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Master Thesis:

Impacts of China’s Economic Engagement in Sub-Saharan Africa

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Statement of Academic Honesty & Acknowledgements:

Hereby I confirm the thesis below is a product of my independent two-year research on Sino-African economic relations. All intellectual property of other researchers and authors used in the text has been quoted in accordance with the currently valid ISO norms to the best of my knowledge. I would also like to kindly thank Ph.D. Zuzana Stuchlikova for professional guidance and useful suggestions that have immensely contributed to the quality of the text.

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NINA KEŠELJ

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ABBREVIATIONS

ADA - African Development Bank

COMESA - Common market for Eastern and South Africa

CNOOC – China National Offshore Oil Corporation

CPOE – Chinese privately owned enterprise

CSOE – Chinese state owned enterprise

FDI – foreign direct investment

FNLA - The National Front for Liberation of Angola

GDP – gross domestic product

IMF - International Monetary Fund

MOFCOM - Chinese Ministry of Commerce

MPLA - The People's Movement for the Liberation of Angola

ODA - official development assistance

OECD –Organisation for Economic Cooperation and Development

PRC - People’s Republic of China

TCI - trade complementarity index

TRALAC - Trade Law Centre

UNITA - The National Union for the Total Independence of Angola

WB - World Bank

INTRODUCTION

Half a century ago in his speech to the South-African Parliament a former British Prime Minister Harold Macmillan stated that *„a wind of change is blowing through the continent“*[1], advocating the right of indigenous people to independence and implicating a change in the British attitude towards the Apartheid regime. Fifty years later we are the contemporaries of equally dramatic changes in terms of unprecedentedly rapid economic development of free and independent Africa, fueled by the so-called „South-South“ cooperation, where the People's Republic of China plays a dominant role amongst the new partners.

The main aim of this master thesis is to evaluate the impacts of the growing Chinese economic engagement in Sub-Saharan Africa – does the growing role of China in the continent contribute to the economic development of the region, or it represents no more than a mere continuation of little successful economic practices of traditional partners – the US and ex-colonial powers, that have so far mainly concentrated on providing official development assistance failing to address the acute development needs of the region. In an attempt to answer these questions, the potential positives and negatives of the swiftly growing Sino-African economic co-operation will be analyzed. Due to the ambiguous definition of official development assistance (ODA) used by Chinese government, the analysis will not include ODA, but will concentrate on trade and FDI flows, while terminologically rather broad expressions "*Chinese economic engagement*" or "*Chinese economic activities*" in Africa will be employed.

According to the OECD, official development assistance is defined as official financial flows concessional in character with a minimum grant element of 25 %, which are provided by government agencies to developing countries with the promotion of their economic development and welfare as the main aim. This however, does not include lending by export credit agencies for the purpose of export promotion.[2] Yet, this definition appears to be of little value when it comes to China – despite a considerable increase in transparency,

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[1] THE NATIONAL ARCHIVES OF THE UNITED KINGDOM GOVERNMENT. *"A Wind of Change" – Harold Macmillan's African Tour of 1960.* [Online]. February 2010. URL:< http://www.nationalarchives.gov.uk/news/421.htm> [03.01.2014]

[2] OECD. *Glossary of Statistical Terms: Official Development Assistance.*Paris, August 2008. .[Online]. URL:< http://stats.oecd.org/glossary/detail.asp?ID=6043> [ret. 03.01.2014]

Chinese government still does not disclose neither the structure nor the recipient countries of its ODA, which evokes numerous speculations and leads to overestimations of the sums granted. Likewise, there is a general misconception about Chinese help being administered "*quid pro quo*"- i.e. for the access to natural resources. Besides, the rogue states generally avoided by traditional donors due to the political instability and human rights violating regimes, such as Zimbabwe and Sudan, have been often portrayed as the predominant recipients of the Chinese development assistance, whilst their real share is rather negligible.[3] Therefore, in order to avoid bias or misleading conclusions, the thesis will not further elaborate the aspect of Sino-African cooperation.

As per the high political sensitivity of relations between Taiwan and mainland China, which has a considerable international impact, I believe it is very important to pre-define terminology used in the thesis. Namely, the term China will exclusively refer to the People's Republic of China (further PRC), while the Republic of China will be addressed as Taiwan. When it comes to the geopolitical scope of the analysis it will solely refer to the Sub-Saharan states, while the countries of predominantly Arabic North Africa might be mentioned as an illustrative example. As far as the time framework of the analysis is concerned, the thesis concentrates on the period from 2000 onwards, as the nature and intensity of Sino-African relations have significantly changed with the geopolitical changes brought about by the end of the Cold War. The historical aspect will be further explained in the second chapter of the thesis.

Due to the lack of possibility to perform a field research, the thesis employs induction and analysis of the academic sources as the main methodological tools, while occasional comparison with the traditional partners' practices will be introduced in order to emphasize the qualitatively different aspects of the Chinese engagement in the continent. Yet, it has only a corroborative function and this paper is by no means to be considered comparative in character. Since the unprecedented growth of trade and investment flows between Africa and China has recently been attracting a lot of media and academic attention, a number of researches on Sino-African economic exchange are available. In an attempt to insure objectivity, the thesis uses findings of independent scholars (e.g. Brautigam, Kaplinsky, etc.)

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[3] BRAUTIGAM, DEBORAH. *The Dragon's Gift – The Real Story of China in Africa*. 1st ed. Oxford: New York: Oxford University Press, 2009. ISBN - 978-0-19-955022-7.

and specialized research centers, such as Trade and Law Centre, and analyses academic journals (e.g. Journal of Contemporary China, Journal of Modern African Studies, etc.) and studies of the renowned financial and economic institutions (OECD, International Monetary fund (IMF), World Bank (WB), African Development Bank (ADA), etc.). Yet, as the official trade and investment statistics are not regularly published, the informative value of the figures in some part of the text might be constrained, due to the outstanding growth rates. Besides, many scholars do not operate with exact periods and statistics in the research papers, so it might be quite difficult to contextualize the information. The unreliability and constrained availability of statistical data on Sino-African economic exchange is definitely the greatest impediment in the topic's research.

The theoretical framework of the analysis will represent an overview of some of the most influential theories of developmental economics in the 20th century in order to show how the academic approach to international trade and investment has changed over time. This chapter is introduced because the theories are still relevant for understanding the empirics of South-South economic cooperation. However, as this is still a relatively new form of development cooperation, where advanced economies no longer play a dominant role, it is important to highlight that the empirical conclusions might considerably differ from the theoretical constructs of developmental economics. The results of the research will be presented in the following three chapters with the second chapter analyzing motives and forms of the Chinese engagement in Sub-Saharan Africa. It represents the most descriptive part of the analysis, which is supposed to emphasize a commonly neglected fact, that China has a long historical presence on the continent. The third and fourth chapter are an in-depth analysis of the Sino-African trade and investment flows, in terms of their dynamics, structure and potential impacts they might have on the regional economies.

1. INTERNATIONAL TRADE, ECONOMIC GROWTH AND DEVELOPMENT

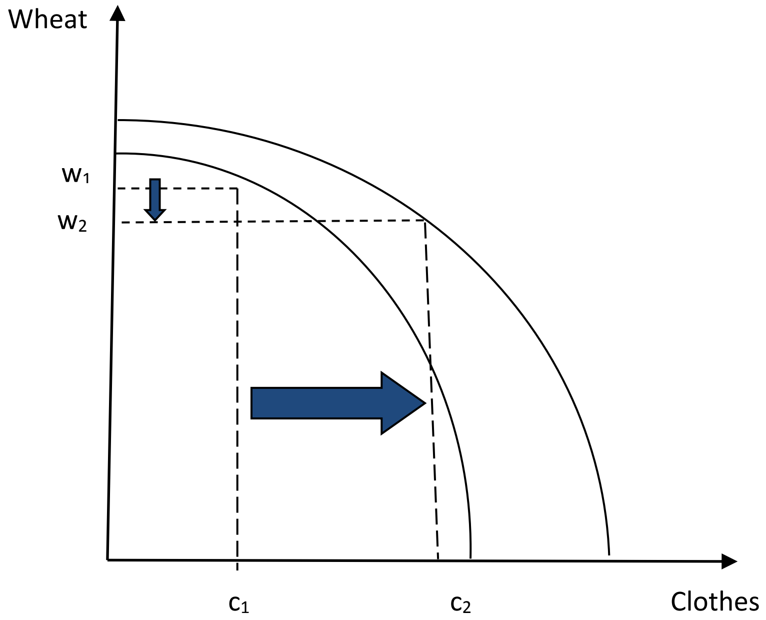
International trade represents historically the oldest and most dynamically developing form of international economic relations fostering the economic growth and development of a number of countries. Due to the globalization of the world market and multilateral liberalization of international trade, the world's trade volume in the first decade of the new millennium increased sixteen times compared to the 1950s value, whilst the global GDP has increased 3.5 times over the period. This clearly illustrates the growing importance of international trade, as its share in the world's income creation constantly rises.[4]

Whilst Ricardian theory of *comparative advantage* advocating the positives of international trade is widely known[5], its adverse effects, which are highly relevant for developing countries, are more difficult to analyze and are a subject of a number of developmental theories. The theory of comparative advantages therefore cannot be generally applied to the example of developing countries, as free-trade might not prosper the economies due to its transformative and transmitting impacts - namely, international trade transmits the impulses of the international market to the national level, while the concentration on a specific factor can lead to structural changes in the economy and result in its dependence on a single commodity or product.[6] If we assume a two-factor (labour and capital), two-product economy (e.g. clothes and wheat) with constant prices and mobility of factors between the sectors, according to the ***Rybczynsky theorem*** an increase in country's endowment of one factor of production, with the other factor remaining constant, will lead to the increase in the output of the factor-intensive good at the expense of the other good. Assuming there was a labour increase in the economy, the proportionate expansion of labour-intensive clothes will be larger than the proportion by which the overall labour endowment grows. This is because of the factor mobility – the increased supply of labour

[4] JENÍČEK, V. Globalizace světového hospodářství. 1st ed. Prague: C. H. Becks. ISBN 80-7179-787-1. p.89.
[5] **Note:** This is a basic theory of classical economics, therefore it will not be elaborated in the text, as it is assumed to be widely known to the readers.
[6] JENÍČEK, V. *The Role of Foreign Trade and Its Effects.* [Online]. Agricultural Economics. Prague: The Czech Academy of Agricultural Sciences. Vol. 55, No. 5, 2009. URL: http://www.agriculturejournals.cz/publicFiles/06929.pdf [ret. 03.01.2014]p

will draw some capital from the wheat production. As the wheat production declines, some additional land and labour will be released and reemployed in the production of clothes, as the figure below shows:[7]

Figure no. 1: *Single factor growth – The Rybczynski Theorem;*



Source: Author from PURGEL, T. *International Economics*. 13thed. Singapore: McGraw Hill International Edition, 2007. ISBN: 978 - 007 – 125977-4.

As one can see from the figure above, the specialization might lead to a biased growth illustrated by the skewed upward shift of the production possibility frontier. However, while the loss in the wheat might appear insignificant in the diagram, retardation of any production line due to the specialization might have substantially adverse effects in a developing economy with a fragile sector structure.

This can result in so-called ***Dutch disease***, i.e. deindustrialization of the country due to a heavy reliance on the exports of natural resources, as it has occurred in the Netherlands after development of the new natural gas fields under the North Sea in 1959, when the traded-goods production recorded a significant slump. Once a new natural resource is discovered, the labour needed for its development has to be drawn from the manufacturing sector resulting though in diminishing industrial production. Besides, the value of the

[7] PURGEL, T. *International Economics*. 13thed. Singapore: McGraw Hill International Edition, 2007. ISBN: 978 - 007 – 125977-4. pp. 110 – 112.

national currency increases due to the higher demand, which disadvantages domestic exporters, whose goods become relatively more expensive and, thus, less competitive in the international market. Although it has been proven the Dutch disease does lead to some deindustrialization, according to Purgel it cannot be claimed this would represent a national-scale problem. Besides, the countries usually profit from the natural resources extraction, unless the growth becomes immiserizing.[8] This conclusion is important for the thesis, as if to determine how the growing economic exchange with China influences diversification of the Sub-Saharan economies – does the rise of China in Africa contribute to the structural reforms of the countries or it rather fuels further economic growth based on commodities trade, which might turn into immiserizing. The theory becomes even more relevant considering the fact that a number of the Sub-Saharan economies are currently expending their oil extraction capacities, notably Nigeria and Angola, where China is heavily present.

The **theory of immiserizing growth** was first introduced in 1958 by Indian economist Jagdish Baghwati. He warned the expansion in production of a certain output can result in a sufficient deterioration of the country's terms of trade to offset the positives of the expansion and decrease the real income of the country. The immiserizing growth might however occur when one or both of the conditions are fulfilled: the offer of the output of the rest of the world is absolutely inelastic, when the country's exports are Griffen goods abroad, i.e. their consumption rises with the rising prices, and/or domestic production of importables is reduced at constant relative commodity prices as the economy expands.[9] Therefore, strongly export-orientated growth has to be combined with extremely steep curves of relative supply and demand (RS, RD), which is highly unlikely to occur. Hence, majority of the contemporary economists perceive the concept of immiserizing growth as a theoretical construct, rather than a real-world problem.[10] Yet, in the case of Sub-Saharan Africa, where a single commodity dominates exports, as for instance in Nigeria, Sudan, Angola, Zambia, etc., the conclusion appears highly relevant for interpretation of their terms of trade.

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[8] PURGEL, T. *International Economics*. 13thed. Singapore: McGraw Hill International Edition, 2007. ISBN: 978 - 007 – 125977-4. Pp. 113-14

[9] BHAGWATI, J. *Immiserizing Growth: A Geometrical Note*. The Review of Economic Studies, Vol. 25. No 3, Jun 1958. Oxford University Press. [Online]. URL: < http://www.jstor.org/stable/2295990>. Pp. 201-205

[10] KRUGMAN, P. OBSTFELD, M. International Economics. 6th ed. New York: Addison and Wesley, 2003. ISBN – 0-321-11639-9. Pp. 102 -103.

Besides, it is important to say that international trade can affect society groups differently – while the abundant-factor owners might profit from the factor-intensive industry expansion, the owners of the other factor are likely to lose from the international exchange. The diverse influences of international trade on the particular sectors of the economy have significant implications for the trade policy of a country. These influences are summarized by ***Stopler-Samuelson theorem***, which identifies the owners of the scarce factor as the main pole of opposition to international trade in the society, who generally advocate protectionist trade policy. However, this only applies to inter-industry trade, not the intra-industry trade and trade based on technology differences.[11]

Hence, if we apply the theorem to the question of the North-South trade relations, i.e. trade between advanced and developing economies, it is not expected that the specialization of the less-developed, labour-abundant economies in labour-intensive manufacturing will be met by the growing protectionism of advanced economies of the North. The rich, developed economies specialize majorly in the capital-intensive manufacturing that usually requires highly qualified labour. Thus, the adverse impacts of the North-South trade would concern unqualified labour force, which is not very numerous in developed countries with generally high levels of education.[12] In terms of the thesis, it will be important to identify, whether the growing presence of China in SSA might be significantly negative for particular groups in African societies, i.e. which groups tend to be the most prominent supporters and opponents of the Chinese economic expansion across the continent. This is especially important considering the high social sensitivity of the SSA region.

As we can conclude from above, international trade generally contributes to the economic growth of the participant economies enabling them to overcome the natural resources' limits and take part in international labour division. However, in case of developing economies that most commonly have a comparative advantage in agricultural goods and commodities' production, it might result in a biased growth further distorting already fragile sector-structure of the economies and leading under extreme conditions to

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[11] REINERT, K. *An Introduction of International Economics: New Perspectives on the World Economy*. 1st ed. New York: Cambridge University Press, 2012. ISBN 978-1-107-00357-6. Pp. 62 -63.

[12] Ibid., pp. 63-65.

immiserizing growth or Dutch disease. While the relation between international trade and economic growth is very important, it is of even greater significance to analyze how international trade may enhance economic development. The less-developed economies have constituted an important block of the world economy since the 1960s, when the majority of African countries gained independence. Although they represent a quite heterogeneous group, all of them share the following characteristics – low standard of living, socio-economic dualism and the lingering asymmetric dependence on developed economies.[13] The following part of the chapter will therefore represent an overview of the most important dualist models of structural transformation of the last century, in order to illustrate how the attitude towards international trade and economic development has changed over time.

1.1 Structuralism

Structuralism as a development approach represents one of the historically oldest and most influential theories of development of all times. Few theories have had such a tremendous influence on development analysis as the Raul Prebisch's ***center-periphery theory*** which was first formulated in 1948, as a reaction to the worsening economic position of Argentina and other Latin American countries in the world economy during the Great Depression. Although the perception of the economic system as one of the industrial center and agrarian periphery is a point of view that many of the Western economists still find difficult to accept, the theory of unequal exchange is still very influential, as it was the first one to underline the inequality of exchange between advanced nations ("center") and peripheries, i.e. developing countries. It clearly implied the center partially derived its wealth from the periphery, while the remaining part Prebisch ascribed to its own technological progress.[14] One of the greatest problems wrought by the Depression were constantly declining terms of trade – already in the mid-1930s has Prebisch warned the agricultural products' prices are falling drastically faster than those of the manufactured goods. This was considerably worsening the trade position of developing countries – for instance, in 1933

[13] NĚMEČKOVÁ, T. *Rozvojové státy* in CIHELKOVÁ, E. et al. *Mezinárodní ekonomie.* 1st ed. Prague: Oeconomica, 2004. ISBN 80-245-0815-X. pp. 149 – 50.

[14] LOVE, L. J. *Raúl Prebisch and The Origins of the Doctrine of Unequal Exchange.* Latin American Studies Association: Latin American Research Review, Vol. 15, No. 3, 1980. [Online]. URL: <http://www.jstor.org/stable/2502991> [ret. 14.01.2014]. Pp. 45-46.

Argentina had to sell 73 percent more than prior to the Depression, as if to finance the same amount of imports.[15]

Thus, Prebisch claimed the export-based growth is unrealistic, since the US, as the biggest world importer of the day set much lower import quotes than those imposed by the United Kingdom in the 19th century. He believed developing countries should not, therefore, follow the export-orientated growth strategies of advanced economies, as the market conditions have considerably changed from the 19th century. Instead of export, he suggested the countries should concentrate on industrialization and building of their own, internal capacities for a sustainable development. According to the structuralists, the engine of a long-term, sustainable growth is not export, but domestic capital formation, as the export orientation does not necessarily contribute to industrialization. For instance, in the 19th century Brazil was an important coffee exporter, yet the high export incomes did not lead to capital formation and industrialization, but on the contrary, to increasing imports.[16]

Hence, in order to reach sustainability, the structuralists advocated *import substitution strategy,* i.e. restricting of imports and protecting the goods produced domestically in order to enhance domestic industrialization, which would draw abundant labour from the low-income agricultural sector to manufacturing. This in turn would result in higher average wages in the economy and consequently higher standard of living.[17] Although the theory might seem quite protectionist in character, the structuralists did not consider international trade is negative as such – according to them, international trade is important for providing incomes needed for capital formation in the economy and financing the luxury consumption. However, they emphasize, the export-orientation of an economy does not necessarily lead to economic development.

Although the reasons for protectionism in developing countries might be justified, as in the case of the infant industry argument, there are some points of the theory that might be severely criticized. Namely, when advocating protectionism, the theory apparently omits

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[15] I LOVE, L. J. *Raúl Prebisch and The Origins of the Doctrine of Unequal Exchange.* Latin American Studies Association: Latin American Research Review, Vol. 15, No. 3, 1980. [Online]. URL: <http://www.jstor.org/stable/2502991> [ret. 14.01.2014]. P.50.

[16] CIHELKOVÁ, E. et al. *Mezinárodní ekonomie.* 1st ed. Prague: Oeconomica, 2004. ISBN 80-245-0815-X. Pp.155-56.

[17] Ibid.

to elaborate, where could the commonly capital-stripped, developing countries get the financial means for industrialization but from the export revenues. The credit ratings of the countries are usually very low, so it would be highly improbable they would be able to obtain alternative credit lines from the commercial bank sector. Besides, protectionism undermines transmitting role of international trade, as the technological progress is difficult to spread to autarkic economies.

While the case of Sino-African trade might appear very difficult to interpret in the light of the center-periphery relations, as both China and Sub-Saharan African economies are developing countries, the theory is important for the thesis, as if to determine whether China differs from the former colonial 'center' in its trade practices. Are the Sino-African trade relations based on real mutual prosperity or China tends to be another zealous player in the ever-lasting scramble for African natural resources?

1.2. The theory of the "big-push"

Another important concept in development economics is Rosenstein-Rodan's ***theory of the "big-push"*** he has developed in 1943 by studying depressed economies of Southern and South-Eastern Europe. Similarly to the structuralists, Rosenstein-Rodan proposed *large-scale industrialization* as the most efficient way to reach long-term development, which prospers the world economy on the whole as the income distribution becomes more even. He identified *disguised unemployment* as the greatest problem of underdeveloped countries, with minimum 25 % of the labour force being employed in the vast agricultural sector, whose marginal product (MP_L) is approaching zero. According to him, the low productivity can be solved in two manners – either by emigration of the labour force, which is expensive and hardly feasible, or industrialization. Any country can follow two models of industrialization – the Russian model based on self-reliance and national capital, or the industrialization with substantial international investment and capital lending. Whilst the first method is often severely criticized, as it is very lengthy, leading to autarky and lowering the national standard of living by limiting domestic consumption, the investment financed by foreign capital is much more time-efficient and helps preserve all the positives of the international labour division. [18]

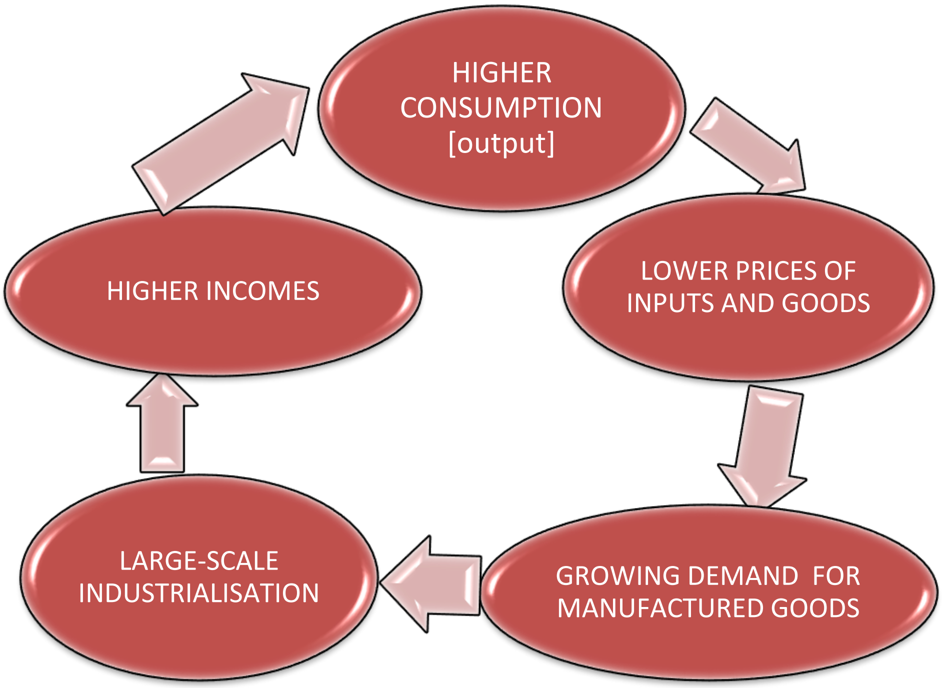
Therefore, in order for industrialization to be successful and generate development, it is necessary to focus on the countries' hidden potentials for development and perform a simultaneous, thoroughly planned, large-scale industrialization of the economy's major sectors The 'big push' of industrial investments would, he assumed, launch a chain reaction of virtuous circles and complementary investments throughout the whole economy, which would bring about favorable synergistic interactions across the sectors. Although the virtuous circles have not been further elaborated by Rosenstein-Rodan, they can be simply defined as a chain of positive externalities of an investment in a particular industry that are further transmitted across the sectors of the economy.

Namely, the large-scale industrialization increases productivity in the economy, which in turn leads to higher incomes. Higher incomes, on the other hand, enable an increase in consumption of manufactured goods, which expends their output leading consequently to higher demand for inputs. The prices of inputs fall accordingly and the economies of scale are now reached. The falling prices of inputs reflect in lower prices of manufactured goods leading to higher quantity demanded and therefore a new circle is created.[19] Thus, virtuous circles are, as the example and the figure below illustrate, self-regenerating:

[18] ROSENSTEIN-RODAN, P.N. *Problems of Industrialisation of Eastern and South-Eastern Europe*. Wiley: *The Economic Journal*, Vol. 53, No. 210/211 (Jun. - Sep., 1943). pp. 202-211. [online]. URL: http://www.jstor.org/stable/2226317. Pp. 203 -205.

