Sino-Africa Investment Relations: The Good, The Bad and The Ugly

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Abstract: China's investment activities in Africa have attracted significant interest in academic, policy and media circles in the last decade. Adopting country case studies analysis, findings indicated that Chinese investment relations with Africa have its good, bad and ugly sides. On the good side, China has established special economic zones which have the potential to build economic linkages with the local economy. However, the linkages are mainly forward, involving logistics, forwarding, and insurance and financial services. Backward linkages are fostered to the extent that the Chinese firms contract out transportation and catering services for their employees and sub-contract with local firms. The bad side includes the limited employment quota for local citizens, poor labour standard, limited technology transfer, and the quality of Chinese construction. The ugly side includes tax evasion and support to dictatorial regimes in Africa. Chinese companies should be well controlled and the legislation that guides their business conduct should be fully enforced.

Keywords: Investment, Relations, Economy, Chinese, Africa.

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1 Introduction

China's foreign direct investment (FDI) in Africa has attracted significant interest from academic, policy, and media circles in the last decade. The bulk of Chinese investment has been in commodities (principally oil) and minerals, but there have also been investments in natural raw materials such as sugar and timber. Chinese investment in infrastructure goes into telecommunications, while Chinese aid goes into construction of roads and railways as well as showpiece investments such as stadiums and government offices. In manufacturing, the bulk of historic Chinese investment has been in the clothing sector, but China has committed itself to large investments in industrial processing zones in a number of African economies. Chinese investment in the distributive trade sector is typically small scale and based on individual Chinese entrepreneurs engaged in retail trading. However, in some African economies Chinese wholesale traders have been active in serving regional neighbours (AERC, 2008).

China's burgeoning trade and investment relationship with Africa does not benefit all sectors or countries equally. According to Schiere (2011), about 70% of Africa's exports to China come from Angola, South Africa, Sudan, and the DRC, and are heavily dominated by raw materials (e.g. oil, copper, cobalt, and cotton). And 60% of imports from China, largely manufactures, are destined to

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South Africa, Egypt, Nigeria, Algeria and Morocco. Most other African economies have only a limited trade relationship with China. Chinese outward FDI to Africa shows a similar pattern of concentration, with 50% flowing to the mining sectors of just a handful of resource-rich countries (Nigeria, South Africa and Sudan). The Chinese government *going global* policies encourages overseas agricultural investment. However, outward investment in agriculture and related activities is much smaller than in mining or manufacturing (Brautigam, 2009).

The African Economic Research Consortium (AERC) undertook a comprehensive analysis of the key features and patterns of the past, current, and future of the investment relations between China and specific African countries between 2009 and 2011, which formed the basis for better understanding the sector specific impact of these relationships. The AERC study also sought to understand the associated opportunities and challenges for the development prospects of specific African countries, as well as an articulation of the appropriate overall and sector-specific policy measures that these African countries may wish to take. The AERC studies also represent the recent set of information that can yield useful insights with respect to the China-Africa investment relationship. The common concern has been whether China's Africa policy marks a significant change in Africa's international economic and political relations. Consequently, it will be interesting to synthesize the findings of the project and make appropriate recommendations. Following this introductory section, section two presents stylized facts on China-Africa investment relationships while section three highlights the analytical framework to put the discussion into context. Insights into the AERC country case studies are discussed in section four. The synthesis of the findings of the country case studies are discussed in section five while section six concludes.

2 Stylized facts on China-Africa investment relations

China's outward FDI net flows in 2010 reached US$68.81 billion, increasing by 21.7% compared to US$56.53 billion in the year 2009. Among the outflows, US$20.64 billion was incremental equity investment, US$24.01 billion was re-invested earnings, and US$24.16 billion was other investment accounting for 30%, 34.9% and 35.1% respectively of total outward FDI flows. In 2010, more than 13,000 domestic investing entities had established about 16,000 overseas enterprises in 178 countries (regions) globally. The accumulated outward FDI net stock volume stood at US$317.21 billion. Among the stock, US$59.73 billion was equity investment, US$120.7 billion was re-invested earnings and US$136.78 billion was other investment accounting for 18.8%, 38.1% and 43.1% respectively of the total. The total assets of foreign affiliates exceeded US$1.5 trillion (2010 Statistical Bulletin of China's Outward Foreign Direct Investment).

Table 1 highlights China's outward FDI flows by region between 2004 and 2010. The share of the African continent in China's Outward FDI flow witnessed a gradual increase between 2004 and 2008 until a decline of US$5490.55 million in 2008 to US$1438.87 million in 2009. This could be attributed to the global financial crisis witnessed in 2008. However, the investment level increased to US$2111.99 in 2010. A clearer picture of China's outward FDI flows by region is depicted in Figure 1. The bulk of the outward Chinese FDI is concentrated in Asia. In the year 2008, Asia accounted for 77% of total FDI outflow. This however declined to 71.48% and 65.23% in 2009 and 2010 respectively. After the year 2005, the percentage share of Europe declined and Latin America recorded a massive inflow of China-Africa outward FDI

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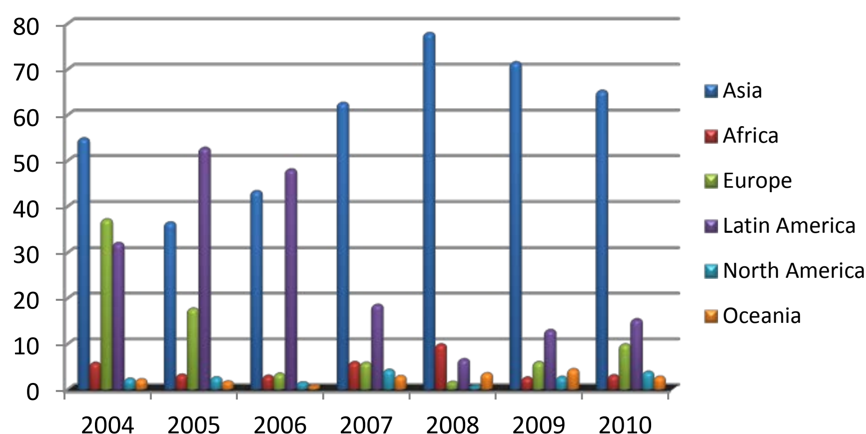
making the region the second largest recipients of China outward investment except in 2008 when Africa ranked second.

Table 1 China's outward FDI flows by region, 2004-2010 (millions of US$)

Country/ Region	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*
Total	5497.99	12261.17	17633.97	26506.09	55907.17	56528.99	68811.31
Asia	3013.99	4484.17	7633.25	16593.15	43547.50	40407.59	44890.46
Africa	317.43	391.68	519.86	1574.31	5490.55	1438.87	2111.99
Europe	2046.77	2166.65	597.71	1540.43	875.79	3352.72	6760.19
Latin America	1762.72	6466.16	8468.74	4902.41	3677.25	7327.90	10538.27
North America	126.49	320.84	258.05	1125.71	364.21	1521.93	2621.44
Oceania	120.15	202.83	126.36	770.08	1951.87	2479.98	1888.96

Source: 2010 Statistical Bulletin of China's Outward Foreign Direct Investment.

Figure 1 Percentage share of outward Chinese FDI by region (2004-2005)



A breakdown of Chinese outward FDI flows to African countries is highlighted in Table 2. The top five recipient economies of Chinese outward investment in Africa between 2004 and 2010 were South Africa, Nigeria, Algeria, Zambia, and Congo DR. A breakdown of Chinese outward FDI flows is provided in Table 3, which shows that investment cuts across different sectors such as agriculture, mining, manufacturing, construction, scientific research, and water conservancy, among others. The top six sectors that received Chinese investment are leasing and business service; mining; banking; wholesale and retail trade; manufacturing; and transport, storage, and post (Figure 2).

