog/newwork/China_in_Africa_5.pdf
181 http://www.uneca.org/atpc/Work%20in%20progress/77.pdf
182 http://www.zda.org.zm/272-trade-china-important-%E2%80%93-nsemukila
investment resources from China. The importance of the China-Zambia relationship needs to be seen in light of the country situation – Zambia is heavily indebted, incredibly poor country. According to the Chinese Embassy in Zambia, the trade balance between China and Zambia exceeded $110 billion in 2010. The Chinese investments in Zambia cover variety of sectors, majority of these are in mining, construction, manufacturing and agriculture. These investments provide Chinese companies access to the local Zambian market as well as the global export markets.

The trade relationship between China and Zambia is set to enhance closer socio-economic partnership and ties. Zambia and China have signed several co-operation agreements in Beijing, which include partnership in the development of multi-facility economic zones (MFEZs) in Zambia, technical co-operation between China and Zambia for the construction of a national stadium in Lusaka (February 2015) and other economic, technical and cultural cooperation agreements for financial support to various development projects through consultations between the two countries.

Besides the massive and well-known Tazara railway project, China built roads, textile factories and invests heavily in the mining sector in Zambia. The mining industry constitutes the majority of the country's incomes and is crucial for both China and Zambia. During the economic crisis, low copper prices in global commodities markets, limited investment and low effectiveness of the state-driven copper mines added to the weakening of Zambia’s economy. In 1998, the state-owned China Metal Mining Co Ltd got hold of the insolvent Chambishi mine for $20 million and revived the production process (Zambia Review 2010). During the economic downturn, many western investors left the country and their positions were later filled by Chinese investors. "China is resource hungry and at the time we were privatising the mines, they took up the least attractive ones which they have turned around," says Mr. Sichinga. He adds that this way, Chinese have proved to be "all-weather friends." Observers argue that Chinese investors were able to operate mines in times of recession because their investments were backed by Chinese government. Only during 2008, China committed more than $400 million into Zambia's mining industry (UNCTAD 2010). A widely presented project was the creation of the country’s largest textile plant Milungushi – a joint venture between the Chinese and Zambian government. As the
example of a successful cooperation, the Sino-Zambian textile mill (ZCMT) is often cited.\textsuperscript{191} Despite many arguments viewing China as a country that is just reaping Africa's resources, many local entrepreneurs, in fact, think that Chinese investments into the mines are good for Zambia (Zambian Economist 2007).\textsuperscript{192}

5.3.2.5 Ethiopia

Chinese contractors in Ethiopia are involved mostly in road construction projects. The country is said to be attractive for investors for its stable political environment, steady growth rate and healthy legal environment (relative to other African nations). The projects are normally financed through credits from the World Bank, African Development Bank, Chinese or Ethiopian government (Mo et al 2008).

The government of Ethiopia views Chinese construction companies as a less expensive substitute to Western companies. Even though their margins and profits are also lower in comparison to their Western rivals, they are successfully increasing their share in the Ethiopian construction market. Additionally, Chinese companies have often better chances to successful bidding in the construction sector, because being less expansive is an important differentiating factor (Mo et al 2008).

Figure 3. SWOT analysis communicated by Chinese suppliers in Ethiopia

<table>
<thead>
<tr>
<th>Strength</th>
<th>Opportunities</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Construction experience in developing countries</td>
<td>• RSDP and dramatic increase of Road Construction Projects compared to the rest of Africa</td>
</tr>
<tr>
<td>• Low-cost Chinese work force as compared to Western countries</td>
<td>• Infrastructure development, including telecommunications</td>
</tr>
<tr>
<td>• Fiscal stability and low inflation</td>
<td>• Increased and stable funding</td>
</tr>
<tr>
<td>• Support from democratic national government</td>
<td>• Mining and resource development</td>
</tr>
<tr>
<td>• Friendly relationship between China and Ethiopia</td>
<td>• Access to other national markets e.g. Sudan and Uganda</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Weaknesses</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Lack of skilled, semi-skilled labor</td>
<td>• Most funding from abroad</td>
</tr>
<tr>
<td>• Weak communications/ infrastructure</td>
<td>• Increased competition from other nations such as Korea, Pakistan and JVs</td>
</tr>
<tr>
<td>• Low standards of health and safety and occupational hazards on jobsites</td>
<td>• Failure to resolve some compensation claims</td>
</tr>
<tr>
<td>• Most construction materials imported from abroad e.g. fuel, bitumen, and cement</td>
<td>• Continuing war between Ethiopia and neighboring countries Somali and Eritrea</td>
</tr>
<tr>
<td>• Internal managerial problems</td>
<td></td>
</tr>
</tbody>
</table>

Source: Peng Mo, ADDIS ABABA RING ROAD PROJECT: A Case Study of a Chinese Construction Project in Ethiopia (Levitt 2006)

\textsuperscript{191} P. Kragelund: Chinese investments in Africa: Catalyst, competitor or capacity builder?\textsuperscript{192} http://www.zambian-economist.com/2007_11_01_archive.html
According to the Ethiopian Investment Agency, China’s engagement in Ethiopia amounts to $1.6 billion (Mo et al 2008), if the contracted projects are taken into account, thus making China the largest investor in the country (Ethiopian Journal 2011).193

In road construction sector in the country, the Chinese contractors secure most of the construction projects, while Western firms offer consultancy services as they usually are unable to compete with significantly lower prices which Chinese firms come on the market with. Thus, “Western contractors usually do not even submit bids and thus do not present a major competition for Chinese companies” on the Ethiopian market. However, competition among Chinese companies in the construction industry is severe, with companies “reducing their profit margins or bidding for projects below cost” (Mo et al 2008).