[19] STIGLITZ, J. HOFF, *K. Modern Economic Theory and Development.* pp.389-459 in MEIER, G. ,STIGLITZ, J.(eds.) *Frontiers of Development Economics.* 1st ed. Oxford: Oxford University Press,2001. [Online]. URL:< http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1084711> [retr.14.01.2014]. Pp. 401-13.

Figure no. 2: Virtuous cycle of the large-scale industrialization;



Source: Author on the basis of ROSENSTEIN-RODAN, P.N. *Problems of Industrialisation of Eastern and South-Eastern Europe*. Wiley: *The Economic Journal*, Vol. 53, No. 210/211, Jun. - Sep 1943.

Rosenstein-Rodan also stressed that the costs of capital have been constantly increasing since the 19th century, as well as the political risks of investment which leads to a substantial decrease in capital mobility. Furthermore, the profit-maximizing private entrepreneurs are orientated on their own prosper and have no possibility to determine the social value of the positive economies of investment. The private investments are therefore suboptimal – i.e. lower than the social optimum of investment would be, and do not shift the economy to its potential.

Thus, Rosenstein-Rodan argues the *laissez-faire* system does not enable large-scale industrialization, but it should be performed in the institutional framework created by the state, which is the only entity able to coordinate all sectors of the economy. The sectors should, he assumes, be approached as a large trust or a firm, with the priority being given to the formation of social overhead capital, such as building schools, hospitals, infrastructure, etc. The state should pay a special attention to education and training of the labour force, as their costs exceed the benefits of private capitalists and they are consequently unwilling to cover the expenses. However, education of the labour force has exceptionally positive effect on labour productivity and therefore enhances development.[20] The theory is highly relevant for the thesis, as the Chinese model of development is based rather on the state capital than the laissez-faire principles. As the growing engagement in Africa is strongly coordinated by the state, particularly the FDI flows, as we will see later, it will be interesting to analyze if the state mechanisms enable better creation of the social overhead capital in the African economies than the market-based investments.

As we can see, both the structuralists and Rosenstein-Rodan propagate industrialization of the traditional economies as a key to economic development. While Rosenstein-Rodan is far less advocating protectionism, he does support state interventions in the role of a coordinator of the economy's development. It could be said that Rosenstein-Rodan is rather Keynesian than protectionist in his approach, significantly supporting international investments as a source of capital. However, the theory does not further elaborate how the investments could be attracted and it seems to underestimate the capital needs of a large-scale industrialization. Besides, it is based on positive externalities that are difficult to quantify. For the purpose of planning and coordination of the industrialization, it would be of crucial importance to be able to enumerate them. Finally, it is questionable if the coordinative role of the state is actually feasible in reality, as an economy is a considerably lively structure with constant and unforeseeable changes.

[20] ROSENSTEIN-RODAN, P.N. *Problems of Industrialisation of Eastern and South-Eastern Europe*. Wiley: *The Economic Journal*, Vol. 53, No. 210/211 (Jun. - Sep., 1943). pp. 202-211. [online]. URL: http://www.jstor.org/stable/2226317 Pp. 203 -209.

1.3 The theory of balanced growth

The balanced growth theory pioneered by Ragnar Nurkse in 1952 represents another important building block of the economics of development. As the name suggests, Nurkse proposed that only the balanced growth of both the agricultural and industrial sector pave the way to a long-term, sustainable development of the dualistic, underdeveloped economies. Similarly to Rosenstein-Rodan he believed that the large-scale, simultaneous investments in different industries lead to the market's expansion and consequently enhance economic development.[21]

Nurkse, however, argued the inducement to investment in the less-developed economies is limited by the size of domestic market, which is rather constrained by the low income per capita inevitably resulting in the substantially inelastic demand for consumables. The size of a market is determined by purchasing power of the population, its size and geophysical area. It can be expended either by lowering transfer or other production costs, or by technological progress. It was the small size of the market and the low domestic purchasing power that actually led the former colonial powers to invest in export-orientated sector, majorly producing primary commodities, rather than in the industries aimed to the domestic market. This has in turn led to the high export-dependency of developing countries, where the trade revenues account for the major share of the national income.

However, the lingering problem is its uneven distribution through the society, as the majority of the labour force remains underemployed in the traditional, low-income agricultural sector. As an example, Nurkse takes Venezuela, where petroleum accounted for 90 % of the country's export, while the industry employed only 2 % of the population.[22] In terms of the research question, the theory will be used to assess, whether China differs from the traditional partners, when it comes to the economic size and development of the countries it is willing to collaborate with and how the Chinese economic activities influence

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[21] CYPHER, J. DIETZ, J. *The Process of Economic Development*. 3rd ed.New York: Routledge, 2009. ISBN - 978-0-415-77104-7. Pp. 145-46.

[22] NURKSE, R. *Some International Aspects of the Problem of Economic Development*. American Economic Association. The American Economic Review, Vol. 42, No. 2, Papers and Proceedings of the Sixty-fourth Annual Meeting of the American Economic Association, May 1952, pp. 571-583. [Online].URL: < http://www.jstor.org/stable/1910629 >.Pp. 571 - 76.

job creation in the populous African states in order to balance agricultural and industrial sectors of the economies.

As the export-expansion of developing countries would be met with growing protectionism and the primary commodities are price-inelastic due to the low demand-elasticity, Nurkse claim the export-orientation is not a line of development to follow. He was consequently commonly marked as an *export-pessimist*, although he clearly states in his work the reliance on domestic production should not and does not mean a call for autarky, but rather a change in the structure of the national income – the volume of international trade will actually increase with the advancing industrialization of the country due to the higher incomes and therefore higher purchasing power. Its share in the national income will undoubtedly fall, yet the share is unnaturally high due to the low incomes and weak domestic industrial sector.[23]

The low-incomes result in low-savings and therefore in impossibility to invest in the economy. *The vicious circle of poverty* can be broken only by the large-scale investments that would increase the average income in the economy. This cannot be achieved by private investments, due to the propensity to import – namely, a private capitalist usually invests in a single industry and, although the living standard of the workers in the branch might considerably increase, this will not induce further investments, as the workers will spend a part of their newly created savings on imports. Only when a state invests in a number of mutually complement industries, they will create demand for each other reaching a synergic effect. A *virtuous cycle of growth* will be created, where expending outputs result in lower prices of consumables inducing higher purchasing power and consequently higher aggregate demand. This will enhance further investments in the economy opening a new virtuous circle. However, the problem with the strategy might be the supply side of the capital formation. Namely, the *propensity to import* rises with the growing incomes, due to the so-called *demonstration effect* – the top earners in the society will resort to the consumption of the status-symbolizing, luxury goods in order to keep up with the consumption standards of the advanced nations. This will inevitably restrain the means available for investment and

[23]NURKSE, R. *Some International Aspects of the Problem of Economic Development*. American Economic Association. The American Economic Review, Vol. 42, No. 2, Papers and Proceedings of the Sixty-fourth Annual Meeting of the American Economic Association, May 1952, pp. 571-583. [Online].URL: < http://www.jstor.org/stable/1910629 > P. 577.

utter into disequilibrium of balance of payments.[24]In order to prevent the negatives of international trade and investment, which is a very important source of capital, the state could create forced savings through a system of the progressive income-taxes. This would repress luxury consumption out of the national income and the means could be directed to the most promising industrial sectors, possibly via government-operated banks designed to identify and promote industrialization in the private sector. Industries, on the other hand, would be encouraged to increase their capital formation, partially because of affordable lines of credit through the development banks, and partially because of the infant industry protection, as the state would protect them against cheap manufactured imports from developed countries by imposing trade tariffs.

Therefore, the both sides of demand and supply would be addressed – the increased savings would increase capital formation and consequently expend the outputs of the domestic manufacturers. At the same time, the market for domestic manufactured goods will expend, as the cheap imports will be substituted by domestic goods leading to *import-substitution industrialization*.[25]As we can see, the Nurkse's concept represents more or less an elaboration and continuation of the Rosenstein-Rodan work, providing a more detailed explanation of how the capital formation should be coordinated by the state. The theory will be used in order to determine how the growing Chinese engagement in the continent influences industrialization of the Sub-Saharan economies.

1.4 The theory of unbalanced growth

While the theory of unbalanced growth is commonly considered to be a critic of the Rosenstein-Rodan's and Nurkse's work, its author Albert Hirschman considered himself a dissent within the framework – Hirschman did believe in the hidden potentials for development of the less-developed countries and supported the positive economies of the large-scale investments. Yet, he contested the availability of resources for the vast industrialization in the capital-stripped, developing countries and suggested the investments

[24] NURKSE, R. *Some International Aspects of the Problem of Economic Development*. American Economic Association. The American Economic Review, Vol. 42, No. 2, Papers and Proceedings of the Sixty-fourth Annual Meeting of the American Economic Association, May 1952, pp. 571-583. [Online].URL: < http://www.jstor.org/stable/1910629 Pp. 577 -81.
[25] CYPHER, J. DIETZ, J. *The Process of Economic Development*. 3rd ed.New York: Routledge, 2009. ISBN - 978-0-415-77104-7.Pp. 146 -47;

should be directed to the key-sectors of the economy, where the overcapacity would be created, while the other sectors will act as the bottlenecks in the economy creating pressures for new investments. The intentional disbalancing of the economy, according to him, creates new profit possibilities in the bottleneck sector – for instance, if the state massively invests in steel industry, there will be a higher demand for coal and iron ore, which might open up new profit possibilities in mining sector. As the current supply capacities of iron and coal do not meet the needs of the steel market, new investments will be attracted by the high-profit prospects. This is an example of the *backward-linkages*, as Hirschman named them, when the increase in the output of manufactures leads to the higher demand for the industry's inputs. The positive externalities of an investment can be also transferred by *forward-linkages,* i.e. the industry using the goods as inputs in its own production process will also profit from lower prices. For instance, the construction sector will benefit from cheaper steel elements. [26]

Multiplicity of the linkages is of great importance when deciding where to locate the initial investment. The large-scale investments should stimulate the creation of as many forward and backward linkages as possible. This might spark creation of new industries, which increases output, level of employment and thus leads to decrease in prices of consumer goods, as the economies of scale are reached. While large-scale, capital-intensive industrialization is often claimed to displace workers, Hirschman has proved on the example of Latin American countries it is equally job-creating as the investment in small-scale, labour intensive industries. The number of linkages can be measured by input-output analysis. The priority sector could be either an upstream or downstream industry. In case the social overhead capital was prioritized, this would attract private investors in need of the good social infrastructure. On the other hand, in case of a preference for private investors, a need for social overhead capital would rapidly manifest and induce social investments.[27]

Although the theory fully relying on the functionality of the laissez-faire forces of demand and supply seems very simplistic at the first sight, it is difficult not to notice this view might be overly optimistic in the case of developing countries, where the market forces

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[26] CYPHER, J. DIETZ, J. *The Process of Economic Development*. 3rd ed.New York: Routledge, 2009. ISBN - 978-0-415-77104-7.Pp. 147 - 49
[27] Ibid.

are more than often considerably distorted. Besides, creating intentional disequilibrium might seriously disadvantage some sectors of the economy, which might have very limited resources – for instance, due to the large-scale industrialization, the agricultural sector might stay without the needed labour-force and experience falling outputs. Thus, creation of the disequilibrium in the economy might utter in the antagonizing growth, i.e. the situation when one sector expands at the expense of the disadvantaged one.[28] Considering the persistent socio-economic dualism of the less-developed countries, as well as the fragile sector-structure of the economies, this theory seems to be rather applicable to the advanced nations, as it might worsen existing socio-economic differences leading to major political and economic unrests. In case of the Sino-African relations, the thesis is relevant to analyze the spillover effects of the Chinese economic activities, i.e. to identify their potential backward and forward linkages.

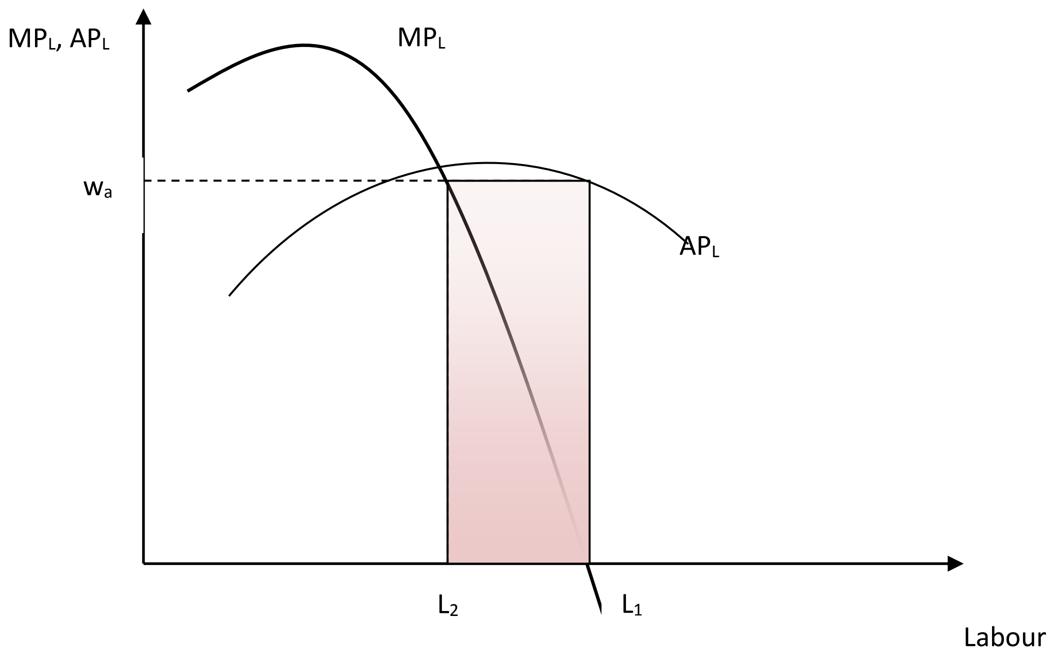
1.5 Theory of growth with unlimited labour supply

The last theory that will be introduced in this chapter was formulated in 1955 by Sir Arthur Lewis and represents one of the best-known theories of developmental economics. The theory coincided with Rosenstein-Rodan's and Nurkse's view that the hidden potentials of developing countries could be used for the rapid promotion of development and that industrialization would pave the way to greater economic and social welfare in the economy. However, unlike in the previous theories, the support for industrialization did not stem from the export-pessimism – Lewis even assumed the world prices of primary commodities and tropical fruit will rise with the growing income in developed countries – but because he believed the labour-abundant, less-developed countries have a comparative advantage in labour-intensive manufacturing. As an export-optimist he supported the specialization of the countries in labour-intensive manufacturing, assuming the increments in the world output would be rather insignificant and therefore would not evoke growing protectionism of developed economies, as the main importers of the goods.

[28] CYPHER, J. DIETZ, J. *The Process of Economic Development*. 3rd ed.New York: Routledge, 2009. ISBN - 978-0-415-77104-7.Pp. 147 - 49

[29]Developing economies are, according to Lewis, all characterized by surplus labour in the agricultural sector, which receives subsistence wages determined by their average product (AP_L), as the marginal product (MP_L) is approaching to zero and it is not possible the workers would not receive any compensation. This is also very understandable, if we consider the collectivism of the traditional societies, where incomes are evenly divided amongst the members of the family and a household rather than an individual is an economic decision-maker. Thus, the actual number of workers in the agricultural sector is much higher than it would be efficient, if the market forces functioned properly. As it can be seen from the figure below, the market employs L_1 number of workers, whereas the efficient amount would be L_2. The L_1-L_2 number of workers represents the labour surplus that can be easily drawn to the manufacturing sector, as long as it would be willing to pay out a salary that would be a little bit higher than the subsistence wage w_a they earn in the agricultural sector and the rise could make up for the higher living costs in the city.

Figure no. 3: Agricultural sector in Lewis model;



Source: Author from CYPHER, J. DIETZ, J. *The Process of Economic Development*. 3rd ed.New York: Routledge, 2009. ISBN - 978-0-415-77104-7.

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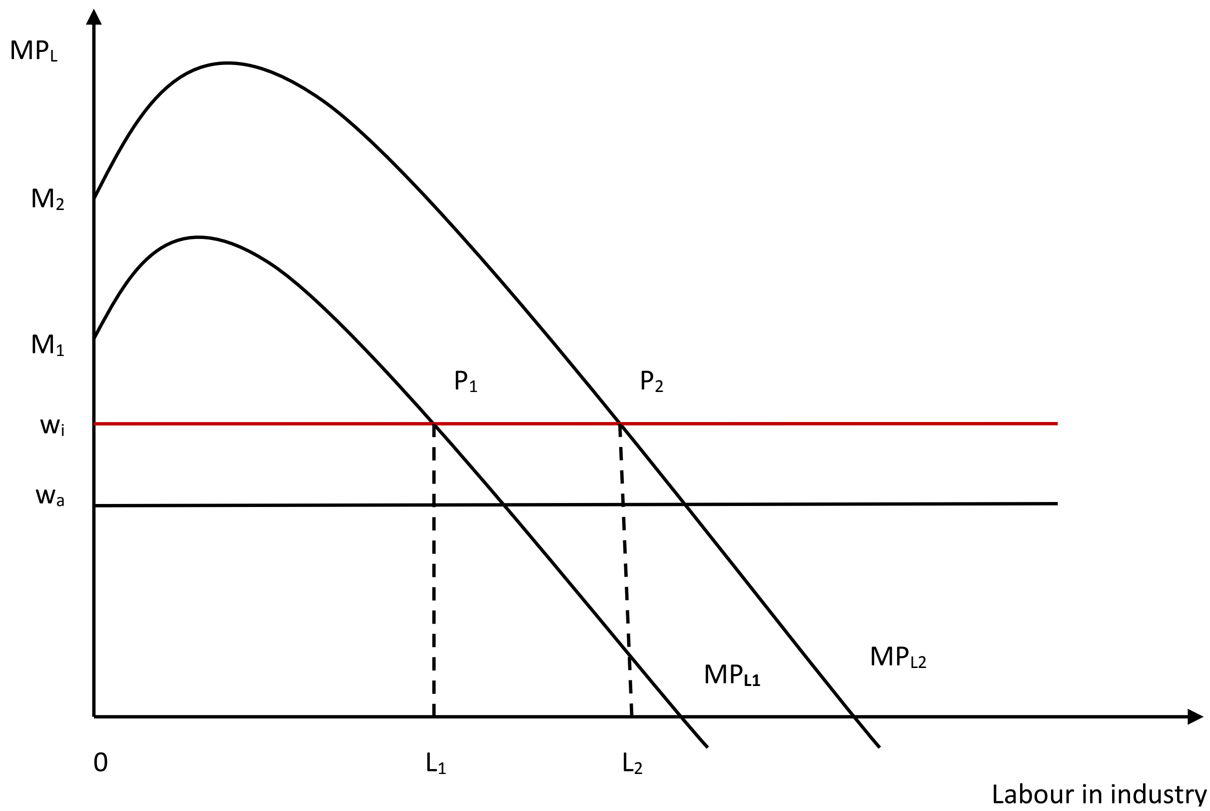
[29] CYPHER, J. DIETZ, J. *The Process of Economic Development*. 3rd ed.New York: Routledge, 2009. ISBN - 978-0-415-77104-7. Pp. 151 – 52.

As a profit-maximizer the industrial sector will employ further units of labour as long as the marginal product of labour does not equal the industrial wage: $MP_L = w_i$. The total output of the sector represented by the area $0M_1P_1L_1$ in ***Figure no.4*** will be divided to the workers' income (area $0w_iP_1L_1$) and the capitalists' income (area $w_iP_1M_1$), which can be further reinvested in the capital-formation in the economy. The capital increment increases the productivity to MP_{L2} and L_2 units of labour are now employed, while the wage remains constant. Consequently, both the investors' and workers' incomes increase (sea areas $0w_iP_2L_2$ and $w_iP_2M_2$), which enhances further investments in the sector. The process of the labour transfer will finally come to an end as the labour in the agricultural sector becomes scarce, which will create upward wage pressures.[30]

Figure no. 4: Manufacturing sector in Lewis model;



Source: Author on the basis of CYPHER, J. DIETZ, J. *The Process of Economic Development*. 3rd ed.New York: Routledge, 2009. ISBN - 978-0-415-77104-7.

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[30] CYPHER, J. DIETZ, J. *The Process of Economic Development*. 3rd ed.New York: Routledge, 2009. ISBN - 978-0-415-77104-7.Pp. 154-55.

The labour scarcity will trigger modernization of the agricultural sector – namely, in order to save on labour costs, the agricultural producers will invest in capital and technology, which will lead to higher labour productivity. As one can see, the labour transfer amongst the sectors will stimulate modernization of the economy on the whole – once the labour surplus is fully depleted, the wages will grow and the standard of living will rise decreasing the income gap between the less-developed and advanced economies, which was the essential purpose of the process. Yet, the model has been often criticized to enhance income disparities in the society, concentrating the major part of the national income in the hands of the well-off capitalists and disadvantaging the low-qualified agrarian workers, whose wages remain stagnant as long as they represent the surplus labour. However, Lewis saw the temporarily worsening inequality as the only way to use the hidden potential of disguised unemployment. Though, he has later changed his view and emphasized the inordinately high consumption by landowners, political elites and financial magnates has to be constrained by levying higher tax-burden on the consumer group. He advocated the state should increase the taxes up to the point it would receive 20 % of the national income, out of which 60 % would be directed to the basic public services, while the remaining 40 % could be used for private capital formation or social overhead capital. Therefore, Lewis newly supported both private and public investments in the economy.[31]

The positives of the manufacturing employment have been severely undermined by Harris-Todaro findings in 1970. They have studied urban-rural migrations and come to a conclusion the new employment possibilities created by the manufacturing sector result in so strong rural-urban migrations, that the jobs' increments become insufficient to employ all the migrants. The urban-rural migrations are paradoxically accelerating despite the growing urban unemployment, as the politically regulated minimum urban wage is substantially higher than the agricultural earning. The difference between the expected earning play a pivotal role in the labour migrations, claim Harris and Todaro.[32] In regard of Sino-African relations the theory is important for two reasons – as first, it is crucial to assess if the Chinese activities in the continent are leading to a substantial job creation in manufacturing

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[31] CYPHER, J. DIETZ, J. *The Process of Economic Development*. 3rd ed.New York: Routledge, 2009. ISBN - 978-0-415-77104-7.Pp. 155 – 58.

[32] HARRIS, R.J. TODARO, P. M. *Migration, Unemployment, and Development: A Two-Sector Analysis.* American Economic Review, No. 60, 1970, pp. 126-142 [Online]. URL:< http://www.aeaweb.org/aer/top20/60.1.126-142.pdf > [ret. 21.01.2014]. Pp. 126-7.

sector; secondly, in the analysis of the Chinese investment motives, we need to take into account depleting labour surplus in the country.

As we can see, the dualistic developmental theories generally propagate industrialization of the traditional, developing economies as a trigger of their economic development. Many of them are Keynesian in character and support the role of the state as a coordinator of the economy. However, they do not provide further elaboration of the methods, which can be employed for the purpose of the coordination, and they often tend to neglect inequalities arising from the structural changes. The following chapters of the thesis will try to interpret the current Sino-African relations with regard to the theoretical framework, as if to determine whether they contribute to the structural changes and development of the poor Sub-Saharan economies.

2 HISTORY, FORMS AND MOTIVES OF SINO – AFRICAN RELATIONS

In order to understand contemporary Sino-African relations, it is of crucial importance to identify the main drives of the recent surge of Chinese activities in Africa - is China an all-weather friend of the black continent or just another resource predator in a new scramble for Africa? In an attempt to unpack Chinese motives it is, indeed, necessary to look back to the history of the relations, which has a substantial effect on the current Sino-African economic cooperation.

While the extreme dynamics of the relations have attracted much public and scholar attention since the turn of the century, little has been known that the first Sino-African trade relations date back to the Han dynasty rule between 202 BC and 220 AD, when the first traders from China reached the eastern coast of the continent, i.e. the area of nowadays Mauritius and South Africa. In the first wave, the Chinese mainly migrated as traders and relocated back, unlike the Indian which left a community behind. However, the long-term presence on the continent can, indeed, be a considerable source of credibility and trust amongst the current African partners. The continent comes back to the focus after the WW II, when China actively supported emerging liberation movements, which is still recalled and immensely appreciated by the African statesmen. China was quick to recognize independence of the newly emerging African states and by 1970 it has had diplomatic relations with all of them excluding Libya.[33] There were several drives for the Chinese agility to tie with the emerging African states.