Table 2 China's outward FDI flows by country, 2004-2010 (millions of US$)

Country/Region	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*
Total	5497.99	12261.17	17633.97	26506.09	55907.17	56528.99	68811.31
Algeria	11.21	84.87	98.93	145.92	42.25	228.76	186.00
Angola	0.18	0.47	22.39	41.19	9.57	8.31	101.11
Benin	13.77	1.31	--	6.32	14.56	0.09	1.76
Botswana	0.27	3.69	2.76	1.87	14.06	18.44	43.85
Burundi	--	--	--	--	--	0.69	--
Cameroon	0.37	0.19	0.73	2.05	1.69	0.82	14.88
Cape Verde	--	0.32	0.23	0.09	0.48	--	0.46
Central African	--	--	--	--	--	--	25.81
Chad	--	2.71	1.61	0.75	9.47	51.21	2.13
Comoros	--	--	--	--	--	--	0.01
Congo DR	11.91	5.07	36.73	57.27	23.99	227.16	236.19
Congo	0.51	8.11	13.24	2.50	9.79	28.07	34.38
Cote D'Ivoire	6.75	8.74	2.91	1.74	7.02	1.51	5.02
Djibouti	--	--	--	1.00	--	3.40	4.23
Egypt	5.72	13.31	8.85	24.98	14.57	133.86	51.65
Equ. Guinea	1.69	6.35	10.19	12.82	4.86	20.88	22.08
Eritrea	--	--	0.01	0.45	0.49	0.23	2.94
Ethiopia	0.43	4.93	23.95	13.28	9.71	74.29	58.53
Gabon	5.60	2.08	5.53	3.31	32.05	11.88	23.44
Gambia	--	--	--	--	--	--	--
Ghana	0.34	2.57	0.50	1.85	10.99	49.35	55.98
Guinea	14.44	16.34	0.75	13.20	8.32	26.98	9.74
Kenya	2.68	2.05	0.18	8.90	23.23	28.12	101.22
Lesotho	0.03	0.60	--	--	0.62	0.10	0.56
Liberia	0.58	8.65	7.03	--	2.56	1.12	29.89
Libya Arab Jm	0.06	0.25	8.51	42.26	10.54	38.55	10.50
Madagascar	13.64	0.14	1.17	13.24	61.16	42.56	
Malawi	--	--	--	0.20	5.44	--	9.86
Mali	--	--	2.60	6.72	1.28	7.99	3.05
Mauritania	0.09	0.36	4.78	4.98	0.65	6.53	5.77
Mauritius	0.44	2.04	16.59	15.58	34.44	14.12	22.01
Morocco	1.80	0.85	1.78	2.64	6.88	16.42	1.75
Mozambique	0.66	2.88	--	10.03	5.85	15.85	0.28
Namibia	--	0.18	0.85	0.91	7.59	11.62	5.51
Niger	1.53	5.76	7.94	100.83	0.01	39.87	196.25
Nigeria	45.52	53.30	67.79	390.35	162.56	171.86	184.89
Rwanda	--	1.42	2.99	0.41	12.88	8.62	12.72
Sao Tome and Principe	--	--	--	--	--	--	0.02
Senegal	--	--	--	0.24	3.60	11.04	18.96
Seychelles	--	0.05	0.06	0.09	0.05	0.36	12.28
Sierra Leone	5.92	0.49	3.71	2.85	11.42	0.90	--
South Africa	17.81	47.47	40.74	454.41	4807.86	41.59	411.17
Sudan	146.70	91.13	50.79	65.40	63.14	19.30	30.96
Tanzania	1.62	0.96	12.54	3.82	18.22	21.58	25.72
Togo	1.62	0.31	4.58	2.70	4.20	8.91	11.77
Tunisia	0.22	--	1.73	0.34	--	1.30	0.29
Uganda	0.15	0.17	0.23	4.01	6.70	1.29	26.50
Zambia	2.23	10.09	87.44	119.34	213.97	111.80	75.05
Zimbabwe	0.71	1.47	3.42	12.57	0.72	11.24	33.80

Source: 2010 Statistical Bulletin of China's Outward Foreign Direct Investment

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Table 3 Distribution of China's outward FDI flows by industry, 2004-2010 (millions US$)

Industry	*2004*	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*
Agriculture, Forestry, Husbandry, and Fishing	288.66	105.36	185.04	271.71	171.83	342.79	533.98
Mining	1800.21	1675.22	8539.51	4062.77	5823.51	13343.09	5714.86
Manufacturing	755.55	2280.40	906.61	2126.50	1766.03	2240.97	4664.17
Production and Supply of Electricity, Gas, and Water	78.49	7.66	118.74	151.38	1313.49	468.07	1006.43
Construction	47.95	81.86	33.23	329.43	732.99	360.22	1628.26
Transport, Storage and Post	828.66	576.79	1376.39	4065.48	2655.74	2067.52	5655.45
Information Transmission, Computer Services and Software	30.50	14.79	48.02	303.84	298.75	278.13	506.12
Wholesale and Retail Trade	799.69	2260.12	1113.91	6604.18	6514.13	6135.75	6728.78
Lodging and Catering Services	2.03	7.58	2.51	9.55	29.50	74.87	218.20
Banking	--	--	3529.99	1667.80	14048.00	8733.74	8627.39
Real Estate	8.51	115.63	383.76	908.52	339.01	938.14	1613.08
Leasing and Business Service	749.31	4941.59	4521.66	5607.34	21717.23	20473.78	30280.70
Scientific Research, Technical Service and Geological Prospecting	18.06	129.42	281.61	303.90	166.81	775.73	1018.86
Water Conservancy, Environment and Public Facilities Management	1.20	0.13	8.25	2.71	141.45	4.34	71.98
Services to Households and Other Services	88.14	62.79	111.51	76.21	165.36	267.73	321.05
Education	--	--	2.28	8.92	1.54	2.45	2.00
Health, Social Security and Social Welfare	0.01	--	0.18	0.75	0.00	1.91	33.52
Culture, Sports and Entertainment	0.98	0.12	0.76	5.10	21.80	19.76	186.48
Public Management and Social Organization	0.04	1.71	--	--	--	--	--
Total	5497.99	12261.17	26506.09	26506.09	55907.17	56528.99	68811.31

Source: 2010 Statistical Bulletin of China's Outward Foreign Direct Investment.

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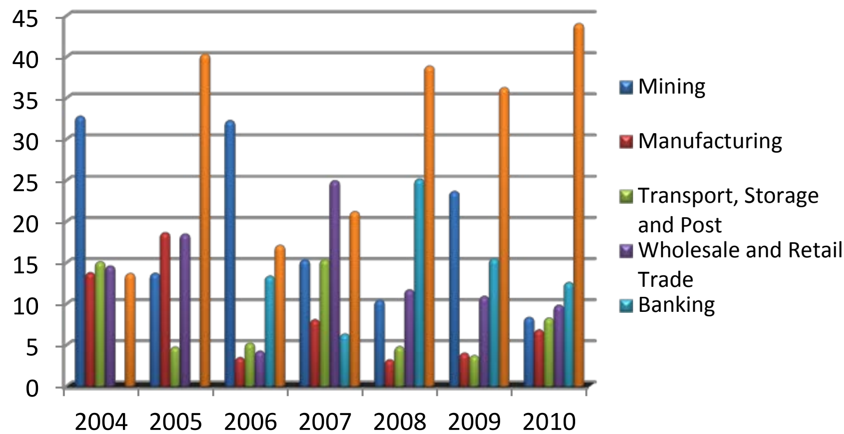
Figure 2 Top six sectors receiving outward Chinese FDI flows



3 Analytical framework

The China-Africa investment relations are highlighted within the framework of Dunning's eclectic model. This model was deemed appropriate because it addresses the key aspects of the investment relations. The general thrust of the model is that there are at least three sets of advantages that influence the decisions of multinationals to invest abroad. These advantages are ownership (O), locational (L) and internalization (I) advantages. These advantages have been labelled the OLI paradigm. The O advantages provide justification for why some firms go abroad to invest. These advantages guarantee that such firms will succeed investing abroad because they enjoy some firm-specific advantages that will allow them to overcome the costs of operating in a foreign country. Such ownership-specific or firm-specific advantages are normally intangible and can be transferred within the multinational enterprise at low cost. The O advantages guarantee higher revenue and/or lower costs that can offset the costs of operating at a distance in a foreign location. Hence, undertaking FDI is premised on the condition that a firm has developed strong and specific characteristics that enable it to be competitive in the home market. It is presumed that such characteristics must be transferable abroad and strong enough to compensate for the extra costs and barriers of doing business abroad (Dunning 1988).