In 1998 China Road and Bridge Corporation (CRBC) contracted an Addis Ababa Ring Road Project, with the price at $86 million. The successful construction of this road project helped CRBC establish their reputation in the local construction market and to expand its business in Ethiopia significantly. In 2002, China contracted an agreement for construction of the Tekeze Dam in Tigray. Recent projects encompass the construction of power transmission lines and the ICT sector. In 2006 the Chinese operator ZTE contracted the $1.5 billion Ethiopia Millennium Project (covering several smaller projects) - aimed at expanding the communication network – for the supply of equipment to the Ethiopian telecommunications authority. Different from the other projects, these were funded under export sellers’ credit agreements (Mo et al 2008). Additionally, China Gezhouba Group Company signed a contract for construction of Genale Dawa 3 hydropower scheme; HYDROCHINA contracted opening wind power projects in Adama and Mesobo Harena;194 China is now also building an industrial district in Ethiopia to “allow more Chinese investment in textiles, clothes and chemicals” (Ethiopian Journal 2011).195 China ExIm Bank provides a great portion of financing to all the above mentioned projects (Brautigam 2011)196. With its effective strategy and approach, China is now viewed as a partner that benefits the country more than traditional Western countries (Tull 2006). More importantly, the private sector is becoming stronger, more efficient and is viewed a funding option to international loans (Mo et al 2008).197
6. What explains Chinese presence in Africa

This chapter offers an overview of why is China expanding to Africa and what are the major mechanisms or factors that drive its role on the continent. Even though the views of several authors on this matter are spread throughout this thesis, it is important to provide an overview on this issue in a more concentrated manner.

The World Investment Report (2006) provides an idea of mixed, complementary and evolutionary motives of firms investing abroad. When companies have several reasons to going abroad at the same time – f.e to access new markets, gain strategic resources – their motives are mixed. When linking more strategies to achieve one particular goal, the motives are complementary. Evolutionary motives change over certain period of time (f.e with the company’s growth and development, the FDI motives change from market- to efficiency-seeking).\textsuperscript{198} The latter can be, according to the analysis conducted throughout this thesis, compared to the evolution of China’s motives through several phases, as already explained in Chapter 3. Thus, when attempting to explain the motivation and drivers of China and its enterprises to expand on the African continent, one has to take into consideration not only one motive, but several facts – including the governmental policies, business strategies and behaviors of Chinese MNCs, China’s historical background\textsuperscript{199} and many more.

Building on the analysis above, one can see that the majority of literature to date has concentrated on trade opportunities and strategic resource extraction (Large 2008; Goldstein, Pinaud, Reisen and Chen (2006); Hale (2006); Broadman (2006); Kaplinsky, McCormick and Morris (2006); Wilcox and Davies; Downs (2004; 2007); Jacobson and Daojing (2007)). The logic of this focus of literature is very simple. As discussed previously, China’s engagement in Africa decreased during the 1980s, because could not match the aid programs offered by Western nations at that time and was no longer keen on the Taiwan recognition issue (even though it is still on China’s agenda and a priority). “What has changed is China’s emergence as a significant world player on the economic scene and its own need for oil and other natural resources” (Mao et al 2008). This world giant is expected to tripple its gas consumption by 2015, compared to year 2008 (The Economist 2011).\textsuperscript{200} Lyman (2005) summarizes that “with its economy boosting and population growing, China returns to Africa in the 21\textsuperscript{st} century with not only a need for economic resources

\textsuperscript{198} World Investment Report 2006: FDI from developing and transition economies – Implications for development
\textsuperscript{199} The World Investment Report (2006) says that “the differences in emerging market MNCs behaviour and strategies (China in particular in this case) are linked to the historical conditions of development from command to a market-oriented economy, and the corresponding changes to its relationship with the international community.”
\textsuperscript{200} http://www.economist.com/node/21525381
but with the cash to play the game dramatically and competitively.” Foster et al (2008) also agree that “China’s fast-growing manufacturing economy is generating major demands for oil and mineral inputs that have rapidly exceeded the country’s own domestic resources.” Although having disadvantages at several issues, Chinese firms hold an important cost-related advantage towards their Western counterparts. Thus, they have a high chance to succeed in the “scramble for Africa”, as low cost particularly remains a vital competitive advantage on the continent (Mao et al 2008).

Table 7. Factors contributing to Chinese firms being competitive relative to their rivals

<table>
<thead>
<tr>
<th>Factors contributing to Chinese firms being so cost competitive relative to their rivals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Politically directed and low-cost capital</td>
</tr>
<tr>
<td>Labor costs through the usage of Chinese labor in specific cases</td>
</tr>
<tr>
<td>Minimal absentee rates among Chinese expatriate labor</td>
</tr>
<tr>
<td>High skills levels with expatriate workers receiving training in China</td>
</tr>
<tr>
<td>Supply chain cost advantages</td>
</tr>
</tbody>
</table>

Source: Griffiths (2007) – Ai Infrastructure Investor: When mines aren’t enough

Besides resources-extraction that is needed to drive “resource hungry populations and boosting economy” forward (Chandramohan 2010), Gu (2009) expresses the idea that currently, China’s private firms are in quest of a new market where the competition is less fierce than in their domestic market. One of the main reasons to look for new prospective markets is also domestic overproduction, as well as strategy to circumvent the U.S. and EU trade restrictions on Chinese products. Sperbee (2009) notes that Africa is crucial part of China’s global strategy and attractive part of the world mainly for “its geopolitical importance, large untapped market and its natural resources”. Moreover, “China’s model of state-driven growth without political reform is indeed appealing to African leaders” (Sperbee 2009), providing an alternative that could produce greater benefits (Liu Guijin, FCOAC 2011). It is important to stress that “firms act autonomously from the Chinese government’s policy frameworks and existing bilateral arrangements” (Gu 2009).

6.1 Why is China so successful in Africa?

Foster et al (2008) say that the growing Sino-African economic engagement can be understood in terms of “economic complementarities that exist between these two actors”. If we take an

201 http://www.cfr.org/china/chinas-rising-role-africa/p8436
204 http://www.allbusiness.com/international-relations/international-foreign/12325044-1.html
205 http://www.focac.org/eng/zfgx/jmhz/t833132.htm
example from the construction industry in Sub-Saharan Africa (where Chinese firms are particularly active), the complementariness becomes obvious. On the one hand, Africa lacks financial resources for infrastructure building that the continent badly needs to boost trade and economy. These infrastructure limitations as well as huge untapped natural resources were naturally present on the continent before China committed their resources to the continent on a large scale. China, on the other hand, has a world-class expertise in construction, with companies competitive on the global scale. Thus, thanks to these factors that are crucial for infrastructure development, China has become a major investor in infrastructure on the continent (Foster et al 2008).