As first, the People's Republic of China struggled for its own international recognition at the time – in order to politically isolate Taiwan and obtain international recognition, it was more than important to win the votes of the newly independent African states in the General Assembly. It was thanks to the votes of Africa that the PRC became a member of the UN in 1971 and won a seat in the UN Security Council over Republic of China. The condition

[33] **Note:** Sino-Libyan relations were severed after China supplied arms to the neighboring Egypt, with which Libya fought a short border war in 1977.

of non-recognising Taiwan remains a sole political condition that China persistently attaches to its aid and economic cooperation.[34]

Besides, after the Sino-Soviet split in 1960,[35] the PRC has tried to spread its own Maoist-Marxist vision of socialism and contain the Soviet influence where possible, which is especially visible on the example of Angola – during the war for independence from Portugal from 1964-75, the PRC initially cooperated with all three major liberation movements FNLA (*Frente Nacional de Libertação de Angola*. – The National Front for Liberation of Angola), UNITA (*União Nacional para a Independência Total de Angola* - The National Union for the Total Independence of Angola) and MPLA (*Movimento Popular de Libertação de Angola* - The People's Movement for the Liberation of Angola). However, after the ideological schisma with the USSR it turns exclusively to FNLA, fighting the Soviet-backed MPLA and UNITA. China has allegedly provided more than 450 tons of weapons and dispatched 122 military instructors to the FNLA bases.[36]

Thus, Africa at the time served as an ideological battlefield with Moscow and Washington, where China has attempted to gain political prestige of a non-aligned superpower supportive of the African struggles against imperialism, yet sharing the common roots and experiences with the African civilization - or, as the Chinese Premier Zhou Enlai has stated during his African tour in 1964, "*the poor helping the poor*."[37] The stress on the common ideals, struggle and economic hardship has created a political framework for the current Chinese expansion on the continent, as the Chinese politician still accentuate the positive historical background in the image-building of the Chinese economic actors in Sub-Saharan Africa.

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[34] KOPINSKI, D. et al. *Contextualizing Chinese Engagement in Africa.* Journal of Contemporary African Studies Vol. 29, No. 2, April 2011. Pp. 129 – 136. [Online]. URL:<http://www.tandfonline.com/doi/abs/10.1080/02589001.2011.555189#.Ux3wWvl5NqU> [ret. 15.12. 2013]. Pp. 129-30.

[35] **Note**: Sino –Soviet split (1960-89) was a period of the ideological and political discrepancy between at the time two largest communist states – the PRC and USSR which resulted in worsening of the relations between the countries and often latent conflicts on the other

[36] CAMPOS, INDIRA.VINES, ALEX. Angola - China: A Pragmatic Partnership. CSIS Conference, "Prospects for Improving U.S.-China-Africa Cooperation,"March 2008. Chatham House:London. [Online]. URL:<http://csis.org/files/media/csis/pubs/080306_angolachina.pdf> [ret.15.02.2014] P.2.

[37] MOHAN, GILES. POWER, MARCUS. New African Choices. The Politics of Chinese Engagement. Review of African Political Economy, Vol. 35 No. 15, Pp. 23-42. October 2008. [Online]. URL: http://www.tandfonline.com/doi/abs/10.1080/03056240802011394 [ret. 15.12.2013]. P. 27.

In order to spread its political influence, the PRC was the first developing country to provide official development assistance in Africa – although she does not provide the exact amounts, Brautigam states the PRC has provided development assistance in 30 countries during the 1970s, providing on the whole more development assistance than Soviet Union and assisting in more countries than the US.[38] The Chinese projects were of a rather broad scope concentrating on light industry, transport, agriculture, water control and irrigation, public health, power and communications, sports and cultural complexes and heavy industry, as well as apparently excessive objects, that majorly served to show the political power of the local elites and would otherwise be difficult to finance through the standard credit lines.[39]

One of the colossal projects financed by China is the world-famous TAZARA (also Tanzam) railway that links Tanzanian Port of Dar-es-Salaam with the town of Kapiri Mposhi in Zambia. In 1965 the Western investors and the World Bank refused to finance the project, as it was not considered to be economically viable. However, two years later the Chinese government signed a deal with Zambia and Tanzania to commence the construction. In July 1970 the government approved an interest free loan repayable in thirty years totaling 988 million yuan to cover costs of constructing the line and supporting infrastructure.[40] The railway has been built in less than five years and by the day represents the biggest Chinese infrastructural project in Africa and certainly one of the world's most impressive constructions as per engineering expertise needed to overcome inhospitable terrain.[41] The remarkable projects of Maoist era, although a considerable economic burden for underdeveloped China, are still very important for the positive image of the country amongst the common Africans.

The fact that ODA represented 5 % of the overall government expenditure in the period of the economic hardship from 1967-76, strongly implies the Chinese presence in Africa was purely politically motivated. However, with the exception of Tanzania, where

[38] BRAUTIGAM, DEBORAH. *The Dragon's Gift – The Real Story of China in Africa*. 1st Ed. Oxford: New York: Oxford University Press, 2009. ISBN - 978-0-19-955022-7. Pp. 30-36.
[39] Ibid., pp. 37-40.
[40] TAZARA :TANZANIA –ZAMBIA RAILWAY AUTHORITY OFFICIAL WEBSITE. Our History: How it All Began. [Online].URL:< http://www.tazarasite.com/site/page/history_view> [ret. 15.02.2014]
[41] [41] BRAUTIGAM, DEBORAH. *The Dragon's Gift – The Real Story of China in Africa*. 1st Ed. Oxford: New York: Oxford University Press, 2009. ISBN - 978-0-19-955022-7. Pp. 37-40.

Maoism was enforced due to the generous Chinese foreign aid in the period from 1970-75 and commitment to the aforementioned Tanzam railway, none of the countries accepted Maoism as a socio-political model, which suggests that China, unlike its Western counterparts, fully respected the principle of non-interference in the internal affairs, which is still a source of credibility for the current Chinese actors in the continent.[42] The Chinese aid has been historically distinctive, provided as a grant, strictly bilaterally and only to the mutual prosper of the donor and the recipient, which helped the PRC build an image of "doing something good" for the regions that were "a neglected backyard of the West".[43]

Although the current Chinese interests have considerably shifted from the ideological battle of the Cold War, this era is important to understand for two reasons – the five principles of Chinese foreign policy - non-interference into internal affairs of a state, respect for a state's sovereignty, mutual prosperity and equality in relations and peaceful coexistence with states by seeking common interests have been formulated in the period, and by far represent the political framework of the Chinese economic expansion. This can be very ethically disputable in the continent wrecked by highly corrupted regimes commonly violating human rights and even hamper Chinese business interests due to the impossibility to interfere with the local market conditions.

On the other hand, China has recently exhibited a certain shift in its "non-interference" stance, which for instance reflects in the growing willingness to take part in the peacekeeping missions – while in the year 2000, China had no more than 100 peacekeepers deployed in Africa, the number recorded a dramatic 20-fold increase by April 2008, when 1 457 military keepers out of 1 981 Chinese personnel in such missions were stationed in the continent.[44] China is currently trying to proliferate as a helm for African cooperation and leverage its position in the international institutions, notably the UN. The

[42] BRAUTIGAM, DEBORAH. *The Dragon's Gift – The Real Story of China in Africa*. 1st Ed. Oxford: New York: Oxford University Press, 2009. ISBN - 978-0-19-955022-7. Pp. 30-36. Pp. 54-55;

[43] MOHAN, GILES. POWER, MARCUS. New African Choices. The Politics of Chinese Engagement. Review of African Political Economy, Vol. 35 No. 15, Pp. 23-42. October 2008. [Online]. URL: http://www.tandfonline.com/doi/abs/10.1080/03056240802011394 [ret. 15.12.2013]. Pp. 28-29.

[44] OVADIA, SALAH JESSE. *Accumulation with or without Dispossession? A 'Both End' Approach to China in Africa with Reference to Angola. Review of African Political Economy* Vol. 40, No. 136, July 2013. Pp. 233–250 [Online].URL:http://www.tandfonline.com/doi/abs/10.1080/03056244.2013.794724#.U2Tqcfl_uAU [ret. 15.02.2014] Pp.239-40.

African voices have already proven as crucial in overcoming the post-Tiananmen political isolation and they can definitely enhance the image of a positive global power China has been currently trying to build, accentuating mutual prosperity in its relations and advocating co-operation and peaceful resolution of conflicts.[45] Another reason why it is very important to understand the Maoist era of the Sino-African relations is the fact that China is currently building its own version of *exceptionalism*[46] on the grounds of the period.

Unlike the Western partners, China does not have a history of a colonizer, but a shared colonial experience, when it has been divided between the influence spheres of the Western powers. While this is certainly a contribution to the positive image of the country and can only benefit to the Chinese enterprises operating in Africa, it is a question if China will take a more intrusive attitude in the future and try to reform the African continent according to its own development model.[47] As a country that has decreased the percent of population living under poverty line from 65 % to 10 % and recorded a 10 per cent average annual growth rate in the last thirty years starting from the Deng Xiaoping reforms initiated in 1978,[48] China definitely represents a successful example of rapid economic development and a considerable alternative to "Washington consensus." The Chinese reluctance to apply the Western model of governance and rhetoric of the common colonial history is increasingly approved by the African elites due to its intrinsic anti-Western sentiment.[49]

The surge in the Chinese activities on the continent have evoked the interest of the Western actors and added considerable importance to the African countries as well. The marginalized continent has gone high in the agendas of the Western politicians as the

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[45] KOPINSKI, D. et al. *Contextualizing Chinese Engagement in Africa.* Journal of Contemporary African Studies Vol. 29, No. 2, April 2011. Pp. 129 – 136. [Online]. URL:< http://www.tandfonline.com/doi/abs/10.1080/02589001.2011.555189#.Ux3wWvl5NqU> [ret. 15.12. 2013].

[46] **Note:** Exceptionalism in international relations represent a belief the core values of one's state are not only distinct, but also superior to those of others and can contribute to the development of the underdeveloped states.

[47] SUZUKI SHOGO. *The Exceptional State in Africa: Image Management in Sino-African Relations*. South African Jouranl of International Affairs.April 2013, Vol. 20, No. 1, 99–115. URL: http://dx.doi.org/10.1080/10220461.2013.779885 [ret. 15.12.2013] Pp. 100 -101.

[48] WORLD BANK. *China 2030: Building a Modern, Harmonious and Creative High-Income Society*. February 2012. The World Bank:Development Research Center of the State Council, PRC. Washington DC.[online]. URL:< http://www.worldbank.org/content/dam/Worldbank/document/China-2030-omplete.pdf [ret. 27.02.2013]. P. 23.

[49] KOPINSKI, D. et al. *Contextualizing Chinese Engagement in Africa.* Journal of Contemporary African Studies Vol. 29, No. 2, April 2011. Pp. 129 – 136. [Online]. URL:< http://www.tandfonline.com/doi/abs/10.1080/02589001.2011.555189#.Ux3wWvl5NqU> [ret. 15.12. 2013]. Pp. 129-30.

African elites now have considerably higher negotiation potential – with Chinese unconditioned loans and readiness to trade and cooperate with the states commonly ostracized by the West for high corruption and violation of human rights, such as Sudan and Zimbabwe, the African autocrats for the first time in the post-colonial history have a way to avoid reform pressures.[50] While the consequences of the latter will be discussed in the following part of the thesis, it is important to underline the upsurge in Chinese trade and FDI might have significant geopolitical effects as well.

The modern form of the Sino-African economic cooperation comes with Deng Xiaoping reforms and opening up of the Chinese economy in 1979, when the Chinese government significantly liberalized international economic relations and has significantly intensified with the "going-out" strategy (*zou chu qu*) initiated by the government in 1999 in order to support the outward investment of the Chinese companies and enhance WTO accession. In order to secure supply of inputs needed for the robust economic growth, the Chinese government devised the strategy of two markets and two sources – i.e. international and domestic, where the Chinese companies would export and procure the needed inputs.[51] The modern relations have shifted from the historically prevalent bilateral, to a rather multilateral form developing under the auspices of Forum on China-Africa Economic Relations (further FOCAC), a ministerial conference of China and African countries first summoned in October 2000 in Beijing in order to set a framework of the Sino-African economic exchange. The conference approves the so-called "action plans", which set the goals of the Sino-African political, economic, judicial and developmental cooperation.

In general, it is possible to follow a shift from the early 2000s concentration on the economic exchange to the problems of development. For instance, by Beijing Action Plan (2007-09) China committed to double the size of its development assistance by 2009 and provide 3 bill. USD of preferential loans and a 2 bill. USD preferential export buyer's credit to the African countries, with a preference for HIPCs and LDCs. It has also cancelled the

[50] YIN, Z. JANSON.VASCHETTO, SOFIA. *China's Business Engagement in Africa.*[Online] The Chinese Economy. March-April 2011. No. 44, Vol. 2.[Online]. URL:<http://ehis.ebscohost.com/eds/pdfviewer/pdfviewer?vid=3&hid=3&sid=4cac1679-5ba6-40c0-884d-5598a2de8da2%40sessionmgr> Pp. 43-45.

[51] KARÁSKOVÁ, IVANA.*Čínská politika energetické bezpečnosti.Hrozba nebo příležitost?* In FÜRST, RUDOLF et al. (2011):*Vzestup indie a Číny: Přichází asijské století?* Prague: Ústav mezinárodních vztahů, 2011.. ISBN-978-80-86506-84-5.56

interest-free government loans that were due by 2005 in order to contribute to the debt relief of the HIDCs and LDCs with which it has diplomatic relations.[52] The consequent *Sharm-el-Sheik Action Plan* (2010-12) has scaled up funds for the China-Africa Development Fund to 3 billion USD in order to support the expansion of Chinese companies' investments in Africa, and put a special emphasis on development of the African agriculture, with solving the food insecurity as one of the major goals. China pledged to send 50 agricultural technology teams to train more than 2000 African agricultural technicians and increase the total number of agricultural technology demonstration centers to 20 over the period. It has also committed to help the training of 2000 professionals in different sectors in order to improve the quality of the African human resources.[53]

As we can see, from a predominantly politically driven actor, China has changed to a pragmatic economic player with a considerable sensitivity for development needs of the continent. The Beijing Plan for 2013-2015 continues to prioritize agriculture and food security in development cooperation and displays Chinese readiness to cooperate more with the international institutions in the field.[54] This definitely indicates the interests of the dragon do go far beyond a new scramble for Africa. Besides, the willingness to invest into human resources qualification definitely represents, according to Rosenstein-Rodan, a significant trigger for economic development. However, before the impacts of the Chinese trade and investment in Africa are analyzed, it is necessary to understand what brings China to the black continent. The following part of the chapter will try to disclose the main economic drives of the current Chinese presence in Sub-Saharan Africa.

[52] FOCAC. *Forum on China-Africa Cooperation Bejing Action Plan (2006-09).*16.11.2006.Peking. [online]. URL:< http://www.focac.org/eng/ltda/dscbzjhy/DOC32009/t280369.htm.> [ret. 28. 02.2014]
[53] FOCAC. *Forum on China-Africa Cooperation Sharm el Shejk Action Plan (2009-12).* 12.11.2009, Sharm El Sheikh. [Online]. URL:< http://www.focac.org/eng/dsjbzjhy/hywj/t626387.htm.> [ret. 28.02.2014]
[54] FOCAC. Forum on China-Africa Cooperation Beijing Action Plan (2013-2015). 23.07.2012, Beijing. [Online]. URL: http://www.focac.org/eng/ltda/dwjbzjjhys/t954620.htm [ret. 28.02.2014]

2.1 Motives of Chinese Engagement in Sub-Saharan Africa

Being the world's fastest growing economy for the last twenty five years , China has become increasingly dependent on the external energy sources – from a major Asian petroleum exporter in the 70s, the country has turned into a net importer of oil in 1993 and at the second largest consumer of oil in 2003, when it surpassed Japan. Although the Chinese consumption is still far behind the American 20 mill barrel per day, already in 2005 the Chinese market accounted for 40 % of the global increase in consumption. Yet, the overall share in the world consumption is still quite low – e.g. in the very same year, China accounted for only 6.3 % of the total world consumption of oil, with 42 % of the supplies originating from the external markets.[55]

However, if the GDP growth rates remain high, as the International Monetary Fund (IMF) predicts they will fluctuate around 7 % in the next two-three year period (meant by 2016-17),[56] it is possible to expect a further increase in the energy consumption and deepening reliance on external energy sources. Namely, China is known for highly inefficient energy consumption – for instance, to produce a unit of GDP in 2004, the PRC consumed 2.4 times more energy than the world average, 3.6 times more than the US; 4.9 times more than Germany; 4.4 times more than Japan, and 1.6 times more than India. At the moment the Chinese government is building one of the most extensive infrastructure networks in the world and plan to substitute one million bicycles by cars, which will enormously increase the oil consumption in transportation and will by 2020 increase the external dependence in oil supplies up to 60 %, which can be seen from the figure below:[57]

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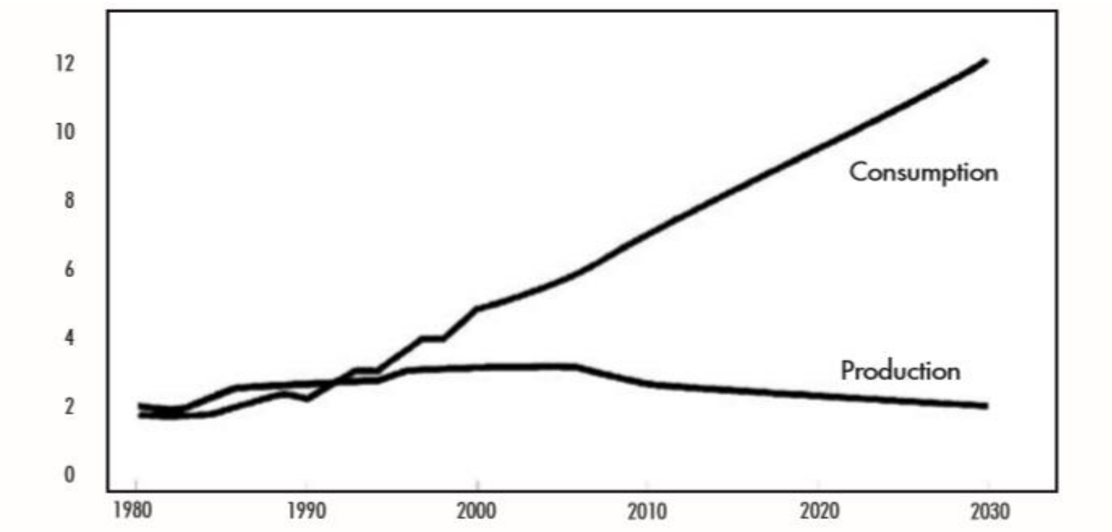
[55] JIANG, WENRAN. China's Global Quest for Energy Security. Canadian Foreign Policy Journal, Vol. 13, No. 2, March 2011.Pp. 105-131. [Online]. URL:< http://www.tandfonline.com/loi/rcfp20#.Ux-Mpvl5OAU> [ret. 15.12.2013].P. 105-06.

[56] INTERNATIONAL MONETARY FUND. *World Economic Outlook: Is the Tide Rising?: Update.* January 2014.Washington DC. [Online]. URL: http://www.imf.org/external/pubs/ft/weo/2014/update/01/pdf/0114.pdf [10.03.2014]. P. 2

[57]JIANG, WENRAN. China's Global Quest for Energy Security. Canadian Foreign Policy Journal, Vol. 13, No. 2, March 2011.Pp. 105-131. [Online]. URL:< http://www.tandfonline.com/loi/rcfp20#.Ux-Mpvl5OAU> [ret. 15.12.2013].Pp. 107-115.

Figure no. 5: China's energy consumption vs. production from 1980-2030 in mb/day;



Source: JIANG, WENRAN. China's Global Quest for Energy Security. Canadian Foreign Policy Journal, Vol. 13, No. 2, March 2011 .Pp. 105-131. [Online]

Besides, as "the factory of the world", China has a huge manufacturing base and therefore a considerable amount of energy and minerals consumed for industrial purposes. While the Chinese economy created 4 % of the global GDP in 2005, it consumed 31 % of the world's coal, 30 % of iron, 27 % of steel, 40 % of cement, 20 % of copper, 19 % of aluminum, and accounted for 10 % of the world's electricity consumption.[58]

Since the Chinese economic growth started relatively late at the end of the 70s , when the OPEC countries already have had long-term contracts with the Western partners and the majority of the maritime transport routes from the Middle East were controlled by the US, China was forced to look for alternative suppliers. Resource-rich, but capital deficient Sub-Saharan Africa appeared therefore as a perfect destination for the country, which currently has the world's largest surplus of balance of payments.[59] As we can see, the energetic zeal is undoubtedly one of the major drives of the recent surge of the Chinese economic activities on the continent. As the SSA countries are already highly dependent on the commodity exports, it seems China is not particularly contributing to industrialization

[58] JIANG, WENRAN. China's Global Quest for Energy Security. Canadian Foreign Policy Journal, Vol. 13, No. 2, March 2011.Pp. 105-131. [Online]. URL:< http://www.tandfonline.com/loi/rcfp20#.Ux-Mpvl5OAU> [ret. 15.12.2013].Pp. 107-115.

[59] KEENAN J. PATRICK *Curse or cure? China's investments in Africa and their impact on human rights.* January 2008. Georgetown: University of Illinois, College of Law.[online].URL: http://scholarship.law.berkeley.edu/cgi/viewcontent.cgi?article=1365&context=bjil [ret. 10. 03. 2014]

and diversification of the African economies, the abovementioned theories consider crucial to trigger economic development. The problem will be further analyzed in the following parts of the thesis.

On the other hand, Davies believes the Chinese interests in Africa significantly outreach the energetic zeal – as the world largest manufacturer, he argues, China is currently looking for a market diversification due to the high saturation of the domestic market with the labour-intensive goods such as textile, shoes, toys, etc.[60] With seven out of the ten fastest growing economies in 2011 being African and the African middle class expected to reach 1.1 billion people in 2060, i.e. 42% of the population,[61] the black continent could definitely represent an important target market for the Chinese producers and retailers (see Appendix no. 1).

McKinsey predicts that the Africa's consumer-facing industries will grow up to 400 billion USD by 2020 representing the continent's largest business opportunity.[62] While they demand high quality and brand, African consumers are also specific for the high sensitivity to prices. McKinsey, thus, highlights the need for low prices, small packages or adjusted payment terms in order to succeed in the expanding African consumer market. This is very important for China, which can be highly competitive with its low-price manufactured goods compared to the Western partners. In its report on African perspectives in 2011, Ernst&Young predicts Africa is currently on the brink of an economic takeoff similarly to China thirty years ago. They argue the continent could be a success story of the decade, as 86 % of the market attractiveness survey respondents find the business environment has considerably improved over the period 2008-11, which is actually the most positive perception change for all the markets, as Figure no. 6 indicates.[63]

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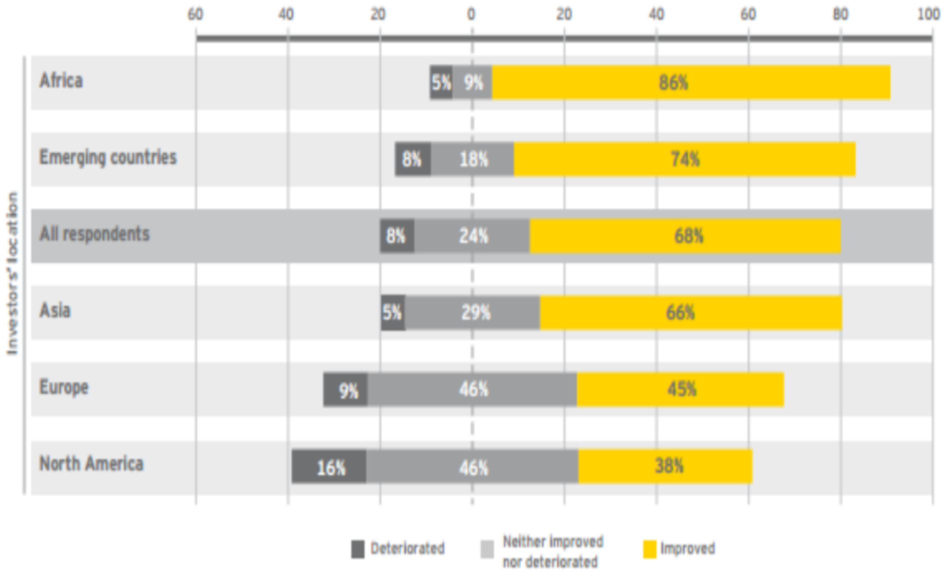
[60] DAVIES, MARTIN. *How China is Influencing Africa's Development.* April 2010. Paris: OECD Development Centre. [Online]. URL: http://www.oecd.org/development/pgd/45068325.pdf [ret.10.03.2014]. P.6.