Given that the O advantages by themselves are not a guarantee to justify foreign production, FDI is also explained by the countries' (where a firm (MNE) intend to invest) locational (L) advantages. These L advantages are relevant because they compensate for the usual handicaps of foreign production. L advantages relate to a number of fundamental factors that are often shaped by the host country's comparative advantage, also referred to as transactional cost advantage (Gastanaga, Nugent and Pashamova 1998). For example, a pool of cheap labour constitutes a locational factor for labour intensive production that will attract FDI into a country. The presence of a series of incentives such as tax holidays and duty concessions also constitute L advantages (Oyeranti et al., 2010).

The last set of advantages in this model is referred to as the internalization (I) advantages. I advantages explain why a firm would, for instance, choose to serve a foreign market through FDI rather than pursue alternative modes of operation without ownership control of a foreign activity. When these advantages exist, FDI is usually a superior mode of entry than technology

licensing or exporting as it allows investors to expand and exploit opportunities more efficiently abroad and without concern for their trade secrets being compromised. Markusen (1995) argues that, because internalization focuses on characteristics of knowledge capital as opposed to physical capital, by investing directly rather than through licensing, the firm is able to eliminate or minimize risk of disclosing its trade secrets (Oyeranti, et al., 2010).

Beyond the theoretically-oriented eclectic model of FDI, Kaplinsky (2010) offered a pragmatic and operational methodological framework for the impact analysis of China on African economies. This framework is particularly useful for gleaning and tracking the competitive and complementary impacts of FDI from China as well as the direct and indirect impacts of Chinese FDI in Africa. This framework (Table 1) is designed to gain insight into the various channels through which the Chinese economies interact with the global economy in general and the low economies of Africa in particular.

The direct impacts of complementary activities of Chinese investment is readily seen in terms of cheap and appropriate capital goods, technology transfer, integration in global value chains, and low cost infrastructure. By contrast, complementary indirect impacts are more difficult to find and measure because of the problem with generalizing across countries and sectors. The direct impact of Chinese competitive behaviour is seen in the displacement of existing and potential local producers, less spin-off to local economy than other foreign contractors, and use of scarce resources. The indirect nature is witnessed in the competition for global FDI and production platforms, and disinvestment and relocation by other foreign investors (Table 1).

Table 1 A synthetic framework for assessing the impact of China on Africa

Investment	*Direct*	*Indirect*
Complementary	• Chinese FDI in Africa • Cheap and appropriate capital goods • Technology transfer • Integration in global value chains • Low cost infrastructure	
Competitive	• Displacement of existing and potential local producers • Less spin-off to local economy than other foreign contractors • Use of scarce resources	• Competition for global FDI and production platforms • Disinvestment and relocation by other foreign investors (e.g clothing and furniture)

Source: Kaplinsky, McCormick, and Morris (2010).

Kaplinsky's framework recognizes four primary types of FDI:

- Those designed to satisfy a particular foreign market or set of foreign markets, viz. market seeking or demand oriented FDI.
- Those designed to gain access to natural resources, e.g., minerals, agricultural products, unskilled labour, viz. resource seeking or supply oriented FDI
- Those designed to promote a more efficient division of labour or specialization of an existing portfolio of foreign and domestic assets by MNEs, i.e., rationalized or efficiency seeking FDI. This type of FDI though related to the first or second kind, is usually sequential to it.
- Those designed to protect or augment the existing owner specific advantages of the investing firms and/or to reduce those of their competitors, i.e., strategic asset seeking FDI.

Given that Chinese outward investment clearly fits into the resource seeking and market seeking investment context of Chinese FDI in Africa and other developing economies, this framework is placed at the centre of the impact analysis of Chinese FDI in Africa.

4 Methodology

A case study approach, using secondary research, is used for this study. The case study is the most flexible of all research designs, allowing the researcher to retain the holistic characteristics of real-life events while investigating empirical events. In general, a case study is an empirical inquiry which investigates a contemporary phenomenon within its real-life context when the boundaries between phenomenon and context are not clearly evident and in which multiple sources of evidence are used. The case study is the method of choice when the phenomenon under study is not readily distinguishable from its environment (Yin, 2003).

This paper's case studies present data on how African countries have been affected positively and negatively with respect to their investment relations with China. The reviewed country case studies reveal the implications of China investment relations with respect to the labour market, impact of Chinese investment on domestic investment and firms, the features of the Chinese investment in Africa, the impact of the Chinese investment on the domestic markets, and the quality of the Chinese investment. This is then utilized to present a synthesis to describe the China-Africa investment relationship. In-depth analysis of eight African countries was undertaken in the AERC country case studies, including: Nigeria, Ghana, Zimbabwe, Ethiopia, Zambia, Madagascar, Mauritius, and Sudan. In addition to the country case studies, the study also utilizes relevant existing evidence to support the claims made in the study. However, examples at the individual country level serve as a base for generalizations.

5 Insights from AERC country case studies and existing evidence

The analytical framework presents the analysis under broad headings detailing each countries experience. This is to allow better insight into the China-Africa investment relations.

5.1 Implications on labour market

Employment. Chinese investors are required to comply with private investment laws of the African countries where they are operating, which includes meeting employment quotas from the local workforce. Chinese investors often flout this law, preferring instead to bring in Chinese expatriates to Africa. For example, Kiala and Corking (2009) noted that the Angola Private Investment Law which Chinese investors are required to comply with includes a limitation placed on the number of expatriates that a company is allowed to employ. However, they noted that it is difficult to confirm whether these rules are respected by foreign investors and/or whether they are regulated by Angolan authorities. What is clear though is that the arrangement made with the Chinese government (representing the interests of the Chinese construction companies) not only contradicts certain principles of the Angolanisation campaign, but also differs from the practice for other international construction companies operating in

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Angola. The Chinese construction companies barely employ even 30% of locals (Kiala and Corking (2009).

This evidence was supported by China's Ambassador to Angola Zhang Bolun who noted that as of March 2009, China had 50 large firms and another 50 smaller firms operating in Angola. These firms reportedly employ a total of approximately 50,000 Chinese expatriates in Angola. However, this figure is disputable since the Angolan embassy in Beijing reportedly issued more than 40,000 working visas to Chinese nationals in 2008 alone (Kiala and Corkin, 2009). There is even the claim on whether any of these visas were renewals of existing permits or the intended duration of stay was for each of the passport holders. In some cases, the workers generally come to Angola on two-year contracts, after which they either return to China where they remain or choose to renew their permits. Also, it can be inferred that the overwhelming majority of the Chinese expatriates working in Angola are employed on aid infrastructure development projects, as opposed to Chinese companies that have invested there. Chinese FDI tends to also have a noticeable trickling of Chinese small and micro enterprises such as Chinese-made construction materials, household appliances and other fast-moving consumer goods, and internet cafés in Angola. Most of the operations are minor business ventures, predominantly in the retail sector, but also increasingly in the restaurant business. The issue with most Chinese small and micro enterprises, especially micro enterprises, is that they are family-owned and most likely employ very few local staff. Consequently, the constraint to the Angolan government will be its capacity to enforce employment equity. Thus, it can be deduced that Chinese investment possesses a poor record of employment creation in Angola.

A similar experience was reported in Mauritius by Ancharaz and Nowbutsing (2010). It was revealed that Tianli Spinning (Mauritius) Ltd., a Chinese textile firm, employed some 450 workers at the end of 2008, of which only 58 were local. This kind of heavy dependence on Chinese labour is typical of Chinese firms operating in Mauritius, particularly in the construction sector. The implication is that the economic impact of Chinese FDI on the host economy is reduced. Also, in the case of the Jin Fei project (a major Chinese industrial zone in Mauritius), the government, when presenting the project, claimed that it would lead to the creation of some 43,000 jobs out of which 34,000 will come directly to the locals. However, when pressed by the opposition political parties and the press, the government conceded that only 10% to 15% of the jobs would accrue to Mauritians. In addition, the construction of the industrial zone, currently under way, is utilizing a large number of Chinese expatriate workers. Oyeranti et al. (2010) observed that Chinese firms in Nigeria have been criticized for being *closed* during this period of construction because they hardly employ the local workforce.

