China’s Engagement of Africa: Preliminary Scoping of African case studies
Angola, Ethiopia, Gabon, Uganda, South Africa, Zambia

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Cover image: Mozambicans welcoming President Hu Jintao during his tour in February 2007. Courtesy of Xinhua News Agency
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<td>ACFTU</td>
<td>All-China Federation of Trade Unions</td>
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<td>ACPI</td>
<td>Africa-China Policy Institute</td>
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<tr>
<td>ADS</td>
<td>Approved Destination Status</td>
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<tr>
<td>AEL</td>
<td>African Explosives Limited</td>
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<td>AFRODAD</td>
<td>African Forum &amp; Network on Debt &amp; Development</td>
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<td>ANC</td>
<td>African National Congress</td>
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<tr>
<td>ANDM</td>
<td>Amhara National Democratic Movement</td>
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<tr>
<td>AGOA</td>
<td>African Growth and Opportunity Act</td>
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<tr>
<td>ANIP</td>
<td>Agência Nacional para Investimento Privado</td>
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<tr>
<td>ASGISA</td>
<td>Accelerated Shared Growth Initiative for South Africa</td>
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<td>AU</td>
<td>African Union</td>
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<tr>
<td>BGRIMM</td>
<td>Beijing General Research Institute of Mining and Metallurgy</td>
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<td>BEE</td>
<td>Black Economic Empowerment</td>
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<td>China-Africa Business Council</td>
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<td>CCP</td>
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<td>South African Centre for Chinese Studies</td>
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<td>CEIEC</td>
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<td>CEMEC</td>
<td>China National Machinery Equipment Import and Export Company</td>
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<td>CETU</td>
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<td>CHOGM</td>
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<td>CICMH</td>
<td>Huazhou Industrial and Commercial Mining Company</td>
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<td>COMESA FTA</td>
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<td>Comilog</td>
<td>Compagnie Minière de l’Ogooué</td>
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<td>DFA</td>
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<td>DP</td>
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<td>ERA</td>
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<td>FDC</td>
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<td>GDP</td>
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<td>Global Environment Facility Trust Fund</td>
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<td>House for International Technology</td>
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<td>ICT</td>
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<td>IDP</td>
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<td>MC</td>
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<td>MOFCOM</td>
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<td>NEPAD</td>
<td>New Partnership for African Development</td>
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<td>NGO</td>
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<td>NRM</td>
<td>National Resistance Movement</td>
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<td>OCA</td>
<td>Uganda Overseas Chinese Association</td>
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<td>OECD</td>
<td>Organisation for Economic Development</td>
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<td>OEM</td>
<td>Original Equipment Manufacturer</td>
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<td>Acronym</td>
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<td>OPDO</td>
<td>Oromo Peoples' Democratic Organization</td>
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<td>Organization of Petroleum Exporting Countries</td>
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<td>Paribas</td>
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<td>PASDEP</td>
<td>Plan for Accelerated and Sustainable Development to end Poverty</td>
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<td>Ethiopia Poverty Alleviation and Sustainable Development Program</td>
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<td><em>Le Parti Démocratique Gabonais</em></td>
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<td>PEAP</td>
<td>Poverty Eradication Plan</td>
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<td>Program of Public Investments</td>
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<td>PRC</td>
<td>People’s Republic of China</td>
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<td>PRSP</td>
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<td>Parastatal Sector Reform Commission</td>
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<td>South African-born Chinese</td>
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<td>State-owned Enterprise</td>
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<td>United Nations Development Programme</td>
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<td>Vaal River Eastern Sub-system Augmentation Project</td>
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<td>ZABS</td>
<td>Zambia Bureau of Standards</td>
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Executive Summary

The People’s Republic of China has recently become an assertive investor and actor on the African continent. China is increasingly turning to Africa as a source for energy reserves and raw materials to fuel its expanding economy as well as new markets for Chinese products. Market-aspirant Chinese multinational companies are also engaging in key commercial sectors across Africa — in particular infrastructure, mining, ICT, and agriculture. Foreign aid complements these economic investments and China’s development assistance is increasingly pragmatic and aligned to China’s growing commercial interests on the continent.

China’s attention was initially focused on a narrow subset of energy and commodity-rich economies. This is quickly changing. As China’s economic footprint on the continent grows, and its market economy continues to deepen, the scope of its attentions and influence on the continent is broadening. This, in turn, is challenging African governments and citizens to work with Chinese investors to ensure that new projects contribute to economic development in sub-Saharan Africa and support livelihoods, environmental values and good governance. The increasing power of Asian economies, and the potential costs and opportunities for African countries calls for objective study and evaluation. Yet current discussions of China’s role in Africa often stem from untested assumptions about Chinese and African business and government practices. Discussion in the popular press and policy circles tends to focus economic and security concerns from a global perspective rather than implications for African development.

Against this backdrop, the Centre for Chinese Studies led an initial scan profiling China’s engagement of the continent built around six African country case studies: Angola, Gabon, Ethiopia, South Africa, Uganda and Zambia. The study sought to identify the key actors that form engagement with China and the extent to which African policymakers can influence the impact of China’s engagement on development outcomes on the continent. The study took the form of a scoping exercise relying on original research that was gathered through in-market research and interviews with key persons in civil society and Chinese and African Government representatives in each of the countries covered.

Chinese bilateral relations, commercial engagements, foreign aid assistance
and education or cultural exchanges with each of the country case studies were taken into consideration in addition to the growing presence of Chinese communities in each country. Specific case studies in each country were analysed to provide insight into the negotiations and outcomes of major Chinese commercial projects.

The vast majority of challenges facing African countries in their dealings with China are relevant to their dealings with international actors across the board and not China alone. China’s engagement with Africa is dynamic and any meaningful analysis will require constant revision.

While the findings of this research has heavily emphasized the influence of elite networks on policy-making as regards China and Africa, the goal has been to present an objective analysis of the social, economic and political challenges of Sino-African engagement in a context that will facilitate the formulation of appropriate solutions.

The over-riding observation is that the government, particularly the executive, in many cases in Africa is comprised of a political elite whose reality is very much removed from the rest of the population. This results in policy-makers and influential opinion-leaders crafting policy approaches that are not beneficial to the more impoverished sectors of the population.

While certainly influential, big business is very closely connected to the political elite. Thus any efforts at trying to empower the impoverished will be recognised to be at the expense of the political elite and thus by default, big business. The result is that there is little political will in either of these sectors to effect social change through policy.

A number of strategies for involvement - requiring further thought and analysis - are possible. These may enhance the positive aspects and minimise the negative consequences of China’s engagement with the countries examined in this study. These interventions focus on four principle areas: building African government capacity; engaging the African private sector; supporting African civil society and improving Afro-Chinese cross-cultural relations. International development organisations who wish to improve the situation of Africa’s poor should channel their energies into initiatives that concentrate on these key areas.
Introduction

The People’s Republic of China (PRC) has become an important and influential player in Africa. In recent years, China has been turning to Africa with renewed interest as a source for energy reserves and raw materials to fuel its expanding economy. China has also become one of the most assertive investors in the African continent, especially in terms of trade in attractive African markets. Aspirant Chinese multinationals are engaging in key commercial sectors in Africa – in particular infrastructure, mining, telecoms and agriculture.

An essential pillar of China’s overall engagement policy toward Africa is foreign aid. Where, historically, China’s foreign aid was motivated by political considerations underscored by ideology, contemporary development assistance appears to be more pragmatic and aligned to its growing commercial interests on the continent. This is demonstrated by debt forgiveness as well as increasing technical support in the fields of medicine, education, training, and technological co-operation and concessional loans from the Chinese government administered by China Exim Bank. China’s commercial safari in Africa is, however, imbalanced. While aggregate trade between China and Africa shows that China has a trade deficit with Africa as a whole, these numbers are misleading, as the resource exports of a small number of countries off-set the rest of Africa’s trade deficit with China. Priority has been placed on a number of key energy and commodity endowed economies. But as China’s economic footprint on the continent grows, so the drivers of its foreign commercial policy and the nature of China’s engagement in Africa are beginning to change. China’s interests in Africa will thus begin to diversify. In order to understand these developments, the immediate and future impact of China’s engagement of Africa requires evaluation.

This report is a preliminary study of China’s engagement profile in six key African countries with a view to identifying the nature of interaction and negotiation between African and Chinese actors. The study was compiled with a view to understanding extent to which African policymakers can influence China’s engagement of the continent, and to leverage this for national benefit and enhance overall domestic development.

The report had several key research objectives:
• **Identify the main actors** in the respective states vis-à-vis policy toward China – these will include Government, business and NGO sectors;

• Ascertain the **positions and opinions of policymakers**, actors and those with influence on policy vis-à-vis China;

• Profile the extent of China’s **political relations** with the countries being profiled;

• List **investments and commercial arrangements** of Chinese state-owned and private firms in the country case studies;

• Provide **insight into the negotiations and outcomes** of the major identified Sino-African commercial projects – specific case studies will be used;

• Investigate **emerging trends** in China’s various levels of engagement with each country;

• Evaluate the **impact of China’s engagement** with each country on its domestic economy and society;

• Understand the **opportunities and challenges** for African leaders and society in each case study with regard to increased engagement with China; and

• Detail **recommendations** and **potential areas** for possible intervention.

The six country case studies evaluated in this report are selected on the basis of recent concrete developments in their relations with China, in order to provide a rich basis for analysis of growing relations with the Asian power. While no specific matrix was followed in their selection, the countries are broadly representative of Africa in geographic terms In an attempt to map China’s engagement with an extremely diverse continent

**Angola**

One of the most strategic Sino-African partnerships, particularly in terms of energy security, is that between China and Angola. Angola, the second-largest oil-producing country in Africa currently provides China with nearly 15 percent of her total oil imports. Angola has significantly benefited from China’s need for resource security. China initially granted a concessional loan of US$2 billion to the Angolan Government in 2004. This loan has been extended and refinanced several times by China’s Export Import (Exim) Bank and currently stands at US$ 4,5 billion from China Exim Bank alone.
China International Fund Limited, another has also extended loans to the Angolan Presidency to the value of several billion dollars. These loans being used to finance national reconstruction programmes and infrastructure development, including the rehabilitation of several rail arteries, such as the Benguela Railway, the Luanda Railway and the Moçamedes Railway. Furthermore, in March 2006, a joint venture between Angola’s state-owned Sonangol and China’s state-owned Sinopec was established (Sonangol Sinopec International – SSI).

Ethiopia
Ethiopia has been granted over US$ 500 million in concessional loans by the PRC Government, and a further US$ 1.5 billion of investments in telecoms infrastructure, as well as US$ 1.5 billion in short-term trade credits. In 2003, the second phase of the Addis Ababa Ring Road, a road that stretches around the capital city, was opened. As the seat of the African Union, Addis Ababa is politically of strategic importance to China, and it has indicated its commitment to the construction of an international convention centre in the capital.

Gabon
China has developd firm relations with Gabon, primarily with a view to securing access to the country’s oil, mineral and timbers. Aside from the construction of prestige projects such as the National Assembly and Senate buildings, Chinese projects include health centres and primary schools. China National Machinery and Equipment Import & Export Corporation also recently been successful in securing access to Gabon’s Belinga iron ore reserves – one of the largest untapped iron ore deposits in the world. The Chinese company will invest US$3 billion, equal to Gabon’s annual budget, over the next three years, to, inter alia, develop a railway line and two hydroelectric power stations. The deal is anticipated to create approximately 30 000 job opportunities for the local population.

South Africa
South Africa is one of China’s largest trading partners on the African continent. Following pressure from trade unions, the South African Government imposed on the 1st January quota restrictions on the import of clothing and textiles from China. Despite these trade frictions, Chinese President Hu Jintao’s recent visit to South African in February 2007 serves to illustrate the strategic strengthening of relations between China and South Africa. South Africa is also seen as a platform for Chinese companies to channel investments into other African economies, evident from Industrial and Commercial Bank of China’s proposed 20 percent acquisition of South Africa’s Standard Bank. South African corporates are also investing heavily in China in an array of sectors.

Uganda
Chinese Premier Wen Jiabao’s African tour in June 2006 concluded
with a stopover in Uganda. During this visit, China’s largest telecoms equipment manufacturer, Huawei Technologies, signed a Memorandum of Understanding with the East African country. Following the FOCAC summit in November 2006, China and Uganda inked a loan agreement under which the latter will receive a US$120 million loan to develop its nascent national information and communication technology (ICT) infrastructure, in order to provide faster and more affordable telecommunication services for Ugandans. Also signed during the Premier’s 2006 visit was an agreement for China to finance the construction of a railway line between the Ugandan city of Pakwach and the southern Sudanese capital, Juba, essentially integrating Uganda into Africa’s transport corridors.

Zambia
Chinese companies have collectively become Zambia’s third largest group of investors with major investments in agriculture, telecommunications, infrastructure and mining. PRC President Hu’s recent visit to Africa included Zambia, where a special economic and trade zone was established in the copper belt. The Zambia-China Economic and Trade Cooperation Zone is to form a production chain with the Chambishi Copper Smelter as the core enterprise, and will provide China with further access to the region’s abundant resources. Domestic opposition to China’s growing presence in the country is rising and was a major factor during the country’s elections in late 2006.

This profiling of China’s engagement in six African countries, while taking into account varying contexts in each country’s socio-economic and political landscapes, is an attempt to understand the processes behind African policy-making, as a reaction to China’s engagement with Africa.

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Endnotes
A note on methodology

This study is an initial scoping exercise undertaken to analyse and portray the level of China’s engagement in Africa. To this end, six country case studies were undertaken. They are Angola, Ethiopia, Gabon, South Africa, Uganda and Zambia. In-country research assignments were carried out in each country.

The countries were selected on the basis of the high level of diplomatic and commercial engagement they enjoy with China. Their selection was also informed by the nature of their political systems and their structure of economic development. The study also aimed at illustrating a diversity of experiences amongst African countries, drawn from different geographic regions of the African continent.

The research for this study comprised two parts. In the first phase, extensive preparatory desktop research was undertaken by each researcher, during which time a broad context for each country case-study was established. Specific projects within each country were further used as case studies to analyse the nature of negotiations between Chinese and African stakeholders in each country. Key opinion leaders and policy-makers were identified during this phase. Previous research in three of the six case studies by Centre for Chinese Studies (CCS) research staff was also used to establish a frame of reference for the research phase.

Thereafter, researchers visited the six countries, meeting with a broad range of respondents drawn from various sectors. These sectors included: local, Chinese and other foreign business firms; consultants; banking and finance institutions; government regulatory authorities; local, foreign and international government representatives; academic and research institutions; trade associations, trade unions, consumer organizations. Due to the sensitivity of the research topic, the majority of respondents are not identified in each case study. In order to give a sense of the affiliation of the respondent, the general sector that the respondent is involved in as regards government, business, diplomatic or NGO community is given. In addition, the rank is also mentioned. “Senior” refers to respondents with the rank of a minister, ambassador, director, secretary generals/permanent secretaries, head of departments, chief executive officers or their deputies. “Middle-level” refers to middle management and diplomatic first secretaries. “Low-level” would
refer to an assistant, administrative staff or ordinary worker.

In every country, the CCS identified at least one well-positioned person to assist with the scoping process. This person was selected on the basis of being well-versed in the political-economy of the designated country and familiar with China’s involvement in the country and the geographic region. A member of the CCS research team worked with each consultant during the in-country research trips. This did not happen in South Africa and Uganda, where the CCS is well-positioned and has several years of experience in both contexts.

The ease with which in-country market research could be conducted varied among the case studies. Angola and South Africa proved to be the most challenging. This suggests that the greater the depth of Chinese engagement in the country, the more sensitive the issue becomes. This is particularly so if there have been political repercussions to China’s market entrance.

It must also be noted that access to data remains a challenge in undertaking a research project of this scope and nature. A further challenge is the fact that Chinese engagement is most concentrated in extractive industries, a sector not known for its transparency, despite efforts to improve transparency.

Contrary to initial expectations, Gabon and Ethiopia were found to be very open research environments. In Ethiopia’s case, this is possibly explained by well-prepared government officials who readily agreed to meet with the research team. This was not the case in the other case studies. In addition, a clearly discernible national pride at never having been colonised manifests itself in a lack of reticence to engage with foreign researchers. Government officials in Ethiopia were far more accessible than their counterparts in other case studies.

In Angola, by contrast, while a fierce national pride is also evident, this appears to render Angolans less willing to talk to researchers. This may be due to the heavy external intervention in Angola’s political history, causing a wariness of interaction with foreigners interested in political economy issues. In addition, vestiges of a war mentality appear to remain, prompting suspicion of questions, not because of their substantive nature, but because they are posed at all. The main source of information was thus from representatives of civil society and non-government organisations.

Despite Gabon having a similar economic structure to Angola and an only partly free political environment, conducting research in this country proved much easier. This is possibly because China’s increasing footprint in Gabon has been met with increasing optimism by local respondents. In addition, a potential negative situation in Loango national park (see Gabon case
studies) was inverted through participative consultation, demonstrating to both the Gabonese and the Chinese government the value of relative transparency. Indeed, most of the respondents from Gabon were from government and the diplomatic community. The other countries were more balanced in the composition of their respondents’ designations and sectors.

While the core of the research endeavour was to identify key decision and policy makers within each of the countries, it was often the case that more information could be gleaned from well-placed third-party observers able to analyse the country context. Prominent members of the business community, who generally have extensive political networks, appeared particularly insightful to the research team.

The reactions of respondents to the questions posed also varied, according to their position, sector and country context. While respondents from the NGO community and civil society were generally most responsive and interested in the research, several organisations’ representatives in some of the case studies were unwilling to be interviewed, even off the record. It is assumed that this is due to the political sensitivity of the subject, particularly if the NGO community in the respective country feels unable to raise and lobby political issues, for fear of reprisals.

Ease of access to official statistics also differed between the countries. While this was at times due again to the sensitivity of the subject, often the data simply did not exist, due to lack of capacity to conduct the necessary research and monitoring processes. For example, Angola has not has a national census since 2002. All subsequent population figures are estimates.

The CCS hopes that this mapping of China’s relations with the six country case studies will form a solid basis not only for the frame of reference they provide on China’s engagement strategies but for later more in-depth investigative research.
Chapter 1: China’s contemporary engagement with Africa

The People’s Republic of China (PRC) has become an important and influential player in Africa and an increasing source of political and financial support for governments across the continent, particularly countries rich in natural resources. This is a fairly recent development in diplomatic relations spanning several centuries.

