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Foreign direct investment vs. development assistance as tools of foreign policy: Chinese policy in Africa

Diplomová práce

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Prohlášení

Prohlašuji, že jsem diplomovou práci na téma „Foreign direct investment vs. development assistance as tools of foreign policy: Chinese policy in Africa“ vypracovala samostatně. Veškerou použitou literaturu a podkladové materiály uvádím v přiloženém seznamu literatury.

V Praze dne ……….   ……..………………………..

Podpis

Poděkování

Na tomto místě bych ráda poděkovala svému vedoucímu doc. Ing. Petru Kratochvílovi, Ph.D. za pomoc při zpracování této práce.

Abstract

This thesis examines Chinese foreign direct investments in Sub-Saharan Africa and their influence on Chinese foreign policy on the continent between the years 2004 and 2010. It is often believed that oil and raw materials are the principal determinants of Chinese investments in Africa. However, this research suggests that even though there exists strong correlation between the existence of reserves of raw materials and FDI distribution, such motivation is not the only one. Pragmatism, manifested by the Chinese government in FDI allocation, can lead the People's Republic to invest in controversial countries with bad governance like Sudan. China is then forced to keep closer relations with such countries and thus promote their stability to protect its investments. Tools of such efforts include foreign policy, closer cooperation on multilateral level, which includes establishment of Forum on China-Africa Cooperation, and foreign aid.

Abstrakt

Tato práce si dává za cíl prozkoumat čínské přímé zahraniční investice v Sub-saharské Africe a jejich vliv na čínskou zahraniční politiku na kontinentu mezi lety 2004 a 2010. Mnozí autoři označují ropu a nerostné suroviny za primární motivaci čínských investic v Africe. Z tohoto výzkumu nicméně vyplývá, že přestože přítomnost nerostných zdrojů do velké míry koreluje s přítomností čínských investic, nejedná se o motivaci jedinou. Pragmatismus, s jakým Čínská lidově-demokratická republika alokuje své investice na kontinentě, ji častokrát vede k tomu investovat i do zemí s pochybnou pověstí jako je Súdán. Čína je tak nucena udržovat s takovými zeměmi bližší vztahy, aby podpořila jejich stabilitu a růst a ochránila tak své investice. Nástroji takovéto snahy pak jsou zahraniční politika, multilaterální sbližování v podobě založení Fóra čínsko-africké spolupráce nebo rozvojová pomoc.

Key words

China, Sub-Saharan Africa, foreign direct investment, FDI, foreign aid, development aid, development assistance, natural resources, raw materials, oil

Čína, Sub-Saharská Afrika, zahraniční přímé investice, zahraniční pomoc, rozvojová pomoc, rozvojová asistence, přírodní zdroje, nerostné suroviny, ropa

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List of abbreviations

AU	African Union
CNPC	China National Petroleum Corporation
EU	European Union
FDI	Foreign Direct Investment
FOCAC	Forum on China-Africa Cooperation
MOFCOM	Ministry of Commerce of People's Republic of China
ODA	Official Development Assistance
UN	United Nations

Introduction

Chinese foreign direct investment (FDI) in Africa is a target of many controversies and even conspiracy theories. Western politicians and academics are accusing China of trying to acquire all the reserves of strategic raw materials and take over the continent both economically and politically. Chinese FDI in Africa therefore became an object of intense securitization and is suspiciously, even nervously monitored. However, is there actually a reason to worry?

In this thesis I aim to examine more closely Chinese FDI in Africa and its impact on Chinese foreign policy towards the continent by developing the following three hypotheses. First, I argue that China started closer political relations with Africa because of its increasing investments on the continent and as such the strategic need of resources to a certain level predetermined the Chinese relationship with, and interest in, Africa. Second, China uses pure pragmatism to determine the allocation of its investments, which causes it to invest in countries generally rejected by the Western companies. Third, China uses foreign aid and diplomacy to strengthen its relations with resource rich countries and to create long-term commitment. For the purposes of this thesis, I assume that there is an obvious link between the actions of Chinese multinationals and official foreign policy of the state. This comes from the characteristics of Chinese regime that, while communistic in nature contains market characteristics, requires central planning and effective control of the state run companies.

To prove the three hypotheses I have thoroughly analyzed wide range of primary and secondary sources with the use of quantitative as well as qualitative, even descriptive, methods. To prove the connection between Chinese foreign direct investment in Africa and natural resources, I have analyzed the demand for natural resources in the country based on a range of secondary literature and primary data about Chinese imports to determine which natural resources are vital for development of Chinese economy, and I have compared the findings with actual data about Chinese investments in particular countries holding reserves of those materials. The second thesis is based on the analysis of primary sources in regards to production allocation of Western companies, and indicators of good governance are compared with the distribution of Chinese investment. The third thesis is developed by comparing the correlations between increased Chinese FDI flows and early political efforts to strengthen the relationship, including comparing aid flows with the allocation of natural resources and indicators of good governance.

In order to more effectively look for correlations and common characteristics within the region, I have decided to limit the scope of my research to Sub-Saharan Africa. This decision is supported by several reasons. Northern Africa, consisting in my understanding of Morocco, Algeria, Libya, Tunisia and Egypt, has different cultural as well as historical roots than the rest of the continent. It has been, since the beginning, closely tied with Europe, both economically and politically, and is generally wealthier and more developed. Regimes in Northern Africa are also more stable than on the rest of the continent. In the line with the same reasoning, I have also decided to cut off Mauritius and the Seychelles from the analysis as well, because they have different economical level of development, different cultural ties, affiliations and are generally more wealthier and more developed.

To set a clear timeframe for this research, I have decided to ground the thesis between the years 2004 and 2010 for several reasons. Firstly, Chinese government started releasing its FDI statistics in 2002 and only from 2004 are the data coherent, full and more reliable. Also, since 2004 China increased its foreign aid to African nations considerably. On the other hand, data on Chinese Foreign statistics are most comprehensive, comparable and based on more or less the same statistical methods available only till 2010. In 2010 the Chinese foreign aid efforts entered a new stage due to the changes and new tasks set at the National Conference on Foreign Aid.

The thesis you are reading is divided into two major parts. First, the economical part deals with Chinese FDI in Africa. Second, the political part focuses on political aspects of the relationship between China and Africa and the foreign aid Beijing provides on the continent.

1. Theoretical background

Generally there are two ways one can perceive role of economy in world politics and international relations. The first being the realist discourse; arguing that the state is a primary influencer that bases decisions on its own needs. The second is the liberal point of view that politics is predetermined by economic interests.

According to Zbigniew Brzezinski, “China’s leadership appears rational, calculating, and conscious not only of China’s rise but also of its continued weakness.” For this reason, the country will further pursue economic growth and avoid overly intense confrontation with the United States. Oil is of a vital interest to China, because the economy runs on it. In case of conflict, the maritime trade would stop and Chinese economy would become paralyzed. The rise of the new world power thus might not cause widespread conflict with hegemon.[1]

Mearsheimer counters such a view with a rather classical realist assumption, that Chinese neighbors will join the U.S. in containing the rising power. According to Mearsheimer’s theory, “The ultimate goal of every great power is to maximize its share of world power and eventually dominate the system.” Countries, he further argues, operate in a system that is anarchic without any higher power above the countries, and in a situation when it is impossible to know the future intentions of other states with certainty. “The best way to survive in such a system is to be as powerful as possible, relative to potential rivals.”[2]

As Brzezinski pointed out, the biggest Chinese strength is in its economic rise. If China, as a realist power seeks to maximize its share of world power, as Mearsheimer suggests, it is thus essential to maintain the growth of its economy. Such growth would be impossible without oil and natural resources from Africa, which with this reasoning gains a crucial position for strengthening Chinese power status in the world.

From the liberal point of view, economy, institutions and inter-dependence seem to play the most important role in our case. According to Moravcsik, “states are, and always have been, embedded in a domestic and transnational society, which creates incentives for

[1] Brzezinski, Zbigniew, Mearsheimer, John J., *Clash of the titans*
[2] Ibid., *Clash of the titans*

economic, social and cultural interaction across borders."[3] There are three assumptions of the liberal theory, Moravcsik argues. First, the primacy of societal actors, states that:

> *"The fundamental actors in international politics are individuals and private groups, who are on the average rational and risk-averse and who organize exchange and collective action to promote differentiated interests under constraints imposed by material scarcity, conflicting values, and variations in societal influence."*[4]

The second assumption, representation and state preferences, argues the following:

> *"States (or other political institutions) represent some subset of domestic society, on the basis of whose interest state officials define state preferences and act purposively in world politics."*[5]

The third idea Moravcsik presents as a core assumption of liberalism, is the interdependence and the international system:

> *"The configuration of interdependent state preferences determines state behavior."*[6]

Based on these assumptions extreme scarcity supports and creates conflict, thus instigating the willingness of societal actors to endure possible costs or uncertainty to ensure their ownership.[7] This is the case of natural resources and China. It is widely recognized assumption that the future of the Chinese Communist Party holds and fails with the economic progress of the country. Citizens and companies demand economic growth and are willing to sacrifice much to achieve it. The foreign politics of China is thus, according to liberals, determined by economic interests.

Whether the reason for increasing Chinese investments in Africa is acquiring stronger position in international politics, as the realist would have us believe, or it is the reaction to domestic demand for economic growth, as would be the argument of liberals, the fact stays that according to both theories foreign policy is determined by

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[3] Moravcsik, Andrew, *Liberal Theories of International Relations: A Primer*
[4] Moravcsik, Andrew, *Taking Preferences Seriously: A Liberal Theory of International Politics*, p. 516
[5] Ibid., p. 517
[6] Ibid., p. 520
[7] Ibid., p. 516

the need for resources. Natural resources are thus an important, even though not the sole, determinant of Chinese policy towards Africa.

1.1. Definition of key terms

In every academic work, we have to define the key terms. The geographical focus of this thesis is *Sub-Saharan Africa*, which is due to cultural, economic as well as political difference between North Africa and the rest of the continent, as stated already in the introduction. However for the purposes of this thesis it is important to clarify that we will be using the terms *Africa* and *Sub-Saharan Africa* interchangeably if not clearly stated otherwise.

Another important term often used in the following chapters is foreign direct investment or shortly FDI. FDI has several various definitions, however the most common is the following used by the World Bank:

> *"Foreign direct investment are the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments."*[8]

This definition is also being used by the project *China's Development*. In this thesis data on FDI comes from Ministry of Commerce People's Republic of China, which unfortunately does not give us a clear definition of the FDI it used for creating the data. The shortcomings of this official dataset has been explored by various researchers (as will be explained in more detail below) and besides cutting off certain companies from the dataset, there is no reason to believe Chinese definition of FDI is much different from the one of the World Bank.

Foreign aid, or as is the official term "Official Development Assistance" (ODA), is usually defined in a following manner, which is also used in *Finance to Africa: A Media-Based Approach to Data Collection* a data source for this thesis:

> *"The DAC defines ODA as 'those flows to countries and territories on the DAC List of ODA Recipients and to multilateral institutions which are:*

[8] World Bank, *Foreign direct investment, net inflows (BoP, current US$)*

i. provided by official agencies, including state and local governments, or by their executive agencies; and

ii. each transaction of which:

a) is administered with the promotion of the economic development and welfare of developing countries as its main objective; and

b) is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent).'"[9]

1.2. Primary sources of quantitative data

In this thesis, three main primary sources of information for quantitative usage will be used. As the main source concerning the amount of Chinese FDI in Africa and its geographical division will be the *2010 Statistical Bulletin of China's Outward Foreign Direct Investment* issued by MOFCOM (China's Ministry of Commerce). For the data about Chinese imports from Sub-Saharan African countries the database *Observatory of Economic Complexity*, created by Massachusetts Institute of Technology, will be used. The third main source of quantitative data is the unique project *China's Development Finance to Africa: A Media-Based Approach to Data Collection*.

MOFCOM's Statistical Bulletin has several flaws. Unfortunately, as in many other cases with China, the official data and statistics on FDI are also not the most reliable sources for academic research. The MOFCOM statistics do not necessarily reflect small-scale investments, do not include Chinese companies registered in offshore destinations like Macao or Cayman islands, and does not show investments in the financial sector.[10] Unfortunately the official data are the best ones we have and they are widely used among scholars and other researchers. Their big advantage is the fact that they are delivered using the same methodology over time and as such are comparable during the whole time period of our concern. For that reason the official data seem to be the best source available for this kind of research.

The *Observatory of Economic Complexity* was originally created as a master thesis of an MIT student, however the project continued and now presents a great opportunity to go

[9] OECD, *Official development assistance – definition and coverage*

[10] Korniyenko, Yevgeniya, Sakatsume, Toshiaki, *Chinese Direct Investment in Countries in Transition,* p. 4

through the trade data of most countries. The data are being obtained from a high quality source - BACI International Trade Database, which works with UN COMTRADE data. The data from this site has been chosen because they are comparable and reliable and as such provide strong base for the thesis.

For the last part of this thesis, data about Chinese foreign aid flows to Africa were necessary but it proved rather challenging to acquire reliable data for the whole period from one source. The Chinese government does not release complete detailed statistics and various scholars researched only parts of the selected timeframe. Finally I came across the project *China's Development Finance to Africa: A Media-Based Approach to Data Collection*. This project aims to provide as complete a data as possible by using various sources beginning with journalists, scholars, business professionals and others. It divides all the data between "official" and "unofficial" aid data. Even though the "official" statistics are based on official government statements, and as such can be underrated, they seem to be the most reliable data available.[11]

[11] One disadvantage of this source of data is the fact the project divides the 'official aid' into three categories: ODA, OOF (Other Official Flows) and VOF (Vague Official Finance). The last two categories can in some cases include FDI distort the numbers.

2. Chinese Economic Interest in Africa

Africa is a second largest and second most populous continent with its population reaching 1,033 billion people in 2013.[12] As such Africa is an important emerging market with a vast number of potential consumers. The continent is also rich in natural resources that are, with increasing world demand, becoming more and more important for industrial production. These resources include crude petroleum (oil), copper, iron ore, coltan, manganese, phosphates, nickel, zinc and many more. African soil is also hiding other treasures like diamonds, gold or platinum. If only for its market size and vast reserves of raw materials, Africa is becoming a place of vital interest not only from the economical, but also from the political point of view of almost every country in the world today.

In this part of the thesis we will explain the reasons the Chinese need resources and define the most crucial raw materials for Chinese economy. Second, we present Chinese FDI in Sub-Saharan Africa and the relationship between FDI and natural resources in order to assess their role as a motive for investment.