The remuneration package for the local workers in most Chinese firms is also much below the industry standard. For example, in Ethiopia, the remuneration to the local labour is far below the standard expected from construction activities undertaken by Chinese contractors. In addition, there are few employment opportunities for local unskilled labourers in cases where there are big construction projects (Geda and Meske, 2010). This particular finding was corroborated by Kamwanga and Koyi (2009) in Zambia, who observed cases of Chinese firms favouring Chinese employment over local employment, and poor working conditions, which have led to political agitation. Another observation from these case studies is that in countries where the local people are employed more than the Chinese, the designations of the local people are usually limited to low-level positions, such as messengers, clerks, or store-keepers. For example, while Netting Company (a net making Chinese firm) in Ghana employed 3 Chinese nationals and 22 Ghanaians, the Chinese held the senior management positions of chief operating officer (COO), chief executive

officer (CEO), and Director; and the Ghanaians were senior sales managers, stock-keepers, messengers, and carrier boys (Tsikata, et al., 2010). Similar case studies in Sudan show better employment of local labour; this is attributed to the stringent employment policies enforced by the Sudanese government (Suliman and Badawi, 2010).

Labour standard. With respect to a minority of Chinese projects, it is reported that Chinese labour is very much below the international standard (in categories such as security, sanitation, and water supply facilities). For example, in Zambia, it was reported that Chinese firms often disregard local labour and environmental considerations. In one case workers in Chinese owned mines bemoaned the low wages and poor working conditions (Kamwanga and Koyi, 2009). In Nigeria, there are submissions that the Chinese do maltreat their workers. According to a report, the conditions of employment for Nigerians in Chinese firms neither conform with the Nigeria Labour Laws nor to that of the International Labour Organization (ILO). It was reported that Chinese companies such as Wahum Nigeria Ltd. and Galvanizing Company Ltd. are firms with the most inhuman working conditions, such as12-hour shifts and limiting most workers to casual terms of employment. Also, there is the infamous report on the the Chinese-owned factory in Lagos which burnt down in September, 2002, while 40 Nigerians were trapped inside due to being locked-in by a foreman; one wonders how reasonable, if any, was the compensation given to the victim's families (Oyeranti et al., 2010)?

Box 1: Magbass activities in Sierra Leone

China's Magbass sugar project in Sierra Leone shows some of the challenges African communities are likely to face from large-scale Chinese agricultural investment in Africa. Built by China between 1977 and 1982, Magbass was the first aid project to transition directly into Chinese management after completion. After 1982, the state-owned Complant managed the 1,280 hectare complex for the government until war drove them out in 1996. In 2003, just after the end of the war, Sierra Leone tried to privatize many state-owned assets. There were few takers, but Complant – now listed on the Shanghai stock exchange and one of China's 100 top state-owned companies – signed a lease to renovate, expand, and manage the remote sugar complex, this time for profit. Did the Chinese government direct Complant to make this investment? "Complant did the research, they made the decision," China's ambassador in Freetown, Cheng Wenju, asserted. "We can't order them to come." Complant's experience illustrates the rocky road traveled by Chinese companies carrying out the policy that former aid projects now be sustained by enterprises, not by aid.

It also foreshadows some of the conflicts that are likely to arise for China's less experienced investors, when they "go down to the country side" in Africa. Magbass provided a lot of benefits for the country. In the high season, the complex had the capacity to employ up to 1,500 people from the district of Tonkolili, a rare opportunity for paid work in the hinterland. Several hundred skilled people found permanent jobs as electricians, plumbers, carpenters, and clerks, and local people reported that they had acquired new skills. The top jobs at Magbass were held by about thirty-three Chinese staff, although in 2007 the factory sent six of the more senior local employees to China for training, to support a planned reduction in the Chinese staff.

Basic wages were low. The contract signed with the government stipulated that Magbass would respect the country's labour laws, but that they would set wages based on "the lowest wage standard in the region." In 2006,

the second full year of operation, participants in a focus group organized for a World Bank study said that the Chinese paid only US$1.62 per day. This was actually higher than the US$1.26 paid by local farms, but the youth in the focus groups reported that they were being asked to pay "tips" of about US$18 to land a position at Magbass. After a series of strikes in the third year, Complant raised wages to about US$2.19 per day. "Now the workers are happy," K. B. J. Conteh, vice-president of the Sierra Leone Labour Congress told me. "During the production season, some will earn 300,000 leones [US$101] a month." When asked him about wildcat strikes at Magbass, Conteh elaborated, "Formerly there was thieving, even on the managing board. Now, there is no thieving. It is too difficult. They employ a security company. The people were saying: if you don't want us to thieve, pay us better. That was the whole problem."

Source: Brautigam, D. 2009. The dragon's gift: the real story of China in Africa. New York: Oxford University Press.

5.2 Impact on domestic investment and firms

Technology transfer. Beyond the involvement of indigenous entrepreneurs at the management level, local expertise and other workforce are the channels through which technology is transferred and technological capacity is developed. Technology transfer from Chinese investment companies operating in Africa is not only limited but also not encouraging. For example, in Angola, technology transfer in the construction sector is difficult to measure with the workforce remaining predominantly foreign. Similarly, in the case of Mauritius, it is difficult to assess the extent of knowledge spillovers that Tianli Spinning (Mauritius) Ltd. has generated. These are likely to be small and limited to knowledge acquired by local workers through training and experience, which are transferable and so can benefit other firms (Ancharaz, and Nowbutsing, 2010).

In the few cases that the Chinese have attempted to train workers, the Chinese investors exposed them to only the basic rudiments of the technology, preferring instead to import their skilled human resources. For example, in response to complaints by Nigeria's Minister of Science and Technology, Huwaei Technologies Nigeria Ltd., a Chinese FDI, established a training centre in Nigeria to train 2000 telecoms engineers per annum. Perhaps the technology transfer from Chinese FDI to Africa is insignificant because most of the Chinese firms bring finished products into the country and complete equipment with Chinese technicians. In Zambia it was observed that Chinese mining companies are increasingly relying on leasing heavy equipment rather than procuring new ones. The problem with this practice is that it limits the extent of technology transfer because, as the equipment is not an asset of the company, the incentive to develop capacity to harness the associated technology is minimal.

Backward and forward linkages with domestic economies. Chinese FDI in Africa cuts across many different sectors such as construction industry, agriculture, textile industry (more precisely into spinning operations), but the bulk of Chinese investments in Africa is found in resource seeking that does not feedback into the local economy. For example, in Mauritius, construction materials are mainly imported from China. This reduces the multiplier effect of the initial FDI while accentuating the already heavy bilateral trade deficit vis-à-vis China. Also, special economic zones (SEZs) set up by China produce primarily for the export market. Since the enterprises are wholly Chinese-owned, the bulk of the export proceeds are remitted to their home country. Consequently, the impact on foreign exchange earnings will be minimal

(Ancharaz and Nowbutsing, 2010). Some of the Chinese investments in critical areas (telecommunications, water, electricity, housing, etc.) of the Nigerian economy have high social contents. However, there are reservations about the activities of Chinese investors, especially those who are engaged in manufacturing. Such complaints include sharp practices such as importation and production of sub-standard products, and lack of respect for their workers. Also, because Chinese firms in Nigeria bring in inputs from their own country and set up their own market outlets, it implies that there may not be any (or major) backward and forward linkages between Nigerian and Chinese firms (Oyeranti et al., 2010).

Investment relations with domestic firms. Chinese firms often have connections with the Chinese government—political muscle—which can be used to crowd out domestic competition. For example, Chinese firms that won big contracts are seen remaining in Ethiopia by opening offices and local subsidiaries of their company after their first project with the country (Geda and Meske, 2010). Similarly, the competition between Chinese firms and domestic firms are considered unfair in Ghana because of the significant number of Chinese investors that come into the country with capital provided by the Chinese government (Tsikata, 2010).