Table 8. Economic complementarities between China and sub-Saharan Africa

<table>
<thead>
<tr>
<th></th>
<th>Infrastructure</th>
<th>Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Africa</strong></td>
<td>Africa has a major infrastructure deficit</td>
<td>Africa is a major exporter of natural resources, with infrastructure bottlenecks preventing full realization of its potential</td>
</tr>
<tr>
<td><strong>China</strong></td>
<td>China has a large, globally competitive construction industry</td>
<td>China’s manufacturing-based economy creates high demand for natural resource inputs, beyond those domestically available</td>
</tr>
</tbody>
</table>


Specific is the importance of networking (Buckley et al. 2007). Groups of Chinese firms locate together in industrial parks they tend to create, gaining mutual support and coordinated production. This approach can reduce costs and create an industry cluster and a favorable investment environment (Gu 2009). Furthermore, when dealing with institutional voids, Chinese companies are particularly skillful to take different measures and approaches in different countries, depending on the need and circumstances (Alden and Davies 2006).

Empirical evidence (sample countries researched) has confirmed that the most important firm-specific advantage of Chinese firms based on home country specific advantages (f.e. natural resources, labor force characteristics, cultural and economic factors (Marinova et al. 2010)) is the benefit of a large pool of low cost, skilled labor that can be translated into low manufacturing costs (Williamson & Yin 2009; Rugman 2010; Cui & Jiang 2009; Dunning & Lall 1988). Indeed, Chinese companies have often better chances to successful bidding in the construction sector, because being less expansive is an important differentiating factor (Mo et al 2008; Zeng &

207 http://findarticles.com/p/articles/mi_qa3674/is_201010/ai_n57241833/pg_9/?tag=mantle_skin;content
Williamson 2007; Williamson & Yin 2009). Other country-embedded advantages that have been noted throughout the research have been in particular the government-backing, domestic economic background and Chinese cultural specifics that have served as a foundation for international business strategy of most of the Chinese firms (Rugman & Verbeke 1992).

The support of Chinese government, debt relief, less requirements, aid assistance packages and other political and economic incentives (Tull 2006) help Chinese firms to prove successful on African continent and enables them to establish favorable position on the market and seize untapped opportunities. Besides, China’s low-interest and requirement-free loan offers are complemented by infrastructure construction capacities that the continent badly needs. Moreover, they offer Africa a diversification opportunity in terms of its trade partners. The most crucial feature that is truly different than centuries ago in not only China’s position in the world economy, but its approach to African development (Foster et al 2008; Wang 2007).

6.2 The China Approach
A core feature of Chinese investments is that they are directed to countries that others find too risky, with non-existent infrastructure and little possible profit margins. Chinese entrepreneurs who expand into these countries are looking at them as places that may become strategically significant in the long term or that allow them to “expand into leading positions”. In other words, “…where Western firms see risk, Chinese firms see opportunity. The objective opportunities are the same, but the Chinese are thinking in the longer term, with hard conditions of work and lower profit margins in the short run. This is a long-term strategy of an entrepreneur creating opportunities” (Gu 2009).

The nature of Chinese engagement (state involvement) in Africa results in “coalition investment” through countless sectors. So, Chinese companies find support in each other’s presence, which transforms into competitive advantage that their Western counterparts do not have (Corkin et al 2008). Another feature of Chinese approach to doing business in Africa is that Chinese businessmen are more personal. They tend to be “generous when it comes to community trouble – helping to set up farms and building schools before pursuing their business goals, even though not particularly proactive when it comes to corporate social responsibility” (Foster et al 2008).

---

209 http://www.davidandassociates.co.uk/davidandblog/newwork/China_in_Africa_5.pdf
The main difference between China’s and traditional Western donors’ approach towards Africa has been the way it treats the countries on the continent. While traditional donors see them as “former subjects”, China treats them as equal partners. As already stressed, Chinese are not trying to force the Africans into democracy and do not interfere with their policy-making; “All they sought from Africans was a gesture of symbolic acquiescence in the Chinese view of the world” (Philip Snow in Le Pere 2007). Above all, its “no strings attached” development approach (Foster et al 2008), the extraordinary development in China and “the fact that hundreds of millions have been lifted out of poverty” has been warmly welcomed by not only African leaders, but also the ordinary population. The positive consideration of China on the continent has been strengthened when developing not only its business and political strength, but spreading its soft-power as well – hundreds of Chinese doctors are present in Africa, Chinese firms are building new schools, hospitals, sport centers, etc. (Olander 2010). In some cases (such as in case of Angola, Ethiopia and Namibia), African countries feel obliged to appreciate China “after it helped them when they were confronted with the spectre of civil war following the demise of the Soviet Union” (Chandramohan 2010). Thus, China has managed to secure access to raw materials, energy resources, and markets for its manufactured goods (Foster et al 2008).

Another important factor observed is that in many cases, African leaders and businessman see China as an “all weather friend” and are likely consider “China’s development model of state-driven development without political reform attractive” (Sperbee 2009), providing an alternative for Africa that could produce greater benefits (Liu Guijin, FCOAC 2011). In addition, China continues to confirm its long-term concerns across the continent in such forums like FOCAC while also encouraging strong bilateral relations with key countries of particular strategic significance (Foster et al 2008). Now, China is said to be Africa’s most confident and assertive investor, with visible contributions in particularly construction and extraction sectors. Investments in these industries are without a doubt part of China’s commercial strategy on the continent. Only “few if any other economies are able to simulate China’s multi-sectoral engagement strategies of economies in Africa” (Davies 2010). Other advantages and disadvantages of Chinese firms and their approach will be discussed in the following section.