2.1. Chinese manufacturing boom and the need for resources

After the victory of communism in China in 1949 Chairman Mao Zedong introduced a centrally planned, Stalinist-like economy. Most of the Chinese economic output was commanded and controlled by the state, which also set all the goals of the economy and prices on the market. However after the death of the leader, whose rule became infamous for widespread famines caused by massive industrialization of the Great Leap Forward policy, far-reaching economic reforms were introduced in 1979. Farmers were allowed access to free market with a portion of their crops and citizens were encouraged to set up their own private businesses. Even more importantly, the central government established four special economic zones on the coast of the China sea to attract foreign investment, initiate exports and strengthen flow of high technology products into China. Several cities and coastal regions later followed the example, allowing their governments to introduce several free market reforms or introduce incentives for foreign investors. The economic control of various enterprises has been transferred to provincial governments, which thus allowed those firms to

[12] World Population Statistics, *Africa Population 2013*.

operate on the basis of free market and competitive principles. Trade was generally liberalized; trade barriers lifted and, in a wide range of products, prices ceased to be so tightly controlled.[13]

Reforms initiated in 1979 continued and soon they brought strong and measurable results. "Since 1979, China's average annual real GDP has grown by nearly 10% [...]. This has meant that, on average, China has been able to double the size of its economy in real terms every eight years." This growth has been generally attributed to large-scale capital investment, made possible due to massive domestic savings and foreign investment, and rapid productivity growth.[14] Whatever the reason is, the fact remains that China soon overtook the U.S. and Japan and became world's largest manufacturer.[15] When we consider value added data on manufacturing,[16] "the value of China's manufacturing on a gross value added basis was 28.2% higher than that in the United States" in 2011. It is also important to notice that manufacturing plays significant role in Chinese economy: "In 2011, China's gross valued added manufacturing was equal to 30.5% of GDP."[17] For that reason preserving manufacturing growth can be considered a national interest. Such a growth obviously requires a great deal of resources.

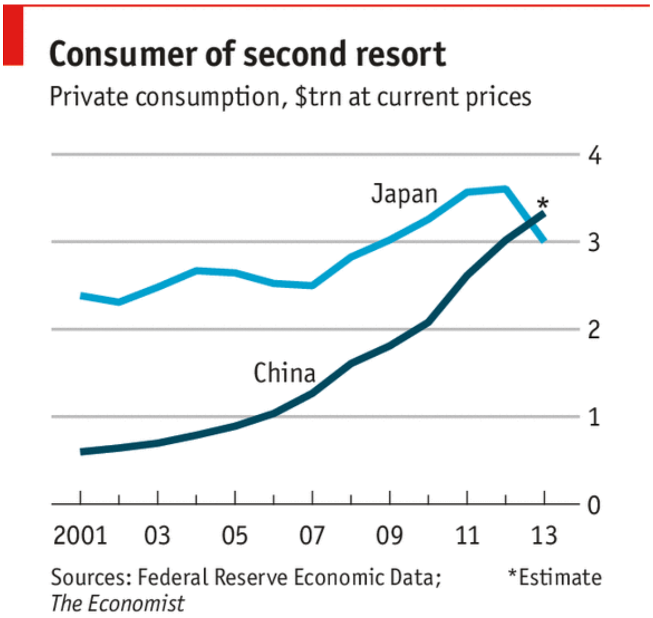
2.1.1. What resources does China need?

China is a country naturally abundant with raw materials and other resources. The list of minerals China produces is incredibly long, however to present a general idea, we can mention some of them. China was, in 2011, the world's largest producer of coal, it also produces cobalt, copper, magnesium ores, phosphates and many others including rare earths (on which China basically has a world monopoly).[18] However China is also the world's most populous country with an estimated 1,355,692,576 people in 2014.[19] With a growing economy and improved living conditions, the consumption in China is on the rise (see Table

[13] Congressional Research Service, *China's Economic Rise: History, Trends, Challenges, and Implications for the United States,* p. 2-3
[14] Ibid., p. 3-4
[15] Ibid., p. 8
[16] Gross value added data present the actual value of manufacturing of the particular country by for example subtracting the value of inputs or raw materials used
[17] Congressional Research Service, *China's Economic Rise: History, Trends, Challenges, and Implications for the United States,* p. 8
[18] Brown et al., *World mineral production 2007-2011*
[19] CIA, *The World Factbook: China*

1). The Chinese (or “China’s”) position as world’s biggest manufacturer, as argued in the previous chapter, requires another vast amount of resources to keep the industry going at its current pace and to ensure the lowest price of imports as possible. The Prospects of continuous growth in consumption, as well as manufacturing and a booming industry, require China to also look for crucial resources beyond its borders to ensure strategic reserves and assets for the decades to come.

Table 1: Chinese private consumption 2001-2013[20]



We can already see the increasing imports of raw materials to China. Among the country’s top five imports nowadays are two raw materials, which are generally perceived as vitally important for the development of industry and ensured satisfaction of the people’s needs: crude petroleum (standing for 9,1% of Chinese imports) and iron ore (3,9% of imports). Based on Chinese import data, other crucial raw materials for the country are copper, lead, coal, manganese, nickel, chromium and zinc. [21] Additionally, we should also consider cobalt and coltan as other strategically important resources.[22] Platinum and sulphur are also important materials however their reserves in Africa are not big and as such China is importing them from elsewhere.[23]

[20] The Economist, *The world’s second biggest consumer*
[21] Observatory of Economic Complexity, *China*
[22] The Economist, *Never too late to scramble*
[23] Observatory of Economic Complexity, *China*

If we have a look at growth in the Chinese consumption of particular materials we can further argue for the importance of some of the above mentioned resources during the period of our research. According to The Economist's article from 2004, coal and iron/steel were becoming increasingly in demand in China as the country alone accounted for 30% of world's consumption of coal and 36% of its steel. Copper imports rose steadily and nickel imports jumped dramatically as well.[24] The consumption rose further up to the point when, in 2012, China actually became the world's second-largest oil consumer and biggest buyer of coal, copper and iron ore.[25]

As such the above stated materials; chromium, coal, cobalt, coltan, copper, iron ore, lead, manganese, nickel, oil and zinc, are considered to be of crucial interest for China and thus will become a core component of the forthcoming analysis.

2.2. Chinese FDI in Sub-Saharan Africa

Africa is a continent very rich in natural resources and raw materials. From the moment Europeans set foot on its soil for the first time they started exploiting its natural wealth at an immense pace. After the end of colonialism, the continent began opening up to new investments from the rest of the world and as such became a land of opportunity for those trying to gain access to increasingly important natural resources including oil, iron ore, copper, coal and others. China, as a quickly industrializing and modernizing nation with enormously increasing production, found itself naturally pulled towards these African wonders. The People's Republic of China only began investing in Africa in the 1980s, though the massive growth of investment only followed the Forum on China-Africa Cooperation organized in Beijing in 2000.[26]

2.2.1. Characteristics of Chinese FDI in Sub-Saharan Africa

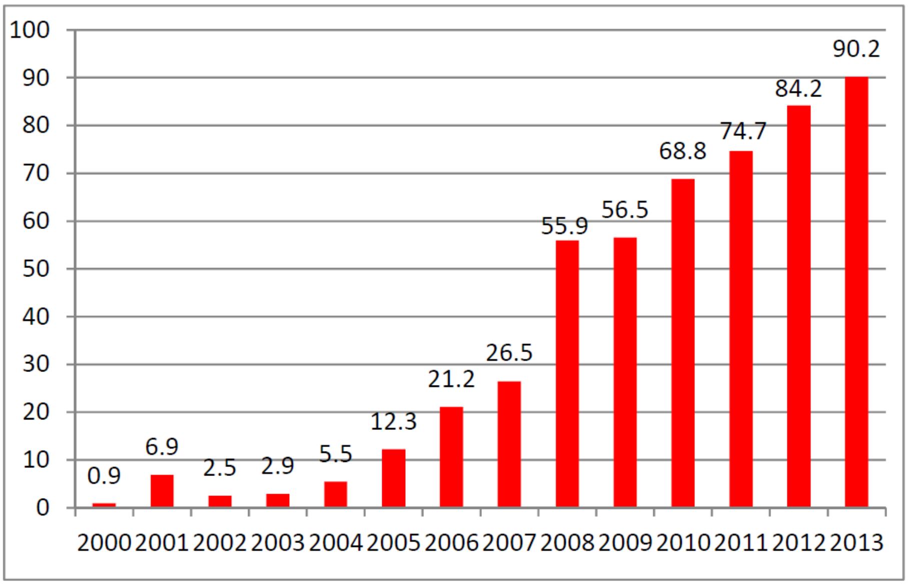
After China started gradually opening up, after the emergence of the reforms in 1978, its companies began looking outside of the country's borders for new economic opportunities.

[24] The Economist, *The Hungry Dragon*
[25] Stanway, David, *China August commodity imports remain under pressure*
[26] Information Office of the State Council of the People's Republic of China*, China-Africa Economic and Trade Cooperation*

The concept to endorse such a process was officially adopted by the Chinese government in 2001 with the so-called ‘going global’ strategy. Chinese officials stated that introducing the strategy “is an important decision made by the Chinese Government in order to meet the demands of international and domestic situations as well as the condition of China's economic development.”[27] Even though this concept at first lacked supporting legislation it lately became “an integral part of the country’s external strategy of economic openness, with related legislation and regulations.”[28]

However the ‘going global’ strategy was not aiming at trade only, it affects FDI as well. “The government has increasingly been encouraging also outward FDI directly and indirectly.”[29] Since the establishment of China’s Outward FDI Statistics System in 2002, the total amount of FDI flows increased from 2.7 billion U.S. dollars to 68.81 billion in 2010. The number doubled between 2004 and 2005, 2005 and 2006 and finally between 2007 and 2008. China’s outward stocks started at 29.9 billion in 2002 and reached 317.21 billion U.S. dollars in 2010.[30]

Table 2: Chinese outward FDI 2000-2013[31]



Source: Data for 2000-2012 are estimates made by the United Nations. Data for 2013 are from the Chinese Ministry of Commerce and exclude financial FDI outflows.

Note: U.N. data on Chinese FDI differ from official Chinese data.

27 china.org.cn, *"Go Global" Investment Strategy Needed for Chinese Enterprises*
28 Korniyenko, Yevgeniya, Sakatsume, Toshiaki, *Chinese Direct Investment in Countries in Transition*, p. 16
29 Ibid., p. 16
30 MOFCOM, *2010 Statistical Bulletin of China’s Outward Foreign Direct Investment*, p. 81
31 Congressional Research Service, *China’s Economic Rise: History, Trends, Challenges, and Implications for the United States,* p. 17

At first Chinese FDI aimed at its neighboring countries and tax havens, but they soon progressed to industrialized countries and emerging regions like Africa.[32] Nowadays, China's outward foreign direct investment concentrates on Africa, Asia, Europe and Latin America (see Table 3). The volume of Chinese FDI in Africa is rising, however its share of total Chinese outward FDI remains relatively low, only about 4 percent.[33] The volume is also rather marginal when compared with a total FDI received by Africa from other countries, which was only 6 percent in 2008.[34]

Table 3: Comparison of 2010 Chinese FDI in each region (millions of USD)[35]

Region	FDI flows in 2010	FDI stocks in 2010
Asia	44890.46	228145.97
Africa	2111.99	13042.12
Europe	6760.19	15710.31
Latin America	10538.27	43875.64
North America	2621.44	7829.26
Oceania	1888.96	8607.29

Chinese investments in Sub-Saharan Africa have been, according to the official MOFCOM statistics, present in most of the states between the years 2004 and 2010. China has been sending its FDI to 48 African states, out of which five (Morocco, Algeria, Libya, Tunisia and Egypt) are generally considered to be part of Northern Africa and as such are not part of our analysis. For similar reasons, we have also deprived the statistics of Mauritius and the Seychelles. Total FDI flows to the 41 remaining Sub-Saharan African countries between the years 2004-2010 equalled 10648 million USD (see Table 4 and Table 5).

[32] Korniyenko, Yevgeniya, Sakatsume, Toshiaki, *Chinese Direct Investment in Countries in Transition,* p. 25
[33] Ibid., p.6
[34] African Development Bank Group Chief Economist Complex, *Chinese Trade and Investment Activities in Africa,* p. 7
[35] MOFCOM, *2010 Statistical Bulletin of China's Outward Foreign Direct Investment*, p. 82-93

Table 4: China’s outward FDI flows in Sub-Saharan Africa, excluding South Africa (millions of USD)[36]

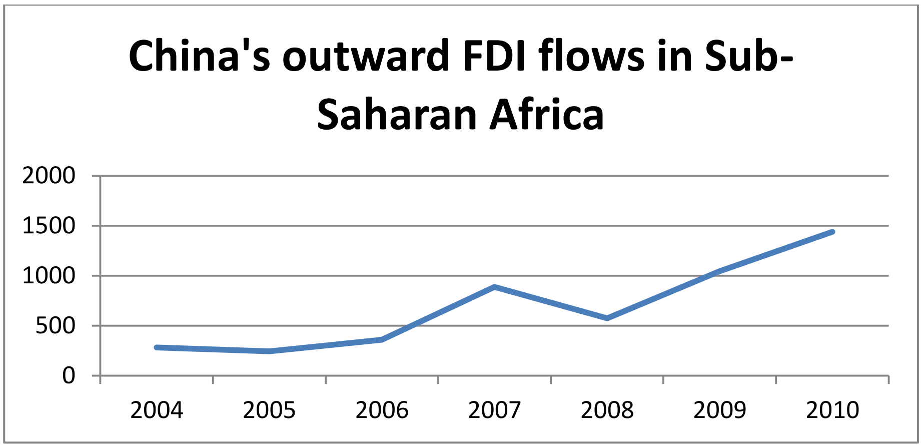
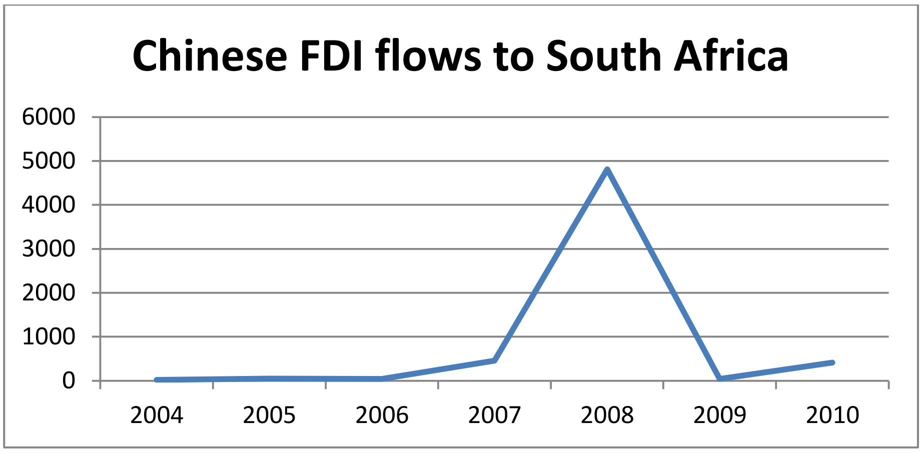


Table 5: China’s outward FDI flows in South Africa (millions of USD)[37]



Among the top five recipients of Chinese FDI flows in this period were South Africa with 54% of total FDI flows to Sub-Saharan Africa, Nigeria with 10%, Zambia with 5.8%, the Democratic Republic of the Congo with 5.6% and Niger with 3.3%.[38] South Africa also accounts for the unprecedented increase of total FDI in 2008. When it comes to FDI stocks, the most China holds is, again, in South Africa, Nigeria, Zambia, the Democratic Republic of the Congo and Sudan.[39]