Kamwanga and Koyi (2009) documented a case of a moribund textile factory jointly owned between Zambia and China. The company employed local farmers who provided inputs to the factory while also tending to their farming activities. However, the factory soon ran into trouble as it could not compete with imported fabric from China and subsequently closed. With the collapse of the factory, prospects of incorporating local production into the global value chain were lost. The closing down of the factory had wide ranging impacts, including depriving the farmers a source of income, as they had no market for their produce and were consequently forced to close shop. Other small scale suppliers of goods and services to the factory faced a similar fate. Without a factory to process cotton, most of it was instead exported in its raw form, further entrenching the raw material enclave status of the country. Consequently, the importation of Chinese textile products had a knockdown effect on the local fabric industry, which could not stand the flood of cheaper and better quality fabric from China. The negative effects of the Chinese imports increased the local's resentment of Chinese firms.

Another example in Zambia is seen in Chinese investors' participation in economic activities that are normally the prerogative of indigenes: he Chinese provided assistance to the Lusaka Council to upgrade the Kamwala trading center, which included the construction of new shops. The terms of the project were such that the Chinese would use some of the facilities for an agreed period of time in lieu of payment. After completion, Chinese traders started operating from the new premises, much to the displeasure of the local population, who protested that they had been displaced from their original shops. This act attracted widespread apprehension from the locals. There has also been a major surge in the number of Chinese companies registered in Zambia. While the early wave of Chinese firms establishing bases in Zambia were investment entities, there has been a new wave of service-related Chinese firms being established in the recent period. These service-related firms come in to operate as sources of inputs to Chinese Investors. This has raised concern among stakeholders who fear that local supply companies will lose out to Chinese services firms. This development is feared to further weaken the linkages between Chinese investors and local companies (Kamwanga and Koyi, 2009).

Box 2: Weak corporate social responsibility

As an aid project, the Chinese had a clinic and a doctor who treated local villagers, they supplied housing for local workers, and they were more generous with bags of sugar for the local chiefs. However, "Those who are here now, they are businessmen. These Chinese have come to find money." In early 2007, the Nobel-prize winning organization Me´dicins Sans Frontiers complained that runoff from the Magbass complex ran straight into the Rokel River, contributing to an outbreak of cholera. Some landowners argued that the sugar company had a responsibility to provide more social benefits for the community. And local people were deeply concerned that their government had agreed to give the Chinese company another 1,000 hectares of land. In December 2008, on my way to a meeting at the Ministry of Agriculture, I passed a man addressing a group of farmers milling outside the deputy permanent secretary's office. Later, I learned that this delegation represented some of the landowners from the villages near the sugarcane plantation and factory at Magbass. The next day, the farmers were still there, and I eventually met with them. A landowner from Rochain village explained to me, "We have come to tell the government what we want: schools and scholarships for the children, medical facilities, water supply, and roads. The Chinese should do that. They should also clear farms for the landowners." Another farmer cut in, "It is forbidden to cut sugarcane without their permission! You will go to prison, even though the land was taken without our consent."

The villagers were asking that the Chinese be better corporate citizens, invest in social development projects, deliver social services that the local government was failing to provide. I remembered the parting comments of the high-level civil servant, a native of the Magbass area, "When our parents were farming on that land they could educate us, send us to university, but since they came in 1977 and took our land, no one can say, 'That is the house I have built, that is the child I have educated.' I have been to China: I went on a seminar for one month. I saw how they are judiciously managing their resources; they are very careful there. We would not like them to come here and exploit us."

Source: Brautigam, D. 2009. The dragon's gift: the real story of China in Africa. New York: Oxford University Press.

5.3 Features of Chinese investment

Ownership structure of Chinese investment. The ownership structure of Chinese investment in Africa varies across countries: some are joint ventures, some are wholly Chinese owned, others are a mixture of both. For example, the Chinese investment in Ethiopia has been growing since the year 2000 and takes two modalities of investment: joint venture and wholly Chinese owned investment. Regarding the style, the ministry noted that most of the Chinese firm's are privately owned by Chinese themselves. They prefer to work alone instead of joint venture mainly due to skill gaps. work attitude, and cultural differences. Some of the firms have a capital level of up to 10 million USD (Geda and Meske, 2010). In Zambia, Chinese investments are carried out largely by state-owned enterprises or joint ventures. For example, due to limited investment in plant and machinery and the constant breakdown of the Mulungushi textile factory, the Chinese offered to run it as a joint facility in a bid to help the Zambian Government keep the textile factory afloat. During what would be termed as a dramatic event, the factory was closed when the Chinese President was visiting the country. The President was greeted with anti-Chinese protests, whereupon he suggested that the factory be run as a joint

facility. The Qingdao Textile Corporation then acquired a 66% stake in the firm (Lindberg, 2009 cited in Kamwanga and Koyi, 2009). Most Chinese firms in Ghana are wholly-owned by the Chinese. This however varies from sector to sector. For example, out of the 63 general trade businesses established between 1994 and 2007 with some level of Chinese investment, 57 (90%) were wholly-owned by Chinese. On the other hand, out of the 105 manufacturing businesses established in the same time period, 48 (46%) were wholly-owned by Chinese (Tsikata, et al., 2010).

Setting up of special economic zones. China's decision to set up the SEZs reflects an appreciation by the Chinese government that most of Africa now present a host of domestic conditions conducive to FDI. Part of the underlying objective for setting up a SEZ is because China wishes to penetrate local African markets with a view to exploiting fully the untapped potential. The SEZ in Mauritius is the second of its kind to be set up across the African continent following the one established in the Zambian mining town of Chambishi in February, 2009 (Kamwanga and Koyi, 2009). In terms of manufacturing investment, the largest project is the Chambishi Multi-Facility Economic Zone (MFEZ) on the Copperbelt of Zambia. The targeted investment package to complete this industrial park is US$ 800 million. This zone is anchored by a US$ 200 million copper smelter, but is also meant to manufacture TVs, mobile phones and other electronic items (Carmody and Hampwaye, 2009).

The Kajola Specialized Railway Industrial Free Trade Zone is a joint venture of the Ogun State Government and the Chinese Civil Engineering Construction Company (CCECC) in Nigeria. The Zone is a strategic decision by the Ogun State government to take maximum advantage of the Railway Modernization Programme and the proposed Inland Container Terminal Project of the Federal Government. The aim is to attract specialized industries and businesses offering complementary services to these two projects of the Federal Government. The company's investment was estimated at about US$ 715 million. The government envisioned that the project would facilitate rapid industrialization of the state and deepen foreign direct investment inflow to the state (Oyeranti et al., 2010). Other free trade zones in Nigeria involving the Chinese include Ogun Guangdong Free Trade Zone (OGFTZ), Ofada Vee Tee Rice Limited, and the Lekki Free Trade Zone.

Information on Chinese investment in Africa. Chinese investment in Africa is hardly open. For example, in Mauritius, the Jin Fei project necessitated an initial investment of US$1 billion. It covers 362 hectares of land in the region of Riche Terre, close to the seaport. The terms of the Framework Agreement for Jin Fei Project in Mauritius contain a clause of confidentiality, as required by the Chinese investors. Consequently, little information is available on the specifics of the project. One observer aptly noted that Chinese projects are not normally based on any feasibility study. They have their own way of doing business. They invest money, take over space and wait for enterprises to be set up (Ancharaz and Nowbutsing, 2010). Similarly, in Ghana according to Tsikata (2010), the major constraints to additional investment faced by the Netting Company largely stem from lack of transparency with regards to labour, tax and VAT policies.

Nature of Chinese investment in Africa. The structural characteristic of the host economy is a significant factor on the type/nature of Chinese investment in that country: investment is resource seeking in some countries, market seeking others. In addition, Chinese outward FDI is often associated with some pull factors such as a host country's favourable investment policies, including incentives and other location-specific advantages. Hence, China is fond of

extracting extremely generous terms for its investment outside the resource seeking activities.

In the case of Zambia, Chinese FDI is primarily resource seeking and secondarily market seeking. The observed increased interest by the Chinese in Africa is mostly driven by the China's need for natural resources, which is vital for its continued economic growth. The bulk of Chinese investments in Zambia are thus related to the mining industry. The two by far largest investments registered by ZDA are a US$199 million investment by China's Nonferrous Metal Mining and Yunnan Copper Industry in 2006 in the Chambishi Copper Smelter, and a US$220 million investment in 2007 by the Jinchuan Group Mining Corporation in the Munali nickel project. The largest Chinese-owned mine in Zambia is the Chambishi copper, which was acquired by state owned enterprise (SOE) China Non-Ferrous Company Africa (NFC-A) in 1998, making it China's first overseas non-ferrous mine (Kamwanga and Koyi, 2009). Investments at a total of US$150 million were made in the mine between 1998 and 2003. Carmody (2009) noted that following the investment in the Chambishi mine, Zambian exports to China rose seventeen-fold between 2002 and 2006 (Kamwanga and Koyi, 2009).