History of Relations

Chinese traders had been navigating the Indian Ocean and visiting the east coast of Africa since the Tang Dynasty (AD 618-907). In the early fifteenth century, the famous Chinese explorer Admiral Zhèng Hé sailed down the coast of East Africa with a fleet of over 250 ships and 25,000 people, rounded the Cape of Good Hope, and sailed up along the west coast as far as the Cape Verde islands before crossing the Atlantic. Shortly thereafter, China's exploration was severely curbed, as Imperial China lost interest in outward exploration, choosing instead to follow a policy of isolationism. Growing evidence, however, suggests that China's trade with East Africa and many parts of the world continued well into the nineteenth century.

After 1949, the newly-formed People’s Republic of China (PRC) initiated diplomatic bilateral relations with many African states, within days of their independence. This demonstrates Mao Zedong’s ideological solidarity with Africa in their stance against imperialism and colonialism. This was also to counter diplomatic recognition of Taiwan and to compete with the West and Soviet Union for spheres of influence.

China's multilateral engagement with Africa can be traced back to the 1955 Bandung Conference, where Asian and African states re-enforced their commitment to the principle of non-alignment, seeking to promote Afro-Asian economic and cultural co-operation. This was followed by Chinese Premier Zhou Enlai’s tour of ten African countries between 1963 and 1964, offering support to Africa’s people and leaders. It was also an effort to increase China’s influence within the United Nations and contest Taipei’s claims to
sovereignty over Mainland China. In 1971, China achieved this aim with official UN recognition of the PRC in lieu of the Republic of China (Taiwan), aided by strong backing from the bloc of newly independent African states. China also sought to draw US and European attention away from Southeast Asia, and temper the United Socialist Soviet Republic’s (USSR) influence on the African continent.

During the 1960’s and 1970’s, the PRC provided financial support, equipment and training to a variety of liberation movements, particularly in southern Africa, including Angola, Congo, Mozambique, Namibia, South Africa, and Rhodesia, now Zimbabwe. This support was not always of the magnitude of Soviet assistance. Particularly given the current context of Sino-African relations however, it is held up as a symbol of China’s historic support of African independence movements. Chinese economic aid to newly-founded African state governments consisted primarily of soft commercial loans, focused on infrastructure and development, with the construction of high profile projects such as the Tanzam (now TAZARA) railway between Tanzania and Zambia. Such undertakings were carried out by Chinese State-Owned Enterprises (SOEs), the only Chinese companies then authorised to operate in an international ambit and only for the purpose of completing a foreign aid project. In addition to teachers and medical personnel, the Chinese also provided technical assistance in agriculture and basic processing, often in the form of turn-key joint venture projects to be operated as co-operatives, such as textile and grain mills. Following the death of Mao in 1976, China’s ideological support of African anti-colonial resistance movements waned as the PRC government policy became more inward focused during the economic reform that took place under Deng Xiaoping from 1978.

PRC’s post Cold War re-engagement

Following the political turmoil resulting from the death of Mao Zedong in September 1976, the Chinese Government turned inward throughout the 1980s in order to address pressing domestic economic crises. During this period, the PRC’s assistance to Africa was eclipsed by World Bank and International Monetary Fund (IMF) support for structural adjustment programs requiring extensive economic privatisation and liberalization, including reduced tariff barriers and trade restrictions.

The year 1989, however, marked a watershed in Sino-African relations. Following the Tiananmen Square ‘incident’, China was severely criticised by Western powers for the heavy-handedness that Deng’s regime had used against student protestors. African countries, on the other hand, were quick to praise the decisive actions of the Chinese leadership in “quelling the counter-revolutionary rebellion”. African leaders not only wished to show solidarity with China in the face of Western criticism, but also supported of
China's authoritarian style of leadership in the face of civil unrest. They also hoped that Chinese aid, which had been dwindling in previous years, would increase as a result of their support. They surmised correctly, and China began to take greater interest in relations with the African continent.

By the early 1990s, the economic reforms in the PRC initiated under the leadership of Deng Xiaoping had begun to produce results, and the PRC's economy was recording significant growth. Chinese assistance to Africa resumed, continuing its focus on key industries such as textiles and agriculture. These projects were administered by the Chinese Ministry of Foreign Relations and Trade (MOFERT), with a change in policy to the more flexible use of loans that would prove more beneficial to Chinese business interests in establishing a presence in Africa.

**China's Commercial Focus on Africa**

Chinese relations with Africa grew exponentially over the past decade. During the 1990s, Sino-African trade grew by 700 percent and, from 1995, many high-level visits took place.

**Figure 1.1: China-Africa Trade Statistics 1995-2006**

Trade between the PRC and Africa increased from US$6.5 billion in 1999 to US$56 billion at the end of 2006, and is expected to reach US$ 100 billion by 2010 according to Chinese Premier Wen Jiabao. While the majority of countries have experienced growing trade deficits with the PRC - importing enormous quantities of consumer goods, in addition to light manufacturing
and agricultural equipment - a small number of resource-rich countries, such as Angola, Nigeria, Sudan, Nigeria, and Zambia, in total 17 out of 53 African countries, enjoy mounting surpluses, notably due to their rich oil and mineral deposits.

The Forum for China Africa Co-operation (FOCAC) was established in 2000, at the instigation of Chinese President Jiang Zemin, with the first Ministerial Meeting taking place in Beijing of that year. The Forum was China’s largest ever multilateral undertaking. The 2000 Forum produced the “Beijing Declaration”, a document that affirmed the consensus between China and Africa on certain international issues.

This was followed in 2003 by FOCAC’s second Ministerial Conference in Addis Ababa. It consolidated Sino-African relations and earmarked further areas of cooperation in the areas of trade, economic assistance and cultural exchanges. The PRC delegation announced the Special Preferential Tariff Treatment program which removed import tariffs on 190 different items from twenty-five African countries. It was implemented in January 2005. The program has resulted in a substantial boost to trade volumes with the PRC, presenting an opportunity for the countries involved to diversify exports.

The year 2006 was unequivocally declared by the Chinese leadership to be the year for China-Africa relations. January heralded the release of China’s African Policy Paper, which reiterated China’s declared policy of respect for national sovereignty and non-interference in the internal affairs of other states.

The paper confirms rhetoric dating back to President Jiang Zemin’s declaration in 1996 that the five cornerstones of China’s Africa policy are “sincere friendship, equality, unity and co-operation, common development, and looking to the future”. This foundation has been re-affirmed and expanded upon by the current Chinese President, Hu Jintao, in his six pillars of Sino-African relations. These are non-interference, African ownership in dealing with problems, mutual trust and co-operation, the increase of economic assistance with limited political conditions, lobbying for the international community to pay more attention to Africa, and the promotion of an international environment more conducive to Africa’s development.

This policy outline contrasts with Western donors’ conditional assistance, and has been well received by African heads of state. China’s current policy stance can be compared to that of the US a century ago, as it tried to penetrate China which had already been carved up by European powers. African governments are only beginning to appreciate the potential leverage afforded to their position in the renewed interest showed by foreign investors for the continent’s markets and resources, spearheaded by China. China
presents Africa with an alternative to the West. In the words of Tanzanian President Jakaya Kikwete: “China and India shouldn’t be viewed as competitors or clients, but as contributors to Africa’s development.”

At the most recent FOCAC forum, held in Beijing in November 2006, China made further pledges to develop the African continent. The multibillion-dollar development package includes the following promises: US$ 3 billion in preferential loans and US$ 2 billion in preferential buyer’s credits over the next three years; the doubling of its 2006 aid assistance by 2009; initiating a China-Africa development fund that will reach US$ 5 billion to encourage Chinese companies to invest in Africa; increasing the preferential zero-tariff treatment of more than 440 from 190 products; the training of 15,000 African professionals; the establishment of ten agricultural technology demonstration centres on the continent over the next three years; the building of 30 hospitals and US$ 37.5 million in grants to help fight malaria; the dispatching of 100 senior agricultural experts; and the building of 100 rural schools and increasing the number of Chinese government scholarships for Africans to study in China from 2000 to 4000 by 2009.

In addition, Hu pledged that China would forgive all interest-free loans that matured at the end of 2006 owed by the most heavily indebted and underdeveloped African nations. While it was certain that FOCAC would broadly cover and expand on these issues, it is worth noting that a new dimension was added to strengthen the cooperative relationship. The Chinese government committed, amongst other things, to step up cooperation in capacity building, prevention of water pollution and desertification, maintenance of biodiversity, and the development of environmental-protection and in projects conducted in Africa. This is seen as a response to China’s increasing awareness of the risks associated with the negative international image its companies are creating in some African countries, especially with regard to environmental practices.

China’s pragmatic policy shift to economic concerns has been deeply reflected in the drive behind PRC foreign diplomatic relations, particularly with regard to African countries. Increased diplomatic activity has thus, by design, paved the way for the entry of Chinese companies of all sectors into Africa’s economies.

**China’s strategic interest in Africa**

By the end of 2006, there were over 800 officially registered Chinese companies active in Africa, engaged in a variety of sectors. Such enthusiastic Chinese commercial interest on the Africa continent is explained by several reasons.

**Energy security**
While certainly not the only reason\(^\text{17}\), one of the most important motives for Chinese commercial forays into Africa is the growing need for raw materials and oil to feed China’s burgeoning economy. China became a net oil importer in 1993. It was ranked as the second largest oil importer after the US in 2004\(^\text{18}\). China currently imports 28 percent of its oil from Africa, primarily from Sudan, Congo, Angola and Nigeria\(^\text{19}\). Particularly due to its strategic importance for economic growth, the procurement of secure oil supplies are a principal national interest and form a fundamental part of China’s foreign policy. Unsurprisingly, all China’s oil companies are state-owned, and have worked in close concert with China’s Exim Bank in several key African oil acquisitions, in countries such as Nigeria, Angola and Sudan.

China’s interest in African oil has been encouraged by the established US presence in the Middle East, consolidated by the invasion of Afghanistan in 2001 and Iraq in 2003. In addition, despite affirmations of cooperation with China, Russia has decided to direct the proposed East Siberian-Pacific oil pipeline to Japan and not China.\(^\text{20}\) While a dog-leg tributary to China has not been ruled out, the oil supply that China will receive from Russia is considerably less than originally expected, further prompting China to look elsewhere to procure oil supplies.

These developments in global oil dynamics have spurred China’s state-owned oil monoliths to court Africa’s petro-states will increased ardour.

**Political consolidation**

While China’s oil companies negotiate oil agreements in Africa, other no less strategic deals are worked out in other sectors. The state-directed nature of Chinese investment in Africa, channelled through the larger SOEs, lends itself to being used as a political tool.

In previous years, this was aimed at achieving recognition of China by African states, at the expense of Taiwan. With only five African countries continuing diplomatic relations with the latter\(^\text{21}\), this political goal has been all but achieved. Nevertheless, Taiwan remains an important consideration in terms of China’s relations with African states. China’s most recent political convert is Chad which severed diplomatic relations with Taiwan to recognize the Government of Mainland China in August 2006. Shortly thereafter Chad received a packet of debt relief, economic cooperation agreements and medical donations worth US$ 80 million.\(^\text{22}\)

As the largest group of developing countries in the world, the ‘African bloc’ is also being courted by China as the largest collective voice in the United States General Assembly, to block Japan’s possible ascension to the United Nations Security Council (UNSC) in favour of an African candidate. Despite healthy trade relations, there is little love lost between China and Japan\(^\text{23}\).
with historical colonial tensions too fresh to be forgotten. Having usurped Japan’s role as the growth engine of Southeast Asia, China is eager to consolidate her position as the emerging Asian power.

A commercial launch pad

Aspirant Chinese multinationals which are not yet confident enough to attempt penetration into developed countries have adopted the approach of entering less competitive developing countries’ markets. In the wake of increased diplomatic and commercial traffic between China and Africa, the latter has become a favoured ‘testing ground’ in which aspirant Chinese multinationals can cut their teeth.

In addition, Africa consumers are more likely to be swayed by the price tag than the brand name of products on the shelves. Chinese companies are extremely price-competitive, but weak in terms of branding. This has led to Chinese companies manufacturing under license for European markets, in order to get an (unacknowledged) foothold in the fiercely competitive European markets.24 In African markets, branding is not as much of an issue, allowing Chinese firms to expand market share in several sectors, under their own names, thus promoting their own brand recognition.

The need for new markets

Decades of an industrially-led command economy have resulted in oversupply in many sectors in China’s domestic market, driving down prices. In addition, regional competition between companies is consequently so fierce that products sold but not made in any given province are heavily taxed. Expansion into international markets provides more scope for a product to attain greater market distribution with fewer tax obligations.25 It also stimulates foreign demand for products substantially cheaper than the global average, due to Chinese domestic market saturation. The need to find new markets for products that are in oversupply has become a matter of survival for many Chinese companies.

African countries, for their part, have been experiencing the highest rates of economic growth in several decades, fuelled in no small part by China’s appetite for African oil and raw materials.26 Consequently, African markets are promising ones for Chinese firms, as there is a growing market of African consumers. While far from wealthy, they are nevertheless now more able to afford the kinds of products that Chinese companies can produce. As market entry into developed countries’ markets has been particularly challenging, Africa’s markets are being targeted.
China’s Edge

China’s interests in Africa are guided primarily by economic imperatives. In this respect, Chinese companies are little different from Western multinationals. It is rather the scale of Chinese operations, combined with the condition of the African state and its inability to monitor and manage such large inflows of investment and foreign economic activity that has caused concern amongst many of the traditional actors.

There are, however several aspects which give Chinese companies an edge over other market competitors despite their relative in-market inexperience.

Political assistance

In a bid to encourage Chinese firms to engage in the global economy, China’s centrally planned “go-out strategy” provides support specifically to Chinese companies seeking to increase access to international markets, increase competitiveness through global competition and expand Chinese exports.27

Should a multinational, state-owned or otherwise, be earmarked as a ‘flagship enterprise’, it can also expect additional preferential treatment from the government. The State Assets Supervisory and Administrative Commission (SASAC), charged with overseeing the internationalisation of China’s SOEs, has, as of 2006, compiled a list of approximately 150 companies that have been cherry-picked for special attention. These companies are seen to be advancing China’s global interests. Thus, often bids that would be deemed too costly by global competition standards, but deemed strategically important by government, are embarked upon by these multinationals, who then receive additional public sector backing.

Specific to the African context, the recent strengthening of diplomatic relations between China and Africans countries has largely facilitated Chinese companies’ access to African markets. The November 2006 Forum on China-Africa Co-operation (FOCAC) saw the announcement of several overarching initiatives to increase aid and commercial linkages. At the conference alone, US$ 1.9 billion worth of commercial transactions took place, the most lucrative being a US$ 938 million contract to develop an aluminium smelter plant in Egypt.

This was followed with high-level visits, such as Premier Wen Jiabao’s seven-country African tour in June 2006, and President Hu Jintao’s eight-country tour in February 2007. Each country visited was granted debt relief (in the case of less-developed countries), and presented with trade agreements and commercial proposals to further strengthen China-African relations and consolidate burgeoning commercial ties.
The PRC government also leverages its extensive diplomatic presence on the continent. Most African countries with official diplomatic relations with the PRC also have Chinese Trade Centres that provide information to both local and Chinese businesses wishing to enter the respective market, either through trade or investment options.28 These centres also provide limited logistical support, assisting with the organisation of accommodation, transportation and, in some instances, telecommunications. Such services are usually offered for a fee. The Economic and Commercial Counsels, who are attached to PRC Embassies but have a larger degree of autonomy than other desks, restrict their assistance to providing information. PRC embassies, however, may extend their assistance to helping Chinese nationals with administrative problems that they may encounter with local authorities.

Furthermore, China continues to uphold its principle of non-interference which, in theory, separates commercial engagement from political interference. This allows Chinese companies to pursue investments in resource-rich pariah states such as Sudan and Zimbabwe, free from domestic political pressure as experienced by other multinationals.29 Recently, however, China has experienced increasing international pressure from the international community regarding its relations with these states. This is most evident in China’s modified stance on UN and AU intervention in the civil conflict in Darfur, Sudan. Despite strong rhetoric around its stance on non-interference and support of Khartoum’s rejection of UN intervention, the Chinese leadership was instrumental in persuading Khartoum to accept a joint UN-AU task-force in late 2007.30 China has come under pressure from a number of campaigns attempting to use the Beijing 2008 Olympics as leverage around various issues.

**Cross-sectoral Approach**

The state-directed nature of Chinese engagement in Africa results in “coalition investments” across various sectors. This is most evident in resource-rich countries such as Angola. Chinese government concessional loans disbursed by China’s Exim Bank are usually extended to African governments for large-scale infrastructural projects and follow the classic pattern of tied aid. According to China Exim Bank requirements31, all such projects funded by these loans must, in principle, be carried out by Chinese companies and at least 50 percent of all procurements must come from China. Furthermore, these loans are often repaid by the awarding oil or mining concessions. The linkage between Chinese companies involved in the construction, mining and energy sectors are thus very evident. This pattern of engagement is apparent in resource-rich countries such as Angola.32 For example, tied to the US$ 4.5 billion China Exim Bank loan to the Angolan government is the agreement that the public tenders for the construction and civil engineering contracts financed by this loan will be awarded primarily (70 percent) to Chinese enterprises approved by the
Chinese government. Of the tenders, 30 percent have been allocated to the Angolan private sector to encourage Angolan participation in the tender process. While it appears that much of China’s commercial investment in Africa is concerned with extractive industries, primarily oil, a major feature of China’s commercial presence in Africa is the involvement of multiple sectors in engaging the respective African country. Thus, large amounts of infrastructure, be it construction and/or telecommunications spending is tied to the securing of oil or other raw material extraction contracts. Chinese government officials favour this mode of engagement, so-called the ‘Angolan model’. This endows “China Inc.” with a competitive advantage that its traditional competitors do not enjoy.

Recently, the Industrial and Commercial bank of China’s (ICBC) proposed acquisition of a 20 percent stake of South Africa’s Standard Bank, illustrated a diversified strategy for Chinese commercial penetration of African markets. That China’s biggest commercial bank seeks to purchase a US$ 5.5 billion share of Africa biggest bank is significant as it indicates that ICBC’s 2.5 million clients are increasingly interested in investing in Africa. With access to Standard Bank’s established networks in 18 Africa countries, this will be greatly facilitated. The competitive landscape of Africa is being transformed by China’s commercial engagement. African economies are welcoming beneficiaries of this emerging trend but this is likely to come at the expense of traditional players – European and, more recently, South African – on the continent.