[36] Based on MOFCOM, *2010 Statistical Bulletin of China’s Outward Foreign Direct Investment*, p. 83-84
[37] Based on MOFCOM, *2010 Statistical Bulletin of China’s Outward Foreign Direct Investment*, p. 83-84
[38] Based on MOFCOM, *2010 Statistical Bulletin of China’s Outward Foreign Direct Investment*, p. 83-84
[39] Based on MOFCOM, *2010 Statistical Bulletin of China’s Outward Foreign Direct Investment*, p. 89-90

However the division of Chinese FDI between African states is only one side of the matter, as our research should also focus on sectorial division of those investments. According to MOFCOM 2010 Statistics, the total worldwide FDI flows between 2004 and 2010 were 68811.31 million U.S. dollars. The leasing and business sector represented 44 percent, banking 12.5 percent, wholesale and retail trade 9.8 percent, mining 8.3 percent and transport, storage and post added to 8.2 percent of total global Chinese FDI flows.[40] When it comes to outwards FDI stock, the biggest share is still held by leasing and business service with 30 percent, followed by banking with 17.4 percent, mining came up third with 14.1 percent and wholesale and retail trade ended up fourth with 13.2 percent of the total Chinese FDI stock between 2004 and 2010.[41]

However when we consider only the African continent, the division of FDI in various sectors looks rather different from the above mentioned worldwide partition. In Africa in 2006, "the main FDI flows involved the mining sector (40.74%), business services (21.58%), finance (16.4%), transport and telecommunications (6.57%), wholesale and retail trade (6.57%) and manufactured goods (4.33%), with the other sectors being only slightly represented." In 2008, the three main investors in Africa in terms of stocks were the state-owned companies Sinopec, China National Petroleum Corp. and China National Offshore Oil Corp.[42]

China in many ways differs from other important international FDI sources, especially in the matter of who the investors actually are. The People's Republic of China is a large populous state, where a communistic government still rules the country, even though it was forced to introduce some capitalistic reforms. The government owns an absolute majority of the biggest companies and hence also has a crucial influence over foreign direct investments.[43] It is therefore logical that it is also the state-owned enterprises that are investing in strategic sectors such as oil, ores and infrastructure.[44] From the 73 Chinese companies that were listed in Fortune 500 in 2012, only seven are not state owned - in the top 10 biggest corporations only one company is private - Noble Group. Three out of the seven non-government owned enterprises are based in Hong Kong and are relics of the old colonial

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[40] Based on MOFCOM, *2010 Statistical Bulletin of China's Outward Foreign Direct Investment*, p. 94
[41] Based on MOFCOM, *2010 Statistical Bulletin of China's Outward Foreign Direct Investment*, p. 95
[42] African Development Bank Group Chief Economist Complex, *Chinese Trade and Investment Activities in Africa*, p. 8
[43] Based on CNN, *Fortune 500 List*
[44] African Development Bank Group Chief Economist Complex, *Chinese Trade and Investment Activities in Africa*, p. 8

business environment. Two have their headquarters in Shenzhen, a Special Economic Zone, known for its free-market orientation. The last two companies are based in the Mainland Chinese cities of Zhangjiagang and Shandong.[45] The strong-presence of state-owned enterprises in total Chinese FDI is quite a unique pattern compared to the structure of Western FDI, which "mostly involves private investors with notable limits to their risk appetite and which are often not committed to long term presence in Africa."[46]

Chinese-African economic activity involves many different actors from small and medium-sized businesses or traders to individuals. However, the most important players in Chinese outward FDI are the multinational companies, whose activity is rising rapidly. In recent years we notice sharp rise in the number of Chinese companies listed in the Fortune 500 list. In 2007, there were only 24 companies on the list, in 2008 this number increased to 29, one year later to 37, in 2010 to 46, in 2011 to 61 and finally, last year, it reached an impressive 73 enterprises. This represents an unprecedented increase of almost 10 percent (from 4.8% to 14.6%) in terms of share on the list of global largest corporations in six years. However the composition of the top ten biggest Chinese multinational corporations has not changed much in past three years, at least when we talk about occupational sectorial distribution. Since 2010, there have been always four financial institutions, two construction companies, two oil drilling corporations and one representative of the energy sector accompanied by one communications company.[47] The good news for any researcher however is that all the companies listed at Fortune 500 must, to a certain extent, "comply with international disclosure standards and good corporate government practices."[48]

2.2.1.1. Chinese domestic constraints and barriers for outward FDI

China remains, despite its extensive capitalistic reforms, a communistic country, where many processes are still restricted and centrally planned. Most of the biggest Chinese firms are state-owned, as I explained earlier, which makes them in many ways less flexible and slower in taking action. The examples of barriers that Chinese firms investing abroad

[45] Based on CNN, *Fortune 500 List*
[46] African Development Bank Group Chief Economist Complex, *Chinese Trade and Investment Activities in Africa*, p. 10
[47] Based on CNN, *The Fortune 500 List*
[48] Korniyenko, Yevgeniya, Sakatsume, Toshiaki, *Chinese Direct Investment in Countries in Transition*, p. 11

have to face include lengthy government approval process, lengthy access to finance, lack of currency convertibility and general lack of experience.[49]

A Chinese company, which plans on investing abroad, has to acquire number of approvals, usually from the Ministry of Commerce and the administration of foreign exchange. Such delays often lead to lost business opportunities or a more difficult position during negotiations. Corporations prefer to raise funds for investing abroad on a domestic level because the interest rates there are usually lower than in the foreign financial markets. This situation also worsens the situation for SMEs, which still find it difficult to get access to loans from Chinese banks. To make the foreign investments even more complicated, any time a company wants to exchange a large sum of money into another currency it has to seek an official approval from the government. It is also important to consider the lack of knowledge and experience Chinese enterprises have when it comes to FDI. It not only causes some public protests in host countries, but it can also add up to political mistrust towards the Chinese as investors.[50]

However, being a state-owned company also brings considerable advantages. Chinese firms are being supported by the government both politically and economically. Due to this backing, Chinese enterprises can withstand big initial investments or long rates of returns with fewer problems than any Western private company.

2.2.2. Motives for Chinese companies to invest in Africa

The main motive of any multinational investing abroad is simple – future profit. However in the case of the Chinese, even though they share the main motivations for FDI with other investors, they also have certain specific, and often hidden, motives. At the corporate level Korniyenko and Sakatsume identified in its EBRD report four main motives of Chinese corporations investing abroad: to seek foreign markets, to seek resources, to seek strategic assets and to diversify.

Foreign markets are typically sought when the domestic production expands beyond domestic demand, which is also the case in China in the last decade. Competition became too intense, so the profits decreased and companies started looking abroad for new markets. This

[49] Korniyenko, Yevgeniya, Sakatsume, Toshiaki, *Chinese Direct Investment in Countries in Transition,* p. 19
[50] Ibid., p. 19

first motive is especially visible in manufacturing and automotive sectors. The second motive, to seek resources, is one of the most discussed ones in connection with China's expansion. Securing the supply of raw materials and energy resources is one of the clearest motives of Chinese corporations and the government. "As current per capita consumption remains at only about 10 percent of what developed countries and the gap between domestic production and consumption continues to grow, the need to secure additional resources abroad is set to grow further." The third motive is actually a common practice for multinationals - acquiring strategic assets to maximize overall corporate performance (brand names and new technologies especially). Diversification as a fourth motive is actually not such a big issue when it comes to Chinese enterprises, but also in this case we can observe growing numbers of conglomerates with a highly diversified portfolio of interests.[51] Among the 73 Chinese companies currently listed in Fortune 500, eight fit this characteristic.[52] On the other hand, another rather common motive, seeking efficiency, is not exactly valid in the case of China as the country is still quite labor abundant and the companies can find rather low-cost labor domestically.[53]

However Chinese companies also base their decision-making on macroeconomic considerations. Macroeconomic background, high saving rates, an arbitrary taxation system and avoiding anti-dumping conflicts, are all macro level motives for foreign direct investments. The macroeconomic background motive refers to the "pressure on the currency (renminbi) to appreciate increased and caused trade disputes with developed nations whose trade accounts with China are in deficit. Under these circumstances, the Chinese government has been encouraging more imports as well as capital outflows."[54] When it comes to the high saving rates argument, it is important to consider that despite a relatively high level of domestic savings in China, the domestic investment opportunities offer quite rare or low financial rates of return. Such a situation gives Chinese enterprises yet another reason to turn abroad. Another motive for many corporations is the taxes. Domestic taxes in China can be as high as 33 percent of sales, while the rate for FDI is lower or sometimes non-existent. The fourth argument, avoiding anti-dumping conflicts, reflects the situation where Chinese companies are often facing various trade barriers, which can be overcome by moving

[51] Korniyenko, Yevgeniya, Sakatsume, Toshiaki, *Chinese Direct Investment in Countries in Transition*, p. 16-17
[52] CNN, *The Fortune 500 List*
[53] Korniyenko, Yevgeniya, Sakatsume, Toshiaki, *Chinese Direct Investment in Countries in Transition*, p. 17
[54] Ibid., p. 17

production closer to the market.[55] All of the mentioned macroeconomic motives are applicable for the Chinese investments in Africa.

Another often discussed motive for Chinese investments into foreign countries is the unprecedented accumulation of foreign exchange reserves and capital, which built up with strong manufacturing growth in 1980s and 1990s.[56] While on one hand, such reserves can be put into relatively low yielding but secure bonds or simply left in the bank, it always seems to be more prudent and pragmatic to put them to some use by investing them abroad.

Among the factors often mentioned as prerequisites for making foreign direct investments are; good governance, especially low corruption, rule of law and political stability. The Democratic Republic of the Congo has one of the lowest controls of corruption in the world and a similar situation is in Sudan, Nigeria and Kenya. Rule of law is very weak in the Democratic Republic of the Congo, Sudan and Nigeria. Political instability is high in Nigeria, the Democratic Republic of the Congo, Sudan, Ethiopia, Kenya and Madagascar. On the other hand South Africa, which has the highest amount of Chinese FDI on the continent, has, comparatively, very good governance. In deciding about allocation of Chinese FDI in Africa it thus seems rather obvious that good governance does not seem to play an important role.

Table 6: Countries with highest Chinese FDI flows and their ranking on good governance indicators (percentile of all world countries), 2010[57]

Country	Voiced accountability	Political instability, violence	Government effectiveness	Regulatory quality	Rule of law	Control of corruption
South Africa	66,35	47	66	62	57,82	61
Nigeria	27,01	3	11	26	12,32	15
Zambia	39	62	22	35	37	33
Congo, DR	9,00	3	1	4	2,37	2
Niger	29,38	13	29	34	35,07	30
Sudan	4,27	1	7	7	6,64	6
Ethiopia	11,37	7	42	22	26,54	28
Kenya	39,81	13	36	50	17,06	19
Madagascar	26,54	15	18	33	22,75	50
Angola	14,69	37	12	16	9	4

[55] Korniyenko, Yevgeniya, Sakatsume, Toshiaki, *Chinese Direct Investment in Countries in Transition,* p. 18
[56] Congressional Research Service, *China's Economic Rise: History, Trends, Challenges, and Implications for the United States,* p. 15
[57] Based on MOFCOM *2010 Statistical Bulletin of China's Outward Foreign Direct Investment*, p. 83-84 and World bank, *Worldwide Governance Indicators*

Chinese FDI differs from other countries also in terms of the destinations it seeks. "China is steering away from mainstream investment destinations and focusing more on non-traditional investment destinations." Since 2000 most of the investments have been concentrated in Northern Africa,[58] while the Chinese have focused on the South. Chinese investors also take into account the economic diversification of their desired destination and they predominantly invest in diversified economies, which obtained 65.4 percent of total Chinese FDI in Africa.[59]

2.2.3. Natural resources as a motive for investment

The idea of China being resource-seeking in its FDI considerations has a wide range of supporters. Such an approach comes as a no surprise especially when we take into account the data available about its foreign investment flows to Africa. As we have already mentioned above, about 46% of Chinese worldwide FDI "value in 2005-2012 period was accounted for by investments in the energy sector, with another 15% coming from metals, according the Heritage Foundation's dataset."[60] When we focus on African continent, we get 40,74% of investments in mining sector.[61] Even if we consider the fact that investments in mining are usually the biggest, because setting up a mine or drilling platform is rather costly, we still cannot miss the considerable portion of total FDI coming into this particular sector in Africa. Also, the Chinese government promotes the investment in natural resources directly in many ways, for example when the Ministry of Commerce and the National Development and Reform Commission publish a list of countries and resources qualified for state subsidies.[62]

For the last decade all over Africa, Beijing has followed a "unique 'infrastructure for oil' approach under which infrastructure is built in Africa in exchange for various resources."[63] The Financial Times, together with other analysts, call this system an Angolan mode and describe it as "a mammoth infrastructure programme in exchange for crude and

[58] However this trend is changing nowadays with the destabilization caused by the revolutions of the Arab Spring, which drove some investors (especially from the West) away.
[59] Claassen, Carike, Loots, Elsabe, Bezuidenhout, Henri, *Chinese foreign direct investment in Africa: Making sense of a new economic reality*, p. 11589
[60] The Economist Intelligence Unit, *China Going Global Investment Index*, p. 14
[61] African Development Bank Group Chief Economist Complex, *Chinese Trade and Investment Activities in Africa*, p. 8
[62] Zweig, David, Jianhai, Bi, *China's Global Hunt for Energy*
[63] Claassen, Carike, Loots, Elsabe, Bezuidenhout, Henri, *Chinese foreign direct investment in Africa: Making sense of a new economic reality*, p. 11594

other resources, agreed between two secretive governments and underwritten by billions of dollars of cheap Chinese finance."[64] One early example of such a practice is the Imboulou dam in the Congo for which the country pays China with oil.[65] In 2010 China was building the oil industry from scratch in Niger in exchange for a uranium mine and an initial $5 billion investment.[66]

Seeking investments in mining seems to be a logical step to take if we consider the relatively low barriers to entry, especially when compared with western or generally more developed countries which often consider natural resources as being a matter of national importance or even "national security", and as such tend to exploit them themselves by the means of national or at least closely monitored foreign companies. Countries in Africa need money and as such are more prone to overlook or pardon the decimation of the environment or the violation of human rights. The continent is also comparatively cheap, even by Chinese standards, and resource abundant, which seems to make it an ideal investment destination.