Tsikata et al., (2010) noted that Chinese investment in Ghana is primarily market-seeking. The target market is the domestic market and the West African sub-region. Chinese investors view Ghana as a good hub to export to neighboring West African countries. However, a significant portion of the Chinese goods are high-end consumer goods like computers, compact discs and DVDs. A small fraction of Chinese FDI is resource-seeking. These investments tend to be in the agriculture and manufacturing sectors. However, the discovery of oil in Ghana might possibly lead to increased resource-seeking FDI from China. Officials at the Ghana Investment Promotion Council (GIPC) have already fielded interest from Chinese hoping to invest in the extraction and processing sectors and also in provision of support services and equipment. The level of eventual involvement of the Chinese in the oil sector will depend on geopolitical considerations and the competitiveness of their firms in comparison to those from the West (Tsikata et al., 2010).

However, the focus of Chinese investment in Nigeria is in the extractive industries, which is of strategic interest to China (Oyeranti et al., 2010). Giving the list of private FDI and the sectoral concentration, efficiency may not be the driving force of inflow of Chinese FDI in the Nigerian economy. The list of public FDI in Nigeria suggests resource-seeking motive. Similarly, in Sudan, the bulk of FDI is committed by the Chinese SOEs attracted to crude oil production and oil export infrastructure. It is not clear whether these firms were incorporated in China or established by migrants, i.e., Chinese workers in Sudan. Crude oil is the most important product of the Chinese companies in Sudan (Suliman and Badawi, 2010). In the case of Ethiopia, FDI from China is concentrated in the manufacturing sector (over 60%) which is different from what happened in other African countries where the Chinese FDI is pretty much resource seeking (Geda and Meske, 2010).

5.4 Quality of Chinese investment in Africa

Complementarities versus competitiveness of Chinese investment. The investment laws in a country are the major factor that indicates whether Chinese FDI will be competitive or complementary. In Sudan, five large Sudan-based companies were involved in provision of transport, feeder roads construction, civil work, and seismic survey services. In turn, some of these firms, notably Hijilig Oil Service and Danfodio Ho, sub-contracted numerous local providers. These two firms also worked jointly with other China-based companies in providing service for the construction of the Marawi Dam. Danfodio Holdings,

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which is the largest commercial and construction company in Sudan with 12 subsidies, has implemented 35 contracts with Chinese firms. The company even internationalized in a joint venture with China's Transtech Engineering to build a US$634 million railway project in Mauritania. About 31 of the licensed private Chinese firms enter into joint ventures with Sudanese counterparts and hence contributed to strengthen them. Some of the incoming firms operate in processing imported inputs and components for business-drumming-up industry. Their activities include advertisement designs, business logo and paper designs, as well as ICT components assembly. A niche urban market is created for numerous local firms to engage in. Some of the local firms already started similar activities and benefiting from the markets for cheap raw materials opened up by the Chinese private firms (Suliman and Badawi, 2010). As a broad generalization it could be said that China's FDI is more complementing with domestic firms than competing in Sudan.

The story is different in the case of Madagascar. One of the crucial issues is the ownership of Chinese investment companies by multinational groups. The distribution of companies by activity sector shows one of the specificities of Chinese investments in Madagascar. In fact, contrary to the distribution of FDI stock, the trade sector represents 65% of Chinese FDI companies. This phenomenon shows the existence of numerous small scale investors in this sector which subsequently encourages the migration of Chinese into Madagascar and a flooding of Chinese products. The weak percentage of ownership to a multinational group in this sector supports this fact. After the trade sector, comes the manufacturing sector with 17% of Chinese enterprises. Nevertheless, a weak involvement of locals in these investments was noted. In fact, only 35% of Chinese FDIs recorded local involvement. The situation is worse when the manufacturing sector is considered. Only 23% of the industries, where there is Chinese ownership, record local involvement. Notwithstanding that the Chinese FDI stock hardly represents 3% of the entire sector stock. There is therefore a phenomenon of exclusion of locals in this sector. Moreover, the larger part of investments in the construction and public works sector is made by only one company of the branch type, entirely owned by one non-resident investor (Razafindravonona et al., 2010). Chinese investment can therefore be regarded as competitive in this country.

A similar finding was also reported in Angola. For example**,** adjacent to all the activity in the construction sector, there has been a noticeable trickling of Chinese small and micro enterprises in Angola. Most of the operations are minor business ventures, predominantly in the retail sector but also increasingly in the restaurant business. With the influx of Chinese-made construction material, household appliances, and other fast-moving consumer goods, Chinese operations are also visible in the logistics and freight forwarding sectors. Interestingly, a growing trend in Luanda is the prominence of Chinese-owned internet cafés (Kiala and Corkin, 2009).

Quality of Chinese construction. The Chinese have increased their participation in the construction sector in Africa. The range of infrastructure projects that the Chinese are involved in in Africa clearly illustrates the Chinese approach of combining business and political objectives. For example, projects such as the construction of the National Malaria Centre, and Central Statistical Offices were given as Aid, the construction was carried out by Chinese companies, which was supported by the Chinese State institutions. The increased involvement of the Chinese in the roads construction sector could be reflective of the competitiveness of Chinese firms, which are reported to provide good quality projects at a price discount of 25% to 50% compared to other foreign investors. The Chinese are able to compete favorably on account of lower profit margins, access to much cheaper capital, employment of low-paid

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staff, use of Chinese materials, limited attention to environmental impacts, access to hard currency premium paid by the Chinese government, and Chinese government provided subsidies (Kamwanga and Koyi, 2009).

Nevertheless, the high Chinese involvement in the construction sector is not going on without complaints from Ethiopia. For example, the bulk of the complaints are related to the quality of the construction in Ethiopia which is considered low quality. In addition, the equipment and machinery for construction purpose are imported free of duties and tariffs due to the incentive scheme that the government has set up to develop infrastructure. Chinese use this opportunity to import technically outdated equipment which after the projects in Ethiopia are completed, invariably does not yield any significant services (Geda and Meske, 2010).

Supportive Chinese enterprise in Africa. In its engagement with Africa, China is not only accessing the much needed natural resources, but also bringing complementary Chinese enterprises in Africa, sometimes to the displeasure of African countries. For instance, there has been a growth in the number of Chinese banks operating in Africa. By having Chinese suppliers and clients on the ground, the risk to Chinese banks is reduced. In some cases, the Chinese banks have partnered with African Banks. Knowledge of the local market is imperative and investment decisions are often driven by cultural, linguistic and economic ties. The Industrial and Commercial Bank of China (ICBC) purchase of shares in Standard Bank (ICBC's 20% share in SA Standard Bank) is one such step toward enhancing its presence in Africa. Based on the strong position of Standard Bank in Africa, the bank will help ICBC serve its corporate customers in Africa and Standard Bank will use the capital to expand its footprint, with US$450 million of capital being earmarked to support organic African growth (Kamwanga and Koyi, 2009). In Madagascar, Chinese companies employed 6,041 people in 2006. This figure represents 10.7% compared to the total labour force employed by firms in FDI in 2006. However, over 90% of these jobs are from the Chinese subsidiary companies. This can partly be explained by the high number of Chinese companies created under this arrangement (Razafindravonona, et al., 2010).

Box 3: Saving Angola from debt trap

Angola's war for independence became an East–West conflict after Portugal abruptly gave up power in 1975. The Soviet Union and Cuba stepped in to support the new socialist government. The United States and apartheid South Africa aided the rebels. With the end of the Cold War, Angola's proxy struggle morphed into a fight for control over blood diamonds, natural gas, and oil. The death in battle of the sixty-seven year-old rebel leader Jonas Savimbi in 2002 finally allowed Angolans to end more than forty years of war and limp toward something resembling normalcy. The Angolan government financed the war with a shadowy system of off-budget accounts that sometimes sloshed with oil revenues and sometimes ran dry. Over the years, the once Marxist leadership grew wealthy on a toxic diet of oil money and kickbacks from weapon sales. "Corruption is widespread throughout society," the IMF wrote in a report leaked to the press. Ten out of every fifty infants born in Angola died before reaching their fifth birthday.