[61] DELOITTE. *Deloitte on Africa: The Rise and Rise of the African Middle Class.* Delloitte on Africa: Issue 1, 2013. [Online].URL: < https://www.deloitte.com/view/en_IN/in/insights-ideas/africa/index.htm> [ret. 10.03.2014]

[62] MCKINSEY. *The Rise of the African Consumer*. October 2012. Johannesburg. [Online]. URL: http://www.mckinsey.com/global_locations/africa/south_africa/en/rise_of_the_african_consumer [ret. 10.03.2014]

[63] ERNST&YOUNG. It's Time for Africa: Africa's Attractiveness Survey. 2011.[Online] URL: <http://www.ey.com/Publication/vwLUAssets/2011-_Africa_Attractiveness_Survey/$FILE/Attractiveness_africa_low_resolution_final_WEB.pdf> [ret. 10.03.2014]

Figure no. 6: Improvement in attractiveness of the African market as perceived by the global business community in 2011;



Source: ERNST&YOUNG. It's Time for Africa: Africa's Attractiveness Survey, 2011[Online]

Besides, China itself is currently going through a significant social transformation in terms of burgeoning middle class – according to a McKinsey's market research, by 2022 more than 75 % of the Chinese consumers will be earning between 60 000 and 229 000 reminbi (9 000-34 000 USD). While in 2000 only 4 % of the population belonged to the group, in 2012 already 68 % of the population were within. With the tendency of the rising wages, growing role of private enterprises and improving labour productivity, the urban household incomes are expected to at least double by 2022.[64]

The rising incomes result in a consumer dynamics shift – it has been proven the Chinese consumers born from the mid80s onwards, i.e. so-called G2 generation of consumers, who do not remember the Maoist times of economic hardship, tend to look for more sophisticated products, are more brand-loyal, open to innovative products such as personal gadgetry, and interpret higher prices as a symbol of higher quality (see Appendix no 2).[65] Therefore, the cheap mass products might be coming to the end of the lifecycle on the Chinese market. Sub-Saharan Africa with the lowest GDP per capita in the world definitely might be a potential market, as the consumers are still very price sensitive. While this might

[64] BARTON, DOMENIC et al. Mapping China's Middle Class. McKinsey Quarterly. June 2013. [Online]. URL: http://www.mckinsey.com/insights/consumer_and_retail/mapping_chinas_middle_class<> [ret. 10.03.2014]
[65] Ibid.

prosper the local consumers, as the lower prices would, ceteris paribus, reflect in higher real incomes and growing living standard, the question arises, if the outdated production technologies potentially outsourced to Africa, would be really beneficial for the recipient countries, as the technical spillover would be apparently constrained in this case.

Another reason why the Chinese companies might be eyeing the African market are the rising domestic labour costs. According to IMF, China is currently facing the end of the extensive growth model based on a vast supply of the low-cost labour – due to the one child policy, the Chinese working force is doomed to shrink by 2020 according to the current demographic trends, while the core group of the industrial workers (age 19-35) is projected to shrink even faster and a long-term decreasing trend of the dependency ratio will be reversed, due to the progressive aging of the population (see Appendix no. 3). Thus, according to the IMF authors' calculation, China will almost certainly reach the Lewis Turning Point by 2025. Assuming the social policies remain unchained, the author implies China's labour surplus, which has already reached its peak of 151 mill workers in 2010, will dwindle to 57 mill in 2015 and 33 mill in 2020, while the economy is expected to reach the turning point between 2020-2025 when the labour demand will exceed the supply.[66]

The rising wages in China fueled by demographic changes and government policies will considerably influence manufacturing sector and the world market on the whole – while the growing inputs' costs might hamper the global competitiveness of the Chinese goods, the African producers might in turn become more price-competitive. On the other hand, a potential switch to the intensive growth model will lead to an increasing output in the countries, which are currently in the China's supply chain, especially the commodity exporters, which would be highly relevant for the Sub-Saharan commodities' exporting countries. On the other hand, the growing costs might drive out some foreign manufacturers, which would be looking for new destinations to relocate to.[67] The light-manufacturing, whose competitiveness is based on the low-prices, will definitely be hampered by the rising labour costs - according to McKinsey analysis, some new investment

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[66]DAS MITALI, N'DIAYE, PAPA. *The End of Cheap Labor*. International Monetary Fund: Finance &Development. June 2013, Vol. 50. No. 2. [Online]. URL: https://www.imf.org/external/pubs/ft/fandd/2013/06/das.htm [ret. 12.03.2014]

[67] BARTON, DOMENIC et al. Mapping China's Middle Class. McKinsey Quarterly. June 2013. [Online]. URL: http://www.mckinsey.com/insights/consumer_and_retail/mapping_chinas_middle_class [ret. 10.03.2014]

has already been switched to the neighboring countries with lower production costs, such as Vietnam. Besides, due to the growing consumers' sophistication, the quality expectations rise, which many of the producers are no longer able to meet.[68] Therefore, the Chinese manufacturing will have to look for more innovative and less labour-demanding production process in order to retain the global competitiveness, move up the value chain investing more in R&D or look a way out of the Chinese market.

Although the neighboring countries with lower wages might be the first destination due to the geographical proximity and cultural similarities of the markets, some of the African economies at the moment exhibit higher global competitiveness than the neighboring economies and could definitely represent a significant opportunity for the Chinese producers, who decide to relocate. For instance, according to the Global Competitiveness Report for 2013-14, both Mauritius and South Africa rank higher than Vietnam.[69]

As it appears from the above, there is a great complementarity of Sub-Saharan Africa and China when it comes to the mineral sources and market development at the moment, as well as a considerable mutual understanding between the political elites. However, the complementarity means only a potential for a successful cooperation and the question remains, if the current Sino-African relations, driven by the growing Chinese energy consumption and the growing global competitiveness of the African market, are really prosperous for the less developed SSA region. In an attempt to find a response, the following chapters of the thesis will analyze the benefits and perils of the rising dragon in Sub-Saharan Africa.

[68] ELOOT, KAREL et al. *A New Era For Manufacturing in China*. McKinsey Quarterly. June 2013. [Online]. URL: <http://www.mckinsey.com/insights/manufacturing/a_new_era_for_manufacturing_in_china> [ret. 15.10.2013]
[69] SCHWAB, KLAUS (ed.). The Global Competitivness Report 2013 – 14. World Economic Forum : Geneva, 2013. ISBN-13: 978-92-95044-73-9. [Online]. URL: ISBN-13: 978-92-95044-73-9.

3 SINO-AFRICAN TRADE RELATIONS

As it has been mentioned previously, the Sino-African trade exchange has a long history. Yet, the relations gain on importance from the turn of the century and convocation of the first FOCAC summit in 2000 in Beijing. Although it has not attracted much attention at the time, the rapid expansion of the Sino-African trade volumes, that grew by an average of 28 % a year in the period 1999-2009,[70] receives now much media and scholar attention, especially the trade undertaken by the big, government-backed enterprises, as they might represent a significant threat for the interests of the traditional partners.[71] While the EU and US attracted two thirds of all African exports and sourced more than a half of the continent's imports ten years ago, the picture has dramatically changed with the rise of the trade relations with China, which has proliferated as an alternative partner to the Sub-Saharan countries.[72]

In order to determine, if the Sino-African trade fosters economic development of the SSA region, the following chapter will analyze dynamics, structure and the spatial distribution of the Sino-African trade, as well as the influences it might have on the African producers on both domestic and international market.

3.1 Sino- African Trade Dynamics and Structure

Before we analyze the Sino-African trade development in terms of dynamics and the commodities traded, it is very important to say the official statistics might be significantly biased due to the high protectionism of the African markets, which enhance smuggling and significantly decrease the real values of the volumes traded. This is, for instance, the example of Nigeria, which is China's second largest market in SSA. As Haugen warns, in order to decrease taxes and customs paid, small traders tend to underreport volumes, under-invoice and misclassify goods, misreport the country of origin and destinations of their products, which leads to considerable underrating of the Chinese

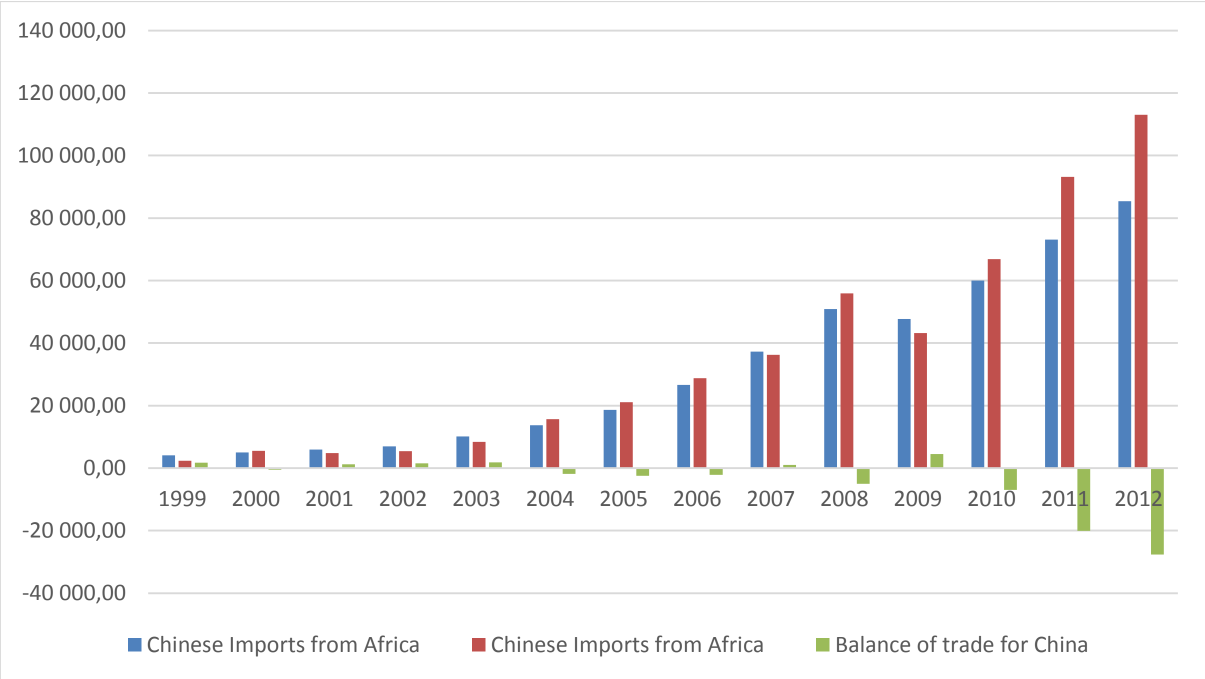
[70] **Note:** This is meant as the total trade volume (i.e. merchandise trade and service trade) in terms of monetary value adjusted for inflation.

[71] HAUGEN ØSTBØ, HEIDI. *Chinese Exports to Africa: Competition, Complementarity and Cooperation between Micro-Level Actors.* Forum for Development Studies, Vol. 38, No 2, pp. 157-176. May 2011. [Online] URL: http://www.tandfonline.com/doi/pdf/10.1080/08039410.2011.572286 P. 160

[72] UNITED NATIONS ECONOMIC COMISSION FOR AFRICA. Economic *Report on Africa 2013*. Addis Ababa, Ethiopia. [Online]. URL: http://www.uneca.org/publications/economic-report-africa-2013 [ret. 12.03.2014]. P.46.

exports to Africa and the absolute numbers are highly unreliable. However one thing is not to be doubted – in the last fifteen years China has changed from a relatively insignificant actor to the major trade partner of the region – according to the data of the Trade Law Centre (further TRALAC), the overall Sino-African trade in goods and services has increased from 8 458 mill. USD in 1999 to incredible 198 465 mill USD in 2012.[73] This is actually a twenty three-fold increase, as the Figure no. 7 shows:

Figure no. 7: China-Africa total trade volumes from 1999 – 2009 in mill USD.



Source: Author's calculation on the basis of TRADE LAW CENTRE. *China-Africa Trade Data 2013.* August 2013. [Online]

The impressive data are also confirmed in the Chinese Government's *White Paper on the China-Africa Trade and Economic Cooperation* issued in August 2013, which states China has become Africa's largest trade partner during the year when the total trade volumes for the first time surpassed the mark of 200 bill USD, while Africa turned into China's largest import source, second largest overseas construction project contract market

[73] TRADE LAW CENTRE. *China-Africa Trade Data 2013.* August 2013.[Online] URL: http://www.tralac.org/2013/08/14/africa-china-trading-relationship/ [ret. 15.03.2014]

and fourth largest investment destination.[74] The data were officially confirmed by the Chinese president Xi Jinping during his visit to Senegal last year.[75]

The fact that Africa is turning into an increasingly important import source for China is confirmed by the growing deficit it has recorded in trade with the continent. As we can see, in the last five years the Chinese imports from the continent have recorded a constant growth – an exception is the recession year of 2009, where the deteriorating relative commodities' prices resulted in a decreasing value of imports from Africa, while the overall volume actually grew in physical terms. The steady demand from China for crude oil, diamonds, copper, aluminum, cocoa and other key African export commodities led to the quick rebound of the world prices[76] and consequently a constant surplus for Africa, as we can see from the figure above.

However, if one interprets the impressive total trade growth in the context of African share in total trade of China, the proportion of the continent seems to remain quite low. According to the TRALAC data, although the African share in the total trade of China in goods and services has doubled over the period 1999-2012, its value remained quite low fluctuating between five and six per cent in 2012. The export flows followed similar patterns - in the period, the share of Africa in the total Chinese exports of goods and services doubled from 2.09 to 4.16 % (please see Appendix no. 3), while the continent's share in the total Chinese imports rose from 1.4 to 6.2 per cent, as the figure below indicates:[77]

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[74] CHINESE GOVERNMENT'S OFFICIAL WEB PORTAL. China-Africa Economic Trade and Cooperation (2013). Xinhua. August 2013. [Online]. URL:< http://english.gov.cn/official/2005-08/17/content_24165.htm> [ret.15.03.2014]

[75] NEW VISION: UGANDA DAILY. *China-Africa Trade Surpassed $200 Billion in 2013*. 23rd February 2014.[Onlline]URL:< http://www.newvision.co.ug/news/652867-china-africa-trade-surpassed-200-billion-in-2013.html> [ret. 15.03.2014]

[76] AfDB and OECD. *African Economic Outlook 2010*. Tunis: African Development Bank and Organisation for Economic Co-operation and Development.[Online]. URL: http://www.un.org/esa/dsd/resources/res_pdfs/publications/sdt_afri/AEO2010_part1_p76.pdf Pp. 22-24 [ret. 15.03.2014]

[77] Author's calculations on the basis of TRADE LAW CENTRE. *China-Africa Trade Data 2013.* August 2013. URL: http://www.tralac.org/2013/08/14/africa-china-trading-relationship/ [ret. 15.03.2014]

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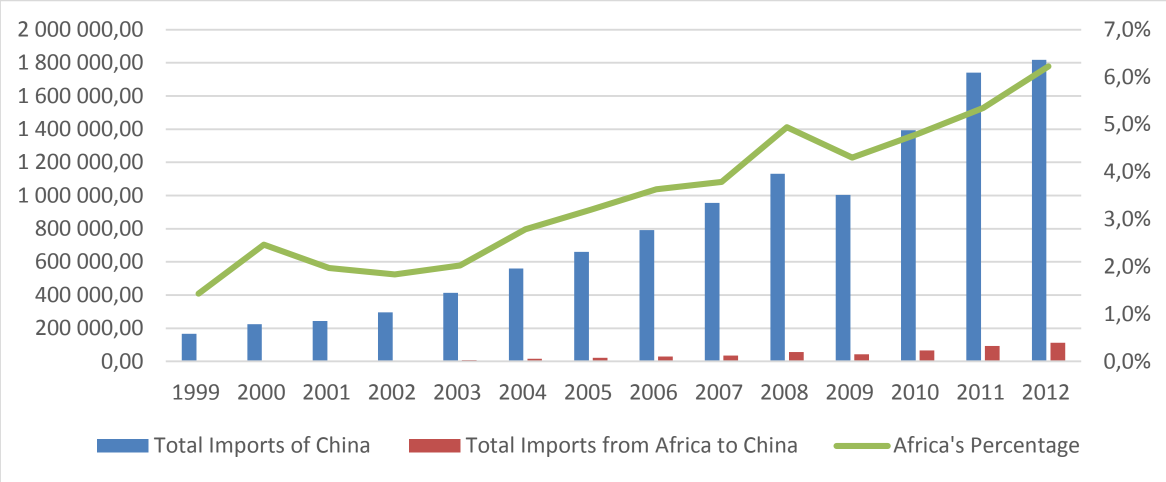
Figure no. 8: The Share of Africa in Chinese imports from 1999 – 2012;



Source: Author's calculations on the basis of TRADE LAW CENTRE. *China-Africa Trade Data 2013.* August 2013.[Online]

The change in China's share in African trade volumes has been even more dramatic – the Chinese share in the total continent's trade including goods and services has increased from 3.62 % to 16.13 % in the period from 2000-2012 - the share of the total African imports from China recorded an increase from 3.88 % to 14.11 %, while the proportion of the African exports to China rose from 3.76 % to 18.07 % of the total African exports.[78]Besides, it is important to mention the Sino-African trade relations exhibit considerable stability – the region of SSA on average accounts for 75 % of the continent's trade with China.[79]

Although the global recession in 2009-10 brought a 40 % contraction of the trade volumes, the African countries recorded slow economic growth and even an increase in GDP per capita in the period. This was majorly due to considerably improved macroeconomic stability, which is enhanced by the Sino-African trade exchange, FDI flows and infrastructure projects, so the countries could have exercised a countercyclical expansionary fiscal policy leading to a quick recovery.[80] As one can see, China is still far more important partner for Africa, although the continent does play an increasingly important role as a supplier of the

[78]TRADE LAW CENTRE. *China-Africa Trade Data 2013.* August 2013.[Online] URL: http://www.tralac.org/2013/08/14/africa-china-trading-relationship/

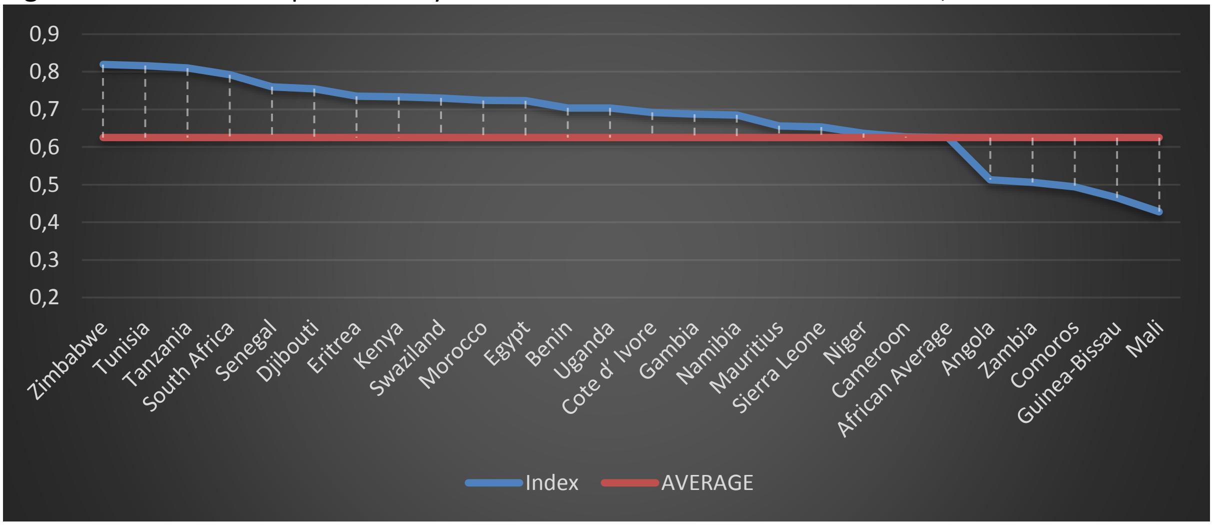
[79] ADEKUNLE, B. GITAU, C. Illusion or Reality: Understanding the Trade Flow Between China and Sub-Saharan Africa. Journal of African Business, Vol. 14, No.2, pp. 117–126. July 2013. [Online]. URL: http://dx.doi.org/10.1080/15228916.2013.804361 [retr. 15.12.2013]. Pp. 119-20

[80] Ibid.

Chinese economy. The rising export revenues of the continent definitely improve macroeconomic stability of the region and may represent a significant source of capital and foster economic development of the economies if directed to industrialization, as suggested by Rosenstein-Rodan and Nurkse.

Besides, according to Geda, the trade relations are highly probable to expand in the future, due to the high complementarity of the African export patterns and the Chinese imports. Namely, using Mikic-Gilbert formula (see Appendix no. 5) for the top five commodities traded and the reference year of 2008, the author has calculated the trade complementarity index (TCI) for the African states and China, and came to a conclusion that even twenty countries have a TCI value higher than the continent's average of 0.625.[81] In other terms, almost half of the continent has the complementarity with China higher than 62.5 %, with the highest values recorded for the countries with relatively diversified exports, such as Zimbabwe (0.819), Tunisia (0.816), Tanzania (0.810), South Africa (0.792) and Senegal (0.760). The lowest values recorded fluctuated around 40 %, as the figure below exhibits:[82]

Figure no. 9: Trade Complementarity Index Value for China – African Countries;



Source: Author on the basis of GEDA, A. et al. *To Be or Not To Be: Dilemma of Africa's Economic Engagement with China and Other Emerging Economies.* Africa Review, Vol. 5, No. 2, December 2013. Pp. 118–138. [Online]

[81] GEDA, A. et al. *To Be or Not To Be: Dilemma of Africa's Economic Engagement with China and Other Emerging Economies.* Africa Review, Vol. 5, No. 2, December 2013. Pp. 118–138. [Online]URL: http://www.tandfonline.com/loi/rafr20#.Ux4Ksfl5NqU [ret. 15.12.2013] Pp. 119 – 121;

[82] Ibid.

In other terms, the value of the TCI implies the African exports on average match by 62.5 % with the Chinese demand. Moreover, even 20 economies surpass the continental average, meaning that some of them, such as Zimbabwe, Tunisia, Tanzania or South Africa, have up to 80 % probability to successfully trade with China. However, it is important to stress that the high trade complementarity represents only a potential for further expansion of trade relations, while the actual development is dependent on a number of factors. For instance, Angola has quite low trade complementarity (0.513) with China, yet it is the largest crude oil supplier of the Chinese economy.

There is a number of scholar discussions about the factors that currently drive Chinese presence in Africa, which shape the actual trade flows. According to Adekunle, the basic drive of the growing trade of China with Africa is the quest for new energy sources, export markets and investment opportunities. This could be corroborated by the fact, he argues, that the share of minerals in the Chinese trade with SSA has increased from 35 % in 1995 to 79 % in 2009·, while the share of textile and wood products has declined over the period.[83] Using a standard trade gravity model, correlating trade volumes with GDP, GDP per capita, exchange rates and FDI of China and a trading country, the author came to a conclusion the exports from SSA to China are negatively correlated to the Chinese GDP per capita and the exchange rates. The negative correlation might have a significant impact on the future dynamics of the Sino-African trade – namely, as the Chinese consumers become more demanding with the rising incomes, and the Chinese economy shift from the extensive to the intensive growth model, Africa might lose on importance.

On the other hand, the imports are negatively correlated to GDP of China for all countries, and GDP per capita of a trading SSA country in case of non-oil producers. In other terms, export to China tends to increase with the growing GDP per capita of the African countries and depreciation of the local currency – according to Adekunle's findings, a unit increase of a SSA country's GDP is followed by a 1.62 increase in exports to China; when a local currency depreciates for one unit against US dollar, the exports to China improve by

[83]ADEKUNLE, B. GITAU, C. *Illusion or Reality: Understanding the Trade Flow Between China and Sub-Saharan Africa.* Journal of African Business, Vol. 14, No.2, pp. 117–126. July 2013. [Online]. URL: http://dx.doi.org/10.1080/15228916.2013.804361 P.119;

0.29.[84] As the country becomes richer, in case of the non-oil producers, it tends to import less from China.

Geda, on the other hand, studied dependency of the trade volumes not only in terms of size of the economies, i.e. GDP of the countries, but also in terms of the behind-the-border factors, i.e. all kind of political, social and institutional factors characteristic of the trade partners which might influence trade volumes. Similarly to Adekunle, he concludes trade volumes are positively correlated to the size of the economy – the bigger is an African economy, the more it trades with China. However, the exports from China might be considerably negatively influenced by the landlockedness, while the behind-the-border factors account for 87 % of the trade variations.[85] This actually confirms China tends to trade more with the countries with a large internal market, which was the practice of the formal colonizers, as Nurkse states in his theory. Thus, if they are to keep the growing trade volumes with China, it is of crucial importance for the African economies to foster market integrity through improving social, political and legal conditions.