2.2.3.1. Role of oil in Chinese investment in Africa

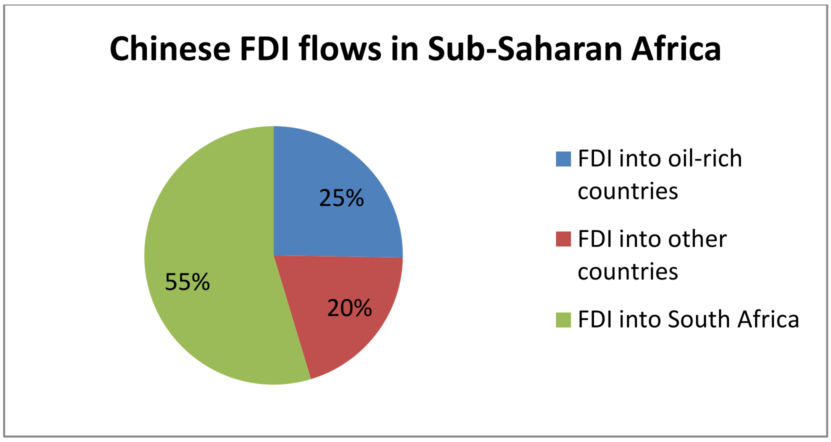
Even though China relies on coal to fulfill most of its energy needs, the country became the world's second-largest consumer of oil and it has been predicted that by 2020 it will even overtake the United States and become the world's largest net importer of crude petroleum on the planet. With increasing consumption, it is vital for China to ensure a steady and reliable supply of the "black gold". It is interesting that currently it is estimated that China imports about 30% of its oil from Africa despite the fact that, approximately, only 10% of world's oil reserves can be found there. Exports to China accounts for about 9% of the total African exports of oil (in comparison, 33% of the continents oil goes to the United States).[67] However in 2010 The African Development Bank stated that about 70% of officially registered exports to China from the continent were crude oil.[68] China's largest Sub-Saharan oil-suppliers are Angola, Sudan, the Republic of Congo, Equatorial Guinea, and Nigeria,

[64] Burgis, Tom, *Investment strategy: State-to-private contracts provide second route to riches*
[65] Michel, Serge, *When China Met Africa*, p. 41-42
[66] Burgis, Tom, *Investment strategy: State-to-private contracts provide second route to riches*
[67] Hanson, Stephanie, *China, Africa, and Oil*, p.1-2
[68] African Development Bank Group Chief Economist Complex, *Chinese Trade and Investment Activities in Africa*, p. 4

followed by other smaller producers including Gabon, Algeria, Libya, Liberia, Chad, or Kenya.[69]

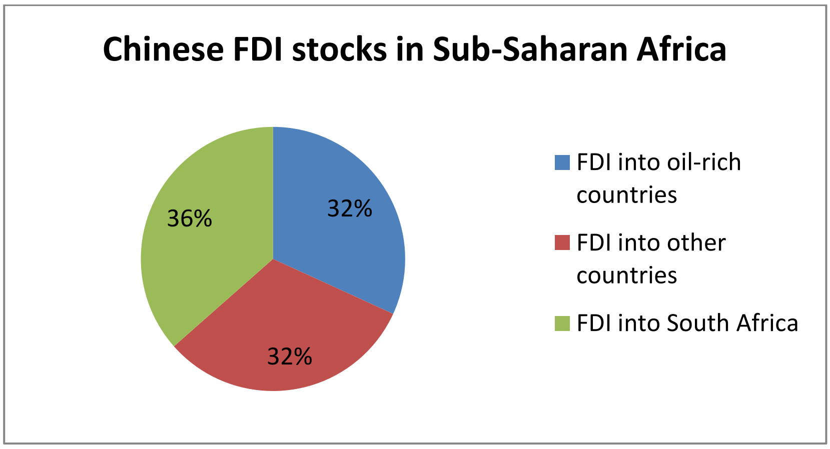
There are 14 countries with crude oil production in Sub-Saharan Africa. The biggest producers are Nigeria, Angola, Sudan, the Congo, Equatorial Guinea, Gabon, Chad, Cameroon, Cote d'Ivoire, the Democratic Republic of the Congo, Mauretania, Ghana, South Africa and the smallest one Senegal.[70] Together these countries account for 24% of all Chinese FDI flows to Africa (if we separate the special case of South Africa) and 31% of all Chinese FDI stocks (again minus the stocks in South Africa).[71] Countries producing crude petroleum thus hold a strong position among the recipients of Chinese FDI flows in Sub-Saharan Africa. In fact, if we add the share of South Africa, which is also oil producer, even though it's the second smallest, to those other oil producing countries, we will find three quarters (78%) and a majority (67%) of total Chinese FDI stocks in countries with oil production.

Table 7: Chinese FDI flows in Sub-Saharan Africa 2004-2010[72]



[69] Alessi, Christopher, Hanson, Stephanie, *Expanding China-Africa Oil Ties*
[70] Based on the data from Brown et al., *World mineral production 2007-2011*
[71] Based on MOFCOM, *2010 Statistical Bulletin of China's Outward Foreign Direct Investment*, p. 83-84, 89-90
[72] Based on MOFCOM, *2010 Statistical Bulletin of China's Outward Foreign Direct Investment*, p. 83-84

Table 8: Chinese FDI stocks in Sub-Saharan Africa, 2010[73]

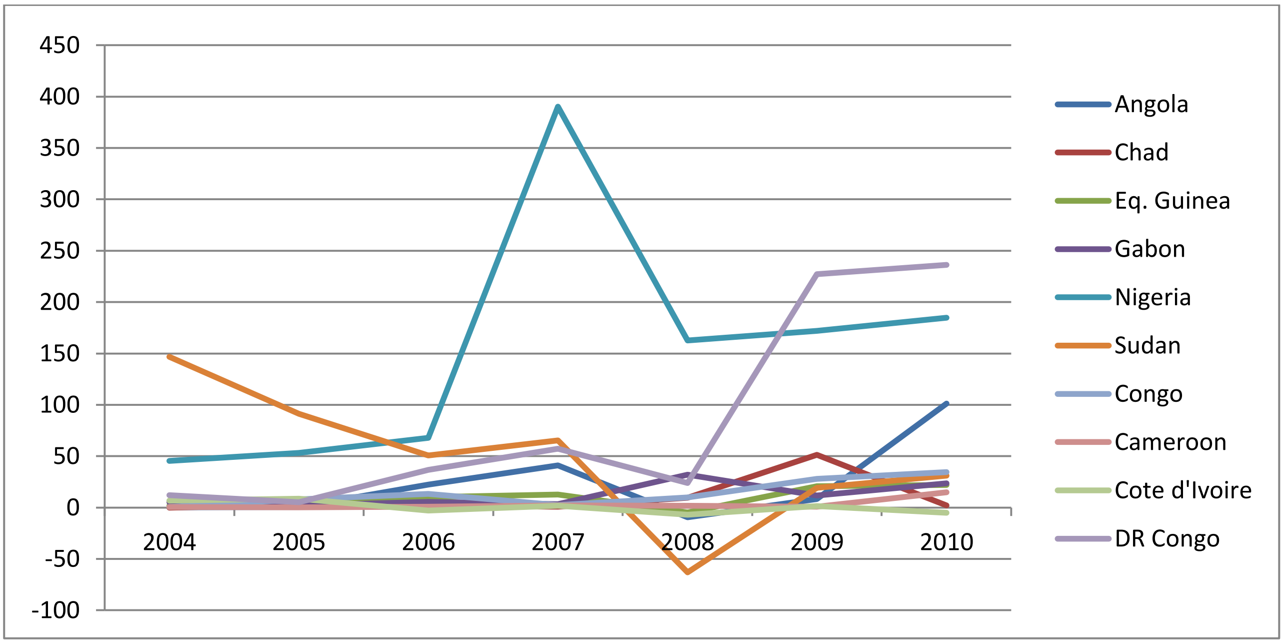


To explore the correlations further, we should also have a look at the top recipients of Chinese FDI in Sub-Saharan Africa. The top 10 receivers of Chinese foreign direct investment flows between the years 2004 and 2010 are: South Africa, Nigeria, Zambia, the Democratic Republic of the Congo, Niger, Sudan, Ethiopia, Kenya, Madagascar and Angola. Out of those ten countries five (South Africa, Nigeria, Democratic Republic of Congo, Sudan and Angola) have been on the list of 2007-2011 oil producers assembled by the British Geological Survey. However several other countries made oil discoveries in the time-period of our interest. Zambia announced a finding in 2006.[74] For our analysis, this is of particular interest since, in the same year 2006, China increased its investments in the country eight times from 10.09 million USD to 87.44. The rise continued till 2008 and then slowed its pace.[75] When China National Petroleum Corporation (CNPC) discovered oil and gas in Niger, it quickly signed an agreement with the local government in 2003 and issued heavy investments to build the necessary infrastructure.[76] It seems Madagascar started pursuing a bright future in oil production as well, and the Chinese also played their part here by negotiating a joint venture to exploit the new oilfields.[77] In 2014 oil has also been found in Ethiopia and Kenya, even though this fact is not relevant for our time frame. As we can see, even though the official number of oil producers among top ten Chinese receivers of FDI flows is reported to be five, so only half, in reality every country on the list has oil reserves with eight of them even being known during the period 2004 till 2010.

[73] Based on MOFCOM, *2010 Statistical Bulletin of China's Outward Foreign Direct Investment*, p. 94-95
[74] BBC News, *Oil and gas discovered in Zambia*
[75] MOFCOM, *2010 Statistical Bulletin of China's Outward Foreign Direct Investment,* p. 84
[76] CNPC, *CNPC in Niger*
[77] Reuters, *China's Yanchang to tap Madagascar oil blocks*

The list of countries with 10 highest Chinese FDI stocks is in many ways similar to the one of FDI flows. Highest stocks seemed to be in South Africa, Nigeria, Zambia, the Democratic Republic of the Congo, Sudan, Niger, Ethiopia, Angola, Tanzania and Madagascar.[78] Five of those countries are again official oil producers, while Zambia and Niger have proven reserves. Ethiopia has recently found oil as well.

Table 9: Chinese FDI flows to 10 countries with biggest oil production in Sub-Saharan Africa (millions of USD)[79]



Three countries from the list of top 10 highest Chinese FDI flows, Angola, Nigeria and Sudan, are important exporters of crude oil to China. In 2010 Angolan oil constituted 16,77%, Nigerian 0,6% and Sudanese 4,84% of total Chinese oil imports. The same countries also hold positions among countries with the ten highest Chinese FDI stocks in Africa. And let there be no mistake, oil plays a pivotal role in Chinese imports from those countries. More than 99% of total Angolan exports to China comprise of crude petroleum. In the case of Nigeria it is 66,07% and 98% when it comes to exports to China from Sudan.[80] As such, in the case of

[78] MOFCOM, *2010 Statistical Bulletin of China's Outward Foreign Direct Investment,* p. 89-90
[79] Based on the data from Brown et al., *World mineral production 2007-2011* combined with MOFCOM, *2010 Statistical Bulletin of China's Outward Foreign Direct Investment*, p. 83-84
[80] Observatory of Economic Complexity

these three countries, there can be little doubt about the connection between Chinese FDI and oil production.

Table 10: Top Sub-Saharan exporters of oil to China, 2010[81]

Country	Rank (2004-2010) (Chinese FDI flows)	% of oil from total exports to China	% of total Chinese oil imports
Angola	10th	99,71	16,74
Cameroon	31st	45,69	0,15
Chad	19th	99,45	0,37
Congo	13th	88,84	2,06
Equatorial Guinea	18th	81,25	0,36
Gabon	16th	24,52	0,18
Mauritania	35th	10,23	0,06
Nigeria	2nd	66,07	0,6
Sudan	6th	98,16	4,84

Another argument supporting the pivotal role of oil drilling in Chinese FDI is the position of petroleum corporations among Chinese non-financial transnational corporations. In 2010, all three top non-financial Chinese corporations, when ranked by outward FDI stock, were oil companies (Sinopec, China National Petroleum Corporation and China National Offshore Oil Corporation). If we consider ranking by foreign assets, two out of three Chinese corporations with highest foreign assets are oil companies (China National Petroleum Corporation, Sinopec accompanied by the telecommunications company China Unicom Corporation). The pattern doesn't change much, even if we rank the companies by foreign revenues. Two out of the top three are once again oil companies, accompanied by Sinochem (Sinopec and China National Petroleum Corporation).[82]

As most companies investing abroad in oil are owned by the state, their role is also to ensure its objectives and fulfill its demand for resources. One example of such a company would be Sinopec, the fifth biggest corporation in the world, which also leads the elite group

[81] Observatory of Economic Complexity

[82] Based on *2010 Statistical Bulletin of China's Outward Foreign Direct Investment*, p. 103-107

of Chinese multinational corporations in Fortune 500. China Petroleum and Chemical Corp. is the country's biggest oil producer and refiner, which steadily increases the production of crude oil and natural gas. However the state-owned company is more vulnerable to fluctuations in oil price margins as the government demands it to avoid raising domestic energy prices. The main path to the growth of the company is seen in forming partnerships and buying multinational oil companies worldwide.[83]

As we can see, Chinese major FDI flows strongly correlate with ownership of oil reserves. Most of the 10 countries with highest Chinese FDI flows are oil producers and all of them have some reserves (or were suspected to have). Half of the 10 countries with highest FDI stocks are oil producers and others have found reserves recently as well. The importance of crude petroleum in Chinese FDI is further supported by the strong position of Chinese oil producing corporations, which leads the chart of wealthiest Chinese companies.

2.2.3.2. Role of minerals and other raw materials in Chinese investment in Africa

With the manufacturing boom in China as well as technological advancement worldwide, certain minerals are becoming crucial for the national economies of many states. Based on the estimations of African Development Bank, in 2010 about 15% of all exports from the African continent to China consisted of raw materials.[84] Based on the information summarized in chapter 3.1.1., the following materials have been identified as crucial to the Chinese economy: chromium, coal, cobalt, coltan, copper, iron ore, oil, lead, manganese, nickel and zinc. Oil has already been thoroughly analyzed in the previous chapter, so now we can fully focus on the other 10 minerals and their role in determining Chinese FDI in Africa.

The materials in question are widely spread all over Sub-Saharan Africa; we can find them in 25 countries. However, some countries seem to have a wider portfolio of minerals than others. South Africa has reserves of nine materials from the eleven China seeks. Zimbabwe has six, the Democratic Republic of the Congo, Namibia, Nigeria, Sudan and Zambia four, Botswana three. Tanzania and Swaziland have two types of those minerals. Other countries from the list (see Table 11) have all a single mineral from Chinese wish list.

[83] CNN, *The Fortune 500 List*
[84] African Development Bank Group Chief Economist Complex, *Chinese Trade and Investment Activities in Africa*, p. 4

Table 11: Raw materials China imports and their production location in Africa[85]

Chromium	Madagascar, South Africa, Rwanda, Sudan, Zimbabwe
Coal	Botswana, DR Congo, Malawi, Mozambique, Niger, Nigeria, South Africa, Swaziland, Tanzania, Zambia, Zimbabwe
Cobalt	Botswana, DR Congo, Madagascar, South Africa, Uganda, Zambia, Zimbabwe
Copper	DR Congo, Mauritania, Namibia, South Africa, Tanzania, Zambia, Zimbabwe
Coltan	Burundi, DR Congo, Ethiopia, Madagascar, Mozambique, Nigeria, Rwanda, South Africa
Iron ore	Mauritania, Nigeria, South Africa, Swaziland, Uganda, Zimbabwe
Lead	Namibia, Nigeria, South Africa
Manganese	Burkina Faso, Gabon, Ghana, Cote d'Ivoire, Namibia, South Africa, Sudan, Zambia
Nickel	Botswana, South Africa, Zambia, Zimbabwe
Zinc	DR Congo, Namibia, South Africa

In the previous chapters, we have already identified South Africa, Nigeria, Zambia, the Democratic Republic of the Congo, Niger, Sudan, Ethiopia, Kenya, Madagascar and Angola as countries with the highest FDI flows originating from China between the years 2004 and 2010. Among those top ten countries is only one country that does not have any of the above-mentioned materials – Niger. However, the case for the vital role of natural resources in determining destination of Chinese FDI still stay strong, because Niger a is crucial exporter of uranium to China. Exports from Niger, a country with the fifth largest volume of FDI flows in Sub-Saharan Africa during the period, consist of 92,5% uranium. Sudan and Angola are both also rather specific cases as the absolute majority of their exports to China (98,1 % and 99,7%) are made of crude petroleum and oil. Zambia is, in its trade with China, also quite dependent on one particular material, copper, which comprised 91,96% of its exports to China in 2010.[86] In these cases it is therefore not so difficult to estimate in which sector most of the FDI goes.