**African Economic and Trade Co-operation Zones**

In late 2006, the PRC Government announced its intention to develop between three and five special economic zones (SEZ) within Africa, in order to encourage investment in the continent by Chinese companies. This is in line with a pledge made by PRC President Hu Jintao during the November 2006 FOCAC Summit in Beijing. It ostensibly forms part of the ‘China-Africa development fund’ with a value of US$ 5 billion being set up for this purpose.

The Chambishi Copper belt in Zambia, where the China Non-ferrous Metal Corporation own the Chambishi Copper mine, was confirmed as the location of the first such economic and trade co-operation zone during President Hu Jintao’s visit to Zambia in February 2007. This formed part of the US$800 million investment package offered to Zambia during the PRC president’s visit.

Within these SEZs, it is anticipated that China will negotiate bilaterally with the SEZ host government for Chinese companies to operate free from the tax and labour law restrictions that normally apply to commercial operations in other parts of the country, thus promoting an improved investment climate. In return, the heightened productivity of the area is expected to render high
foreign direct investment (FDI) returns and promote economic growth. This arrangement leaves Chinese companies operating within the SEZ with a decided advantage over other market competitors.

**Implications for Africa**

In a remarkably short space of time, Chinese multinationals are emerging to claim their share of the increasingly promising African market. Such expansion is not without its challenges. Despite the lack of affluence amongst African consumers, some still shun the cheaper Chinese products under the misconception that they are always of inferior quality. In fact, the quality among Chinese companies is variable. Many Chinese firms however, have shown their mettle and are overcoming the stigma attached to the label ‘made in China’.

Chinese multinationals’ engagement in Africa has the potential to benefit both African countries and Chinese commercial interests. Africa will benefit by receiving cheaper goods and services than it would from traditional market players, as well as the possibility of technology transfer. Chinese companies will benefit from the opportunity to realise their global aspirations in Africa, having been less successful in the American and European.

However, there are several issues that must be resolved in order for this potential to be realised.

The influx of Chinese workers and businessmen into Africa is a potentially serious social issue in the context of a continent ravaged by high levels of unemployment. Michael Sata, the opponent to President Levy Mwanawasa in Zambia’s September 2006 presidential elections, achieved great popularity with his anti-Chinese rhetoric and campaign promises to expel Chinese nationals living in Zambia. Although unsuccessful in the presidential election, Sata’s popularity is indicative of the rising anti-Chinese sentiment in some African countries, where Chinese workers are perceived to be taking jobs away from locals.

In addition, there is a concern that the lack of institutional regulatory frameworks and government capacity to monitor and encourage direct investment, in terms of local skills development and technology transfer, will limit the positive knock-on effect of Chinese activity in African economies.

If left unaddressed, these issues will needlessly tarnish the reputations of China’s multinationals, and African economies will miss out on much needed infrastructural development.
China’s rise as a donor for Africa

May 2007 saw substantial developments in China-Africa relations on foreign aid and assistance. From 16-17 May 2007, the African Development Bank (AfDB) held the 42nd Annual Board meeting in Shanghai. The meeting brought together more than 2,500 participants from top government officials, business leaders, representatives of NGOs, civil society, as well as members of the academic community and the media. A ministerial round table discussion dealt with the development of partnerships between Africa and Asia trade and capital flows between the two continents. Entrepreneurship, private sector development in Africa, Asian lessons on human capital and technology in development as well as regional cooperation and trans-boundary challenges were also discussed. In-depth discussions on Sino-Africa economic cooperation were also carried out.

This choice of venue is significant because it is only the second time that AfDB has convened outside of the African continent and the first time an Asian venue was selected. In Shanghai, the AfDB clearly acknowledged China and Africa’s burgeoning relations and the substantial role foreseen for China as a donor for Africa.

Shortly after the conclusion of the meeting the Chinese State Council approved the creation of US$ 5 billion China-Africa Development Fund, to be administered by the China Development Bank. Chi Jianxin, president of the fund, has said that the CDB Investments Bureau will analyse proposed projects from each branch and recommend the most promising programs to fund managers. However the CDB has denied itself controlling stakes since shares from a single investment will not exceed 40 percent of a given enterprise’s total equity.

The investments of the fund will be targeted at providing capital for Chinese enterprises engaged in development, investment, economic and trade activities in Africa. The fund will also provide support for African countries’ agricultural, manufacturing and energy sectors, as well as support for urban infrastructure and the extractive industries.34

The China Development Bank forecasts a 50-year lifespan for the fund, touted as the largest global fund aimed exclusively at African development. According to Gao Jian, the fund’s chairman and vice president of the CDB, the fund will seek primarily to advance economic, political and societal development in Africa, with the potential to realise significant gains.35

This is a note-worthy development in China-Africa relations as it is a further gesture of China’s intention to play a major role in Africa’s development. It is interesting that China has chosen to establish its own vehicle for assistance, rather than work within the existing framework of international institutions. Nevertheless, it is possible that China feels that this structure will be more
effective and easier to manage as a bilateral partnership between China and Africa.

Implications for the International Donor Community

Many donor institutions are voicing concerns that any leverage they possess vis-à-vis African governments is being rapidly eroded by the arrival of substantial concessional loans from China, with few conditions. China regularly reaffirms its commitment to the delivery of bilateral assistance compatible with the means at its disposal. Focused on mutual prosperity, China proclaims to have no interest in the domestic affairs of African states — and this can be very attractive.

Nevertheless, it must be remembered that China is a relative newcomer in terms of commercial engagement in Africa. Despite FOCAC pledges, the current level of Chinese aid is of little consequence in comparison to accumulative assistance from Western donors over several decades. China has however taken steps to raise its African foreign profile and recent developments may indeed cause Chinese to eclipse that of the World Bank and other traditional donors.

Interestingly, China’s contentious principle of non-intervention is extremely similar to the approach used by the United States towards the end of the nineteenth century, as they first entered East Asia where spheres of interest had already been firmly established by European powers. This approach was effective until the United States established interests on the continent which needed to be defended.

A question for further exploration is thus, whether the interests the PRC government is developing on the continent will lead to political intervention from China, and whether their policy of non-intervention will be as immutable in the future as it is currently. This is a particularly pertinent question given China’s evolving stance on the Darfur crisis. Despite a growing interest in multilateral circles for the establishment of a group such as FOCAC or ASEAN + 3, China has demonstrated a preference for bilateral engagement in African countries, especially where strategic and commercial interests dovetail. The purpose of this study is to evaluate the process of policy-making and the roles of various stakeholders in developing policy around African countries’ engagement with China.
Endnotes
3 The Tanzania-Zambia Railway remains one of the PRC’s turnkey foreign aid projects – the largest such foreign aid undertaking by China in Africa to date. The 1,860 km railway runs from Dar es Salaam to Kapri Mposhi in Zambia, and was built to provide Zambia with an alternative route to the coast. The project, which involved approximately 50,000 Chinese workers was started in May 1968 and handed over to the Government of Tanzania in July 1976.
7 This is a quote from the Angolan Minister of External Relations reported in the Xinhua Domestic Service, 7 August, 1989.
10 For a detailed description of events leading up to and following the first two FOCAC Summits, see Eastday (2006) “China-Africa relations board the ship of a new century” 3 March. Available: http://english.eastday.com/eastday/englishedition/node20665/node20668/node22811/node16960/node16960/node16961/node169618/userobject1ai2414979.html
11 These include Benin, Burundi, Cape Verde, Central African Republic, Comoros, Democratic Republic of Congo, Djibouti, Eritrea, Ethiopia, Guinea, Guinea-Bissau, Lesotho, Liberia, Madagascar, Mali, Mauritania, Mozambique, Niger, Rwanda, Sierra Leone, Sudan, Tanzania, Togo, Uganda, and Zambia.
14 William Pesek, Asia is offering African countries a rare opportunity to add steam to its economies, June 25, 2006.
21 These are Gambia, Sao Tomé and Principe, Swaziland, Malawi and Burkina Faso.
31 http://english.eximb ank.gov.cn/business/government.jsp
## Angola

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Chapter 2: Angola

I) Introduction

Angola, a former Portuguese colony, recently emerged from a civil war lasting 27 years which began when the colony was abruptly granted independence in 1975. Following the signing of the Luena Memorandum Peace Accord in 2002, there has been relative political stabilisation, increasing the potential for improvements to Angola’s growth trajectory.

Decades of war have however left their mark on the country’s socio-economic profile. Angola has a population of approximately 14 million, almost half of which live in the capital city, Luanda. Luanda was a stronghold of the MPLA (Movimento Popular para a Libertação de Angola) - now the ruling party - and the city was one of the few enclaves that was relatively sheltered from all-out fighting. Consequently, between 80-90 percent of all economic activity in the country is concentrated in Luanda. Despite only having the infrastructural capacity to support 500,000, the city currently has a population of approximately 6 million, placing strain on what is already an underdeveloped infrastructure for basic public services.

The Angolan Government, following the end of the war in 2002, intended to enlist the support of the United Nations and the international donor community for humanitarian relief by holding an international donor conference. In order to secure the support for such a conference, the Angolan Government was encouraged by the World Bank and the IMF to develop a Poverty Relief Strategy Paper (PRSP), known in Angola as Estratégia Contre a Pobreza (ECP). The ECP was however not accepted by the international donor community as a solid ground from which to launch a donor conference, largely because of a lack of consultation with relevant stakeholders during its formulation.

Despite rising Government revenues due to the commodities boom of recent years, social welfare and pro-poor economic policies remain undeveloped. The situation is exacerbated by the fact that many non-governmental organisations (NGOs) are considering withdrawing from Angola, as its rising oil revenues preclude Angola from being considered for the aid grants
awarded to Africa’s poorer states. Oil production accounts for 52 percent of the country’s US$24 billion economy, with oil exports accounting for over 80 percent of fiscal receipts in 2005. While the oil industry’s GDP contribution is expected to have increased by 37.2 percent in 2006 according to the Angolan Ministry of Finance figures, the oil industry itself can provide only a fraction of the jobs in a country where unemployment is widespread. Sociedade Nacional de Combustiveis de Angola (Sonangol), the state-owned oil company, employs approximately 7,000 Angolans out of a total labour force of 5.1 million people. The unemployment rate is estimated to be approximately 30.6 percent of the economically active population. Diamond extraction, the second largest contributor to exports, accounts for six percent (compared to oil extraction’s 93 percent) and employs only approximately 10,000 workers. Thus, while extractive industries, diamonds and oil, account for 99 percent of Angolan exports and 57 percent of GDP, they employ only 1 percent of the Angolan workforce.

**Figure 2.1: Angola’s GDP by sector (2004)**

Angola’s non-oil economy grew 10.9 percent in 2006, reflecting Angola’s efforts to diversify away from oil related activities. Predictions for Angola’s 2007 growth, according to IMF, are as high as 31.4 percent.

During Angola’s protracted war, there was mass displacement of most of the population to Angola’s coastal areas. This resulted in the growing informal economy becoming the mainstay of economic survival. Five years after the war’s end, the informal economy is still a very important means for survival for a large portion of the Angolan population, albeit going unacknowledged by the Angolan Government. The Angolan Government relies heavily on the
NGO and donor community to provide the poorer and vulnerable sections of the population with basic services. Indeed, the general opinion is that this kind of service provision has *de facto* been ‘outsourced’ to the donor community, releasing the Angolan Government from the necessity to find pro-poor growth strategies and the responsibilities inherent in basic universal service provision.9

Much of the Angolan population is still in the process of returning to homesteads occupied prior to the war, resulting in rapid *ad hoc* urbanisation as people move to the relatively more developed areas to try to reinsert themselves into the economy. While there have been attempts to resettle families that moved from the interior provinces to Luanda, in an effort to stem the continued rapid urbanisation of Luanda, these attempts have been largely unsuccessful. Most families state a fear of mine infestation10 in their former homelands as a reason for not wanting to return.11 The recent improvement of major transport arteries between the provinces, while important, has done nothing to encourage internally displaced persons (IDPs) to return home, and has in fact increased the flow to Luanda.

II) Identification of Policy-Making Actors and Canvassing their Opinions

Angola is arguably one of the most fiercely independent of all African countries. This has important economic consequences as the political elite largely direct the economic forces in Angola. While there is a marked cultural influence of major trading partners, such as Portugal and Brazil, the Angolan executive is careful not to let any one foreign trade partner influence the domestic political or economic arena. Angola, despite international concerns, particularly in the context of strengthening China-Angola relations, will strongly resist becoming or being perceived as a client state of any other country12. This is evident in the collapse of negotiations regarding the Lobito refinery, proposed project between Angolan and Chinese state-owned oil companies (refer to case study).

a) The role of the executive

Policy–making in Angola, especially in terms of national development, is extremely tightly controlled by the executive. This remains so after the war years where the Presidency would form specially tasked *gabinetes* or ‘commissions’ to undertake certain urgent operations. There is however, rising public concern that these *ad hoc gabinetes*, which are less legitimate in times of peace, show no sign of being relinquished by the Presidency in favour of a more decentralised policy-making approach.13 The executive, through the presidency and several senior MPLA generals, control all strategic sectors of the economy including telecommunications, transport, extractive industries as well as the commercial and agricultural sector14.
The role of the executive thus remains pivotal in all major policy development and implementation; engagement with China is no exception. This is especially because all economic sectors of national interest are controlled, political and economically by the presidency. The major thrust behind Chinese engagement in Angola is an oil-backed loan from China Exim Bank of several billion dollars (discussed in this chapter). Disbursement of the initial US$ 2 billion tranche, despite being officially coordinated by the Ministry of Finance, receives strong guidance from the Presidency, and is not tabled or discussed in the National Assembly, the Angolan Parliament. In addition, ministries that previously had some input in the planning and allocation of reconstruction and rehabilitation projects are now left in the dark as only the Presidency and the National Office for Reconstruction Gabinete para a Reconstrução Nacional (GRN) seem to be privy to these negotiations. Indeed, according to a well-established NGO which has had some success in informing local government policy, the fact that very often even the Ministers themselves are not informed as to how the Chinese credit line is spent, illustrates the closed-door nature of the negotiations and the lack of consultation, even within the Cabinet.

There is a perception that this tight control by the Presidency is designed to facilitate preferential commercial and subcontracting arrangements between the Chinese companies with access and Angolan companies in which the political elite have controlling interests.

According to an NGO observer who has studied Angola’s political trajectory, President Dos Santos has been very successful in consolidating personal political power. This is despite initially being considered by influential party members as a compromise candidate within the MPLA and easy to control by the party elite. He has achieved this by successfully managing the army, playing political interest factions off each other, and rotating political favourites so that no one is able to get too close or become too powerful, particularly the more well-established generals who have themselves amassed considerable political power and economic wealth.

Eduardo dos Santos seeks to cultivate an image, according to an NGO representative, of a dynamic president hamstrung by inefficient bureaucracy – thus reinforcing the perception that if only more political power were awarded to him, he would be able to bypass an ineffective government bureaucracy and ensure effective service delivery.

b) The role of important foreign actors

Brazil and Portugal remain important players in Angola’s political economy. A Brazilian diplomatic official commented that he did not see the entry of Chinese companies into the Angolan market as a threat to Brazilian interests, as these would effectively be protected by the credit line of approximately US$ 400 million that Brazil extends to Angola. In his opinion,
China was merely widening the market and not stealing market share. The Chinese line of credit was, in his opinion, a way of the Angolan Government being able to avoid the conditionalities attached to World Bank (WB) and IMF loans, thus postponing a move to governance transparency.

The United States has a strategic interest in Angola, currently importing approximately 30 percent of Angolan oil, on par with China, according to a Western diplomat. Indeed, US diplomatic and commercial interests are keen to pursue cooperation initiatives with Chinese interests in Angola, but as yet, no progress has been made. Furthermore, in what can be interpreted as a strategic move, to counter a growing Chinese presence in the region, the US has established a military base (AFRICOM) on the African West coast.

c) Donor community

In terms of practical input into domestic Angolan economic policy, particularly as regards China, the international donor community is largely ineffectual. Although most continue with their respective country programs in an effort to improve social welfare conditions, the Angolan Executive rarely consults them and remains by and large suspicious of their activities, particularly if they are foreign-funded. In addition, there is very little information offered to the international donor community about China’s foreign aid to Africa. A Western NGO sought to conduct a study in 2004 to map this relationship but was discouraged as access to public sector officials was obstructed.

Particularly since Angola is no longer at war and given healthy public revenue from oil receipts, many donors have left Angola. The aid parcels that the remaining donor organisations offer Angola are fairly modest. The World Bank, for instance, has a maximum fund mobilisation for (fast-tracked) emergency relief of US$500,000. This pales in comparison not only to the concessional loans China is disposed to give to Angola but also the enormity of the social problems facing the country.

Particularly as no conditions of good governance are attached to the Chinese government loans, the largest offered to the Angolan Government, they are considered much more attractive than World Bank or IMF packages. As one NGO representative frankly admitted: “If you get into bed with [the] IMF, they will force a globalisation agenda on you. China’s principle of mutual respect for sovereignty is appealing – it is like borrowing from a commercial bank, as long as you repay the loan, they respect your privacy”. This comment reflects the Angolan Government perceptions of the Bretton Woods institutions.
III) China’s political profile with Angola

Prior to the establishment of official diplomatic ties between the People’s Republic of China and the Republic of Angola on January 12, 1983, China and Angola have had a long political association.

During the 1960s and 1970s, when revolutionary China sought to export its ‘people’s revolution’, after initial support of the MPLA, China supported rival liberation movement *União Nacional para a Independência Total de Angola* (UNITA) during the Angolan civil war. This occurred after USSR-China relations soured and was in an effort to counter the Soviet Union’s strong influence and support of the MPLA.

This particular African foray proved somewhat embarrassing for China, as it ended up backing the same side as sworn Cold War enemies, the United States and apartheid South Africa.\(^25\) It is likely this led to the delayed establishment of official diplomatic ties between Angola and China.\(^26\) The Joint Communiqué on the Establishment of Diplomatic Relations between the Government of the People’s Republic of China and the Government of the Republic of Angola was ratified on 12 January 1983. The Chinese embassy was only opened in late 1980’s, and for many years was kept at arms length by the Angolan Government.