De Grauwe et al., on the other hand, augmented the traditional gravity model regressors (distance, GDP, landlockedness, etc.) with an index of governance quality, derived as an average value of a set of six different indicators - voice and accountability, political stability and absence of violence/terrorism, government effectiveness, regulatory quality, rule of law, and control of corruption. They compared the importance of the factors in the trade practices of the traditional partners (UK, France, Germany, US) and China. While all partners trade more with resource-rich countries and the landlockedness negatively correlates to the volumes traded, the research has revealed the effects of the quality of governance are inconsistent. When it comes to export, all partners tend to export more to the countries with good governance, as the instability and poor infrastructure increase the transport costs and generate a markup on traded goods. On the other hand, China tends to import more from the countries which scored low in governance quality, which is not the

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[84] ADEKUNLE, B. GITAU, C. *Illusion or Reality: Understanding the Trade Flow Between China and Sub-Saharan Africa.* Journal of African Business, Vol. 14, No.2, pp. 117–126. July 2013. [Online]. URL: http://dx.doi.org/10.1080/15228916.2013.804361, Pp. 122-25;

[85] GEDA, A. et al. *To Be or Not To Be: Dilemma of Africa's Economic Engagement with China and Other Emerging Economies.* Africa Review, Vol. 5, No. 2, December 2013. Pp. 118–138. [Online]URL: http://www.tandfonline.com/loi/rafr20#.Ux4Ksfl5NqU

case for the Western partners.[86] The positive correlation between the quality of governance and exports to Africa is the lowest in case of the US, while the EU is the major trade partner to reward better governance. However, out of the studied countries, only UK and Germany tend to import significantly more from the countries that have improved the quality of governance, while the correlation for France and the US is statistically negligible. The European countries also tend to trade more with its former colonies, as the common language eases the communication – e.g. Portugal with Angola, France with Northern Africa, UK with South Africa. [87]

This is very important to realize, as the countries, which do not satisfy European governance standards have been long marginalized and China is currently importing more from the economies creating an alternative market for them, which clearly indicates two things – China, indeed, respects its non-interference-in-internal-affairs stance in trade with Africa and definitely contributes to the integration of the ostracized SSA states to the global market, as it tends to import more from the countries that fail to keep their governance in order. Although the research does not elaborate the reasons for the significant negative correlation for China, one of them might be the belated economic growth of China and a need to look for alternative markets, as Keenan suggests. However, the Sino-African trade undoubtedly brings about an important geopolitical change, as what used to be "a periphery" of the world economy is currently gaining on economic and political importance. The increasing integration to the global market, as Prebisch suggests, might in turn foster the economic development of the countries concerned as they benefit from the technological spillover and industrialize. On the other hand, the low quality of governance might be detrimental for economic development, as the trade revenues are largely retained by the corrupted elites. The potential advantages and perils of the Chinese role in SSA will be further discussed in the subchapter considering the effects of the Sino-African trade.

Eisenman, on the other hand, believes the Sino-African trade is fueled by China's comparative advantage in labor-intensive and capital-intensive production, Africa's

[86]DE GRAUWE, PAUL et al. *African Trade Dynamics: is China a Different Trading Partner?* Journal of Chinese Economic and Business Studies Vol. 10, No. 1, February 2012, pp. 15–45. [Online]. URL: http://www.tandfonline.com/loi/rcea20#.UykZhfl5OAU [ret. 15.12.2013]**.** Pp. 15

[87] Ibid. Pp. 23 – 26.

abundant natural resource endowments, China's rapid economic growth and its emphasis on infrastructure building at home and in Africa and the emergence of economies of scale in China's shipping and light manufacturing sectors. Although he sees the Chinese interests as deeply market-rooted, he argues the political factors are equally shaping the trade flows, as many economic aspects are predetermined and created by the political mechanisms of the state. For instance, technological development and economies of scale are rather a result of the centrally administered national industrialization than the market mechanism.[88] As we can see, the opinion is in accordance with the thesis' assumptions represented in the Chapter 2.

According to Brautigam and Xiaoyang, the political factors are specifically visible in the official pledges of the Chinese Ministry of Commerce (further MOFCOM) of the state-sponsored cooperation. As a part of the pledges MOFCOM supports setting of the special economic and trade cooperation zones in order to enhance industrialization and employment creation in the region. However, the question arises, if the zones do not represent a political investment of Beijing mainly intended for transshipment of the Chinese goods and relabeling, so it could be exported to protected markets as 'African goods'.[89]

Similarly, Haugen considers migration liberalization as one of the major political factors enhancing the Sino-African trade relations. According to her, a major share of the Sino-African trade is undertaken by the small, private entrepreneurs, whose migration is not state-sponsored, as it is commonly believed, although the Chinese professionals working on bilateral development programs and for state-owned companies are allowed to stay after termination of the contracts and establish their own business. The growing physical presence of the Chinese in the region definitely contributes to the surge of the Sino-African trade, as well as the growing number of the African salesmen in China, who can now trade directly with the Chinese wholesalers and factories, making the supply chain more effective.

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[88] EISENMAN, JOSHUA. China-Africa Trade Patterns: Causes and Consequences. Journal of Contemporary China, Vol. 21. No. 77., September 2012. Pp. 793-810. [Online]. URL: http://www.tandfonline.com/doi/abs/10.1080/10670564.2012.684964#.UySO8Pl5OAU [ret.15.12.2013] Pp. 794

[89] BRAUTIGAM, DEBORAH, XIAOYANG, TANG. *Africa's Shenzhen: China's Special Economic Zones in Africa*. Journal of Modern African Studies, Vol. 49, No. 1, 2011. Pp. 27–54. Cambridge University Press. [Online]. URL: http://www.afriquechine.net/en/2011/African-Shenzhen-China-s-special-economic-zones-in-Africa.pdf [ret. 25.03.2014]. Pp. 27-28.

Although migration statistics are highly unreliable, it is estimated there are between 580-800 000 Chinese living in Africa, while the African community in China is rather small and concentrated in the southern province of Guangzhou.[90]

As one can see from the above, majority of the scholars agree the remarkable growth of the Sino-African trade relations is not solely fueled by the market forces, but is also significantly shaped by the China's energetic zeal and its geopolitical interests. The structure of the goods traded and the spatial distribution of the Sino-African trade corroborate the conclusion. Namely, as it has been mentioned previously, the Chinese imports from Africa majorly concentrate on natural resources and Sub-Saharan Africa as a region is becoming an increasingly important oil producer expected to supply 15 % of the world oil consumption by 2015. The region is also characterized by the high dependency on commodities' export with crude oil accounting for 37 % of the total regional exports in 2009, and the tendency of the growing share of minerals in the export structure. Besides, many countries exhibit high dependency on a single commodity – for instance, in the period from 2003-06 a single commodity comprised 50 % of the total exports in over a half of the African countries.[91]

Although Jenkins and Edwards predicted in 2005 the Chinese imports will shift from the products of the extractive industries towards more value-added goods with the growing incomes in China.[92] Broadman found this is highly unlikely to happen – although the labour-intensive, semi-processed agricultural products have a huge potential and are increasingly imported by China and India, the raw materials and raw agricultural products still comprised 85 % of the total African exports to China in 2007.[93]

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[90] HAUGEN ØSTBØ, HEIDI. *Chinese Exports to Africa: Competition, Complementarity and Cooperation between Micro-Level Actors.* Forum for Development Studies, Vol. 38, No 2, pp. 157-176. May 2011[Online] URL: http://www.tandfonline.com/doi/pdf/10.1080/08039410.2011.572286Pp. 166-67.

[91] SINDZINGRE, N. ALICE. *The Rise of China in Sub-Saharan Africa: Its Ambigeous Economic Impacts*. 4th Congress of the Asia and Pacific: Paris. September 2011. [online]. URL:< http://halshs.archives-ouvertes.fr/docs/00/63/60/22/PDF/SindzingreChinaSSASept11ResAsie.pdf> [cit. 20.03.2014]. Pp. 4-6

[92] JENKINS, R. EDWARDS, C. *The Effect of China and India's Growth and Trade Liberalisation on Poverty in Africa*. Department for International Development of the United Kingdom. May 2005. [Online] URL: http://www.sarpn.org/documents/d0001312/P1555-China_trade_Report_May2005.pdf [retr. 16.03.2014]. Pp. 14-18;

[93] BROADMAN, G. HARRY. Africa's Silk Road: China and India's New Economic Frontier. Washington, DC: The World Bank, 2007. [Online]. URL:

The COMESA (Common market for Eastern and South Africa) economists have come to a similar conclusion – despite the preferential treatment for 454 African goods and having a comparative advantage in a number of labour-intensive goods, none of them managed to gain a foothold in the Chinese market. As one can see, the Ricardian theory of comparative advantages does not hold in the case and this is due to the political factors influencing trade, the authors suggest.[94]

However, the more up-to-date data of TRALAC confirm the structure of the Chinese imports from Africa may no longer be resilient to a change – although the minerals still account for 55 % of the continent's exports, their share has been on decline, contracting by 20 % for the last five years. The textiles and clothing are declining as well, while the base metals and precious stones have a constant share of 3-4 % each. The group of unclassified goods has gown significantly, as we can see from the figure below. Yet, it is impossible to further analyze the impacts of the change, as TRALAC does not provide a decription which products might be aggregated in the group.[95]

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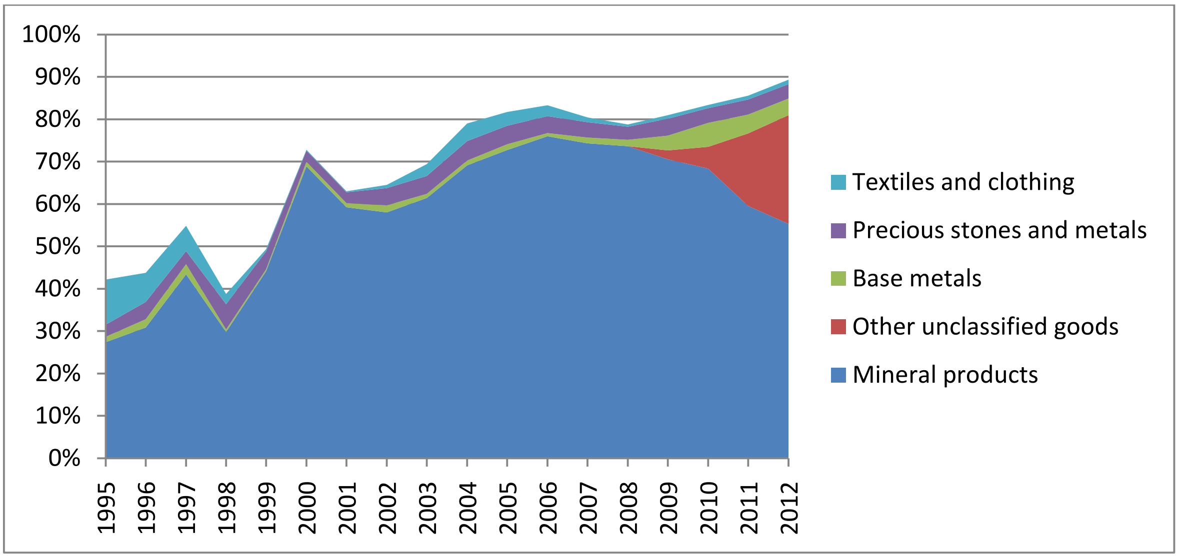
http://books.google.cz/books?id=fkBJ0HL34WsC&pg=PA41&hl=cs&source=gbs_toc_r&cad=4#v=onepage&q&f=false> [ret. 20.03.2014]. Pp. 9-10;

[94] EISENMAN, JOSHUA. China-Africa Trade Patterns: Causes and Consequences. Journal of Contemporary China, Vol. 21. No. 77., September 2012. Pp. 793-810. [Online]. URL: http://www.tandfonline.com/doi/abs/10.1080/10670564.2012.684964#.UySO8Pl5OAU Pp. 796 – 98;

[95] TRADE LAW CENTRE. *China-Africa Trade Data 2013.* August 2013. URL: http://www.tralac.org/2013/08/14/africa-china-trading-relationship/

Figure no. 10: Chinese Imports from Africa – commodity structure from 1995 -2012;



Source: TRADE LAW CENTRE. *China-Africa Trade Data 2013.* August 2013.[Online]

On the other hand, Chinese exports to Africa tend to be somewhat more diversified and up the value-added chain. Africa mainly imports cheap Chinese manufactures, such as plastic goods, textile, footwear, as well as machinery and transport equipment. While the transport equipment and machinery imports are majorly linked to the Chinese projects in telecommunications, road constructions and construction of public buildings, the manufactures are relatively cheap and therefore appealing to the African consumers.[96]

Although the goods are perceived as of lower quality, they are still demanded due to the price competitiveness – the Chinese traders tend to put lower margins than their African counterparts and are able to negotiate better prices with the Chinese suppliers. They can also profit from the favorable exchange rates and tax returns. However, the latter is rather relevant for the big companies, majorly operating in tourism, light industries, transport and fisheries, than for the small Chinese traders.[97] According to the TRALAC data,

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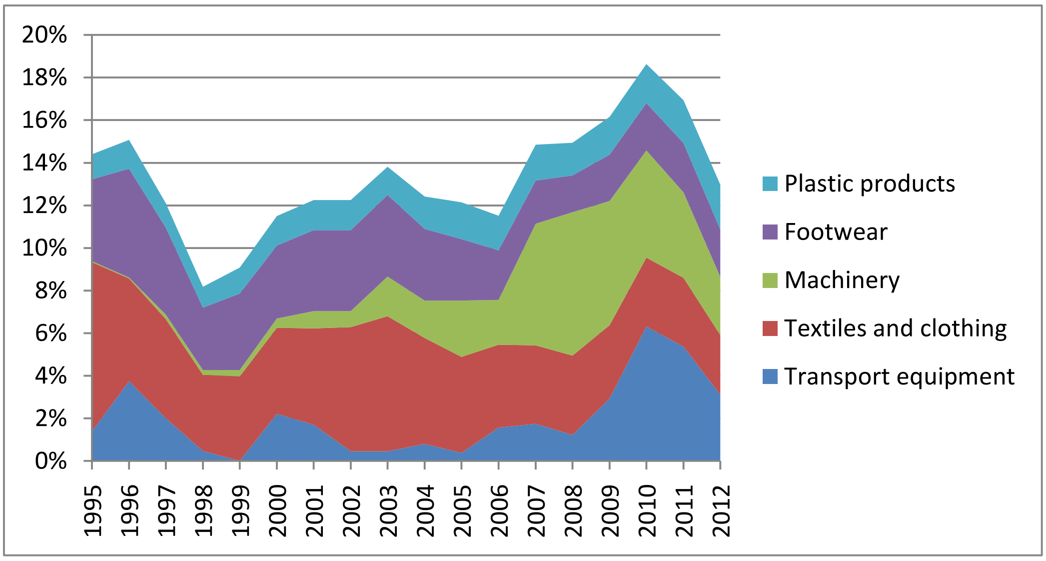
[96] RENARD, FRANCOISE MARY. *China's trade and FDI in Africa*. Pp. 25 – 50; in SCHIERE, RICHARD et al.(ed.). *China and Africa: An Emerging Partnership for Development.* African Development Bank Group, 2011. ISBN 978-9973-071-86-6. [Online]. URL: http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Anglaischina.pdf> Pp. 31-32;

[97] HAUGEN ØSTBØ, HEIDI. *Chinese Exports to Africa: Competition, Complementarity and Cooperation between Micro-Level Actors.* Forum for Development Studies, Vol. 38, No 2, pp. 157-176. May 2011. [Online] URL: http://www.tandfonline.com/doi/pdf/10.1080/08039410.2011.572286 Pp. 167-8.

in 2012 the five groups of products accounted for 13 % of the overall Chinese exports to Africa, with a long-term decrease tendency for footwear and textile products and a considerable increase in machinery and transport equipment, as it can be seen from the figure below:[98]

Figure no. 11: Commodity structure of the Chinese exports to Africa from 1995-2009;



Source: TRADE LAW CENTRE. *China-Africa Trade Data 2013.* August 2013. [Online]

If we compare the two figures above, it is clearly visible the five groups of commodities traded account for up to 20 % of the total Chinese exports to the continent, while mineral products represent up to 70% of the Chinese imports from the continent. Only the Angolan oil accounts roughly for more than a half of the continent's exports to China.[99] In the case of the Sub-Saharan countries dependency on the mineral exports' might be even higher – according to Kaplinsky, in 2006 crude accounted for the total Angolan exports, 99.8 % of the Sudanese, 88.9 % of Nigerian and 85.9 % of the Congo's exports to China. Similarly, the Democratic Republic of Congo majorly trades with base metals (99.6 % of the total

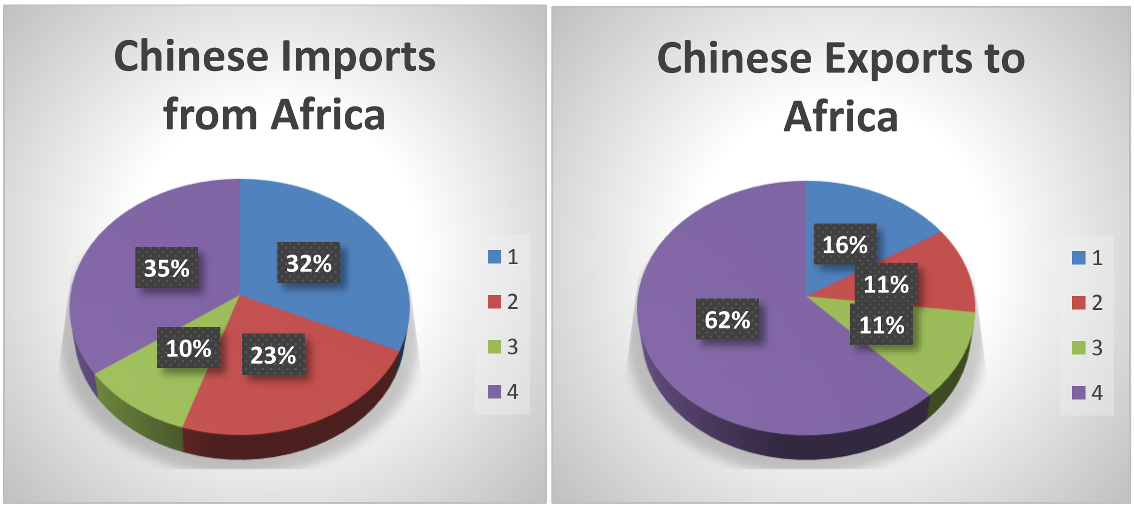
[98] TRADE LAW CENTRE. *China-Africa Trade Data 2013.* August 2013. [Online]. URL: http://www.tralac.org/2013/08/14/africa-china-trading-relationship/

[99] BELLO, WALDEN. *China Eyes Africa: The New Imperialism?* Multinational Monitor, Vol. 28, No.1, January/February 2007. [Online.]. URL:< http://www.multinationalmo.nitor.org/mm2007/012007/bello.html> [cit. 28.03.2014].

exports).[100] This might have adverse effects, which will be further discussed in the subchapter below.

The high concentration is not only typical of the goods traded, but the Chinese trade with the continent seems to be highly geographically concentrated as well. According to Renard, in 2007 over 60 % of the Chinese exports went to only six states – South Africa (21 %), Egypt (21 %), Nigeria (10 %), Algeria (7 %), Morocco (6 %) and Benin (5 %), while over 70 % of Chinese imports originate from four countries: Angola (34 %), South Africa (20 %), Sudan (11 %) and Republic of Congo (8 %).[101] Hugen (2011) argues that China tends to export more to the populous countries with a large domestic market or the countries with a higher GDP per capita notably in North Africa, while it imports mostly from the resource-rich countries. As the import patterns do not follow the export flows, the only two countries that have a considerably balanced ratio of exports and imports are South Africa and Libyia.[102] The high geographic discrepancy of the export and import flows can be seen, if the shares of the major trading partner are compared.

Figure no. 12: Chinese Major Trade Partners in Africa in 2010;



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[100] KAPLINSKY, RAPHAEL et. al. *The Impact of China on Sub Saharian Africa.* April 2006. Peking: DIFID China. [Online]. URL: http://asiandrivers.open.ac.uk/documents/china_and_ssa_dfid_agenda_paper_v3_%20feb_%2007.pdf [ret. 28.03.2014]
[101] SCHIERE, RICHARD et al.(ed.). *China and Africa: An Emerging Partnership for Development.* African Development Bank Group, 2011. ISBN 978-9973-071-86-6. [Online]. URL: http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Anglaischina.pdf> Pp. 31-32;
[102102]HAUGEN ØSTBØ, HEIDI. *Chinese Exports to Africa: Competition, Complementarity and Cooperation between Micro-Level Actors.* Forum for Development Studies, Vol. 38, No 2, pp. 157-176. May 2011. [Online] URL: http://www.tandfonline.com/doi/pdf/10.1080/08039410.2011.572286, Pp. 162-3;

Source: Author on the basis of [1]HAUGEN ØSTBØ, HEIDI. *Chinese Exports to Africa: Competition, Complementarity and Cooperation between Micro-Level Actors.* Forum for Development Studies, Vol. 38, No 2, pp. 157-176. May 2011. [Online]

As we can see, the Sino-African trade patterns are generally characterized by the impressive growth dynamics and very narrow geographical and commodity specialization. This practically means the trade benefits are rather constrained to a small number of minerals exporting countries, while the positives of the Chinese exports tend to be more widespread. The following subchapter will further analyze the impacts of the Chinese trade activities in Africa.

3.2. Impacts of Sino - African Trade

Due to the high growth rates of the Chinese imports from Africa and a resilient positive balance of trade for the continent, the Sino-African trade revenues might represent a significant source for the capital formation and a consequent industrialization of the Sub-Saharan region. However, as the commodities represent a lion share of the African exports, the positive effects might be highly disputable – according to the Rybczynski theorem, this could lead to the retardation of the domestic industries resulting in Dutch disease and impoverishing growth. The commodities' trade specialization is, according to Prebisch, unlikely to create the conditions needed for the structural changes, as it acts as an incentive for further minerals extraction rather than fostering domestic industrialization. The fact the manufacturing share in the regional GDP has decreased from 17 % in 1990 to 13 % in 2010, while the value-added grew the slowest for the SSA manufacturing out of all the world regions in the period, confirms the deepening commodities' dependence has an adverse effect on the continent's industrialization.[103]

Thus, at first sight, China seems to bring little improvement to the SSA growth and development prospects – as the natural resources extraction is rather capital, than labour intensive, it is unlikely to create employment opportunities, which Lewis finds crucial to trigger the economic development. This is especially relevant of the large-population oil-rich

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[103] SINDZINGRE, N. ALICE. *The Ambivalent Impact of Commodities: Structural Changes or Status Quo in Sub-Saharan Africa?* South African Journal of International Relations. Vol. 20, No. 1, April 2013. Pp. 23-55. [Online] URL: < http://www.tandfonline.com/doi/abs/10.1080/10220461.2013.780327#.Uzfsd_l_uAU> [ret. 15.12.2013]. Pp. 24

countries, such as e.g. Nigeria, where the oil sector employs an insignificant percent of the labour force. In 2008, of the total revenue from oil 80 % went to the government, 16 % was used to cover operational costs and four per cent were distributed to the investors; yet, the 80 %, which went to the government, was retained by only one per cent of the population, as a result of corruption and mismanagement of public funds. The extreme concentration of wealth in the hands of a negligible percent of the population results in common political and social unrests, as the job creation does not follow the migration flows.[104] Thus, as we can see example of Nigeria clearly corroborates the Harris-Todaro critics of the Lewis theory. Besides, due to the poor distribution of wealth in the society, it is impossible to expect the virtuous circles are to be generated, as there is no massive increase in incomes that would fuel higher levels of consumption and act as a big push for the economy, as Rosenstein-Rodan assumes.

Moreover, the high resource-dependency contributes to even higher fiscal instability of the countries - as the fiscal revenues of the majority of the SSA countries depend on taxation of international trade, with the dependency ratio in some oil-producing countries being as high as 80 % (e.g. Democratic Republic of Congo, Nigeria, Angola, etc.),[105] the growing dependence on the commodities, whose prices are inherently volatile, might result in considerably instable fiscal revenues and reflect in diminishing investment and therefore volatile economic growth. The consequences appear even more severe, if we consider the social dimensions of the fiscal instability, as the Sub-Saharan Africa still represents the least developed region in the world.

Yet, there is one thing that makes China distinctive from the traditional partners – namely, the persistently growing energy consumption in China resulted in constantly high prices of commodities from 2000 onwards, creating the so-called “commodities’ supercycle”

[104] ATMORE, EVELYN et al. *Chinese Investments in Nigeria* In BAAH, YAW A. JAUCH, H (ed.). *Chinese investments in Africa: A Labour Perspective.* May 2009. African Labour Research Network. ISBN: 99916-64-94-7. [Online]. URL: < http://sask-fi-bin.directo.fi/@Bin/1b7d44ef9e561694c203e3be14fcb91f/1395124015/application/pdf/298928/China-Africa%20Report%202009-final.pdf [ret. 15.03.2014]. Pp. 333-34.

[105] SINDZINGRE, N. ALICE. *The Ambivalent Impact of Commodities: Structural Changes or Status Quo in Sub-Saharan Africa?* South African Journal of International Relations. Vol. 20, No. 1, April 2013. Pp. 23-55. [Online] URL: < http://www.tandfonline.com/doi/abs/10.1080/10220461.2013.780327#.Uzfsd_l_uAU> [ret. 15.12.2013]. Pp. 24-26

and indirectly prospering the Sub-Saharan oil and mineral exporters. The high commodities' prices fueled by the Chinese growth, definitely contributed to the quick economic rebound of the region after 2009, which is not in accordance with the Prebisch' growing dependency theory and constantly deteriorating terms of trade for the commodities' traders, as the terms of trade for the African mineral exporters have actually improved over the last ten years.[106] The current market development is more in line with the Lewis' prediction that the commodities' prices are due to rise with the growth of developing countries.