[85] Brown et al., *World mineral production 2007-2011*
[86] Observatory of Economic Complexity

However there are also other, slightly more differentiated cases. South Africa is rather straightforward as the country possesses nine out of ten of the raw materials in question. The biggest percentage of export from South Africa to Beijing is various forms of iron (either crude iron ore or already manufactured versions), 12,87%, followed by chromium, manganese, coal, nickel, copper, lead, coltan and zinc (see Table 12).[87] We can see that roughly 62% of total South African exports to China consisted of the ten crucial raw materials, though it is important to stress that the data that the Massachusetts Institute of Technology uses in creating its Observatory of Economic Complexity database include Botswana and Swaziland in the South African export numbers. Nevertheless, it is obvious that China is an important South African trade partner and it also applies both ways. South Africa is the origin of 4,67% of total Chinese imports of coal, 5,44% of iron ore, 4,37% of nickel, 3,89% of lead ore, 4,68% of cement and 0,3% of copper.[88] From this point of view, South Africa is a truly important Chinese trade partner in the region, especially when it comes to raw materials.

Another interesting case, which clearly shows Chinese interest in raw materials reserves in this particular country, is the Democratic Republic of the Congo. About 97% of exports from this country, the fourth biggest receiver of Chinese FDI flows between 2004 and 2010, to China were in 2010 made of only two goods – cobalt and copper. Other countries, which to certain level depend, in their exports to China, on one raw material include second biggest receiver of Chinese FDI flows, Nigeria, whose exports to China are 66% based on oil with a small presence of other materials including copper, lead, manganese and nickel. In total those five goods consist 70,18% of total Nigerian exports to China. Madagascar exports mainly chromium (26,62% of its exports to China) and some coltan (7,17%), though the most significant exported material from Madagascar is wood.[89] Wood, including timber, is another often mentioned good which the Chinese seem to be seeking in Africa, but was largely excluded from our debate about raw materials and minerals.

Until now, all the data seem to clearly prove the strong correlation between the presence of important raw materials and the flow of Chinese FDI into the Sub-Saharan African country. All ten countries on the top of the list of FDI flow receivers have significant reserves of strategic raw materials and are also exporting them to China in rather significant

[87] Observatory of Economic Complexity, *Products that South Africa exports to China (2010)*
[88] Observatory of Economic Complexity
[89] Ibid.

volumes. The only exception might be Ethiopia, whose exports comprise 4,59% coltan and 0,12% iron in various forms. However Ethiopia is shipping significant amounts of agricultural products to China mostly consisting of sesame seeds.[90] Agricultural products are becoming more and more important to China since its population growing rapidly and fertile land to supply it with enough food is becoming increasingly scarce. From this perspective we can also perceive agricultural products as a strategic resource needed for the development of the country. Kenya also has a relatively small portion of raw materials in its total share of exports to China, 25,53%, made up predominantly of copper (18,85%); the other three quarters of the goods are mainly of agricultural character including seeds, tea, fish and others.[91]

Generally, we can say that the determined strategic raw materials constitute the majority of the top Chinese FDI receivers' export to China. In the case of South Africa it was about 62%, 70% in Nigeria, 98% in Zambia, 97% in the Democratic Republic of the Congo, 92% in Niger (including exports of uranium), 98% in Sudan (including exports of oil) and 100% in Angola (including exports of oil). A Lesser dependence on raw materials in its trade with China was shown only by Kenya, with 25% of its export to China being represented by the ten raw materials, Madagascar with 34% and finally Ethiopia with mere 5% (see Table 12). However in those cases, most of the export is of agricultural origin.

[90] Observatory of Economic Complexity, *Products that Ethiopia exports to China (2010)*.
[91] Observatory of Economic Complexity, *Products that Kenya exports to China (2010)*.

Table 12: Top 10 countries with highest Chinese FDI flows (2004-2010) and their mineral exports to China, 2010[92]

	Type of raw material and its share (%) on country's exports to China											
Country	chromium	coal	cobalt	coltan	copper	iron	lead	manganese	nickel	zinc	Other materials (%)	Total export (USD billion)
South Africa	11,9	8,5	x	2	2,1	12,9	1,7	9,8	4,8	1,2	x	6,8
Nigeria	x	x	x	x	1,1	x	1,6	0,1	1,3	x	Oil 66	1,1
Zambia	x	x	4,8	x	92	x	x	0,7	0,7	x	x	3
Congo DR	x	x	47,3	0,2	50	x	x	x	x	x	x	2,4
Niger	x	x	x	x	x	x	x	x	x	x	Ura-nium 92,5	37,7
Sudan	x	x	x	x	0,1	x	x	x	x	x	Oil 98,16	5,8
Ethiopia	x	x	x	4,6	x	0,1	x	x	x	x	Seeds, 79,55	0,2
Kenya	x	x	x	1,7	18,8	4,2	0,2	0,5	x	x	x	0,1
Madagascar	26,6	x	x	7,2	x	x	x	x	x	x	x	0,1
Angola	x	x	x	x	x	x	x	x	x	x	Oil 99,71	19,7

From the above-presented analysis we can see that there is a high correlation between exports of natural resources to China and the amount of FDI flows in the country. South Africa, a country with the highest FDI flows in the selected period as well as the highest FDI stocks, is also the country with widest range of strategic minerals and materials at its disposal.

[92] Based on combined results from MOFCOM, *2010 Statistical Bulletin of China's Outward Foreign Direct Investment*, p. 83-84 and Observatory of Economic Complexity data on each particular state

Out of the ten countries, all have considerable reserves of desirable goods and for most of them the majority of exports to China consist of natural resources. For this reason, we can conclude that ownership of oil reserves or some of the important materials previously cited, is, to a high degree, a prerequisite of Chinese FDI in the countries in Sub-Saharan Africa.

2.2.4. Chinese trade with Africa

The trade between Africa and China has increased over the years, however a momentum of rapid growth was maintained only in 2000. Since then the average annual growth reached a rather impressive 33.5 percent with the portion of "Africa's total foreign trade volume increasing from 3.8 percent to 10.4 percent" in 2010.[93] It is very likely the growth in imports from China will continue to increase, while those from more traditional markets in the U.S. and Europe will remain unchanged or even decrease. Although in 2006 Europe remained "Africa's main partner, its share has melted from 44% to 32% of the region's foreign trade within the past ten years, whereas America's share, like China's, has risen."[94] Some countries are even becoming slowly dependent on exports to China. Exports of oil and other resources to China comprised 70% of Sudan's exports in 2006. For Angola, China is the second biggest customer after the United States.[95]

However, it is important to consider that from the Chinese point of view, the China-Africa trade is still relatively low compared with other regions. The trade between China and Africa represents a mere 4% of the total Chinese imports and exports.[96] Another crucial fact is the concentration of trade between China and Africa, as all Chinese exports in 2007 were destined for just six countries: South Africa (21%), Egypt (12%), Nigeria (10%), Algeria (7%), Morocco (6%) and Benin (5%). On the other hand, 70 percent of Chinese imports in the same year originated from four countries: Angola (34%), South Africa (20%), Sudan (11%) and Republic of Congo (8%).[97] Chinese FDI affects China-Africa trade more than might be apparent at first sight. African imports for example still have three dominant types of product: machinery and transport equipment, manufactured goods and handicrafts. Machinery and

[93] Chinese Government, *China-Africa Economic and Trade Cooperation*, Section I
[94] The Economist, *Never too late to scramble*
[95] Ibid.
[96] African Development Bank Group Chief Economist Complex, *Chinese Trade and Investment Activities in Africa*, p. 2-3
[97] Ibid., p. 4

transport equipment imports can be connected with the strong presence Chinese construction companies have in the African infrastructure sector.[98]

2.2.5. Chinese investment options and strategies in Africa

Most of the FDI flows to Africa come from European countries and the United States. This is due to the colonial history of the continent, which created in most cases strong ties between states and their previous colonial masters. The strong presence of America is due to Cold war era rivalry and high oil consumption in the United States. Even though China has had good relations with the African continent since Bandung Conference in 1950, when the time came for Beijing to increase its investments on the continent and promote closer economic ties, it found itself surrounded by Western companies.

Table 13: Presence of big Western oil drilling companies in Africa

Company	Countries of operations
ExxonMobil	Angola, Chad, Cameroon, Equatorial Guinea, Nigeria[99]
Shell	Angola, Nigeria, Democratic Republic of Congo, Gabon, Chad, Cameroon, Ivory Coast, Ghana, South Africa, Senegal
BP	Angola, Mozambique, South Africa[100]
Chevron	Angola, Chad, Liberia, Nigeria, South Africa[101]

To tackle the dominance of Western companies in resource-rich countries (see Table 13), China has developed a new strategy. “First, it has pursued exploration and production deals in smaller, low-visibility countries such as Gabon, Equatorial Guinea, and the Republic of Congo. Second, it has gone after the largest oil producers by offering integrated packages of aid.” However according to some experts, Chinese efforts have not been as useful as the media might have us believe. According to the energy consultancy company Wood Mackenzie, Chinese companies only held less than 2% of total African oil reserves in 2008.

[98] African Development Bank Group Chief Economist Complex, *Chinese Trade and Investment Activities in Africa*, p. 5
[99] ExxonMobil, *ExxonMobil in Africa*
[100] BP, *BP Worldwide*
[101] Chevron, *Chevron Worldwide*

Downs, from the Brookings Institution, even argues that the assets held by Chinese national oil companies are of little value for other large international oil companies.[102]

In building its relationship with African countries, China uses three main features: competitive political advantage, comparative economic advantage, symbolic and economic diplomacy. The competitive political advantage refers to Chinese willingness to invest in any state without considering its international image. The comparative economic advantage uses a low-cost biding strategy being allowed by lower skilled labor and lower managerial costs. The symbolic and economic diplomacy generally means the support from the Chinese government that national firms obtain in various forms, including diplomatic attention or development aid.[103]

The window of opportunity also opened for China in countries that were is some kind of a dispute with the West. Such dispute was usually about human rights abuse or military coups and such disputes usually involved sanctions. There were several such cases in the beginning of new millennia (see Table 14), however only some of them provided increased Chinese FDI in the country or increased cooperation. The most discussed cases of the Chinese stepping in and replacing the West were observed in Angola and Sudan.

[102] Hanson, Stephanie, *China, Africa, and Oil*, p.2-3
[103] Alden, Chris, Davies, Martyn, *A Profile of Chinese Multinationals in Africa*, p. 90

Table 14: Important sanctions on African countries, 2002-2010[104]

Target country	Timeframe	Imposer	Reason	Sanctions
Angola	1993-2002	UN	Civil war	Oil embargo, arms embargo, asset freeze, travel bans, diplomatic sanctions
Liberia	1997-2003	UN	Civil war	Timber export ban, travel ban
Zimbabwe	2002-…	EU US	Political repression No free elections	Travel ban, asset freeze, arms embargo
Guinea-Bissau	2003-2004	US	Coup in 2003	No aid
Central African Republic	2003-2005	EU US African Union (AU)	Military coup	Restricted cooperation, no road building and no macroeconomic aid (EU) No aid (US) Suspended membership (AU)
DR Congo	2003-…	UN	Civil war (human rights abuse)	Travel ban, asset freeze, arms embargo, peacekeeping mission
Sudan	2004-…	UN US	Civil war Darfur (human rights abuse)	Asset freeze, travel ban, arms embargo
Ivory Coast	2004	UN US EU France	Civil war	Ban on imports of rough diamonds, travel ban, asset freeze 2006 – prohibiting export, import, trade brokering, financing and facilitation of trade, financial transactions with those contributing to conflict
Guinea	2005-2010	EU US AU	Violent oppression of protesters, coup	Reduced aid, travel bans, asset freeze

After the long civil war, Western countries refused to hold a conference of donors in Angola in 2002, arguing the government was corrupted and not transparent. So Angola turned to China, which promised to rebuild the country in exchange for oil, making Angola its biggest supplier. Due to the rough civil war and rather strong American sanctions, most

[104] Based on Vires, Alex, *Monitoring UN Sanctions in Africa*, p. 249, 255, and Hufbauer, Gary Clyde, Schott, Jeffrey J., Elliott, Kimberly Ann, Muir, Julia, *Post-2000 Sanction Episodes,* p. 1-13

Western international companies withdrew from Sudan in the 1980s and are yet to return. The vacant spot was filled by Chinese investments in the late 1990s and early 2000s, which quickly made the country one of the major exporters of oil to China.[105] In those countries the West facilitated Chinese investments in oil by imposing sanctions and opposing the regime.

2.2.6. Complications Chinese companies face on the continent

With all the investments in infrastructure and gigantic deals the Chinese made during the years 2004 – 2010, their position in African countries may not be as strong as it seems. Several big contracts were cancelled, and sometimes African governments use the Chinese as leverage to put some pressure on Western countries. The impressive rise in Chinese influence all over the African continent since the beginning of the 21st century has its limitations. Several countries started to feel the economic pressure of cheap Chinese exports, while others witnessed protests against the alleged bad treatment of its citizens from the hands of Chinese companies.

With an improving economic situation, some states feel confident enough to reject Chinese investments. In Nigeria the $2 billion oil contract was cancelled in 2006, followed by another deal CNOOC lost in the country. Guinea rejected a $1 billion mix of investments, which included a bauxite mine, an aluminum refinery and the construction of a dam. Niger also aimed to decrease its dependence on China as a sole destination for uranium exports and signed a contract with French company Areva in 2008.[106]

Public opinion is also not always welcoming to the Chinese. In 2004 the Senegalese union of shopkeepers organized a rally against Chinese shops, whose prices, they claimed, were making them bankrupt.[107] However the Chinese are not only accused of unfair pricing. Another publicly discussed matter is their treatment of African workers. In 2005 the explosion in a Zambian copper mine belonging to a Chinese company killed 50 local workers. The tragedy sparked protests, and anti-Chinese sentiments even made it as a topic of the presidential campaign. These issues largely influence the way the Chinese are perceived in Africa. Together with securitization of the theme of African dependence on China in the

[105] Michel, Serge, *When China Met Africa*, p. 42, 46
[106] Ibid., p. 44-45
[107] Ibid., p. 45

West, African states might increasingly feel the need to reduce its ties with China in favor of more pluralistic approach.

