

MAGISTERARBEIT

Titel der Magisterarbeit

„China's increasing economic activities in sub-Saharan Africa. A current review of Chinese FDI and ODA using the example of Zambia and Angola“

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angestrebter akademischer Grad

Magister der Sozial- und Wirtschaftswissenschaften (Mag. rer. soc. oec.)

Wien, Juni 2012

Studienkennzahl lt. Studienblatt: A 066 915

Studienrichtung lt. Studienblatt: Magisterstudium Betriebswirtschaft

Betreuer / Betreuerin: o.Univ.-Prof. Dr. Jörg Finsinger

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Abbreviations

ADBC	China Agricultural Development Bank
ANIP	Angolan National Private Investment Agency
CADF	China Africa Development Fund
CBA	Chinese Business Association
CCCCA	Chamber of Commerce of Chinese Companies in Angola
CDB	China Development Bank
CSFAC	China State Farm and Agribusiness Corporation
CNMC	China Nonferrous Metals Mining Corporation
DAC	Development Assistance Committee
DRC	Democratic Republic Congo
EXIM	China Export Import Bank
FDI	Foreign direct investment
FOCAC	The Forum on China Africa Cooperation
GDP	Gross domestic product
HIPC	High indebted poor countries
ICA	Infrastructure Consortium in Africa
IDA	International Development Association
IMF	International Monetary Fund
LDC	Least developed country
MUZ	Mineworkers Union of Zambia
NFCA	Non-Ferrous Metals Africa
ODA	Official development assistance
OECD	Organisation for Economic Cooperation and Development
SSA	Sub-saharan Africa
TAZARA	Tanzania-Zambia Railway
UNCTAD	United Nations Conference on Trade And Development
WTO	World Trade Organization
ZDA	Zambia Development Agency
ZCCM	Zambia Consolidated Copper Mines
ZCCM-IH	Zambia Consolidated Copper Mines-Investment Holdings

1. Introduction

“China is a very aggressive and pernicious economic competitor with no morals. China is not in Africa for altruistic reasons. China is in Africa for China primarily.”

Johnnies Carson, US assistant secretary for African affairs (The Guardian US embassy cables 2010a)

What is behind statements like this? What is the motivation of a high ranking US official to make such serious accusations towards a new emerging global power? And how much truth lies in this statement?

What is certainly true is that the Sino-African economic relationship has experienced enormous developments in the last decade. This intensification of intercontinental cooperation involves significantly increased trade relations, billions of new Chinese investments as well as public loans – developments that had received a remarkable degree of public attention. At the same time, China’s often much more intense activities in other parts of the world have received less public notice (Ye 2010, 2). Since this increase in intercontinental cooperation is of very recent nature and of high significance for the global economy, and moreover, the valuation of this process by journalistic and scientific publications ranges from high criticism to strong approval, an assessment of the actual impact of Chinese activities in African countries is deemed to be a promising and highly relevant research project.

Two countries in sub-Saharan Africa that experienced a substantial increase in cooperation with China are Angola and Zambia. Both countries have a colonial history and a commodity-dominated economy. China is the largest consumer of Angolan oil and the second largest importer of Zambian copper (Trade Map). At the same time, China invests in various other sectors. Moreover, these two African countries have a long historical relationship with China and recently experienced a multiply in bilateral trade relations. However, the business and political environment could not be any different, as we will see in the following chapters: while Angola is still recovering from decades of civil war and is ruled by a president who is in power since 1979, Zambia can be referred to as a young and peaceful democracy. Angola has a mainly state-owned commodity industry and is dependent on loans with the purpose of rebuilding its infrastructure, while Zambia’s resources are in the hands of private foreign investors.

The main objectives of this thesis are, on the one hand, to present an up-to-date overview of Chinese investment activities in sub-Saharan Africa, with a special focus on Zambia and Angola. On the other hand, I will analyse the impacts of China’s investments on African economies illustrating various aspects of the cooperation. Using the example of the country analyses on Zambia and Angola, this paper is guided by the following research questions that will be discussed in the concluding parts:

1. Are there investments apart from commodity-related sectors that are relevant in size, despite the economies' commodity-oriented nature?
2. Are there any differences between the approaches of Angolan and Zambian authorities in the management of foreign investments, Chinese in particular?
3. What is the concrete measurable impact of recent Chinese activities on the economic development and local labour force of Zambia and Angola?
4. Is China a better alternative to traditional actors with regard to aid and loans, or does its engagement lead to further unmanageable indebtedness of African economies?
5. Are there any lessons that traditional donors and investors can learn from Chinese investors and vice-versa?

This thesis is divided into four main sections: The first section, **chapter 2**, gives a general overview of Chinese economic activities in Africa and its observable impacts, with the focus set on sub-Saharan Africa. The chapter starts with a brief overview of Africa's and China's recent development and a history of Sino-African cooperation. After analysing China's motivations for investing abroad, the focus is set on the Chinese approach to Foreign Direct Investment (FDI) and Official Development Aid (ODA) as well as their channelling into Africa's various economic sectors. After presenting the main impacts of their activities, I will also highlight the Chinese view on recent events and the common coverage in media reports. In **Chapter 3**, I will present a country study on Angola. After a brief country snapshot and an overview of the bilateral relationship, I will focus on China's model of oil-backed loans. Following this, the Chinese investments in Angola's both oil and non-oil related industries are discussed. **Chapter 4** provides the second country focus by illustrating China's activities in copper mining and other sectors in Zambia. Concluding, **chapter 5** will treat the questions listed above using the example of Zambia and Angola.

Numerous publications and academic work on China's activities in Africa have been published recently, most notably in the last five years. However, during my research I observed that many authors faced a similar problem as I did, namely to find current, accurate and objective data on both the African and the Chinese side. For example, the websites of an important institution such as the Angolan National Private Investment Agency (ANIP) were offline at the time of my research, or they were providing outdated data as it was the case with the website of the Zambian Development Agency (ZDA). It is not unusual that wrong or poorly researched figures taken from the media do appear in official reports and papers, like it was the case in official reports of the World Bank (Bräutigam 2011a, 215-218) or the International food policy research institute (Bräutigam 2012), resulting in conclusions based on speculations, old figures or estimations.

Another observation I have made during my research is that media coverage with regard to this topic is usually negative or incomplete. Even in quality media, the general message was very similar: the Chinese are dangerous for the continent and mainly focus

on resource exploitation, therefore the west should wake up and counteract this development. A large number of the research papers on China's activities in Africa are published by the African Development Bank. Also, the studies are regularly sponsored or published by US and European universities, often supported by OECD sponsorships. With regard to research of African origin, publications are mainly issued by South African Institutes and published mainly by the Centre for Chinese Studies or Southern Africa Institute For International Affairs, to name a few. Research in Angola or Zambia is currently on a comparatively low level. Numerous researchers from Africa, China, the USA and Europe have set their focus on China's activities in Africa, among others the work of Corkin, Kiala, Lungu, Gu and Bräutigam has been essential for this thesis. Especially the final author published numerous working papers on various side issues of China's presence in Africa and also runs an internet blog, where she regularly comments on current events in the Sino-African relationship. Further important sources are the field research-backed reports by Transparency International on corruption and governance and Human Rights Watch on the working conditions in Chinese companies. Data was mostly taken from recent OECD, World Bank, IMF, or ZDA reports. Trade data was mainly calculated by hand, using the data from the online database *Trade Map*.

2. China in sub-Saharan Africa

2.1 Africa's recent development and current economic situation

In the last 10 years, African economies experienced very high growth rates of around 6%, only interrupted by the 2008 and 2009 crisis halving the average growth. This trend has been continuing in 2011 and is predicted to do so in 2012. The sum of external financial flows to African countries – that is FDI, portfolio investment and ODA – increased from USD 28 billion in 2000 to USD 111 billion in 2011. It is remarkable that since 2005, Africa has attracted higher FDI than ODA with a 3.6% share of global FDI flows in 2011 (AOE 2012, 40-41).

At first glance, this is a rather low figure, but considering the starting point of 0.7% in 2000 (AEO 2011 P 45), it's clearly a positive sign for the direction of Africa's development. The fact that the FDI share in total financial flows is higher than the ODA share implies a shift in the investment focus, away from unprofitable infrastructure measures towards the development and strengthening of the private sector (Ye 2010, 14). Sub-Saharan African countries have nearly entirely recovered from the 2009 crisis with current growth rates close to their high level in mid-2000 (IMF 2011a, 1). In terms of absolute GDP, the leading SSA economies are South Africa, Nigeria and Angola. Ghana, Eritrea and Ethiopia show the highest GDP growth rates for 2011 (CIA World Factbook).

Still, one has to keep in mind that most of Africa's economies are still developing countries and in general have a very low level of market power and overall development. For example, the agricultural sector has a share of more than 40% of the GDP in some sub-Saharan African countries, which makes these economies very vulnerable to droughts and other natural catastrophes, as well as fluctuations in food prices has been the case in recent years. The service sector's share of the GDP is gaining more and more significance since tourism, financial services, real-estate and new technologies are flourishing in Africa. Africa's manufacturing industry is considered to be underdeveloped and not competitive, especially in direct comparison with developing countries in Asia. This is mainly due to strong deficits in infrastructure, heavy competition from Asia and the impacts of *Dutch disease* in resource-rich countries, causing the weakening of non-commodity sectors due to an appreciation of the domestic currency as a consequence of high resource exports (AEO 2012, 20-21).

When taking a closer look at Africa's FDI, the fact that the majority of FDI are concentrated in few resource-rich countries is eye-catching. Some 75% of total FDI inflows to Africa (2010) went to 15 oil-producing countries, led by Angola and followed by Egypt and Nigeria. However, there is an ongoing progress in FDI diversification as its growth rate in countries lacking resources has become higher than in oil-rich countries in recent years. The main origin of FDI flows to Africa are OECD countries

accounting for a share of 72% between 2000 and 2008, but only 40% in 2010 according to OECD data (AEO 2012, 43; Ye 2010, 14).

Still, it is difficult to obtain reliable FDI data from other non-OECD countries due to the differing definitions, publication frequency and level of detail. According to data from ten African central banks (nine of them from SSA), 83% of FDI inflows between 2005 and 2010 were coming from OECD countries while China and India had a share of only 3% (AEO 2011, 47-48). Similarly to FDI, global ODA to Africa was increasing continuously in the last years, rising from USD 15 billion in 2000 to USD 48 billion in 2010. This trend was also driven by the strong involvement of China, India, Saudi Arabia and South Africa (AOE 2011a, 51-52; AOE 2012, 52).

If looking at Africa's role in global trade, it can be observed that African countries had a rather insignificant share of about 3.1% in global imports and 3.3% in global exports in 2010 (Trade Map). Moreover, they showed the lowest interregional trade rate compared to the rest of the world (Davies 2010b, 18-19). The composition of Africa's exports to the world is clearly commodity-dominated: Crude oil accounted for 59% of all African exports in 2011, consequently 64% of total exports came from only five African countries, of which four are mainly exporting crude oil (Trade Map).

The years 2010 and 2011 brought several political turnarounds, especially in Northern African countries, but there has also been an increase in public protests in several Sub-Saharan countries like Mozambique, where the population protested against high costs of living, and demonstrations and conflicts in the course of the Zambian and Ivorian elections. It is remarkable, though, if keeping recent events in mind, that out of 13 elections held in 2010 and around 30 held in 2011 only few countries such as Cote d'Ivoire or Nigeria suffered, from broader violence. Government protest suppression became significantly less frequent than in the recent past. Still the *Freedom of the World Index* indicates that, out of 54 African countries, only 9 are considered as free and 24 partly free while 21 were seen as not free (AOE 2011a, 73-79; AOE 2012, 87-89).

Political stability in African countries is thus still fragile. Although there have been several positive and peaceful election procedures in 2010 and 2011, the recent overthrows in Mali and Guinea Bissau show that the situation and stability in SSA countries is much more diverse than commonly held.

2.2 China's recent development and current economic situation

Since the 1970s, China has been developing from a centrally planned and isolated communist state to a free market-oriented global power. Presently China is one of the world's largest exporters and the second largest economy. Still, the country's GDP per capita lies below that of many African states China is giving development aid and loans to. The Chinese economy, as we know it today, has its seeds in the integration of a modernization program for agriculture, industry, science and technology that has been

included in party policy in 1978 (Crabtree 2008, 4-6), followed by the development of a strategy for economic expansion known as the *Going Out Strategy*. This policy has been initiated in the 1990s with the goal to encourage and support domestic firms to do investments abroad including, among other measures, tax incentives, low cost loans and the supply of investment-relevant information to support their overseas expansion (Gu 2009, 19-20). The long-term target of the policy is the development of high value added and competitive multinational companies (Bräutigam 2009, 87-88).

Numerous economic reforms were undertaken in the last years to challenge the high inflation, trade deficit and difficulties with particular sectors of the Chinese economy – measures which led to China's emergence as a new global player in a comparatively short time period (Crabtree 2008, 4-6). These reforms also caused a reduction of people living in poverty from 53% in 1981 to 8% in 2011. This development, however, was accompanied by a significantly rising inequality. Moreover, the economic progress resulted in serious harms to the environment – yellow smog and acid rain are common in large cities and numerous lakes and streams are contaminated leading to polluted ground water (Bräutigam 2009,11-12).

In the last two decades, China had an impressive GDP growth with an average of 9.32% between 1989 and 2011 (Tradingeconomics). Being the world's most populous country with more than 1.3 billion inhabitants, China has the second largest absolute GDP after the USA, but only ranks 119th with respect to the GDP per capita, while the USA ranks 12th. China also made significant developments with regard to the GDP composition by sectors, from an agriculturally dominated state to a developed industrial economy. While in 2001, the contribution of agriculture, industry and services to the GDP was 18%, 49% and 33% respectively, the picture has changed over the recent years. In 2011, agriculture contributed 10%, industry 47% and services 43%, so that a significant shift to the tertiary sector can be observed (CIA World Factbook; Fact-index). The labor force is predominately occupied in the agricultural sector with a share of about 37% in 2008, but this is a substantial decrease compared to 50% in 2001. Still, China is far from the standard of developed countries like the USA with 0.7% of the workforce being occupied in the agriculture sector while the majority is employed in the service sector (CIA World Factbook; Nationmaster).

Simultaneously to China's status as the world's largest exporter, its hunger for commodities has been increasing considerably. China's global share of the oil imports, for example, grew from 3% in 2001 to 8% 2010, making China the third largest oil importer (Trade Map). The consumption of other raw materials, such as copper, tripled in the past thirty years and the country's demand for steel made an exorbitant jump from about 16% of the world's consumption in 2000 to ca. 47% in 2010 (Hanemann 2011, 6; Karithi 2010).

A similar picture can be seen in China's outward FDI flows¹: while these flows were on a comparatively low level in the 1990s, amounting to USD 3.3 billion, they exploded to USD 143.8 billion in 2010. Even though Chinese FDI flows account for less than the half of the U.S figures, they were increasing much faster in the past 20 years (Unctadstat). One should keep in mind that high income countries claimed nearly 100% of the global FDI until recently. However, due to their flight from numerous investment destinations resulting from the financial crisis in 2008/09, China managed to extend its share in global FDI to around 5% (2009) as China's investment behavior was characterized by an extension of investments to some countries during the crisis (Ye 2010, 15). With regard to the regional distribution of China's FDI, the largest share is directed to South and North America, accounting for 28.4% of all investments. Figures of Africa's share are varying, depending on the source, and range from a 4% share in 2009 to 13.8% between 2005 and 2010 only for SSA (Zhao 2011; Davies 2010a, 2). According to UNCTAD data, only one third of Chinese FDI is generating profit. Chinese investments may thus be more long-term oriented and therefore riskier than that of traditional investors (Crabtree 2008, 4-6).

However, Chinese companies tend to have a rather bad reputation in the general perception, also underscored by official reports: the recent *Bribes Payer Index Report* published by Transparency International ranks Chinese companies 27th of 28 countries (Transparency International 2011a, 5). Moreover, the World Bank announced in 2009 to sanction four major Chinese companies for corruption, including China's single largest contractor for overseas operations or the state-owned China Road and Bridge Cooperation, however, also being among other major Western companies (Bräutigam 2009, 295).

China's success story of rapid economic development is also partly the result of the political stability in the country. The regime is inviolable and firm and revolutionary movements or the recent political overthrows in the region have had no significant impact on the country's stability, which is a clear advantage for economic prosperity at the cost of human rights and political freedom.

2.3 Brief history the Sino-African relationship

The Sino-African relations date back to the time of African independence movements in the 1960s, going along with a strong political focus of China's activities in Africa.

¹ Not taking Taiwan, but Macao and Hong Kong into account.

Despite its underdeveloped economic state, China initiated several aid projects motivated by the historic chance to create new partnerships and establish political and ideological cooperations with a continent experiencing political changes in nearly every country. The first fruits were reaped when China successfully became a member of the United Nations in 1971 as the single legitimate Chinese state, backed by many African states. In the following years however, the collaboration slowed down as China set a stronger focus on domestic politics and on the country's future direction after Mao Tse Tung's death in 1976. This setback in foreign engagement continued until the end of 1980s (Davies 2010b, 5-6; Alden et al. 2008, 3).

First Sino-African joint ventures were initiated in 1981 and already by 1985, 27 Chinese investments had been signed off by the government. Also during that time, Chinese entrepreneurs began to lease their former aid projects (Bräutigam 2009, 78). In the mid-1980s, China already was the 8th largest donor in SSA, not far behind Japan or UK, a remarkable figure as China's economic situation at that time was not comparable with today's. China had a continuous presence in Africa, as Bräutigam puts it fittingly: "*China never left, we just stopped looking*" (Bräutigam 2009, 54).

A significant increase in the intercontinental cooperation came in the late 1990s, after numerous market-opening measures had been performed in Africa. The continent became a priority destination for new Chinese investments and economic partnerships resulting in the launch of the Forum on China Africa Cooperation (FOCAC) as the main public representation for Sino-African partnerships (Davies 2010b, 5-6).

Box 1: The Forum on China Africa Cooperation (FOCAC)

The FOCAC is as an organization initiated by the Chinese government in 2000. It is based on an arrangement between China and 49 African states (FOCAC 2012a) and has mostly a representative and public relation-oriented function since it doesn't have any institutions granting the forum autonomy in its policy decision making. In the meeting held every three years, China and its African partners negotiate and communicate new steps and achievements in Sino-African relations, such as three-year-action plans for instance (CFCS 2010, 4-8). Most African countries have a positive attitude towards the forum and see it as an effective tool to improve and coordinate bilateral relations. However, there are groups demanding an increased contribution to the agenda from the African side and a stronger involvement of the African Union. One reason for complaints among African stakeholders is the limited availability and accuracy of data on the activities initiated by FOCAC, also leading to difficulties in monitoring the progress (CFCS 2010, 180-183).

Today, almost every country in Africa has more or less close official trade relations with China and even African countries recognizing Taiwan appear as Chinese trade partners in the statistical data (Trade Map).

The increased importance of Sino-African relations is also underlined by the involvement of high officials on both sides: in 2006 for instance, the Chinese President, Premier Minister and Foreign Minister visited 15 African countries with one of the results of the visit being the publication of China's first Africa policy statement (Alden et al. 2008, 1).

Many different opinions and figures are circulating in working papers and media regarding Sino-African FDI, ODA, and trade development, mainly because of differences in the definitions and often unreliable data sources. However, general consensus exists that all these factors have significantly increased in the last years. One of the rather reliable figures is the Sino-African trade development, although it can still be incomplete – as it is common for trade figures. The 2011 figures indicate that China's exports to Africa only account for a share of 3.8% of total Chinese exports. However, they increased nearly twelve-fold in the last 10 years. Imports from Africa to China grew even faster by rising nearly twenty-fold in the last decade, now accounting for 5.3% of total Chinese exports (Trade Map).

We will now have a closer look on the development of Chinese activities in Africa over time. According to political economist and China researcher Dr. Jing Gu, Chinese operations in Africa can be divided into five different categories and stages:

1. **1950s to 1980s:** Chinese firms enter the markets through aid and development projects sponsored by the government.
2. **Mid-1980s to mid-1990s:** Mostly national trading companies appear in Africa, pursuing primarily diplomatic targets.
3. **Mid-1990s to 2000:** Numerous activities by state-owned enterprises, mainly focusing on resource localization, exploitation and export, but also on investments in African infrastructure projects. During this period, the number of private Chinese companies on the continent increased significantly, including with several manufacturers opening new factories, on the one hand with the purpose of extending their turnover but also to bypass the restrictions imposed on products produced in China.
4. **2000 to 2005:** The first trade zones and industry parks emerge, accompanied by an expansion of the activity of both private enterprises and state-owned companies.
5. **2005 to present:** There has been an ongoing expansion and development of an industry-clustering strategy, as well as a Chinese expansion into other sectors apart from construction, mining and manufacturing, such as the acquisition of a stake in a major South African bank in 2008. Moreover, an increased activity of small scale companies has been observed (Gu 2009, 4-6; Mediaclubsouthafrica).

2.4 China's motivations to invest abroad

Motivations for China's various activities in Africa are numerous and often easy to understand. China uses its current financial strength to secure technologies and sales channels and thus expands its influence on the global economy and as a consequence may become an antipode to the strong Western influence (Davies 2010b, 7-9).

Generally, Africa's consumption market is still underdeveloped and doesn't generate a turnover for investors as significant as it could be in high-income markets. However, Africa's underdevelopment in particular leads to numerous major advantages for China: on the one hand, developing countries are deeply in need of basic goods ranging from clothes to food and electronics at competitive prices, a sector where China clearly is a big player and can live out its potential. Furthermore, a continuous presence in a developing country should not be underestimated. If the population of the host countries is confronted with Chinese people, language, media or business habits in their everyday lives, China can significantly strengthen its influence on the continent, certainly implying that the impression left by the Chinese triggers positive emotions among the locals.

Chinese companies see the long-term potential that African markets offer for their businesses (Alden et al. 2008, 4-6), an assumption that is underlined by the often unprofitable and risky investments from China (Crabtree 2008, 4-6).

As stated above, the rising demand for energy and commodities presses China to find new sources for the supply (Davies 2010b, 7-9) and is clearly a major incentive for China's overseas investment. It is also important to consider political, especially UN-related factors. China is dependent on support to counter Japanese moves as a strategic competitor and in need of backing of the *one China policy* and to counteract Taiwan's intentions to become an independent state (Alden et al. 2008, 4-6). At present, four African states recognize Taiwan (Burkina Faso, The Gambia, São Tomé and Príncipe and Swaziland) (GIO Taiwan, yearbook foreign relations, 75). This factor has been successfully used as a pressure tool by Zambia's current president Michael Sata during his (lost) 2006 presidential campaign, where he threatened to recognize Taiwan as a state if elected. This statement was followed by massive Chinese protest and threats to cut diplomatic ties with Zambia if Sata were elected (Schatz 2006), but the tone became more moderated after Sata won the elections in 2011. Taiwan competes directly with China in Africa regarding investments and loans, for instance a forum similar to FOCAC with Taiwan's African allies has recently been established (Alden et al. 2008, 4-6).

A survey performed by Gu among Chinese private investors in Africa showed three main reasons for their engagement in Africa:

1. Access to the local market
2. Too strong competition in the Chinese market

3. Production transfer to Africa due to excessive domestic production capability

The entrepreneurs interviewed also stated that their goals included striving for consolidation of the position they had already gained in the existing markets and an increase in the investment size, both clear long-term strategies.

These priorities, at least for the small sample of 80 Chinese firms interviewed, indicate that the size and the condition of the market seem to be the most attracting factor while governmental subsidies and arrangements, which were ranked lower in the investors' priorities, are not as crucial for the investment decisions (Gu 2009, 9-14).

2.5 Sino-African trade relations

Although Africa is a rather minor trading partner for China, Sino-African trade is expanding more rapidly than trade with other regions (Sandrey/Edinger 2011, 15). According to official Chinese data, the trade volume with African countries grew from USD 10.6 billion in 2000 to USD 160 billion in 2011 (Chenxi/Jianhua 2012). The intercontinental trade balance shows a clear pattern: China's main imports from Africa are oil and other commodities while its exports to Africa are well diversified – a fact that fuels the concern of resource exploitation and export of value added goods to Africa. Yet if we have a closer look, it can be noticed that this pattern is largely true also for the rest of the world, as both China's and the rest of the world's share of commodities has increased significantly in the last 20 years. Although African exports to China are widely dominated by oil, the main importing countries are not only oil-rich countries with a growth rate in trade much higher than that of other African countries. China's imports from the rest of the world are mainly dominated by electrical goods, which indicate that China is very well in need of importing value added goods – a chance for African countries to diversify their exports if they can gain competitive advantage in these sectors (Ye 2010, 6-9).

At the moment, there is only a small number of African countries, who managed to move into higher technology sectors. Some blame the World Bank and IMF liberalization policies, but certainly the African governments are playing a key role in this underdevelopment due to poorly implemented programs and weak educational sectors, to name a few reasons (Bräutigam 2009, 192).

During the G 20 summit in 2011, China's President announced that 97% of the tariffed exports from LDCs with diplomatic relations with China will be given zero tariff treatment (Chenxi/Jianhua 2012). But as Sandrey has calculated, these announced benefits already exist. The average duty in African exports to China was 0.8% in 2008, which means that Africa already has almost duty free access to China's market. However, important imports of raw cotton still remain taxed with high duties of around 40% due to their significance for the Chinese clothing export sector (Sandrey/Edinger 2011, 26) and as a protection measure for Chinese cotton farmers. Note that Western

countries have similar duty free programs for LDCs. For example, the European *Everything But Arms* initiative or the *US Africa Growth and Opportunity Act* allowing tariff free import of most commodities, but these agreements still set several preconditions which aggravate their use (Bräutigam 2009, 96-97). In general, African industries have been hit hard by Chinese imports and competition, and apparel sector in particular (Bräutigam 2009, 190).

In the following pages, I will present a more detailed analysis of this development and later focus on the implementation of Chinese economic strategies in Angola and Zambia in particular.

2.6 China's approach to FDI, loans and other financial flows

The nature of China's capital flows, whether it's FDI, ODA or export credits, often differs from "traditional" definitions and approaches. In China's case, these instruments are often mixed up and linked together, which, on the one hand, makes it challenging to isolate and analyze the financing instruments and, on the other hand, to compare them with the same instruments when used by other investing countries. What is clear, though, is that large parts of credits from Chinese banks are export credits and have little to do with aid and ODA as often assumed (Bräutigam 2011b, 10-11).

Bräutigam gives a well arranged overview of the instruments involved in global development finance as shown in Figure 2.1. The "official" section is divided into the ODA according to the definition of the OECD's Development Assistance Committee (DAC) and Other Official Flows (OOF), which account for the majority of Chinese loans (Bräutigam 2009, 184) and therefore are not aid in the classic sense. The "private" section includes several instruments for capital transfer of which FDI inflows are the most relevant in the Chinese case.

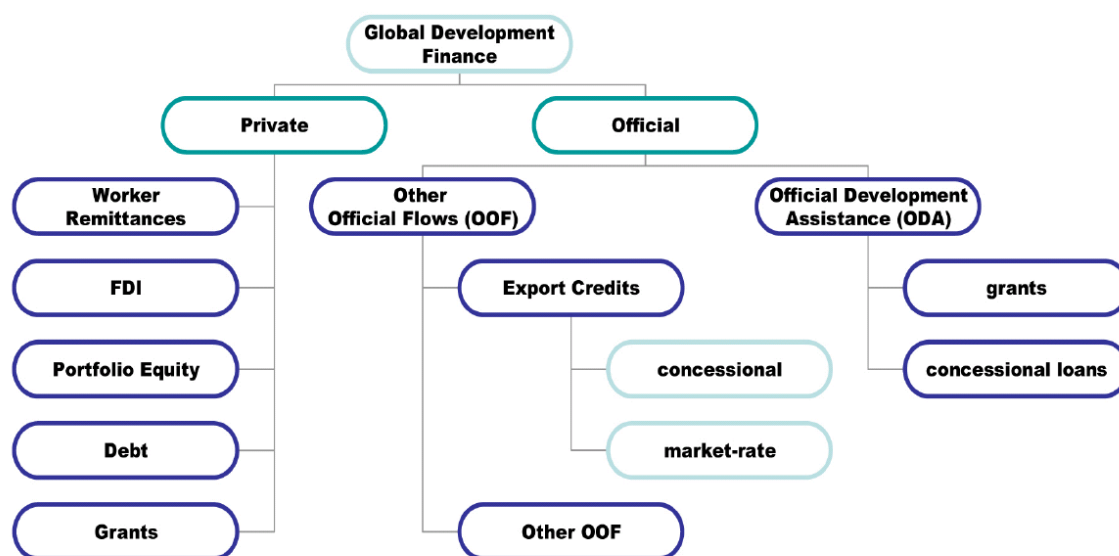


Figure 2.1: Global development finance (Bräutigam 2011a, 204)

In the following, I will analyze both private and official instruments used by Chinese investors and the Beijing central government.

2.6.1 Private development finance

As learned in the previous sections, data of China's FDI distribution varies significantly. Depending on the definition, the data range from a rather balanced picture with a strong focus on Asia and North & South America, to figures showing Asia as the primary investment destination (Crabtree 2008, 6). However, especially investments on the African continent became subject of an intense focus by media and scholars, maybe due to individual controversial projects and Chinese collaborations with internationally isolated regimes. As briefly mentioned above, Chinese companies behaved quite differently than other investors during the 2008/09 global economic crisis. At a time when Western companies were withholding capital from the African continent due to high risk prognoses and strong uncertainty among the investors, Chinese investments have increased by 81% in the first half of 2009 compared to 2008 (Davies 2010b, 5) and Chinese banks expanded their loans to Africa. These moves seemed to be part of a strategy, since, for example, the chairman of the Industrial Commercial Bank of China stated that China's investment is "*growing and becoming more diversified, even as the global downturn curbs investment by other countries.*" (Davies 2010b, 10).