211 http://www.worlddialogue.org/content.php?id=401
214 http://www.allbusiness.com/international-relations/international-foreign/12325044-1.html
215 http://www.focac.org/eng/zfgx/jmhz/t833132.htm
7. Discussion of findings
The first part of this chapter will deal with assessing the theory and the political and commercial nature of Chinese involvement in Africa, while the second part of the chapter will discuss the flaws of the existing literature, methodology and sources used.

7.1 Commercial vs. political nature of Chinese involvement on the continent
Theories that attempt to explain the internationalization of firms from emerging markets are numerous. Conventional models (such as the OLI paradigm) look at the decision of firms to go abroad as the outcome of competitive advantage based on possession of unique assets or other ownership advantages. On the other hand, the unconventional theories and latecomer theories say that it is the lack of advantage, rather than the exploitation of the existing advantage, which drives such investments. Neither stream of these theories can thus explain fully the behaviour of Chinese firms and their decision to expand on the African continent. The IDP theory suggests that only countries at a higher stage of development receive and invest larger amounts of FDI. However, China, even though at the initial stages according to this theory, receives as well as invests great amounts of FDI. Thus, while having very little significant ownership advantages (in the conventional sense) on one hand, Chinese MNCs actively participate in the global investment activities (Moon 2001). An example of unconventional theories being unsuitable to explain Chinese behaviour in Africa is the mode of Chinese MNCs activities. Rui and Yip (2008) who conducted studies of Nanjing Automobile Group, Lenovo Group, and Huawei Technologies say that Chinese firms leverage their competitive advantages (home country based) mainly by undergoing overseas acquisitions. These tend to first acquire foreign assets and distribution networks to overcome the initial disadvantages in international status and market access, while keeping their foreign operations strongly integrated with their home activities (Luo & Tung 2007). Hence, these activities seek strategic gains beyond latecomer advantages, building on their home embedded advantages in form of f.e. expertise or low-cost base.217

Secondly, several internationalization theories and models assume that “it is more costly for a firm to operate abroad than in its domestic market” and others suggest that “learning how to operate abroad is also more costly than learning how to operate in the domestic market”, what Hymer (1976) explained as a liability of foreigners (Boisot & Meyer 2008). However, based on the research conducted, I argue this not being true for Chinese firms. Not only is their domestic market saturated, they also enjoy high level of financial and inter-governmental support from the government. Thus, they have a unique possibility to “learn abroad” without significant additional costs. Therefore, on top of the strategic asset seeking that has been often argued to be a major

217 http://www.uchicago.cn/event/industrial-co-development/
driver of outwards FDI in the case of China, it can be argued that Chinese firms are going abroad to exploit their existing assets and reach larger customer base to compensate for the saturated domestic market.

Thirdly, there is a misleading debate on changing role of the state in the current globalization era. Many authors and streams suggest that as the state and market evolves, the government does not interfere with the business sector to such large extend as previously anymore. On the other hand, Evans and Cerny say that when state policies succeed in reshaping the business community, the patterns of government-business relations changes and a more encompassing set of state-society networks and ties between the state and other social groups may provide a better means of sustaining future development. Moreover, Cerny (1997) specifically suggests that the interventions of the state move from pursuing comparative advantage to competitive advantage, such as enterprise profitability. Indeed, coming from China’s historical development and its go-global agenda, government and local institutions keep affecting the decision-making of the enterprises when it comes to domestic or international operations. The question that remains is to what extent, as this issue is difficult to assess. One way or another, market mechanisms are not substituting political leadership (Pauly & Reich 1997).

To sum up, there is some evidence that most recently Chinese MNCs have internationalized mainly to gain better access to strategic assets and capabilities (distribution channels, foreign capital markets, efficient organization of these assets across a geographical space), often by acquisition; to develop new markets (Buckley et al. 2006; Eisenman and Kurlantzik 2006); to find new markets for its business activities to strengthen its position internationally (Taylor 2002; Buckley et al 2006); to increase or protect their profitability, capital value and to exploit their competitive advantages. On its expansion and acquisition trail, China is looking for untapped opportunities (Alden & Davies 2006), choosing countries based on market, resource (raw materials, infrastructure, better or cheaper outputs) and efficiency seeking motives (cost reduction) (the World Investment Report 2006). This development has occurred within increasing openness, liberalization (Sauvant 2005) and promotion of export-oriented FDI in China (f.e. foreign exchange assistance and financial support), mainly in the textiles, machinery and electrical industry (Wong and Chan, 2003). Therefore, Africa is an important part of China’s “go global” strategy that encompasses increased access to international markets, competitiveness through global competition, and expanding Chinese exports. From this point of view, Africa presents a favorable geopolitical place with huge available market and vast natural resources – in

218 World Investment Report 2006: FDI from developing and transition economies – Implications for development
219 World Investment Report 2006: FDI from developing and transition economies – Implications for development
particular oil and gas – even though with higher risk levels. Hence, contrary to Jensen’s view that multinationals choose to enter countries with minimal political risk and stable economic policy, Chinese enter countries that are normally considered too risky (Jain 2010).

Based on evidence in representative chosen countries researched, the mixed nature (both bilateral and commercial) of the Sino-African relations is undeniable, following similar pattern in all of these. The interrelation between commercial and political face of China’s Africa strategy can be particularly observed in case of China’s rising industries. These are heavily influencing country’s goals – “they demand new energy and raw materials, exporters need perspective markets, the country needs support in international organizations and its propaganda still seeks backing from allies to advance Chinese interests” (Eisenman & Kurlantzik 2006; Alden and Davies 2006). Thus Chinese interests are not solely political or purely commercial, even though that might have been the case in the past. Indeed, the example of concessional lending as the typical/general type of modality that merges the commercial and political nature as well as governmental support in market entry in Africa confirms this proposition.