3. Chinese investments in Africa and foreign policy

Pushing for economic interests has long been a vital role of the diplomacy of any state. A good state of economy ensures a stable society and prevents revolutions or uprisings. No government can count on the continuous support of its people if it cannot deliver economic results. Economic crises lead to government changes in democratic countries, and the economic downfall was one of the causes of the disintegration of USSR. The Communist Party of the People's Republic of China is well aware of the role of economic growth in keeping its power and as such is supporting it with any means necessary.

It is a widely accepted opinion among academics and politicians that China's global economic strategy is shaped by "national development objectives and its demand for energy and other resource."[108] In other words, according to the authors of article *China's Global Hunt for Energy*, China adapts its foreign policy to the goal of achieving domestic development. The efforts of state-owned companies to gain contracts for drilling and mining are thus often supported by diplomacy and aid to court local governments.[109] However it is important to stress it is not only the central government that is active abroad. A growing number of local governments act individually and are establishing economic relations with African countries, usually using the companies they own.[110]

However, the term 'national development objectives' does not refer only to economic issues, it also deals with certain political themes. A rather evident example of the application of political considerations into business practice would be the two basic preconditions China demands to start cooperation with a country. The first precondition is the quid pro quo recognition of Taiwan as an integral part of the country. Currently, there are 23 countries which recognize Taiwan as a state, four of them are in Africa (Burkina Faso, Gambia, Sao Tome and Principe, Swaziland).[111] The second precondition is the compliance with the official principals of engagement. Those rules include equality among partners, mutual benefit, respect for sovereignty, use of interest free-grants and loans, beneficiary capacity building, compliance with obligations, provision of equipment made in China and same living

[108] African Development Bank Group Chief Economist Complex, *Chinese Trade and Investment Activities in Africa*, p. 1
[109] Zweig, David, Jianhai, Bi, *China's Global Hunt for Energy*
[110] African Development Bank Group Chief Economist Complex, *Chinese Trade and Investment Activities in Africa,* p. 1
[111] Australian government, *Taiwan Brief*

conditions for both Chinese and local experts. It is not unexpected for China to promote a bilateral basis for the majority of negotiations with other states in Africa.[112] Seemingly, it complies with its rule of 'equality among partners', however on the other hand it puts the African state in the position of the weaker in comparison with economically and politically strong China.

Another principle that China, at least in theory, promotes in its relations with other countries is non-interference in the domestic matters of other states. With increasing economic involvement in the continent it becomes harder and harder to follow the rule. In some cases China actually leans away from its declared standard. One important example of such a case would be the year 2007 in Sudan, when the Chinese government started pushing Khartoum into complying with the wishes and demands of the United Nations concerning the crisis in Darfur.[113]

As we can see, China-Africa relations have several specifics, which we will further elaborate on in the following chapters. At first we will examine Sino-African political relations generally, and present the new era of cooperation that started in the beginning of 21st century. Second, we will focus on the long-term aspects of the relationship and the ways it is ensured, with a particular focus on Chinese foreign aid to the continent.

3.1. Sino-African political relations

Sino-African modern political relations can be roughly divided into three phases. During the first phase, from the 1950s till the end of the 1970s, Africa and China were focusing on establishing themselves in international politics. Africa was struggling for independence from its colonial masters and China was trying to escape the ostracization it faced after the end of civil war, which ripped the country between Taiwan and continental, communist People's Republic. After securing its position and normalizing the relations with the West, China could enter a new phase, characterized by the focus on domestic economic development achieved by series of reforms in the 1980s and early 1990s. Relations with Africa were never severed and continued to strengthen, however in this thesis I argue that the

[112] African Development Bank Group Chief Economist Complex, *Chinese Trade and Investment Activities in Africa*, p.1
[113] Alessi, Christopher, Hanson, Stephanie*, Expanding China-Africa Oil Ties*

beginning of the third, rather distinct phase of Sino-African relations was the first meeting of the Forum for China-Africa Cooperation (FOCAC) in late 2000.

During the early years of the Cold War, China, for the most part, struggled with achieving its own development and as such did not play a major role in international affairs. The situation started changing slowly after the Bandung conference in 1955. The conference was attended by 23 Asian states and several African countries including Egypt, Ethiopia, Sudan, Libya, Liberia and Ghana.[114] The overreaching goal of the meeting was to condemn colonialism in all its forms and contribute towards its end. Based on this proclamation, the Chinese Premier Zhou Enlai presented the so-called *Five Principles of Peaceful Coexistence,* which had been used for the first time in an agreement between China and India over Tibet one year earlier. These principles included mutual respect for sovereignty and territorial integrity; mutual non-aggression; non-interference in each other's internal affairs; equality; mutual benefit and close economic cooperation.[115] Overall, the conference was deemed a success, which opened the door for closer cooperation between the developing nations, including China and the African continent.

In 1963-1964 Zhou Enlai visited ten African countries and defined five principles guiding Chinese relationship with African countries and eight principles of China's economic and technological aid to foreign countries. The *five principles* include support in the struggle against imperialism; the right of those countries to achieve unity and solidarity in a manner of their own choosing; the belief that disputes should be settled by peaceful consultations and demand the respect to sovereignty of those states and noninterference into their matters. The Eight Principles read as follows:

> *"1. The Chinese Government always bases itself on the principle of equality and mutual benefit in providing aid to other countries. It never regards such aid as a kind of unilateral alms but as something mutual.*
>
> *2. In providing aid to other countries, the Chinese Government strictly respects the sovereignty of the recipient countries, and never attaches any conditions or asks for any privileges.*

[114] Nálevka, Vladimír, *Světová politika ve 20. Století II.*, p. 55
[115] Ibid., p. 53

3. China provides economic aid in the form of interest-free or low-interest loans and extends the time limit for the repayment when necessary so as to lighten the burden of the recipient countries as far as possible.

4. In providing aid to other countries, the purpose of the Chinese Government is not to make the recipient countries dependent on China but to help them embark step by step on the road of self-reliance and independent economic development.

5. The Chinese Government tries its best to help the recipient countries build projects which require less investment while yielding quicker results, so that the recipient governments may increase their income and accumulate capital.

6. The Chinese Government provides the best-quality equipment and material of its own manufacture at international market prices. If the equipment and material provided by the Chinese Government are not up to the agreed specifications and quality, the Chinese Government undertakes to replace them.

7. In giving any particular technical assistance, the Chinese Government will see to it that the personnel of the recipient country fully master such technique.

8. The experts dispatched by China to help in construction in the recipient countries will have the same standard of living as the experts of the recipient country. The Chinese experts are not allowed to make any special demands or enjoy any special amenities."[116]

After the proclamation of the two sets of principles, foreign aid to African countries increased and in 1971 the People's Republic of China, with the support of African countries, achieved a seat on United Nations Security Council.[117] Thus China finally established itself firmly in international relations as one of the major players.

After the end of the Maoist era, the first reforms were launched in 1979 and China, seeking new economic opportunities, strengthened its ties with Africa and as such continued to grow its trade, FDI and diplomatic relations with Africa. "In December 1982, the Chinese Premier Zhao Ziyang visited eleven African countries and promoted the 'Four Principles' of

[116] China.org.cn, *Chinese Leaders on Sino-African Relations*
[117] Dreher, Axel, Fuchs, Andreas, *Rogue Aid? The determinants of China's Aid Allocation*, p. 8

Chinese cooperation with Africa: equality and mutual benefit; an emphasis on practical results; diversity in form; and economic development." Since then, the Chinese approach to Africa somehow shifted. It was obvious that if it pursued true economic development at home, it could not finance costly aid programs abroad. And so, since then, China has not provide funds and help to Africa unconditionally, but rather demanded something in return. After the bloodshed on Tiananmen Square, China renewed its political interest in Africa and once again used African allies in fighting isolation and supporting its international political goals. The topic of non-interference started to play important role during the visits of Chinese officials to Africa.[118]

The official precondition of any economic relation between China and a country, which we have already discussed earlier, is that the state does not have diplomatic ties with Taiwan. Some authors also argue that the battle for recognition between Taiwan and continental China continued until the late 1990s with one of its battlegrounds being Africa. Several countries, such as Liberia and Senegal, were switching alliances based on who was providing them with more funds or other profits.[119] This only supports the argument of the new era of Sino-African relations beginning at the first FOCAC meeting in 2000.

3.1.1. 21st century – an era of Sino-African cooperation?

Many authors, including Ian Taylor, van de Looy and Chu Zhang, argue that the new era in Sino-African relations started in the 1990s, because of increased FDI, new strings attached to foreign aid, and mainly because of the general changes in international politics that came after the Cold War. However in this chapter, I argue the real change came only at the beginning of 21st century.

The new era of cooperation between China and Africa was rather clearly established by the already mentioned first summit of the Forum for China-Africa Cooperation (FOCAC) in October 2000. The event brought more than 40 African leaders, 17 representatives of local organizations and number of businessmen to Beijing.[120] There were two important outcomes from the first meeting: the Beijing declaration of FOCAC and Programme for China-Africa Cooperation in Economic and Social Development. The Beijing Declaration of FOCAC

[118] van de Looy, Judith, *Africa and China: A Strategic Partnership?,* p. 5
[119] Ibid., p. 3
[120] FOCAC, *The First Ministerial Conference of FOCAC*

develops the following principles for the functioning of the organization and its goals: non-interference in internal affairs of countries; peaceful settlement of disputes; stronger representation of developing countries in international organizations (particularly the UN); the right of countries to choose the form of promoting human rights within its borders (there should be no imposing of human rights conditionalities); mutually beneficial cooperation and development (the developed countries have the obligation to help); support of African regional cooperation; combatting illnesses (including HIV/AIDS, malaria etc.); support of debt relief while denouncing conditionality; expanding Sino-African cooperation on all levels; defining priority areas of cooperation for common development[121].[122] The Programme for China-Africa Cooperation in Economic and Social Development is a rather long document divided into twenty chapters, which include all areas of future intended cooperation.[123] However several parts are especially interesting. Part of the Follow-up mechanisms' chapter covers the "calendar" of future meetings: "the Ministers will meet in three years time to evaluate progress in the implementation of the Programme, Senior Officials in two years time and Ambassadors resident in China on a regular basis. The Senior Officials Meetings and the Ministerial Conferences will be convened in China and Africa on an alternate basis within the framework of the Forum on China-Africa Co-operation." Before the creation of the FOCAC there were no such regular meetings even on a bilateral level, so this kind of agreement meant a big step forward in the relationship between Africa and China. Also, the following principles were determined as crucial for future cooperation: equality and mutual benefit; diversity in form and content; emphasis on practical results; pursuit of common progress and amicable settlement of differences.[124]

From its establishment the FOCAC became an important platform for developing closer ties between China and Africa. Currently, 51 African states, with which China has diplomatic relations, are members of the organization. To this day, there have been five

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[121] Such areas include: economic, trade, financial, agricultural, medical care and public health, scientific and technological, cultural, educational, human resources development, transportation, environmental, tourism areas

[122] FOCAC, *Beijing Declaration of the Forum on China-Africa Cooperation*

[123] Those chapters include: Intergovernmental cooperation, trade and investment, co-operation in engineering and other infrastructure projects, financial cooperation, debt relief and cancellation, tourism, migration, agricultural cooperation, exploration and utilization of natural resources and energy, scientific, cultural and technological cooperation, co-operation in medical care and public health, education and human resources development, environmental management and biodiversity, trilateral cooperation, cooperation on arms control, multilateral cooperation and follow-up mechanisms.

[124] FOCAC, *Programme for China-Africa Cooperation in Economic and Social Development*

ministerial conferences and one summit attended by heads of states and government in 2006 (see Table 15).[125]

Table 15: Forum for China-Africa Cooperation main events, 2000-2010[126]

Year	Place	Result
2000	Beijing	Beijing Declaration Programme for China-Africa Cooperation in Economic and Social Development
2003	Addis Ababa	Addis Ababa Action Plan for the years 2004-2006
2006	Beijing	Beijing Declaration Beijing Action Plan for the years 2006-2008
2009	Sharm El Sheikh	Declaration of Sharm El Sheikh Sharm El Sheikh Action Plan for the years 2010-2012

The second most important event of this time period was the Summit of the Forum on China-Africa Cooperation held in Beijing in 2006 in the form of a ministerial meeting and seminar for corporation leaders. In the final declaration, the overall tone of good relations and cooperation is rather obvious. China managed to include the proclamation of African support towards its one China policy and peaceful reunification with Taiwan. The issue of the United Nations reform has been added as well. Once more, the declaration demands the developed world to increase its foreign aid to Africa and relieve some of its debts. In the future, China and Africa will increase cooperation (increase the number of visits and work on promoting mutual trust and friendship), deepen and widen cooperation (giving top priority to agriculture, infrastructure, industry, fishery, IT, public health and personal training), exchange views on governments (to learn from each other), increase dialogue among cultures (promote people-to-people exchanges), jointly address global security threats, increase cooperation and coordination, and keep friendly consultations as means of facing tough issues.[127]

[125] Chun, Zhang, *The Sino-Africa Relationship*, p. 14
[126] Ibid., p. 14
[127] FOCAC, *Declaration of the Beijing Summit Of the Forum on China-Africa Cooperation (Draft)*

In the same year, the Chinese government also defined four principal guidelines for its policy in Africa. Yet again we can observe the everlasting use of the Five Principles of Peaceful Coexistence, however there is also a shift from Cold War policy in requiring reciprocity and mutual benefit when it comes to the economic dimension of mutual relationship. The principles of the Chinese policy in Africa from 2006 read as follows:

1. Political dimension – sincerity, friendship and equality
2. Economic dimension – mutual benefit, reciprocity and common prosperity
3. International dimension – mutual support and close coordination
4. Cultural dimension – mutual learning and seeking common development[128]

However a lot of important meetings were kept on a bilateral basis. Earlier in 2006 Chinese President Hu Jintao visited several African countries including Nigeria and Kenya. In his speech during this visit, the President proposed several key areas, where the next Sino-African relations should focus: “increase and strengthen mutual confidence in political affairs, expand joint profit and mutual interest in economic affairs, focus on mutual learning and cooperation in cultural matters, strengthen mutual cooperation on security, and have close and mutual coordination internationally.”[129] In other words “increase and strengthen mutual confidence in political affairs” and “have close and mutual coordination internationally” refers to the deepening of political relationship and strengthening of cooperation in international organization. Such efforts require long-term commitment and longstanding efforts. The so-called “expanding joint profit and mutual interest in economic affairs” speaks rather clearly of increased FDI to the continent. Finally, the “focus on mutual learning and cooperation in cultural matters” deals with a still rather weak Chinese soft power on the continent, which if improved and strengthen can make China a more desirable investor as well as a partner.

Premier Wen Jiabao visited seven countries till 2008. Those countries were Egypt, Ghana, the Republic of the Congo, Angola, South Africa, Tanzania and Uganda.[130] If we go briefly back to the analysis of the role of natural resources in Chinese FDI, we will notice that Ghana, Congo and Angola all have significant reserves of crude petroleum. South Africa, Tanzania and Uganda all are rich in natural resources as well.