Kiala and Corkin published a clear-cut overview of Chinese enterprises currently active in Africa by dividing them into four categories with certain characteristics they have observed in Angola. This overview can also be used for a raw illustration of the situation in entire Africa. I expanded their overview with additional data from other sources to present a more complete picture. Chinese FDI actors in Africa can then be classified as follows:

1. Centrally owned Banks

In 1994, three policy banks have been created in the course of numerous reforms: the China Development Bank (CDB), China Export Import Bank (Exim) and China Agricultural Development Bank (ADBC). All of them can be seen as tools for the Chinese government to enforce its *going global strategy*.

Their principal purpose is the provision of concessional loans and the support of strategic acquisitions from the government, with a strong focus set on resources and infrastructure projects (Bräutigam 2009, 79-80; Kiala/Corkin 2009, 23-24).

2. Provincial state-owned enterprises (SOEs)

These companies emerged as a consequence of economic decentralization. Very often, they operate as joint ventures with African state-owned companies. SOEs are supported by the government with funds for the undertaking of key projects sometimes initiated by

Beijing (Gu 2009, 20-21), not only on central level, however, as many regional and provincial funds are involved in the financing procedure (Alden et al. 2008, 8).

This clearly implies that the governmental influence is very strong, in most cases through co-or complete ownerships. It's especially these companies who are frequently blamed for the violation of labor right or environment laws (Davies 2010b, 5-6).

3. **Small and Medium enterprises (SMEs)**

Small and medium businesses account for the lion's share of Chinese investments overseas and tend to operate on rather lower margins. However, these companies also receive support through special funds initiated by the government, with an estimated number of 76.000 SMEs profiting from this programs (Kiala/Corkin 2009, 23-24; Gu 2009, 20-21). As a result of their size and structure, SMEs are very flexible and can adapt easily to local conditions, contrary to larger private companies, such as Huawei or ZTE, for example, whose number remains very low in Africa (Gu 2009, 9-10).

4. **Individual entrepreneurs**

In most cases, individual entrepreneurs do not receive governmental support and incentives as they tend to be mainly self-financed and dependent on family networks. These individuals can have various occupations ranging from farmers to a strong focus on retail and service sectors. This group also has a strong involvement into local communities and therefore shows a higher level of integration than other Chinese entrepreneurs (Kiala/Corkin 2009, 23-24).

It is widely believed among researchers that Chinese investments are more long-term oriented compared to other investors. This assumption is mainly driven by the acceptance of lower profit margins by Chinese companies: As Gu puts it: "*When Western firms see risk, Chinese firms see opportunity*" (Gu 2009, 10).

A significant part of Chinese companies from the 2nd and 3rd categories described in above overview, are supplied financially through Exim Bank, the world's largest export credit agency in 2008. Through its main function as China's official export agency, the bank is responsible for trade and investment guarantees, aid administration and also acts as a policy bank managing Chinese aid flows. With regard to Africa, the bank is the only provider of Chinese government concessional loans with around 40% of the bank's loans had been directed to African countries in 2007 according to Exim Bank's CEO Li Rougu. Interestingly, Exim Bank is expected to operate on break even basis, i.e. it is not expected to make profit (Bräutigam 2009, 113-114; Davies 2010b, 12).

Exim Bank's credits can be divided mainly into concessional aid loans and preferential export buyer credits. Referring to China's official definition of the purpose of concessional loans, the main target is to promote business relationships and economic cooperation between the recipient country and China and therefore to improve the living

standards in the receiver countries by financing infrastructure and industrial projects (Bräutigam 2010a, 17-19). These loans are characterized by an interest rate lower than the usual market level and higher grace periods than the common practice (Kiala/Corkin 2009, 7), financed through subsidies of the interest rate by the Chinese government (Bräutigam 2009, 113-114). Preferential export buyer credits are mainly serving the promotion of Chinese goods by allowing a purchase at a price below the market level - for instance as used in Zambia for the acquisition of airplanes or in Nigeria for the acquisition of Chinese satellites (Bräutigam 2010a, 17-19).

The China development Bank (CDB), China's second major instrument for overseas loans, is more than five times larger than Exim Bank (measured by its assets). However, the bank's activities in Africa in terms of project quantity are not as frequent as in Exim Bank's case, as only 30 projects have been financed by 2007. It provides non-concessional development loans rather than ODA and more often finances domestic investments in infrastructure, especially projects other banks are less interested in (Bräutigam 2009, 115-116). In addition, the CDB launched the China Africa Development Fund (CADF) in 2007, an equity fund especially focusing on Sino-African joint ventures and therefore is, according to the fund's CEO, more market-oriented than aid oriented (Bräutigam 2009, 93-94).

Typical investments associated with Exim Bank or CDB involve Chinese companies, banks and exporters which often take part in competitive bidding among each other, with the certain consequence of keeping the money in China, however, as direct cash transfers are performed relatively infrequently (Bräutigam 2010a, 33-39). Credits are also being offered to Chinese exporters to support their sales and to Chinese buyers importing these goods into the investment destinations (Bräutigam 2011a, 206-207).

Concrete examples and their impacts will be explained more in detail in the following chapters. Given the illustrations above, it is obvious that capital flows from China can be linked through different instruments and that they should therefore be analyzed from a bigger perspective. The following section focuses on official development finance, ODA and OOF in particular.

2.6.2 Official development finance

The first recipient of Chinese aid programs, which currently are controlled by the Department of Foreign Aid in the Ministry of Commerce, was Egypt during the end of 1950s. Since then, every country in Africa except of Swaziland has received Chinese aid (Bräutigam 2010a, 7-8).

China's position is contradictory with regard to aid as it presently is both recipient and donor (Bräutigam 2010a, 26), offering grants and zero interest or soft loans to every developing country it has diplomatic relationships with (Bräutigam 2011b, 4-5).

A straight comparison of aid figures between China and traditional donors is, however, not possible for at least two reasons: First, since China is not a member of the DAC (OECD DAC 2012), the country is not reporting its ODA to the official OECD statistics. Second, there are significant differences in the definitions of ODA between DAC countries and China.

Official DAC data states that in 2010, the USA have been the largest donor to Africa with a total volume of USD 7.8 billion, followed by EU institutions with USD 5.4 billion and IDA with USD 5.2 billion (OECD 2012a, 2). According to the most recent official data from China, its aid was totaling USD 39.3 billion by the end of 2009, with an African share of 45.7%. This means that Africa received aid of around USD 18 billion (Brant 2011), according to the Chinese definition, a figure that would exceed that of all other donors. However, when using estimates close to DAC definitions, aid to Africa amounted only to USD 1.36 billion in 2009. A different estimate based on Chinese figures of concessional loans and external assistance adds up to USD 1.4 billion in 2008 (Bräutigam 2010a, 25-28; One data 2011), while the USA provided USD 7.2 billion of aid in this year (OECD StatExtracts).

In Figure 2.2, we can clearly see, that China has a comparatively minor role in the total aid contribution to Africa and at the same time the share of official aid is very low compared to Europe in 2007 (in this case EC, France, Germany and UK).

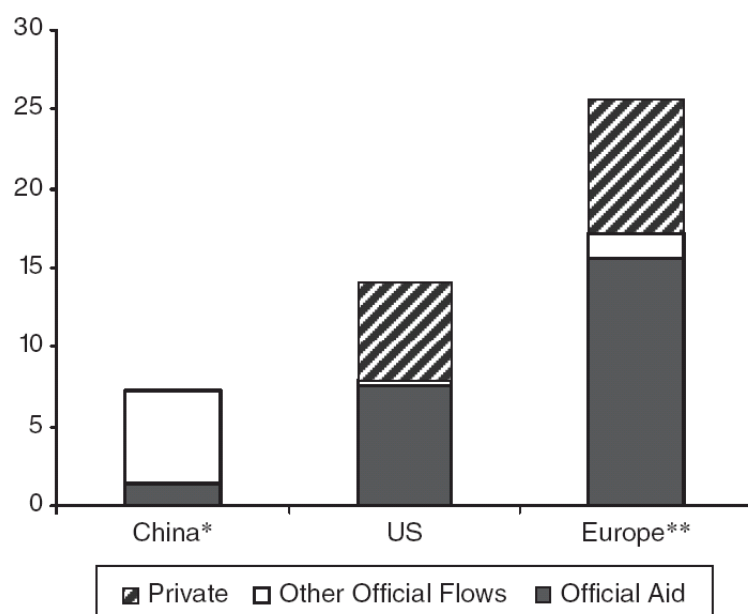


Figure 2.2: Global development finance - regional overview in USD billion (Bräutigam 2009, 184)

One should keep in mind, though, that these figures are only estimates made by researchers, based on official data. Still, they indicate the major differences occurring from a differing understanding of what actually an aid loan is. Therefore I will briefly explain the main differences in these two definitions.

DAC definition of aid

The 24 members of the DAC agreed on a uniform definition of ODA in 1972. Among other points, aid has been defined as:

- Financing with the main purpose of the promotion of economic development and welfare.
- Concessional in character, meaning that ODA loans ought to have an interest charge of zero or below market level.
- Loans that include a grant element of minimum 25% with a discount rate of at least 10% – a point which is no longer up to date as common benchmark rates are much lower today². In practice, however, the World Bank and IMF use current commercial rates, fixing the grant element at 35% which is a much stricter approach.

The definition also clearly excludes:

- Lending by export credit agencies with the purpose of export promotion
- Funds for companies from the donor country to support their private investment
- Military aid

Due to the common practice to qualify not only the grant value, but the entire value of a loan as ODA, it is difficult to compare the amount even among DAC members as the grant shares vary significantly among them (Bräutigam 2011b, 2-3; World Bank 2012c).

Chinese Definition of aid

In 2011, the Chinese government published a white paper on foreign aid to counteract the ongoing criticism regarding the transparency of Chinese figures. It was clearly stated that the Chinese aid model has its own characteristics. Aid is therefore provided in three forms: grants (41% share), interest-free loans (30% share) and concessional loans (29% share) in 2009. Also, an annual growth of 29.4% in foreign aid between 2004 and 2009 is mentioned a figure that clearly confirms the massive increase in Chinese activities overseas, this time though official Chinese channels, however. The paper also tries to underline the humanitarian and development-oriented character of Chinese aid by providing various figures, probably to counteract common accusations of resource exploitation. Chinese aid is mainly directed to agriculture, industry, economic infrastructure, public facilities, education, as well as medical and health care. However, it does not provide a clear definition like of what is actually considered as aid in the Chinese view, as provided by the DAC countries (Brant 2011; Bräutigam 2011a, 207).

Bräutigam elaborated the main differences to the DAC definition. One of the few points the two approaches have in common is the main objective: the promotion of economic development and standards of living.

² The usual benchmark LIBOR, for instance, is ranging far below the 10% range.

Moreover, also in the Chinese case, preferential export credits are not categorized as official assistance and the entire value of grants is classified as aid. Still, there are much more differing points in the definition, since the following facts are true for the Chinese form of aid:

- Concessional loans are subsidized in their interest rate, moreover, this subsidy is not accounted in the face value of the loan
- Military aid is included
- The support of joint ventures in connection with private investments is also counted in
- Scholarships are not included
- Debt relief is not regarded as official aid

(Bräutigam 2011b, 4-5; Bräutigam 2010a, 18)

2.6.3 Inaccurate reports of Chinese aid and competition among donors

At this point, it seems appropriate to provide examples of reports about Chinese aid, whose accuracy suffered from these differences in definition and that also regularly found its way into official and media-related publications. Researchers at the Congressional Research Service, a sub-organization of the US Congress, made an estimation of the total Chinese aid by collecting various media reports, assuming that aid from China was disorganized, without any strategy or governmental institutions to regulate, plan and manage it. These assumptions were proved to be incorrect as we saw in the sections above. Moreover, their calculations included numerous activities of state-owned companies and banks, simply due to their state-run nature and resulted in the number of nearly USD 18 billion Chinese aid to Africa in 2007, an amount outreaching the aid figures of DAC donors by far. In addition, a direct comparison with OECD figures has been made without considering the differing definitions.

Reporters of *The Economist* defined official data of foreign economic cooperation –that is all work performed by Chinese enterprises in Africa – as a figure for Chinese aid, which is obviously a wrong assumption. This figure was then published in 2005 in World Bank and IMF Reports (Bräutigam 2011a, 215-218). Also, trivial mistakes lead to wrong assumptions about the amount of Chinese aid: press articles and an important World Bank report mentioned a figure of USD 44 billion of aid since the beginning of China's aid program, referring to the Chinese Premier Minister. The figure was correct, but the currency was not as the Premier Minister was referring to Chinese RMB which amounts to around USD 5.7 billion when naming these numbers (Bräutigam 2009, 177).

On the one side, there are Chinese reports with figures not nearly defined and of rather infrequent and incomplete nature compared to OECD standards. And on the other side there are numerous working papers and articles using simply wrong calculations and figures to formulate a conclusion. It should also be kept in mind that even among the

OECD countries, commercial loans and export credits, which are very often part of China's "aid " packages criticized for their lack of transparency, are not entirely transparent because of their commercial character (Bräutigam 2011b, 10-11).

One should also keep in mind that China and OECD countries stand in direct competition, no matter whether with respect to loans, FDI or other financial instruments. And both sides do not shy away from provocations: Hillary Clinton recently made the following statement in her function as a secretary of state at the Busan conference on aid effectiveness in the direction of aid recipients: *"be wary of donors who are more interested in extracting your resources than in building your capacity."* This statement is regarded as a side blow at China by some analysts (The Guardian 2012). The president of the European Investment Bank accused Chinese donors of unscrupulous behavior after the organization lost contracts to Chinese banks. Some Western countries accused China of tying aid to exports. However, at the same time the US Agency For International Development, for example, has to justify its budget requests in front of the congress by demonstrating that the aid is beneficial for America (Bräutigam 2009, 12-25). China tried to underline its role as a new protective hand over Africa with by asking the donor community to increase development assistance and support Africa to reach the UN development goals in 2006 (Alden et al. 2008, 12).

2.7 Channels for Chinese Official development finance

Financial development flows from China are channeled through three main instruments:

- **Infrastructure projects:** Chinese companies have undertaken numerous projects involving the construction and maintenance of buildings and infrastructure, often with a symbolic characteristic and diplomatic focus as, for example, the construction of the houses of parliament in Mozambique or Gabon. This channel will be one of our main focuses in the following pages.
- **Scholarships:** technical cooperation projects involving training and instruction of local workforce and officials (even though not counted as aid by Chinese official statistics)
- **Debt Relief** (not included in official debt statistics): until 2011, China has cancelled USD 2.79 billion of overdue debt in Africa (Alden et al. 2008, 10-11; Bräutigam 2011a, 205). However, almost no Exim Bank loans are among this figure. Note that China only cancelled debt to countries supporting the one China policy (Bräutigam 2009, 129-130).

Three main institutions are involved in the process of distribution of official development finance: overseen by the State council, who approves the aid budget and major grants, the Ministry of Commerce, the Ministry of Foreign Affairs, and Exim Bank are usually involved in the decision process (Bräutigam 2009, 107).

The actors are very well illustrated in the Figure below:

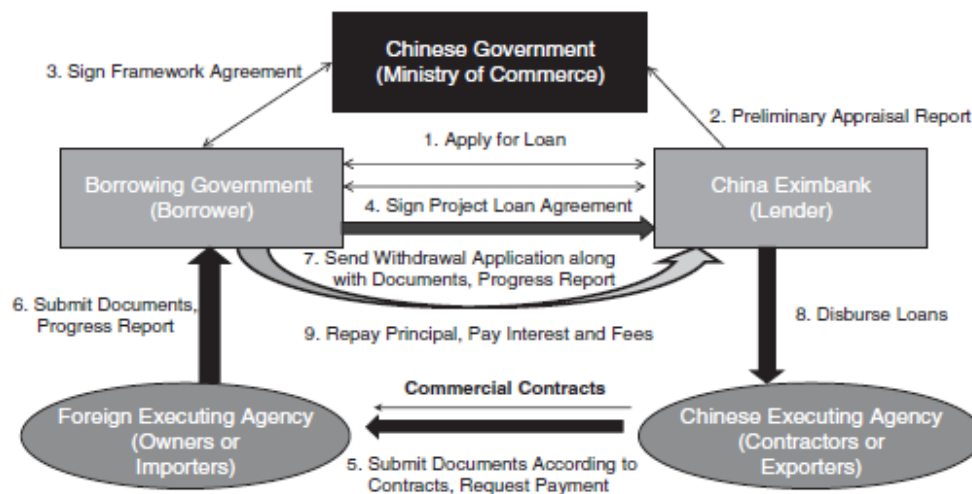


Figure 2.3: Institutions involved in the distribution of Chinese ODF (example of EXIM Bank) (Bräutigam 2009, 143)

In the following, I will present a detailed observation of the main channels for aid distribution by China.

2.7.1 Infrastructure projects

China's activities in the construction sector in connection with large infrastructure projects received wide attention, which lead to the impression that such investments represent a common method of beginning Chinese economic activities in Africa. The focus has been set on few admittedly large projects, financed by resource-backed loans. This opinion was supported by a World Bank study, claiming that the bulk of China's activities in sub-Saharan Africa have the purpose of resource extraction and their export to China.

However, according to Bräutigam, a very small part of the projects financed by Exim Bank and the Chinese department of aid was related to loan-backed infrastructure projects, although those performed were very large in size. An OECD study illustrates a sample of major resource-backed projects undertaken in nine different countries, including dam power plants and other constructions. According to this overview, these major projects amounted to more than USD 12 billion between 2001 and 2008. Interestingly, Chinese petroleum or mineral firm companies tend to stay away from the involvement in loan-backed investments and purchase shares of firms directly or through bidding auctions (Bräutigam 2010a, 20-24; Davies 2010b, 15).

A major focus of Chinese aid infrastructure projects is the construction of hydropower projects with recent cumulated investments of USD 5.3 billion. According to the World Bank, these Chinese financed projects will generate over a third of Africa's current hydropower capacity in the near future. Other areas with strong Chinese involvement are

the reconstruction of the rail sector and the telecommunication sector, where Chinese telecommunication companies supplied equipment amounting USD 3.2 billion (Davies 2010b, 19-22).

Chinese projects in the **Democratic Republic Congo (DRC)** probably contributed most to the public perception of China's role in Africa: in 2007, major agreements were signed for the construction of roads, railways, health centers, hospitals, housing and universities. These enormous plans would be financed by loans secured by a copper/cobalt mining venture with a 68% Chinese ownership, provided by Exim Bank with a LIBOR + 1% interest rate amounting to USD 6 billion in total. Moreover, another loan would be provided to finance the mining investment totaling 3.25 USD billion (Bräutigam 2010a, 20-24). This deal has led to numerous discussions, especially among Congolese opposition groups and the IMF, who stated that this agreement, although helping the country's growth, could hinder the DRC from reaching its targets as a HIPC to reduce its debt burden. As the DRC was asking for a complete debt cancellation and, at the same time, wanted to make new debt with non-concessional financing terms, the parties involved then agreed on a removal of the sovereign guarantee from debt associated with the mining project. This pressure from the IMF has led to a renegotiation of the deal to a value of USD 6 billion (Davies 2010b, 15-17; Bräutigam 2011a, 213-214). A 2011 report by Global Witness finds that the consequences from this deal are very difficult to estimate at the moment. Due to a low level transparency, including lacking information on the sales price of the minerals which back the loan, no up to date information is available that would illustrate what infrastructure will be built exactly and how the calculation of the profits will be performed. Moreover, the whole deal has been negotiated by a small group of the Congolese government officials with very little or no control from the Congolese parliament (Global Witness 2011, 4-7). A research specialist on Africa commented on this issue that countries like the DRC with very weak or largely destroyed infrastructure have little sources to raise money to rebuild their infrastructure. Here, the Chinese donors are filling a huge gap. However, as sometimes the same companies are extracting the resources which back the loan and rebuild the infrastructure, as another economist points out, it's an enormous challenge to ensure that the DRC will get value for money (Bräutigam 2009, 146-147).

In **Sierra Leone**, a number of government buildings, a stadium and a university have been constructed as part of aid programs. Moreover, China has provided scholarship collaborations, agriculture projects and cancelled parts of the debt. Furthermore, Chinese companies invested in the (re)construction of hotels and have made other numerous investments in the tourism sector. There are two special facts about China's aid and investments in Sierra Leone: first, major projects were undertaken during the civil war, a highly risky undertaking that most investors naturally stayed clear. As a result, Chinese companies had the largest share of the modest FDI inflows in the country. Second, at least at that time, the Chinese investment focus was definitely not set on Sierra Leone's richness in natural resources as diamonds and gold (Crabtree 2008, 12-15). However, the

areas of activity seem to expand since a Chinese steel company recently completed the acquisition of a 25% stake in an iron ore project in Sierra Leone, investing USD 1.5 billion (Swanepoel 2012).

Angola is one of the pioneers in applying the Chinese infrastructure financing model. The country received loans of around USD 10.5 billion between 2004 and 2010 from Exim Bank for the reconstruction of its infrastructure. These loans were secured by the oil reserves and included several contractual premises like, among others, the involvement of Chinese construction firms. Because of its non-concessional character, most of these loans are not qualified as official ODA (Bräutigam 2011b, 6-8; Corkin 2011, 2).

In **Nigeria**, a major preliminary agreement between the Nigerian state-owned company NNPC and the China State Construction Engineering Corporation on the construction of three refineries and a fuel complex was signed in 2010, with a total value of USD 23 billion, partly financed by Exim Bank. Chinese investors are supposed to build and run the refinery as the majority stake holder. Nigerian officials expect these projects to generate thousands of jobs and reduce the country's paradoxical need to import refined oil products (Egbula/Zheng 2011, 13).

As mentioned above, Chinese construction activities also involve numerous projects of high diplomatic relevance. A recent move that could be seen as an obstacle for further negotiations due to its obviously charity-like nature and therefore likely manipulative character was the funding of the new headquarters of the African Union by China. The USD 200 million building, now the tallest building in Ethiopia's capital Addis Ababa, has been entirely financed by China (Reuters 2012a). Additionally, according to official Chinese sources, food donations of nearly USD 70 million were delivered by 2011 to the horn of Africa, followed by an announcement to provide even more support to African countries suffering from hunger and draught (Chenxi/Jianhua 2012).

These examples indicate that the often repeated Chinese approach that its engagement is based on *win-win development* and business cooperation, rather than the provision of aid (BBC World News), is not universally valid. Moreover, these developments hold a very strong symbolism as China provided support for the entire African continent.

2.7.2 Scholarships and medical aid

According to official Chinese figures, over 5700 scholarships were provided to African countries in the years 2010 and 2011. In contrast, the US government provided only 3540 scholarships for all foreign students in the academic year 2006/07. A partnership program for Science and technology (CASTEP), which performs various projects on technological research, has been launched in 2009 and is expected to guarantee the transfer of know-how and the provision of equipment to African partners and

additionally allow 100 African PHD students to perform sponsored research in China (Chenxi/Jianhua 2012; Bräutigam 2009, 121). In Nigeria, aid has been provided for the construction of 300 schools and scholarships for Nigerian students. In addition, two institutes were opened with their main purpose to offer Chinese proficiency examinations, language and cultural exchanges but also to support students willing to study in China. To counter the common language barriers from the opposite perspective, a language center has been set up to teach Mandarin Chinese as a second language (Egbula/Zheng 2011, 17). More than 4000 Africans were invited to China to take part in courses and seminars on agriculture between 2003 and 2008. In 2008, the Chinese Premier Minister announced the construction of 30 agricultural technology centers, the provision of 1000 experts and the organization of trainings for 3000 Africans in China within the next five years (Bräutigam/ Xiaoyang 2009, 695).

There have also been numerous cooperations in the medical sector and even more announced recently (Bräutigam 2009, 315). Still, if confronted with the terms of medical aid, the construction of hospitals or medical centers, it is natural to classify these measures as classic aid without significant benefits for the donor. It should be kept in mind that these projects also promote the export and market position of Chinese pharmaceutical products and services and therefore create a potential new market for these goods. Therefore China's Ministry of Health formed a list of Chinese high quality suppliers for medicine and medical equipment and announced to use these partners for further aid cooperation and consequently the worldwide promotion of Chinese products (Bräutigam 2009, 118-119).

2.8 Channels for Chinese FDI

As indicated earlier, it is challenging to make a clear distinction between ODA, OFF and FDI. This section will provide an overview of the financial inflows that can be rather counted as FDI. A significant move in China's Africa policy with regard to FDI took place after the Beijing summit in 2006. For FDI with regard to project volumes rather than quantity, prior to the summit, the focus had been on investments in commodity-related areas in return for mining rights and concessions in resource reserves. However, this focus has been extended to sectors other than financial services or agriculture and manufacturing, resulting in an acquisition of 20% of one of South Africa's largest banks by a Chinese bank and the establishment of agricultural technology centers and the creation of Special Economic Zones, respectively (Alden et al. 2008, 14; Sandrey/Edinger 2011, 22).

The exact number of companies operating in China is difficult to estimate as media coverage and working papers present strongly differing figures. Estimations by the Exim Bank refer to a number of around 800 Chinese companies working in Africa in 2006, most of them privately owned. All the same, Chinese embassies and business organizations suggest a number of more than 2000 when asked between 2007 and 2008.

A Chinese senior official from interviewed by Gu made a more realistic statement: *“To be honest, we don’t know how many firms, especially private firms, invest overseas. There are only about 2.800 companies registered with us [in our Province]. In fact, I believe that there are more than 28.000. Even 10 times is a conservative figure.”* (Gu 2009, 7).

In the following sections, I will dig deeper into the main destinations of FDI by analyzing Chinese investment activities broken down into SSA’s main economic sectors.

2.8.1 Agriculture

Projects in the agriculture sector cannot be classified entirely as FDI s they are very often associated with aid. Nevertheless, I find it appropriate to categorize these projects as FDI since the long-term target of most of these activities is clearly investment-oriented. Especially with regard to the upcoming concern of land grabbing, which is the acquisition of arable land by foreign countries for the domestic foodstuff supply, Chinese investments in this sector have caused wide concern. There were several articles and media reports of Chinese buying land in Africa (Bräutigam 2012). Organizations like GRAIN, an association dedicated to protect the rights of small farmers, named China as one of the big players in land grabbing. However, during her research Bräutigam found little or no evidence supporting these accusations. Moreover, the Food and Agriculture Organization of the UN stated that there is little proof for a national Chinese strategy in the acquisition of African land and that there are no identified examples of Chinese enterprises acquiring land exceeding 50.000 hectares (Bräutigam 2010b).

Still the picture might change in the future: at the moment, 95% of China’s total consumption is supplied by local farmers, at the same time the limit of 120 million hectares of arable land set by the government is being rapidly approached (Bräutigam/Xiaoyang 2009, 687).

So it is only a matter of time until China will be dependent on new sources for their nutrition supply. Alex Pestana, strategist at the Sanlam Investment Management, stated that China’s consumption patterns in terms of agricultural industry will definitely change in the next years since both the living standard and the percentage of consumers in the Chinese economy will grow significantly (Wood 2011).

China’s first steps in overseas agricultural activities began in the 1960s with the construction of large state-owned farms in numerous African countries. This approach lasted until the mid-1980s, when first experiments with Sino-African agricultural joint ventures were initiated, also pushed by the ongoing competition with Taiwan. It has been a highly politically driven issue, on the one hand to demonstrate the powers of socialist technology by building large farm complexes and on the other hand to repulse

Taiwan's rising engagement in this sector. Most of these projects, however, required further assistance from the Chinese and could not operate autonomously (Bräutigam 2009, 237-240). In the 1990s, China's investments were facilitated by structural adjustments in African countries that had to be performed as terms for World Bank and IMF loans. As a result, potentially productive parts of their former aid projects were taken over by Chinese investors and transformed into profit oriented units. Resulting from the FOCAC summit held in 2006, experts were assigned with the elaboration of a new Chinese investment plan in the agriculture sectors. Their main finding was that agricultural technology and seed cultivation are the most promising areas for Chinese companies to offer their products in Africa (Bräutigam/ Xiaoyang 2009, 688-700). Therefore, technology centers to be run by Chinese private and state-owned enterprises were planned, subsidized by grants from the ministry of commerce for the initiation period. The promotion of improved seeds is one of the main objectives of these centers. What is essential, however, is that this step is not regarded as aid to solve the starvation and malnutrition problems in Africa, but African farmers are clearly seen as potential customers in need of new technologies (Bräutigam 2009, 252).

The Economist presents the figure of USD 5 billion planned Chinese investments in the African farming industry (The Economist 2011a). However, as Bräutigam finds, this figure also includes other sectors which will be targeted by equity investments subsidized by CAD and therefore is not accurate in this context (Bräutigam 2011c). In reality, most Chinese companies are rather conservative regarding agricultural investments in Africa, mainly due to the weakly developed infrastructure and high market risk. Measured in 2007, Chinese agricultural investments amounted only to USD 272 million, only 1% of total FDI. Still, there are a small number of Chinese companies doing commercial farming in Africa, including individual farmers trying their luck (Bräutigam/ Xiaoyang 2009, 703; Bräutigam 2009, 255).