Besides, as China has been proven to import more from the politically instable countries than the Western partners, it represents a significant opportunity for the countries to integrate in the world market and overcome political isolation, as the Chinese presence on the continent led to the resurge of the international interest in the continent.[107] On the other hand this can be very disputable, as it might undermine the efforts to support good governance – according to Transparency International's Corruption Perception Index, as of year 2013 90 % of the SSA countries scored below 50, which signifies highly corrupt political regimes.[108] Thus, as Hagen-Østbø suggests, the Sino-African trade relations might be highly prosperous for the oil-exporting countries, if the large revenues are invested into human and physical capital, instead of being pocketed by the African elites. On the other hand, the energy-importing countries will be disadvantaged due to the higher energy prices.[109]

Thus, one can conclude the Sino-African trade definitely represents a significant contribution to the economic growth of the region, as the surge of export revenues could be a good starting point to create virtuous cycles of the large-scale industrialization described by Rosenstein-Rodan. However, how the revenues will be used is highly dependent on the African political elites. China as such can have little influence over the elites, but can serve as

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[106] SINDZINGRE, N. ALICE. *The Rise of China in Sub-Saharan Africa: Its Ambigeous Economic Impacts*. 4th Congress of the Asia and Pacific: Paris. September 2011. [online]. URL:< http://halshs.archives-ouvertes.fr/docs/00/63/60/22/PDF/SindzingreChinaSSASept11ResAsie.pdf> P.6;
[107] YIN, Z. JANSON.VASCHETTO, SOFIA. *China's Business Engagement in Africa.*[Online] The Chinese Economy. March-April 2011. No. 44, Vol. 2.[Online]. URL:<http://ehis.ebscohost.com/eds/pdfviewer/pdfviewer?vid=3&hid=3&sid=4cac1679-5ba6-40c0-884d-5598a2de8da2%40sessionmgr> P.45;
[108] TRANSPARENCY INTERNATIONAL. Corruption Perception Index 2013. Berlin. ISBN: 978-3-943497-49-6. [Online]. URL:< http://www.transparency.org/cpi2013/results> [ret. 29.03.2014]
[109] HAUGEN ØSTBØ, HEIDI. *Chinese Exports to Africa: Competition, Complementarity and Cooperation between Micro-Level Actors.* Forum for Development Studies, Vol. 38, No 2, pp. 157-176. May 2011. [Online] URL: http://www.tandfonline.com/doi/pdf/10.1080/08039410.2011.572286 P. 163;

a good example of a country, which went through a successful state-orchestrated industrialization propagated by Rosenstein-Rodan and Nurkse, and managed to reach a complementarity between the market forces and state interests rather through the targeted industrial policies than the state ownership of capital.[110] In that sense China definitely represents a distinctive partner from the traditional Western players and important source of know-how.

On the micro-level, there is a considerable potential for the cooperation of the Chinese and African small traders with the growing workforce migration. While the Chinese traders have better connections with the Chinese suppliers and can therefore negotiate lower prices, the African traders are more skilled at predicting preferences of the consumers. The growing migration can significantly change the market condition in terms of the substantial price decreases and better coverage of the markets. For instance, the Chinese traders in Cape Verde set very low margins, prolonged the opening hours and opened outlets in remote parts of the countries, which forced the Lebanese and European suppliers in the countries to cut the prices and intensify distribution in order to retain their market share.[111] Yet, as Eisenman finds, in order to benefit from the Chinese exports, the countries should enhance infrastructure building and business environment improvements, as China tends to export more to the economically stable countries.

Broadman emphasizes the Sino-African trade is beneficial for the integration of the African producers into the world buyer-driven networks. The greatest potential to integrate into the global value chains, according to him, has the agricultural sector due to the high consolidation of the supply chains. Yet, an impediment could be the poor state of the African infrastructure and consequently high transaction costs. The integration would translate into higher productivity and employment in the sector, which could significantly contribute to the food insecurity suppression, which is one of the greatest developmental

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[110] SINDZINGRE, N. ALICE. *The Ambivalent Impact of Commodities: Structural Changes or Status Quo in Sub-Saharan Africa?* South African Journal of International Relations. Vol. 20, No. 1, April 2013. Pp. 23-55. [Online] URL: < http://www.tandfonline.com/doi/abs/10.1080/10220461.2013.780327#.Uzfsd_l_uAU> P.11;
[111] HAUGEN ØSTBØ, HEIDI. *Chinese Exports to Africa: Competition, Complementarity and Cooperation between Micro-Level Actors.* Forum for Development Studies, Vol. 38, No 2, pp. 157-176. May 2011. [Online] URL: http://www.tandfonline.com/doi/pdf/10.1080/08039410.2011.572286 Pp. 168-9;

problems of the region.[112] This is in line with Nurkse's assumptions that underdeveloped and size-limited market was the main reason why the former colonizers concentrated on export and avoided higher market commitment.

According to Broadman, the integration is also very successful in the case of tourism - namely, due to many African countries being officially approved as recommended destinations by the Chinese government and the burgeoning Chinese middle class, Africa can expect a significant growth of the Chinese tourists' number, generating higher employment and translating into growth of the living standard.[113] This is especially important in case of the states ostracized by the West – for instance, Zimbabwe became an officially approved travel destination in 2003 and experienced a surge in Chinese tourists, which has contributed to a 40% rise in tourism from Asia during the year.[114] This might have significant implications as per Hirschman's forward and backward linkages - for instance, tourism is closely related to international transport and the surge of the Chinese tourists can lead to better transport connections to China or generally improve the quality of the transport infrastructure in the destination country. For instance, the price of the flight tickets to Luanda have considerably decreased with the growing number of Chinese businessmen and tourists visiting the country.[115]

Besides, as the Chinese manufacturers switch its production to Africa in order to use the lower labour costs and the preferential treatment of the goods exported from Africa, such as e.g. AGOA, they contribute to the integration of the local market to the global supply chains, diversify the exports of Africa and tend to export more value-added goods. This might have significant spillover effects, as the increasing number of tourists and foreign

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[112] BROADMAN, G. HARRY. Africa's Silk Road: China and India's New Economic Frontier. Washington, DC: The World Bank, 2007. [Online]. URL:<
http://books.google.cz/books?id=fkBJ0HL34WsC&pg=PA41&hl=cs&source=gbs_toc_r&cad=4#v=onepage&q&f=false> Pp. 328-38.
[113] BROADMAN, G. HARRY. Africa's Silk Road: China and India's New Economic Frontier. Washington, DC: The World Bank, 2007. [Online]. URL:<
http://books.google.cz/books?id=fkBJ0HL34WsC&pg=PA41&hl=cs&source=gbs_toc_r&cad=4#v=onepage&q&f=false> Pp. 328-38.
[114] ALDEN,CHRIS. *China in Africa*. Survival: Global Politics and Strategy. No 3. Vol. 45. Pp. 147-164. [Online] URL:< http://www.tandfonline.com/doi/full/10.1080/00396330500248086#.U2c0bCNIvIU> [ret. 15.03.2014]
[115] BROADMAN, G. HARRY. Africa's Silk Road: China and India's New Economic Frontier. Washington, DC: The World Bank, 2007. [Online]. URL:<
http://books.google.cz/books?id=fkBJ0HL34WsC&pg=PA41&hl=cs&source=gbs_toc_r&cad=4#v=onepage&q&f=false> Pp. 328-38.

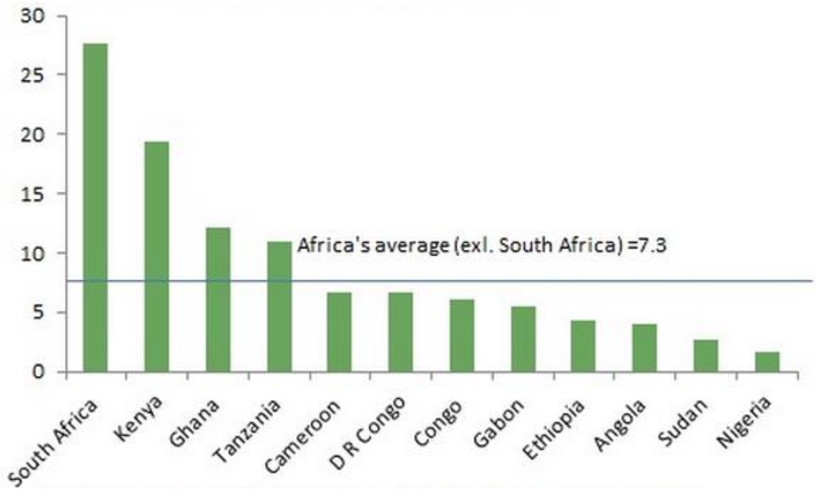
investors might attract the tourists and investors from other countries. On the other hand, the growing competition might be detrimental for the underdeveloped African manufacturing. Kaplinsky has found the cheap Chinese textile goods have crowded out the African textile intended for the US market after the Multi-Fibre Agreement expired and the import quota has been removed for Asian producers in January 2005. In the first two years after the quota removal, i.e. from 2005-2007, the SSA's exports fell by 26%, which have had significant negative socio-economic effects, considering the fact that textile accounts for over a half of the regional exports excluding South Africa. Similarly, 1 000 workers have been displaced in Zambia in 2007, as the major textile mill had to be closed down for the incapability to compete with the cheap Chinese imports.[116] Furthermore, according to Kaplinsky, there are evidences that China and other Asian drivers are seriously undermining transfer of know-how in the wood value added industry, as the SSA exports of furniture significantly decreased with the major European's producers shifting their imports to China and Vietnam. For instance, in 2005 a major European furniture importer ceased sourcing from South Africa and Ghana and divested itself for the joint-venture in Ghana's major furniture exporting firm and imports were switch to China and Vietnam. The reason stands behind SSA producers being price-uncompetitive – for instance, In 2005, the same garden furniture product imported from South Africa at £60, could be obtained for £50 from Ghana, £38 from Vietnam and only £30 from China. [117]

While China might seem to pose a significant threat to the African light manufacturing, the growing competition definitely motivates the African companies to become more productive. For instance, a study conducted in 2007 amongst 96 Ethiopian footwear producers has shown the growing competition with China forced 28 per cent of them into bankruptcy and 32 per cent to downsize activity,[118] while those who have manged

[116] KAPLINSKY, R. MORRIS, M. *Do the Asian drivers undermine export-oriented Industrialization in SSA?* World Development, No.36, 2008. Pp. 254–273.[Online].
URL:<http://oro.open.ac.uk/10403/1/Kaplinsky_Morris_WD_ADs_Special_Issue_April_07_final.pdf> [ret. 15.03.2014]. Pp.14-16.
[117] Ibid.
[118] SHIMELSE, ALI. NIDA JAFRANI. China's Growing Role in Africa: Myths and Facts. 09.02.2012. International Economic Bulletin: Carnegie Endowment for International Peace. [online].
URL: < http://carnegieendowment.org/ieb/2012/02/09/china-s-growing-role-in-africa-myths-and-facts
[ret.15.03.2014]

to stand the competition considerably improved design and quality of their products.[119] Besides, China seems to represent little competition to the African exports in the third countries – unlike the aforementioned trade complementarity index, the average continental export complementarity index with China is rather low at the value of 7.3 %. This means that on average only 7 % of African exports could have been displaced by the Chinese substitutes.[120] However, as it can be seen from the chart below, the risk is substantially higher for the countries that have a diversified manufacturing sector, such as South Africa, Kenya and Ghana.

Figure no. 13: China - Africa export complementarity index;



Source: SHIMELSE, ALI. NIDA JAFRANI. *China's Growing Role in Africa: Myths and Facts*. 09.02.2012. International Economic Bulletin: Carnegie Endowment for International Peace. [Online]

As we can see, the Sino-African trade flows might have considerably ambivalent effects – while the growing export revenues might contribute to the capital formation and trigger economic development, the actual outcome depends on the African elites and the way they distribute the capital inflows. The trade with China is undoubtedly beneficial for the mineral-exporters, whilst the energy importers might lose from the growing commodities' prices. Although China might endanger the African light manufacturing, the

[119] KAPLINSKY, RAPHAEL et. al. *The Impact of China on Sub Saharian Africa.* April 2006. Peking: DIFID China. [Online]. URL: http://asiandrivers.open.ac.uk/documents/china_and_ssa_dfid_agenda_paper_v3_%20feb_%2007.pdf [ret.15.03.2014] .Str. 7-8;

[120] SHIMELSE, ALI. NIDA JAFRANI. China's Growing Role in Africa: Myths and Facts. 09.02.2012. International Economic Bulletin: Carnegie Endowment for International Peace. [online]. URL: < http://carnegieendowment.org/ieb/2012/02/09/china-s-growing-role-in-africa-myths-and-facts

threat seems to be relevant only for the domestic market, as the exports' complementarity index is very low. On the other hand, there is a huge potential for the African producers to extend co-operation with the Chinese counterparts and integrate in the world market. What makes China different from the other partners is political non-conditioning of the trade agreements and readiness to trade with the less stable regimes, which might undermine efforts to support governance improvement in the region.

4 CHINESE INVESTMENT IN AFRICA

The following chapter will analyze specifics and impacts of the growing Chinese investments in Africa. Yet, it is very important to stress the investment statistics might be notoriously unreliable as many authors (e.g. Brautigam, Alves, Alden, etc.) warn, since a part of the Chinese FDI is financed by concessional loans, whose subsidized parts are classified rather as foreign aid than investment by the OECD. Furthermore, up to 2005 China has only issued data on the outward FDI officially approved by the government, which leads to a significant underestimation of the overall outward FDI flows, as the investments of the Chinese privately owned enterprises (further CPOEs) might not be included.[121] However, the chapter has been included for the following reasons – with China being a developing country itself, its activities represent an interesting example of the South-South investment flows; the Chinese 'resource-for-infrastructure' deals, which will be discussed later, might have a considerable developmental effect on the region. Unfortunately, African FDI in China will not be analyzed due to unavailability of the consistent data.

4.1 Dynamics and Structure of Chinese ODI in Africa

Similarly to the total trade volumes, Chinese investment in the continent has recorded a significant increase over the last decade in terms of both the overall stocks and investment flows. According to the National Bureau of Statistics, China's ODI in Africa has increased from 31.7 million USD in 2004 to 549 million in 2008. During the period the ODI stocks enlarged from 159.5 million USD in 2005 to 780.3 million in 2008.[122] Although the value might be significantly understated, the data confirm tremendous growth rates of the Chinese investment in the continent. Moreover, according to the aforementioned White Paper on Sino-African economic cooperation, similarly to the trade flows, the impressive growth rates did not seem to be significantly hampered by the global recession – in the

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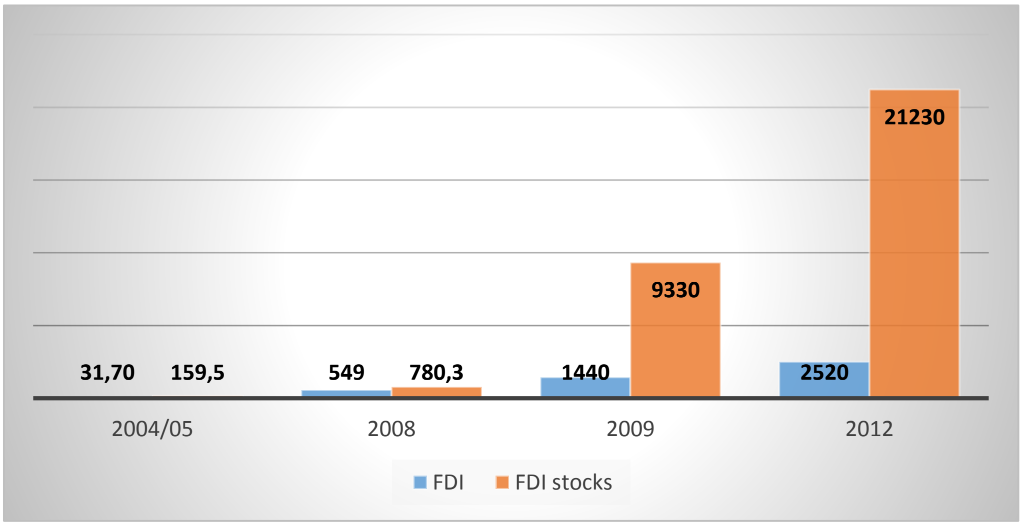
[121] ZHANG, YI, HEIN ROELFSEMA. *Unravelling the Complex Motivations behind China's Outward FDI.* Journal of the Asia Pacific Economy, Vol. 19, No.1, June 2013.Pp. 89-100. [Online] URL: http://www.tandfonline.com/doi/abs/10.1080/13547860.2013.803843#.U2BSB_l_uAU [ret.15.12.2013] Pp. 93-94;

[122]LIN XIAOHUA. FARRELL, CARLYLE. *The Internationalization Strategies of Chinese State and Private Sector Enterprises in Africa*. Journal of African Business, Vol. 14, No.2, July 2013. Pp. 85-95. [Online]. URL: http://www.tandfonline.com/doi/abs/10.1080/15228916.2013.804311#.U2BTMfl_uAU [ret.15.12.2013] Pp. 86 – 87;

period from 2009 to 2012 they grew from 1.44 billion USD to 2.52 billion, USD with an annual growth rate of 20.5 %, while the accumulated FDI value recorded an increase from 9.33 billion USD to 21.23 billion USD, which is 2.3 times the 2009 figure[123], as we can see from the chart below:

Figure no. 14: Value of Chinese FDI flows and stocks in mill USD from 2004 – 2012.



Source: Author's calculation on the basis of LIN XIAOHUA. FARRELL, CARLYLE. *The Internationalization Strategies of Chinese State and Private Sector Enterprises in Africa*. Journal of African Business, Vol. 14, No.2, July 2013. Pp. 85-95. [Online] and CHINESE GOVERNMENT'S OFFICIAL WEB PORTAL. China-Africa Economic Trade and Cooperation (2013). Xinhua. August 2013. [Online].

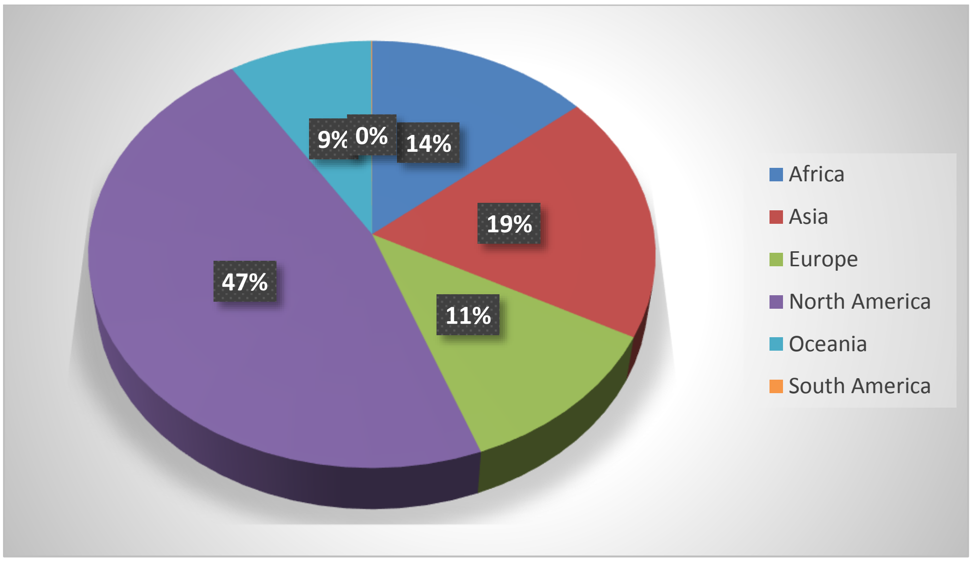
This clearly underlines growing importance of Africa as a target destination for the Chinese investors – Blomkvist and Drogendijk find that, everything else being equal, the Chinese OFDI is at the moment more likely to end up in Africa than any other continent.[124] However, the predictions are not supported by the A Capital Dragon Index for 2013 – as per report, although Africa has in total attracted 7 838 mill USD of the Chinese ODI, which is more than South America, Oceania and even Europe, it accounted for only 14 % of the total

[123] CHINESE GOVERNMENT'S OFFICIAL WEB PORTAL. China-Africa Economic Trade and Cooperation (2013). Xinhua. August 2013. [Online]. URL:< http://english.gov.cn/official/2005-08/17/content_24165.htm> [ret.15.03.2014]

[124] DROGENDIJK, RIAN.BLOMKVIST, KATARINA. *Drivers and Motives for Chinese Outward Foreign Direct Investments in Africa*. Journal of African Business, Vol. 14, No. 2, July 2013. [Online]. URL:< https://www.econbiz.de/Record/drivers-and-motives-for-chinese-outward-foreign-direct-investments-in-africa-drogendijk-rian/10010152004> [ret.15.12.2013]

annual value, while 47 % of the investment targeted North America, as we can see from the chart below:[125]

Figure no.15: Chinese total OFDI in 2013 according to destinations;



Source: Author's calculation on the basis of A CAPITAL. *Dragon Index 2013: Full Year*. [Online]

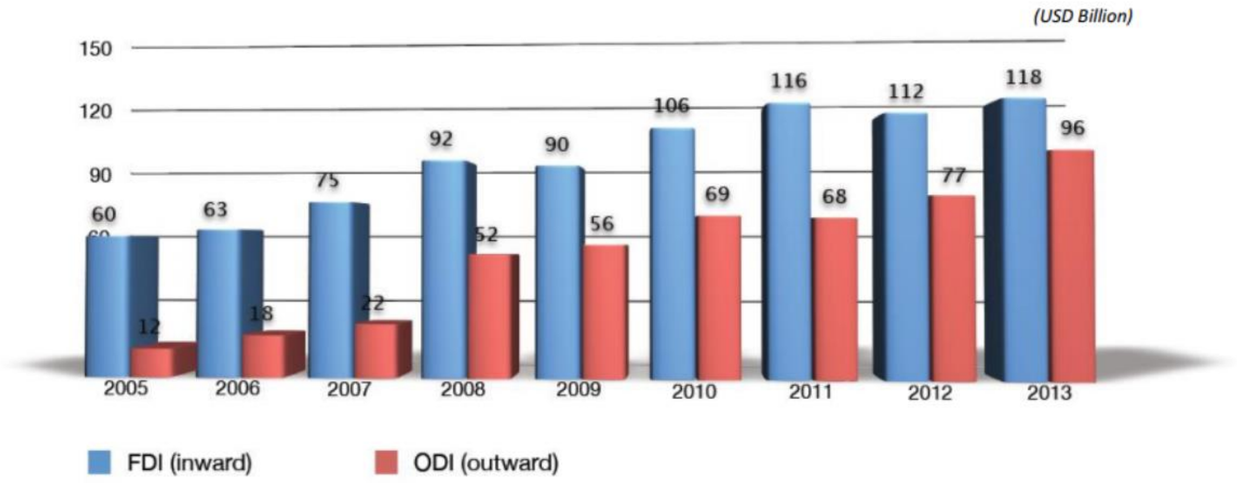
Although the share of North America is inflated due to the large CNOOC – Nexen resource deal, which accounted for 15,1 billion USD out of the total 26,1 billion USD invested in 2013, the figure clearly implies the vast majority of the Chinese ODI still targets developed economies, which might imply that China is guided by standard FDI principles and prefers more stable economies over the risky countries of SSA. Yet, Africa appears to be significantly gaining on importance – while African share in the total China's ODI was practically non-existent in 2010, in 2012 it accounted for 9 % of the overall investment and further increased by 5 % in 2013.[126] Therefore, at the moment it is impossible to assess the importance of Africa as an investment destination for China, as the period of its intensified presence in the continent is rather short. However, one thing is for sure – similarly to the growing trade volumes, the upsurge in the Chinese investments in the continent definitely represents an important source of capital, which, if directed properly, might have significant developmental effects. Besides, the impressive dynamics of the emerging Sino-African

[125] A CAPITAL. *Dragon Index 2013: Full Year Report*. [Online]. URL:< http://www.acapital.hk/dragonindex/A%20CAPITAL%20DRAGON%20INDEX%20FY%202013%20ENG.pdf> [ret. 20.04.2014]

[126] A CAPITAL. *Dragon Index 2012: Full Year Report*. [Online]. URL: http://www.acapital.hk/dragonindex/A_CAPITAL_DRAGON_INDEX_FY_2012_ENG.pdf [ret.20.04.2014]

investment relations confirm the growing significance of China as a source of outward FDI and the shift of the global investment flows towards the South-South relations. The conclusion is corroborated by the closing gap between Chinese inward FDI and ODI – according to A Capital's predictions, if the current growth rates persist, the Chinese ODI will equal FDI in 2014 or 2015, when the current 12th Five Year Plan ends, while additional half-a-trillion Chinese investments will be created by the end of 2016.[127]

Figure no. 16: Closing gap between Chinese FDI and ODI in USD billion;



Source: A CAPITAL. *Dragon Index 2013: Full Year Report*. [Online]

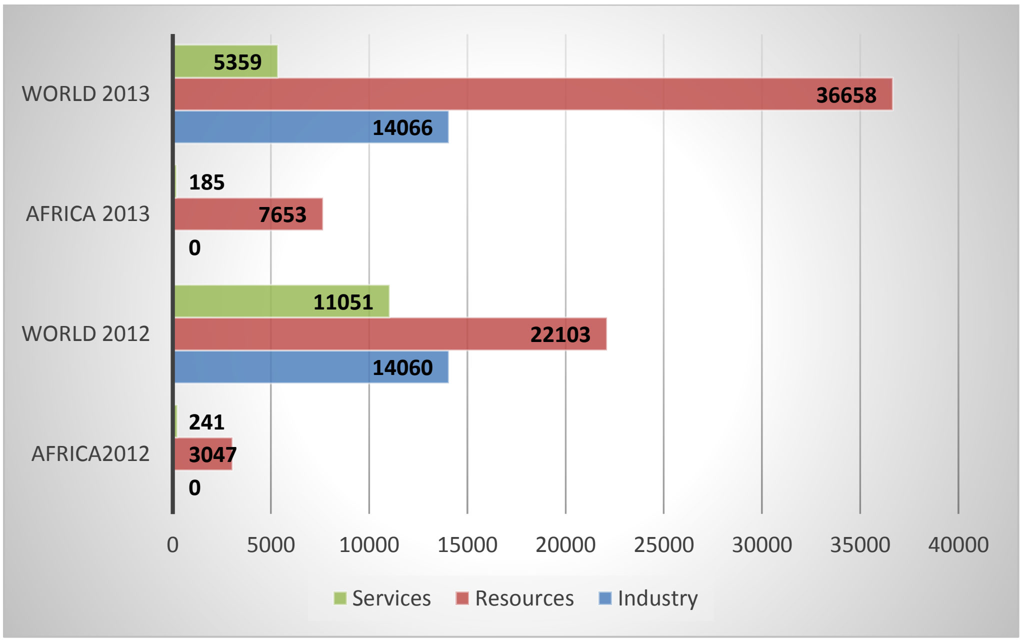
However, while the surge of investments in Africa might represent a significant impetus for economic growth, it is necessary to analyze geographical and structural distribution of the flows, in order to be able to determine their impacts on development. The following subchapter will attempt to identify the most common markets and sectors that attract Chinese ODI, as well as the major motivation of their growing commitment in Africa.