**Bilateral political ties\(^27\)**

*Important visitors to Angola from China include:* Vice Minister of Foreign Affairs Gong Dafei (May 1983); Foreign Minister Qian Qichen (August 1989); Vice Premier Zhu Rongji (August 1995); Vice Minister of Foreign Ministry Li Zhaoxing (April, 1996); Assistant Minister of Foreign Ministry Ji Peiding (September, 1997); Foreign Minister Tang Jiaxuan (January, 2001); Li Tieying, member of the Political Bureau of the Central Committee of the Communist Party of China (October 2001); Wang Wenyuan, vice chairperson of the National Committee of the Chinese People’s Political Consultative Conference (April, 2002); Vice Minister of Foreign Ministry Yang Wenchang (July 2002); Vice Premier Zeng Peiyan (February 2005); Vice Minister of Foreign Ministry Lü Xinhua (July 2005); and Jiang Yaoping, vice minister of information industry (November 2005).

*Angolan leaders who have visited China include:* President Dos Santos (October 1988 and October 1998), Speaker of the National Assembly of Angola Vandunem (November 1993), Foreign Minister De Mora (March 1994), General Secretary of the Angolan governing party MPLA Lopo Do Nacimento (September 1998), Defense Minister Payama (May 2000), General Secretary of the Angolan Governing party MPLA Lourenco (May 2000), and Speaker of the National Assembly of Angola Almeida (May 2001).
The Angolan Government flirted with establishing diplomatic relations with Taiwan in the early 1990s, sending several ministers to the island, but this did not materialise. This is possibly due in part to Angola’s desperation for financing following a dip in global oil prices. Increased diplomatic efforts by the PRC may also have contributed as it was around this time that oil imports became one of China’s economic imperatives, having become a net oil importer in 1993. With increased commercial co-operation between Angola and China, Taiwanese diplomatic efforts toward Angola have disappeared.

a) The Oil-backed Loan Agreement

On 21 March 2004, during Vice-premier Zhang Peiyang’s visit to Angola, China’s Exim Bank extended an oil-backed US$ 2-billion credit line to the Angolan Government; the first tranche was payable in September 2004 and the second tranche in March 2005.28 This loan was later increased by US$1 billion in March 200629 rendering China the biggest player in Angola’s post-war reconstruction process.

In May 2007, an additional US$ 500 million was negotiated to assist with ‘complementary actions’. This, according to a representative of the Angolan Ministry of Finance, encompasses further incidental expenditures that will facilitate the integration of the newly built infrastructural projects into the national economy. For example, the purchase of school buses to transport schoolchildren to the newly constructed schools is planned for the interior provinces.30

The loan is intended to assist Angola in the rebuilding of vital infrastructure and is managed by the Angolan Ministry of Finance. In exchange for the loan, payable at Libor31 + 1.5 percent over 17 years, including a grace period of 5 years, China has secured 10,000 barrels of oil per day from Angola. The loan, which operates like a current account held in China under the name of the Angolan Government, is paid directly to the Chinese companies responsible for the construction work. The loan has placed China in a favourable position with the Angolan Government, especially as a much smaller amount of oil must be put up for collateral, as compared to traditional expensive oil-backed loans.32

This agreement is significant, particularly because Angola had been experiencing difficulties securing capital from the international financial institutions, such as the Paris Club and the International Monetary Fund (IMF). Angola was loath to submit to external pressure regarding good governance and transparency, particularly as the Angolan Government felt that these preconditions for financial assistance were unreasonable. This differs from the early nineties, when oil prices were ebbing and the Dos Santos regime was slightly more vulnerable to external pressure. In contrast, however, in 2004 global oil prices were on the rise, due in part to China’s
increasing demand. This placed Angola's Government in a stronger position vis-à-vis the International Financial Institutions (IFIs), particularly when the prospect of financing from an alternative source emerged.

Tied to the China Exim Bank loan, is the agreement that the public tenders for the construction and civil engineering contracts tabled for Angola's reconstruction will be awarded primarily (70 percent) to Chinese enterprises approved by the Chinese Government. Of the tenders, 30 percent have been allocated to the Angolan private sector, to encourage Angolan participation in the reconstruction process.

As the loan is not classified as investment, Chinese companies tendering for contracts financed by the China Exim Bank loan do not have to register with the Angolan National Agency for Private Investment (ANIP) according to the Ministry of Finance. Instead, the projects financed by the loan fall under a Program of Public Investments (PIP) in the sectors of public works, health, energy and water, agriculture, telecommunications, the fishing industry and education.

According to the Angolan Ministry of Finance, the projects allocated to each sector are managed by their respective ministries while the Ministry of Finance co-ordinates the process of fund allocation. Applications for projects to be financed by the loan are submitted by the various ministries, under the guidance of the Presidency. According to the Chinese Economic Counsellor in Angola, Chang Hexi, the money is managed through a co-operation agreement between the Angolan Ministry of Finance and the Chinese Ministry of Foreign and Commercial Affairs (MOFCOM). Projects are determined by the Angolan Government, who must then present a proposal to the joint-committee of MOFCOM and the Angolan Ministry of Finance before it can be put out to tender. According to various observers from civil society, however, the Presidency has the overriding say as to where the money is allocated.

China Exim Bank has increased the amount for the oil-backed loan to Angola several times and the Angolan Ministry of Finance is currently managing over US$ 4 billion. According to the OECD33, US$ 1.8 billion of the original US$ 2 billion loan from China Exim Bank had been spent by April 2006. Additional loans from China International Fund Ltd, a Hong Kong-based fund management company, have been placed under the auspices of GRN, headed by General Helder Vieira Dias “Kopelipa”, who is also Minister in Chief of the Presidency.

According to the Angolan Ministry of Finance34, the China International Fund Ltd was created to:

- Create facilities or credit lines to finance projects within the framework of the GRN;
- Obtain new funds on more competitive terms;
- 25 -

- Promote national and international venture capital investment in Angola.

The GRN was created specially to manage credit lines from China International Fund Ltd. GRN is an instrument of the executive, as are the various other gabinetes created by the executive. The loans managed by GRN are estimated to be in excess of US$ 9 billion. However, according to a press release issued by the Angolan Ministry in response to the controversy surrounding these loans, the actual loan amount is much smaller. The Angolan Ministry of Finance reports that China International Fund Ltd made available financing amounting to just US$ 2.9 billion.

These funds were earmarked to carry out various construction projects such as the building of a new international airport in Luanda, roads and railway rehabilitation as well as drainage in Luanda city. Due to difficulties in securing financing, the Angolan government instructed the Angolan Ministry of Finance to secure domestic funding through the sale of treasury bonds to the value of US$ 3.5 billion. Further than this, little is known about the China International Fund Ltd. The result of such opaque structures is that the money from the China Exim Bank loan and the China International Fund Ltd loans are centrally controlled by the Angolan Government executive. The NGO Global Witness has raised concerns about the transparency of the procurement process of construction tenders managed by the GRN.

As the China–Angola financial agreement is in the form of an oil-backed loan, Chinese involvement in the Angolan economy is not direct investment in the traditional sense. However, a representative from the Angolan Chamber of Commerce and Industry suggested that the loan still involves capital risk through the potential for loan defaulting, as it is a sizeable sum that is being made available to a developing African country. China is also the only country to make such amounts of money available to the Angolan Government. The Chinese loan provides the means and momentum for Angola to finance the rebuilding of its infrastructure, which can be seen as a long-term investment in terms of business facilitation, especially where improvement in transport networks are concerned.

In this way China is beginning to encroach on the IFIs’ traditional domain of influence and their potential control of domestic policy and affairs of debtor nations. It is the nature of the loan, with its very low interest rate and policy of domestic non-interference that makes the Chinese attractive lenders. This has implications for the donor community and the diminishing leverage they have on enforcing policies of governmental transparency.

The traditional sources of loans, WB and the IMF, have been less than forthcoming with large-scale long-term loans, as the Angolan Government has not fulfilled their prerequisites in terms of transparency and practices of good governance. Angola, albeit through lack of political will, is still struggling
to implement such governance practices that are deemed necessary by Western donors before such loans are granted. The emergence of China as an alternative source of funding has been particularly welcome, considering the paucity of options available to the Angolan Government and the urgency with which such funds are required.

Further illustrating the consolidation of Sino-Angolan commercial engagement, Angola briefly became the primary source of crude oil imports to China in March 2006, having shipped 2.12 million tons of crude to China in February, surpassing Saudi Arabia, the global leader in crude oil exports. Angola again briefly returned to its position as China’s main oil producer after its exports increased 40 percent in May 2006. Forty-five percent of Angola’s oil exports are destined for China, supplying 15 percent of China’s total imports.

On 21 June 2006, during an official state visit by PRC Premier Wen Jiabao to Angola, the two countries further cemented political and economic relations, issuing a joint communiqué detailing the signing of further agreements and legal documents on bilateral cooperation in the economic, technological, judicial, health and agricultural fields. Premier Wen was accompanied by the president of China Exim Bank, Li Ruogu, in order to discuss the allocation of the loaned funds to review the infrastructural projects already completed by the Chinese companies at the time of Premier Wen’s visit.

In September 2007, China Exim Bank President Li Ruogu visited Angola again in order to assess the progress on the projects financed by the China Exim Bank loan. In a meeting with Angolan President Eduardo dos Santos, the China Exim Bank president concluded the agreement concerning the second loan extension of US$ 2 billion, to be used in additional large-scale infrastructural projects, as well as three unspecified co-operation agreements and four civil engineering contracts between Angolan and Chinese firms.

China is increasingly viewed as an important strategic ally, as the credit line, unlike other financing from World Bank and IMF, has no political conditions. The funds from this loan, however, do not enter the Angolan banking system as the credit line remains a current account that the Angolan government holds with China. This further limits the access and participation of other parties to the transactions.

Due to the closed nature of negotiations, it can only be assumed, according to an Angolan political analyst and prominent member of the Angolan political opposition that the credit lines are used to finance strategic projects in Angola of China’s choosing. The project selection seems to be based on the following criteria:

1) The extraction raw materials such as copper, oil;
2) Transport and logistics infrastructure to facilitate the importation
and distribution of Chinese imports; 
3) Access for Chinese construction companies to the Angolan economy through the credit line; and
4) A market for excess Chinese labour and productive capacity.

There is the perception that Chinese companies can introduce incentives in the tendering process. For instance, according to an engineering consultant attached to a foreign-based firm, Chinese companies, both state-owned and private, that have been awarded contracts such projects over two to three years have used a preferential invoicing procedure. For the first year of the contract’s duration, the Angolan Government does not receive an invoice, as the Chinese Government, whose loan money is financing the project, is invoiced directly by the Chinese company. After the first year, the client is presented with an invoice, and must then repay the money to the Chinese Government at a low interest rate (thought to be two percent or less) and then finance the rest of the project directly. Despite this arrangement, it seems that many of the projects have been halted after their first year, due to the Angolan Government’s default of payment. This may suggest disillusionment on the part of the Angolan Government but it also suggests that Chinese companies experience the same difficulties as other contractors in receiving payment for public works projects. According to eye-witness reports, however, Chinese cargo is allowed preference in off-loading cargo at Luanda port. This is an important concession as Luanda’s port can only off-load 1,500 tonnes per day, and many Chinese cargo carriers transport 25,000–30,000 tons, rendering other carriers dormant for up to a month, further increasing transportation costs.

IV) China’s Investment and Commercial Profile with Angola

As represented below (see Figure 2.2), the two countries’ bilateral trade has seen a significant increase in recent years. The trade volume between Angola and China in 2006 was US$ 11.8 billion; of which China’s exports to Angola were US$ 894 million, while Angola exported US$ 1.9 billion to China, predominantly crude oil. These figures render Angola China’s largest trading partner in Africa, representing roughly one fifth of China’s trade with the African continent.
Bilateral Trade Relations and Economic Cooperation

- 1984 - The Governments of China and Angola signed a trade agreement
- 2004 - The Government of China extended a US$ 2 billion loan to the Government of Angola for national reconstruction
- 2006 - The Government of China extended a further US$ 2 billion loan to the Government of Angola for national reconstruction

Figure 2.2: Angola’s trade with China, millions of US$ (1995-2006)

Chinese are generally favoured for goods and services, construction, and electronics, according to ANIP. Despite a leap in Chinese exports to Angola, however, China has continued to run a considerable trade deficit with Angola, due to the rapidly rising rate of oil importation from the African country. Angola is one of the few countries in Africa to enjoy a trade surplus with China.
Interestingly, whereas in most African countries, consumers are swayed by the price tag of goods thereby encouraging cheaper imports from Asia, Angola’s main source of imports is the developed market of European Union, whose products are generally more expensive. This illustrates the purchasing preferences of political elites and how their domination of import/export businesses has influenced Angola’s source of imports. This occurs despite the relative poverty of the majority of Angolans, and the seeming appropriateness of cheaper imports from developing economies, such as China.

Many other African countries, for their part, have been experiencing their highest rates of economic growth in several decades, fuelled in no small part by China’s demand for African oil and raw materials. Consequently, African markets have become more promising for Chinese firms, as there is now a larger – and growing – market of African consumers, who, while far from wealthy, are nevertheless more able to afford the kinds of products that Chinese companies can produce. This has resulted in trade deficits with China due to increasing imports of cheaper consumer goods. Angola, on the other hand, carries a growing trade surplus with China, not only due to oil exports, but also because only a small percentage of its imports originate from China, 8.5 percent, relative to Chinese import levels in other African countries.
Anecdotal evidence suggests that ‘under the radar trade’ in the informal economy has increased in terms of micro-enterprise Chinese retail stores. This is not regulated. Indeed, official figures do not seem to capture the increase in the quantity of Chinese products. As the Director of ANIP pointed out, there is no data tracing the importation of goods that come from a Chinese original equipment manufacturer (OEM) that have been repackaged as European finished goods. The same is true of goods that have been imported from China by European companies and redirected to Angola, thus possibly distorting the reality of import origins. Thus an increase in Sino-Angolan trade in terms of Chinese imports does not reflect an increase in Chinese imports to Angola. What is evident is an instance of more direct trade, cutting out trading middlemen in Dubai, South Africa or Europe so that Chinese imports come straight from Chinese ports to Angolan markets.

As mentioned above, the Chinese credit line, despite being the reason for much Chinese commercial activity in Angola, does not constitute direct investment. According to an estimate by a senior official at ANIP, 99 percent of Chinese companies’ activity is state-owned and directed by the Chinese credit line. Despite a paucity of real investment, ANIP is confident that private Chinese investment will grow over the short term with private Chinese firms being attracted to the high activity of other Chinese firms in Angola due to the credit line.
Indeed it is already occurring; companies that entered Angola on the Chinese credit line have returned following the completion of their projects, to register formally with ANIP. China Jiangsu International, one of only two Chinese companies registered with ANIP, entered the Angolan market on the Chinese credit line. The company, currently engaged in constructing the *Palácio de Justiça* and housing projects in Cabinda through the Chinese credit line, is now looking for private sector contracts. Thus, while the Chinese credit line does not circulate in the Angolan financial system – preventing any knock-on effect for Angolan banks – it is estimated that in time, the credit line that has spearheaded Chinese entry will allow an estimated US$2 billion of private investment into the Angolan economy.

Chinese investment in Angola is primarily located in the telecommunications infrastructure and extractive industry sectors, particularly oil. This is seen principally through the joint-venture partnership in the oil industry. This joint-venture is currently the largest and clearest example of direct foreign investment as most of the Chinese construction companies that have won tenders have yet to carry out their expressed intentions to establish joint-ventures with local partners. It is possible that the current Angolan skills base is too low for joint ventures with Chinese firms and therefore not a viable proposal over the short term. There are however increasing instances of sub-contracting to Angolan firms.

In the telecommunications sector, Mundo Startel, the Angolan fixed line telecommunications utility, has signed a framework agreement with the Chinese company, ZTE Corporation International, for the purchase of telecommunications equipment. The agreement signalled the start of Telecom’s new business operations in Angola, as Mundo Startel began constructing the physical infrastructure for its network, launched in 2006. ZTE Corporation is to put US$400 million into the Angolan telecoms industry. This investment will be used for the construction of Angola Telecom’s network; improvements to Angola’s military telecommunications system; the construction of a mobile phone factory; the creation of a telecommunications institute for the training of Angolan staff; and the creation of a telecommunications research laboratory.

V) China’s Aid / Developmental Assistance Profile in Angola

According to the Chinese Economic and Commercial Counsellor in Angola, Chang Hexi, China has helped Angola in four primary aspects:

1) Short-term training on projects;
2) Medical assistance, particularly with cholera;
3) Construction of infrastructure in terms of both hospitals and schools, transport infrastructure such as roads;
4) Improvement of basic services such as water, sanitation, etc, from the
experience of its own poverty relief strategies.

Angola is also to benefit from the Chinese government programme to send 10,000 agricultural experts to Africa between 2006 and 2010. A delegation was sent to the interior provinces of Moxico, Bié, Huila and Kuando Kubango. Angola has also been promised training for 60 Angolan technicians in this sector.\footnote{52}

\section*{VI) Implications for the Agricultural Sector}

The primary sector accounts for 85 percent of the employed workforce with the remaining 15 percent employed in the service industry. Agriculture, the primary export sector in the pre-independence era,\footnote{53} represents no more than 8.6 percent of the country’s GDP. The agricultural growth rate has only recently recovered to reach the growth rate levels of the 1990s, having declined after the civil war resumed in 1992. Extensive conflict and landmines have taken their toll on agricultural production. The stimulation of this sector has become a national priority, following the launch of the Agriculture and Financial Development Program (ProAgro Angola), sponsored by the governments of the US and China.\footnote{54}

\section*{VII) Educational & Cultural Engagement}

\begin{quote}
1988 - The governments of China and Angola signed an agreement on cultural cooperation.
\end{quote}

\section*{Exchanges in the fields of culture and education\footnote{55}}

Angola is a recipient of the Chinese Government Scholarships, as are other African countries that recognise the PRC as opposed to Taiwan. As of October 2006, nine Angolan students were studying in China.

China has also increased ties with the other Portuguese-speaking countries, with the creation of the Economic Cooperation and Trade Forum between China and Portuguese-speaking countries, known as Forum Macau. Established in October 2003, the first such Forum was held in 2004. There are eight members of this forum in addition to China: Angola, Portugal, Cape Verde, Mozambique, Brazil, Guinea Bissau and East Timor. The political rationale behind the forum originates in the Chinese special administrative zone of Macau, an area that was historically a Portuguese colony and thus shares cultural and language links with these countries.

The significance of the special economic zone of Macau in strengthening Sino-Angolan relations should not be underestimated, particularly as it may
go some way toward resolving cultural and particularly, language barriers. The fact that China is devoting considerable effort to maintaining Forum Macau emphasises the strategic importance of such relationships with Lusophone countries, in particular, Angola.