In Zambia, for instance, about 20 state-owned and private Chinese farms were counted with more than 10.000 hectares under cultivation. The focus of these entrepreneurs and farmers is set on the production for the domestic markets or, in some case, for global markets, often courting the local farmers' resentment (Bräutigam/ Xiaoyang 2009, 696-698).

Only a small number of products are exported to Western countries, making use of the duty free agreements. At present, there is no evidence that China is using Africa as a food production facility for the domestic market. There are also no incentives from the central government for the overseas production of everyday products such as wheat or rice (Bräutigam 2009, 257).

Still, one problematic aspect of Chinese farm construction and land acquisition should not be underestimated: Chinese investors often expect that the government is the owner of the land and, once agreed, the expansion has green lights. But it is taken into

consideration that the land owners are private individuals, expecting at least compensation or rent for the land. If this practice expands, a potential clash of interests is anticipated. Moreover, it is evident that the promotion of modern technologies and seeds in Africa is a danger for small farmers, whose existence depends on simple farming practices.

It is clear that this concept for the development of Africa's agricultural sector differs significantly from the Chinese history, where most domestic issues were solved and regulations were reformed before allowing foreign investments in the country (Bräutigam 2009, 309).

2.8.2 Manufacturing

Sub-saharan Africa's manufacturing industry is much less productive than that of its Asian competitors, mainly due to high indirect costs and losses related to the unfavorable business environment. Digging deeper, the main reasons for its underdeveloped state are low investments, poor infrastructure, weak official institutions, high risk and suboptimal industry policies. The success of countries with traditionally strong manufacturing sectors as, for example, South Africa's textile sector, is often based on tariff preferences which may change rapidly, and therefore the industry doesn't have a stable foundation (Sandrey/Edinger 2011, 7-14).

Chinese projects in manufacturing began in the mid-1960s, when large cotton textile complexes in Africa were financed by the Chinese government, all of them fully vertically integrated. However, again they required continuous assistance and financing to keep them running (Bräutigam 2009, 216). In the case of manufacturing, the story told above repeats itself: Similar to other sectors, African manufacturing industries were strongly hit by the liberalization measures, which were mainly imposed by donors as prerequisites for new loans. As a result, Chinese companies bought shares of the former aid projects and created joint ventures, also supported by loans from Exim Bank (Bräutigam 2009, 217-218).

Starting in the 1990s, several new factories were constructed by China all over Africa (Bräutigam 2009, 201). As part of its ongoing global strategy, the Chinese government created numerous incentives for manufacturing companies. Funds have been established to encourage the local businesses to move overseas, but also costs for the domestic producers have been increased and several benefits have been removed (Bräutigam 2009, 91).

These incentives and the recent establishment of industry parks and Special Economic Zones (SEZ) go hand in hand, with the zones' main purpose of clustering production and creating a beneficial investment environment. I will highlight the concept of SEZs in the following section more in detail.

Around 2000, Chinese investors were already involved in around 230 manufacturing projects in better developed African countries and the number of small Chinese-owned factories has been constantly rising (Bräutigam 2009, 190). Today, most Chinese companies operating on the African continent are SMEs in the manufacturing sector, for example in Ghana, with a share of 30% and in Ethiopia with a share around 66% in the manufacturing industry (Gu 2009, 7). There has also been a significantly rising number of Chinese traders importing different Chinese goods to Africa. However, it is important to underline that there is no evidence that Chinese operations in Africa are centrally controlled and instructed by the government. These are rather decisions by individuals who see opportunities and make use of the several subsidies provided by the government (Bräutigam 2009, 86).

One reason that may still be responsible for Africa's weak non-commodity exports is the Chinese-caused reduction of prices for manufacturing products, leading to a strong pressure on the African clothing-export industry in countries like Kenya or Mauritius (Alden et al. 2008, 7). The Chinese impact on the Ethiopia's shoe market, for instance, had a mixed result: following the liberalization, more than 80% of the market has been captured by Chinese imports, which led 30% of the local firms that were surveyed to bankruptcy and 45% to downsizing. However, several years after the first inquiry, most of the SMEs analyzed stated that they were now competitive against the imports, which indicates that the existing production techniques had been upgraded.

Very little research has been done with regard to the analysis of spillovers on the local population. There were numerous reports of locals who built up their own enterprises after have worked with Chinese in Mauritius and Nigeria (Bräutigam 2009, 213-225). Still, the potential for spillovers is large: as the level of technology used in manufacturing is not too advanced in general, more examples may follow. Moreover, competition in local markets can encourage local companies to look for new technologies and therefore increase competitiveness. At the same time, the widespread lack of skilled personnel may hinder the transfer of know-how in technically more advanced areas (Bräutigam 2009, 193-194; Gu 2009, 23-25).

Eifert et al argue that structural changes and diversification in the manufacturing industry may be achieved through a critical mass of companies generating economies of scale, technology transfer and network effects, as it has been observed in many East Asian or Latin American countries. Besides, China can support Africa's diversification in the manufacturing sector with further tariff preferences. Although, as stated above, Africa has almost duty free access to China, there are still some import duties that remain high which certainly are a potential leverage to support selective African industries (Sandrey/Edinger 2011, 24-26)

2.8.3 Special Economic Zones (SEZ)

The emergence of Special Economic Zones in China contributed significantly to its development after the first economic reforms. Initially set up around 1979, the zones served as experiments for market liberalization management and subsequently changed the affected regions considerably: one of the first zones, the former fishing village Shenzhen, for example, became a large metropolis in a very short time. The number of today's zones is estimated to be around 100, with focus points ranging from free trade to highly technical development zones. In 2006, the Chinese government announced to expand the concept of SEZs by constructing around 50 additional overseas zones within the next years, 3 to 5 of these zones to be located in Africa. This announcement has been followed by an expression of interest from more than ten African countries. After experts evaluated the individual business environments and opportunities, the construction of seven zones in countries ranking relatively high in the World Bank's *Doing Business report*, namely Zambia, Nigeria (two zones), Mauritius, Ethiopia, Egypt and Algeria, was approved. China's motivations for this move are obvious – beside the aspect of stronger influence, presence and expansion of the Chinese development model – the new zones would encourage domestic companies, for example in the textile or construction sectors, to move offshore and as a result to have a better long-term position in the market and at the same time win new market shares in Africa. The Chinese government is supposed to support the zones with material deliveries and other assistance. Moreover, it announced to incur up to 50% of the moving expenses into the zones and provide incentives like income tax or export rebates on Chinese materials among other subsidies. Additionally, governmental subsidies cover up to 30% of costs for preconstruction (Bräutigam/Xiaoyang 2011, 30-34; Farole/ Akinci 2011, 73-82). While host governments are expected to guarantee basic infrastructure in the zones such as electricity, water, gas or roads, Chinese companies are responsible for the infrastructure as African shares in the zones are relatively small (except the Nigerian Leki Zone with 40% Nigerian ownership) (Bräutigam/Xiaoyang 2011, 36-37).

Since the share of manufacturing value added in GDP is very low in African economies, it may be a great chance for these countries to experience a similar success story as Asian countries did with the help of SEZs in the past. According to Porter (1998), the concept of clustering increases the productivity of the company located in the space of the cluster. Moreover, it is a good channel for innovative developments. Finally, new businesses can appear in these clusters. Well-functioning zones may also have the great chance to finally move away from simple resource exploitation without value added, a problem most African countries are facing today. SEZs may also create new employment opportunities and higher foreign exchange income and successively lead to higher government revenues (Davies 2010b, 24-26; Farole/ Akinci 2011, 94-95).

The first Special Economic Zone was established in 2007 in Zambia in the Chambishi mining area, with a Chinese governmental investment credit of USD 800 million

directed to Chinese firms to stimulate their investment. The ambitious target was to provide 6.000 jobs for the local population and attract 50 to 60 enterprises (Corkin et. al 2008, 12; Farole/ Akinci 2011, 73). The Zone has been successfully constructed but, at the time of writing, it is still facing challenges to attract non-Chinese investors. The construction of the Ethiopian Zone developed rather sluggishly: initially, it planned as an industrial park by two private steel fabricators, but since, it has been facing financial difficulties in the construction stage that lead to the reduction of the planned area, followed by continuous financing-related negotiations with Exim Bank. The Nigerian Leki Free Trade Zone has been created through a joint venture between the Nigerian state (20% stake), a private Nigerian investment company (20%) and a consortium of four Chinese enterprises (60%), with specialization on transportation equipment, telecommunications, textiles and other light industries and above all, the construction of a new oil refinery. While most other zones tend to have nearly entirely Chinese ownership, the Leki zone shows an unusually high local involvement in the management with a 40% stake held by the Nigerian shareholders, including their presence in several key management positions (Farole/ Akinci 2011, 76-89; Egbula/Zheng 2011,14). The Mauritius zone was initiated to encourage Chinese companies to locate their regional headquarters in the zone and construct congress centers, medical centers and also bilingual schools in the zone, among other projects (Bräutigam 2009, 108).

The companies active in these zones are composed of national, provincial SOEs and private companies, most of them already operating for several years in the host countries. The construction and extension of the zones is commonly performed by both local and Chinese companies. Although no official limit has been set, the Chinese side expects 70 to 80% of the enterprises to be Chinese. However, this has not always been the case: in the Nigerian Ogun zone, all companies that announced to invest are of Chinese origin. A share of 20% non-Chinese investors is expected in the Zambian SEZ, stimulated by the distribution of bilingual promotion material, following, however, on Chinese initiative, since the Zambian government wanted the zone to be purely Chinese. This move is hardly understandable from the Zambian perspective since the participation of local companies could lead to technology transfer and more involvement of domestic work force. Still there are currently only Chinese investors operating in the zone. In the case of Mauritius, local investors are not even allowed to in the Zone, again an initiative set up by the Mauritian government. The government legitimates this step by arguing that it wants these jobs to be truly new and not created by local investors who would have invested anyway. (Farole/ Akinci 2011, 83-89; Bräutigam 2009, 101-108).

Aside from the subsidies, the Chinese government took action mostly on diplomatic level as negotiations with the host governments had been executed by the active companies. Nevertheless, this doesn't mean that the Chinese government follows a complete hands-off approach after the formal decisions are made. In the case of Mauritius, the visit of the Chinese president had significant impact on the progress in the

implementation of the zone. Government influence was also felt in the establishment of the Nigerian Leki SEZ. Its construction process was accompanied by financing problems caused by internal discussions of the Chinese consortium partner. Also, misunderstandings in the way of the capital provision were stated, where the Chinese partners expected to contribute through infrastructure development while Nigerian side wanted capital. Additionally, protest came from locals due to associated resettlements and the impact on their living environment. All these factors led to significant delays in the construction progress. However, after the Chinese government was addressed by Nigerian officials, it successfully interfered by asking the involved companies to follow the time schedule and proposing new solutions. In Ethiopia's case, on the other hand, the initiators of the zone had to solve their financial problems without governmental support (Bräutigam/Xiaoyang 2011, 35; Farole/ Akinci 2011, 93).

Since the majority of the Zones are currently in construction or early development phases, it is too early to draw final conclusions. Still, for some areas, a first balance can be made. The Zambian zone is the only one in SSA that can be properly analyzed with respect to the assignment of local workforce after its construction phase. It can be observed that after a nearly balanced Chinese/Zambian engagement in the construction phase, shares of the Chinese workforce currently active in the zone are ranging from 17% to 25%. During the construction phase of the Leki Zone, 33% of the personnel were Chinese, while the Mauritius zone had a share of 60-65%. Despite various incentives, the interest of new investors to get active in the zone is not exuberant, mainly due to several challenges the zones are associated with. First the economic crisis of 2008/2009 certainly slowed the investments and led to financing problems in the SEZs. Additionally, some zones are located rather distant from larger cities, which leads to difficulties of finding qualified local workers and to problems due to the lacking or poor quality infrastructure in rural areas. Finally, frequent policy changes, complications in the enforcement of these policies and the often high level of bureaucracy contributes to the absence of new investors. A serious issue that can already be observed is the lack of transparency and weak communication, as most of the contracts have never been published (Farole/Akinci 2011, 90-95).

Another challenge is the establishment of links between the Chinese and domestic private sector investors in the zones. Bräutigam and Xiaoyang suggest that no actions have been set by host governments to develop links between local suppliers and the zones. Therefore it is essential to make use of potential transfer of know-how and to build linkages to academic institutions. Although African officials, ranging from parliament members to high representatives and ministers, who are involved have been invited to China for workshops about the proper management of SEZs, this is not sufficient to guarantee an information transfer to local management (Bräutigam/Xiaoyang 2011, 47-48).

There is a real risk that these zones will become Chinese enclaves cut off from local businesses due to the fact that Chinese companies represent the majority. To counteract this concern, it was the Chinese, not African governments, who announced in 2009 to create an assistance program for African SMEs to invest in the zone, backed by a USD 1 billion fund. Additionally, African officials issued the concern that the SEZ concept would make it possible for Chinese manufacturers to bring potential export articles into the zones, relabel them as African and export into areas with rebates and incentives for African exports (Farole/ Akinci 2011, 89-95).

Without any doubt, the concept of SEZs offers huge opportunities for the development of African economies. Again a major part of the responsibility lies within the hands of the local governments by ensuring that the currently often speculative challenges mentioned above are being countered on time. If the first zones are successful, the model might expand throughout Africa and as a result attract also more risk averse investors from other countries. However, as stated above, it is still too early to draw final conclusions and therefore it is inevitable to perform a further evaluation of the zones' performance within the next years.

2.8.4 Commodities

As already mentioned above, the focus of FDI with regard to the project volumes was initially set on commodity-related investments but started to diversify in recent years. Investments in copper, nickel or diamond mining, but also in oil field stakes in return for mining rights and concessions are very common among Chinese investors (Sandrey/Edinger 2011, 22). In the following, I will provide an overview of several selected projects in Africa's numerous resource-related sectors. Since a major part of commodity investments was made in Angola and Zambia, I will highlight this topic more in detail in the following country analyses.

In general, it can be stated that China's investments in connection with Africa's natural resources made it an easy target for criticism. First, a significant number of labor law violations has been occurring in the mining sector. Furthermore, China's intense engagement in these sectors in a comparably short period earned the new investors a reputation of being new colonialists and exploiting Africa for its raw materials.

Let's first focus on the oil sector: in **Angola**, which is one of the main oil exporting countries in Africa, China plays a comparably minor role in the acquisition of oil stakes as the majority of Angolan oil fields is assigned to numerous Western oil companies, although China's presence is continuously growing (Zahao 2011), however, and China is Angola's primary export destination for crude oil (Trade Map). Sino-Angolan joint ventures secured stakes in Angolan oil blocks with shares ranging from 20% to 50% (Kiala/Corkin 2009, 30; Zhao 2011).

In **Nigeria's** case, the situation is similar, although China plays a much smaller role as an export destination of Nigerian oil than it does for Angola (Trade Map). Chinese companies acquired several Nigerian stakes and licenses in oil blocks, again playing a minor role compared to Western companies. A remarkable project is the above mentioned planned construction of three refineries and a fuel complex with a total value of USD 23 billion, outpacing many other investment plans (Egbula/Zheng 2011, 13; Oilgasarticles).

In **Sudan**, China's engagement has been criticized extensively. In this country, China is the largest stake holder in oil and was responsible for the construction of most oil-related facilities in both Sudan and South Sudan (Sudantribune 2012).

Let us now turn to Chinese mining investments. In **Zambia**, Africa's largest copper exporter (Trade Map), the Chinese parastatal CNMC currently owns two copper mines, one copper smelting plant and one copper processing plant (HRW 2011b, 21). In addition to these investments, the Chinese own a coal mine which has caused much attention due to the killing of protesting workers by Chinese managers. Yet again in Zambia's case, China is only one actor among Canadian, South African or Australian mining investors (Copper Investing News).

An investment that received huge media response was the acquisition of an 18% stake of Angola's Catoca Diamond Mine in 2011 by China-Sonangol International, which was the first case of a Chinese partial ownership in an Angolan mine. The deal came as a big surprise for experts and even Chinese officials viewed the acquisition with skepticism (Walters 2011).

A Chinese steel company recently completed an acquisition of a 25% stake of an iron ore project in **Sierra Leone** with a total investment of USD 1.5 billion, including the license to receive 25% of the standard production (Swanepoel 2012).

While the examples mentioned above indicate a high Chinese interest in African commodities, it is also evident that China is not just engaged in Africa to exploit the continent's natural resources. It rather joins the club of investors already present. Their engagement is of rather recent nature and logically every new major player winning bids for oil stakes worth billions of dollars and purchasing numerous mines, causes much attention, although still having a much lower share than the traditional investors.

2.8.5 Other sectors

There has been a substantial increase in telecommunications FDI in the last years. For instance, Nigeria became one of the most important markets for Chinese telecommunication equipment and technology. Two major Chinese companies appeared on the Nigerian market offering a competitive pricing up to 5%-15% (Huawei) and 40% (ZTE) below the prices of international competitors, but at the same time also competing

among each other. In 2005, ZTE won a contract to expand the country's communications network and provide a high number of terminals and handsets to Nigeria's main operator. Moreover, ZTE was assigned to construct a USD 400 million worth national security communication system financed by Exim Bank (Egbula/Zheng 2011, 12-13). Contracts totaling billions are signed in the area of (re)construction of the mobile network and telecommunication infrastructure (Bräutigam 2009, 279). There are also numerous examples of Chinese investments in the tourism sector. 26 African countries have recently been officially approved as Chinese tourism destinations by Beijing. In Sierra Leone, for example, Chinese companies have constructed or rebuilt hotel complexes seeing potential in this market (Alden et al. 2008, 9; Crabtree 2008, 14-15).

The largest investment, however, happened not in the commodity, construction or agriculture sector, but in the financial sector: in 2007 the Industrial and Commercial Bank of China acquired 20% of one of South Africa's largest finance groups the Standard Bank by investing USD 5.6 billion. Although the banking sector suffers from lacking property right enforcement and weak rule of law, Chinese companies continue their investments in the financial sector, for instance with a recent investment of USD 245 million for a 25% stake of the South African investment group Shanduka. Additionally, there have been strategic partnerships between the China Constructing Bank and the major bank First Rand of South Africa (Schiere/ Rugamba 2011, 17; Lourens 2011). However, at the moment the investments are focused on the comparably developed South African financial sector.

In 2011, the Central Bank of Nigeria introduced the Chinese Yuan as a trading currency in the domestic FOREX market, according to media reports. This resulted in Nigerian banks seeking new partnerships with Chinese financial institutions (Egbula/Zheng 2011, 15). In addition, the central bank added Yuan to its reserves with the plan to increase the Yuan share in its total reserves to 10%, a unique move on the African continent of strong symbolic character (Mcgroarty 2012).

As this brief overview indicated, Chinese FDIs in Africa are very well diversified and certainly not strictly commodity-oriented. Before getting more into a detailed analysis, I will illustrate the main impacts of both China's role as a donor, investor and exporter and draw preliminary conclusions regarding their performance and effects on African economies.

2.9 Impacts of Chinese ODA, OFF and FDI

Keeping in mind that China's understanding of aid doesn't equal the Western approach as stated above, numerous worries were issued by the OECD countries about China as a donor. These concerns can be summarized as follows: first, it is claimed that China is not putting enough conditions on debt cancellation and gives new loans to countries,

whose debt to OECD countries has recently been cancelled. Doing this, Beijing competes with the agreement set up in 2005 between the World Bank and the IMF to protect low income countries from taking new loans and sanctioning those receiving countries that don't follow the guidelines, excluding the lending countries. This is certainly a problematic issue and bears a great danger for African economies. However, as Chinese aid often goes along with investments and their high consumption of commodities that back the loans, an OECD study pointed out that Angola's debt dropped from 100% in 2000 of GDP to 30% in 2006 and Sudan's from 162% to 75% respectively, significantly driven by higher prices coming from China's strong demand for raw materials. Another widespread concern is the fact that agreements imposed by the West are simply overruled due to the lacking political, social and economic prerequisites of Chinese loans. As an obvious example, China relies on its own standards or those of the receiving country regarding environmental issues. To counter this claim, Chinese officials argue that even if the political and social conditions are not well developed in most African countries, one has to respect the countries' sovereignty (Bräutigam 2010a, 33-39).

At the same time, one shouldn't forget that China itself is not a model pupil with respect to human rights or democratic institutions. Why should Chinese donors then follow Western ideas of how a country should be ruled and regulated if China itself often is an object of criticism in these areas? To analyze the legitimacy of these accusations, it is necessary to examine the differing approaches of OECD donors and Chinese donors more in detail: OECD follows a policy of inclusion of preconditions as key tools for loan provision, a policy that has been arranged among the members not to clash in their interests. In the late 1980's World Bank loans included about 60 conditions and benchmarks as prerequisites. Yet, most prerequisites were ignored by the recipient countries in the past, while donors continued to provide loans, a fact that makes a clear evaluation of the practical benefits of conditions on loans even more difficult (Bräutigam 2009, 135-149).

Western donors agreed on a game, whose outcome was summed up very well by Bräutigam as: "*aid recipients pretending they would reform and donors pretending to believe them*" (Bräutigam 2009, 76). Certain economists are not drawing a positive balance of this policy as most African economies are still suffering from underdevelopment and poverty (Bräutigam 2009, 308). Moreover, the fact that Britain and Norway eliminated economic preconditions of their aid packages, is favoring the Chinese approach. The Chinese government has no preconditions included in its aid packages, but Chinese financiers and investors often do so. According to the Chinese model, funds are usually not provided directly to the government except for creditworthy countries, but directly to Chinese enterprises that will perform this project (Bräutigam 2009, 142-150).

The fact that Chinese companies show a rather high level of corruption, as we learned above, leads to the justified concern that they may import corruption to Africa following the approach described. At the same time, the policy of not depositing aid to governmental accounts as it is common, the Chinese model is in the first place less vulnerable to corruption.

Still, there is no evidence yet that the Chinese approach leads to less corruption due to the low transparency level of Chinese loan agreements. Bräutigam states that even if China should import corruption, it would only raise the bar as corruption is very common among the traditional investors in Africa, naming the example of two major American companies who were charged guilty of paying bribes to Nigerian authorities for construction projects with volumes to USD 6 billion in total (Bräutigam 2009, 293-295).

In the past, China's aid was bundled with the strict principle of non-interference in internal issues. This means that China has never been involved in the management of a completed facility as this was already seen as interference. However, this approach led to an average 1/6 of the projects requiring the Chinese to return to perform various maintenance issues. This policy has been changed by Premier Zhao Ziyang by announcing that management and technical assistance should no longer be perceived as interference in internal affairs.

For traditional donors, the responsibility and the payments usually end with the finalization of the project (Bräutigam 2009, 57-58). They also follow the belief that well governed countries should make their own decisions of foreign aid use and therefore provide the funds directly to these governments (Bräutigam 2009, 124-125). For countries that are not governed well in the Western belief, the approach is different. Sierra Leone's former Minister of Foreign Affairs has put it the following way: *"There is a difference, and it is huge. What they [the Chinese] want to help you with is what you have identified as your need. With Britain, America, they identify your needs. They say: "Look, we think there is a need here."* It also happened that loans whose purpose was defined by the donor were differing from the recipient country's proposal (Bräutigam 2009, 139-140). In China's case, however, the decisions which projects will be carried out with the funds provided are mainly made by the respective African governments (although the decision, *who* performs these projects, is not) (Davies 2010b, 19-22).

China's loan packages, from zero interest loans, over grants to concessional loans, are in very often so called tied aid. This means that the recipients have to use goods and services and contract companies from the donor country. Inter-Chinese competition is allowed, but still outcomes of a study show that this restriction makes aid less effective. The practice of tied aid has been used by traditional donors for a long time but has constantly decreased in the last years. However, in 2001, while this fact being true for most cases observed, interestingly Italy's ODA was 92% tied, Canada's aid 68% tied and 50% of Portugal's and Greece's aid was tied to domestic firms and goods in the year 2005 (Bräutigam 2009, 151-153).

China has learned certain aspects of foreign aid from its former (and in some cases present) donors. For example, they guarantee benefits for both sides through the provisions of loans. Their motivations for aid, including strategic diplomacy, commercial benefit and reflections of ideologies, are very similar to that of traditional donors like the USA (Bräutigam 2009, 13-15). In many cases, OECD loans were little focused on adding power to Africa's economic competitiveness, as for instance the assistance for industry and trade was on a very low level with a share of about 5% of all World Bank loans to SSA in the years 2005-2007. It's especially such investments that create jobs, wealth and add value and competitiveness to African products. At the same time, about 50% of the loans of the World Bank's private equity organization, the IFC, went into mining and oil in the 1990s (Bräutigam 2009, 91-92).

According to cables published by *Wikileaks*, Kenya's ambassador to China stated: "*Africans were frustrated by Western insistence on capacity building, which translated, in his eyes, into conferences and seminars. They instead preferred China's focus on infrastructure and tangible projects*" (The Guardian 2010). Additionally, he stated that Africa would have no benefit from China starting to cooperate with the traditional donor community as China's practical approach is more beneficial for Africa (The Guardian US embassy cables 2010b).

Exim Bank's president Li Ruogu stated that the traditional donors' approach is static, meaning that they rate a country as indebted as a whole and follow the credit ratings. The Chinese approach, in contrast, focuses on individually realizable projects that might not need subsidized concessional loans. He also argues that before the Chinese invested in Angola, the country's credit rating was "*highly risky*". Now, as it has been updated, many Western countries rush to invest (Bräutigam 2009, 185-186).

For China, the obvious benefits of this approach are many. First, the loan model supports the trade and the development of Chinese multinational companies. The way China bundles aid avoids a paternalistic attitude towards the recipient which was often an aftertaste of Western aid, leading to a "*donor-beggar*" relationship as Uganda's president Museveni stated. This approach therefore may open doors for further cooperations (Bräutigam 2009, 25). Second, it is a logical consequence that Chinese companies are also positively affected by the investments. Because the Chinese are not only donors but also investors, the infrastructure problems and lacking transport and logistics systems are also a highly problematic factor for them. That is why the heavy investments in infrastructure will benefit Chinese investors as well and facilitate market access for Chinese products. Also, investments in the telecommunication and electricity infrastructure are beneficial for the Chinese long-term plans and for the reduction of transport and maintenance costs (Corkin et. al 2008, 14).

One of the biggest advantages for large Chinese companies compared to other investors is their access to enormous capital sums due to the backing by loans. Small companies, however, get loans at flexible rates from Chinese policy banks as well. Corkin et al.

estimates that Chinese are working at low profit margins of fewer than 10%, in some cases under 5% while foreign competitors operate at 15-25%. This approach may lead to competitors from other countries being pushed out and as a result China could gain ground and develop the business under higher margins – a development which has recently been observed in the Ethiopian construction market (Corkin et. al 2008, 4-7).

Aside from the clearly beneficial factors for China resulting from their loans, it is important to understand that a working infrastructure is the base for a growing economy. A report by the Infrastructure Consortium in Africa (ICA) found that the lacking infrastructure soaks away 40% of a firm's productivity. Figures published by UNCTAD show that freight costs make about 5.4% of the imports globally while they are about five times higher in Africa. Therefore, African countries should focus on the creation of competitive companies and value chains in the production, a move that can only be performed with a well-developed basic infrastructure (Davies 2010b, 18-19). Still, the question remains if the quality of the infrastructure built is sufficient to support African development in the long-term (Ye 2010, 18-20).

In the following, I will highlight the detailed aspects of the Chinese impacts on the construction quality, labor and environment.

2.9.1 Labor Issues

When articles about the Chinese in Africa appear in the media, it is very probable that the poor working conditions associated with Chinese investors are the catalyst for such reports. Still, these accusations do not arise out of thin air and they are intensified by the serious violations of industrial safety and labor conditions in China itself. Moreover, China is frequently being accused of importing both qualified and unqualified workers and therefore contributes little to the wealth of the local population.

In general, it has been observed that the local workforce is mainly used for unskilled positions in countries where Chinese engagement is recent. However, when looking to Tanzania or Zambia, given that both countries have had a comparatively longer Chinese presence, it is observable that the local share in more qualified positions is constantly rising. This outcome is also a result of the establishment of technical institutes to train the local workforce, like in the case of Huawei. The company built training centers for locals in several African countries, simply because it is too expensive to import qualified workforce in the long-term as Huawei's CEO points out. There are various reasons which may explain the tendency to employ Chinese workers abroad. One main cause, often underestimated by the Chinese, is the language barrier, a logical obstacle especially in non-English speaking countries like Angola as a lusophon country. For example, there have been reports of Chinese overseers giving instructions while not speaking a word of Portuguese. Usually, Chinese working personnel is both living and working on the construction sites, so it is self-evident that they are much more flexible

and willing to work additional shifts. At the same time, there are no big differences in the living conditions between the working and the managerial or engineering staff. This is a clear advantage compared to the Western qualified staff that is often lured to work in Africa with monetary benefits. A frequent claim by Chinese managers is the lacking skills of the local workforce. The employment of domestic workforce abroad is also beneficial for Chinese workers and management staff from a training perspective as they can be responsible for an assignment from beginning to the end, a procedure they maybe could not experience at home (Corkin et. al 2008, 8-9; Bräutigam 2009, 156-160).

At this point, it is appropriate to look at the differences in minimum wage regulations both in China and SSA countries. Therefore, I observed the minimum wages in the provinces Zhejiang (Bräutigam 2009, 212), Goandong and Fujian (Bräutigam 2009, 74) where numerous Chinese companies and therefore migrants to Africa originated. In 2011, the minimum wage in these provinces varied from USD 150 to USD 235. However, there are also provinces in China as Heilongjiang for example with a minimum wage of about USD 130 ranked at the lower end (China-briefing 2012). If we look to Angola, the minimum wage ranges from USD 90 to USD 135, depending on the sector. In Nigeria, the minimum wage is USD 110 (CSR Westafrica 2011) and in Zambia around USD 77 (Wageindicator)³.