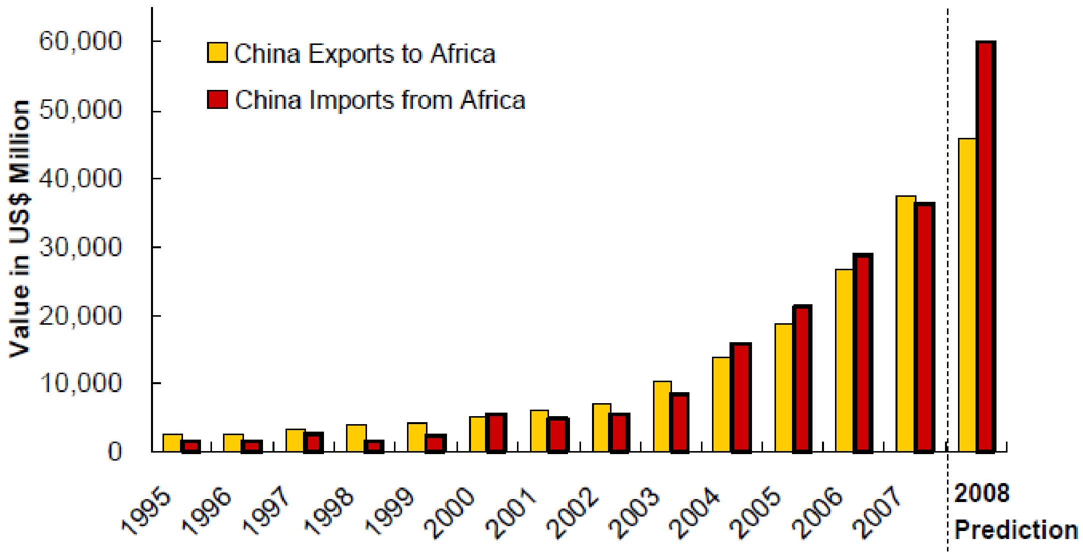
[128] Chun, Zhang, *The Sino-Africa Relationship*, p. 13
[129] Weizhong, Xu, *Viewing the Development of Sino-African Relations in Light of the Sino-African Cooperation Summit Meeting,* p. 45
[130] Ibid., p. 45

As we can see, Sino-African relations in the 21st century shifted in several aspects. The biggest and most obvious one is the organization of massive conferences, which Beijing organizes under the patronage of the Forum on China-Africa Cooperation. Those conferences are not purely bilateral as was the general rule in the earlier decades, but involve many African countries and their representatives. An important part of those conferences is always devoted to an increase economic relations and the strengthening of economic cooperation between China and Africa.

The “going global policy” China proclaimed in 2000 to promote investments abroad corresponds, more or less, timely with the beginning of the Forum on China-Africa Cooperation and other events. Apparently those two initiatives are linked and it is actually logical. As we have already discussed earlier in chapter 3.1. and 3.2.2., the Chinese have several reason to invest in Africa: China needs to invest in Africa: natural resource requirements of the manufacturing boom, making use of capital reserves achieved during the manufacturing boom, and market seeking for the products manufactured by Chinese companies. The “going global” policy, derived from the need for foreign investment and increased trade, was actually even proclaimed by Chinese officials as necessary for continuous development. However, for stronger economic relations it is necessary to solidify the political ones first. At this moment, the renewed and strengthened efforts of China to befriend African countries, represented by the establishment of the FOCAC and debt relief from 2000, makes sense.

From the data on Chinese imports and exports to Africa it is clear, that these political efforts had a positive impact on trade between China and Africa. In the 1990s, Chinese trade with Africa started to grow, however the true boom was launched only in the new century (see Table 16).

Table 16: Chinese exports and imports from Africa, 1995-2007[131]



Nowadays the relationship between China and Africa is rather strong and friendly, even though some ruptures begin to occur as was explained in chapter 3.2.6. Fifty-one countries out of the continent's 54 states have established diplomatic relations with China. The importance, Africa seems to hold in the minds of Chinese Communistic Party is apparent also from the fact that every Chinese foreign minister visits somewhere in Africa.[132]

3.2. Building long-term relations

Lately it is increasingly obvious that Chinese investments in Africa are intended to establish long-term relationships, at least with African governments.[133] A Considerable portion of Chinese FDI in Africa is connected to mining or drilling. Such investments are usually rather large and as such the return of money invested takes time. As such, it is in China's best interest to establish the best relations possible with these governments, not only to gain drilling or mining rights but also to keep production going without interference from politicians. In some countries where China invests, good governance and a functioning infrastructure is just a dream. The reality of virtually non-existent roads or power plants can

[131] Rajith, Sebastian, China-Africa Investments, p. 3
[132] Chun, Zhang, *The Sino-Africa Relationship: Toward a New Strategic Partnership*, p. 10
[133] African Development Bank Group Chief Economist Complex, *Chinese Trade and Investment Activities in Africa*, p.10

make the life of Chinese companies considerably harder and thus vast investments to improve those shortcomings are necessary. Such gigantic investments are possible due to the support Chinese companies obtain from their government and which makes drilling on a green field not only possible, but economically viable.

There are several ways to build long-term relations with other countries. China has apparently decided on three main ways: strengthening political ties (represented by the already mentioned FOCAC), debt relief, foreign aid and investments in infrastructure, which will be further explored in the following chapter.

3.2.1. Chinese foreign aid in Africa

Among all the new donors to Africa, which include the BRIC countries, China is by far the most controversial and most watched. Such despise towards Chinese aid to Africa is due to its ties with rogue states and outcasts and also the apparent disregard for good governance as well as environmental standards. Accusations also arose of China undermining Western efforts to improve the governing of states by imposing sanctions or conditionality.[134]

Many African countries have high expectations for China, as they believe Chinese experience can help them develop. The logic is simple – if the Chinese were able to alleviate millions in their home country from poverty and established themselves as a manufacturing giant, why not to use the same methods in Africa? With the beginning of the new millennia, African countries found many reasons to prefer Chinese aid to traditional Western donors.

While the West comes to African leaders with demands for democracy, liberalization or human rights, Chinese help comes with no apparent strings attached. China prefers bilateral aid projects over multilateral efforts and also seems to prefer the so called “hardware projects” represented with considerable investments in infrastructure over the Western support of “software projects” like research or capacity building.[135]

There is some mixed information about the way Chinese foreign aid actually works. What is certain however is the role of three bodies in the decision-making process and actual realization of the plans. The strategic decisions about aid are for the most part of political

[134] Thaler, Farah, *Thaler: China’s Foreign Aid to Africa*
[135] Wenping, He, *New Actors in International Development: The Case of China in Africa*

character, and as such are being made by the State Council, which is the state's highest administrative authority. Two ministries are involved in the process, the Ministry of Foreign Affairs and the Ministry of Commerce (MOFCOM), of which the latter is more important and holds the biggest share of responsibility. Third major player in the field of Chinese foreign aid to Africa is the Export-Import Bank (also called the China Exim Bank), which was established in 1994 and nowadays is tasked with providing concessional loans and export credits.[136]

According to Dreher and Fuchs, there were six stages of Chinese foreign aid to Africa. In the first stage (1956-1969) China was mainly providing grants and interest loans on the basis of political and ideological considerations. In the second phase (1970-1978) Chinese aid to Africa increased considerably, which may have helped China to gain seat in UN Security Council in 1971.[137] The third stage (1979-1989) was characterized by increased economic considerations. The fourth period (1990-1995) saw an increase in aid, probably as a means of ensuring support after the Tiananmen massacre. The fifth phase (1996-2006) provided reforms in foreign aid based on market-oriented principles with an emphasis on links between aid, trade and investment. The sixth stage, which began in 2006, and according to the authors is ongoing, was introduced as a "new strategic partnership" at the Beijing's FOCAC summit in 2006. The aid increased again to reach a "win-win" situation and ensure mutual benefit.[138] The last part, emphasizing the win-win aspect of the situation and the mutual benefits that arise from providing foreign aid, is something rather unique among the donor countries, when Western, so called traditional, donors usually provide aid based on philanthropic, even altruistic argumentation.

When considering the described stages, several important characteristics become apparent. It is thus obvious that the culture of using finance and foreign aid as political leverage has a certain history in Chinese politics. Also, we can notice the political consideration of aid became more closely connected with domestic development and economic goals in the situation of the manufacturing boom, which was made possible due to economic reforms from the late 1970s and 1980s. Aid became tied to trade and as such, we can determine aid reform in the fifth phase was ideologically as well as timely identical with

[136] Dreher, Axel, Fuchs, Andreas, *Rogue Aid? The Determinants of China's Aid Allocation*, p. 3
[137] After gaining the seat, Chinese foreign aid to Africa was considerably cut in 1973
[138] Dreher, Axel, Fuchs, Andreas, *Rogue Aid? The Determinants of China's Aid Allocation*, p. 8-10

the revolution in foreign relations, which occurred in the beginning of new millennia. Aid thus became a way to ensure political means.

3.2.1.1. Characteristics of Chinese foreign aid in Africa

The total Chinese official aid to Africa between the years 2000 and 2011 amounted to a massive 9,25 billion USD.[139] This assistance is divided between countries all over the continent. The only exceptions are the four countries which have diplomatic relations with Taiwan: Burkina Faso, Gambia, Swaziland, Sao Tome and Principe. All those countries do not have any official active aid projects financed by China. The Ten countries with highest amount of Chinese aid are Ghana, Nigeria, Ethiopia, the Democratic Republic of the Congo, Sudan, Zimbabwe, Angola, Congo, Mozambique and Equatorial Guinea (see Table 17). Even though the division of aid between sectors is very hard to determine, according to the dataset from *China's Development Finance to Africa: A Media-Based Approach to Data Collection* the majority of aid in Ghana, Nigeria, Ethiopia and Sudan was invested in infrastructure. A considerable portion of aid flowing to infrastructure investment was also observed in Zimbabwe, Angola, Congo, Mozambique and Equatorial Guinea. The only country with relatively small Chinese foreign aid investment in infrastructure is in the Democratic Republic of the Congo (see Table 17).[140]

[139] Strange et al., *China's Development Finance to Africa: A Media-Based Approach to Data Collection*
[140] Based on Strange et al., *China's Development Finance to Africa: A Media-Based Approach to Data Collection*

Table 17: Biggest Sub-Saharan recipients of Chinese foreign aid, 2000-2011 (billions of USD)[141]

Country	% of total	Total amount	Communi-cations	energy	transportation	mining and industry	% on infrastructure
Ghana	12,80	14,20	0,30	1,55	5,52	0,03	52,07
Nigeria	11,30	12,51	1,39	1,94	4,46	0,97	70,00
Ethiopia	7,40	8,17	0,00	3,91	0,88	0,16	60,52
Congo, DR	7,00	7,81	0,28	0,30	0,01	0,02	7,76
Sudan	5,70	6,30	0,28	3,20	2,06	0,07	89,09
Zimbabwe	4,90	5,42	0,19	1,18	0,39	0,13	35,00
Angola	4,60	5,15	0,10	0,16	2,18	0,00	47,38
Congo	4,00	4,49	0,00	0,38	1,25	0,00	36,23
Mozambique	3,90	4,28	0,03	0,00	0,97	0,12	25,98
Equatorial Guinea	3,40	3,77	0,01	0,86	0,03	0,00	23,86

If we examine the above-mentioned accusation about China supporting countries with bad governance, the data seems to be sufficient support for such a claim. Out of the top ten recipients of Chinese foreign aid, only Ghana, and potentially Mozambique, achieve good results. On the other hand Sudan and the Democratic Republic of the Congo's results are rather pessimistic. Particularly interesting are the indicators of political stability and government effectiveness. A Low level of political stability exists in five out of the ten countries (Nigeria, Ethiopia, the Democratic Republic of the Congo, Sudan and Zimbabwe), which shows that political stability and the absence of violence are not important determinants for Chinese foreign aid considerations. What is even more interesting is the low government effectiveness in seven out of the ten countries, the positive exceptions being Ghana, Ethiopia and Mozambique. These results are especially striking if we consider that a lot of Chinese money is provided to these ineffective governments for projects, which are based on bilateral negotiations, and as such it might be difficult to provide actual results for the money spent (see Table 18). Generally it is obvious that China provides its aid on

141 Based on Strange et al., *China's Development Finance to Africa: A Media-Based Approach to Data Collection*

different considerations to good governance. The only exception might be Ghana, which achieved good results in all indicators used by the World Bank.[142]

Table 18: Top 10 recipients of Chinese aid and their ranking on good governance indicators (percentile of all world countries), 2010[143]

Country	**Voiced accountability**	**Political instability, violence**	**Government effectiveness**	**Regulatory quality**	**Rule of law**	**Control of corruption**
Ghana	62,56	48	54	54	54,03	60
Nigeria	27,01	3	11	26	12,32	15
Ethiopia	11,37	7	42	22	26,54	28
Congo, DR	9,00	3	1	4	2,37	2
Sudan	4,27	1	7	7	6,64	6
Zimbabwe	8,00	14	4	2	1	5
Angola	14,69	37	12	16	9	4
Congo	17,06	34	9	8	11,37	11
Mozambique	45,5	57	34	38	39,34	41
Eq. Guinea	3,32	53	2	6	8,53	1

An often-discussed topic among scholars and politicians is the already mentioned building of infrastructure by the Chinese in Africa. To many, including the well-known economist Dambisa Moyo, it is infrastructure that is desperately needed on the continent for achieving development, and also something of which the Chinese are almost the sole providers.[144] Chinese foreign aid flows to countries that are relatively developed, like Ghana, and also to countries that were brought by bad governance and conflict on the wedge of the fall, like Sudan, the Democratic Republic of the Congo, Angola or Ethiopia. It is interesting, that those four countries have received about 70% of all Chinese investments in infrastructure despite their weak rule of law, strong political instability and low government effectiveness. China financed, among other projects, four power plants, two hydro projects, a 1506 kilometer long oil pipeline and several oil terminals in Sudan. Ethiopia obtained a $500 million contract for a telecom network. Angola got $3.2 billion in infrastructure funds for projects including roads, rail, power, water and telecoms. Nigeria spent $5.4 billion on projects including road building and repair, railways, coal and hydro power stations.[145]

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[142] World bank, *Worldwide Governance Indicators*
[143] Ibid.
[144] Moyo, Dambisa, *Dead Aid,* xi.
[145] Rajith, Sebastian, *China-Africa Investment*, p. 5

3.2.1.2. Chinese foreign aid and natural resources

As was the case with Chinese FDI in Africa, foreign aid also seems to correlate to considerable level with presence of natural resource reserves in a country. Investments in infrastructure play an especially important part. In the previous chapter, we established Nigeria, Ethiopia, Sudan and Angola not only as some of the biggest receivers of Chinese aid between the years 2000 and 2011, but also as the biggest receivers of investments in infrastructure. It is interesting to note that China has considerable mining or drilling rights in all four countries.

Fourteen oil producing states have obtained 57% of total Chinese foreign aid in Africa, which amounted to total USD$63 billion between the years 2000 and 2011. Based on the data from *China's Development Finance to Africa: A Media-Based Approach to Data Collection*, which slightly differs from Rajith's, the average percentage of 42,42 of those financial flows were used on building infrastructure. According to *China's Development Finance to Africa* the highest percentage of total-aid to country-spend on infrastructure was in the Democratic Republic of the Congo, Sudan, Mauretania and Nigeria (see Table 19).[146] This data, however, also complies with the stated argument. All four of those countries had their infrastructure destroyed by conflict or, it was virtually non-existent due to poor governance and high poverty. Thus, it would be difficult for the Chinese to run a business in those countries, without providing the infrastructure first. Sudan and Nigeria are important exporters of oil to China, while the Democratic Republic of the Congo and Mauretania supply China with certain raw materials.