VIII) Chinese migration to Angola

As a direct result of China’s involvement in the reconstruction and rehabilitation of Angolan infrastructure, the number of Chinese nationals resident in Angola is increasing – they are currently the reportedly the largest immigrant group in Cabinda province, Angolan’s richest province in terms of natural resource deposits. It is expected that Angola will soon house the largest expatriate Chinese community in Africa.56

Actual figures in terms of the number of Chinese living in Angola are inconclusive, reports varying widely. This may be partly due to the fact that Angolans seem unable to distinguish between the various East Asian nationalities conducting business in Angola, such as Japanese, South Koreans and Philippinos among others, resulting in a large variance in reported numbers. Credible reports estimate, however, that between 20,000 and 30,000 Chinese nationals reside in Angola, with expectations that numbers may increase by several thousand, thus soon able to rival the resident Portuguese population in Angola of some 47,000.57 There is the concern that the Angolan government has a limited capacity to track the number of Chinese nationals entering Angola.

IX) Identification and Evaluation of Emerging Trends

a) Economic Impact of Chinese Engagement in Angola

Concerns are expressed that, considering the rate of unemployment, there is not enough Angolan participation in the steadily growing number of Chinese government-funded projects. The 30 percent provision of the Chinese government credit line for Angolan contractors is supposed to address this, but this is possibly not sufficiently enforced.

Where Angolan labourers are employed, there are complaints that this is on a casual labour basis to avoid the inflexible labour law regime. According to a source close to the Deputy Minister of Finance58, there are also concerns that Chinese companies are not facilitating technology transfer. In addition, it seems that Angolan companies are not accessing their 30 percent quota of contracts, as previously agreed. As a new tranche of credit is being negotiated, it seems that the Angolan Government may attempt to reemphasize the need to build local capacity in the construction industry. The leverage afforded them as a major oil supplier to China could be used to strengthen their negotiating position.
There are also concerns that the quality of workmanship of Chinese companies is not of sufficient quality, particularly since the heavy rains experienced in early 2007 washed away many of the newly-built roads. This is not necessarily an indication that Chinese companies cannot produce good quality products, but that the fiscalização or supervision is not independent or effective enough. In late 2006 and early 2007, German consultants were contracted to oversee large sections of the roads that Chinese contractors are rehabilitating. This seems to have been an effective way of ensuring quality control.

Interestingly, according to ANIP, it appears that even Angolan companies are keen to import and utilise Chinese labour, because it is considered to be more productive. This is partly due to a lack of skills, caused by the civil war and a lack of education facilities and spending. Angola, however, also has an extremely inflexible labour regime, skewed in favour of the worker. A mandated three days sick leave per month, and an allowance of two weeks off for bereavement, is open to abuse by workers. This has resulted in employers often having to recruit extra workers to complete the tasks of a single worker - especially because dismissing a permanent staff member is extremely difficult. This discourages employers from contracting permanent staff and does nothing to help the high unemployment rate.

This has a negative effect on emerging domestic productive forces. Several years ago, according to a prominent NGO worker, Angola had an embryonic textile industry with two modest textile factories, as it was a major producer of raw cotton. The cheap Chinese textile imports and the artificially maintained low value of the kwanza disadvantaged domestic production. It must be acknowledged however, that the destruction of arable land during the war and an influx of donations of second-hand clothes from developed countries to Angola have been the primary causes of the collapse of the Angolan textile industry.

A further example of the same phenomenon is the establishment of a furniture making factory by a well-established local NGO in Huambo province to meet the demand for school equipment and furniture, following the planned construction of several schools across the country. The enterprise was developing well until the arrival of cheaper, and in this case of inferior quality, Chinese imported furniture that was being purchased by government ministries to equip the new schools. Particularly since many of these schools are built with money from the Chinese credit line, at least 50 percent of the procurement materials must originate from China. This reduces the potential positive spin-offs of private sector development that Chinese engagement in Angola may have.

Despite the reservations of several NGOs about China’s presence in Angola, the Chinese line of credit is nevertheless recognised as an opportunity to
rehabilitate and improve on much-needed transport and telecommunications infrastructure. Several of the Portuguese construction firms, present in Angola for several decades have a reputation for over-priced and shoddy work and the Chinese companies’ competition may provide an incentive to improve the standards of building. The resultant improvement of the roads leading from Luanda to other provinces, which Chinese, Portuguese and Brazilian firms are working on has markedly improved internal communication and may prove vital in terms of market access for agricultural goods when this sector is developed.

In addition, on the macro-economic level, the cheaper Chinese products may have mitigated inflation in Angola. Chinese companies’ entry into the Angolan oil sector has however caused the prices of oil blocks to soar, particularly the signature bonuses, with Sinopec offering an unprecedented US$ 1.1 billion signature bonus for each of the blocks 17 and 18 in May 2006 (see case study).

In addition, the Luanda harbour is increasing congested and does not have the capacity to deal with rising import volumes, albeit not exclusively from China. This creates delays in the delivery of materials, but also impedes access to the harbour, preventing the entrance of other goods, including food, thus further pushing up their prices. In mid-2007, a number of other areas were approved for use as harbours – including Lobito, Namibe and the Sonils base – but the problem remains dire.

In terms of the informal economy, there is, as yet, little perceived impact of the influx of Chinese imports, as the informal economy has traditionally always relied on imported goods. According to 2006 Angolan customs figures, China is Angola’s fourth largest source of imports, accounting for 8.5 percent, behind Portugal (17.1 percent); USA (9.8 percent; Brazil (8.6 percent) and ahead of South Africa (8 percent). While the percentage of Chinese imports to Angola is small, it should be noted that it has more than doubled since 2004.

b) Political Impact of Chinese Engagement with Angola

With the upcoming presidential elections in 2009, the Chinese credit line is viewed as an opportunity by the MPLA as a quick fix to service delivery and infrastructure problems. Most of the projects were due to be completed well before the elections, thus adding prestige and bolstering the MPLA government’s credentials of delivery. Unfortunately, due to procurement bottlenecks, corruption and other unforeseen delays, many of the Chinese projects have been delayed or completed in a substandard fashion. The heavy rains in Luanda that have brought the city to a complete standstill, served only to underline the massive deficiencies in basic service infrastructure. It is believed that the Chinese credit line was viewed as a political help-line that would assist with much-needed national infrastructure
reconstruction and subsequently, service delivery. There are concerns that
the elections already further delayed from an initial target date due this year,
will once more be delayed, in order to allow the infrastructure projects to be
completed before the electorate takes to the polls.

As an indication of their lack of faith in the government and the electoral
process, less than half of the population had registered at the end of May
2007 the scheduled end of the registration period.

c) Social Impact of Chinese Engagement with Angola

As the majority of the Chinese presence in Angola is concentrated in
construction camps located outside of the major cities, the Chinese
presence in Angola is much more subtle than would be expected and there
is limited contact with local communities. However, there is every reason to
expect a steady increase in the number of Chinese migrants to Angola. It
is believed in NGO circles that this may prove to be a source of tension in
later years as the Angolan population may feel threatened by an increase
of a commercially influential foreign community. The Chinese workers are
currently housed in compounds, relatively far removed from other local
settlements and exist in almost self contained communities. Although
possibly at the preference of the Chinese themselves, this separation has
not been discouraged by the Angolan Government.

Since the Chinese companies’ involvement in infrastructure projects, such as
electricity provision with Endel, the Angolan state-owned electricity company,
and the construction of roads, there has been a noticeable improvement
in services. Observers from both the government and the NGO community
agree on this point. For example, the drive to Huambo from Luanda used
to take 2 days (and one had to go via Benguela) but it now takes a more
tolerable 10 hours. The roads to Malanje and Uige have also been improved
by Chinese companies. There is however, some concern that the new roads
will not survive the first rains in early 2008. This is true though of several
road rehabilitation projects undertaken by other foreign-investor companies.
A locally-based NGO official suggested that contract should include a 10-
year maintenance plan to prevent the need to refurbish the road every few
years, as is now the case.

d) Environmental Impact of Chinese Engagement with Angola

According to an engineering consultant with extensive experience in Angola,
the Angolan Government stringently enforces EIA carried out before a project
may commence. While it is understood that influential government interests,
such as the state-owned oil company Sonangol, can sometimes pre-
determine the outcome of certain key projects, generally the EIA procedures
are seen to be above-board and conform to high industry standards.
There is a concern that GNR projects, thus those projects financed by the Chinese credit line, would probably be approved regardless of an EIA, as national infrastructure reconstruction has become a political priority. When questioned about this, a senior member of a local NGO suggested that Angola much of the natural environment has already been destroyed by the war, so there is little left to protect.

X) Case Studies

a) Case study one: The Sonangol-Sinopec International Joint venture

Chinese interests in Angolan oil first acquired purchase in the 1990s when Chinese oil company China Petroleum and Chemical Corporation (Sinopec) was awarded rights to Block 3/05 previously owned by French Total, that came up for renewal. It is widely believed this development was influenced by political tension between France and Angola as several government officials in the dos Santos regime were being investigated by the French Government at the time for corruption.63

The most important and tangible form of Sino-Angola co-operation is a joint-venture between Sinopec and Sonangol to form Sonangol-Sinopec International (SSI). The joint-venture holding, announced March 2006, reported that Sonangol’s holding was 45 percent and Sinopec 55 percent.

The joint-venture owns 20 percent of Angola’s block 15. SSI made the largest bid in May 2006 to develop Angola’s oil blocks 17 and 1864, with collective reserves of approximately 4 billion barrels totalling at least US$ 2.4 billion, including US$ 1.1 billion in signature bonuses for each block and US$ 100 million in ‘social projects’. In June 2006, it was announced that SSI had secured stakes in blocks 17 and 18, financed by a consortium of banks which include the Agricultural Bank of China, Bank of China, China Construction Bank and China Exim Bank, Bayerische Landesbank, BNP Paribas, Calyon, ING Groep, KBC Groep, Natexis, Banques Populaires, Societe Generale and Standard Chartered. According to expectations, oil production would be boosted by 100 000 barrels a day after they came on stream in 2007. Through the joint-venture SSI, Sinopec thus acquired the stakes of 27.5 percent, 40 percent and 20 percent in the off-shore blocks 17, 18 and 15 respectively through its joint venture with Sonangol.65

In addition to oil exploration, SSI intended to develop a new refinery at Lobito, requiring a total investment of US$3.5 billion. Sonangol held 70 percent shares in this project while Sinopec held the remaining 30 percent.

Work on the refinery, Angola’s second such refinery, was supposed to begin before the end of 2007. The project, named Sonaref, was estimated to have a total capacity of approximately 240 000 barrels per day when on full stream, almost tripling the capacity of Angola’s current refinery. Eighty percent of output would be for the general export market. SSI planned to
take on the entire capital of each of the new concessions and proposed to drill 10 test wells.

Interestingly, the Lobito refinery had been a long-term dream of the dos Santos regime but it had been stalled several times due to an inability to find sufficient foreign investment or technical expertise.66 Most potential investors questioned the economic viability of such a project.67 Rising oil prices, and the perceived tendency of Chinese Government-backed companies to be less risk averse, seemed to make the project more viable.

The announcement in March 2007 that the negotiations around the construction of Sonaref - SSI joint-venture had collapsed pose some interesting questions regarding the developing dynamics surrounding Angola’s oil reserves, and particularly Angola’s burgeoning relationship with China.

According to reports68, SSI talks unravelled over a disagreement over the target markets for the proposed Sonaref refinery’s products, 80% of which the Chinese partner wanted to go to the export market. It is to be noted that Angola’s domestic market regularly suffers shortages of oil by-products. There is a refining capacity shortage in Angola as only 40,000 of the 1.4 million barrels Angola produced per day can be refined by Angola’s current refinery. Angola imports 70 percent of its derivatives needs. The other problem is that if the oil had been configured for China – as export products, it would not have been able to be used in Angola if the deal was renegotiated – as the chemical compounds are different.

Sonangol has since announced that it will develop the refinery alone and has stepped up plans to ‘angolanise’ the extractive sector by encouraging local companies to become more involved in the oil industry.69 Angola has plans to sell to the rest of Africa – not to an entirely overseas market. Many potential investors have doubted the project’s financial viability and the risk that the project exposes the investor to, particularly with threats of oil price fluctuations. According to Chinese Economic Counsellor Chang Hexi, the refinery was deliberately made unpalatable by the Chinese negotiators, as they were not genuinely interested in the deal. According to a foreign researcher70 investigating these negotiations, this is ostensibly because the Angolan Government wanted to modify and expand the original specifications for the refinery. In addition, for Sinopec, it is commercially more viable to export crude oil, rather than exporting more expensive refined products, particularly as there is sufficient refining capacity in China.

The dynamics of these negotiations point to the fact that Sino-Angolan relations are directed by commercial imperatives. Contrary to popular opinion, Chinese investors are risk averse, and will only invest in projects that they believe will see returns, albeit on a longer-term basis than typical multinational oil majors. As regards the Angolan government, the executive will go to some length to preserve a sense of national sovereignty. The
Angolan Government does not, it seems, feel obligated to China and refuses to relinquish absolute control over too strategic a stake in Angola’s oil resources to a foreign owner. The collapse of the planned Lobito refinery is indicative that Sonangol was refusing to concede to the (at the time) majority foreign-owned stake-holder, Sinopec. This is despite fact that the Lobito refinery was a long-term dream of the Angolan Government and their reported difficulty in finding an investor.

b) Case Study 2: Benguela

The Benguela Railway line, an important transport artery, built by the British Government in 1899 was almost completely destroyed during the civil war. Currently only the 150 km section between the towns of Lobito and Cubal is operational. In January 2006, a project commenced to refurbish at a cost of US$300 million. The project is being financed and undertaken by the China International Fund Ltd and thus forms part of the US$ 9.8 billion credit line managed by the GRN. The railway line, following restoration, will run 1,300 km from Benguela to Luau, on the border with the Democratic Republic of Congo. The railway also has a link to Lobito, 700 km south of Luanda. This is significant as there is a strong possibility that extensions to Uige and Zambia maybe be envisaged, providing a direct line of transport from the Zambian copper mines to the Angolan ports. The project, while also restoring an important transport backbone to Angola, will also thus facilitate the access to Angola’s ports for Zambia’s extracted copper.

China International Fund is providing logistical support and overseeing the reconstruction of the railway, which has been subcontracted to several other Chinese companies. The project, initially estimated to take 20 months, was supposed to have been completed in August 2007. Work however, has barely begun, although several logistics and workers camps have been installed between the towns of Lobito and Benguela, as well as Huambo. While as of August 2007, only a skeleton crew of workers was present as work had not begun in earnest, these workers were all Chinese and there were no local labourers present.

By way of explaining the delay, the Benguela representative of the GRN, pointed to the logistical challenges of such a large undertaking, particularly in a country where infrastructural support in minimal. It appears that, in an eagerness to begin the project, various factors, were not adequately considered. For instance, in Moxico, one of the provinces through which the railway will eventually run, work can only be undertaken for four months of the year, due to heavy rainfall. According to the Benguela GRN representative, the feasibility study is being conducted simultaneously to the preparative work. This approach, it seems has caused projections for the project to be finished in August 2007 to be premature. As of August 2007, it was unclear when the railway would be completed.
Despite the inherent disadvantages to local industry, the provision of large-scale public infrastructure by Chinese firms does appeal to the Angolan Government. As noted above, with legislative and presidential elections scheduled for 2008 and 2009, respectively, the Angolan Government is under some pressure to improve service delivery. In addition, due to an outmoded approach to development, which involves the provision of national infrastructure and tangible manifestations of government activity, the Angolan Government welcomes the kind of assistance China is willing to offer in terms of construction capacity.\textsuperscript{75}

The negotiations surrounding this project thus far seem to infer that the projects are planned according to political imperatives, and are not allowed adequate time for feasibility research, hampering a complete evaluation of the project. The Chinese actor in this case China International Fund Ltd is a private listed bank, overseeing the execution of a project funded by an oil-backed loan. Thus, as the loan is guaranteed, the success or failure of the project itself does not influence the profits of the Chinese bank. The Angolan government, by contrast, while it is in their interest to see the successful completion of the railway, seems to have prioritised speed of delivery over quality according to political imperatives dictated by the election calendar. This may compromise the project, leading to expensive delays. While the project may yet be completed, it is unlikely this will occur for several years.

\textbf{XI) Summary}

China has been a favoured diplomatic ally in Africa as her loans, in the spirit of China’s policy of non-interference, come with few conditions. This is especially attractive for Angola, given that it was a proxy war-zone during the Cold War (albeit that China also played a role during this period). What is concerning however, is that as the credit-line is linked to oil, a non-renewable resource, Angola’s leverage to negotiate such credit-lines is finite. This fuels the perception that the Angolan Government has not yet formulated a long-term strategy as regards the operationalisation of the Chinese credit line.

The growing relationship between China and Angola are closely observed. The IFIs have, together with international donors, expressed concern at the lack of transparency of bilateral negotiations between Chinese and Angolan leaders, particularly those that are oil-backed.\textsuperscript{76} The Paris Club and IMF fear that the little leverage they have over Angola would be further eroded by high oil revenues.\textsuperscript{77} American policy hawks are worried about the expanding sphere of influence China is strategically building around Africa’s second largest oil producer.\textsuperscript{78}

These concerns, while not unreasonable, are not as substantial as they might at first seem. Angola, for strategic reasons of its own, has no intention of aligning solely with Beijing. Angola is pursuing its own version of non-
alignment in favour of its own home grown resource nationalist approach.

Indeed in contrast to neighbouring Zimbabwe’s “Look East” policy and despite warm relations between Zimbabwe’s President Mugabe and Angolan President do Santos, China is seen by Angola as an important ally – albeit not a unitary strategic partner - precisely because it diversifies Angola’s source of aid and concessional loans. 79

In addition, while particularly hostile to foreign agencies such as World Bank and IMF attempting to influence domestic economic and fiscal policy, Angola has no intention of alienating the international community completely. Angola eagerly wants international recognition as a regional and possibly global player.80 For this reason, Angola’s accession to the OPEC cartel in January 2007 has been particularly significant; it demonstrates Angola’s interest in engaging with the global economy in an effort to increase its international standing.

It is also worth noting that in contrast to other African countries, China’s volumes of imports to Angola in terms of cheap consumer goods are not so remarkable. In 2007, it seems that Asian partners have become increasingly large sources of import but it is South Korea, and not China, that is a favoured import origin.81

Interestingly, aside from Angola’s fundamental reluctance to be beholden to any one foreign partner, there have recently been signs that Sino-Angolan relations are not as cordial as originally presumed. For instance, President Dos Santos’s did not attend the FOCAC Summit in November 2006 - a minister was sent in his stead.82 While this does not necessarily have political overtones, it would undoubtedly have been seen as a snub by the Chinese. It may also however, have been dos Santos’s way of avoiding ‘paying homage’ to the Chinese president as one of 48 African heads of state in attendance at the 2006 FOCAC summit. Notably, President Hu Jintao did not visit Angola on his African tour in February 2007.