As the war drew to an end, Angola was badly behind on its debts. They owed more than two billion dollars to the Paris Club, the nineteen wealthy creditor nations that meet informally to decide on bilateral debt issues. But they also owed more than eight billion to other creditors, some (such as a group of Russians) even shadier than the Angolan government itself. These

money lenders were clamoring for payment; some tried to seize government assets outside the country.

Enter China. The story that follows has some of the flavor of the classic 1950 film Rashomon, in which an encounter in the woods is retold, very differently, through the eyes of each participant. The conventional wisdom goes something like this. After the war, the IMF and the West decide to clean up Angola. The IMF insists that Angola improve oil revenue transparency and open its tangled accounts for inspection. Backed into a corner by 2004, the Angolans are about to agree, when China steps in, offering Angola billions of dollars of aid. Flush with cash, Angola turns its back on the IMF, taking China's offer, which comes with no strings attached. "Angola is avoiding pressure to clean up corruption thanks to aid from China," concludes a typical news item. Reports on China in Africa rarely fail to mention this cautionary tale. It is always obvious who plays the villain.

Source: Brautigam, D. 2009. The dragon's gift: the real story of China in Africa. New York: Oxford University Press.

5.5 Implications of Chinese investment for the domestic economy

Support to dictatorial regimes. Chinese FDI has also been alleged to be at the expense of safeguarding civil liberties as they tend to deal with governments irrespective of their democratic credentials, and have in the worst cases been accused of supporting dictatorial regimes (Kamwanga and Koyi, 2009). For example, in 2005, an explosion due to unsafe working conditions in a Chinese copper mine in Chambishi, Zambia killed 46 workers. Zambian president, Rupiah Banda, and the Ministry of Commerce, Trade, and Industry stood behind the Chinese corporation, leading trade unions, workers, politicians, and ordinary Zambians to protest that President Banda was taking sides with the Chinese. In the long run, such a policy of disregard may trigger a political backlash. In the event that dictatorial governments are overthrown by their people, as has been seen in cases such as Tunisia, Libya, Egypt and Syria, China is usually seen as an accomplice that helped to sustain and perpetuate the ruthless regimes. Ultimately, this complicity could prove counter-productive for Chinese investment relations in Africa. Another noticeable approach under this scenario is for China to grant aid packages to dictatorial regimes in Africa with no strings attached. This has allowed the oppressive dictatorial regimes in Africa to subvert and survive Western efforts to initiate political reform. For example, while Western nations have attempted to pass a UN arms embargo on the Sudanese government to stop the genocide in Darfur, China has sold US$24 million worth of arms and US$57 million worth of vehicles and equipment to Sudan. In Zimbabwe, Western sanctions to bring about reform were likewise undermined by China's support to President Robert Mugabe's regime in the form of US$200 million worth of military vehicles and equipment (Hu, 2011).

The relationship between China and Sudan was a central focus of human rights activism in the period leading up to the 2008 Beijing Olympics. Mia Farrow, George Clooney, and other celebrities targeted China as the main "enabler" of a situation labeled genocide by the United States. Their story was necessarily simple: China's purchase of Sudanese oil enabled Sudan to buy Chinese arms, which were used against the Darfur rebels. China seems to have thwarted international action to end the violence in Darfur which has enabled the Sudanese government to get away with murder. What has China's role been? Mainly investment, arms sales, and political cover. Beijing helped Sudan build its own arms factories, supplied the bulk of Sudan's small arms imports, sold military aircraft to Sudan and energetically defended its military cooperation with Sudan's government. There is some evidence that arms

supplied by the Chinese to Khartoum have been used in Darfur, although Beijing claims its arms transfers to Khartoum are legal and follow the terms of the UN embargo (Brautigam, 2009).

African countries investment in China. It is natural to ask whether there are prospects for African investment in China since most of the investments are coming from China to Africa. African countries investment in China has been few and far between. For example, Angola's main investor abroad is Sonangol, which has embarked on an ambitious endeavour to diversify the country's portfolio investments. Sonangol's only capital interest in China thus far has been in the establishment of China Sonangol International Holding (CSIH) in 2004. Angola is currently in no position to invest in the Chinese market like most of the world's leading businesses and MNCs. In 2005, Angola's diamond company Endiama partnered with a Chinese firm and formed Endiama China. However, the venture was short-lived and was annulled in early 2007. These ventures are the only cases of Angolan investment in China (Kiala and Corkin, 2009).

A few Mauritian firms also made incursions to China due to a wide range of incentives for doing business in China. These include a range of fiscal incentives such as low tax rates and maximum applicable tax holidays; presumed foreign tax credits for MHCs, resulting in an effective tax of 3% in Mauritius; tax refunds on re-invested dividends; and tax-efficient lease financing facilities. These incentives have proved a catalyst in driving Mauritian FDI to China, which increased from US$119,000 in 1994 to US$1.5 billion in 2008. This phenomenal increase in Mauritius' outward investment in China has propelled Mauritius into the ranks of the top ten largest sources of FDI into China. In 2008, Mauritian FDI accounted for 1.62% of China's total FDI inflows.[1] The increase can be attributed to the investment activities of a major company, namely Compagnie Mauricienne de Textile International Trading Ltd (CMT). CMT's success lies in the fact that the company broadened its horizon to emerge as an active player in the global scene. The CMT International Trading (CMTIT) Ltd. was incorporated as a Freeport Company in Mauritius in 1995 and started its Freeport activities in January 1996. From its Head Office in Mauritius, CMTIT controls operations in its numerous regional subsidiaries. Indeed, its branches in Zimbabwe (CMTI Zimbabwe (PVT) Ltd), Madagascar (Madatrade Sarl, Madakem Sarl & Plasmad Sarl), China and Hong Kong allow distribution of its wide variety of products over the region. This international network has always been one of the key strengths of CMTIT Ltd. as it helped to provide a better and quicker service to customers (Ancharaz and Nowbutsing, 2010). Rather than adopt defensive strategies when China emerged as a major competitor to the Mauritian textile and clothing industry, the CMT promptly invested US$65 million in the construction of an integrated production unit in China, in 2005, to exploit China's large pool of cheap and adaptable labour, which constitutes its rivals' very competitive advantage. The China office of CMTIT Ltd. currently boasts a well diversified range of manufactured items—such as lights and lighting, machinery, office supplies, tools and hardware, and toys—on top of a variety of textile products. The business continues to grow currently employing more than 1000 workers (Ancharaz and Nowbutsing, 2010).

Transparency of China investment relations. In certain circumstances, there is a lack of transparency in the Sino-African investment relations. This lack of transparency in Chinese investment relation packages fuels suspicion. Commenting on a US$9 billion loan package, a Congolese opposition leader

[1] This share can still be regarded as very low.

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observed, "…It is incoherent, unbalanced...and forces us to sell off our national heritage to the detriment of several generations. It cannot therefore be accepted in its current state without being entirely reviewed and submitted to international competition…" (Kamwanga, and Koyi, 2009).

Similarly Chinese firms are dominating in wining big projects in Ethiopian telecommunication and road sectors. One of the biggest Chinese telecom company, ZTE, which is owned by the Chinese government, offered the Ethiopian telecom a credit (vendor financing) to the tune of US$1.5 billion. This offer is conditional on ZTE doing the job without bidding. This credit is perhaps equivalent to the total current worth of the Ethiopian telecom monopoly, which is also publicly owned. Chinese firms are also dominating both rural and urban road construction in Ethiopia. This dominance has been accelerating in the last two years. This dominance is partly due to low bid prices offered by the Chinese firms and partly owing to the diplomatic and political ties the Chinese government made with the Ethiopian government. Provision of financing by the Chinese government for its firms in Africa, which Chinese's firms in turn offer as credit in the form of vendor financing during the bidding process, is another reason for this success by Chinese firms in Ethiopia. In the transport/road sector, Chinese have totally dominated the Ethiopian scene. In general, there are about ten Chinese firms engaging in the construction of roads throughout the country; responsible for about 60% of the road work currently being carried out in the country. Four of the firms dominate the scene by holding nearly 70% of the Chinese engagement in the sector. This is a result of the minimum bid price they offer and innovative financing mechanisms (Geda and Meske, 2010).