When looking at the theory used and applied throughout the research, it becomes obvious that no one theory sufficiently explains China’s engagement on the continent, its motivations and future implications. What we have seen were theories based on experience of traditional Western countries behavior – some of them complementary, some of them contradictory - which are not always applicable on the specific case of China. Moreover, most of the theories are one-sided, taking into consideration solely the commercial or the political face of Chinese activities. Thus, what lacks is a deeper research of the roots of China’s success and fresh look at the country’s phenomenal rise, without comparing it to anything that is familiar with the past. This way, the theoretical background that tries to explain China’s presence in Africa can be moved forward.

### 7.2 A different perspective

As presented above, the views on what drives China to engage so heavily on the African continent are differing, but often misleading. Even though China’s presence on the continent has changed its character during the decades (as well as China), the views of this development mostly focus on China being after oil and other natural resources; supporting cruel regimes and thus damaging efforts to promote democracy and human rights; and relying on backed loans and export credits, which deepens Africa’s debt (Brautigam 2009).
However, as research showed, most of the activities conducted by China are purely business activities (bids, business joint ventures, setting up new firms on the continent, or building power stations and roads). Sure, these may involve government presence and support. Indeed, it is important for firms to have good relationship with local governments and authorities, since it allows firms to start their operations faster (Hansen 2003). But this is not unusual - other donors and private companies take the advantage of this support as well, without being accused of dishonest behavior (Breautigam 2009). Thus, it is important to look at the situation through a different lens and see it not as a political necessity (Larkin 1971), but rather see Chinese actions towards the continent in light of dynamic changes in the China’s home environment\(^{(221)}\) (f.e. saturated domestic market, government incentives to foreign expansion, high growth, environmental pressures (Breautigam 2009)), and international political factors (Wang 2009).\(^{(223)}\) Breautigam (2009) and Tull (2006) suggest that China’s actions towards Africa are “a manifestation of the remarkable transformation of the country’s foreign policy” and thus “a part of a wider policy thrust which manifests itself equally in China’s relations towards other regions of the world” (Alden & Large & Soares de Oliveira 2008). Breautigam (2009) explicitly says that “if there is any coherent strategy it is more about China than about Africa”. Thus, the author refutes that China has a “master strategy” to become the next world hegemon or to establish control over Africa. Further, Breautigam (2009) and Morrison (2006) suggest that this orientation is caused by the condition of the state owned enterprises.\(^{(224)}\) While preferred by the government and “capable of economic activities for which standard bureaucracies were not suitable”, these enterprises had very limited independence and were under heavy political control, and were thus inefficient (Breautigam 2009). Subsequently, most of the sectors of the economy have been modernized and consolidated (Breautigam 2009). These interventions are said to have affected the improvement of the OLI advantages of Chinese firms (Zhang & Van Den Bulcke 1996 in Dunning et al 2001). Up to now, Chinese government relies heavily on SOEs, along with state owned banks, to control the Chinese economy. As the government is using all its power to make these SOEs succeed, it has offered these enterprises greater independence in choosing the operation mode in the world economy and helps them to tap opportunities in Africa to “give them valuable experience (along with Chinese private companies) where failure would not damage the heartland” (Breautigam 2009). Therefore, it is only logical that the government is dealing directly with the leaders of

---

\(^{(221)}\) these factors drive companies’ international expansion to “compensate for lost market share at home” (BCG; The Economist 2008)

\(^{(223)}\) World Investmnet Report 2006: FDI from developing and transition economies – Implications for development

\(^{(224)}\) http://books.google.com/books?id=k9J3qRqxzYCA&printsec=frontcover&hl=cs&source=gbs_ge_summary_r&cad=0#v=onepage&q=false

African governments and offering them stimuli and concessions\textsuperscript{225} to create an easier path for Chinese enterprises (Breautigam 2009).

To conclude, it is difficult and rather speculative to assess whether China's strategy is “policy first, commercial interest later” or the other way around. What can be said for sure is that China’s actions in Africa are more about business and making Chinese enterprises successful at the global level\textsuperscript{226} than a plan to "take over Africa". China is already changing rapidly, and so is its foreign policy (Breautigam 2009).

A problem that might have been noted was an extensive reliance on the secondary data. One has to be aware of their disadvantages mainly in terms of their relevance, accuracy (the dependability of source) and sufficiency (adequate data should be available). News about Chinese operations may often be biased in light of the publisher’s interest (as they are usually presented by Western observers, politicians, media, and academics (Breautigam 2009)), not to mention outdated. Moreover, as already noted, most of the data and statistics on Chinese companies operating on the continent are either not available or are state secret. Additionally, contradictory assessments lead to misconceptions that are then passed from mouth to mouth as revealed truth. Thus, it is questionable to what extent the estimations made by several institutions are accurate. In light of these findings, one certainly has to be careful when interpreting the data obtained and look at the situation from more sides. It can be concluded that this issue still needs to be well-researched and observed carefully, as the situation is ever changing and developing while we are trying to explain it.

\textsuperscript{225} Breautigam (2009) mentions mainly intergovernmental loans at low interest rates and African goods flowing to China duty-free
\textsuperscript{226} Admittedly, there may be some related economic sector strategies, such as in communications, infrastructure or agriculture (Breautigam 2009)
8. Conclusion

Chinese companies are becoming a major competitor for Western and local companies in Africa mainly in construction, power and transport industries. Western firms who used to be of primary importance on the continent cannot match China’s offers – thanks to governmental support, they offer funding, low cost services and cheap skilled Chinese labor. Chinese firms are thus motivated to enter African markets to acquire strategic assets (often through mergers and acquisitions) – assets that are necessary in high levels of international competition and rapid technological advancement where advantages can be easily eroded (Dunning & Narula 2000; Moon & Roehl 2001). The competitive landscape of Africa is being transformed by China’s commercial engagement (Corkin et al 2008). While Africa lacks financial resources for infrastructure building that the continent badly needs to boost trade and economy, China has a world-class expertise in construction, with companies competitive on the global scale. This industry needs high level of energy inputs that are the main export article of the majority African countries. Thus, China became a major investor in infrastructure on the continent in exchange for African resources (Foster et al 2008).