Although there have been signs of discontent among Angolan political elites, respondents suggested that this will not mean a permanent souring of relations, merely that the initial headiness of Sino-Angolan commercial engagement has worn off and both countries can get down to business.83 China and Angola’s respective political elites have undoubtedly recognised complementarities within their economies and national interests. The rapid market entry of Chinese state-owned enterprises into the Angolan economy and a number of high-level co-operative oil deals over a short period of time has borne witness to this.

The threat of domestic political instability is not over, however. With legislative elections scheduled for 2008 and the first presidential elections in thirty years for 2009, commercial risk in Angola is not to be underestimated,
even though the MPLA is widely touted to win. Angola, however, is in a position to harness the increasing need for fossil fuels to boost its own economic growth and rehabilitation so desperately needed after nearly three decades of civil war.

For Angola, the general development of infrastructure is a national priority to sustain economic growth and encourage investment. Chinese companies have made a broadly positive contribution in this regard. Of concern, however, are the challenges posed by a lack of institutional framework and Government capacity to monitor and encourage direct investment in terms of local skills development and technology transfer. Linked to this is the issue of whether enough is being done to cultivate and harness the development of the local private sector.

An additional challenge is the question of whether the Angolan Government has ownership of the reconstruction process. This is in view of the fact that at least 70 percent of the contracts funded by the loan money goes to Chinese companies, in addition to the original loan, which will also be paid back to China Exim Bank.

Furthermore, once these large-scale projects have been completed, the question of their maintenance arises. Either the Chinese companies must be kept on at additional expense or the project is handed over to the local authorities with the risk of it falling into disuse over time through a lack of funds and/or skills and technological know-how.

Of key importance is the issue of how the Angolan Government will invest the money it receives from the oil receipts into viable projects which diversify the economy into manufacturing and services. Revenue from Chinese demand for Angola’s oil exports provide an excellent opportunity to invest in economic diversification away from extractive industries.

While the Angolan Government is a long way from ensuring the transparent management of the country’s natural resources, it seems that the potential for economic self-determination has been created, setting a potential precedent for Africa’s future engagement with China in particular, and the global economy in general. The Angolan Government must harness this opportunity to become a developmental, as opposed to a predatory state apparatus.

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Endnotes

1 It is recognised by several diplomatic as well as NGO representatives that Angola
has a challenging historical legacy, encompassing 400 years of Portuguese colonization, 20 years of Salazar’s dictatorship and a further three decades of civil war. The effect of this legacy on political and economic development in Angola should not be underestimated.


7 According to a report by One World Action, in 1995 on average every family in Angola had at least one member dependent on the informal economy to earn a living.


9 During the civil war, anti-personnel mines were installed in large areas of Angola’s interior provinces, particularly as this was the fighting between MPLA and UNITA was concentrated. Many of these mines remain undetonated and thus a security risk for Angolans wishing to return to their former homes.


11 Interview with NGO representative, 23 May 2007, Luanda

12 See US Defence Website: http://www.defenselink.mil/africa


15 Interview, 22 May 2007, Luanda

16 The Angolan army is widely accredited to be the most powerful army in the SADC region

17 Interview, 21 May 2007, Luanda

18 Interview, 23 May 2007, Luanda

19 Interview, 24 May 2007, Luanda

20 Interview, 23 may 2007, Luanda

21 See US Defence Website: http://www.defenselink.mil/africom


23 Interview, 22 May 2007, Luanda


29 According to Agora (6 May 2007), Chinese companies have been contracted to construct a total of 53 schools across Angola.

30 Interest rate is quoted according to the Angolan Ministry of Finance. Libor, according to the British Banker’s Association, is the most widely used benchmark or reference rate for short term interest rates.


34 Interview with a director of a foreign-invested bank in Luanda, 7 June 2006.


36 Integrated Regional Information Network, 2005, “Angola: Oil-backed loan will finance
38 This statement refers to the fact that the World Bank and the international Monetary Fund (IMF) have been reluctant donors to Angola, as the Angolan Government failed to comply with the necessary preconditions of good governance and transparency.
43 Interview, 29 May 2007, Luanda
44 Interview, 20 May 2007, Luanda
47 Interview, 22 May 2007, Luanda
51 Interview, 28 May 2007, Luanda
58 Interview, 28 May 2007, Luanda
59 The Angolan Government has a so-called “hard kwanza” policy rendering the local currency artificially high in order to lower the cost of imports. It is also widely believed to be a source of national pride to maintain a strong currency. This policy does however have skewed benefits towards the more wealthy, who are traditionally involved in the import-export business, while negatively affecting rural domestic production in terms of price competitiveness.
60 This is a condition of Chinese Government Concessional Loans as Stipulated on the Chinese Exim Bank website: http://english.eximbank.gov.cn/business/government.jsp
64 Interestingly, although the SSI joint-venture holds majority stakes in the lucrative Block 18, as neither investor possessed the technology required to operate deep and ultra-deep oil extraction, the Block 18 is in fact to be operated by Brazilian oil company Petrobras. As neither the Chinese nor the Angolan investors have the technical capacity to do so.
66 At one stage, the Sonaref refinery was to be built by South Korean company Samsung (Aguilar & Goldstein, 2007: 10)
67 Dr Paul Jordan, Mintek, private correspondence, May 2007
70 Telephonic Interview, 16 August 2007
71 Although Sonangol was the major investor in the proposed Sonaref project in a 70-30 percent share split; Sinopec is the majority shareholder in the joint-venture, with a share-holding of 55 percent.
73 A Chinese company has a substantial interest in Zambia’s mines in the Copperbelt, see chapter 7.
74 Interview, Benguela, 4 August 2007
82 Hare, Paul (2007) “China in Angola – An emerging Energy Partnership” Jamestown Foundation China Brief, 6(22), 8 November.
**Ethiopia**

<table>
<thead>
<tr>
<th>Area</th>
<th>1,127,127 sq km</th>
<th>CIA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>75 million</td>
<td>2006, IMF</td>
</tr>
<tr>
<td>Life expectancy (years)</td>
<td>49.23</td>
<td>2007 est., CIA</td>
</tr>
<tr>
<td>Infant mortality</td>
<td>91.92 deaths/1,000 live births</td>
<td>2007, CIA</td>
</tr>
<tr>
<td>GDP</td>
<td>US$ 13.315 billion</td>
<td>2006, IMF</td>
</tr>
<tr>
<td>GDP/capita</td>
<td>US$ 177.371</td>
<td>2006, IMF</td>
</tr>
<tr>
<td>GDP growth</td>
<td>10.6%</td>
<td>2006 est., CIA</td>
</tr>
<tr>
<td>Size of government budget</td>
<td>US$ 2.679 billion (revenues)</td>
<td>2006 est., CIA</td>
</tr>
<tr>
<td></td>
<td>US$ 3.388 billion (expenditures)</td>
<td></td>
</tr>
<tr>
<td>GINI</td>
<td>0.30</td>
<td>UN Human Development Report 2006</td>
</tr>
</tbody>
</table>
Chapter 3: 
Ethiopia

I) Introduction

Ethiopia enjoys the status of being the only African country never to have been colonised. A victory over an Italian expeditionary force at Adowa in 1896 preserved its independence which was only interrupted by a short period of Italian control between 1936 and 1941. Emperor Haile Selassie proclaimed the Ethiopia and Eritrean federation in 1952 but Ethiopia later rejected the federation in 1962, unilaterally occupying the territory. This led to a protracted conflict which lasted until 1991.

Under Haile Selassie, Ethiopia became a hub of pan-Africanism and in 1963 Addis Ababa was appointed as the headquarters of the OAU. Selassie was deposed in 1974 following mass demonstrations protesting his denial of the famine afflicting rural Ethiopia. After prolonged infighting, Colonel Mengistu Haileman installed a military junta, known as the Derg, which quickly developed strong relations with the Soviet Union. The Soviet Union provided military aid which the government used to consolidate its power. Ethiopia was plagued by war and drought throughout the 1970s, largely as a result of economic mismanagement, resulting in the loss of hundreds of thousands of lives.

The Derg was toppled from power in 1991 by the Ethiopian People’s Revolutionary Democratic Front (EPRDF) - formed by an alliance of the Oromo Peoples’ Democratic Organization (OPDO), the Amhara National Democratic Movement (ANDM), the South Ethiopian Peoples’ Democratic Front (SEPDF) and the Tigrayan Peoples’ Liberation Front (TPLF). This ruling party has been in power for the past 16 years. The 1995 elections were a de facto one-party, non-competitive election, as were the 2000 elections held amid a series of severe corruption scandals. The 2005 elections were strongly contested in Addis Ababa and resulted in civil unrest with 61 people killed in the capital, according to the Ethiopian Government and over 60 000 arrests. Others sources suggest the number of deaths was over 200.

Tensions with Eritrea led to the 1998-2000 Ethiopia-Eritrean war in which
123,000 Ethiopians were killed. But the conflict must also be understood within the process of the evolution of Ethiopia into a modern state.¹ It was not until June 2000 that the UN Eritrea-Ethiopia Boundary Commission (EEBC) of the Permanent Court of Arbitration, in The Hague, set down a new border between the two countries.

Approximately 50 percent of the population is Muslim while 40 percent is Ethiopian Orthodox (Coptic) Christian. In ethno-linguistic terms the Oromo of southern Ethiopia count for 40 percent of the population while the Amhara count for 20 percent.² Although the Tigre account for only 10 percent of the population they constitute the backbone of the EPRDF³.

II) Identification of Policy-making Actors and canvassing their opinions

a) The role of government

The presidency maintains strict control over all elements of government through the apparatus of the EPRDF ruling party. According to the head of an international NGO promoting the development of democratic governance, the majority of senior ministers and heads of government are reportedly all “card carrying” members of the TPLF or its affiliated parties.⁴ Prime Minister Meles was a staunch supporter of Maoist liberation tactics during his time as a guerrilla fighter; although many observers generally assume that he had close dealings with the Chinese during this period, hard facts over these linkages are not readily available.

The legislative branch of government is dominated by the ruling party. Evidently all parliamentary committee chairs are members of the EPRDF or affiliated parties. The Code of Conduct and Rules of Parliament make it very difficult for the opposition to influence the agenda of parliament; in fact, only EPRDF agendas are heard and discussed. Article 54 sub-article 5 of the Federal Constitution clearly states ‘No member of the House may be prosecuted on account of the opinion he expresses in the House, nor shall any administrative action be taken against him on such grounds’. In direct contravention of this provision, Code of Conduct & Rules of Parliament stipulates in article 29 of its House Rules that:

- A member may not bring an issue, which is under consideration in a court of law, no matter whether the issue is political in nature, and of major concern to the peace and stability of the Nation.
- No statement can be made that could easily be interpreted by the Speaker as distablishing the peace and security of the Country.
- Parliament was described by several respondents as little more than a “rubber stamp” and is notoriously inefficient. It has a reputation for passing very few bills. A parliamentary committee does focus on Asian issues but according to one senior Ethiopian Government
official discussions and decisions on Asian issues, and thereby Chinese issues, are usually made on an ad hoc basis during meetings between senior Ethiopian and Chinese Government officials.  

The judiciary in Ethiopia is also generally believed to be dominated by the ruling party. According to Article 81 of the Constitution federal judges are appointed by the Prime Minister in consultation with the House of Representatives, in effect, the EPRDF. However a respondent from an international NGO dealing with governance issues did point out that several enlightened and unexpected rulings surrounding the 2005 elections did demonstrate that there were a number of “free thinkers” within the Ethiopian judiciary.  

The Chinese Government has clearly worked hard to engage the Ethiopian Government across a broad range of departments in an effort to increase understanding and to share knowledge, skills and experience. A large number of government officials interviewed for this report had received their Chinese counterparts and had ether already visited China themselves or had trips scheduled in the short to medium term. They all demonstrated an extremely positive attitude toward the Chinese and were optimistic about the benefits that improved engagement with Beijing would bring in terms of skills, technology transfers, trade and investment.  

The Ethiopian bureaucracy, though reportedly in decline, still functions relatively well, especially when compared to those of other African states. Although the civil service is said to be highly politicised with the majority of senior members belonging to the ruling party or affiliated groups, there appears to be a very clear chain of command and responsibilities. Individual government officials generally appear to have a clear understanding of their function; they also understand the limits to their power without the need to constantly seek approval for decisions. This contributes significantly to the efficient execution of government business. Potential Chinese investors find this level of organization attractive while it also increases the ability of the Ethiopian Government to identify and respond to opportunities presented by such investors.

Civil servants are generally very well respected within Ethiopian society and ascribe to a high level of professionalism. Unlike many of the other countries in this study, government officials are strictly forbidden to engage in private business and this regulation appears to be well enforced. While there are obviously many ways for unscrupulous officials to evade such regulations, considerably less corruption was observed than in the other countries examined, at least amongst the lower levels of government. 

b) The role of civil society
The Derg established structures for popular participation in local development; these have continued and are a key feature of development in Ethiopia. While its capacity may be low, civil society in Ethiopia is strong and vibrant.\textsuperscript{7} Civil society, with the exception of business and trade unions, appears to have little to no interest in engaging China.

According to a senior representative of the Confederation of Ethiopian Trade Unions (CETU), the umbrella organization comprised of nine trade unions with a combined membership of over 320,000 people, the institution has a close relationship with the All-China Federation of Trade Unions (ACFTU) which is a state-run institution in China focused on workers' rights. It sent three delegates including its General-Secretary to the Forum on China-African Cooperation (FOCAC) summit in November 2006.\textsuperscript{8} The majority of respondents consulted for this study described the trade unions as weak and generally ineffective in representing the rights of workers across Ethiopia.

CETU is currently attempting to unionize workers employed by Chinese investors, particularly those in the construction sector. They have apparently encountered a degree of resistance from these employers but talks are ongoing.\textsuperscript{9} CETU has informed the Chinese Embassy in Addis Ababa of the issue and hopes to arrive at a settlement with assistance from the ACFTU. While they are optimistic that they can resolve the problem in this way within the next three to four months, CETU indicates that if it is not settled they will raise the issue with the Ethiopian Government.\textsuperscript{10} It will be interesting to monitor this situation, including any response by the Government if they are approached.

c) The role of the private sector

Unlike the other country case studies, there are no overt ties between government officials and business. One informed international observer working on issues of governance within the NGO sector explained that big business in Ethiopia is dominated by a limited number of players with close relations to government and suggested a comparison with the Japanese \textit{keiretsu} or \textit{chaebol}\textsuperscript{11} in Korea.\textsuperscript{12} An analysis of precisely how and to what degree businesses within Ethiopia are linked to one another and the government would be interesting as it would further elaborate Ethiopia's economic structure and how engagement with China is managed. Unfortunately this is beyond the scope of this study.

Again, in contrast to opinions reflected in the other country case studies, several respondents from the business sector remarked that there were many opportunities for Ethiopian business people to engage their Chinese business counterparts and they saw little or no role for the government to play. There is an increasing flow of business people between the two countries. Four years ago Ethiopian Airlines operated one flight every second week between China and Ethiopia; this has been increased to 11
flights per week. The airline is considering increasing the number to 14 per week to satisfy demand. In addition, Emirates Airlines currently operates four flights a week between Addis Ababa and Beijing, via Dubai. Return tickets between Addis Ababa and Beijing range between US$ 1,400 dollars and US$ 2,500 for an economy class ticket. While such high fares and the additional costs such as visas and accommodation may be beyond the reach of many Ethiopian businessmen, business relations between the two countries are clearly growing.

III) China’s Political Profile with Ethiopia

Direct trade relations between China and Ethiopia have been traced back to the Han Dynasty spanning 202 BC to 220 AD. Among the very first civilizations that the Chinese contacted was that of the Kingdom of Aksum (4 BC – 10 AD), a civilization centred in the highlands of what is now Ethiopia, with whom the Chinese traded ivory, rhinoceros horn and tortoise shells. Mussolini’s forays into Ethiopia (then Abyssinia) from 1936 were perceived by many as a parallel to Japan’s advance into Chiang Kai-shek’s China. China and Ethiopia share a feeling of helplessness over the lack of Western support during both invasions and this is an important component in the political rhetoric used by Chinese leadership in cultivating relations with Ethiopia.

The 1960s witnessed an uncomfortable period in relations between the two countries. Firstly China’s Maoist foreign policy was unwelcome in the country amid suspicion of Chinese support for the Somali shiftas or bandits. In addition, Zhou Enlai’s 1964 tour of Africa put the President in an unpleasant situation in Ethiopia when he was confronted over China’s lack of support for the nuclear-test-ban treaty which was being pursued by the majority of African countries at that time. The Chinese leadership reacted by making a small donation to the Eritrean Liberation Front (ELF) criticizing Ethiopia’s supposed acquiescence to American foreign policy.