In addition, Chinese investment firms hardly disclose information about their business. For example**,** In Ethiopia, a number of Chinese firms were found to operate in an activity other than that for which they were granted an investment license. A firm with an investment license for manufacturing could be found performing service delivery activities. Second, most of the Chinese firm's addresses are different from what are formally registered. Third, most of the Chinese did not like to be interviewed. In some cases, they just stop in the middle of the interview. Fourth, almost all Chinese firms did not want to disclose their capital level. Tsikata (2010) noted that attempts to survey Chinese investors have proven unsuccessful in Ghana; the investors are exceedingly reluctant to answer questions, despite assurances that the information provided would be used to increase benefits to both the investors and the local economy.

Investment is linked to aid and Beijing. One significant characteristic of Chinese FDI is that they are closely linked to the Chinese state. This characteristic is in sharp contrast to the foreign direct investment from some Western countries into Africa, which is almost entirely driven by private enterprises. As the level of investment is going up, so too is the level of aid. The notion of tying FDI with aid is in line with the Chinese practice of incorporating aid as a sign of South-to-South cooperation, a practice which predates the present China-African investment relations. The playing field in regard to other FDIs is not even, as Chinese companies' enjoy political and financial backing from Beijing (plus cheap labour and technology). The president of the Zambia National Farmers Union, Guy Robinson, said, "Mrs. Makota, these people are here to talk about investment." I said, "Dear Mr. President, we know these Chinese investors, there is no level playing field. They are mechanized. They sell their produce very cheap in our market because they use very cheap labour. I have visited some of their farms. Their vegetables grow enormously big. They use human feces!" She shuddered. "We would prefer them to sell wholesale, and leave the retail market to local people." (Brautigam, 2009). In the Nigerian case, Chinese investment financing is offered with a relatively large aid component in the form of concessionary interest rates and grant element. The

investment loans are offered without conditions attached to them as they are with loans from the multilateral finance organizations such as the World Bank and the International Monetary Fund (IMF). This allows for domestic policy flexibility, although this has been criticized because of poor governance and macroeconomic environment in African countries, including Nigeria, which may hinder productivity and sustainability of investment (Oyeranti et al., 2010).

6 Synthesis of findings

Taking a brief overview of the points in the last section, it is obvious that Chinese FDI in Africa is largely determined by the nature of resources available in the host economy. In the set of countries where raw materials are available, it was noticed that the dominant set of investment in that country is resource-seeking. It was only in few cases that Chinese FDI was found to be market seeking. Resource seeking seems to be driving Chinese FDI. This is certainly the case with FDI in oil-rich Angola and Nigeria and in copper-abundant Zambia. Less visible though are Chinese investments in leather tanneries and shoe production in Ethiopia, and in Ghana's processed fish industry, capitalizing on these country's long-standing comparative advantages in the respective sectors. Furthermore, China's demand for raw materials may undo Africa's efforts at economic diversification, leaving African countries as enclaves for raw materials, and limiting opportunities for sustained development. For example, the copper in Zambia is exported to the Chinese market in its raw form, and hardly processed internally, this limits Zambia to the raw material enclave that it has always been. In addition, these Chinese investments in the resource seeking sector are devoid of the expected backward and forward linkages to the domestic economy.

To the extent that Chinese enterprises in Africa import inputs, such as labour from their homeland, there may be limited linkages with local firms, which pose negative effects on the local economy. Even in cases where local sources of labour are utilized it has been observed that this tends to be on a limited scale, with little capacity development, and hardly any opportunities for technology transfer. There must be a balance between acquiring new technology and creating new jobs. Chinese firms hardly respect local laws which have implication for their credibility. The labour standards currently being utilized by most Chinese investors in Africa are poor relative to what is acceptable in China and the developed world. This has resulted in an uneasy relationship between the African locals and the Chinese, which is not desirable for long-term engagements. In order to resolve the mistrust, China should encourage or mandate Chinese firms working in Africa to hire more local labour, improve working conditions, and respect local laws.

While China's relationship with the countries of Africa may strictly not qualify as that of a neocolonialist nature (although it will not be surprising if eventually we have Sinophone countries in Africa)[2], there are critical problems in the way it deals with local populations that alienates them and generates resentment. In order to maintain its international credibility and support with local populations, China should discontinue supporting dictatorial regimes that overtly repress its people, especially in terms of the sale of military weapons and equipment. It is ultimately in China's own interest to review its involvement in Africa in order to sustain its economic growth and maintain its international credibility. The disconnect between the official Chinese government rhetoric of

[2] African countries are currently divided in the line of Anglophone (English speaking countries), Francophone (French speaking countries), and Lusophone (Portuguese speaking countries).

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win-win agreements and local realities will only entrench and perpetuate distrust of the Chinese. It will not take long for the common public to see through the veiled Chinese rhetoric of win-win situations that belies its real quest for natural resources and political control. China's support of African rogue governments will inevitably harm its reputation on the global stage, reduce its credibility in international affairs, and degrade relations with its neighbors.

With special economic zones (SEZs) and free trade zones (FTZs), China is better able to exploit Africa's natural resources and produce goods destined for both the African market and beyond, as well as opening up a more efficient conduit for routing these resources to mainland China to sustain the growth momentum back home. However, it is likely that the economic benefits arising from the Chinese SEZs and FTZs will be too small relative to the costs incurred by government in terms of road infrastructure, utilities, and telecommunication networks. Moreover, the SEZs and FTZs will consume a tremendous amount of electricity, putting pressure on existing capacity, and inflating the imported oil bill. Given these considerations, one wonders do African governments conducted a proper feasibility study or an environmental impact assessment before allowing these projects to go ahead. The major belief is that the lure of a billion-dollar FDI project is great enough to override any other concerns. Governments promote the potential economic benefits of a project, and claim credit for attracting FDI on such a massive scale. To the extent that the Chinese FTZs and SEZs would help revamp an African country's manufacturing sector, they are regarded as valuable. However, an appreciable level of technology transfer is yet to be witnessed and assessed.

Also, there appears to be limited prospects for African investment in China as most of the investment is coming from China to Africa. Only Mauritius and Angola have made some limited level of investment in China despite the plethora of incentives offered to African countries. This goes to show that Chinese investment is lopsided against African countries. There is also lack of transparency in most Chinese firms. In some cases, this is due to tax evasion on the part of the Chinese investors as they hardly open their books for the government. Oyeranti et al. (2010) noted that the positive revenue effect of Chinese FDI may not be realized by the Nigerian Government because of the possibility for tax evasion/avoidance by Chinese firms coupled with the permission to repatriate profits and incomes. . It is therefore also not surprising to discover that Chinese FDI in Africa is tied to aid which as earlier noted contradict the bulk of FDI from other developed countries that is purely driven by private enterprises. Except in the case of Mauritius, most domestic firms in Africa have been crowded-out due to the incursion of China into their economy. This goes to confirm the competitive nature of Chinese investment in Africa.

7 Conclusion

Our case studies review suggests that Chinese investment relations with Africa have good, bad and ugly sides. On the good side there exist some potential for the SEZs to build linkages with the local economy. However, the linkages will be mainly forward, involving logistics, forwarding, and insurance and financial services. Backward linkages will be fostered to the extent that the Chinese firms contract out transportation and catering services for their employees and sub-contract with local firms. The bad side includes the employment quota, poor labour standard, limited technology transfer, and the quality of Chinese construction among others. The ugly side includes tax evasion and support to dictatorial regimes in Africa. In order to make African countries more competitive, there needs to be more rigorous control of imported goods by customs officials with stringent checks on the goods by the Ministry of Trade to

be sure that all the necessary duties have been paid, the quality of goods are inspected, and that all products imported from China and elsewhere are taxed. Chinese companies should be well controlled and the legislation that guides their business conduct should be fully enforced. African governments and their civil societies need to protect the rights of local communities by saying no, or seeking adequate compensation and rents when investors, Chinese or others, come calling.

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