These figures indicate that for some African countries, the minimum wage lies very close to Chinese standard, or slightly below.

Given the factors aggravating the employment of local workforce from a Chinese perspective mentioned above, it is self-evident why so much labor force is imported from China. It is clearly understandable that people rather choose to work in familiar conditions and circumstances, but Chinese investors should keep in mind that they are investing abroad and therefore have to take a certain necessary degree of assimilation into account. The regularly issued claim that mainly Chinese workforce is used is simply wrong as the situation varies depending on the project and the host country: as we have seen in the example of the SEZs' constructions, the major part of workers involved were locals except for the case of Mauritius.

Gu performed a survey among private Chinese enterprises in China and found that these companies tend to employ mostly Chinese in the managerial positions and keep locals working in production. Again, however, most of the workforce was local with peeks of 90-93% in some companies (Gu 2009, 12-14). In Nigeria, for instance, Chinese companies employ about 30.000 Nigerian workers in total according to official Chinese data. At the same time it is claimed by labor unions that 350.000 jobs in the manufacturing industry have been lost because of cheap Chinese imports and that the number of domestic textile producers has fallen significantly (Egbula/Zheng 2011, 18).

³ 2011 figures, calculated with June/2012 exchange rates

This is an obvious example how Chinese investments created a large number of jobs but at the same time China's strength in the manufacturing sector eradicated a number of jobs ten times higher - to my mind, this comparison is not liable because it's the result of a free market and China should not be blamed for the strength of its manufacturing industry.

Another claim often read in the media articles or found in reports by Human rights watch, for example, is the accusation that Chinese companies pay very low wages, especially compared to Western companies. But in all examples observed in the following country focuses, the minimum wage requirements are followed, even the level stays very close to the minimum.

In Nigeria's case, companies interviewed argue that both Chinese and Nigerians receive low wages and that the salaries are in line with the salaries in comparable companies (Egbula/Zheng 2011, 18). Again, this claim cannot be rejected or accepted in general as only conclusions can be drawn of the companies' surveyed. What is evident, though, is that again it's up to the local government to increase minimum wages, with the natural trade-off of potentially frightening off new investors with this measure.

The state of the working conditions in Chinese-controlled businesses is also subject of high criticism. In a report by Human Rights Watch on working conditions in Chinese-owned Zambian copper mines, the authors reported of numerous safety and labor law violations. These findings included low security and safety standards, working hours exceeding the maximum allowed by law and threats of being fired if refusing to work in unsafe places (HRW 2011b, 1-2).

All the same, some reports regarding the working conditions in Chinese companies are exaggerated, again even in usually serious media sources: in a recently published report by *The Economist* on Chinese working conditions, the author states that in Zambia's Chinese-owned copper mines, local workers have to work two years before getting safety helmets. Moreover, it is stated that accidents occur almost daily in these mines (The Economist 2011a).

However, Bräutigam finds that studies of Zambian copper mines analyzing the number of casualties in the copper belt show an entirely different figure with around 20 casualties per year starting in 2001, with the exception of the explosion in the Chinese Chambishi Coppermine that led to the death of more than 50 Zambian workers, an event I will analyze more in detail in the following chapters. The British scholar Dan Haglund states that Chinese in Zambia often tend to ignore labor regulations including demission of personnel without giving notice. But he didn't find any evidence of workers that didn't get helmets in their first two years. At the same time he underlined that while these claims could possibly have been true for the first years of Chinese operations in Zambia, the conditions have improved significantly over the last years (Bräutigam 2011c).

2.9.2 Quality and Environment issues

The common perception of Chinese products is that their quality is rather low or below average. But in the case of Africa very little measurable information exists to underline this line of criticism. It seems to be more a conclusion drawn from single events and experiences. However, the guarantee of quality standards is clearly a task of the local government and can only be counteracted by further supervision. Countries with weaker governmental control organs tend to have a higher number of substandard construction projects than countries executing the legal regulations. This also because the latter countries tend to import high quality construction materials (Corkin et. al 2008, 7). The Angolan government has set an example in this area by engaging German engineering specialists to supervise Chinese construction projects (FAZ 2007). In Nigeria it is reported that Chinese products are widely regarded as inferior. Moreover, Chinese importers are accused of exploiting tariff concessions. China admits the strong presence of cheap goods but at the same time argues that Nigerian importers pressure Chinese suppliers to deliver cheap imports to reduce prices (Egbula/Zheng 2011, 18).

Common media coverage also supports further accusations, often true, but equally often strongly subjective and exaggerated. In Angola's capital city Luanda, for instance, cracks in the walls of the Chinese-built hospital have been reported a few months after the opening – at least according to *The Economist* and other sources. There were also reports of a new main road built by Chinese in Zambia that has been swept away by rains shortly after its completion (The Economist 2011a). However, Bräutigam argues that reports about the hospital are exaggerated as the cracks appeared four years after the opening and the hospital was closed down for repairs. With regard to the “swept away road”, she stated that caves were found in the road but that certainly not the whole road has been swept away (Bräutigam 2011c).

Chinese companies also have a rather bad reputation in their approach to environmental issues – once again, I found little information and hard facts available about the harms for the African environment caused by Chinese. There has been one case of a mine closure in Zambia because the harmful emissions were much higher than the allowed standard and therefore dangerous for both the environment and locals (Corkin et. al 2008, 10-11). At the same time, this example shows that the pressure on China in terms of environmental issues was strong enough to close down an entire mine. Some Chinese companies were reported of being involved in illegal harvesting, illegal fishing and sometimes ignoring local communities when receiving concessions (Bräutigam 2009, 301).

China's investment in hydropower also implicates potential harms for the environment. However, the hydropower potential of the continent is not properly used as the sector is extremely underdeveloped (Bräutigam 2009, 118). By the end of 2007, China had

invested more than USD 3 billion in 10 hydropower projects across Africa (Schiere/Rugamba 2011, 15).

China's rising awareness regarding environmental issues at home can have both benefits and downsides for Africa. Benefits might occur due to the rising standard of the environmental regulations their consequent export to African countries. This assumption is underlined by the fact that in 2008, a Ministry for Environmental Protection has been established in China with the target to work out regulations and guidelines for Chinese companies, also for those involved overseas. Additionally, Exim Bank has been using European consultants for many projects to become more credible (Bräutigam 2009, 118). A remarkable step has been the signing of a memorandum of understanding by Exim Bank and the IFC, to collaborate on various environmental issues (Bräutigam 2009, 303). However, due to the fact that numerous domestic firms have been closed down by the Chinese government as they could not meet the domestic environment standards, they relocated to other places with looser regulations, including African countries (Gu 2009, 25-27). This move implies the danger for African countries that these companies may continue their practice overseas.

It is evident that China is on its very beginning with regard to environmental regulations and can hardly meet the standards developed by traditional investors. Still, recent progress shows that Chinese investors are willing to adopt these standards. At this stage, however, it is too early to evaluate the real picture.

2.10 Chinese View

When analyzing China's implications on African businesses, it is essential to look at opinions of Chinese entrepreneurs and officials on their engagement in Africa. Gu performed a survey among Chinese entrepreneurs in Africa, where they explained their thoughts about the African business environment and their motivations to invest abroad. As the most challenging factors associated with their investments in Africa, the business men listed customs and trade regulations, the quality of the overall infrastructure, the weak macroeconomic management and labor regulations. Surprisingly, factors mainly criticized by Western investors, such as corruption, crime and bureaucracy, were at the lower end of the disturbing elements. The two main reasons for the entrepreneur to invest in Africa were primarily friends and networks and on the other hand their own research and trading experience. The central government was named as an important factor, but it was not among the most crucial points. The activities of African governments were on the bottom of the businessmen's motivation to invest, an outcome that emphasizes that African countries didn't manage to attract Chinese investors just by promoting business opportunities. One of the CEOs interviewed stated that the motivation for developing the China- Africa relationship tends to be much more enthusiastic on the central governmental level than on the local level, as there was a rather small number of training sessions provided by local governments to explain the

policies in the region. If this is true for the bigger part of African host countries, it's a clear failure in their policies. Especially trainings on local regulations and conditions for new investors are essential to prevent violations of labor or environmental laws (Gu 2009, 16-19).

Current director general of China's *Department of African Affairs*, Lu Shaye, made clear statements regarding his view on China's Africa engagement: he openly defended the export of cheap Chinese products, but at the same time indirectly admitted that these products may be of poor quality, stating that Africa's consumption is on very low level and therefore people prefer cheap products. Additionally, he indicated that African importers pressured Chinese manufacturers to lower the prices and, as a result, the quality suffered. Referring to the question of weak integration of the Chinese workforce, he admitted that there still is a barrier of both language and culture, also supported by the fact that Chinese in Africa often do not have incentives to learn the local language as they often stay only for the duration of their respective projects. He advised African countries to rethink their labor laws and regulations since they should keep the status of their economic development in mind. In his view, Chinese workers are more willing to work under hard conditions than workers from other countries - an attitude that makes them more competitive compared to Western companies, for example. He also openly admits that Chinese workers are keen to work in three shifts per day or all day and night, to meet the expectations for the project's completion. As a result, government assistance is spent more on the project costs rather than on the work force (Adewunmi 2012).

China's Economic and Commercial Councillor for Namibia has put it even clearer when he stated: *"If you sacrifice on labor costs now for future generations, then Namibia will develop. Let people be paid lower wages now and attract more FDI and set up manufacturing so that the future generation will reap the benefits of the sacrifices."* (Bräutigam 2009, 301).

China's approach to corruption and good governance overseas also seems to be influenced by the domestic situation, if following the words of the president of Exim Bank, Li Rougu: *"We spend most of the time discussing issues such as transparency and good governance. And that would not help because they are part of a development process. I do not think that Britain was as transparent as it is today some 200 years ago, let alone the United States a hundred years ago."* (Bräutigam 2009, 296-297).

While such statements by these high officials are unusually straightforward, at the same time they are alarming to some extent and they are indicating very well why Chinese companies are using Chinese workers and why violations of local labor laws occur. It seems that China expects Africa to go through the same hard path that China went through before. This includes for instance the acceptance of low quality products, low wages and disregard of labor laws. In addition, it is clearly understood as a benefit that Chinese are willing to work under conditions that are illegal in most civilized countries and certainly are illegal in the hosting African countries as well. Why then should

Chinese investors respect foreign labor laws and encourage local labor if there are enough Chinese workers who are ready to work under such conditions with another clear benefit, namely the abolition of language barriers? Keeping this in mind, it is essential for local governments to take action by demanding percentages of local involvement and enforcing labor laws, ideally on African Union level to prevent foreign investors from relocation to other countries with weaker regulations.

All the same, these measures can be achieved as a side effect of China's ongoing development. It can only be a matter of time before Chinese investors will be switching more and more to local workforce as life standards and therefore wages in China are increasing continuously (Bräutigam 2010c). The ball is in the court of African policy makers. By performing the measures mentioned above and additionally establishing networks for inter-African information exchange concerning the experiences made with foreign investors, Africa can counteract violations done by foreign investors who are, naturally, profit oriented (Corkin et. al 2008, 15-16).

2.11 Chinese Immigration to Africa

It is as difficult to provide accurate and complete figures of Chinese companies operating in Africa, as it is to find proper data of Chinese immigration to Africa. Again, there are many different numbers circulating in working papers and the media: political scientist Sasha Gong reports a number of currently 100.000 workers in Africa. Data from Ohio University names a figure of 137.000. China's official news agency *Xinhua* estimates a figure of 114.000 Chinese workers and immigrants on the continent, while other internet sources vary from 750.000 to 1 million (Olander 2012), probably due to a misinterpretation of the official figures which are referring to the total number of 743.000 Chinese working overseas (Politzer 2008; Bräutigam 2009, 154). In a recent article in *The Economist*, a senior official of the African Development Bank is quoted claiming that more Chinese have come to Africa in the last ten years than Europeans in the last 400 years (The Economist 2011a). Still, although there are no 100% accurate official figures of Chinese immigrants to Africa, their number is certainly not higher than that of Europeans that came to Africa in the last 400 years which is estimated to be around 10 million during the colonial period (Bräutigam 2011c).

Another challenge is estimating the number of Chinese migrants in transit to other states, as they enter on legal visas and often simply overstay (Politzer 2008). There is also a substantial number of Chinese migrating to Africa from other countries, mainly due to language similarities, but also business opportunities. For instance there were reports of Portuguese speaking Chinese citizens, who migrated from Cape Verde to Angola and Mozambique due to increased competition on the island (Park 2009, 8).

The journalist Eric Holleander provides a short categorization of Chinese immigrants to Africa in one of his articles, which strongly resembles the impression I got during my

research work. However, I have extended the overview by certain points, to present a more generalized picture. Chinese immigrants can thus be roughly divided into:

- **Senior diplomats and high managers** of Chinese enterprises.
- **Engineers or managers** with high levels of education, who are managing various Chinese projects in Africa and stay only temporarily for the duration of the project.
- **Independent business men** working in small or medium sized enterprises and acting autonomously from the central government. Seeking for investment opportunities as their main motivation, this group often shows a very high assimilation factor as they have to interact directly with the local population (Olander 2012). This group is mainly active in retail businesses and in wholesale trading as it is clear from Nigeria data: in 2004, a Chinatown emerged in Lagos with around 120 Chinese shops selling goods often produced by Chinese manufacturers in Nigeria (Egbula/Zheng 2011, 17; Park 2009, 8). Their strong engagement sometimes leads to extraordinary measures as in Tanzania, where Chinese traders have been banned from markets in Dar es Salaam, followed by a statement that Chinese are welcome as investors in large businesses, but not as traders of that kind (The Economist 2011a).
- **Farmers** working and living under conditions similar to Africans. According to the *China-Africa Business Council* there are several thousand farmers who migrated to Kenya, Uganda, Ghana and other African countries in the last years (Park 2009, 8).
Chinese farmers also tend to be highly assimilated and to stay in Africa for a comparatively longer period, supported by Chinese institutions assisting them in their relocation procedure (Politzer 2008; Olander 2012).
- **Temporary construction workers**, a category missing in Hollander's listing. Similarly to immigrants of the first and second categories, these workers stay in most cases only until the completion of their projects and are living directly nearby their working facilities, which naturally leads to a very low level of integration.

The level of Chinese integration in Africa is widely regarded as low, mainly driven by the short time periods they intended to stay and therefore have little incentives to integrate (Daniel 2010). Although there also are well integrated groups among Chinese immigrants, temporary contractual workers are seen to be in the majority and therefore nourish this opinion (Politzer 2008).

Generally spoken, Chinese immigrants are characterized through their profit orientation with the target to return to China with new wealth, but also improved skills. As one Chinese ambassador in Africa stated, the hardships of life in Africa are accepted as they are seen as temporary in most cases. Ma Mung underlines that the increased immigration of Chinese creates a chain reaction as other fellow citizens are attracted by the new labor opportunities in Africa initiated by Chinese. However, due to the common isolation of Chinese migrants, there are often ridiculous rumors and accusations trying to explain their reasons to invest, their success and their working practice that are unusual to some Africans. Often working 10 to 12 hour shifts 6 to 7 days per week, some claim that Chinese workers are “unemployed and prisoners” that are shipped to Africa and forced to work in construction and mining. As we will learn in the coming sections, Chinese immigrants are also regularly victims of racially-motivated physical aggression. All the same, locally performed surveys showed that, apart from locals who stand in direct competition with Chinese or work for Chinese employers, many Africans express admiration to their work attitude and their success (Park 2009, 8-12).

2.12 News coverage and public perception of Chinese activities

During my research, I found numerous articles published by Chinese, but in most cases by Western or African media, with exaggerated or simply wrong reports of China’s presence in Africa. Some of these are mentioned by Bräutigam in her working papers and blogs highlighting the difficulties that appear if one tries to form a conclusion from media reports without further investigation. While I have given several examples of wrong Chinese aid figures in working papers and media reports earlier, I want to illustrate certain interesting and to some extent disturbing statements and analyses published by papers and institutions that are regarded as serious sources.

After the China State Farm and Agribusiness Corporation (CSFAC) came to Zimbabwe on the invitation of the internationally isolated president Robert Mugabe to analyze investment opportunities, rumors were spread that the former “white farms” taken away from them during Zimbabwe’s land reform are now being operated by Chinese. The truth is, however, that the CSFAC decided to reject the investment plans due to security-related worries, according to Zimbabwe’s ministry of Agriculture.

Even if not true, news like these appearing in the media support the opinion that China does in fact collaborate with criminal regimes as it is often accused. At the same time, the increasing cooperation with Zimbabwe announced in April 2012 with projects amounting to USD 180 million should not be seen uncritically. The former editor Moises Naim published an article in the New York Times claiming that China overthrew plans between the Nigerian government and the World Bank by offering a USD 9 billion loan for rebuilding the country’s rail network without demanding structural reforms - however, this deal never happened (Bräutigam 2011b, 8; Focac 2012b).

Several articles referring to the common accusation of land grabbing Chinese companies, written by then PhD student Loro Horta, caused a sensation. He published stories about China's land grabbing and agricultural exploitation on serious websites like the *Center for Strategic International Studies* or *The Diplomatic Courier* for instance. There he accused China of several offenses by Chinese farmers, including investments of USD 800 million to grow rice in Mozambique and export it to China. Moreover, he declared the planned arrival of thousands of Chinese settlers and the transformation of Mozambique into one of China's main food suppliers. However, Bräutigam showed in her blog that most of the information provided is pure fiction and that Horta neither did any fieldwork for his research nor provided references for most claims. The most disturbing fact is that these articles were regularly cited and taken as an example for Chinese land grabbing, even by the International Food Policy Research Institute (Bräutigam 2012).

I came across another article that was printed in the widely distributed paper *Daily Mail*. Here, the author Andrew Malone highlights China as a major threat for both Africa and the Western world. Lurid passages like: "*In the greatest movement of people the world has ever seen, China is secretly working to turn the entire continent into a new colony*" or accusations like "*the land is scarred with giant Chinese mines, with 'slave' laborers paid less than £1 a day to extract ore and minerals*" (Malone 2008) may cause awareness about the seriousness of the author. Still, one should not underestimate the influence that fictional reports like these may have on the perception of Chinese activities in Africa. On the other end of the spectrum regarding fictional news stories, announcements from official Chinese sources, for example found on the websites of FOCAC or China's state news agency *Xinhua*, draw an exaggerated picture of Chinese goodwill and the benefit Beijing brings to Africa, presenting China's engagement mainly as acts of support and solidarity.

It is evident that China is not giving more ODA to countries with more resources as high concessional loans are given mainly to creditworthy countries that are able to repay them. It also true that the clear focus in terms of the project volumes is set on commodities, however the claim that China is exploiting Africa just for its natural resources is not accurate.

China's revenues resulting from resource-backed loans are tremendous: in 2007 alone, Chinese construction companies signed contracts totaling USD 29 billion in Africa. Other sectors are flourishing as well, which shows that Chinese investments are very well diversified rather than only commodity-oriented. The common claim that major Chinese activities in general are centrally planned is only partially correct as Chinese companies are considered to have a strong freedom to operate, often with no obligations to ship the resources extracted to China but rather to sell them at the best price as it is the case for oil companies or copper companies in Zambia (Bräutigam 2009, 279-281).

2.13 Chinas support of criminal regimes and fueling of corruption

One of the main points of criticism is China's noninterference policy, especially related to its engagement in critical and internationally isolated countries as Sudan or Zimbabwe supporting their regimes' further existence with aid, investments and trade relations. As this is not the focus of the thesis, I will illustrate this complex topic very briefly.

It's clear that the accusations of Chinese collaborations with Sudan and Zimbabwe are absolutely legitimate and not made up out of thin air. In the Sudanese case, China purchased Sudanese oil and at the same time sold arms to the regime which have been used against the Darfur rebels. Moreover, China supported Sudan in the construction of arms factories. However, in recent years, China seems to have realized its vulnerability on the international scene caused by these relations and adjusted its policy by insisting on peacekeeping troops in Darfur and supplying engineers for the peacekeepers. (Bräutigam 2009, 281-284). All the same, the arms exports seem to continue (Sudantribune 2011). While these facts speak for itself, one should also keep the following facts in mind: by 2006 Japan was the largest customer of Sudan's oil, a Canadian company was the major player in the mining sector and Russia sold five times more arms to Sudan in the years 2001 to 2008 than China did (Bräutigam 2011d; Bräutigam 2009, 281-284). At the same time the USA supplied arms to regimes clearly violating human rights like Saudi Arabia amounting to USD 3.5 billion in 2011 and the UK supported several questionable Middle East and North African regimes with arms deliveries (Reuters 2011a).

After China's engagement in Zimbabwe had been followed by rumors about billions of Chinese aid given to the isolated dictatorship, this topic became very present in media reports. This impression mainly arose due to indeed ambitious project planning and initiation, however, very little of these plans were transformed into reality as Zimbabwe faced various financing problems. But Zimbabwe has been supplied with arms amounting to USD 28 million by China between 2005 and 2007. Nevertheless, also in Zimbabwe's case, there were several Western banks and companies who financed numerous commodity-related businesses and provided millions of resource-backed loans to the county.

Traditional donors have been supporting African dictatorships and corrupt regimes for years but quite recently started to withhold the funds for countries with poor governance and dictatorial regimes as we learned above. Prerequisites were formulated focusing on the improvement of governance issues, but less on progress in democracy and human rights. But still not every questionable or poorly governed state is affected, as billions of fresh loans to Cameroon or Ethiopia in the last years demonstrate (Bräutigam 2009, 284-291).

The complete picture is more complex. Obviously, such facts have to be kept in mind and Chinese activity in Sudan or Zimbabwe stays questionable, but these two countries do not represent all of the characteristics of Chinese activity in Africa.

3. China in Angola

Angola is currently one of China's main trading partners and investment targets in Sub Saharan Africa. Similarly to my second focus Zambia, the country's economy is almost entirely dependent on the export of oil. In 2010, 99% of Angola's exports were oil-related with China having a 47% share of these exports. This intense partnership made Angola China's second largest oil supplier after Saudi Arabia (Trade Map).

Aside from the prosperous trade relations, Chinese companies agreed on projects and loans amounting to billions of dollars in recent years. Western countries and traditional donors have shown great concern for the *oil for infrastructure* approach followed by Chinese companies and banks in Angola, also driven by the fact that China became a serious foreign player in a very short period in the economy's various sectors and that, as a result, it displaced numerous existing Western stakeholders. In the following section I will analyze the Sino-Angolan relationship in the last years and highlight the impacts of China's recent investments on Angola's economy. Also, I will review the defensibility of the repeatedly voiced criticism about this new partnership.

3.1 Angola Country Snapshot

The former Portuguese colony gained independence in 1975 and has since suffered from a dramatic civil war which lasted 27 years until 2002 and caused the loss of nearly 1.5 million lives (CIA World Factbook). During this time, the country became a pawn in the East-West conflict as the Soviet Union supported the new socialist government while the USA and South Africa supported the rebel movement. The war, which had been mainly financed by oil revenues, left the country's economy highly indebted and its infrastructure largely destroyed. Shortly after the war ended in 2002, Angola became an important investment target and regional economic power dominated by a politically stagnating environment led by the longtime ruler Jose Eduardo Dos Santos, who has been in power since 1979 (Bräutigam 2009, 273-275). Angola has borders with the Democratic Republic Congo (DRC), Republic Congo (RC), Namibia and Zambia. With a population of about 18 million and a total land size of 1.246.700 km², Angola is more than three times the size of Germany. Even though the country's economy is nearly entirely based on oil, Angola is rich in many other raw materials such as diamonds, iron ore, phosphates, copper, gold, bauxite or uranium. As a consequence of Angola's dependence on oil, its economy has been hit very hard by the crash of the global oil prices leading to a significant drop of the country's GDP growth (3.4% in 2010 and 3.7% in 2011 compared to 13.4% in 2008, before the crisis). With regard to inflation, Angola is currently one of the world's tail lights with 14.3% in 2011 (CIA World Factbook; (AOE 2011b, 3).

Despite remarkable social and economic advancements – including an enormous credit financed construction program to rebuild the country's destroyed infrastructure – the

attributes of a developing country and the traces of war can still be clearly observed. About 68% of the population lives below the poverty line and the labor force is highly underqualified, which is a major obstacle for economic development and FDI attraction. The agricultural sector employs nearly 85% of the labor force (2003) and is largely unproductive due to its life-sustaining character. Angola is classified as a LDC country but is not quoted as a HIPC country contrary to our second focus Zambia (Kiala 2010, 32; US Aid Angola).

The country's external debt statistics show a constant development in the last years with an average around USD 10 billion of external debt in the first 6 years of the millennium. After an increase of debt in 2007 it fell significantly during the crisis, however subsequently exploded in the two following years amounting to USD 18 billion in 2011, nearly twice as much as before and during the crisis years (Indexmundi, 2012). In addition to the debt burden, Angola suffers from inequality in the regional wealth and GDP distribution as 75% of the total GDP is generated in the region around the capital Luanda (AOE 2011b, 13).

As stated above, Angola's exports were dominated by oil with a 98.7% share of the total export revenue in 2010. The remaining 1.3% is shared between diamonds and vehicles (cars in particular). The main export destinations are China (42%), USA (23%) and Taiwan (10%), followed by Canada, France and Italy (Trade Map). Angola is among the most powerful economies of SSA in terms of its total GDP (CIA World Factbook) and currently one of the region's main FDI targets (AOE 2012, 44). As shown in Table 3.1, the mining sector (mainly oil and quarrying in Angola's case) makes the largest contribution to the total GDP:

Table 3.1: Sectoral distribution of Angola's GDP in 2010 (AOE 2011b, 5-6)

Sector	Contribution to GDP
Mining (mainly oil and diamonds) and quarrying	44.2%
Wholesale and retail trade	22.1%
Agriculture	10.9%
Construction	8.0%
Manufacturing	6.5%
Other services	8.2%

Setting a clear sign for diversification efforts widely expected from the government, the finance minister forecasted the contribution of oil to the GDP to be only 13.4% in 2012 and prospected the diamond, electricity, construction and agriculture sectors to grow (Allafrica 2011a). Given the figures shown above, an effective achievement of such an ambitious target would mean that the economy would have to diversify significantly over a very short period. Chevron's president for Africa and Latin America, Ali Moshiri, representative of one of Angola's largest foreign oil producers, has made a similar prognosis concerning the oil sector. He stated that Angola and subsequently Chevron's

operations are diversifying from oil into natural gas; moreover, its further exploration could have even larger potential than crude oil (Reuters 2009).

As an LDC, Angola is clearly dependent on international donors: while donors have set the focus on peacekeeping, humanitarian and security aid during the civil war, today's international aid policy concentrates on the reconstruction of the destroyed infrastructure, the revitalization of the domestic industry and, therefore, on poverty reduction in the long-term. Another major objective of the loans is the promotion of the economy's diversification, for instance with the help of a World Bank loan of USD 1 billion granted mainly for this purpose (Kiala 2010, 3-13).

Similarly to other SSA countries, the Angolan government tries to support local businesses and the local workforce not to get lost among the large amount of new investments.

Therefore the so called *Angolanisation* campaign has been initiated. This is a regulation framework which includes among other measures guidelines to guarantee beneficial treatment for domestic businesses or to ensure commitment to the usage of Angolan goods and services and limit the number of foreign workers to a maximum of 30% employed by foreign investors. Especially the latter measure is often very challenging for foreign companies due to the lack of a proper qualified workforce in Angola (Kiala/Corkin 2009, 12).

3.1.1 Political Environment

Angola's political landscape and establishment is, roughly, limited to the party and person of President Jose Eduardo Dos Santos who has been in power since 1979, which makes him the second longest serving leader on the continent. Although there had been signs of democratic reforms in recent years, the changes had very little impact in effect. While a maximum of two five-year presidential terms has been announced, Dos Santos' previous 30 years in power were not taken into account. This allows him to stay president until 2022 although it is reported that he has chosen Manuel Vicente, former head of the state-owned oil monopolist Sonangol and current minister for economic development, to be his successor (AOE 2011b, 16; Reuters 2012b). Moreover, the new constitution established in 2010 involved significant reforms of the election process, especially by combining presidential and parliamentary elections, making the president's position even stronger (Vines/Weimer 2011, 7).

Despite justified concern about the underdeveloped democratic institutions and human rights violations, this stable political environment in particular has certainly contributed to the countries attractiveness as an investment destination for foreign investors.

Not everything suggests stability, however. Memories of the chaos associated with the civil war continue to trouble the minds of the Angolan population. Also, most Angolans still experience enormous poverty although the country's oil revenues are quite high.

This unequal distribution of wealth, as well as the concentration of power in the president's immediate environment, might be indicators of future instability. For example, the president's daughter Isabelle Dos Santos is one of Africa's richest women while his blood cousin was recently designated the country's vice president and is also seen as a potential successor to Dos Santos (Reuters 2010; Forbes 2011).

In addition, the dependency on oil could be a catalyst for instability in case of price shocks as a constantly low oil price may result in fast chain reactions both politically and economically. These potential risks may be the key factors for the Angolan government and the World Bank to support diversification, for instance by providing loans especially designed for that purpose (Vines/Weimer 2011, 2-3).