Formal diplomatic relations between China and Ethiopia were however established in November 1970. China’s foreign policy had by then been shaken by the 1969 Sino-Soviet split, leading to greater caution and pragmatism which also led Beijing to cut ties with the ELF. This move paved the way for the signing of the Sino-Ethiopian Agreement for Economic and Technological Cooperation and a Sino-Ethiopian trade agreement. The first aid agreement between the two countries, valued at US$ 155 million, was also signed at this time. However, Ethiopia retained much closer ties to the Soviet Union. This was not only because the USSR was more prompt than China in supplying arms to Ethiopia but because Addis Ababa believed Beijing sympathised with Somalia during the 1977-1978 Ethiopia-Somalia conflict.
Chinese leaders and officials who visited Ethiopia:
Premier Zhou Enlai (January-February, 1964)
Qian Qichen, Vice-premier and minister of foreign affairs (July 1989
and January 1991 in the name of foreign minister, and January 1994)
Jiang Zemin, President of the PRC (May 1996)
Simayi AIMaiti, Member of the State Council and Chairman of
Democratic League Committee (October 1997)
Dai Bingguo, Minister of the International Liaison Department of the
CPC Central Committee (February 2000)
Tang Jiaxuan, Foreign Minister (January 2002)
Xu Jialu, Vice-chairman of the NPC (June 2002)
Chinese Premier Wen Jiabao (December 2003)

Leaders and officials who visited China from Ethiopia:
Haile Selassie, Ethiopian Emperor (October 1971)
Berhanu Bareh, Foreign minister (November 1987),
Mengistu Haile-Mariam, President (June 1988)
Fikre Selassic Wogferess, Prime minister (September 1988, by way of
visit)
Wollie Chekol, Deputy Prime minister (December 1989 and March
1991),
Tesfaye Dimka, Deputy prime minister and concurrently minister of
foreign affairs (April 1990)
Seyoum Mesfin, Minister of foreign affairs (December 1992, October
2000 for attending the "Beijing Ministerial Meeting 2000 of the Sino-
African Cooperation Forum"),
Meles Zenawi, Prime minister (October 1995)
Kasu Ilala, Deputy prime minister (May 1998, May 2002 in the name of
Minister in charge of Infrastructure)
Mengistu Hulluka, Minister of Agriculture (July 2000)
S. Jarso, Minister of Water Resource (December 2000)
Kebede Tadese, Minister of Public Health (April 2002)
Worede-wdd Wolde, Minister of State Affairs with the Ministry of
Capability Construction (April 2002)
Kassu Ilala, Vice-president of Southern Ethiopian People's Democratic
Front and concurrently minister in charge of infrastructure (May 2002),
Girma Biru, Minister of Trade and Industry (July 2002)
Gebreab Bernabas, Minister of the State Affairs with Ministry of Federal
Affairs (September 2002)
Ethiopian Prime Minister Meles Zenawi (November 2004)
Foreign Minister Seyoum Mesfin (November 2005)
Meles Zenawi, Prime Minister (November 2006)
Mekonen Manyazewal, state minister of finance and economic
development (May 2007)
Relations between China and Ethiopia developed further after Mengistu was deposed in 1991 by the EPRDF. Despite the overtly pro-American foreign policy of Meles Zenawi, relations between China and Ethiopia remained steady throughout the 1990s with regular exchange of diplomatic visits of state representatives from both sides.

Although Beijing supplied US$ 1 billion in arms to both Ethiopia and Eritrea during their war from 1998 to 2000, social, political, and economic links between China and Ethiopia have grown dramatically over the past decade. A Joint Ethiopian-China Commission was established in the mid 1990s by the Ethiopian Ministry of Finance and Economic Development and the Chinese Ministry of Foreign Affairs and Commerce (MOFCOM) to focus on trade and economic relations and technical and scientific exchange. Meetings are scheduled every two years and intended to alternate between Beijing and Addis Ababa. Seven meetings have now taken place, the last meeting being held in Beijing in March 2007.

At the opening ceremony of the Second Ministerial Conference of the China-Africa Cooperation Forum in December 2003, Chinese Premier Wen Jiabao announced that the Chinese government would grant approved destination status (ADS) for outbound Chinese tourists to Ethiopia. The Ethiopian Ministry of Culture and Tourism will send a delegation to the China tourist fair in 2008 to examine ways it might take advantage of China’s outbound tourist market.

IV) China’s Investment and Commercial Profile with Ethiopia

China’s trade and investment relations with Ethiopia are similar to its economic relations with the majority of other resource-poor countries on the continent.
a) Ethiopia’s Trade with China

China’s bilateral trade with Ethiopia has risen dramatically from US$ 32 million in 1995 to US$ 563.5 million in 2006. China continues to enjoy a significant trade surplus. Ethiopia’s imports from China include textiles and clothes, tyres, batteries, excavation equipment, motor vehicles, steel products, telecommunications equipment, machinery and electrical appliances. Ethiopia’s primary exports to China consist of oil seeds, mostly sesame, leather, cotton, and a small amount of gum and coffee.

Figure 3.1: Ethiopia’s Trade with China, in US$ millions (1995-2006)

Source: World Trade Atlas Data

Figure 3.2: Major Commodities traded between Ethiopia and China (2006)

<table>
<thead>
<tr>
<th>Ethiopia’s exports to China</th>
<th>Ethiopia’s imports from China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil seeds</td>
<td>Textiles</td>
</tr>
<tr>
<td>Leather</td>
<td>Tyres</td>
</tr>
<tr>
<td>Niobium,</td>
<td>Batteries</td>
</tr>
<tr>
<td>Tantalum,</td>
<td>Construction machinery</td>
</tr>
<tr>
<td>Vanadium &amp; zirconium ore</td>
<td>Tubes &amp; pipes</td>
</tr>
<tr>
<td>Cotton</td>
<td>Electric apparatus for line telephony</td>
</tr>
<tr>
<td>Natural gums,</td>
<td>Fiber cables</td>
</tr>
<tr>
<td>Resins and balsams</td>
<td>Electronics</td>
</tr>
<tr>
<td>Coffee;</td>
<td>Oil (not crude)</td>
</tr>
<tr>
<td>Sheep/lamb</td>
<td>Clothes</td>
</tr>
<tr>
<td>Cotton</td>
<td>Iron and steel</td>
</tr>
<tr>
<td>Vegetables</td>
<td></td>
</tr>
<tr>
<td>Textiles</td>
<td></td>
</tr>
<tr>
<td>Zinc</td>
<td></td>
</tr>
<tr>
<td>Coal</td>
<td></td>
</tr>
</tbody>
</table>

Source: World Trade Atlas Data
Ethiopia’s exports to China have been steadily increasing; they received a sudden lift in 2006 due to a shortage of sesame seeds in China. China was also Ethiopia’s top export destination in 2006 with exports of almost US$ 110 million worth of sesame seeds; they accounted for 83 percent of Ethiopia’s total exports to China. In 2007, China dropped back to being the fifth largest market for Ethiopian exports.

Figure 3.3: Ethiopia’s Top 5 Imports from China, in US$ millions (1996-2006)

Source: World Trade Atlas Data
A senior representative of one of the largest private banks in Ethiopia explained that earlier this year, the Ethiopian Government implemented regulations stipulating that all payments for Ethiopian exports to China should be made through the National Bank of Ethiopia, the central government bank.\textsuperscript{23} The private banks were not willing to be marginalised from such a lucrative source of revenue and lodged a complaint with the Ethiopian Government. The Ethiopian authorities responded, explaining that the Chinese Government requested that it deal with only one bank. According to a well-informed observer involved in the media industry, the primary purpose of this arrangement is to facilitate a barter trade agreement between the two countries.\textsuperscript{24} While the details of this arrangement are unclear, it is evident that this represents a shift in China-Ethiopia negotiations towards the so-called “Angola model”, whereby African commodities are exchanged for Chinese loan money.
b) China’s investment in Ethiopia

Although Chinese companies first moved into Ethiopia during the 1980’s it took almost a decade before investments achieved significant levels. The initial profile of Chinese capital into Ethiopia mirrored investment patterns in other parts of the African continent with construction companies dominating initial investment initiatives. Currently 95 Chinese companies are registered in Ethiopia with investments totalling US$ 117 million.

Figure 3.6: Number of Chinese Companies in Ethiopia by Sector (2007)

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>10</td>
</tr>
<tr>
<td>Real Estate, Rental and Business Activities</td>
<td>13</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>60</td>
</tr>
<tr>
<td>Education</td>
<td>1</td>
</tr>
<tr>
<td>Hotel and Restaurants</td>
<td>7</td>
</tr>
<tr>
<td>Health and social work</td>
<td>3</td>
</tr>
<tr>
<td>Agriculture and Forestry</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total Number of projects</strong></td>
<td>95</td>
</tr>
<tr>
<td><strong>Total Permanent Employment</strong></td>
<td>4,982</td>
</tr>
<tr>
<td><strong>Total Temporary Employment</strong></td>
<td>4,127</td>
</tr>
<tr>
<td><strong>Total Capital</strong></td>
<td>US$117 million</td>
</tr>
</tbody>
</table>

Source: Government of Ethiopia, July 2007

While construction clearly paved the way for Chinese companies’ entry into Ethiopia’s economy, it is interesting to note that investment in manufacturing is very prominent and accounts for 66 percent of Chinese investment in...
the country; during 2007 it was valued at approximately US$ 60 million through the operations of 60 businesses.  

Chinese companies engage in the manufacture of a broad range of products including steel, chemicals, pharmaceuticals, textiles, machinery, paper, glass, blankets and bicycles.

Figure 3.7: Breakdown of Chinese Investment in Ethiopia (1992 - July 2007)

The two largest Chinese investments in Ethiopia, each valued in excess of US$ 30 million are Libo-Sisay Joint Investment (manufacturing), which is an equal share Chinese-Ethiopia joint venture engaged in the production of rolled steel, and the 51 percent Chinese-owned Norinco-Lalibela Engineering and Construction Share Company (construction). There are several other large scale steel manufacturers. A cement factory is in the planning stages.

The Ethiopian Government has strong investment laws preventing all foreign companies from engaging in retail. These laws are strictly enforced and no Chinese companies were found to be involved in the retail sector.

Figure 3.8: Current and Future Chinese Investment in Ethiopia by Sector (2007)

Source: Government of Ethiopia, July 2007
c) Sino-Ethiopian Joint Ventures

There are currently seven joint venture initiatives between Chinese and Ethiopian firms, both public and private, valued at over US$ 38 million. They are expected to create direct employment for over 2,500 people. These ventures are involved in the manufacturing sector in producing steel, shoes, furniture, pharmaceuticals and chemicals. Another two are involved in the service sector renting construction equipment which is currently in high demand in Ethiopia. Most of these joint-ventures are approximately 50 percent Chinese-owned; however two joint-ventures are structured with 75 and 85 percent Chinese ownership respectively.

Another 35 joint ventures are currently planned with an estimated value of US$ 187 million. The majority of these initiatives are intended to manufacture chemical, mechanical, metal and plastic products as well as footwear and furniture. It is estimated that these joint-ventures will collectively employ over 16,000 people, not accounting for the associated jobs and employment opportunities that are likely to be created.

d) Telecommunications Sector

Since becoming a member of the International Telecommunications Union in 1932, the Ethiopia Telecommunications Corporation (ETC) has gone through a large number of fundamental structural changes before its present organizational form, decided upon in 1996. It is separated into two different branches – the Ethiopian Telecommunications Authority and the Ethiopian Telecommunications Corporation. Although very receptive to private investment the ETC has always been state-owned and according to a middle level representative of ETC there are currently no plans to privatise the institution.26 The central government carefully scrutinises all contracts and operations, and maintains strict control of the country’s telecommunications ostensibly for security reasons.27

Problems have been reported with equipment from the Zhong Xing Telecommunication Equipment Company (ZTE), reportedly due to compatibility issues with existing European telecommunications systems and equipment. Nevertheless, ETC recently agreed to accept US$ 1.5 billion worth of equipment from ZTE to upgrade Ethiopia’s telephone system over the next four years.28 The agreement includes the delivery and installation of mobile-phone network equipment using code division multiple access (CDMA) technology; a high volume fibre-optic transmission line and the installation of 1.2 million mobile telephone lines in Ethiopia’s capital Addis Ababa and eight other towns.29 While it is not clear how this deal is being financed, a senior Chinese diplomatic representative in Ethiopia claimed that the Chinese Government is not involved and that the finance is a commercial arrangement between ZTE and ETC.30
e) Energy Sector

In March 2006 the Chinese company Zhonguan Petroleum Exploration Bureau (ZPEB) started drilling the first exploration well in the Gambella basin in the west of Ethiopia under contract by the Malaysian company Petronas. The second exploration well drilled by ZPEB in the Gambella basin in South West Ethiopia in May 2007 turned out dry.31

In April 2007, rebels from Ogaden National Liberation Front (ONLF) attacked the site in Northern Ogaden where the ZPEB workers were camped, killing 65 Ethiopians and 9 Chinese workers. According to a statement released by the ONLF on their website, the operation targeted three government military units that were guarding the oil exploration and the Chinese were not the primary target. An additional six Chinese workers were abducted. According to the ONLF report they were “removed from the battlefield for their own safety” and “treated well,”32 before later being released.

f) Corruption

There are very mixed perceptions on the issue of corruption in Ethiopia. The majority of respondents interviewed indicated that corruption in Ethiopia was considerably lower than in the majority of other sub-Saharan African countries; however, all did concede that it was increasing. According to Transparency International’s Corruption Perceptions Index, corruption in Ethiopia is rising steadily.

Figure 3.9: Ethiopia’s Corruption Index Rating33

<table>
<thead>
<tr>
<th>Year</th>
<th>Ranking</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>137</td>
<td>2.2</td>
</tr>
<tr>
<td>2006</td>
<td>130</td>
<td>2.4</td>
</tr>
</tbody>
</table>

Source: Transparency International34

Several respondents argued that corruption is rampant at senior levels of government and cited several very large public corruption scandals in recent times. In 2001, eighteen senior Ethiopian government officials and prominent businessmen, two of them members of the TPLF, were arrested in a major crackdown on corruption.35 One senior representative in the international development community suggested: “we know there is corruption, but it is very difficult to pin point precisely where it is.”36 In 2001 the Ethiopian Government established the Federal Ethics and Anti-Corruption Commission (FEACC) to combat corruption.37 However, according to an Ethiopian specialist on corruption, Kebour Ghenna, the most threatening form of corruption in Ethiopia concerns corruption among private businesses.38
V) China’s Aid / Developmental Assistance Profile in Ethiopia

Chinese aid to Ethiopia dates from 1984 when Ethiopia suffered a severe drought. China included Ethiopia in an aid program involving 120,000 tons of maize to drought-stricken sub-Saharan countries. The following year China provided an additional 170,000 tons of maize to Sub-Saharan Africa despite China itself experiencing a turbulent year of natural disasters.

Further aid agreements covering economic, technological and cultural cooperation have been channelled through the Joint Ethiopian-China Commission, including an agreement on the promotion and protection of investment. These cultural and economic agreements also provided ten scholarships for Ethiopian students to study in China.

In early 2006, the Ethiopian Ministry of Finance and Economic Development signed a Development Cooperation Framework with MOFCOM to assist it in approaching the China Exim Bank for a loan. The loan would target a number of initiatives focusing on power generation, roads and industry that the Ethiopian Government had identified as key areas for the country’s development. It is interesting to note that the Ethiopians actively sought the involvement of MOFCOM, with whom they had an established relationship, to assist in dealing with the Exim Bank. A senior Ethiopian Government official involved in the negotiations described the process as extremely challenging. The official explained that although his government had a great deal of experience in dealing with Western donors and international development banks, this was of little use in negotiating with his Chinese counterparts. While the official was reluctant to provide details on the precise nature of the problems they encountered, there were evidently many tense moments during the course of the negotiations, which lasted almost a year. On several occasions, intervention of MOFCOM representatives was required to prevent the complete breakdown in talks between the Ethiopian Government and China Exim Bank. The Ethiopian Government representatives were given the impression that the particular Exim Bank representatives they were dealing with were already extremely busy and not particularly interested in the additional responsibilities associated with the loan to Ethiopia. It appears that the loan has now been approved in principle and the Ethiopian Government expects a response from the Chinese on the details of the loan within the next few months.

An important aspect of the negotiations, regularly emphasised by the Chinese Government, was the so-called “Angolan Model” of Chinese loan structuring. The Ethiopian government officials had no idea what the “Angolan Model” entailed. They gradually came to understand the way in which the Chinese had structured arrangements with the Government of Angola and the use of unexploited natural resources as collateral.
As the other chapters have noted, FOCAC has assumed an increasingly high profile in Chinese-African relations. During the November 2006 FOCAC meeting, Chinese President Hu Jintao made several promises. Responding to these offers, the Ethiopian Government prepared a package of requests in line with the Government’s Five Year Poverty Alleviation and Sustainable Development Program (PASDP) which were submitted to the seventh Ethiopian-China Joint Commission Meeting held in Beijing in March 2007. The Ethiopian delegation was led by State Minister of Finance and Economic Development Mekonnen Manyazewal; and Chinese officials signed various development projects for agriculture, health, education and capacity building.

In May 2007 Ethiopia and China also signed a debt relief agreement in Addis Ababa amounting to US$ 18.5 million. The agreement was signed by Mekonen Manyazewal and China’s Assistant Minister of Commerce Wang Chao.

VI) Implications for the Agricultural Sector

The primary constituency of the ruling EDRF party has been the rural economy and population. Agricultural-Development-Led Industrialization has been the main focus of the Government and clearly reflected in the PASDP. Agriculture is extremely important to Ethiopia and accounts for almost half of the country’s gross domestic product (GDP), 85 percent of its total exports, and approximately 80 percent of total employment. The importance of this sector is reflected in Ethiopia’s relations with China and accounted for approximately 97 percent of its exports to China in 2006.

Despite the importance of this sector to Ethiopia and its trade with China there is only one Chinese company currently operating in Ethiopia’s agricultural sector. The company is engaged in the production of charcoal which is the primary source of energy in the domestic economy and represents 0.2 percent of total Chinese investment in the country. An additional 15 Chinese companies are planning to enter Ethiopia’s agriculture sector and engage in a variety of different activities ranging from livestock and poultry to the production of vegetables and oils seeds; however, there are no indications just how quickly such ventures might be realised.

VII) Educational & cultural engagement

Since 2001, China has sent considerable numbers of teachers to train Ethiopian teachers and students. Fifty Chinese volunteers are currently in Ethiopia, providing capacity training in a broad range of government departments and ministries as trainers in the areas of agriculture, education, media, information and communication technology (ICT) and mining.
The Ethiopian Government requested assistance in education in line with the country’s Plan for Accelerated and Sustainable Development to End Poverty (PASDEP). The request was made through the Joint Ethiopian-China Commission and resulted in the provision of the Technical and Vocational Education and Training (TVET) centre. Construction has already been completed. They are now installing the equipment and the facility was expected to open in September 2007. The 14-block college built on over 10 hectares of land and valued at US$ 9 million will have the capacity to handle 3,000 students at a time with a primarily focus on teaching skills in construction, leather and the textile sector.

VIII) Chinese Migration to Ethiopia

Estimates of the number of Chinese currently in Ethiopia range between 3,000 and 10,000. The population is however highly fluid and most likely between 6,000 to 8,000.

IX) Identification and Evaluation of Emerging Trends

a) Projections

While the construction sector is set to see a steady flow of business with an additional investment of approximately US$ 46 million, investment in manufacturing from China is expected to quadruple, from US$ 73 million to US$ 260 million. This data is based on listed registrations by Chinese companies but does not provide any indication as to when this might occur. While a large percentage of this production will be consumed locally, a significant amount is expected to be exported. The core of this manufacturing focuses on the production of construction products such as steel, glass and cement as well as machinery and chemicals including plastic and bio-fuel. These investments are projected to create direct employment for over 36,000 people and provide considerable opportunities for technology and skill transfers with a broad range of knock-on effects throughout the economy.