[127] A CAPITAL. *Dragon Index 2013: Full Year Report*. [Online]. URL:< http://www.acapital.hk/dragonindex/A%20CAPITAL%20DRAGON%20INDEX%20FY%202013%20ENG.pdf> [ret. 20.04.2014]

4.2 Motives and structure of Chinese ODI in Africa

if we analyze the structure of the Chinese investment, effects on development appear very constrained due to the high concentration on resources - namely, from 7 838 mill USD invested in 2013, 97.6 % went to resources, while only 185 mill USD were invested in services and the industry investments were negligible.[128] Besides, the share of the services has declined compared to 2012, which is not in accordance with the general trends of the Chinese ODI, where services and industries picked up by 17 % compared to the previous year,[129]as the figure below shows:

Figure no. 17: Structure of global Chinese investment vs. investment in Africa in 2012 -13 in mill USD;



Source: Author's calculation on the basis of A CAPITAL. *Dragon Index 2012: Full Year Report*. [Online]. And A CAPITAL. *Dragon Index 2013: Full Year Report*. [Online].

As the SSA economies are already largely dependent on commodities' production and export, the Chinese investment does not seem to contribute to the structural diversification the aforementioned theories identify as a crucial trigger of the economic development. Besides, as the resources' extraction is rather capital than labour intensive, it

[128] A CAPITAL. *Dragon Index 2013: Full Year Report*. [Online]. URL:< http://www.acapital.hk/dragonindex/A%20CAPITAL%20DRAGON%20INDEX%20FY%202013%20ENG.pdf> [ret. 20.04.2014].**Note:** Negligible here is meant as less than 1 mill USD, which is why it was not visible in the chart.
[129] CAPITAL. *Dragon Index 2013: Full Year Report*. [Online]. URL:< http://www.acapital.hk/dragonindex/A%20CAPITAL%20DRAGON%20INDEX%20FY%202013%20ENG.pdf> [ret. 20.04.2014

does not have potential to drain the large labour surpluses from the agricultural sector and foster labour productivity, which Lewis considers a crucial trigger of development.

The problem is clearly visible on the example of Angola – due to the blossoming oil production, the country's GDP annually grew by 20 % in the years 2006-07, since the oil sector has reached higher production outputs than Azerbaijan, Brazil, Kazakhstan, Libya and the Russian Federation in the period from 2004-2009. In 2008 with the total production of 1 901 000 barrel per day, the country surpassed Nigeria as the continent's largest producer and by early 2009 became the second largest crude oil exporter to China.[130]

However, out of the total 8,9 mill labour force, only 64 677 workers have been employed in the labour sector in 2009, which practically means that only 0.21% Angolans would actually prosper from the expending oil sector.[131] While the large revenues generated from taxes and royalties represent an important source of finance for the post-war reconstruction,[132] they are in practice retained by a negligible percent of the population in order to keep the governing MPLA and President Dos Santos in power. Thus, instead of being redirected to support development and welfare of the society, the growing revenues are wasted by the "clientelist distribution" of the presidential patronage system.[133] Hence, the growing investment in resources is more likely to support the autocratic, presidential regime, which has been in power from 1975, rather than to foster development of the Angolan society. Yet, the negatives are more of a consequence of the weak Angolan institutions, than an outcome of the Chinese activities and the example once again

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[130] BURGOS SIGFRIDO, EAR SOPHAL. *China's Oil Hunger in Angola: history and perspective*. Journal of Contemporary China, Vol. 21, No. 74, March 2012, pp. 351–367. [Online]. URL: http://www.tandfonline.com/doi/abs/10.1080/10670564.2012.635935#.U2Ytm_l_uAU [ret.20.04.2014].Pp. 354.
Note: The year of 2008 was specific, as the Niger Delta crisis led the large international companies such se Shell to evacuate their workers from the country, which in turn significantly decreased daily outputs. However, this was a short-lived change and Nigeria to the day represents the largest oil producer in Africa.
[131] OVADIA, SALAH JESSE. *The Dual Nature of Local Content in Angola's Oil and Gas Industry: Development vs. Elite Accumulation*. Journal of Contemporary African Studies. Vol. 30, No. 3, July 2012, pp. 395-417. [Online].URL: http://www.tandfonline.com/doi/full/10.1080/02589001.2012.701846#.U2ZLuPl_uAU [ret. 20.04.2014]. Pp.398-99.

[132] **Note:** Here by war is meant the Angolan Civil War, that with certain interludes has lasted from 1975-2002.
[133] OVADIA, SALAH JESSE. *Accumulation with or without Dispossession? A 'Both End' Approach to China in Africa with Reference to Angola. Review of African Political Economy* Vol. 40, No. 136, July 2013. Pp. 233–250. [Online]. URL: http://www.tandfonline.com/doi/abs/10.1080/03056244.2013.794724#.U2Tqcfl_uAU [ret.20.04.2014]. Pp.396-398

corroborates Nurkse's assumption the lack of good governance was one of the major reasons of the former colonies' backwardness.

However, as the A Capital Dragon Index follows Chinese ODI from no sooner than 2001, reliability of the data might be limited due to the short reference period. For instance, the sectorial data on China's FDI flows to Africa in the period from 1979-2000 show that manufacturing (textiles) and resources' extraction have been the two most relevant sectors attracting on average up to 74 % of the total investment from China.[134] China as "the factory of the world" has been looking for new markets for domestic production's surpluses, which makes the African countries with large markets such as Nigeria, Sudan and South Africa an important destination for the Chinese producers. If we consider the rising wages in China and the fact the economy is due to reach the Lewis turning point, as well as the growing purchasing power of the African consumers, it can be expected the manufacturing share is going to rise. According to the findings of Biggeri and Sanfilippo, the capacity of the African countries to attract Chinese OFDI is principally determined by their natural resources' endowment and the market size.[135]

Blomkvist and Drogendijk has confirmed the above findings by the empirical analysis of the Chinese investment flows in the period from 2004-2009 in 43 African countries. They have come to a conclusion that large-market countries have a higher probability of attracting Chinese ODI than the small and landlocked economies. However, they believe the smaller economies can attract Chinese investment through greater openness towards FDI, good infrastructure, an educated labor force, low political risk, minor corruption, and efficient legal systems promoting FDI. For instance, in Zambia a number of private investors followed the successful market entrance of the large mining companies.[136] The findings, as one can see, confirm the Nurkse's assumption the underdeveloped and limited market was the

[134] BIGGERI, M., SANFILIPPO, M. *Understanding China's Move into Africa: An Empirical Analysis*. Journal of Chinese Economic and Business Studies Vol. 7, No. 1, February 2009, 31–54. [Online]. URL: http://www.tandfonline.com/loi/rcea20#.UyFHs_l5OAU [ret. 15.12.2013]. Pp. 31-32.

[135] Ibid.

[136] DROGENDIJK, RIAN.BLOMKVIST, KATARINA. *Drivers and Motives for Chinese Outward Foreign Direct Investments in Africa*. Journal of African Business, Vol. 14, No. 2, July 2013. [Online]. URL:< https://www.econbiz.de/Record/drivers-and-motives-for-chinese-outward-foreign-direct-investments-in-africa-drogendijk-rian/10010152004> [ret.15.12.2013]. P. 77.

reason why the former colonial powers did not engage with the local economies, but rather concentrated on export. However, this may not be the case of China, if the local economy offers stability and good investment conditions, as it was the case with Zambia.

While China is often portrayed as investing in the countries with weak institutions and bad governance, such as Sudan and Mali, the authors have found the opposite is truth - the Chinese investment in Africa is actually guided by the standard FDI principles, which means the Chinese companies are driven by resource-seeking, market-seeking and strategic assets-seeking motives. In other terms, according to the analysis, the Chinese investors exhibit strong preference, not only for the resource-rich, large economies, but also for the economies with a stable market and a good technological-assets portfolio, in terms of the number of licenses and patents registered in the country. Thus, contrary to the common belief, the Chinese investment activities in the continent are market-orientated, and therefore, the authors argue, the classical FDI theories should not be dismissed in their analysis.[137]

On the other hand, by analyzing Chinese ODI flows in 29 African countries from 2003-2006, Kolstad and Wiig have found the Chinese FDI gravitates towards the resource-rich countries with weak institutions and bad governance. However, it does not tend to be drawn to resources and exploit bad governance more, than it is the case for any other Western investor, implying the Chinese investments might be far less distinctive than commonly assumed.[138] Thus, while the impact of the Chinese ODI flows on the quality of governance might be ambiguous, it is clear the Chinese economic activities do not contribute to the low governance standards more than those of the traditional partners, as it is commonly assumed.

Drogendijk and Blomkvist further identify a significant positive correlation between the Chinese ODI and the trade flows – according to their analysis, the Chinese companies

[137] DROGENDIJK, RIAN.BLOMKVIST, KATARINA. *Drivers and Motives for Chinese Outward Foreign Direct Investments in Africa*. Journal of African Business, Vol. 14, No. 2, July 2013. [Online]. URL:<https://www.econbiz.de/Record/drivers-and-motives-for-chinese-outward-foreign-direct-investments-in-africa-drogendijk-rian/10010152004> [ret.15.12.2013]. Pp. 80 – 82.

[138] KOLSTAD, IVAR. WIIG ARNE. *Better the Devil You Know? Chinese Foreign Direct Investment in Africa?* Journal of African Business, Vol. 12, No. 1, Mach 2011.Pp.31-50. [Online].URL: http://www.tandfonline.com/doi/full/10.1080/1536710X.2011.555259#.U2cUcyNIvIU [ret. 15.12.2013]. Pp. 32-33

tend to invest more in the countries, where they have extensive export relations. While the presence of the Chinese minorities has been proved to foster both trade and investment relations with the recipient countries, in case of the Chinese ODI in Africa it does not appear important with the exception of Madagascar and Trinidad and Tobago, where the Chinese community exceeds 10 000 people.[139] The significant correlation can be explained by the phenomenon of the ethnic guanxi, i.e. the preference of the Chinese businessmen to cooperate with known partners and personal acquaintances in order to reduce business risks, but also by the coordinative role of the Chinese government, which shapes trade, aid and investment flows.

According to Buckley et al., one of the key motivations of the Chinese ODI is domestic export promotion – since 1999 the government support has been provided to the export-related investments. As per the import-side of the trade flows, the Chinese ODI might substitute for import of some intermediate goods to China. This is shown by a negative correlation between the Chinese imports from a country and the net foreign direct investment it receives – namely, according to the Buckley et al. empirical findings, once the Chinese imports from a country increase by 1 %, the outward investment to the country falls by 0.25 %.[140]

While the government-orchestrated investment might have negative consequences, as for distorting market mechanisms and supporting autocratic regimes, as it has been shown on the case of Angola, the coordination of the trade, aid and investment flows, on the other hand, can lead to the creation of the forward and backward linkages, which, according to Hirschman, determine the success of the investments. Yet, in case of the Chinese ODI in Africa, the conclusion might be very disputable, as the agglomeration effect has been found to be very low. In other terms, the importance of social networks and interdependence with

[139] DROGENDIJK, RIAN.BLOMKVIST, KATARINA. *Drivers and Motives for Chinese Outward Foreign Direct Investments in Africa*. Journal of African Business, Vol. 14, No. 2, July 2013. [Online]. URL:< https://www.econbiz.de/Record/drivers-and-motives-for-chinese-outward-foreign-direct-investments-in-africa-drogendijk-rian/10010152004> [ret.15.12.2013]. Pp. 80 – 82.

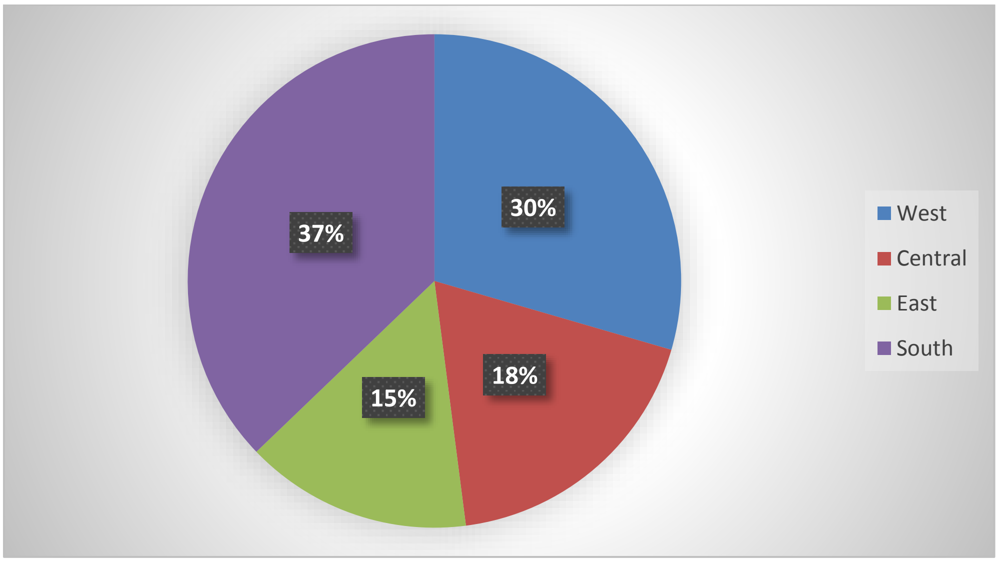
[140] BUCKLEY, P.J. et al. *The determinants of Chinese outward foreign direct investment*. Journal of International Business Studies, Vol. 38, No. 4, 2007. Pp. 499–518. [Online].URL: http://wenku.baidu.com/view/5e08ccd033d4b14e85246887.html Pp. 510-511.

the FDI flows of other countries is very low in the case of the Chinese ODI in Africa.[141] This practically means the investment flows in the economy are not mutually coordinated. On the one hand, it can create misbalance of the economy's structure given the majority of the investments flow to the same sector – as it is the case of the African resources' extraction sector – which in turns creates bottlenecks (e.g. undersupply of services), and fuels economic growth. However, due to the institutional weaknesses and inability/unwillingness of the African governments to distribute the inflows in accordance with the social needs, as the examples of Nigeria and Angola illustrate, the positives of the increments in capital stocks might remain unused.

On the other hand, Xiaohua and Farrell argue the Chinese investments go far beyond the classical quest for energy. Although the resource-rich and large economies of Southern and Western Africa have attracted almost 70 % of the total net FDI inflows in 2009 (see Figure no. 16), with the three largest recipients - South Africa (5 628.1 mill USD), Nigeria (5 786.7 mill USD) and Sudan (2 682.2 mill USD) attracting approximately a half of all the investment (see Figure no. 17), according to them, the Chinese companies also invest in a range of industries, including agriculture, manufacturing, textiles, and pharmaceuticals. When assessing the motives of the Chinese companies, they argue, it is necessary to consider a difference in the attitudes of the Chinese privately and state-owned companies. According to them, there is a crucial difference between the Chinese state-owned (further CSOEs) and privately owned enterprises operating in Africa, which comes out of their different motives and reflect in different market entrance strategies, risk-aversion and employment practices. While the first are driven by the geostrategic interests of the Chinese government, the second are purely market orientated.

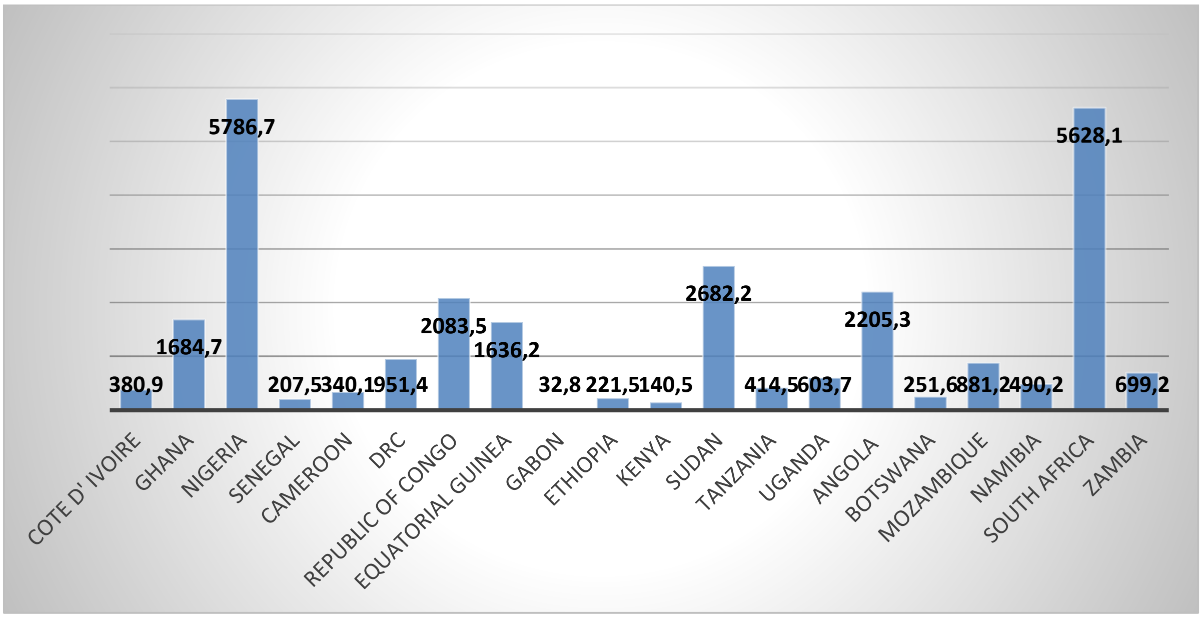
[141] BIGGERI, M., SANFILIPPO, M. *Understanding China's Move into Africa: An Empirical Analysis*. Journal of Chinese Economic and Business Studies Vol. 7, No. 1, February 2009, 31–54. [Online]. URL: http://www.tandfonline.com/loi/rcea20#.UyFHs_l5OAU [ret. 15.12.2013].Pp.

Figure no. 16: Distribution of the Chinese net FDI inflows in 2009 accross the African regions;



Source: Author's calculation on the basis of LIN XIAOHUA. FARRELL, CARLYLE. *The Internationalization Strategies of Chinese State and Private Sector Enterprises in Africa*. Journal of African Business, Vol. 14, No.2, July 2013. Pp. 85-95. [Online]

Figure no 17: Distribution of the Chinese net FDI inflows in 2009 amongst countries (mill USD);



Source: Author's calculation on the basis of LIN XIAOHUA. FARRELL, CARLYLE. *The Internationalization Strategies of Chinese State and Private Sector Enterprises in Africa*. Journal of African Business, Vol. 14, No.2, July 2013. Pp. 85-95. [Online]

With the Chinese economy's annual oil consumption expected to reach 563 mill tones by 2020, the oil-rich countries are reasonably the countries with the strongest presence of the Chinese SOEs, with a clear mandate of the government to procure the strategic resource.[142] However, the companies also heavily invest in the African farming land, telecommunication and infrastructure, as these are the strategic pillars of the Chinese economic development – for instance, the Chinese telecommunication multinational Huawei is currently present in 39 African countries, while ZTE, the second largest Chinese telecoms equipment maker, well associated with China's Ministry of Aerospace, has been in Africa for more than 10 years and operated in more than 50 markets.[143]

Furthermore, as China is expected to account for one fifth of the global construction market by 2020, increasing from the current 14%,[144] Africa may be an increasingly important destination of the Chinese construction investors. Namely, Africa is plagued by the poor state of both transport and power infrastructure – according to Alves, the continent currently has an average of 204 km of roads per 1000 square kilometers compared to the world average of 944 km and only 25% are paved, while the current total combined power generation of Sub-Saharan African countries (total population 800 million) equals roughly that of Spain (population 45 million).[145] This leads to considerably higher transport costs compared to the rest of the world, which impedes not only the international, but also intracontinental trade and business - to the day, Africa remains the continent with the lowest intraregional trade in the world, due to the high transport costs and bad interstate infrastructure coordination. The same holds for international transport - for instance the

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[142] LIN XIAOHUA. FARRELL, CARLYLE. *The Internationalization Strategies of Chinese State and Private Sector Enterprises in Africa*. Journal of African Business, Vol. 14, No.2, July 2013. Pp. 85-95. [Online]. URL: http://www.tandfonline.com/doi/abs/10.1080/15228916.2013.804311#.U2BTMfl_uAU[ret 15.12.2013] Pp. 86-91.

[143] LIN XIAOHUA. FARRELL, CARLYLE. *The Internationalization Strategies of Chinese State and Private Sector Enterprises in Africa*. Journal of African Business, Vol. 14, No.2, July 2013. Pp. 85-95. [Online]. URL: http://www.tandfonline.com/doi/abs/10.1080/15228916.2013.804311#.U2BTMfl_uAU[ret 15.12.2013] Pp. 91-92.

[144]ALVES, ANA CRISTINA. *China's 'Win-Win' Cooperation: Unpacking the Impact of Infrastructure-for-Resources Deals in Africa.* South African Journal of International Affairs, Vol 20, No.2, 2013. Pp. 207-226. [Online]. URL:< http://www.tandfonline.com/eprint/IyetGbK46I4WUz25x4Cb/full#.U2dQeCNIvIU> [ret.15.12.2013] Pp. 208-210

[145] Ibid.,pp 210-211.

average transportation costs to export a container from Africa in 2007 amounted to 1649 USD which was almost double the OECD average of 889 USD.[146]

China has immensely contributed to the relief of the problem through the resource-backed concessional loans, which are rooted in a two pillar legal-system – first, a framework cooperation agreement is signed by the two governments, defining the general terms of the loan (e.g. volume, purpose, interest rate and maturity), which is followed by a specific loan agreement signed by the China's Exim Bank and the borrower. The loans are granted at the interest rates below the benchmark of the People's Bank of China, with the difference being subsidised by the central government. The reimbursement period is relatively long, being up to 15-20 years, including a 5-7 year grace period.[147] The loans are backed by natural resources, most commonly oil.