3.1.2 Business Environment

Despite numerous measures initiated by the Angolan government to attract new investments, the country is still seen as highly unattractive regarding its business environment, at least according to World Bank data. It was ranked 172th out of 183 countries worldwide and 37th out of 46 SSA countries in the recent 2012 *Doing business report* which mainly analyzes the challenges when starting a business, registering a property or enforcing contracts (WB Doing Business 2012).

As stated above, the government has created investment incentives like a tax exemption of max. 15 years for industrial or capital gains or exemptions from custom duties. Starting in 2009, investments in the construction sector were attracted by a permission of duty free and consumer tax free imports of construction materials. However, the authorities also put up obstacles to potential new investors: for example, parties looking to invest in petroleum mining or construction must first get their projects approved with respect to the environmental impact by providing an impact study to the authorities. While measures like these sound reasonable in theory, the outcome and effects of such constraints are foreseeable in a country that is regarded as one of the most corrupt countries in SSA and in the world. Angola ranks 168th among 182 countries, only outpacing Equatorial Guinea, Sudan and Somalia in Africa. Legal conflicts between companies are usually settled without the involvement of the judicial system which is seen as inefficient and expensive to deal with. Bribes are common in different spheres of the business life. Investments in the nationalized oil and diamond industry can only be made within partnerships with state-owned enterprises. Foreign companies describe the infrastructure as underdeveloped, criticizing the weak transportation system or the lacking capacity of ports, for example. The strong deficit of skilled local labor force makes investments in the country even more challenging. All the same, some progress has been made with respect to transparency: there is a commitment to publish regulations and financial information in journals and international consulting and accounting firms have gained permission to audit public enterprises (Kiala/Corkin 2009, 11-15; Transparency International 2011b).

One of the most important improvements made by the government has been the detailed publication of oil and diamond revenues on the website of the Ministry of Finance. According to the World Bank, the detail of the publication is one of a kind compared to other oil producing countries. The authorities also implemented a system for tracking the use of the country's funds (SIGFE), with a serious limitation, however: the information was not provided to the public and according to a recent IMF report, about 15% of Angola's total spending was performed outside SIGFE which means that it could not be tracked (HRW 2011a, 5-8; IMF 2011c, 6).

In a 2011 report, the IMF claimed that USD 32 billion, thus ¼ of Angola's GDP, were missing in Angola's accounts – however, on a later mission the IMF analysts could track the major part of the amount as “*quasi fiscal operations*” performed by the oil monopolist Sonangol on behalf of the government (Reuters 2012c). So far, no publication or detailed explanation of this cloudy number has been provided. Because of this, institutions like HRW suggested to freeze upcoming loan tranches from the international donor community (HRW 2012). This request, however, has not been followed by the IMF which approved a major loan tranche end of March 2012 (Reuters 2012d). Additionally, in 2006 the head of the Angolan internal intelligence service Fernando Miala claimed that billions of Chinese loans for infrastructure projects have disappeared from the Angolan accounts and accused senior officials of having it transferred to accounts in Hong Kong, an incrimination that led to his imprisonment (The Economist 2011b).

In general it can be concluded that although Angola has accomplished certain improvements, the country's complicated regulations still hinder the emerging of an open, transparent and competitive business environment (Kiala/Corkin 2009, 15-16).

3.2 Brief History of the Sino-Angolan cooperation

Sino-Angolan relations began in the early 1960s when Angola was on its way towards independence. At that time, China's aid was mainly military-oriented and aimed to support all three Angolan liberation movements. The focus on military aid persisted until the end of the civil war in 2002. The first bilateral trade agreement was signed in 1984, followed by the establishment of a joint economic and trade commission in 1988. Since then, bilateral trade increased continuously (Corkin 2011, 1; Zhao 2011) leading to Angola's current status as China's second largest import partner in Africa and making China Angola's main export partner in 2011 (Trade Map).

After the signing of the ceasefire agreement in 2002, the Sino-Angolan cooperation became more focused on economic issues. Short time after that, China's Exim Bank provided the first loan totaling USD 145 million dedicated to a partial reconstruction of Angola's railway and electrical system. In 2004, Exim Bank granted another credit line amounting to USD 2 billion backed by Angola's oil resources with a comparatively low

interest rate of 1,5% over LIBOR. The provision of this loan has been a remarkable move by China as non-conditional loans with low interest rates and with the absence of the usual prerequisites were clearly not compliant with the policy of traditional OECD donors. Moreover, the terms required 70% of the loan- financed projects to be contracted to Chinese companies. This approach has been kept for numerous the subsequent Chinese loans. China has become one of the main financiers of Angola's reconstruction program with a total volume of USD 10.5 billion oil-backed credit lines provided between 2004 and 2010 by Exim Bank. Angola and China have close diplomatic relations which includes regular visits from both sides, ranging from high state official level to business level (Kiala 2010, 20; Corkin 2011, 2).

In comparison with the traditional donors, China's loans have been a highly appreciated alternative due to the lacking preconditions. However, today Angola is widely regarded as a "construction site" for Chinese enterprises that dominate and control the rebuilding of the infrastructure, to a great extent dependent on China's supply of construction materials (Zhao 2011; Sandrey 2009, 30).

Below, we look more deeply into the principles of the model of oil-backed loans and analyze the benefits and drawbacks of this cooperation for the case of Angola.

3.3 Chinese Loans - the *Angola mode*

The concept of resource-backed loans is understood as initially having appeared in Angola in the early years of the millennium and therefore named after the country of its first emergence. However, this method is not entirely new as the Japanese used the very same model in China already more than 30 years ago (Bräutigam 2009, 46). Besides, oil companies and banks have provided oil-backed loans for years to oil producing countries, but these loans were not tied to development projects as they are Angola's case (Bräutigam 2009, 56).

The *Angola mode* is easily explained: China lends capital to African countries that has to be used for reconstruction projects, secured by the country's resources. The agreements usually include prerequisites that guarantee Chinese companies to be the main contracted firms, so that in the end a major part of the funds never leaves China (Kiala/Corkin 2009, 8).

The first major Chinese loan amounting to USD 2 billion was provided by Exim Bank in 2004. Here, the interest rate has been fixed at LIBOR + 1.5% and the repayment agreed on 10.000 barrels of crude oil per day. The loan would be repaid after 17 years including a five year grace period. These conditions differ significantly from the usual standard in Angola as money has been usually borrowed with an average premium of 2.5% over LIBOR with a repayment term of four to five years without any grace period (Bräutigam 2009, 275; Kiala 2010).

Between 2005 and 2007, two other credit lines were added totaling USD 2.5 billion with even better conditions: a payment term of 15 years, an interest rate of 1.25% over LIBOR and more involvement of local firms. In total, China provided around USD 10.5 billion oil-backed credit lines to Angola between 2004 and 2010, an impressive figure considering the fact that China – a country still receiving foreign aid – allocated these funds to an underdeveloped high risk country in course of only six years (Corkin 2011, 2; UNIDO).

There have been several major loans provided by Western banks in recent years: numerous international banks from Brazil, Portugal and other countries provided billions of loans to Angola (Kiala 2010, 21). Barkley's and the Royal Bank of Scotland gave loans totaling USD 2.35 billion. However, the media focus has been primarily on Chinese activities (Bräutigam 2009, 276).

Prior collaborations with the IMF were characterized by agreements requiring the implementation of economic reforms, and at the same time by their frequent failure. Most of these arrangements emerged at a time of low oil prices which clearly put an undiversified economy like that of Angola into a weak position on the bargaining table. After the oil price climbed between 2002 and 2009 and China appeared as a new potential provider of capital, Angola's preference could be clearly seen as there had been very little cooperation with the IMF during these years. In 2009 however, as a result of the crisis and the lower oil price, the IMF announced the provision of a USD 1.4 billion emergency loan with several prerequisites such as the requirement of concrete measures to enforce transparency and performing an audit of Sonangol and other state-owned companies. As one of Angola's biggest investors and oil consumers, the United States also tried to promote transparency measures, mainly through regularly indicating problematic issues. However, the recent criticism from the Obama administration, in particular from Hillary Clinton, was unexpectedly reserved: when confronted by the press with the fact that Angola has a very high level of corruption, she replied that corruption is a problem everywhere in the world, also underlining the recent efforts undertaken by Angola to increase transparency (HRW 2011a, 20-27). It's possible that the USA simply realized that by ongoing judgment and criticism of Angola's internal issues it might lose even more influence on the African continent to China, especially when the oil price is on a level which facilitates the acquisition of new loans and partnerships.

In general, Angolan authorities have a very low involvement into the distribution of the loans, instead most the capital is provided directly to Chinese contractors. As a result, major parts of the funds are bypassing the Angolan government and are used directly to finance infrastructure projects (Kiala 2010, 47-48). This can be seen as a clear benefit in Angola's case since its state apparatus is among the most corrupt in the world, as we learned above. In general, China also has to consider the risk that the loan receiving country may stop the delivery of the resource backing the loan due to a potential collapse of the price or industry (Christensen 2010, 21).

However, this concept is not necessarily set in stone for forthcoming Sino-Angolan cooperation: a cable recently published by Wikileaks reported of a conversation between the US ambassador to Angola Dan Mozena and the Chinese Ambassador to Angola Zhanh Bolun in which the diplomats discussed the recent negotiation of a new big loan package between China and Angola recently made by Exim Bank. But this time, the loan would be not backed by oil. The funds should be made available through private Chinese banks, and mainly used for the construction of the Luanda airport and infrastructure projects (Wikileaks 2009).

A significant part of Chinese loans to Angola is coming from Hong Kong, more precisely, from the China International Fund (CIF) (Kiala 2010, 20). This organization has been the topic of numerous controversial discussions and articles because of its non-transparent nature and unclear relation to the Chinese government.

Box 2: The China international Fund (CIF)

In a recent report in *The Economist* titled "*The Queensway syndicate and the Africa trade*" the authors made strong accusations directed at the operations of the CIF in Angola. According to the authors, the CIF was founded in 2004 by Cantonese business men around an acquaintance of the Angolan President from student times in Baku. It became one of China's main trade channels for oil, diamonds or other minerals in Africa, especially in Angola (The Economist 2011b). The company operates through a joint venture called China Sonangol between Sonangol (30% share) and Dayuan International Development, which itself owns the CIF, meaning that Sonangol indirectly owns the CIF with a 30% share (Bräutigam 2011e).

The company itself is highly controversial as it has been likened by some to an arm of the Chinese government. The Royal Institute for International Affairs for instance reported that the CIF serves a specific role both between the Chinese and Angolan governments and between Sonangol and Sinopec, namely controlling the access to the country's resources. (HRW 2011a, 17-18). At the same time the CIF was subject to criticism from Chinese officials who made several concrete statements denying these suspicions. Another hint for the independency from the Chinese state is the fact that Sonangol hindered Chinese state-owned oil companies to buy stakes in an oilfield in 2008 and made sure that the contract went to China Sonangol instead (The Economist 2011b ;The Economist 2011c).

Moreover, the Chinese ambassador to Angola, Zhang Bolun, clearly distanced the Chinese government from the CIF in a cable published by Wikileaks stating that the consortium promised much in Angola but suffers from a weak management and lack of leadership. He added that the embassy is not active in the monitoring of the company's relationship with Angola. However, the Chinese government did not officially ask the CIF to present a full accounting of Exim Bank loans to Angola (HRW 2011a, 24; Wikileaks 2009).

The main aspect of criticism is the low transparency of the company as the list of profiteers from the lucrative deals is relatively unknown, also handicapped by the company's complex corporate structure as subsidiary companies are not vertically integrated.

Furthermore, the terms under which the joint venture buys oil from Angola are not publicly accessible and some insiders insist that the price has been fixed and has not changed since the creation of the joint venture contracts. If true, this means that profit for the CIF is immense as the price for crude oil was far below today's level (The Economist 2011b).

In their recent report, Human Rights Watch encourage the Chinese government to make all business relationships with CIF public and to clearly disclose whether government officials function as CIF's executives or if there are known cases where CIF acted as a representative of the Chinese government. In addition, the authors request Beijing to pressure the CIF to fully reveal its business interests in Angola and its relations with Sonangol (HRW 2011a, 29-30).

3.3.1 The *Angola Mode* in practice

As mentioned above, Angola's infrastructure faced enormous damages as consequences of the long civil war: World Bank observers described the condition of the infrastructure as "*in a shocking state of disrepair*", with roads having been destroyed and fertile ground contaminated with landmines (Bräutigam 2009, 275). Financed by Chinese loans, the country made strong improvements in the rebuilding of their ruined infrastructure. Countless construction projects ranging from new housing to road rehabilitation have been undertaken, although the country still lacks traffic planning or mass transport systems. An estimate of 3.5 million people are living without adequate housing in Luanda alone, that is around 3/4 of the capital's population. As a consequence of this highly critical housing situation, in 2008 the government committed itself to build 1 million new homes by 2012 making it the largest social housing project in Africa (AOE 2011b, 7; CIA World Factbook).

To give an impression of the magnitude and importance of Chinese projects in Angola, most of them resulting from oil-backed loans, find below an overview of selected major construction projects contracted to Chinese companies in recent years:

- **Housing:** Angola has launched urbanization and housing programs in 2008/09 with major, often state-owned Chinese companies involved in the construction. The actual construction of the entirely new city *Dundo* is one example. It is planned to build about 200.000 new residences and to involve about 2400 Chinese and 1900 Angolan workers into the construction process. Another major housing project is the construction of a military compound in Funda with a total volume of USD 300 million, which makes it the largest

project initiated by the ministry of defense in Angola's history. Another Chinese company was recently awarded the construction of 10.000 houses in Benguela province

- **Electrification:** With its focus set on Luanda, the project has a volume of USD 298 million and includes the construction of transmission lines and power distribution facilities.
- **Infrastructure:** The largest infrastructure project ever awarded to a Chinese company in Angola amounting to billions was *Angol-Ferro 2000*. It included the construction of 3100 km of railway, 800 km of extensions and numerous bridges. Chinese companies were also involved in the building of sporting facilities for Angola. In the field of social infrastructure, Chinese companies funded the building of several schools and a USD 93 million project for building colleges and management institutes. From 2006 to 2008 numerous renovations of hospitals have been undertaken and some new have been built, such as the Central hospital of Luanda. Further cooperation in the medical sector like the transfer of Chinese doctors to Angola has been announced (Kiala 2010, 30-39; Angop 2012a; Angola Hub 2012a).

Given these examples, it seems to be a legitimate claim to call Angola a “construction site” for Chinese companies as China is currently mainly responsible for the rehabilitation of the country. However, apart from the easily measurable impact for Angola, these oil-backed projects involve several challenges.

The quality of Chinese-constructed buildings and roads, for example, is a highly debated topic, fueled by individual incidents like the closure of the Chinese-built Luanda Hospital a short time after it opened due to cracks in the building. An Angolan civil engineer stated: *“You have buildings built by the Portuguese fifty years ago still standing, while Chinese buildings just a year old are collapsing. Yes they build very fast and very cheap. But it also comes down fast”* (Horta 2011). However, common claims like these from the Angolan side are very subjective and often exaggerated as conclusions over countless projects are drawn referring to single incidents. In fact it is very challenging to measure the real quality of Chinese constructions in Angola because the time that passed after their completion is simply too short. An increased commissioning of foreign independent experts or engineers to oversee the construction sites could lead to a general increase in quality of the constructions and at once raise the confidence in the quality of Chinese construction works (Kiala 2010, 55).

A serious consequence for the population is the acceleration of traffic speed due to the ongoing road reconstruction which leads to people risking their lives when crossing roads as they are used to very slow traffic (Kiala 2010, 39).

The prerequisites of Chinese loans clearly facilitate the entry for the Chinese companies into the Angolan market which leads to a strong advantage compared to both foreign and local competitors (Kiala/Corkin 2009, 8). At the same time, these businesses can become investors in areas that local companies cannot invest in due to lack of capital. This would increase FDI inflows which are badly needed by the country.

Chinese companies in Angola and all over Africa have been regularly accused of disregarding labor laws and restrictions imposed by the local government. Emmanuel analyzed three different projects contracted to Chinese companies in Angola's construction industry focusing on the working conditions. His findings were distressing: the author finds that the first project analyzed, has been undertaken mainly by Chinese personnel without giving exact numbers, however. None of the local workers had signed contracts, even when employed for a longer period. Some of them were working up to 71 hours a week including weekends. The monthly salary was between USD 93 and USD 120 per month, hence slightly exceeding the minimum wage in Angola, but not including any overtime payments mandatory by law. Training and protective equipment was inexistent or limited in this sample. For the second project, Emmanuel interviewed about 140 workers from two companies and found that these employees also lacked signed contracts and in most cases were deployed as assistant workers. Their wages were between USD 120 and USD 150, again without any overtime payments included, and similar situations with regard to the provision of training. These workers, however, received sufficient working equipment, contrary to the first example. Although wages at this level meet the minimum requirements mandatory by law as mentioned above, they are absurdly low if considering that Luanda is currently seen as one of the world's most expensive cities, even outpacing New York or Moscow, Angola's price level is not a problem to be solved by Chinese investors but by the government by enforcing clear policies to counter this development. The author's last focus was one of the main infrastructure development projects contracted to Chinese companies, the Kilamba Kiaxi housing project. Again the mandatory 30/70 regulation has not been fulfilled as only 40% of the 10.000 workers were local, once again mainly responsible for back working and simple jobs. The project, however, also involved plans to establish a technology center and thereby attract and train more locals. Chinese companies seem to feel the consequences of Luanda's price level because understandably wages paid to Chinese specialists must be significantly higher to attract them for a temporary assignment in Africa. Another significant challenge observed on Chinese construction sites are the omnipresent language barriers as there are often no translators or locals in comparable positions to properly explain the coordinator's instructions to the workers (Kiala 2010, 40-44; Raupp 2008). This problem implies the potential lacking of proper transfer of know-how, one of the most relevant benefits of foreign investment, and potentially leads to dependence on Chinese competence in the long-term (Kiala/Corkin 2009, 16-17).

Corkin reports of problems reported by Chinese investors referring to the lacking capacity in administration and general problems in understanding the working

environment in Angola (Sandrey 2009, 57). As there is a continuously growing number of Angolan scholars trained in China, including learning Mandarin, the government should strive for a coordinated usage of the new skills by filling the gap described above (Kiala 2010, 55). In an article published by Loro Horta, whose controversial publications were outlined earlier, he states that the lack of a qualified workforce wasn't a problem for Portuguese, Brazilian or American companies. He provides only one concrete example as a base for his conclusion, however: the American company Chevron employing 3100 local workers ⁴ which makes it one of the largest foreign employers in the country (Horta 2011).

The huge volume of loans provided by China to Angola can have serious impacts on the country's ability to meet its financial obligations in the future. Reisen states that Chinese authorities are reported to consider 90% of its loans to African countries to be written off overtime. This might incite Angola to start borrowing even more. As, for example, China cancelled debt related to all interest free government loans maturing in 2005 for all HIPCS and LDCs with diplomatic ties with China, this is a very probable scenario (Kiala 2010, 45-46).

On the other hand Bräutigam argues that there is no evidence that China might cancel the debt resulting from Exim Bank or CDB loans which account for the lion's share. Moreover, an OECD study concluded that China's investments in Angola and its raw material demand significantly improved the debt distress indicators (Bräutigam 2009, 185-187).

Another main point of criticism of *Angola mode* loans is the nearly inexistent pressure on Angola to reduce corruption and increase transparency (Sandrey 2009, 23-24). These two targets are widely regarded to be a part of loans from traditional donors by default. Although this claim is certainly true and the consequences are harmful, especially for the Angolan population, it is essential to look at the complete picture: in the past, Western loans didn't require much transparency and paid "cash for oil" without tying it to infrastructure projects like done by China today (Bräutigam 2009, 276). Between 2000 and 2003, there were numerous large Western banks providing Angola with large sums of loans. In 2004, China joined the "club" by announcing a major loan from Exim Bank. During the same period however, other Western banks like Barclays or the Royal Bank of Scotland announced even larger oil-backed loans. Moreover, as Angola's Minister of Finance stated, the interest rates on Chinese loans were low enough for Angola to have a stronger position in the negotiations with Western banks, which is a clear advantage for Angola and a drawback for the traditional Western donors (Bräutigam 2010c).

⁴ He mentions the figure of 3500 workers, but the original source he refers to lists only 3100 workers.

As one of the main destinations of Chinese investments and loans, Angola has a unique opportunity to set an example among other African countries rich on resources how to distribute its riches among the population – given that China will stay a major actor in the country’s reconstruction as assumed by Alves, Senior Researcher at the South African Institute of International Affairs, (Willoughby 2012) and that the labour, quality and transparency related issues mentioned above will be challenged from both the Chinese and Angolan side.

3.4 Sino-Angolan trade relations

The trade balance between the two countries shows a clear misbalance: while oil accounts for 99% of all Chinese imports from Angola, Chinese exports are much more diversified and mainly dominated by electrical equipment and construction material as shown below in Table 3.2. Chinese imports from Angola are nine times higher than exports, but they started from a very low basis and they have increased sevenfold since 2005 while the exports “only” increased fourfold.

Looking the data below, a dramatic increase in both import and exports can be observed, making China Angola’s most important export partner and Angola China’s second largest trading partner in Africa (Trade Map).

Table 3.2: Composition of Chinese imports to Angola, calculated by author (Trade Map)

	Product category							
		2005	2006	2007	2008	2009	2010	2011
	All products	372.794	894.186	1.234.519	2.942.470	2.385.960	2.003.873	2.783.660
1	Electrical, electronic equipment	15,7%	19,8%	16,2%	14,1%	14,2%	16,7%	16,8%
2	Articles of iron or steel	4,9%	7,5%	8,5%	11,1%	12,5%	7,2%	10,7%
3	Machinery, nuclear reactors, boilers, etc	11,8%	15,7%	13,6%	16,5%	13,8%	11,1%	9,8%
4	Vehicles other than railway, tramway	18,7%	19,2%	19,5%	19,5%	13,5%	10,7%	8,7%
5	Iron and steel	3,2%	7,0%	3,8%	8,6%	6,4%	5,7%	6,5%
6	Salt, sulphur, earth, stone, plaster, lime and cement	3,6%	3,1%	3,5%	3,5%	5,4%	7,4%	5,8%
7	Furniture, lighting, signs, prefabricated buildings	2,1%	2,1%	2,6%	3,1%	3,2%	3,4%	3,6%
8	Plastics and articles thereof	2,4%	2,1%	2,7%	2,5%	2,5%	2,6%	3,4%
9	Footwear, gaiters and the like, parts thereof	4,9%	2,6%	2,7%	1,6%	2,6%	4,9%	3,3%
10	Ceramic products	0,9%	0,7%	0,9%	0,9%	1,5%	2,7%	2,8%

Angola is getting preferential treatment with regard to its exports to China as one of the least developed countries. These special regulations cover 466 products and guarantee Angola duty free access to China. Still the exports to China are consisting mostly of oil and diamonds, a clear failure with respect to taking advantage of these policies (Kiala/Corkin 2009, 40).

As stated above, the quality of Chinese constructions and imported materials used caused wide, often unjustified, concern. However, a report by the Centre for Chinese

Studies argues that this is more the result of poor quality work and supervision, rather than of the quality of the imported products. Sandrey examined these claims by analyzing the average prices of Chinese exports to Angola and comparing them to the average prices of these products exported by China to the rest of the world. He found that around 87% of these exports to Angola had their average price above the world price by around 6%. This leads to the assumptions that Angola either gets worse prices or better quality compared to the rest of the world, and certainly to the rejection of the hypothesis that Chinese goods imported to Angola are inferior in general. The rising number of imports made consumer products ranging from electronics to clothing significantly cheaper, leading to a beneficial effect for African consumers. Especially financially weak consumers can now participate in markets previously inaccessible to them (Sandrey 2009, 46-49).

3.5 Angola's Oil Sector and Chinese investments

As Africa's second largest oil-producing country after Nigeria in 2010 (AEO 2011b, 6), Angola became a member of OPEC in 2007 and subsequently began with the implementation of OPEC Production cuts. The implementation of this policy led to oil exports not being dependent on supply-demand rules, but rather on the oil market price and OPEC production quotas (Sandrey 2009, 45). As Figure 3.1 points out, the price for crude oil increased continuously during the last 10 years. While the peak in the oil price in 2008 has been highly beneficial to Angola, the crash in commodity prices including oil in 2009 has led to serious economic difficulties because of the country's undiversified economy. Aside from Angola's weaker position on the negotiation table for loans, the government announced to cut public spending due to the price situation (Sandrey 2009, 44).

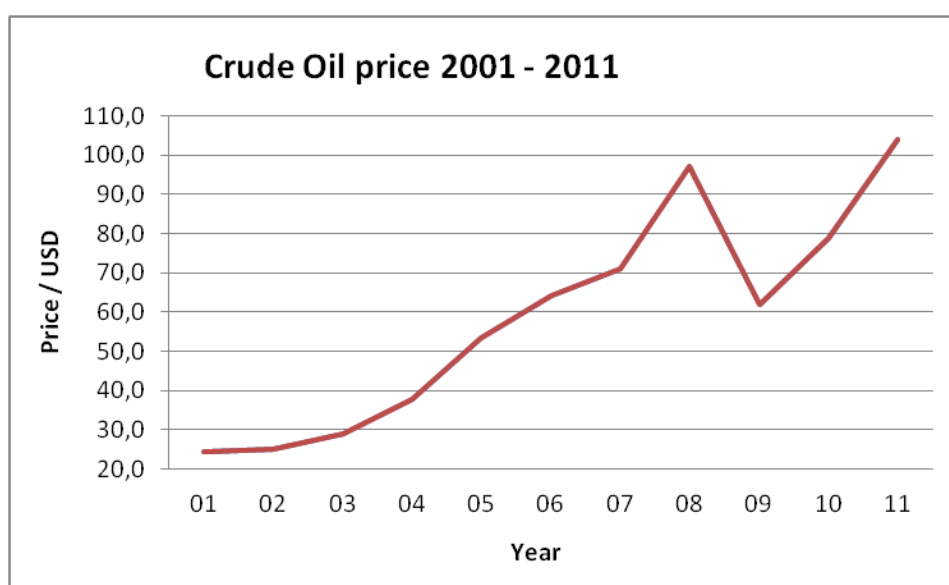


Figure 3.1: Development of the global oil price, created by author (Indexamundi)

Ironically, even though Angola's economy is nearly entirely based on the export of oil, it has to import the major part of oil for its own use as only 30% of the domestic demand is covered by the single refinery in the country. This situation, however, is expected to change by 2014 with the planned opening of a new refinery in Lobito. While the steps from refining to distribution of oil are controlled by the state-owned company Sonangol, there are several foreign companies participating and investing in oil extraction. Also Sonangol expands internationally, for example by creating joint ventures with Venezuelan and Cuban state-owned oil companies (AEO 2011b, 6-7).

As we learned above, Sonangol is frequently accused of weak transparency and irregularities including the disappearance of billions of dollars from the company's accounts. The company had never been audited until 2003 (HRW 2011a, 8), but starting in 2008, regular audits have been performed and published, (Freedomhouse 2011) which is an essential measure towards a transparent fund and revenue management. Still Sonangol is associated with practices unthinkable in Western business environments: *The Economist* reported that Manuel Vicente, former Chairman of Sonangol, current economic coordination minister and potential successor of president Dos Santos (Reuters 2012b), has been awarded a 1% ownership stake of Sonangol, a step which was taken back after protests from public (The Economist 2011b). This shows that although used to a strongly privileged elite in government related functions, the Angolan population does not put up with everything.

As the majority of Angolan oil fields are assigned to numerous Western oil companies, the country's main economic sector is very well diversified in terms of the investors' countries of origin. This strategy is underlined by a statement made by President Dos Santos: "*Globalization naturally makes us see the need to diversify international relations and to accept the principle of competition, which has in a dynamic manner replaced the petrified concept of zones of influence that used to characterize the world.*" (Zhao 2011).

China's presence in the oil sector is continuously growing, but Chinese companies play a comparatively minor role in the purchasing of oil fields. Still, it's China that has significantly influenced the course of the oil price and therefore is partly responsible for the strong Angolan growth rates in the past years, simply through their hunger for oil. An analysis by Hamilton showed that while price shocks in the past were caused by supply issues, the high 2008 prices originated in the strong demand in combination with static global oil production (Zhao 2011; Sandrey 2009, 42).

China's investments in Angola's oil sector are disproportioned to the significance of Angola as one of China's main energy suppliers: the Chinese oil company Sinopec entered the oil blocks one by one starting in 2004 by establishing a joint venture with Sonangol named Sinopec International (SSI) with its official launch in 2006. Sinopec's first acquisition of blocks in 2004, before the creation of the joint venture, was accompanied by inconsistencies as the same oil blocks were promised to an Indian

company by the former owner Shell but with the help of a veto from Sonangol were then awarded to Chinese companies due to reported irregularities in the buying process. After that, SSI secured stakes in Angola's blocks 15, 17, 18 and 32 together with the China National Offshore Oil Corporation (CNOOC) with shares ranging from 20% to ca. 50% (Kiala/Corkin 2009, 30; Zhao 2011). Attempts by Sinopec to acquire further oil fields outside the joint venture were successfully restrained by Sonangol (Willoughby 2012).

At this point it is important to note that even though China currently one of Angola's most important partners in several areas, Chinese companies do not automatically receive special treatment when it comes to project bidding: a Chinese joint venture proposal for the construction the new oil refinery in Lobito, for example, has been refused due to disagreements regarding the destination of the exported oil produced from the refinery (Sandrey 2009, 44). The government later awarded the project to a US based construction company although the production costs were significantly higher than the Chinese proposal, arguing that the prices for construction material have increased during the project awarding period (Kiala/Corkin 2009, 31). In 2011, Sinopec also lost the bidding for a block against an Indonesian company (Wang 2011). Several Chinese diplomats stated that there have been other deals promised to China and later called off after receiving the relevant concession from China (Horta 2011).