It is not possible to generalize everything and say that Chinese MNCs are all involved in the “Africa quest” for the same reason or pushed by the same driver, as well as it is difficult to track how effectively and rapidly are changes taking place in Africa due to Chinese operations. What can be said is that China is indeed “taking over Africa” in terms of phenomenal economic activities expansion, mainly thanks to international factors, domestic changes in China and an appealing development model. Thus, the idea of China having some sort of “master plan” to take control over the African continent is misleading. At the same time, the subject to date remains ironically under-researched with many research questions remaining (Large 2008).

This project contributes to science and knowledge creation through the analysis of theories and empirical evidence up to date and a suggestion on how the theory can be moved forward. Further, this project explained Chinese firms’ activities in Africa, drivers and modalities of these activities and views on the yet under-researched phenomenon of China’s presence in Africa. In addition, the research conducted presented the link between Chinese FDI and public policy, and thus showed the interrelation of commercial and bilateral face of Chinese operations in Africa.

http://www.jeuneafrique.com/Article/DEPAFP20090213T140825Z/
THE DRAGON’S GIFT: THE REAL STORY OF CHINA IN AFRICA Deborah Brautigam, The American University
LIST of REFERENCES

Books and Articles


- Cheru, F. Obi, C. Chinese and Indian Engagement in Africa: Competitive or Mutually Reinforcing Strategies?, Journal of International Affairs, vol. 64, no. 2 (Spring/Summer 2011), p. 91-110

- Cheung, Yin-Wong et al (January 2011) China’s Investment in Africa

- China’s Interest and Activity in Africa’s Construction and Infrastructure Sectors (November 2006), Center for Chinese Studies, Stellenbosch University

Master Thesis – The China-Africa Marriage

- Crabtree, A. Sumner (2008): Chinese outward FDI in Africa: How much do we know?, p.15
- Drunev, A. (2010) Comment: Do We Need a New Theory to Explain Emerging Market Multinational Enterprises?
- Dunning, H. John The Political Economy of Globalization – Revisiting Stephen Hymer 50 Years On
Master Thesis – The China-Africa Marriage


- Holsti, O.R. Theories of International relations


- Lebow, R.N. () The Long Peace, the End of the Cold War, and the Failure of Realism

- Mansbach, Richard W. Globalization, East Asia, and the Future of Global Politics
Master Thesis – The China-Africa Marriage

Master Thesis – The China-Africa Marriage


Online sources
African Development Bank


Oil Fact Sheet on Sudan, September 2006

- http://africa.berkeley.edu/Sudan/Oil/SudanOilFactsheet-Sept06.pdf

National Conference on Undergraduate Research 2011

- https://ncur.ithaca.edu/ncur/search/Display_NCUR.aspx?id=53188
The World Bank


Zambia, China Sign Five Agreements (2010)


Trade with China important – Nsemukila (2010)


UN Millenium Goals


China and Africa: Dynamics of an Enduring Relationship (2007)

- [http://www.worlddialogue.org/content.php?id=401](http://www.worlddialogue.org/content.php?id=401)

China Invests Heavily in Sudan’s Oil Industry (2004)


10 Poorest Countries in the World 2011


China, Africa and Oil (2008)

- [http://www.cfr.org/china/china-africa-oil/p9557](http://www.cfr.org/china/china-africa-oil/p9557)

Decade-old China-Africa Coop Forum Yields Results, Has Promising Future (2010)


- [http://www.fmprc.gov.cn/eng/zxxx/t230615.htm](http://www.fmprc.gov.cn/eng/zxxx/t230615.htm)

China’s South-South Cooperation Investments: Chinese Investments in Ethiopia

- [http://www.aigaforum.com/articles/Chinese_Investment_In_Ethiopia_part2.htm](http://www.aigaforum.com/articles/Chinese_Investment_In_Ethiopia_part2.htm)

China’s Export-Import Bank and Africa (2007)

How China ExIm Bank and China Development Bank Contribute to China-Africa trade (2010)


Trying to Pull Together (2011)

- http://www.economist.com/node/18586448


- http://gh.china-embassy.org/eng/xwdt/t649236.htm

Ministry of Finance and Economic Planning Republic of Ghana: China ExIm Bank Sign Financing Agreement for Bui Dam Project


France/Chine en Afrique: “Nous ne Sommes Pas a Armes Egaless” (2009)

- http://www.jeuneafrique.com/Article/DEPAFP20090213T140825Z/

Nigeria and China sign $23 billion deal for three refineries (2010)

- http://www.bbc.co.uk/news/10116945


China and Nigeria Agree Oil Deal (2006)

- http://news.bbc.co.uk/2/hi/business/4946708.stm

CIA: The World Factbook


New Cooperation Agreements Highlight Increasing Closeness of Angola and China (2011)


The China-Angola Partnership: A Case Study of China’s Oil Relations in Africa (2011)

Angola President Signs Agreements with China (2008)
- [http://www.energy-daily.com/reports/Angola_president_signs_agreements_with_China_999.html](http://www.energy-daily.com/reports/Angola_president_signs_agreements_with_China_999.html)

China, Angola Sign 9 Cooperation Agreements (2011)
- [http://www.afrol.com/articles/15848](http://www.afrol.com/articles/15848)

A Chinese-Angolan venture Sonangol Sinopec International (SSI) is leading the race to secure fights to the remaining parts of deepwater Blocks 17 and 18

Sonangol Sinopec International Ltd.
- [http://investing.businessweek.com/research/stocks/private/snapshot.asp?privcapId=61894867](http://investing.businessweek.com/research/stocks/private/snapshot.asp?privcapId=61894867)

Sonangol – Sinopec International, Organization Record

Angola President Signs Agreements with China (2008)
- [http://www.energy-daily.com/reports/Angola_president_signs_agreements_with_China_999.html](http://www.energy-daily.com/reports/Angola_president_signs_agreements_with_China_999.html)

Sudan Trade, Export and Imports (2010)

Sudan Oil Minister Says Energy Cooperation With China Fruitful (2007)

Red China Increases Investments and Influence in Sudan (2011)