[146] Strange et al., *China's Development Finance to Africa: A Media-Based Approach to Data Collection*

Table 19: Oil producing recipients of Chinese foreign aid, 2000-2011 (billions of USD)[147]

Country	% of total	Total amount	Communi-cations	Energy	Transport and storage	Mining and industry	% on infrastructure
Angola	4,60	5,15	0,10	0,16	2,18	0,00	47,38
Cameroon	2,90	3,22	0,05	0,54	0,78	0,31	52,36
Chad	0,20	0,23	0,00	0,00	0,04	0,11	63,75
Congo, DR	7,00	7,81	0,28	0,30	0,01	7,16	99,19
Congo	4,00	4,49	0,00	0,38	1,25	0,00	36,23
Equatorial Guinea	3,40	3,77	0,01	0,86	0,03	0,00	23,86
Gabon	0,30	0,31	0,00	0,19	0,00	0,00	62,67
Ghana	12,80	14,20	0,30	1,55	5,52	0,03	52,07
Ivory Coast	1,00	1,06	0,61	0,00	0,09	0,00	66,25
Mauretania	0,50	0,60	0,00	0,00	0,49	0,00	82,72
Nigeria	11,30	12,51	1,39	1,94	4,46	0,97	70,00
Senegal	0,43	0,40	0,01	0,06	0,08	0,00	37,15
South Africa	2,70	3,03	0,00	0,00	0,00	0,71	23,30
Sudan	5,70	6,30	0,28	3,20	2,06	0,07	89,09
TOTAL	56,83	63,07				Average	42,42

Out of the top ten receivers of Chinese foreign aid in Sub-Saharan Africa, seven countries are oil exporters. The exceptions are Ethiopia, Zimbabwe and Mozambique. However all three countries have considerable resources of raw materials. Ethiopia produces mainly agricultural products like coffee or various seeds.[148] Zimbabwe is rich in natural resources and exports mainly gold, diamonds, nickel and various ferroalloys.[149] Mozambique exports mainly aluminium.[150]

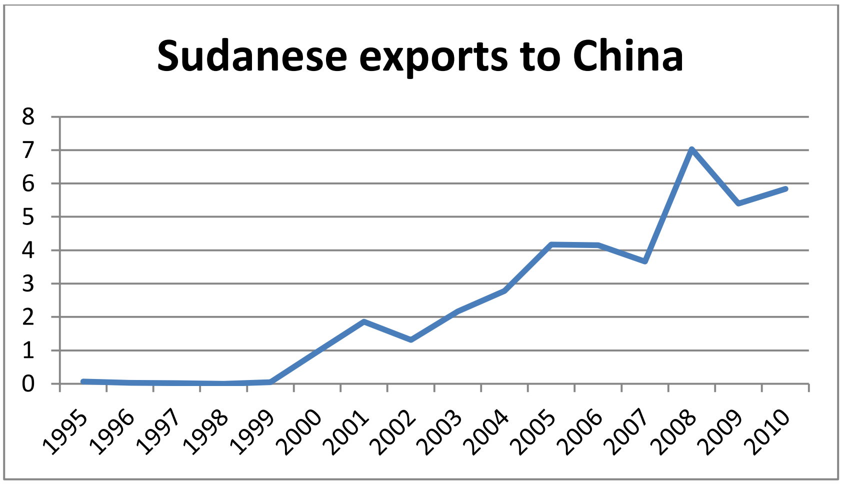
[147] Based on the data from Strange et al., *China's Development Finance to Africa: A Media-Based Approach to Data Collection*
[148] Observatory of Economic Complexity, *Products Exported by Ethiopia (2010)*
[149] Observatory of Economic Complexity, *Products Exported by Zimbabwe (2010)*
[150] Observatory of Economic Complexity, *Products Exported by Mozambique (2010)*

3.2.2. Increasing FDI and political engagement: a case of Sudan

Sudan is widely perceived as a failed state, pillaged and savaged by prolonged conflict. Its oil reserves are not only seen as one of the causes for the bloodshed, but also as the reason for, and foremost example of, Chinese conciliatory policy towards dictators and harsh regimes. However it is also a good example of how FDI influences Chinese politics and increases its engagement in the politics of a foreign country, despite its proclaimed policy of non-interference.

In 1997, the conflict between the Muslim-led central Sudanese government in the North and Christian rebels in the South caused massive bloodshed and international protests. The United States decided to step in with sanctions targeted at a vital Sudanese economic interest – oil. Washington forbade American companies from doing business with the central government and thus practically invited China to step in.[151] Oil production in the country increased drastically from 1998[152] and Sudanese exports to China began to rise rapidly (see Table 20).

Table 20: Sudanese exports to China 1995-2010, billions USD[153]

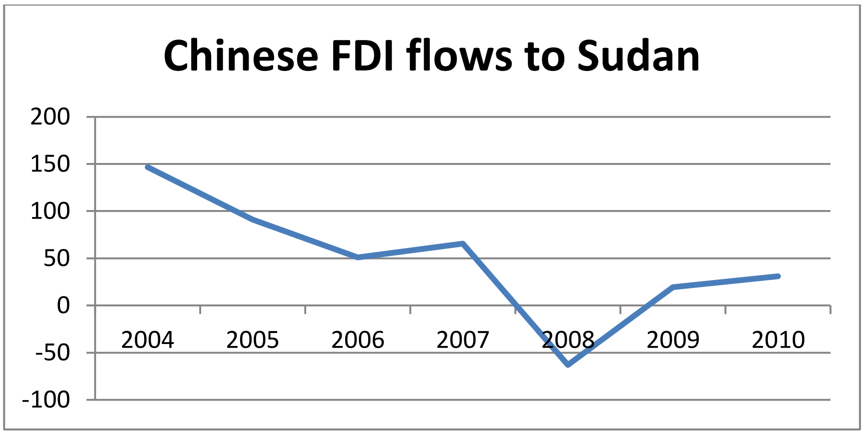


The reason for Chinese involvement in the country is clear as more than 99% of quickly growing Chinese FDIs in the country were made into the oil producing sector.[154]

[151] Zweig, David, Jianhai, Bi, *China's Global Hunt for Energy*
[152] Nour, Samia Mohamed, *Technological Change and Skill Development: The case of Sudan*, p. 28
[153] Based on the data from Observatory of Economic Complexity, *Sudan*

Even though it is difficult to find reliable data about Chinese FDI in Sudan prior to 2004, we know from 1996 the investments were increasing. FDI flows in 2004 were 146,7 million USD (see Table 21), and FDI accumulated stocks 171,61 million USD.[155]

Table 21: Chinese FDI flows to Sudan 2004-2010, millions of USD[156]



The process of increasing cooperation between the two countries has characteristics similar to those declared earlier in this thesis. Courting the regime was unnecessary for China, as Khartoum held a rather weak international position, was highly criticized, and faced already mentioned sanctions, and China thus had no real rival. Since 1997, the Chinese government has provided Khartoum with diplomatic support and development aid (including investments in infrastructure), which were the things the Sudanese central government needed the most. In September 2004, China used its membership in the United Nations Security Council to stop the UN resolution condemning the Sudanese government. Chinese oil drilling in Sudan also undermined any American efforts to target Sudanese oil production, the main source of income for the government.[157] Financial as well as material aid to Sudan was provided on a rather large scale. Khartoum is the fifth biggest recipient of Chinese aid in Sub-Saharan Africa.[158] Between the years 1999 and 2009 the percentage of the Chinese share of total grants and loans provided to Sudan ranged from 7% up to 76%.[159]

[154] Nour, Samia Mohamed, *Technological Change and Skill Development: The case of Sudan*, p. 23
[155] MOFCOM, *2010 Statistical Bulletin of China's Outward Foreign Direct Investment*, p. 84, 90
[156] Based on the data from *2010 Statistical Bulletin of China's Outward Foreign Direct Investment,* p. 84
[157] Zweig, David, Jianhai, Bi, *China's Global Hunt for Energy*
[158] Based on Strange et al. *China's Development Finance to Africa: A Media-Based Approach to Data Collection*
[159] Nour, Samia Mohamed, *Technological Change and Skill Development: The case of Sudan*, p. 18

All the mentioned efforts seem to be rather successful in creating a long-lasting relationship between the two countries. Nowadays Sudan has become an important Chinese trade partner, with one main export commodity, which consist 93% of exports to China – crude petroleum.[160] About 5% of total Chinese oil imports come from Sudan.[161] The accusations that China is basically financing the conflict in Sudan appeared quickly, however Chinese Deputy foreign minister in 2004 countered:

> *"Business is business. We try to separate politics from business. I think the internal situation in the Sudan is an internal affair, and we are not in a position to impose upon them."*[162]

However in a situation as explosive as the one in Sudan at the time, politics could not have been separated from business for long. China has deployed 4 000 non-uniformed forces to Sudan to help protect its oil interests.[163] And the involvement increased. China, with the increasing tensions in the country, especially after the conflict in Darfur got mediatized, decided to change its policy of blocking UN Security Council resolutions, which would authorize deployment of peacekeepers in the region and also started pushing Khartoum to agree with such intervention. According to scholars this change of heart was motivated by the increasing uselessness of non-intervention when faced with a real threat to its economic interests in the country.[164]

From the case of Sudan, we can see that both diplomatic support and foreign aid are being used to provide backing for Chinese FDI in Sub-Saharan Africa. It is also apparent that with increasing FDI Chinese economic interests strengthen, and as such political involvement cannot be avoided, even if it means going against its own declared rule of non-interference in internal matters of other states.

[160] Based on the data from Observatory of Economic Complexity, *Sudan*
[161] Based on the data from Observatory of Economic Complexity, *Sudan*
[162] Zweig, David, Jianhai, Bi, *China's Global Hunt for Energy*
[163] Ibid.
[164] Hanson, Stephanie, *China, Africa, and Oil*, p. 4

Conclusion

The role of Chinese investments in Africa is deemed very controversial. One of the reasons for the growing mistrust of Chinese financial flows on the continent might be, as this research suggests, the pragmatic approach of Chinese state-owned companies. With booming manufacturing in China, the country needs certain raw materials and minerals to ensure continuous growth, which benefits the citizens and helps strengthen its international position. Based on the analysis, we have determined that chromium, coal, cobalt, coltan, copper, iron ore, lead, manganese, nickel, oil and zinc are the crucial materials for the Chinese economy. However we cannot forget that China also certainly has other reasons to increase its investments in Africa and strengthen the ties with local governments. Africa is becoming a big prospective market for Chinese products and as such, many companies might seek the opportunity to enter it in an early stage of its development. African countries are increasingly raising their voice on international fora and thus constitute an important pool of potential political allies.

Even though Chinese FDI in Africa only constitutes about 4% of total Chinese outward FDI and 6% of total FDI in the continent, the volume of Chinese FDI flows increased from 280 million USD in 2004 to 1438 million USD in 2010. Most of the FDI goes to the mining sector (40,74% in 2006). The largest recipients are South Africa, Nigeria, Zambia, the Democratic Republic of the Congo, Niger, Sudan, Ethiopia, Kenya, Madagascar and Angola.

As we have already established at the beginning, Chinese FDI seems to be largely predetermined by the allocation of natural resources. To verify such claim, a thorough comparison of Chinese FDI allocation and natural resources reserves was needed. About 25% (80% if we include South Africa) of Chinese FDI flows in the selected period went to countries with oil reserves. From the top ten receivers of Chinese FDI flows, eight countries had proven oil reserves. As we can see, Chinese major FDI flows strongly correlate with oil production. The biggest recipient of Chinese FDI is South Africa, which obtained 55% of total Chinese FDI flows to the continent between the years 2004 and 2010, a country with vast reserves of raw materials, which also constitutes 62% of its exports to China. Out of the ten biggest recipients of Chinese FDIs all have considerable reserves of raw materials, which they also export to China.

Sino-African relations were strengthened since the Bandung conference and continued to flourish for most of the 20th century. However as we argued in this thesis, the new era of Sino-African relations started with the establishment of the Forum on China-Africa Cooperation in 2000. The FOCAC changed relations between China and Africa considerably by introducing a calendar of scheduled meetings. The political push for closer relations was also accompanied by economical efforts. The year 2000 also marked the beginning of the "going global strategy", which has been supporting Chinese firms in investing abroad and thus positively influenced Chinese FDI flows to Africa, which has been rising ever since. Due to those changes African export has also spiked since 2003.

When put together, those two analyses provided the basis for the first thesis, which stated that China started closer political relations with Africa because of its increasing investments on the continent and as such, its strategic need of resources to a certain level predetermined the Chinese relationship with, and interest in, Africa.

The African continent is in many ways, due to its colonial history, economically connected to Europe and the United States. Western companies have drilling rights in all African oil producing countries. To tackle the dominance of the West in Africa, China decided to use diplomacy and aid to gain the friendship of local governments. A window of opportunity for China to invest was also opened by economic sanctions, which prevented or complicated Western investments in countries such as Angola or Sudan. The fourth biggest Chinese FDI flows recipient is the Democratic Republic of the Congo, sixth is Sudan, tenth is Angola, all countries with rather low indicators of good governance. The second thesis, arguing that China uses pure pragmatism to determine the allocation for its investments, which causes it to also invest in countries generally rejected by the Western companies, was thus proved only partly.

The third thesis referred to China using foreign aid and diplomacy to strengthen its relations with resource rich countries and create long-term commitment. As we have established that one of the Chinese vital interests on the continent is resource-seeking, we have to consider the fact that setting up a new mine or oil production spot is generally very costly and takes some time. Several countries on the list of the largest recipients of Chinese FDI are countries torn apart by conflict and years of bad governance. To be able to do successful business there, China decided to use the win-win policy of providing those countries with infrastructure in exchange for resources, a strategy called the "Angola mode".

Another investment flows to those countries via official Chinese foreign aid, which amounted between the years 2000 and 2011 to 9,25 billion USD. The biggest recipients at the time were Ghana, Nigeria, Ethiopia, the Democratic Republic of the Congo, Sudan, Zimbabwe, Angola, Congo, Mozambique and Equatorial Guinea. All of those countries have considerable reserves of natural resources and 57% of total Chinese foreign aid between the years 2000 and 2011 was obtained by countries with oil reserves. The diplomatic commitment to African countries was established by the emergence of the Forum for China-Africa Cooperation in 2000 and also continued on international fora. One example of such efforts was the blockage of the United Nations Security Council over the situation in Darfur.

China represents a rational actor, which seeks natural resources to promote its domestic economic growth, and thus any “hunt for raw materials” is the only logical outcome of Chinese manufacturing boom. Even though China cooperates with authoritarian and highly controversial regimes, it did not proved to be a matter of preference in this research, but merely the question of opportunity. The difficult access to information and secretive nature of the Chinese government might raise the suspicion of Western countries, and in the end it is the uncertainty about the next Chinese move that seems to be the root of all the doubts and fears of the growing strength of this Asian power.

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