As there is comparatively little Chinese investment in oil field stakes yet, a conclusion or realistic prognosis of the oil related investments is difficult to make. Alves holds that future Chinese investments in the Angolan oil industry are unlikely to increase in the next years and that she expects Angola's oil fields to be dominated mostly by Western companies in the future. This forecasted reservation is mainly driven by the lack of technology and know-how on the part of China as Angola's oil reserves are located in deep water for the most part (Willoughby 2012).

3.6 Non-Oil related investments

Investments by Chinese state-owned and private enterprises aside from the oil sector and loans are rather difficult to identify and to quantize. On the one hand, this is due to the common inclusion of investments in oil-backed loan contracts and on the other hand due to obscure agreements and, for most sectors, incomplete data.

There has been a significant increase in Chinese FDI inflows in the last years, also outside the credit agreements especially in the non-oil sectors, according to the director of Angola's National investment agency (ANIP). However, although only limited data is available, it can be certainly stated that these inflows are much smaller than promoted by the media and perceived by the public. To a large extent, it is the reporting system that hinders a proper evaluation of investment figures since Chinese investors that are contractually bound to projects related to Exim Bank, for example, are not regarded as investors and consequently don't have to register themselves at ANIP. Consequently, due to one of Exim Bank's functions as an institution granting financial support for

Chinese companies doing business overseas, it's possible that a significant number of investments is not covered by official ANIP data. Moreover, this could mean that even if the companies' first project was aid related, businesses that resume investments never appear in official investment data (Kiala/Corkin 2009, 26-27).

As there is no recent data describing which describes the composition and origin of FDIs obtainable from ANIP, and in addition, not even the official website was working at the time writing, only the figures from 2005-2007 can be provided. It can be seen in Figure 3.2 that the major part of non-oil related investments is performed in the construction and industry sectors and a rather small part in the agriculture and service sectors.

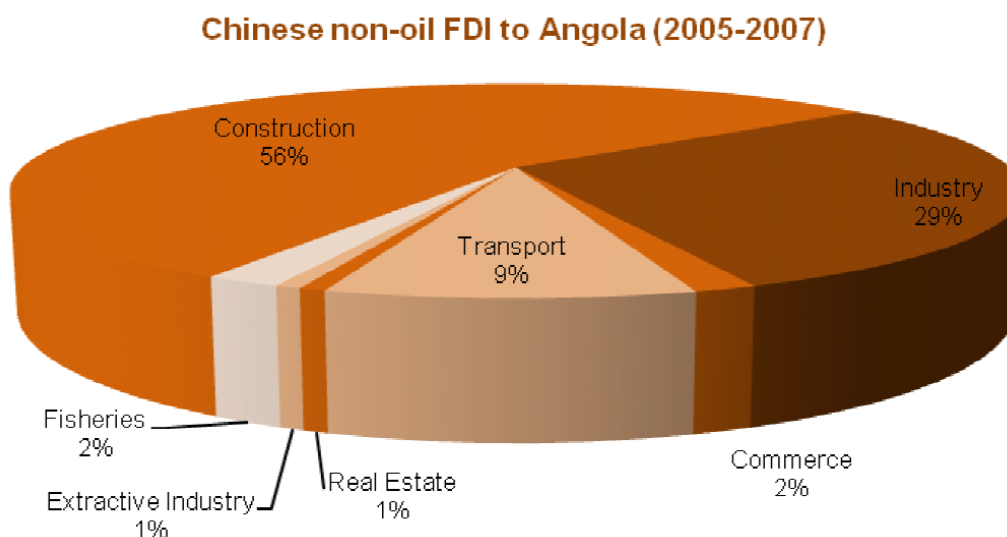


Figure 3.2: Chinese non-oil-related FDI to Angola (Kiala/Corkin 2009, 27)

Chinese companies are mainly linked to Angola through two organizations: the Chinese Business Association (CBA), established in 2002, consisting mostly of being small or medium sized entrepreneurs and the Chamber of Commerce of Chinese Companies in Angola (CCCCA), established in 2006, with Sinopec and other major Chinese companies among its members (Kiala/Corkin 2009, 26-27). The number of Chinese companies investing and operating in Angola is estimated around 450 by 2010 (AEO 2011b, 15).

The following section provides an overview of Chinese investments and their impacts on Angola's main non-oil related sectors as far as availability of accurate data allows.

3.6.1 Diamonds and mining

Angola has the world's 5th largest diamond production (Almeida 2012) which is controlled nearly entirely by the state-owned company Endiama (Walters 2011) which generated a revenue of USD 1.1 billion in 2011 (Ango 2012b). Similarly to Angola's

oil industry, the diamond production has been hit significantly by the 2009 crisis (AEO 2011b, 6).

However, the exact turnover of Angola's diamond sector is difficult to calculate as illegal mining activities are very common. It is estimated that only 40% of the potential is being exploited. Above all, this is because of lacking infrastructure between the capital city and the mines. The situation might improve in the next years as the Angolan government actively started to promote the access to the country's diamond reserves in 2011. All the same, it is reported that efforts are made to diversify Angola's mining industry by stimulating the exploration of previously unattended resources such as copper or iron ore (Walters 2011).

Chinese activities in Angola's mining, in particular in the diamond industry, started in 2005 with the creation of a joint venture between Endiama and the CIF. The function of the new company should have been the export of raw diamonds to Hong Kong where they would have been converted into a final product. However, this joint venture was cancelled by the Angolan Ministry in 2007 (Kiala/Corkin 2009, 32-35).

An investment that received huge media response was the acquisition of a 18% stake of Angola's Catoca Diamond Mine in 2011 by China-Sonangol International, which previously focused only on oil-related investments. The seller, Lev Leview, a Russian-Israeli diamond magnate with reportedly good relations to the president's surroundings sold the mine to the joint venture at a price twenty times higher than the amount he had originally invested in the 1990s. This purchase was the first case of a partial Chinese ownership in an Angolan mine. The deal came as a big surprise for experts and even officials in Beijing viewed the acquisition with skepticism, calling it a "*purely a commercial entity*" (Walters 2011; Melman/Carmel 2005).

Apart from the diamond industry, it was reported that USD 3 million were recently invested in the construction of a granite manufacturing factory by a Chinese company. In this case, about 73% of the workforce is reported to be local, which means that the legal prerequisite is clearly fulfilled (Allafrica 2011b). Further investments can be expected in the future as Angola's ambassador to China recently stated that Angola and China are together exploring possibilities to diversify Angola's mining exports with the aim to export iron ore and copper in exchange for machinery from China (Angola Hub 2012b).

As a representative of Endiama recently stated, Chinese investments in Angola's mining industry and the rising demand are highly beneficial for Angola as both prices and exports of diamonds are expected to rise 2012 (Almeida 2012). Endiama's chairman indicated that there are several collaborations with Chinese companies in the diamond sector and that there is still a desire for a stronger partnership in the exploration and production of diamonds.

However, Chinese experts and representatives are less enthusiastic about a fast extension of the investments, warning of the still existing broad risk associated with overseas

investments in the diamond industry. As the vice-chairman of the China Mining Association stated: “[...] it is not a simple decision to make to invest in African diamond projects because of both the political and financial risks”. However, it can be expected that the rising diamond consumption in China will sooner or later simply require additional investment moves overseas (Antwerp Facets 2011).

3.6.2 Agriculture

The agricultural sector is one of Angola’s fastest growing sectors and like most areas of the country’s economy, it is slowly recovering from the consequences of the civil war: it contributes 10.9% to the GDP (AOE 2011b, 5-6) but at the same time occupies 85% the country’s labor force with only 5% of the arable land being cultivated. These numbers imply that there is a huge potential for the sector’s development. On the one hand, this is because of the low level of cultivation and on the other hand due to the rather antiquated technology used by the farmers (Kiala 2010, 32). An article published in the *AngolaHub* refers to a study which concluded that only 1% of the 2000 Angolan farms analyzed were appropriately used (Angola Hub 2011).

However, it is still very difficult to make accurate and objective statements about the state of Angola’s agriculture sector due to weak data availability, Angolan Secretary of State for Agriculture, Rural Development and Fisheries even issued worries regarding the degradation of agricultural research institutes (AfricaSti 2012). The agriculture sector has been subject to numerous investments both from the Angolan government and from international donors like the CDB, driven by the ambitious target to achieve autarky in food supply by 2012. In 2010, the government announced a USD 350 million credit line for small and medium producers to support their activities and made plans to invest in the construction of small hydroelectric plants to support the autarky efforts (AEO 2011b, 6; Kiala 2010, 33). Angola also has ambitious plans regarding new investments as the country launched a plan to attract USD 6 billion of agriculture investments until 2013 (Burgis 2008).

Chinese activities in Angola’s agricultural sector are dominated by projects resulting from loan and development agreements rather than by “real” FDI. Between 2004 and 2005 the two countries agreed on the procurement of agricultural products and machinery with a total volume of USD 54 million. Shortly after that a Chinese company was contracted projects amounting to USD 59 million including the construction of irrigation systems and a hydroelectric dam among others. However, it has been reported that problems occurred during the distribution of the machinery and that no training for proper usage and maintenance was performed after the delivery, leading to a clearly shorter life time of the machinery.

In 2009, a USD 1 billion loan has been granted by the CDB to support the agricultural sector and in particular cereal production and processing. About 200 officials and professionals from the agriculture industry were trained in China between 2007 and 2008 (Kiala 2010, 34-44; Sandrey 2009, 55-58).

A potential market already being of high interest in other African countries is the buying of fertile land to cover the food demand in the investing country, however no evidence could be found during the research that China currently is focusing on the acquisition of fertile land in Angola.

For future development, Sandrey recommends for Angola to analyze China's historical agriculture development due to the very similar initial situation, as most of the workforce are peasants using simple technology to cultivate land (Sandrey 2009, 52-53). Kiala, for example, suggests to learn from the Chinese model of Town and Village Enterprises (TVEs) which are small government run units giving employment to local peasants (Kiala 2010, 36).

It is evident that Sino-Angolan agriculture collaboration is still in its early stages and thus an evaluation of the Chinese engagement would be simply too early, also given by the very limited data availability at present.

3.6.3 Manufacturing and other sectors

The output of Angola's manufacturing sector declined considerably after the country's independence due to the long lasting civil war. The government tried to counter this development by extending privatization with the expectation to attract new foreign investors (Britannica Online). However, today Angola's manufacturing industry shows a low level of development for several reasons. First, there is a very strong competition from Chinese imports which reduce the general price level on the one hand and at the same time challenge the local production. Second, the strength of the Angolan currency in comparison to other African states makes the manufacturing industry less competitive, a result of the advancement of *Dutch disease* in Angola. Sandrey, however, states that in Angola's case cheap imports can hardly lead to de-industrialization and unemployment as there is currently no existent industrialization. While this assumption may be true for the moment, one should keep in mind that successful long-term market entries of local companies into a highly competitive sector controlled by cheap imports from overseas may be very challenging if not impossible. Because of this difficult initiate situation and the low base, the Chinese manufacturing projects in Angola remain very few (Sandrey 2009, 52-60).

One major Chinese project was an investment realized by the car manufacturer Dongfeng, who recently established a car manufacturing plant together with the Japanese company Nissan with a total investment volume of USD 30 million. The target is to produce 30.000 vehicles per year and to create over 300 new local jobs. The investment has been made through a joint venture with Angola's state-owned CGS Automovel, itself a wholly owned subsidiary of CIF. If we keep the complicated ownership construction of this example in mind, it is evident that transparent accounting and fund

tracking might be rather problematic in such constructs. Another Chinese company that established a production facility in Angola was Haier, a company producing and selling air conditioners in Angola. Their investment provided around 700 new employment opportunities for Angolans. The company GDOCG is reported to have made investments of about USD 7.2 million in the manufacturing of motorcycles, however no recent evidence could be found by Kiala and Corkin during their research that the company is still operating in the local market. While these few examples illustrate the main Chinese investments in the manufacturing industry, Chinese vice president Wang Quishan announced stronger investments in this sector during his 2011 visit to Angola. According to Kiala and Corkin, more lobbying work should be done to promote investments in manufacturing, for instance by focusing on the China Africa development fund (CADF) mentioned earlier. The authors see ANIP's role as an essential one in the development of Angola's manufacturing sector, for instance through promoting proper steering of the FDI and actively involving local partners (Kiala/Corkin 2009, 28-40; Xinhuanet 2010).

Apart from the major sectors described above, Chinese companies also invested in several other areas of Angola's economy: ZTE, a major Chinese communication company, entered the Angolan market in 2004 by taking shelter of the management in Angola's second largest mobile operator Movitel subsequently leading to several cooperation's in this area. Huawei financed the optimization of Angola's wireless technology following massive investments in Angola's ICT sector. Moreover, the company initiated a telecom technical training center in order to train about 200 Angolans annually. This is another indicator for the ongoing shift in the strategy towards a stronger involvement of qualified local workforce, which is a lasting benefit for Angola. Chinese enterprises are also active on a relatively small business level, in most cases in the retail and gastronomy sectors, but also by establishing companies in logistics and cargo management. It has been observed that especially these enterprises employ a very low number of local workforce because of their size and often family owned nature. Apart from the commodity industry, the number of M&E involving local businesses is very low. Chinese companies which entered the market through aid projects financed by oil-backed loans have gained ground and a competitive advantage to perform further investments. Here, the Angolan government should set clear steps and implement regulations to enforce the involvement of local businesses as soon as possible (Kiala 2010, 28-46).

The potential of new local partnerships with major Chinese companies like ZZNissan, who are actively searching for new activity fields in Angola, or ZTE, who are now involved in the sales of cell phones after the acquisition of Movitel, should be used to boost local businesses. A USD 1 billion fund to develop China's relationships with Portuguese speaking countries was created in 2012, providing loans with beneficial interest rates and training opportunities, directed to the members of the Forum for Economic and Trade Cooperation between China and Portuguese-speaking countries, an

opportunity for Angolan companies to enforce collaborations with Chinese investors. Angola desperately needs investment and more local involvement in non-mineral sectors to make its economy less vulnerable to crises and price shocks (Kiala 2010, 28-46; Angola Hub 2012c) but also to develop its economy structure away from the current patterns of a developing country.

3.7 Chinese immigration to Angola

Very limited and conflicting data regarding Chinese immigration to Angola is available at present. China's ambassador to Angola claimed that in 2009, there were around 50.000 Chinese workers employed in Angola. This figure however is contradicted by the officially published figure of nearly 40.000 working visas granted in 2008 alone (Kiala/Corkin 2009, 33).

As we learned in section 2.11, Chinese workers, especially occupied in the construction sector of African countries, are mainly contractual employees living in rather isolated communities, however, no detailed information especially for Angola's case could be found during the research so that only assumptions based on other African countries can be made. What is clear is that a major challenge for the business and social interaction particular to Angola is the language barrier. This issue has been reportedly underestimated by China as it is common that Chinese overseers do not speak a word of Portuguese and therefore cannot communicate with the local workers (Corkin et. al 2008, 8). This factor clearly aggravates the low integration level of Chinese as observed in most African countries.

This condition also leads to rumours and accusations since very few people are in contact and interaction with Chinese immigrants, leading to numerous ridiculous stories: for instance there are gossips that Chinese workers are prisoners that have to work off their sentence, driven by the assumption that as the wage level and living conditions are much lower than those of Western counterparts, it is hardly credible that they work as hard as they do for comparatively little money (Park 2009, 10-11). There were also reports of attacks on Chinese citizens and highly negative reports in the local media even including racist reproaches of cannibalism on the website of a local political party (Horta 2011). In 2009, three Chinese workers have been doused with boiling water and as the Chinese Economic Council in Angola stated that there are two to three attacks on Chinese citizens every day, while most of them, however, are never registered (Weltonline 2010).

It is self-evident that the driving force of such aggression is in part the rather negative picture of Chinese investors and their activities in much of the Western media coverage and the exploitation of such accusations directed against Chinese individuals by local policymakers and competitors in Angola.

4. China in Zambia

In the last decade, Zambia has attracted China's investment interests in various areas, making it one of the top recipients of Chinese FDI in sub-Saharan Africa (Carmody/Taylor 2009, 10). Historically, the country's economy has been based on a single commodity, namely copper. Recent Chinese activities were mainly focused on mining related investments, but capital flows from China to other industries and sectors have been increasing continuously over the years. Also, trade between the two countries increased significantly within the last five years, with exports to China having grown nearly sixfold and imports from China having climbed nearly eightfold (Trade Map).

Contrary to our first focus Angola, resource-backed loans play a comparably minor role in the bilateral relationship. The Sino-Zambian collaboration dates back to the 1960s and 1970s, when the legendary TAZARA railway – the first major Sino-African construction project – was completed. In addition, Zambia has taken a pioneer role with respect to China by establishing Africa's first Special Economic Zone in the copperbelt region very recently.

4.1 Zambia Country Snapshot

The modern Republic of Zambia, formerly known as the colony Northern Rhodesia, gained independence from Great Britain in 1964. It has a land size of ca. 752.000 km², which is about two times the size of Germany. The total population of the predominantly Christian country is around 14 million (recorded in July 2011) and is growing steadily having the world's 11th highest population growth rate of 3.1% (CIA World Factbook).

After independence from colonial rule, Zambia experienced an economic boom due to the rising copper price. However, this prosperous period lasted a rather short time since the economy had been hit by a continuous decline of the copper price starting in the mid-1970s. This development led to a drop of the GDP per capita by almost 30% between 1975 and 1990. At the beginning of the 1990s, a liberalization program was initiated by the Zambian government in cooperation with the World Bank and the IMF, leading bottom line to an adverse performance in mining, manufacturing as well as agriculture, and subsequently to a very mixed result on the Zambian economy in general (Biz/ed Zambia).

In the past years, Zambia's economy has recorded substantial GDP growth with an average of 6% between the 2005 and 2010 and continued to grow at 6.7% in 2011. The origins of this impressive performance are in part due to several structural adjustments and reforms, but mainly due to the significantly risen copper price. Nevertheless, Zambia is one of the world's poorest countries with a GDP per capita of USD 1.5, it ranks 197th of 226 nations. The country suffers from one of the world's highest inflation

rates amounting to 8.4% in 2011 (CIA World Factbook), moreover, about 64% of Zambia's population is living below the poverty line (Unicef Statistics).

The sectorial distribution of the GDP in 2011 clearly shows the picture of a developing country, with a substantial contribution of the agricultural sector with 21.5%. The industry and service sectors contribute 35.2% and 44.1% to the GDP, respectively (CIA World Factbook). The following Table 4.1 shows a more detailed breakdown of the GDP.

Table 4.1: Sectoral distribution of Zambia's GDP (AOE 2011c, 5)

<i>GDP contribution/ sector</i>	2005	2010
Agriculture	21.4%	20.9%
Manufacturing	10.9%	9.3%
General government services	7.8%	9.9%
Finance, RE and business services	15.1%	14.4%
Construction	11.9%	19.4%
Wholesale and retail trade	21.5%	18.0%
Mining and quarrying	3.3%	1.3%
Others	8.1%	6.8%

It is obvious from above table that there has been a clear shift to the construction industry in the sectoral contribution to the GDP, while the impact from all other sectors except for governmental services declined in the period analyzed. This trend is expected to continue: the construction sector is supposed to grow by double digits in the next years, while the growth of agriculture and mining is projected to be around 4.6% and 13.4% in 2012, respectively. Besides, the secondary sector plays an essential role in the country's economy and is supposed to grow by 10.1% in 2012 (AOE 2011c, 6; IMF 2011b, 16).

The occupational distribution of Zambia's labor force indicates that the country is still an agriculturally dominated economy, as 85%⁵ are working in agriculture, while only 6% and 9% fall upon industry and services, respectively (CIA World Factbook). If we look at the distribution of the paid employment, the most recent figures available show a share of 36.7% in the public administration, 13.6% in wholesale and retail, followed by agriculture, manufacturing and finance with equal shares ranging from 11% to 12% in 2006. Compared to data from 2002, this means that there has been a reduction of the workforce in the manufacturing sector which was around 15.7% at that time, and an increase in the agricultural, public administration and wholesale sectors. There has also been a fivefold increase in the construction sector, starting from a low base, however. The mining sector only occupies 5% of the paid workforce, even though it is the backbone of the economy (Calculated from IMF 2008, 11).

⁵ Data established in 2004, most recent data available.

Zambia is very rich in resources, mainly copper, but also cobalt, zinc, lead, coal, gold, silver, uranium, or hydropower (CIA World Factbook). Still, the economy is nearly entirely dependent on the copper production which accounted for 75% of the total exports in 2011, followed by several minor product groups.

Similarly to Angola, imports to Zambia are much better diversified, with 18.1% falling upon machinery on the top, followed by ores (mainly copper imported from DRC) with a share around 13.5%, and vehicles, oils and electrical equipment with nearly equal shares between 7 and 9%. The three main export destinations are Switzerland (50.1%), China (17%) and South Africa (9.5%) and the major import partners are South Africa (35.5%), DRC (19%) and China (9.7%) (Trade Map).

As Africa's biggest copper producer (AOE 2011c, 3), Zambia's economy has been hit by very badly by the fluctuating copper prices between 1970s and 1990s, as briefly mentioned above. However, there has been a noticeable recovery in the recent years, especially due to the risen copper price as indicated below Figure in 4.1, which only slowed down because of the 2009 crisis. This development has led to the country's reclassification from low to low-middle income status, declared by the World Bank in 2011 (HRW 2011b, 2).

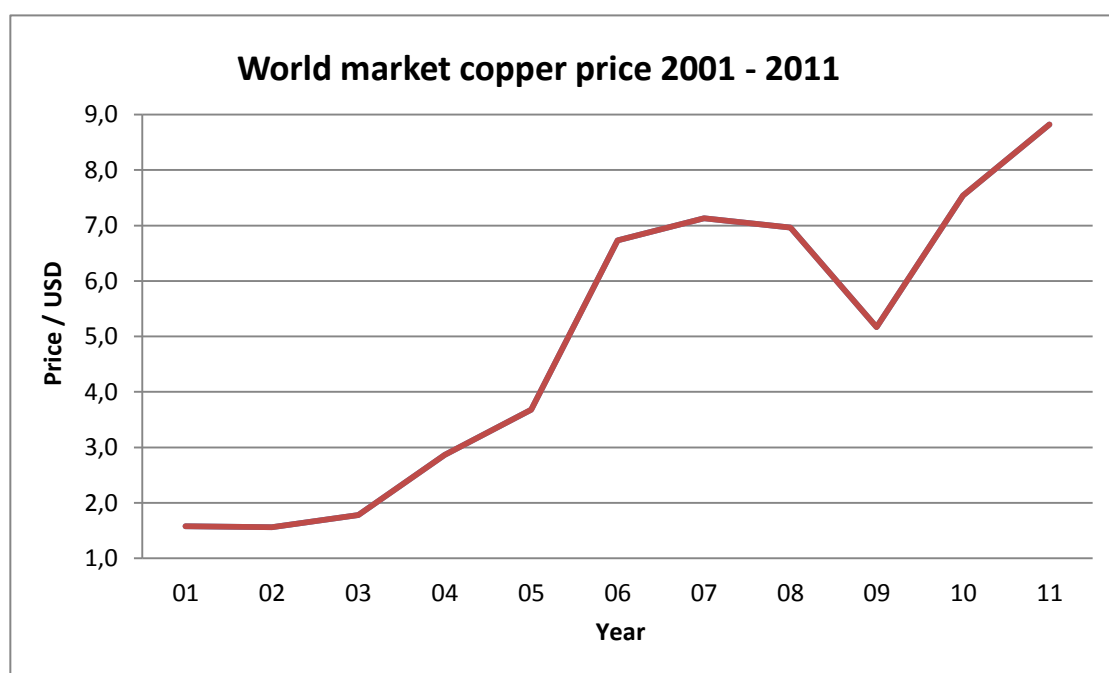


Figure 4.1: Development of the global copper price, created by author (Indexmundi)

Foreign direct investments to Zambia have also been increasing in the last years, again interrupted by the years of the economic crisis as shown in below Table 4.2.

Table 4.2: Global FDI inflows to Zambia (Allafrica 2011c)⁶

Global FDI inflows to Zambia	
2006	USD 0.47 Billion
2007	USD 1.32 Billion
2008	USD 0.94 Billion
2009	USD 0.70 Billion
2010	USD 1.73 Billion

According to Zambia's former Commerce, Trade and Industry Minister Felix Mutati, an increase of FDI inflows to USD 1.28 billion and USD 1.55 billion is expected for 2012 and 2013, respectively (Allafrica 2011c). In 2010, OECD countries accounted for around 58% of the total FDI inflows (ZDA 2011, 29-30). Only four countries, namely Canada, Australia, Virgin Islands and the UK are responsible for 78.4% of total FDI inflows. These figures underline China's minor role in FDI, at least in 2010. The mining sector is still the primary FDI destination with a share of nearly 70% of total FDI inflows in 2010 (ZDA 2011, 11).

Due to the enormous economic progress of the last years, Zambia recently moved away from the LDC category and is expected to become a middle income country in the next years (Lusakatimes 2011). The country's external debt has been constantly decreasing since 2000: while it amounted to USD 6.7 billion in 2000, the debt level reached the low mark of USD 2.6 billion in 2008, driven in part by its status as a HIPC which led to significant debt reliefs. However, during the recent economic crisis the debt burden constantly increased and reached USD 3.5 billion in 2011 – still only around half the value of the debt figures in 2000. Compared to Angola's debt burden of approximately USD 18 billion in 2011, Zambia seems to be much less indebted, but when put in relation to the GDP, the country has a very similar debt situation. In comparison to its neighboring countries, Zambia has a low level debt level relative to the GDP (Indexmundi – calculated by author; Ijdh 2008).

4.1.1 Political Environment

In terms of political stability, Zambia is one of the most exemplary countries in the region. It has a comparatively well-developed democratic system that was established in 1991, after more than 20 years of a single party regime (AOE 2011c, 3). Recently, presidential elections were held in September 2011 and resulted in the victory of the long time opposition candidate from the Patriotic Front (PF), Michael Sata. His last two election campaigns were highly critical of Chinese investments and focused on anti-Chinese rhetoric, for example accusing the Chinese of disregarding Zambian labor laws or enforcing excessive immigration of Chinese labor force.

⁶ All data, except for 2009 (ZDA 2011, 28), from (Allafrica 2011c)

After his anti-Chinese campaign during the elections in 2006, which included threats of Taiwan's recognition if elected, it was reported that Chinese officials announced to cut the diplomatic relations if Sata would win the elections (BBC News 2011; Leadership 2012; HRW 2011b, 26). This was the first time after the Mao's reign that China actively tried to influence an African election (Carmody/Taylor 2009, 12). Still, this interference is easily explained as it was reported that Sata, aside from the announcement of Taiwan's recognition, had signed a memorandum of understanding with Taiwanese officials to restore diplomatic relations – a clear offence against the *One China policy* (Bräutigam 2009, 151). Despite these conflicts, it has been reported after the 2011 polls that China “welcomed the outcome of the vote” (Reuters 2011b). Although violent behavior and riots were registered during these elections (Simwanza 2011), the outcome can be regarded as a huge progress for the young Zambian democracy. After 20 years of reign by the MMPD, the opposition took over the power in a more or less peaceful election process.

For China, the main question is whether Sata will redefine the FDI regulations and laws and force Chinese companies to follow these new guidelines promised during his election campaign, or whether he will drift back realizing the power of foreign investors and continue the easy access policy of his predecessors (Leadership 2012). In his inauguration speech, Sata stated that foreign companies must respect Zambian laws, but at the same time highlighted that their investment is very welcome. One of his first actions was to increase the monthly minimum wage and replace the heads of the anti-corruption commission, the police and Zambia's central bank. Other immediate actions were the announcement of new transparency regulations, followed by a ban on metal exports which was taken back two days later, however. In addition, a planned increase of the government shares in the copper mining industry has been announced (HRW 2011b, 27-28).

4.1.2 Business environment

The Zambian government had introduced numerous measures to improve the business environment and attract new investments in the last years. In 2006, the Zambia development agency (ZDA) was created as a result of the merger of five already existing development and regulatory institutions. In addition, the country is member of MIGA, an organization ensuring FDI protection in cases of war or disasters and Zambia's national bank follows a non-intervention policy with regard to foreign investments (Van der Lugt et al. 2011, 54-55). Additionally, initiatives like the *Private Sector Development Program* were undertaken to improve the investment environment and to set fiscal and non-fiscal incentives for new investors (Kamwang/Koyi 2009, 16).

The fact that Zambia currently experiences a rising confidence on the part of foreign investors is also reflected in the recently assigned B+ rating by Fitch (Fitchratings) and by S&P (Standardandpoors) which is the higher derivative for African countries.

Furthermore, Zambia is ranked 7th of 46 sub-Saharan African countries in the World Bank's *Doing Business* ranking and 84th out of 183 nations worldwide. Compared to Angola, which ranks at the low end in this report, it is a significantly better position (WB *Doing Business* 2012).

In a recent ZDA report, surveyed investors stated that political stability in Zambia had a significant impact on their investment decision, the most relevant factor being domestic economic growth. On the other hand, corruption and high cost of services, fuel prices in particular, were reported to have a strong negative impact (ZDA 2011, 11).