Ethiopia: EEPCo Inks Power Construction Agreements with 3 Chinese Companies

Ethiopia Seeks More Investment (2011)
Has China’s Export Financing Met Its Match? (2011)
  • http://www.chinaafricarealstory.com/2011/01/has-chinas-export-financing-met-its.html


Why China Wins Africa Game (2010)

China’s Role in Africa: A Growing Phenomenon (2009)
  • http://www.allbusiness.com/international-relations/international-foreign/12325044-1.html

China, a Power Engine of Africa’s Economic Rejuvenation (2011)
  • http://www.focac.org/eng/zfgx/jmhz/t833132.htm

China, Zambia Trade at $2 billion

Zambia, China Sign Five Agreements (2010)
  • http://www.zda.org.zm/256-zambia-china-sign-five-agreements

China and Zambia Metal Trade Remains Robust (2011)

Trade with China Important – Nsemukila (2010)
  • http://www.zda.org.zm/272-trade-china-important-%E2%80%93-nsemukila

China and Zambia: The All-Weather Friends Hits Stormy Weather
  • http://www.jamestown.org/single/?no_cache=1&tx_ttnews%5Btt_news%5D=4040

Industrial Co-Development: MNC Manufacturing Strategies in China and Their Recursive Effects on Home Country Production
  • http://www.uchicago.cn/event/industrial-co-development/

Zambia Statistics
Appendices

Appendix 1. Executive Summary
The presence of Chinese MNCs on the global market place is changing the scenery of the international business and politics. Thanks to the rapid economic expansion and state support, Chinese multinationals as well as non-state companies from China are expanding abroad to seize key resources and market share across the developing world. Africa, an area rich in natural resources and untapped markets with limited historical relations to China, is now vastly recognized by Chinese MNCs (Alten & Large, 2008). The Forum on China-Africa Cooperation in 2006 formally established the “strategic” partnership between China and Africa on the values of sincerity, equality, mutual benefit, solidarity and common development. Some see this partnership as potential “win-win” cooperation, while others stress varied benefits and the likely risk. Even though the data to assess the development impacts of Chinese FDI is largely based on press and business sector reports (Crabtree, Sumner 2008), it is becoming obvious that China offers a new, attractive approach to development, as well as distinctly different political opportunities than the Western countries.

Many Chinese MNCs expanding to Africa are state owned (e.g., China Overseas Engineering Corporation, China Roads and Bridges Corporation, China Railway Construction Corporation) and therefore might be driven mainly by political and strategic motives. But recently, higher number of private Chinese companies is expanding in the African market, both in size and capacity (Alten & Large, 2008). Then, it seems that even though political drivers prevailed earlier, the expansion of Chinese FDI is now increasingly driven by economic and commercial concerns (Crabtree & Sumner, 2008). Africa is critically important to China not only for its geopolitical position, unexploited market and richness in resources. Kurlantzick, Shinn and Pei (2006) point out that Chinese companies are better positioned to deal with the political risks and other obstacles present in many African countries, as the environment they are used to operate in is more similar than that of Western multinationals. They also discuss that the African countries find China’s state-driven development without political reform very appealing, as it offers new era and different approach to development. China’s renewed interest in Africa seems to be also linked to the dramatic economic rise in China as well as the rising resource security concerns that are related to this positive development. (Kurlantzick & Shinn & Pei, 2006). The question that has been posed is How and why are Chinese MNCs winning Africa over? Related to this question, it has been looked at how can China’s presence in Africa be explained theoretically; in what sense is China winning Africa; what explains China’s investment in Africa; relevance of the existing theories and modalities of Chinese investments.

The analysis showed that Chinese companies are becoming a major competitor for Western and local companies in Africa mainly in construction, power and transport industries. Western firms who used to be

230 A. Crabtree and A. Sumner: Chinese outward FDI in Africa: How much do we know?
232 http://books.google.com/books?id=k9iT3qRquzYC&printsec=frontcover&hl=cs&source=gbs_ge_summary_r&cad=0#v=onepage&q&f=false
of primary importance on the continent cannot match China’s offers – thanks to governmental support, they offer funding, low cost services and cheap skilled Chinese labor.\footnote{http://www.jeuneafrique.com/Article/DEPAFP20090213T140825Z/} Chinese firms enter African markets to acquire strategic assets, often through mergers and acquisitions. It is not possible to generalize everything and say that Chinese MNCs are all involved in the “Africa quest” for the same reason or pushed by the same driver.\footnote{THE DRAGON’S GIFT: THE REAL STORY OF CHINA IN AFRICA Deborah Brautigam, The American University} What can be said is that China is indeed “taking over Africa” in terms of phenomenal economic activities expansion, due to international factors, domestic changes in China and an appealing development model. Thus, the idea of China having some sort of “master plan” to take control over the African continent is misleading. At the same time, the subject to date remains ironically under-researched with many research questions remaining (Large 2008).\footnote{http://www.jeuneafrique.com/Article/DEPAFP20090213T140825Z/}

This project contributes to science and knowledge creation through the analysis of theories and empirical evidence up to date and a suggestion on how the theory can be moved forward. Further, this project explained Chinese firms’ activities in Africa, drivers and modalities of these activities and views on the yet under-researched phenomenon of China’s presence in Africa. In addition, the research conducted presented the link between Chinese FDI and public policy, and thus showed the interrelation of commercial and bilateral face of Chinese operations in Africa.
**Appendix 2.** Assessed yearly infrastructure investment needs to meet Millennium Development Goals in sub-Saharan Africa, 2005-15 (US$ millions)

<table>
<thead>
<tr>
<th></th>
<th>Electricity</th>
<th>Telecom</th>
<th>Transport</th>
<th>Water Supply and Sanitation</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment</td>
<td>5,200</td>
<td>3,000</td>
<td>9,500</td>
<td>4,300</td>
<td>22,000</td>
</tr>
<tr>
<td>Operation and maintenance</td>
<td>3,100</td>
<td>2,200</td>
<td>8,300</td>
<td>3,500</td>
<td>17,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,200</strong></td>
<td><strong>5,200</strong></td>
<td><strong>17,800</strong></td>
<td><strong>7,800</strong></td>
<td><strong>39,000</strong></td>
</tr>
</tbody>
</table>

*Source: Estache (2005)*
Appendix 3. Bid Participation

The information here is collected and written by Africa Development Bank. Everything is cited as written at the web-paged of the bank and its online documents.