As per amounts granted, Beijing accounted for one fifth of the total external resources pledged for the support of African infrastructure in the period from 2008-2011 and has even extended its funds by 66 % in 2011, when all the other investors contracted their means. While many of the projects turned out to be problematic at certain point, the Chinese governmant seems persistent at providing the financial assistance – so far, it has been invested 12 bill USD to Nigeria, although the contracts have been problematic due to the political instability of the country. Similatly, EXIM bank extended a new 3-bllion credit line to further support of the Angolan reconstrucion. When Ghana became an oil producer in 2010, Beijing pledged to provide a 3 bill loan to support infrastructure development. Yet the country has received the same amount before the oil fields have been discovered, which implies the deals are not exlusively resource-backed, as it is commonly assumed. .[148]

Although, the loans are often criticized as to increase debt of the already highly indebted SSA states, enhancing monetary and fiscal indiscipline as the countries can now circumvent the strict IMF lending rules, and are often tied to the procurement of goods from China (e.g. machinery, construction materials, etc.) and employment of the Chinese labour

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[146] DAVIES, MARTIN. *How China is Influencing Africa's Development.* April 2010. Paris: OECD Development Centre. [Online]. URL: http://www.oecd.org/development/pgd/45068325.pdf [ret.18.04.2014]. Pp.18-19.
[147] ALVES, ANA CRISTINA. *China's 'Win-Win' Cooperation: Unpacking the Impact of Infrastructure-for-Resources Deals in Africa.* South African Journal of International Affairs, Vol 20, No.2, 2013. Pp. 207-226. [Online]. URL:< http://www.tandfonline.com/eprint/IyetGbK46I4WUz25x4Cb/full#.U2dQeCNIvIU> [ret.15.12.2013]. Pp.211-13.
[148] Ibid, pp. 218

force, the loans have a potential to create important increments of the social overhead capital. According to Alves, while the Chinese government has been often criticized for providing loans to the problematic Angolan regime and the Chinese credit lines could have supported Luanda in its decision to disengage in 2004 from 'Washington Consensus' mechanisms such as the IMF, the Heavily Indebted Poor Countries initiative (HIPC) and the Extractive Industries Transparency Initiative, the Angolan government has been repaying its creditors and improving transparency in public accounts.[149] Although the capital imports might deteriorate the balance of payments of the resource-dependent, fragile Sub-Saharan economies and hinder development of domestic manufacturing, analyzing panel data covering the period 1990–2009 for a sample of 36 countries in SSA, Munemo has found robust evidence in support of the fact the import of capital goods from China represents an important technology transfer channel, that enhances economic growth in SSA.[150]

Thus, while the profit-maximizing private companies are unable to take up the large-scale projects, due to the high risks and lack of the capital means, the CSOEs supported by the state-subsidized capital are able to take an aggressive market-entrance approach, as they have a comparative advantage over the private Western counterparts in terms of the lower business risks. Besides, they have higher negotiation potential and can easier close deals with the local governments, due to official promotion by the Chinese state. This has been the case of both the energetic and construction sector, which is dominated by the large CSOEs deals. The bilateral deals are later used as a springboard to further expansion across the continent. However, as the companies rather follow the strategic interests of the Chinese government than development needs of the recipient countries, they are weak at employing the local labour force. For instance, the big Chinese construction companies are known to use materials procured by the Chinese vendors and employ the Chinese workforce, which made the African Union to request that at least 80 % of the workforce in the common

[149] ALVES, ANA CRISTINA. *China's 'Win-Win' Cooperation: Unpacking the Impact of Infrastructure-for-Resources Deals in Africa.* South African Journal of International Affairs, Vol 20, No.2, 2013. Pp. 207-226. [Online]. URL:< http://www.tandfonline.com/eprint/IyetGbK46I4WUz25x4Cb/full#.U2dQeCNIvIU> [ret.15.12.2013].
[150] MUNEMO, JOHNATAN. *Examining Imports of Capital Goods from China as a Channel for Technology Transfer and Growth in Sub-Saharan Africa*. Journal of African Business, Vol. 14, No.2, pp.106–116, July 2013.[Online].URL: http://faculty.salisbury.edu/~jxmunemo/ [ret.15.12.2013]. Pp. 110-11.

joint-ventures would be the locals.[151] Similarly, Angola regulates employment policies as well as requires the use of a certain percent of the local inputs in construction and mining sector.[152] However, although the loans might have significant drawbacks for the recipient economies, they remain the most important source of the infrastructure financing.

On the other hand the CPOEs are purely guided by the market principles and tend to invest into industries where they have comparative advantages, such as footwear and textile production or food processing. Although the labour-intensive branches are not of strategic importance for the Chinese government, the companies are looking for new markets due to the fierce competition at home. However, as they are not supported by the state-subsidized capital, they tend to be more risk-averse and choose an incremental entrance to the market. Unlike the SOEs which are guided by the Chinese strategic interests, the privately owned companies tend to be much more integrated to the local markets, distribution channels and create much more employment for the locals – for instance, the Chinese Datong Group's investment in Senegal, has employed 15,000 farmers from 141 farmers' associations with an additional 500 people participating in related work such as transportation.[153] Therefore, while the state investors might create social overhead capital, the private ones can be significant for the job creation.

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[151] LIN XIAOHUA. FARRELL, CARLYLE. *The Internationalization Strategies of Chinese State and Private Sector Enterprises in Africa*. Journal of African Business, Vol. 14, No.2, July 2013. Pp. 85-95. [Online]. URL: http://www.tandfonline.com/doi/abs/10.1080/15228916.2013.804311#.U2BTMfl_uAU[ret 15.12.2013] Pp. 91-92.

[152] OVADIA, SALAH JESSE. *Accumulation with or without Dispossession? A 'Both End' Approach to China in Africa with Reference to Angola. Review of African Political Economy* Vol. 40, No. 136, July 2013. Pp. 233–250. [Online]. URL: http://www.tandfonline.com/doi/abs/10.1080/03056244.2013.794724#.U2Tqcfl_uAU[ret 15.12.2013] pp. 239-243

[153] LIN XIAOHUA. FARRELL, CARLYLE. *The Internationalization Strategies of Chinese State and Private Sector Enterprises in Africa*. Journal of African Business, Vol. 14, No.2, July 2013. Pp. 85-95. [Online]. URL: http://www.tandfonline.com/doi/abs/10.1080/15228916.2013.804311#.U2BTMfl_uAU[ret 15.12.2013] Pp. 91-92.

CONCLUSION – QUO VADIS, AFRICA? [154]

The growing Sino-African relations are, as one could have seen from the analysis above, very complex and dynamic, as the aid, trade and investment flows are mutually intertwined. The role of China in the continent has considerably changed over time – from an exclusively politically motivated actor, it has turned into one of the major economic partners of the Sub-Saharan region. The exceptional growth dynamics of the Sino-African trade and investment from 2000 onwards represents an important source of capital for the underdeveloped economies of the Sub-Saharan Africa, which have been recording significant GDP growth over the last decade. The upsurge of the Chinese activities has also brought about an increasing interest of the traditional partners, turning Africa, the forgotten 'Western backyard', into a hopeful continent.

The high demand for energy from China and the Asian drivers, although it has increased the lingering resource-dependency of the economies, is keeping the world commodities' prices at their historical high, creating thus significant revenues for the commodities' exporters of the Sub-Saharan Africa. Hence, at the moment there is no reason to believe the murky predictions of the declining terms of trade for the commodities' exporters advocated by the structuralists would fulfill. The black continent is at the brink of the economic take off and the high GDP growth rates are definitely fueled by the Chinese trade and investment activities. Thus, as per the growth part, the upsurge of the Chinese activities in the continent is definitely beneficial.

However, although the Dutch disease scenario seem to be little probable, one must be aware of the fact the Chinese activities do not equally affect all the society groups The vulnerable groups, which are to lose from the increasing Sino-African economic exchange, are Sub-Saharan manufacturers and oil-importers – the first, since they are unlikely to survive the fierce price competition with the Chinese traders, the latter due to the skyrocketing oil prices, which are deteriorating their terms of trade. Thus, as China still majorly concentrates on light manufacturing, in a certain sense it might represent a more significant threat for the local producers compared to the North-South trade exchange, where developed countries mainly concentrate on highly sophisticated production, as

[154] Note: Latin – Where are you going, Africa?

suggested by Stopler-Samuelson theorem. On the other hand, due to the low export complementarity index, the Chinese activities are not probable to seriously threaten the African producers in the third markets with the exception of the countries with a diversified manufacturing base, such as South Africa, Kenya and Tanzania.

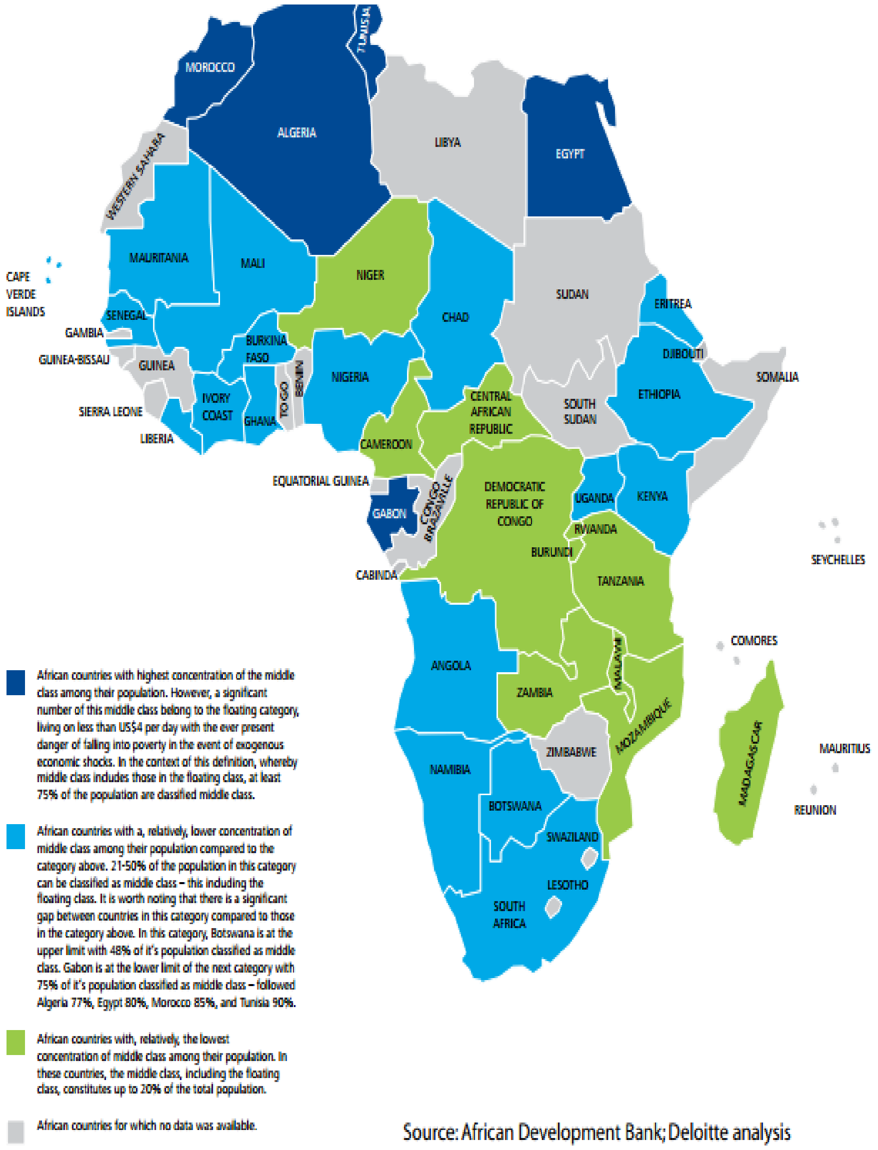
While the trade flows do not seem to significantly differ from the African relations with the Western partners, except from China having higher propensity to import from the politically unstable states, the investment patterns are rather unique. The Chinese state companies are more prone to commence large-scale projects in the risky environment of Africa due to the state-sponsored capital and official government support, which provide them a comparative advantage over the Western counterparts. Although the concessional loans provided by the Chinese government might have a number of negative consequences, Beijing currently represents the major sponsor of the African infrastructure and seems to be considerably persistent in addressing the major need of the continent. This in turn might have an immense impact on development of the region, as the bad state of infrastructure represents a major impediment for intracontinental and international trade development. Although the companies are following the strategic interests of China, it seems they are at the moment in accordance with development needs of Africa, which makes the cooperation mutually prosperous. As a development country itself, China might be an important source of know-how and better relate with the transforming Sub-Saharan economies than its Western counterparts. This is further enhanced by a positive historical image and political uncoditioning of the economic cooperation by the Chinese government, as well as by the growing presence of the Chinese minority in the continent, which is relevant for the export support.

While China has been often portrayed to support the autocratic African regimes and tend to cooperate more with the rogue states, no empirical proof has been found the premise holds – although it does not condition its economic cooperation by the good-governance requirements, which distinguish it from the traditional partners, it is not possible to say China would be guided by the non-market principles in its economic activities in Africa. The Chinese investments are, on the contrary to the popular belief, guided by the classical FDI motives of resource-seeking, market-seeking and assets seeking. Similarly to the Western partners, China tends to prefer to cooperate with stable and more diversified economies, although it does import more from the politically problematic states. The validity of the conclusion might be constrained due to the fact there is a lack of well-corroborated, statistical data on the influence of the political factors on the Sino-African trade and investment. The question, in my opinion, should be further researched in the future, as the Sino-African economic cooperation has a high growth potential, due to the increasing dependence of China on the external energy resources and high trade complementarity index.

The Sino-African relations are characterized by the accelerating expansion and intensification and, for the first time from the decolonization of the continent, the wind of change might be, indeed, blowing across the continent. At the moment it is impossible to say if it will contribute to the economic development of the continent, as the actual results rather depend on the African institutions and political elites, which to the day fail to properly use and redistribute the windfall of revenues and support welfare and development of the society. However, although the development outcomes are still ambiguous, one is for sure – the rising China in Africa represents an irreversible transformation of the world economy, which can no longer be analyzed through the optics of the center-periphery relations. What used to be “the third world” is turning into “the first word”, or better said – the wind of change is blowing across the global economic system, and China is keeping the hopes high, that this is to be the wind of economic prosper for Africa, as its least developed part.

APPENDICIES:

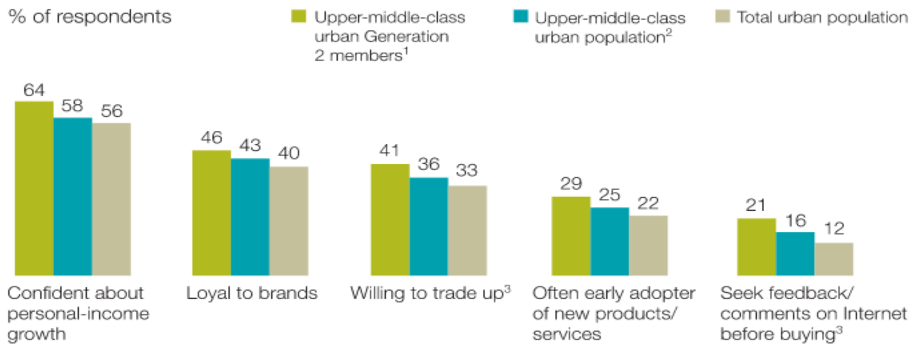
Appendix I: Middle class distribution amongst African countries in 2010; Indigo – countries of up to 75 % of middle class in the population; blue – 21-50 % of the population classified as middle class; green - middle class up to 20 % of the total population; grey – no data available;



Source: DELOITTE. *Deloitte on Africa: The Rise and Rise of the African Middle Class.* Delloitte on Africa: Issue 1, 2013. [Online].URL: https://www.deloitte.com/view/en_IN/in/insights-ideas/africa/index.htm

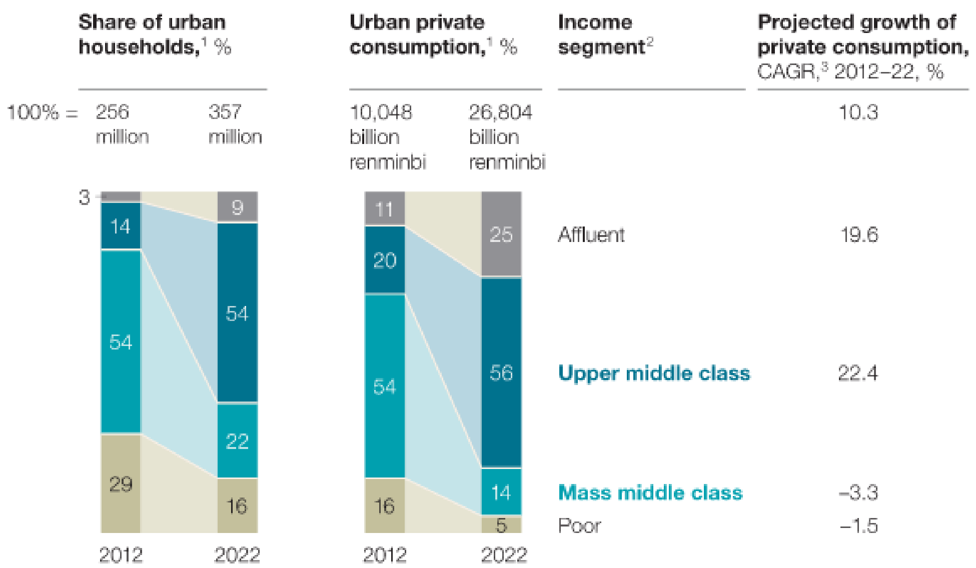
Appendix II: Consumption trends of the Chinese-Middle Class

Generation 2—Chinese consumers in their teens and early 20s—takes a more Western approach to shopping.



[1]People born after the mid-1980s and raised in a period of relative abundance.
[2]Annual household income of 106,000–229,000 renminbi (equivalent to $16,000 to $34,000 in 2010 real terms).
[3]Personal-care-product example.

Source: 2012 McKinsey survey of 10,000 Chinese consumers



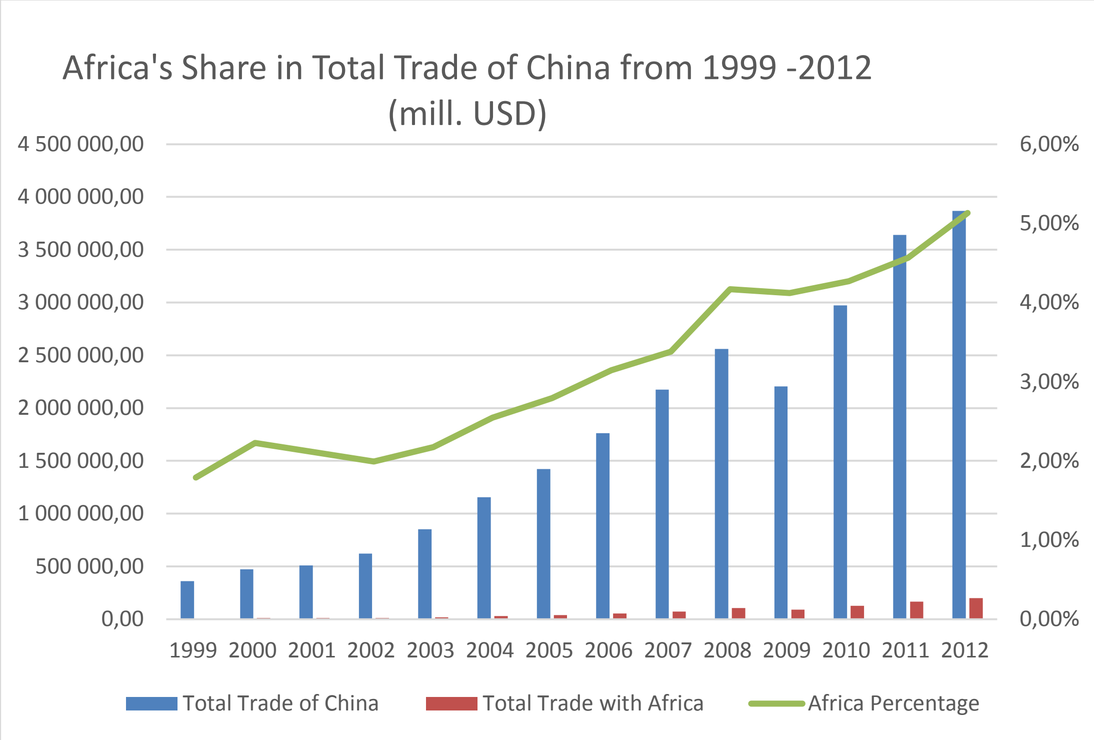
[1]Figures may not sum to 100%, because of rounding; data for 2022 are projected.
[2]Defined by annual disposable income per urban household, in 2010 real terms; affluent, >229,000 renminbi (equivalent to >$34,000); upper middle class, 106,000 to 229,000 renminbi (equivalent to $16,000 to $34,000); mass middle class, 60,000 to 106,000 renminbi (equivalent to $9,000 to $16,000); poor, <60,000 renminbi (equivalent to <$9,000).
[3]Compound annual growth rate.

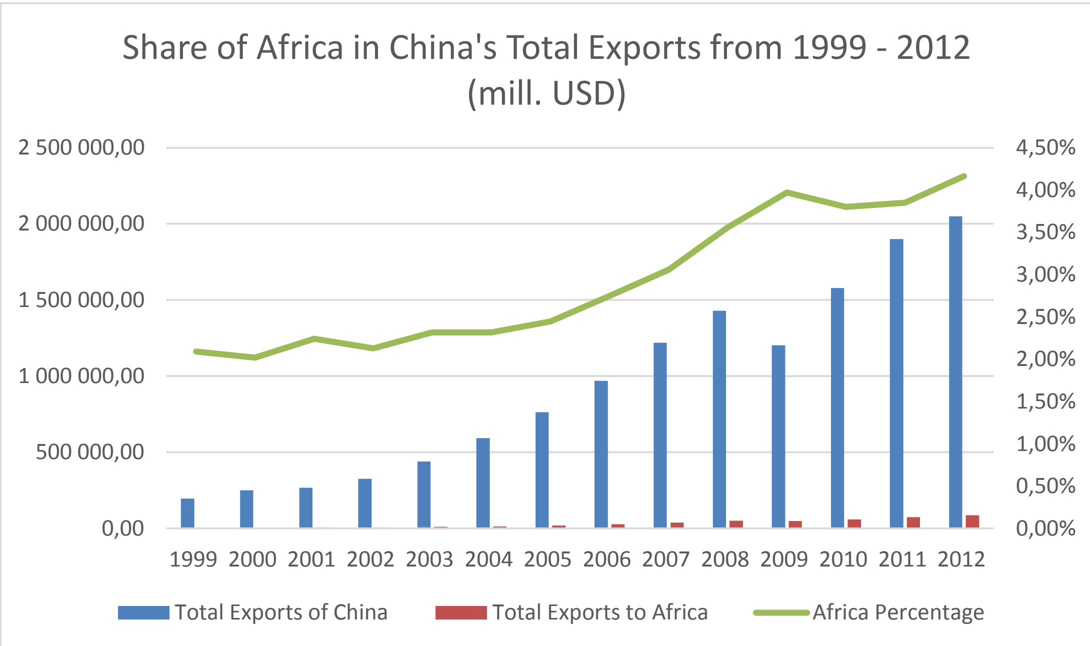
Source: MCKINSEY. *The Rise of the African Consumer*. October 2012. Johannesburg. [Online]. URL: http://www.mckinsey.com/global_locations/africa/south_africa/en/rise_of_the_african_consumer

Appendix III: The Chinese Workforce and Population Trends;

Source: BARTON, DOMENIC et al. Mapping China's Middle Class. McKinsey Quarterly. June 2013. [Online]. URL: http://www.mckinsey.com/insights/consumer_and_retail/mapping_chinas_middle_class<

Appendix IV: The African share in the total trade/export/import of China in the period 1999-2012





Source: Author's calculations on the basis of TRADE LAW CENTRE. *China-Africa Trade Data 2013.* [Online]

Appendix V: Trade Complementarity Index Calculation and Values for African Countries according to Mikic- Gilbert Formula

$$\mathrm{TCI} = 1 - \left[\left(\sum_i \left|\frac{\sum_w m_{iwd}}{\sum_w M_{wd}} - \frac{\sum_w x_{isw}}{\sum_w X_{sw}}\right|\right) \div 2\right]$$

d – the importing country of interest s – the exporting country of interest w - the set of all countries in the world, I - the set of industries, x- the commodity export, X- the total export , m -the commodity import and M - the total import

Origin/Destination	China	Strong matches in selected goods by HS code					
		27	26	72	71	52	Other
Zimbabwe	0.819		x			x	x
Tunisia	0.816	x					x
Tanzania	0.810		x				x
South Africa	0.792		x				x
Senegal	0.760			x			x
Djibouti	0.755	x			x		x
Eritrea	0.735						x
Kenya	0.733						x
Swaziland	0.730					x	
Morocco	0.724						x
Egypt	0.723			x			x
Benin	0.704	x		x			x
Uganda	0.704						x
Cote d' Ivore	0.693						x
Gambia	0.687						x
Namibia	0.685		x				x
Mauritius	0.656	x					x
Sierra Leone	0.653						x
Niger	0.636				x	x	x
Cameroon	0.627						x
African Average				0.625			
Angola	0.513				x		x
Zambia	0.506		x				x
Comoros	0.494						x
Guinea-Bissau	0.465			x			x
Mali	0.428						x

Note: HS 27 (mineral fuels, oils, distillation products, etc.}, HS 26 (ores, slag and ash), HS 72 (iron and steel), HS 71 (pearls, precious stones, metals, coins, etc.) and HS 52 (cotton)

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