Still, there were reports of serious transparency violations: no structured external examination of the foreign companies' accounts and of the taxes they paid until 2011 has been performed until the publishing of the first *Extractive Industry Transparency Initiative* report for Zambia, analyzing 2008 figures in 2011 (Lusakatimes 2012). This report made public, for example, that mining companies paid USD 463 million in taxes to the government by mining companies in 2008, but there were claims about unexplainable discrepancies of USD 66 million. It was also reported that a large part of Zambia's exported copper to Switzerland never appeared in the Swiss data. Also, there has been a recently publicized made case of corruption involving Clencore, the Swiss company behind the Mopani copper mines, which cheated the Zambian tax authorities (Sharife 2011). The fact that this mining operation has been subsidized by European loans from the EIB makes the situation even more critical (Simpere 2010).

Hence, despite reports of an improved transparency situation in Zambia's copper mining sector (Lusakatimes 2012), this sector is still very vulnerable to corruption and tax fraud and therefore is in need of continuous observations and enforcement of regulations from the Zambian authorities.

4.2 Brief History of the Sino-Zambian cooperation

Bilateral relationships between China and Zambia have already been established during the colonial period in the first half of the 20th century. Similarly to Angola, a Zambian opposition party received financial and material assistance to support the country's independence. Starting in the late 1960s, major projects in the sphere of economic and technical cooperation, including the construction of roads and a radio station, were undertaken. The most impressive of these projects was the construction of the TAZARA Railway between Zambia and Tanzania which will be discussed separately. After China began to enforce its *going out policy* in the 1990s, the focus shifted from development-aid-related projects towards economic cooperation in Zambia, including direct investment and preferential loans. Another major step in the bilateral relationship was Zambia's pioneer role as a host of the first African SEZ in Chambishi, initiated in 2007. Today, activities of Chinese companies include projects in many other segments apart from mining like agriculture, manufacturing as well as telecommunications. But for

Zambia, as well as for Angola, it is difficult to provide the exact magnitude and impact of Chinese investments on the country's economy, especially subdivided in industrial sectors, due to limited data availability (Mwanawina 2008, 1-8).

In total, China's investment to Zambia amounted to USD 2 billion by 2010 according to the Chinese state-run agency, which makes China the third largest investor. In addition, the annual growth of bilateral trade is reported to be above 30% since 2000 (HRW 2011b, 20). However, the time range and exact definition of "investment" was not provided in this announcement. A recently published report of the ZDA shows a purely FDI related figure of only USD 32,4 million in 2010 which would rank China as the 9th largest investor, while Canada or Australia have invested 14 and 12 times as much, respectively. In total, the OECD countries accounted for around 58% of the FDI inflows, underlining China's rather minor role as an FDI provider in 2010 (ZDA 2011, 29-30).

China's engagement was also met with a mixed response. During one of his campaigns while being an opposition candidate, the current president Michael Sata said:

"We want the Chinese to leave and the old colonial rulers to return. They exploited our natural resources too, but at least they took care of us. They built schools, taught us their language and brought us the British civilization [...] at least Western capitalism has a human face; the Chinese are only out to exploit us." (Li 2010, 13).

While it should be considered that highly populist statements like these were made mostly during Sata's election campaign, they clearly draw a simplified picture of good and bad and they certainly ignore other positive impacts of Chinese activities on Zambia. As a consequence, such speeches contribute to the often wrong perception of Chinese investors in the country.

In the following part, I will analyze the current situation and the influence of Chinese investments on the individual sectors in more detail, focusing both on non-mining-related investments and on mining operations, since this still the main focus of Chinese investments in Zambia.

4.3 Zambia's mining sector and Chinese investments

The commercial use of copper in Zambia already started in the 1920s during the British colonial reign and it has since become the main contributor to Zambia's earnings. Shortly after independence in 1964, the mines were nationalized and consolidated under the long-term president Kaunda which led to great wealth, driven by the high copper price in this period. Zambia became one of the richest countries in the region, with an absolute GDP outpacing that of today's developed economies like Brazil, Turkey or South Korea at that time. However, the success story ended in the mid- to late 1970s,

after the copper price had fallen significantly and Zambia entered a critical debt crisis. The following collapse of the whole mining industry made Zambia dependent on capital inflows in the form of aid. The main provision imposed by donors like the World Bank and the IMF in the 1990s has been the privatization of the consolidated mining industry and as a result, the former national mines were sold to various foreign investors. The selling process occurred at a time when the prices for the mines were at a rather low level. Moreover, there was no public discussion about the details of these sales agreements (Li 2010, 5-6; Bräutigam 2009).

The privatization procedure also lacked incentives and regulations for the investors to perform long-term planning with their investments. The new shareholders were benefiting from various exceptions, such as lower corporate taxes than in other industries, leading to the result that the contribution of mining to total tax revenues became significantly smaller, while at the same time, revenues from mining were increasing. Another result of the privatization was the halving of the workforce employed in mining between 1995 and 2000 and, in addition, thousands of ex-miners were disposed of their pension payments (Fraser/ Lungu 2007, 20; 55-57; 3). The copper mines were formerly entirely state-owned and consolidated under the company ZCCM. Its successor, ZCCM IH, with the Zambian government holding 87.6% as its main shareholder, now owns shares of the copper mines and associated companies of between 10% and 20.6% (ZCCM-IH).

Not long after the first privatization wave, China entered the market by purchasing a copper mine in the Chambishi area in 1998 (Kamwang/Koyi 2009, 21). China's copper consumption made significant developments in the last years: after having a share of only 10% of the world's copper consumption in the 1980s, the copper import in 2010 climbed to approximately 30% of the world's production (Karithi 2010). That is why the motivations for this move are evident. In the following years, the purchasing and reopening of more mines and plants followed, providing about 6000 jobs for the region, some of them certainly rehiring the workforce that lost its jobs due to the crisis in the mining industry (HRW 2011b, 3).

As briefly mentioned above, the first Chinese-African SEZ, the Zambia China Economic and Trade Cooperation Zone (ZCCZ), was created in Chambishi mainly to boost the investments in copper related industries (HRW 2011b, 21). The successful establishment of the zone heralded a new era in the Sino-African relationships and its importance was underlined by the visit of the Chinese president Hu Jintao to the opening ceremony in Zambia (Bräutigam et al. 2010, 3). Since the general concepts of SEZs were discussed above, I will focus mainly on a further description of the Chambishi zone and its performance in particular. One of the key policies of the zone, 95% of which is currently in Chinese hands, is the attraction of new investors by providing various incentives like special tax concessions. However, a minimum investment of USD 500.000 is required to take advantage of these incentives (Mwanawina 2008, 8; Farole/ Akinci 2011, 85-89). Although the Zambian government wanted ZCCZ to be purely Chinese, there are no

restrictions that limit potential participants with regard to their country of origin. The zone opened up to other investors on Chinese initiative, with the target of attracting 20% of non-Chinese businesses. Still, at the moment, Chinese companies are dominating the operations in the zone. During the construction phase, about 45% of the workforce was Chinese. This figure declined to 17% -25% of Chinese workers in the everyday operation, depending on their activity area, after the completion (Farole/ Akinci 2011, 89-90). Eleven Chinese manufacturers began their activities in 2010 and more are expected to follow, leading to an expected output of USD 1.5 billion per year and the employment of nearly 6000 workers (Farole/ Akinci 2011, 73).

Although there is general consensus that SEZs or industrial parks are promising concepts to develop Zambia's economy, they bear the risk of overdevelopment in their respective areas. For example, it is planned to establish several zone extensions and industry parks (MCTI) in the already well-developed Lusaka region, but there is not a single clustering project planned in underdeveloped towns like Mansa or Mongu (AFRODAD 2009, 16).

Aside from the major investment in the Chambishi copper mine, China also acquired the Luanshya Copper mine, where more than USD 400 million were invested in recapitalization. After the mine was closed for the past 13 years, 1700 miners were reemployed (AOE 2011c, 14; Li 2010, 9).

To sum up China's investments in copper mining: there are currently two copper mines, one copper smelting plant and one copper processing plant in Chinese ownership, all controlled by the Chinese parastatal CNMC (HRW 2011b, 21) through its subsidiaries, for example the NFC mining cooperation with partial ownerships by the Zambian ZCCM IH (ZCCM-IH).

In addition to copper-investments, Chinese investors own the Collum coal mine which has caused much attention due to the killing of workers, an event which we will briefly highlight in the next section. Moreover, the Chinese have bought the majority of shares of Zambia's sole Nickel mine Munali, but in this case the success was far below the projected forecast, on the one hand due to the fallen nickel prices, but mostly because of the inefficient structures in the mine (Allafrica 2012d).

Following these investments, especially in the Chambishi mine as the largest of all Chinese-owned mines (Li 2010, 6), the volume of Zambian copper exports to China exploded from USD 8.7 million in 2005 to USD 1.3 billion in 2011 (Trade Map). Still, in Zambia's case, the Chinese copper-extracting companies are reported to have a strong freedom to operate, with no obligations to ship the resources extracted to China, but rather to sell them at the best price (Bräutigam 2009, 280-281).

Before going deeper into the structure of Chinese investments, I will analyze the effects of privatization on Zambia's mining industry. A special focus will be set on the impact of Chinese action, since the privatization procedure is also the origin of many

transparency-related issues which the Chinese in Zambia are frequently accused of.

4.3.1 Effects of privatization on Zambia's mining industry

As mentioned earlier, the IMF and the World Bank started to promote the privatization of state-owned companies in the 1990s in Zambia as restructuring measures and prerequisites for new loans. As a result, more than 260 former state-owned companies were sold to private investors (IPS 2010). Especially in the mining sector, the new investors, including Chinese, agreed on so called *development agreements* that were kept in secret, taking advantage of Zambia's weak position. These contracts guaranteed benefits like specific tax treatment or exceptions to environmental laws. In addition, some of these contracts cannot be changed for the next 15 to 20 years, a period after which some of the copper mines will be simply depleted. These factors are very negative for Zambia, especially in a long-term perspective since the new investors nearly entirely eliminated flexibility in the contract design.

Moreover, the low transparency level leads to the result that, although $\frac{3}{4}$ of Zambia's exports are copper, it contributes only 10% to Zambia's Tax revenues. This figure is also supported by the World Bank, which presented figures showing that tax revenues from mining are out of all proportion compared to its importance for the country's economy. Being aware of the problem, newly elected president Michael Sata recently announced that all exports will be routed through Zambia's Central Bank to counteract this issue (Fraser/ Lungu 2007, 55; Reuters 2011c). The special tax-treatments that were made public differed significantly among the new mine owners. While the Chinese owners were obliged to pay a 35% corporate tax rate and a 2% royalty tax rate for their revenues from Chambishi mines, corporate and royalty taxes were lower for the British-owned Concolla copper mines or the Swiss-owned Mopani copper mines at only 25% and 0.6%, respectively (Fraser/ Lungu 2007, 70).

By implementing these regulations for the new investors, Zambia followed the requirements of the World Bank and the IMF to create an investor-friendly atmosphere. Aside from the points mentioned above, these steps also resulted in the removal or freeze of many regulating procedures which were established over the last decades (Fraser/ Lungu 2007, 3). In effect, the Zambian population benefited very little from the risen copper prices in terms of tax revenue and social benefits as a result of the privatization and the development agreements (Lungu 2009, 17).

Still it seems that the Zambian government realized these problems and its impact on the attitude of the electorate, as numerous changes in the taxing regime have been made in 2008: for example, the corporate tax was increased to 30% and 35% if the mine is not listed on Lusaka stock exchange (Zambiamining). In addition, the mineral royalty tax was raised from 0.6% to 3% and other variable taxes were introduced. Incomes from hedging were separated from mining incomes regarding their taxation. The intensely

discussed reintroduction of a windfall tax, which was supposed to be triggered at variable prices for several metals in 2008, was cancelled in 2009 due to protests from mining companies. After long discussions about the reintroduction of the tax, the new finance minister announced in 2011 that it would not be reintroduced due to unstable metal prices and the possibility of harming the mining industry (Lungu 2009, 19; Reuters 2011g). However, changes in the tax regime performed 2012 are reported to have led to significantly higher revenues from mining, although the figures are too recent to make a serious judgment at the moment (Sinyangwe 2012).

Another consequence of the privatization was that many local companies went out of business because they could not compete with foreign suppliers that were contracted by the new owners. Although the government has announced to resolve this issue, there is still no concrete policy to support local businesses in the copper industry, in part because certain supplier agreements are part of such long-term contracts as described above. But as it is the case for many other developing countries, Zambia is dependent on foreign aid which prevents them of using certain radical quotas, since introducing such a quota would have to pass the “control” of the World Bank or the IMF who are still regulating many of the country’s internal policies (Fraser/ Lungu 2007, 4).

4.3.2 China-specific impacts in mining

The first Chinese investment in Zambia’s mining sector was the acquisition of the Chambishi mine in 1998, which led to a strong recovery for the region. The move was highly appreciated by local authorities, especially after Canadian investors had cancelled their ambitions for purchasing the mine due to the continuously low copper price. Also during the 2009 crisis, permanent Chinese investment were essential for keeping the industry alive, while many Western companies closed down production or reduced it to a minimum. Government data indicates that 85.000 Zambian mine workers lost their jobs as a result of the closings or production turndowns during the 2009 crisis. Trade unions are referring to an even greater number of 110.000 workers. The Chinese approach to investing differed from that of Western investment companies during the crisis as Chinese companies invested even more in the mining sector by acquiring the Luyashia copper mine and starting the Chambishi copper smelter during the crisis, as mentioned above (Li 2010, 7-8).

Still, Chinese mine acquisitions led to a radical change in the social infrastructure of the Copperbelt region. Prior to the privatization, the former owner ZCCM provided many services to the local communities, like the construction of hospitals, schools or prevention programs for common diseases like malaria or HIV. But Chinese investors, like most other new financiers, dropped these services and made clear that the main purpose of their activity was the mining business (Fraser/ Lungu 2007, 4).

On the one hand, it’s understandable that a foreign investor is mainly profit-oriented. But it should also be considered that, contrary to investment destinations in developed

countries, people in the copperbelt region are in need local support. If this responsibility is not taken over by the government, it might have a serious impact on the workforce in the region and therefore on the foreign companies' profits.

That is why Chinese and other foreign investors should keep in mind that the rising absenteeism, increases in nutritional defects and preventable infections as well as malaria rates as high as 30% among the local population in the Copperbelt region are clear signs. If this increase continues, foreign investors will also be affected by these problems in terms of lacking local workforce and therefore should reconsider their approach (Fraser/ Lungu 2007, 4).

One of the main points of criticism with regard to Chinese-owned mines are reports of bad working conditions and low wages. A recent report by Human Rights Watch on Zambian copper mines presented an alarming insight into the workers' current situation. The salary in Chinese-owned mines is usually higher than Zambia's monthly minimum wage, but HRW claims that it is often lower than the wage paid by other copper mining firms. And even though the wage level in the Chambishi mine has doubled since 2004, this measure led to little real increase due to the high inflation, moreover it is reported that some competitors raised their wages to the same extent or even greater (HRW 2011b, 25). From the Chinese perspective, the salaries demanded by Zambians are regarded as too high. Companies argue that Zambian workers often provide low quality work, lack experience and have an attitude towards work which doesn't fit Chinese expectations (Mwanawina 2008, 7).

Zambia's mining regulations and labor laws are, in theory, very strongly developed. Following a serious mining accident in the 1970s, laws and regulations were adjusted to Western standards, Canadian in particular. But investigations by HRW found that neither international nor domestic working standards were met in Chinese-owned copper mines (HRW 2011b, 19). The complaints were ranging from poor health and safety standards and excess working hours which are not covered by Zambian law to threats of being fired if refused to work in dangerous environments. Still, most mine workers sacrifice their health and safety fearing that they might lose their job. Given the difficult situation on the Zambian labor market, such sacrifice might become understandable. HRW also reported that workers were put under pressure to join trade unions that are advantageous to the Chinese investors. Zambia has a strong trade union tradition because of its long mining history and it is alarming that some Chinese managers hindered the workforce from joining the second main trade union, the Mineworkers Union of Zambia (MUZ). Various consequences were threatened to follow public union activities. However, problems with union activities also occurred at other, non-Chinese companies. The fact that the Mines Safety Department is reported to be understaffed and corrupted makes further investigations from the governmental side even more difficult.

Although miners interviewed in Chinese-owned companies expressed gratitude towards the Chinese investors for guaranteeing their jobs, nearly all Zambian workers and trade

union officials who spoke to HRW claimed that the working conditions with regard to health and safety in Chinese-owned copper firms are the country's worst. Workers in the Chambishi mines said that working hours are often by far exceeding the 48 hour per week legal limit imposed by Zambian law and that they are expected to work in 12 hour shifts. It is common that accidents and irregularities are not reported to the government. That is why interviewed trade union officials believe that hurt workers are being bribed by Chinese management. In addition, workers in the Chambishi mines do not receive any social protection apart from terminal benefits. A nurse interviewed by HRW mentioned that she experienced problems with Chinese management pressuring sick workers to return to work. Although physical abuse by Chinese overseers is reported to have decreased substantially in the last years (HRW 2011b, 32-95), several concrete incidents and violations have been reported:

According to a trade union official, about 1000 miners have been fired by NFCA in the Chambishi copper mines after participating in strikes over wages in 2011 (Foxbusiness 2011). During protests in 2010, thirteen protesting workers were shot and wounded by Chinese managers in the Collum Coal mine. The delinquents were not penalized, however: their case was dropped. A Zambian Journalist commented on this event: *"It just confirmed how powerful the Chinese are in Zambia [...]. The state dropped the charges; it just negotiated a compensation package. The message was, "Give them money, and any problems will be solved."* (HRW 2011b, 30; Sinkamba 2011).

Safety inspectors recently found that the Chinese-owned Collum coal mine is operating without basic medical equipment like ambulances or first aid kits (Lusakatimes 2008). Moreover, it has been reported that injured workers received no compensation and that there were demands to close down the mine until the safety standards would be improved. A local health director complained that steam from the mine was responsible for several Cholera outbreaks in the neighboring villages (Bosshard 2010).

To make a fair judgment of the working conditions and the consequences of Chinese investments on the local population, HRW also looked at several other non-Chinese copper corporations in Zambia. There was general consensus among the workers interviewed that the working environment is better in non-Chinese-owned mining companies. Examples like the option to refuse working in unsafe places without consequences, but also reports of better maintained working equipment in Canadian or Swiss mines, were named. However, workers are under higher pressure to meet production quotas. Western investors are also reported of having a more amicable management policy (HRW 2011b, 54-61), a judgment that may involve racist tendencies by the interviewed people due to the fact that negative comments about the habits of Chinese go hand in hand with the description of the working conditions.

A report on the Swiss-Canadian-owned Mopani Copper mine contradicts the view presented in the HWR report in many points. It is stated that the miners' wages in the

Mopani mine are also on a comparatively low level. In 2004 and 2005, they were even below the *basic needs basket* for workers operating on temporary or sub-contract agreements, a classification calculated by the Jesuit Centre for Theological Reflexion. In 2009 and 2010, these groups received half the payment of that of permanent employees for the same work. This subcontracting of local workers, who are subsequently often working under unacceptable conditions, is an approach frequently practiced by non-Chinese investors in the mining sector.

The researchers also stated that emission controls were insufficient and that miners were exposed to great risks of lung diseases like silicosis. Moreover, at least 71 miners were killed in 2005 alone in accidents associated with their occupation at the mine, which certainly underlines the low security standards (Simpere 2010, 17; Bräutigam 2009, 301).

At this point it is interesting to learn how the Chinese mining investors are approaching these accusations: Some Chinese investors complain that Zambia enforces a strong control over expatriate staff and that strikes occur very frequently (Bräutigam 2009, 5-6). The vice general manager of ZCCZ was quoted by a Chinese newspaper with the following words:

“[The laws are] really ‘too sound’ – the standard of the legal system is a little too ahead of its time [...] Almost 50 percent of the people are unemployed and yet they still want to have so many housing allowances, education allowances and transportation allowances. Also, employees can’t be dismissed without good reason. They can only be dismissed when their work record is poor [...] It is necessary to have some laws in the early stages of development; equality gets sacrificed. Inequalities are a reality at every stage of development. They should learn to accept this.” (HRW 2011b, 24).

This statement implies that Chinese managers and investors are very familiar with the concerns of the Zambian workforce, but simply deny that Zambians “deserve” better working conditions. It seems that China underestimates the importance of these factors and the potential side-effects they might have on the Chinese engagement in the future. Instead, China tries to gain popularity on their own way – for example, by recently proposing a soft loan of USD 800 million (Carmody/Taylor 2009, 12) or cancelling USD 75 million of debt in 2011 (Zambiaonline).

With regard to the consequences Chinese mining investors have to expect, HRW found that little pressure is put on Chinese companies by the government since there are agreements between Chinese companies and the Zambian government that are clearly beneficial for the government, a fact Zambian workers are certainly aware of (HRW 2011b, 5).

This brief analysis shows that serious violations of labor laws and local regulations are happening in Chinese-owned mines. Still other non-Chinese investors also tend to follow rather loose regulations and regularly break Zambian labor laws. This indicates that local authorities and the obviously understaffed safety department in particular should make more efforts to execute the international standards in the Zambian mining sector.

From an economic point of view, China has brought many benefits to the Zambian mining industry. As Chinese companies bought and reopened two mines after they have been closed down, they secured thousands of jobs and brought new tax revenues to the Zambian government, at a time, when copper prices were indeed on a very low level and therefore of little profit for Chinese investors.

The construction of the Chambishi Smelter represents a major opportunity for the development of the local businesses, also due to its location near the border of the DRC, potentially facilitating the processing of the neighboring country's copper.

Still, if looking at today's situation, Chinese investments are primarily focusing on commodities, supporting the resource-enclave status of the country. Most of the copper is exported in its raw form, which preserves Zambia's position as raw material exporter it has always been (Kamwang/Koyi 2009, 21). In a 2007 paper, Fraser and Lungu suggested to develop fabrication industries that would add value to the exported. But a World Bank report from 2011 finds that copper manufacturing is still on a very low level, with a few companies involved. However, the report also mentions that its promotion can be seen critical as the development of a copper-related manufacturing industry certainly doesn't contribute to the diversification badly needed by the country (Fraser/ Lungu 2007, 67-72; World Bank 2011, 2-6).

Apart from investments in copper, Chinese investors chose numerous other sectors to invest in or to support with aid. I will illustrate these in the following section.

4.4 Chinese investments apart from mining

4.4.1 Agriculture Sector

As in the majority of Zambia's neighboring countries, the agricultural sector is the livelihood for the largest part of the population in Zambia as well, occupying around 85% (CIA World Factbook) of Zambia's inhabitants. However, only 16% of the arable land is being used with the majority cultivated by small farmers with primitive equipment. The rather small part of Chinese capital that flows to Zambian agriculture is similar to the low percentage of agricultural investments with respect to the whole of Chinese investments in SSA. Bilateral cooperation in agriculture started in the mid-1970s and involved minor projects like the construction of technical cooperation centres as forms of aid or the construction of a maize mill. However, the approach shifted with the market liberalization in the 1990s and, as a result, numerous Chinese-owned farms

like the *China-Zambia Friendship Farm* or the *Johnken Farm* have been established. A number of 23 farms was counted in 2008, with investments adding up to USD 10 million. Chinese (co)owned farms vary significantly in their size, ranging from small, family-controlled farms, to larger commercial farms. All of them are producing for the local market. Only six of these farms are controlled by Chinese SOEs, while the majority is managed by Chinese individuals (Hairong/Sautmann 2010, 307-316).

One manager of the *China-Zambia Friendship Farm* describes the concept behind the establishment of large commercial farms overseas, taking his employer as an example: the farm was created and developed by the China State Farm Agribusiness Cooperation (CSFAC) with investments of USD 2.2 million, and it is now worth USD 6 million and employs around 200 workers. In this case, the initial investment is set up as a loan which has to be repaid annually to the CSFAC. This kind of approach, with a clear long-term perspective, is not shared by countries apart from China. Instead of simply demanding their money back, the CSFAC lets the management reinvest it, a clear indication of a long-term strategy underlying the project (Bräutigam 2009, 254-255). Given such information, headlines like “*Chinese farms control most of Zambia’s agriculture*” on an Israeli land issues website or the statement by an official of South Africa’s Standard Charter Bank claiming that “*In Zambia[...] there are a lot of Chinese farms and workers producing Food, which is being sent back to China*” appear like pure fiction (Hairong/Sautmann 2010, 322). In reality, Chinese agriculturalists represent only a small share of Zambia’s commercial farmers and there is no evidence that China is preparing for a coordinated construction of large farms with the purpose of exporting goods to China. Zambian agricultural exports to China were indeed not substantial in 2011, with the top products cotton and tobacco having a 1.3% and 0.5% share, respectively, of all exports to China (Trade map). These figures clearly contradict accusations of land grabbing in Zambia, but support the logical assumption that Chinese produced or funded agricultural products are in competition with the local market. However, the agriculture cooperation might still increase apart from commercial farming since an agreement has been signed in 2010 to perform investments that would amount to USD 3 billion and would provide thousands of jobs in the sphere of biomass fuel production and usage (Hairong/Sautmann 2010, 322-328).

Moreover, there have been investments in the cotton industry, where Chinese investors established the *Chipata Cotton Company* in Eastern Zambia. Regarding bilateral aid, Chinese provided schooling to Zambians in handling agricultural machinery, various fields of rice production and control of tropical diseases in recent years. Especially the latter is expected to bring clear and measurable progress (Mwanawina 2008, 8).

China’s investment focus is still set on their own farms, therefore more transfer of technology towards local small scale farms is needed, since such farms make up the majority in Zambia according to Lungu (Li 2010, 13). However, this target is difficult to accomplish since the technologies of commercial, SOE owned farms are not really useful for local farmers (Hairong/Sautmann 2010, 321).

4.4.2 Manufacturing Sector

The Zambian manufacturing sector is of high importance to the country. This is indicated by its contribution to the GDP of 9.3% in 2010 (AOE 2011c, 5) and the employment of about 11% of the paid workforce (IMF 2008).

One of the first Chinese investments in manufacturing was the establishment of a partnership in the *Mulungushi Textiles* factory constructed by China in the late 1970s/early 1980s. This company was of high importance for Zambia because it added value to its raw materials and allowed the sales of Zambian products to local and foreign markets (Daily Mail 2012) – a fundamental step towards escaping from the status of a resource enclave. But similarly to Zambian parastatals in the mining industry, the factory became unprofitable after a short successful period and has also been hit by the debt crisis. As a consequence, it was privatized in the 1990s, transformed into a Sino-Zambian joint venture and renamed to *Zambia-China Mulungushi Textiles Joint Venture Ltd.* Yet, paradoxically, not long after privatization, the company could not compete with the cheap Chinese imports and global standards and, as a result, closed down in 2007. This development is another indicator that Chinese companies are also competing among one another in Zambia rather than a central government backing and coordinating every Chinese initiative. The closing of the factory in 2007 resulted in serious consequences for the local industry: local farmers and suppliers were hit badly by the loss of orders. In addition, around 1000 jobs have been lost and Zambia went back to being a resource enclave exporting cotton in its raw form (Kamwang/Koyi 2009 22; Daily Mail 2012). Until the present day, negotiations are being held between the newly-elected Zambian government and Chinese investors about a possible reopening of the factory (Muganya 2012). High representatives of the Zambian government, like the former Defense Minister Kalombo Mwansa, already claimed in 2010 that negotiations on reopening of the factory are in an advanced state. Especially the new President Sata is reported of being aware of the factory's importance to Zambia. Now all hopes of laid off workers lie in the government's commitment to reopen the factory (Daily Mail 2012). The first steps have recently been made by announcing a new general manager at the beginning of May 2012 (Allafrica 2012e). Still it seems that the reopened factory will be run without Chinese participation since the Zambian government announced to take over the Chinese shares due to a lack of interest from the their side (Zambianwatchdog 2012).

Another Chinese manufacturing and trade related investment has been their assistance in upgrading the Kamwala Trading center by constructing new retail shops. However, this resulted in Chinese traders starting to operate in these new shops by selling imported basic goods from China that ranged from clothing to consumer products. This led to protests from the local population, claiming that the Chinese replaced their local businesses that way (Kamwang/Koyi 2009, 23-24). CNMC is also operating an explosives manufacturing plant which is a major supplier of explosives to the Chambishi mine (Gu/Humphrey 2007, 7). A tragic occurrence, which for many has become a

symbol of the careless approach to safety regulations by the Chinese managers, has been an explosion in this factory in 2005, killing 46 Zambian workers (HRW 2011b, 22).

Apart from these few examples, Chinese manufacturing activities in Zambia are on a relatively low level.

There is a general lack of transparency in FDI related data that affects all sectors. A representative from the Civil Society for Poverty Reduction in Zambia claimed that very little information was provided by the government with regard to the real benefits of the FDI on poverty reduction and the improvement of life conditions. Another interviewee from the Jesuit Center for Theological Reflection, a research center focusing on the research of social conditions, claims that the FDI impact is difficult to track, especially in the private sector. Information about rules and regulations should certainly be made transparent and better available to investors. Foreign investors interviewed also expect better support from the ZDA – including a translation of the rules and regulations into different languages and a regular update of the information (Van der Lugt et al. 2011, 60). Essential websites like that of the *Bank of Zambia* should also be kept up to date as many important financial data was simply not available, although highlighted, at the time of writing.

Aside from the investments in manufacturing, agriculture and mining described above, Zambia is also target of Chinese loans and aid, however on a much lower level than in Angola's case. These loans result in numerous projects in the communications, transport and manufacturing sector which will be highlighted in the following section.