In 2009, 3281 bids were received for the 1708 contracts approved, from 2027 different bidders. In 2008, 2988 bidders took part in bidding for 1362 contracts.

Forms originating from regional member countries presented 89.6% of bids, while their non-regional counterparts presented 10.3%. Compared to 2008, the share of regional firms fell from 48.4% to 34.7%, while the share of firms originating from non-regional countries rose from 50.8% to 65.2%. The share of multinational bids is still minimal.

Regarding the nationalities of firms taking part in bidding, bidders from China are in the lead in terms of value with 28.5%, followed by those from Japan (18.3%), France (7%), and Chad (5.5%). In 2008, the leaders were China with 22.8% followed by Senegal (8.9%) and Egypt (7.1%).

In terms of the number of bids, the following countries stand out: Ghana (20.6%), Uganda (10%) and Chad (7%). In 2008, the leaders were Senegal (14%), Niger (7.2%) and Ghana (6.7%).

Regarding bid value for participation in International Competitive Bidding, the leaders were: China (35%), Japan (23%) and France (8%). In 2008, the lead countries were: China (28%), Egypt (9%) and Japan (9%).

Regarding contracts awarded through International Shortlisting, the leaders in terms of bid value were bidders from France with 11%, followed by those from Germany (9%).

The data on which this analysis is based are incomplete because in a number of cases only the awardees (not all bidders) were entered in the project management system. The total bid amount represents the total number of contracts in respect of which the bidders registered in a given country took part in competitive bidding. This variable is used to calculate a country’s bid value.
Awardees’ Nationality

An analysis in 2009 of the distribution of awardees by nationality for the 972 contracts revealed that, in terms of value, contracts were mainly awarded to China (31%), Japan (18%) and France (10%). China and Japan took the lead in 2008 with 24% and 15.5%, respectively.

Ghana was the country with the highest number of contracts in 2009 (12.1%). It was followed by Uganda with 9.6%, Mali (6.5%) and Burkina Faso (5.7%). Finally, it should be noted that China obtained 31% of contracts in terms of value compared to only 1.3% in terms of number.

**Goods Contracts:** in terms of the value of goods contracts in 2009, Japan had a clear lead with 62%, followed by France (9.2%), Germany (5.7%) and the United States (5.3%). In 2008 the leaders were Japan (50.1%) and India (20.2%).

**Works Contracts:** in terms of works contracts, China led with 47.3%, followed by France (10.9%), Chad (4.2%) and Tunisia (4%). In 2008, the leaders were China (39%), Korea (11.1%) and Mali (6%).

**Consultancy Services Contracts:** consulting firms from France, Mali, Senegal and the DRC won 8.7%, 8.3%, 8.3% and 6.8%, respectively, of the value of consultancy service contracts in 2009. In 2008, France led (12.6%), followed by Canada (12.2%) and the DRC (8%)
Breakdown in contract value by nationality of the awardees 2008

- China: 24%
- Japan: 16%
- South Korea: 7%
- India: 6%
- France: 5%
- Mali: 4%
- Senegal: 3%
- Tunisia: 3%
- Morocco: 3%
- Uganda: 3%
- Ghana: 3%
- Senegal: 3%
- Tunisia: 3%
- Congo, Dem. Rep. of: 2%
- Niger: 2%
- Malawi: 2%
- Rwanda: 2%
- Benin: 2%
- South Korea: 7%
- India: 6%
- Others: 15%

China leads with 24%, followed by Japan at 16%. South Korea and India each account for 7% and 6%, respectively. France, Mali, Senegal, and Tunisia each contribute 3%. Other countries account for 15% of the total contract value.
Appendix 4. Sectoral and geographic distribution of Chinese-implemented multilateral civil works contracts in sub-Saharan Africa

**Breakdown of works contract value 2009**

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>47%</td>
</tr>
<tr>
<td>Others</td>
<td>7%</td>
</tr>
<tr>
<td>France</td>
<td>11%</td>
</tr>
<tr>
<td>Chad</td>
<td>4%</td>
</tr>
<tr>
<td>Morocco</td>
<td>3%</td>
</tr>
<tr>
<td>Tunisia</td>
<td>4%</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>4%</td>
</tr>
<tr>
<td>Ghana</td>
<td>3%</td>
</tr>
<tr>
<td>Mali</td>
<td>3%</td>
</tr>
<tr>
<td>Kenya</td>
<td>3%</td>
</tr>
<tr>
<td>Senegal</td>
<td>1%</td>
</tr>
<tr>
<td>Madagascar</td>
<td>1%</td>
</tr>
<tr>
<td>Uganda</td>
<td>2%</td>
</tr>
<tr>
<td>Egypt</td>
<td>1%</td>
</tr>
<tr>
<td>Egypt</td>
<td>1%</td>
</tr>
<tr>
<td>Other</td>
<td>7%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

**A) Sectoral distribution**

- Transportation: 78%
- Water and sanitation: 19%
- Energy and mining: 3%
- Information and communication: 0%

**B) Geographic distribution**

- Ethiopia: 32%
- Tanzania: 19%
- Mozambique: 13%
- Congo, Dem. Rep.: 17%
- Zambia: 8%
- Others: 11%
Appendix 5. Chinese Population in Africa

http://africaindependence.com/AFRICA_PROVEN_OIL_AND_GAS_RESERVES.aspx
Appendix 6. Africa’s Main Trading Partners

http://africaindependence.com/Africa_Statistics_AFRICA_MAIN_TRADE_PARTNERS.aspx

Africa’s Main Trading Partners

Appendix 7. Africa’s Proven Oil and Gas Reserves

http://africaindependence.com/AFRICA_PROVEN_OIL_AND_GAS_RESERVES.aspx
Appendix 8. China in Africa (The Economist 2008)