4.5 Chinese development loans to Zambia and associated projects in the communications, transport and construction sectors

Aid cooperation with China dates back to the 1960s and has since been performed in various areas. In the medical and educational sectors, China has provided doctors and medical equipment to Zambia and is continuing its engagement until today, with projects like the construction of a National Malaria Centre or the provision of scholarships in China. The first Chinese loans to Zambia which were related construction and manufacturing projects, were granted in the 1970s. The loan-backed construction of the TAZARA railway project, road construction, new government buildings or the Mulungushi Textile factory are the main examples for that type of cooperation (Mwanawina 2008, 9-13; Kamwang/Koyi 2009, 27; Gov.cn 2007).

The construction of the TAZARA railway, which linked Zambia with the port of Dar es Salaam in Tanzania, was completed in 1975 and financed by a Chinese government loan that was divided between the two recipient countries. It is remarkable that before the approval by China, the gigantic project has been rejected by the World Bank as

infeasible. From that time until recent years, China has provided loans for different purposes related to this project, including technical assistance in 1995 or cash assistance in 2004. These loans are special in their definition since they are mainly interest free or soft loans, hence credits below the market interest rate. The fact that the TAZARA railway is valued as inefficient and unprofitable leads to dependence and rising debt to China. It seems that it can only be kept alive by continuous loan agreements.

Two other early construction projects financed by Chinese interest free loans were the *Lusaka Kaoma* road or the *Serenje Samfya Mansa* road. One of the first major infrastructure projects was the construction of the Zambian government complex in 1985. Other key projects were the Kamwala market or a newly constructed stadium in the copperbelt region (Mwanawina 2008, 10-12; Bräutigam 2009, 40).

However, as briefly mentioned above, Chinese loans to Zambia are much lower than to our first focus Angola and other SSA countries, with only around USD 410 million over the past 40 years (measured in 2006). The number of the loan destinations is relatively clear since more than 50% of the figure above are associated with the construction and maintenance of the TAZARA railway. I also didn't find any evidence that the loans are resource-backed which may be the result of the privatized commodity industry in Zambia. China's loans in the construction sector often require, similarly to loan-prerequisites in other countries, the company contracted for the project to be Chinese. In addition, the loan agreements are kept in secret and Chinese partners are reported to be directly involved in the implementation of the development programs, which might be a consequence of the lacking planning units in the local governments and ministries with a rather weak project analysis capacity (Mwanawina 2008, 18-21).

Representatives of various areas in the Zambian economy agreed during a workshop that a major characteristic of Chinese loan agreements in Zambia is their direct negotiation with the heads of state, which implies that there is often no involvement of an expert committee that can analyze the aid agreement. The development consultant Stephen Muyakwa stated that Western donors like the EU sent warnings to Zambia, and the World Bank and IMF also showed their concern about the Chinese aid policy. Chinese investors refused the critique by arguing that Western donors have had enough time to support Africa's development and now it's their turn, given that as a developing country, they claim to have a better understanding of Zambia's problems (AFRODAD 2009, 11-17).

Although comparatively small in both volume and quantity, China's aid related projects involve numerous challenges for Zambia. Local contractors can be definitely regarded as the losers of the preconditions that are imposed. Therefore, Mwanawina recommends that beneficial conditions for Chinese enterprises connected with loans should be removed and that the public benefit of incentives for Chinese enterprises should be reviewed (Mwanawina 2008, 18-25). All the same, China's price level, for example in the road construction, sometimes offers discounts between 25% and 50% compared to

the proposals of other foreign investors. This is mainly the result of their easy access to capital, cheap materials, low wages of the working force and subsidies provided by the Chinese government (Kamwang/Koyi 2009, 27). Foreign, but also local contractors often simply cannot compete with these benefits.

Chinese constructions are felt to meet Zambia's quality standards, at least for the cases observed, since the Zambian control authorities suffer from a serious lack of personnel and know-how. At the same time, it was claimed that the cityscape of the capital Lusaka is being affected negatively by the constructions of foreign investors including Chinese. The reason for this is the permission to perform projects that are below Zambian standards, while it is also reported that foreign investors are using their own designs illegally, not controlled by Zambian councils or ministries. Again, a major part of the problem lies in the lack of know-how and manpower of Zambian official institutions, since controls are often limited or not performed properly. (Mwanawina 2008, 10-11).

The experts participating in the workshop mentioned above also recommended that the Development Bank of Zambia must ensure coordination of these new initiatives. Also civil organizations must show a stronger engagement in the private sector and develop linkages with links to civil society organizations in China. The participants also underlined that Zambia should learn from China concerning the long-term planning of their investment policies, which can be achieved through strengthening the ZDA (AFRODAD 2009, 20-22).

4.6 Sino-Zambian trade relations

Chinese-Zambian bilateral trade has made a strong jump in the last years, with Zambian exports to China rising from USD 257 million in 2006 to USD 1.5 billion in 2011 and imports from China rising from USD 84 million in 2006 to USD 695 million in 2011. However, similarly to Angola, the trade balance between the two countries shows a clear misbalance in their composition and size. Zambia's exports to China are by nearly 88% copper-related, followed by oars and other base metals, aircraft parts and cotton with minimal shares ranging from 1 to 3%. At the same time, Zambian imports from China are more than two times lower than its exports, but they are increasing faster than the exports in the last years. Again, imports are much more diversified (as shown in below Table 4.3) and mainly composed of machinery, electrical equipment and vehicles. This impressive growth over the last years made China Zambia's second largest export partner and third largest import partner in 2011.

Table 4.3: Composition of Chinese imports to Zambia, calculated by author (Trade Map)

Product category		2005	2006	2007	2008	2009	2010	2011
	All products	85.458	83.792	233.976	227.230	178.029	289.699	695.265
1	Machinery, nuclear reactors, boilers, etc	19,8%	34,1%	51,5%	29,8%	29,2%	30,5%	28,9%
2	Electrical, electronic equipment	38,1%	9,4%	7,8%	17,9%	16,6%	11,5%	18,5%
3	Vehicles other than railway, tramway	7,8%	20,2%	2,8%	6,2%	8,1%	5,6%	13,5%
4	Articles of iron or steel	3,8%	1,9%	16,2%	14,8%	11,1%	8,7%	7,1%
5	Plastics and articles thereof	1,8%	1,0%	0,5%	1,1%	1,1%	1,2%	4,1%
6	Aircraft, spacecraft, and parts thereof	0,2%	0,4%	0,1%	0,1%	0,0%	0,1%	3,6%
7	Furniture, lighting, signs, prefabricated buildings	1,2%	2,8%	1,3%	2,9%	2,5%	2,3%	3,5%
8	Optical, photo, technical, medical, etc apparatus	0,7%	0,5%	1,5%	1,6%	3,2%	13,9%	3,4%
9	Iron and steel	0,3%	4,3%	3,7%	2,7%	2,8%	3,3%	2,8%
10	Rubber and articles thereof	2,7%	4,2%	2,8%	2,9%	2,3%	3,4%	2,4%

Similarly to Angola, Zambian exports to China also fall under the LDC preference scheme due to its status of a *Least Developed Country*. This means that China is providing duty or quota free access to at least 97% (UNIDO 2011, 17) of the products originating from Zambia.

Mwanawina presented an overview of the winners and losers of the increased trade relationship. Local producers appear in a mixed position. On the one hand, some can boost their businesses with cheap Chinese products available on the market, but at the same time, they are competing with cheaper Chinese imports. Since this situation is expected to intensify within the next years, the government can counteract the development by encouraging the establishment of further joint ventures. Consumers on the other side, benefit from the cheaper products and their access to new markets with the trade-off of sometimes lower product quality (Mwanawina 2008, 13-18). However, as mentioned in the sections above, the quality issue is not always valid since Zambian retail outlets are reported to offer at better quality than earlier at lower prices (Kamwang/Koyi 2009, 28).

Another consequence of the, not only China-driven, increase in exports, is the *dutch disease*. Its results could be observed in Zambia after cheap imports increased due to the strong Zambian currency Kwacha that was boosted by the high exports and subsequently lead to higher export prices for Zambian products (Bräutigam 2009, 218).

4.7 Chinese immigration to Zambia

There is general consensus that the number of Chinese immigrants to Zambia has significantly increased over the last years. But also in Zambia's case, the figures of Chinese migrants vary depending on the source. While around 3000 Chinese were estimated to live and work in Zambia in 1990, their number is reported to have increased

to 20.000 in 2010. Other sources name actual figures lying between 4.000 and 6.000 Chinese in Zambia. More than 50.000 Chinese workers were reported to have participated in the construction of the TAZARA line, a figure that underlines the gigantic dimension of the project. Yet, most of them returned to China after the completion of the railway line.

Most Chinese migrants are working as engineers and employees in mining, followed by construction and agricultural companies. Another major group are private Chinese business men, who see a positive investment outlook for Africa due to a comparatively limited presence of foreign businesses. With regard to the agriculture-related migration to Zambia, there have been reports of several thousand farmers who migrated to a few SSA countries including Zambia, but there is no detailed published empirical data on this topic available yet.

Similarly to other African countries, Chinese communities in Zambia are reported to have the tendency to isolate themselves from the local population. Chinese workers in the NFCA Chambishi headquarters, for example, tend to live separately from the local community. An interviewed Zambian worker expressed his opinion about the Chinese immigrants as follows:

“Western managers treat Zambian employees like their small brothers. For instance, the Western managers will use the same toilet as the Zambian workers, but in Chinese companies, the Chinese have their own toilet. It seems that the Chinese like to put up barriers. When guys from America and South Africa do business in Zambia, they will look for houses where we [Zambians] live, but the Chinese are not the same. [...] They even have their own bus service running from where they live directly to the mining sites [...] If you Chinese want to stay in Zambia and want to do good business here, you should open up and overcome these barriers.”(Li 2010, 12)

Some other workers stated that Chinese managers are not greeting Zambian employees and in general are not outgoing towards Zambians (Li 2010, 10-12; Park 2009, 3-8).

During protests resulting from the low wage level in a Chinese mine, a Chinese manager was attacked by Zambians. These protests then turned into a riot and a worker was wounded by a Chinese manager. As rumors about his death spread, a Chinese compound was stormed by Zambians, where another Chinese manager had wounded five other Zambian workers (Bräutigam 2009, 5-6).

Still it seems that incidents like these and the rather critical attitude towards Chinese is mainly resulting from their engagement in the copper mines: a recent study found that, with the exception of the Copperbelt region, a stable majority of the people interviewed had a positive opinion about the Chinese, mainly driven by the fact that low priced consumer goods are now affordable to them (Park 2009, 14).

Since these statements are all subjective views, it is difficult to draw a general conclusion on this matter. Moreover, policymakers like current President Michael Sata during his election campaign in 2006 spiced the already critical approach with aggressive anti-Chinese statements, as mentioned above. Therefore, it is essential to perform further research on this topic, especially with regard to various sectors of Chinese activities in Zambia.

5. Conclusion and analysis of research questions

In the following concluding part, I will provide answers to the research questions that guided the thesis, mostly based on the findings from Chapter 3 and 4.

The analyses in this thesis demonstrate that Chinese activities in Africa are numerous and very well diversified. Still, the first research question – *whether there are investments apart from commodity-related sectors that are relevant in size, despite the economies' commodity-oriented nature* – can only partly be affirmed. In Zambia's case, China is indeed making investments aside from mining, investing in commercial farming by constructing and operating farms or establishing the Zambia-China Mulungushi Textiles Joint Venture.

Today, Zambia offers a huge potential for further development and investment-diversification, for example in the agricultural cooperation, as only 16% of the arable land is being used and cultivated by farmers using rather primitive equipment (Hairong/Sautmann 2010, 307-316). Therefore, the extension of the promotion of Chinese agricultural technologies as observed in other African countries is only a question of time. Moreover, the Chinese-Zambian agreement to perform biomass fuel-related investments totaling USD 3 billion may change the current setting (Hairong/Sautmann 2010, 328). Momentarily however, relevant non commodity-related investments are very limited, as the primary focus is copper and coal mining, intensified by the establishment of the SEZ in Chambishi.

In Angola's case, the situation is slightly different: on the one hand, the Angolan market seems to be more attractive to Chinese investors as more investments in non-commodity industries can be observed in direct comparison with Zambia. On the other hand, due to numerous often nontransparent loan agreements, FDI often go hand in hand with loan-related projects. It is also common that Chinese companies that have entered the market through aid projects financed by oil-backed loans, gain ground and therefore have a competitive advantage compared to other investors. In the agricultural sector, Chinese activities are dominated by projects resulting from loan and development agreements. Chinese companies also established manufacturing industries like, inter alia, a car manufacturing plant, an air conditioning facility, a motorcycle fabric or a granite factory, with more investments to follow, as announced by the Chinese Vice President in 2011 (Xinhuanet 2010). In the communication sector, the Chinese company ZTE entered the

Angolan market in 2004 by taking partial control of the management in Angola's second largest mobile operator Movitel. In addition, the Chinese company Huawei has performed major investments in the optimization of Angola's wireless technology and the ICT sector (Kiala 2010, 28-46). Similarly to Zambia, Angola desperately needs further investment and local involvement in non-mineral sectors to make its economy less vulnerable to crises and fluctuations in commodity prices.

Are there any differences between the approaches of Angolan and Zambian authorities in the management of foreign investments, Chinese in particular?

First, the initial situation differs significantly among the two countries. Angola's commodity industry and major companies in other sectors are entirely or partly state-owned. This implies that the bulk of foreign investments have to be performed through joint ventures. Zambia, on the other hand, initiated a massive privatization programme in the 1990s, which resulted in the state being only a partial shareholder in the country's commodity-related companies. Therefore, Angola has much more control over its commodities than Zambia, a fact that is reflected by resource-backed loans worth billions of dollars in Angola. We have learned that, at the end of the day, liberalization had a rather adverse impact on Zambia although one cannot say where Zambia would be today without the reforms promoted by the World Bank and IMF. Especially in the country's main pillar, the mining industry, millions of taxes were withheld as a consequence of special development agreements with foreign investors, including China. Both Zambia and Angola have a very low transparency level and corruption is widespread in their main industries. Both countries started to improve the situation only very recently, so the current business environment aggravates a fair comparison of the different approaches. It is evident that both countries are lacking controlling bodies and official staff to enforce compliance with the laws and regulations imposed by the government. In numerous cases, this leads to construction projects of minor quality or violations of labour laws and quotas imposed by the government to involve local workforce, to name a few negative consequences. Especially in Angola's case, it is difficult to track if the local population gets value for their money as a result of loan-financed projects. The obligatory involvement of Angolan companies in major foreign investments seems to be a beneficial precondition for the country. However, the wide spread corruption and the difficult task of tracking funds transferred through obscure organizations like the CIF makes an objective evaluation of the impacts very problematic. Both governments do not seem to have any long-term oriented programs of how to deal with Chinese investments and, moreover, of how to involve more local businesses in the investments.

What is the concrete measurable impact of recent Chinese activities on the economic development and local labour force of Zambia and Angola?

This question also cannot be answered unambiguously for both countries. In Zambia, Chinese activities in the construction sector play a minor role compared to Angola. On

the one hand this is due to a long period of peace in the last decades and therefore less immediate need for a reconstruction of the infrastructure. On the other hand, China did not provide resource-backed loans to Zambia that are comparable in size to their engagement in Angola.

An early positive impact of Chinese investments in Zambia has been the construction and continuous support of the presently unprofitable TAZARA railway line in the 1970s, a project that had been rejected by the World Bank at that time, but that is of high importance for Zambia. China also invested in the acquisition of copper mines, while other investors had fled due to low copper prices. These investments secured thousands of jobs for Zambians and contributed to the country's tax revenues. In addition, China has cancelled parts of Zambia's debt and provided several soft loans to optimize the country's infrastructure. The low price level of Chinese goods made markets accessible to a large part of Zambians that simply could not afford these products before.

Still, the Chinese engagement has also had numerous negative effects on Zambia: the investments in copper mining and the establishment of the SEZ in Chambishi were accompanied by a decrease in labour standards, an aggravation of the social infrastructure and lower involvement of local businesses. Moreover, Chinese investments in Zambia are still focused on commodities and, as a result, contribute little to the county's diversification, perpetuating Zambia's status of a resource enclave. The competition from Chinese imports and agriculture activities has a rather negative impact on local businesses.

In Angola, Chinese imports have had a similar result: extended product availability for Angolans that could not participate in certain markets before, with the trade-off of strong competition for local businesses. The impact of China's acquisition of stakes in Angolan oil blocks is rather difficult to assess. Moreover, they play a rather minor role in the acquisition of oil stakes compared to Western companies. Similarly, China's activities in diamond mining are difficult to evaluate as the acquisition happened very recently. China's establishment of various manufacturing companies in Angola certainly is a positive development, as these factories provide employment for the local workforce and produce goods ranked high on the value chain. Still, plans announced by the Angolan government to extend foreign investments in diamond mining, the recent construction of Chinese granite manufacturing company, or statements by Chevron to invest in new resource sectors such as natural gas are examples showing that Angola is still putting a strong focus on exploiting their natural resources rather than diversifying the economy.

The most significant impacts of Chinese activities in Angola result from oil-backed loans. These loans have led to numerous enormous construction projects and the reconstruction of large parts of the destroyed infrastructure. These are measurable positive impacts for the Angolan population.

Is China a better alternative to traditional actors with regard to aid and loans, or does their engagement lead to further unmanageable indebtedness of African economies?

In Angola's case, the cooperation with traditional donors like the IMF or the World Bank has been on a comparably low level as, for instance, the total principal of loans received from the World Bank amounted to USD 949 million by May 2012 (World Bank reports, 2012), while Chinese loans from Exim Bank were totalling 10.5 billion just between 2004 and 2010 (Corkin 2011, 2). Angola rather tends to intensify the cooperation with traditional donors, when the commodity prices are at a low level, as recently with the IMF after the 2008/09 economic crises (HRW 2011a, 20-27). Chinese *Angola mode* loans brought major changes to the country. They offered the unique opportunity of receiving billions of loans, without being obliged to restructure the economy as it was the case for Zambia with IMF and World Bank loans. This makes the Angolan government more flexible in deciding how the money will be used and which projects will be performed, rather than being overruled by the donors. The loans are generally not granted in cash, but rather transferred directly to the contracted company for the performance of specific projects, which means that very often the money stays in China. This approach leads to a visible distribution of the oil revenues among the Angolan population by rebuilding the country's destroyed infrastructure and avoiding the cash of passing the hands of local policymakers. However, one has to keep in mind that this is the optimal scenario which may not always work in practice, as shown by the involvement of dubious constructs like the CIF in the loan distribution or by funds that disappeared from Angolan accounts imply. Moreover, the fact that many details of the loan agreements have not been made public and the allegedly very low level of the pricing backing certain loans have certain clear disadvantages for the local population. Therefore, it is not objectively measurable, at least not at the moment, if Angolans indeed get value for their money. Moreover, common prerequisites of using Chinese materials, contracting Chinese companies and employing Chinese workforce are withholding labour and business opportunities for the locals. Still, despite all these negative aspects, Angola seems to prefer the Chinese as a partner as the loan-figures shown above indicate.

On the contrary, in Zambia's case, Chinese loans play a comparably minor role. While Chinese loans totalled only USD 410 million in the past 40 years measured in 2006 (Mwanawina 2008, 19), World Bank loans amounted to more than USD 3.6 billion by 2006 and USD 4 billion by May 2012 (World Bank reports, 2012). As a result, the handwriting of the Bretton-Woods donors can be clearly seen in the structure of Zambia's economy.

Apart from the positive impacts, ranging from the TAZARA railway that possibly would not exist without Chinese funding, soft loans and debt cancellations, Chinese-financed construction projects have a clear drawback for the local population as the common prerequisites of contracting Chinese companies with the construction are certainly not contributing to a strengthening of local businesses.

With regard to the concern of rising indebtedness through Chinese loans, the danger is evident – especially in Angola's case. Only by assuming that the oil price remains stable

may the repayment of the loans be guaranteed. Moreover, China's hunger for Angola's oil contributed significantly to the reduction of the country's debt burden.

Are there any lessons that traditional donors and investors can learn from Chinese investors and vice-versa?

Western investors can learn numerous lessons from Chinese investment behaviour, and they probably should do so very soon in order not to lose further ground to emerging investors. First, Chinese investors, more than traditional investors, tend to have a more long-term oriented approach as is evident in their frequent investments under difficult circumstances, like the acquisitions of mines in Zambia during the financial crisis, or investments in Sierra Leone during the civil war. Chinese companies also often operate on low margins which may lead to little short-term profits, but to a crowding out of existing competitors, and therefore higher market shares in the long run. This long-term oriented approach can be accomplished largely only with the backing of Chinese (state) banks who support major overseas operations with export credits or loans, implementing the *going global* strategy. Although there is no evidence that the Chinese governmental institutions are involved in the coordination and planning of all overseas activities, institutions like Exim Bank or CDB are unique instruments in the support of Chinese overseas operations. Also, the concept of Special Economic Zones that is still in its initial stage in Africa, could serve as an example for well-coordinated overseas operations. Generally spoken, the Chinese approach of intercontinental business partnership, rather than a donor-beggar relationship that Western institutions and companies are often associated with, has been met with positive feedback in Africa.

Chinese investors and officials, for their part, should keep in mind that providing infrastructure or jobs through investments is only half the battle, since the regularly observed disregard of labour laws and local regulations, lacking integration in the society and low involvement of locals in higher positions in Chinese projects could create serious obstacles on the road to their long-term goals. China's labour and environmental regulations are still far from meeting international standards and it would be a negative development if these regulations were imported to Africa via China's economic engagement. Despite the liberal environment for Chinese investors, they should keep in mind that by taking advantage of this situation they might undermine their basis for future investments.

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7. Appendix

Abstract German

Die chinesisch-afrikanischen Beziehungen erlebten in dem vergangenen Jahrzehnt eine enorme Entwicklung auf unterschiedlichsten Ebenen. Aufgrund der deutlich intensivierten Handelsbeziehungen, einer rasanten Erhöhung der Direktinvestitionen und durch afrikanische Rohstoffe gesicherte Milliardenkredite, wurden die Karten auf der Investorenlandschaft in vielen Volkswirtschaften Afrikas neu gemischt. Zwei dieser Länder, die eine starke Entwicklung der bilateralen Beziehungen aufweisen, sind Angola und Sambia.

In Angola riefen Chinas Aktivitäten besonders im Zusammenhang mit durch Öl gesicherten Milliardenkrediten die Aufmerksamkeit der traditionellen Geberländer und der Medien hervor. Chinas Kredite standen im Kreuzfeuer der Kritik, da China keinerlei strukturelle Änderungen in Angola als Bedingungen an die Löhne geknüpft hatte und somit in den Augen der traditionellen Geber, wie der Weltbank oder des IWF, deren bisherige Bemühungen untergraben hatte. Desweiteren verlaufen diese bilateralen Vereinbarungen und die anschließende Projektvergabe im Regelfall wenig transparent und machen somit eine Auswertung der tatsächlichen Vorteile und Konsequenzen für Angola sehr schwierig. Gleichzeitig setzten die meisten chinesischen Kredite an Angola voraus, dass die anschließenden Projekte zu einem großen Teil durch chinesische Unternehmen und von chinesischen Arbeitern durchgeführt werden, was in einer Benachteiligung der lokalen Bevölkerung resultiert. Andererseits konnte Angola mit Hilfe chinesischer Kredite in sehr kurzer Zeit ihre – zu einem wesentlichen Teil durch den Bürgerkrieg zerstörte Infrastruktur – aufbauen und gleichzeitig erstmals den Rohstoffreichtum durch die große Anzahl an Bauprojekten auf sichtbarem Wege mit der Bevölkerung teilen. Auch trugen chinesische Investitionen und Kredite maßgeblich zu Angolas Unabhängigkeit von traditionellen Gebern bei und ermöglichen dem Land dadurch eine bessere Position am Verhandlungstisch. Speziell in Angola bestehen Zweifel, ob die große Anzahl chinesischer Bauten auch tatsächlich den gängigen Qualitätsstandards entspricht und ob die Mittel die Angola in diesem Zusammenhang aufbringt, auch gerechtfertigt sind.

Zum heutigen Zeitpunkt ist es jedoch zu früh, um diesbezügliche Rückschlüsse zu ziehen da, außer einigen wenigen negativen Beispielen für die schlechte Qualität chinesische Bauten, keine empirischen Daten vorliegen.

Im Fall von Zambias spielen vor allem chinesische Investitionen im Kupfer-Sektor eine bedeutende Rolle. Nach der Privatisierung der vormals staatlichen Kupferindustrie Sambias akquirierten chinesische Staatsunternehmen nach und nach – gemeinsam mit anderen ausländischen Investoren – Kupfer-, Kohle- und Nickel-Minen in Sambia. Diese Investitionen waren in Sambia sehr willkommen, da viele Minen aufgrund der niedrigen

Rohstoffpreise zum Zeitpunkt der Akquisition aufgegeben wurden oder bereits seit längerer Zeit still standen. Jedoch folgen diesen Investitionen im Laufe der Jahre schwere Vorwürfe in Richtung der chinesischen Investoren betreffend der in den Minen vorherrschenden Arbeitsbedingungen, der niedrigen Löhne und der Ausgrenzung lokaler Arbeitskräfte durch den Import chinesischer Arbeitskraft. Die erhobenen Vorwürfe an der Vorgehensweise Chinas haben sich in weiterer Folge zwar in vielen Aspekten bewahrheitet, wurden gleichzeitig aber auch durch die Feststellung relativiert, dass auch andere ausländische Investoren geltende Gesetze missachten und es nun vor allem Aufgabe der sambischen Regulierungsbehörden ist, durch schärfere Kontrollen die Situationen in den Minen zu verbessern.

Chinas Engagement in Afrika wird vorwiegend mit Rohstoffen in Verbindung gebracht wird, tatsächlich werden sowohl in Angola als auch in Sambia signifikante Investitionen in anderen Bereichen wie dem medizinischen Sektor, der Fertigungswirtschaft oder dem Landwirtschaftssektor getätigt.

Im Allgemeinen sind die Resultate der chinesischen Aktivitäten zum derzeitigen Zeitpunkt sehr schwer messbar, da einerseits oft nur sehr wenig Zeit seit den Investitionen vergangen ist, aber auch da ausführliche empirische Daten fehlen und die von den Regierungen veröffentlichten Zahlen oft lückenhaft sind und derzeit keine Regelmäßigkeit aufweisen. Jedoch lässt sich bereits jetzt sagen, dass sich das chinesische Engagement nicht gravierend von dem anderer ausländischer Akteure unterscheidet und wesentlich gemäßiger ausfällt als oft in den Medien dargestellt. China ist also zusammenfassend gesagt viel eher ein weiterer Akteur mit unterschiedlichsten Aktivitäten auf dem international stark umworbenen Kontinent, als eine Bedrohung für Afrika und den Westen, wie oftmals dargestellt.

Abstract English

Sino-African relations developed enormously in various sectors in recent years. A massive increase in bilateral trade, millions of new investment flows, as well as large amounts of resource-backed loans from China have brought many changes to African economies and their business environments. Two sub-Saharan African countries that were targets to numerous capital flows from China in last recent years were Angola and Zambia.

Chinas activities in connection with oil-backed loans in Angola have caused strong attention from traditional donors and media and became objects for criticism for several reasons: First, China didn't require any preconditions in terms of structural changes for the provision of the loans, as it is the common in connection with credits from the World Bank or the IMF. Thus, these loans were regarded to undermine the efforts of traditional donors to improve governance and transparency in Angola. In addition, these bilateral agreements and the resulting projects lacked transparency which aggravated a proper evaluation of their effects on the country. In most cases, Chinese loans to Angola require a major part of the projects to be contracted to Chinese companies and subsequently, parts of the workforce to be Chinese which clearly is a drawback for the local population and businesses.

Still, Angola managed to rebuild significant parts of its destroyed infrastructure through Chinese loans and thus share its wealth gained through natural resources with the population. The credit lines also led to more independence from traditional donors and, as a result, to a strengthening of Angola's position on the bargaining table.

Many doubts are issued whether the large number of Chinese constructions in Angola complies with international quality standards and gives Angola value for its money. At present, however, it is too early to draw general conclusions on this issue since very little empirical data is available and these assumptions rely on a small number of examples of minor quality constructions performed by Chinese companies.

In Zambia's case, especially Chinese investments in the copper industry had a significant impact on the country's economy. After the privatization of Zambia's formerly state-owned mining industry, Chinese companies acquired, along with other foreign investors, two copper mines, a coal mine and a nickel mine. These investments were highly appreciated at the time of acquisition, since the mines were inoperative or closed down, mostly because of low commodity prices. However, these investments were followed by serious complaints directed at the new Chinese investors, who were accused of disregarding labour laws, paying low wages and taking away local jobs by importing Chinese workforce. Although many of these claims are true, there are also other foreign investors who perform similar violations, which indicates that the weak Zambian regulatory institutions should put more efforts to enforce compliance to local laws.

Although public perception of China's engagement in Africa is mainly associated with projects related to raw materials, both Angola and Zambia attracted significant Chinese

direct investments and other capital flows in numerous other areas like manufacturing, agriculture or medical sectors.

In general, the results of Chinese activities in Africa are difficult to measure at the moment, since on the one hand, too little time has passed since the initial investments have been made and on the other hand, empirical data and official figures are often scarcely available or incomplete. It can be concluded that China's engagement in Africa does not differ significantly from that of other foreign investors and in reality is much less substantial than claimed by media and policymakers. China is rather another player on the African continent, involved in countless activities, than a new threat for African sovereignty and Western donors and investors.

Curriculum Vitae

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