Fortune, a prominent independent Ethiopian weekly newspaper, reported in July 2007 that the Chinese company Jiangsu Qiyaan Investment Group is to construct a US$ 500 million Special Economic Zone (SEZ) in Dukem approximately 37 km East of Addis Ababa. The report went into considerable detail explaining the nature of the arrangement and the challenges faced in negotiating the deal. However, Chinese Ambassador Lin Lin contradicted this, explaining that negotiations had only just commenced and that absolutely no agreements had in fact been made. By contrast, a senior official at the Ethiopian Investment Agency was under the impression that the deal had been brokered and placed the level of
investment at US$2 billion. While it is difficult to draw definite conclusions from this situation, there is clearly a problem in the handling of information. Ethiopian Government officials rely heavily on the media for information on developments in the country while the media cannot necessarily be relied upon for accuracy.

X) Case Studies

a) Chinese Companies entry into the Ethiopian Construction Industry

Since 1991, the construction industry in Ethiopia has experienced steady but solid growth with the exception of a lull during the Ethiopian-Eritrean border dispute. Donor-funded infrastructural development over the last five years, particularly road construction, has created opportunities for construction firms and resulted in a significant demand for building materials.

A large percentage of wood, concrete and some steel building materials are obtained locally; however, other inputs which are not locally available must be imported. While many of these materials are brought from Europe and Saudi Arabia, the volumes originating in China are rapidly increasing.

According to a 2006 Ethiopian Government Construction Sector study, the general state of the domestic construction industry in Ethiopia is characterised by:

- An inadequate capital base;
- Old and limited numbers of equipment;
- Low levels of equipment availability and utilisation;
- Deficiencies in technical, managerial, financial and entrepreneurial skills; and
- Very limited experience of or participation in private sector road and bridge works or provision of related consulting services.

Earlier this year Chinese ambassador Lin Lin was quoted: "Just two years ago Chinese contracted projects in Ethiopia only amounted to around US$ 800 million. Now the figure has doubled, reaching US$ 1.7 billion. The infrastructure in Ethiopia is in poor condition so it offers Chinese companies good chances to participate in the rehabilitation. The main projects cover the construction of roads, houses, power stations and the water supply system."

China Geo-Engineering Corporation and Jiangxi International were the first two Chinese companies to enter Ethiopia, in 1992, and among the first foreign companies to operate in Ethiopia at that time. It was not until the late 1990s that Chinese companies began to feature prominently in Ethiopia’s construction industry. There are currently around 10 Chinese companies operating in Ethiopia controlling approximately 50-60 percent
of the road construction sector. In July 2007, the Ethiopian Roads Authority (ERA) awarded three separate road construction projects totalling 252 km with a combined value of over US$ 93 million to the Chinese Sino Hydro Corporation. One of the three projects will make a significant contribution to the development of a local region with the construction of a 355m bridge across the Blue Nile that will eliminate a journey of over 1,500km via Addis Ababa. The World Bank is set to finance 70 percent of these projects while the Ethiopian Government will cover the rest.

During the initial phase of engagement Chinese companies reportedly reduced profit margins in Ethiopia to as low as three percent to gain a foothold in the industry and increase market share. Having succeeded in driving the majority of other foreign companies out of the market, the value of tenders submitted by Chinese companies are generally believed to have increased and the companies are now assumed to be operating on healthy profit margins. While ascertaining accurate profit margins is extremely difficult, the majority of Western companies target profit margins in the vicinity of 15-20 percent across Africa and we can presume the profit margins of Chinese companies operating in Ethiopia are approaching such levels. It is interesting to note that the local construction industry flourished during this period primarily as a result of the extremely strong demand. In 2000, the Ethiopian Government conducted a study on the requirements for the development of the local construction industry and has begun implementing measures to develop the domestic industry, notably access to capital which is probably the largest single challenge to the development of the local construction industry.

While a large number of local companies are listed as grade-one companies, capable of large scale projects, less than a dozen are thought to have the capacity to engage in such work. While competition in the road construction is increasingly fierce, the demand for civil construction seriously exceeds supply. A representative of one of Ethiopia’s largest construction companies focusing on the construction of housing, offices and government buildings explained that his company currently has enough work and will not submit any additional tenders for the next five years. As such, he had absolutely no concern for competition with Chinese companies which have only recently began to engage in the construction of housing.

b) Leather Industry

Ethiopia has the largest livestock production in Africa and has the 7th or 8th largest cattle population in the world. Ethiopia’s livestock population is currently estimated at 35 million cattle, 21 million sheep and 16.8 million goats. It produces 2.7 million hides, 8.1 million sheepskins and 7.5 million goatskins each year and this comparative advantage is further underlined by the fact that the cost of raw hides and skins constitute an average of between 55 and 60 percent of the production of semi-processed leather.
The industry is also very labour-intensive.

The leather and shoe industry was among the first industries in Ethiopia and date back to the 1920s when Armenians established two shoe factories in Addis Ababa. They trained local workers and many of these workers branched out and established their own factories which became family enterprises and have been passed down from one generation to another. Approximately 80 percent of these owners come from one ethnic group that originates in Gurage, about 170 km south of Addis Ababa.59

Chinese-made shoes flooded the Ethiopian market in 2000 and 2001.60 A senior Government representative focusing on the textile and leather industry in the Ministry of Trade and Industry explained that the impact of the Chinese products presented both an opportunity and a threat.61 The Chinese imports had an adverse effect on the local footwear industry and according to a senior representative of the Ethiopian Manufacturing Industries Association (EMIA) forced “hundreds of shoe factories” to close down,62 “it made people recognise the importance of quality.”63 A large number of respondents cited the example of Chinese shoes which can retail for as low as US$ 2 a pair depending on the style. They explained that these shoes look very good and were initially very popular; however, the quality was extremely poor and many people have simply stopped buying them in preference for the more expensive, locally-produced shoes that are of considerably higher quality. The Chinese products have clearly driven the competitiveness of the local industry which has not only taken back the domestic market, but is now exporting leather products to the international market including Europe, the USA, Canada, East Asia and a number of countries in Africa such South Africa, Nigeria and Uganda.

There are over 1,000 factories are producing leather shoes in Addis Ababa and while the majority of these enterprises employ ten workers or less, several factories have hundreds of workers.64 The majority of the companies are privately-owned and the industry currently employs around 10 000 people. Leather products are Ethiopia’s second largest export item after coffee. In 2005/2006, the export of leather products generated just US$ 9.5 million while coffee earned the country US$ 366 million over the same period. The Ministry of Trade and Industry has set the target a target of US$ 220 million for the export of leather products by 2010.

So what factors have given rise to this rare case of successful industrialisation in Africa, especially in the face of direct Chinese competition? To begin with the majority of the owners of these local companies are ethnically homogeneous which contributes significantly to their ability to coordinate and to share ideas and experiences. They all have considerable experience in the industry, are also relatively well educated and many of the more established factories had some access to some capital. They were able to travel abroad and obtain information on advanced
technology and the latest fashions. Several of the larger companies have invested significantly in upgrading their equipment with the importation of machinery from Europe and, in some cases, Taiwan and China. In this way they were able to develop connections to the international market, especially Europe, and secure a certain degree of development and technical assistance in the form of training, research and consultancy facilities, and information services. In September 2004, the Government of Italy signed a Trust Fund Agreement with UNIDO to provide approximately US$ 1.4 million to establish the Leather and Leather Products Technology Institute (LLPTI) under the Ethiopian Ministry of Trade and Industry.65

The senior representative of the Ministry consulted for this study explained that in addition to education and training the Government has provided assistance such allowing tariff free imports of inputs into this sector, the provision of preferential loans for companies to expand their operations, assisting in the identification of buyers through the Chamber of Commerce and trying to attract international investment to this sector. The primary source of investment into this sector has come from Europe. There are currently only four Chinese companies engaged in Ethiopia’s leather industry with a combined investment of approximately US$ 750,000.66 There are another 14 Chinese companies that have registered investment in this sector with a planned investment of approximately US$ 5.8 million.67 It should be noted, however, that a prominent representative from the private sector suggested that the Ethiopian Government has done little to assist manufacturing in Ethiopia and that the taxes and administrative regulations implemented have, in fact, been detrimental to the development of the industry.68

The primary factors affecting competitiveness are the poor quality of domestic leather, the high cost of imported inputs, and variations in standards which need to be addressed. Despite these challenges, the industry has done exceptionally well under the circumstances and the development pattern is surprisingly similar to that commonly found in East Asia.69

X) Summary

China and Ethiopia enjoy particularly close relations. Although the country is landlocked, it is strategically located in the centre of the Horn of Africa. While official statistics put the population at around 75 million, informed observers suggest the figure is closer to 100 million, making it the largest population on the continent after Nigeria. This means that it is potentially a very lucrative market for Chinese products. Ethiopian is also among the largest countries on the African continent in terms of area and is believed to have significant natural resources although very few have yet to be identified.
Chinese companies clearly recognise this resource and market potential and attach considerable importance to Ethiopia. China has pursued a similar pattern of engagement with Ethiopia to other countries on the continent. Ethiopia suffers a significant trade deficit with China due to the influx of Chinese products and Chinese investment in this African country is also experiencing strong growth, particularly in manufacturing.

The country is heavily dominated by the presidency and the Beijing and Addis Ababa leadership appear to enjoy a close relationship. There is a strong sense of respect amongst the Chinese toward Ethiopia as the only country on the continent to have survived colonisation and there are many broad commonalities in the historical experience of the two countries and their current structure of governance.

Endnotes
3 The EPRDF is a coalition of ethnic-based parties (OPDO, SEPDM and ANDM) led by TPLF (EET 149)
6 Interview, Addis Ababa, 3 August 2007.
8 Interview, Addis Ababa, 2 August 2007.
9 Interview, Addis Ababa, 2 August 2007.
10 Interview, Addis Ababa, 2 August 2007.
11 The Japanese Keirestu that evolved from the zaibatsu after WWII and the Korean chaebol are large business conglomerates linking finance to production and closely tied to Government that played important roles in the economic development of their respective countries.
12 Interview, Addis Ababa, 3 August 2007.
21 Ian Taylor (2005) “Beijing’s Arms and Oil Interests in Africa”, China Brief, 5(21),
23 Interview, Addis Ababa, 2 August 2007.
24 Interview, Addis Ababa, 30 August 2007.
27 On the eve of the 15 May 2006 election the government disabled ETC’s short message service (SMS) in an attempt to thwart the mobilization of opposition forces.
33 Comparing the ranking from year to year is not a clear indication as Transparency International is adding new countries to the survey each year. The score represents a composite index drawing on 12 polls and surveys from 9 independent institutions ranging from the least corrupt at 10 down to 1.
36 http://news.bbc.co.uk/2/hi/africa/1360236.stm
42 For more information on the Angolan loan arrangement, please see Chapter two.
44 Among other things to train 15,000 African professionals and dispatch 100 senior agricultural experts and 300 youth volunteers to Africa; provide US$3 billion of preferential loans and US$2 billion of preferential buyer’s credits to Africa in the next three years; set up a China-Africa development fund which will reach US$5 billion to encourage Chinese companies to invest in Africa and provide support to them; and cancel debt in the form of all the interest-free government loans that matured at the end of 2005 owed by the heavily indebted poor countries and the least developed countries in Africa that have diplomatic relations with China. For a more in-depth discussion please see Chapter one
45 CIA Factbook, Ethiopia, [https://www.cia.gov/library/publications/the-world-factbook/geos/et.html]
51 Interview, Addis Ababa, 4 August 2007
53 Issayas Mekuria (2007) “Road Authority’s First Threefold Award to One Company,” Fortune, 29 July p. 16.
54 Issayas Mekuria (2007) “Road Authority’s First Threefold Award to One Company,” Fortune, 29 July p. 16
56 Construction companies in Ethiopia are graded from levels 1 to 10 by the Government regulatory authority in accordance with their capacity. Grade one companies have no maximum limit of the value of projects they can bid for.
57 Interview, Addis Ababa, 23 July.
the Global Development Network Annual Conference, Beijing, China, January p. 11.
61 Interview, Addis Ababa, 2 August 2007.
63 Interview, Addis Ababa, 2 August 2007.
68 Interview, Addis Ababa, 31 August 2007.
## Gabon

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
<th>Source</th>
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<td>Life expectancy (years)</td>
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<td>Infant mortality</td>
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<td>GDP growth</td>
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<td>2006 est., US State Dept.</td>
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Chapter 4: Gabon

I) Introduction

The Republic of Gabon became one of West Africa’s first petro-states when oil was discovered in 1926 by the French oil company Elf. Gabon is rich in natural resources which, notably its oil exports provide the country with the opportunity of a higher standard of living than many of its neighbours. Libreville, the capital, is home to approximately half of the population, which was estimated at 1.4 million in 2006. The GDP per capita was US$ 7200 in the same year; roughly four times that of the average of sub-Saharan African countries. However, despite these development statistics, income inequality is considerable and a large proportion of the population remains relatively, albeit not extremely, poor.

Despite ethnic diversity, Gabon has enjoyed relative political stability. This is largely due to the strength of the incumbent government. The present Chief of State, Omar Bongo Ondimba, has led the country since 1967 when he succeeded the first post-independence leader, Léon M’ba. With 40 years in office, President Bongo is now Africa’s longest serving head of state. President Bongo declared Gabon a one-party state in 1968, but after political turmoil in 1990, a nominal multiparty system was introduced. The first multiparty National Assembly elections in almost 30 years took place in September-October 1990. However, attempts to challenge President Bongo’s domination of Gabonese politics have not yet been successful. In the 2005 presidential elections, he was re-elected for another five year term with an overwhelming 79.2 percent majority. While there were allegations of election fraud, international observers concluded that the poll was largely free and fair. Since an amendment of the Constitution in 2003, the incumbent President is now eligible for an unrestricted number of terms. Furthermore, in the 2006 legislative elections, President Bongo’s party Le Parti Démocratique Gabonais (PDG) won 80 of 120 seats in the National Assembly, further securing Bongo’s hold on the government.

Despite Gabon’s political stability since independence, critics of President Bongo accuse him of authoritarian tendencies. For example, Freedom House rates Gabon as only ‘partly free’; arguing that the country shows...
limited respect for civil rights and political liberties.¹¹

The Gabonese economy is highly vulnerable to world market prices of its major natural resources. This is particularly as oil production has slowed from 18 million tonnes in 1998 to 13.5 million tonnes in 2004. Its oil wealth saw Gabon partially neglect its agricultural industry during the 1980s. Concerns have been raised that if, as recently occurred, productivity of oil, manganese and timber production decreases, the country risks an uncertain future.¹² To reduce its vulnerability to fluctuating oil, timber and manganese prices, the government has made attempts to diversify the economy.¹³

One such initiative, designed to stimulate eco-tourism and support the conservation of Gabon’s rain forests, involves the creation of 13 national parks. They comprise more than 10 percent of Gabon’s total landmass.¹⁴ The project began in 2002. The fact that these parks were created unilaterally, by presidential decree, has important implications for understanding policymaking processes in Gabon. Another diversification initiative involves plans to exploit untapped iron reserves in the Belinga region (see the case study below). But few other initiatives have followed in their wake. As a result Gabon will continue to rely heavily on the export of raw materials, unless significant efforts are made to expand and develop the agricultural and industrial sectors.

Furthermore, Gabon is heavily indebted. By early 2005, external debt represented 48.8 percent of GDP.¹⁵ Multilateral donors are currently encouraging the Gabonese government to direct resources towards poverty alleviation and improved governance.¹⁶

II) Identification of Policy-Making Actors in Gabon and Canvassing their Opinions

a) The Role of the Executive

Throughout his lengthy tenure in office, President Omar Bongo Ondimba’s principal imperative has been to centralize power around the Presidency. A strong French military presence has also helped consolidate his position. Publicly, he has stated his intention to stand for office in the next presidential election in 2012, but some observers believe that he maintains this stance to prevent a power struggle between several influential factions, many headed by members of his own family. Several senior Western diplomats believe that Ali Bongo, President Bongo’s son through his first marriage to Patience Dabany, and current Minister of Defence, is the strongest contender. According to the United Nations news service¹⁷ he has the support of the Gabonese army and is well-connected in the United States. Consequently, should he succeed his father, the US may become more influential in the West African country. This US has shown a renewed interest in West African
oil following continued instability in the Middle East. Indeed, according to the US Defence Department, a US African command force, AFRICOM, is expected to be launched off the West African coasts in October 2007.

President Bongo’s daughter Pascarine, also from his first marriage, is also a powerful political figure. Previously married to Foreign Minister Jean Ping, Pascarine then married Finance Minister Paul Toungui. She has served as Minister of Foreign Affairs but is currently the director of the Presidential Cabinet and thus a close presidential adviser.

Foreign Minister Jean Ping, despite no longer being married to Pascarine Bongo, is also very close to the president. He was instrumental in arranging the visit of Chinese President Hu Jintao to Gabon in 2004. Because of his mixed parentage he has never seriously been considered as a contender for the presidency. Ping nevertheless remains influential and was promoted to the rank of deputy prime minister in January 2007.

Bongo is a powerful figure in the central African region, not only because of his lengthy tenure, but also because he has made strategic alliances with neighbouring countries. His current wife, Edith Lucie Sassou Nguesso is the daughter of the president of the Republic of Congo. He has also adopted many children, most of whom are nationals from surrounding states. These familial bonds have allowed him to amass extensive regional support.

President Bongo, as the head of state, has also amassed considerable economic and commercial power. Considering Gabon’s oil wealth and its relatively small population, the fact the substantial income inequalities exist have caused several international NGOs to question state fiscal management of the country’s sizable economic resources.

b) The Role of the Legislature

Gabon has a bicameral legislative system; the National Assembly consists of 120 seats while the Senate consists of 90 seats. The joint-committee on China-Gabonese relations in the General Assembly is presided over by the Minister of Communications. The committee discusses all Chinese ventures and endeavours in Gabon and ways to “increase friendship” between the two states. Each time a Chinese company submits a proposed project or investment in Gabon, the documents are discussed by the committee. The project is then overseen by this group. This process is supported by the newly re-instated Bi-National Commission which meets every two to three years. However, despite these structures, a local journalist points out that large contracts are not discussed in Parliament which is required by Gabonese law. These negotiations are not made public, further illustrating that the Gabonese executive is the most influential body involved in this kind of decision-making.
c) The role of important foreign actors

Despite reports that France is slowly extricating itself from economic and political involvement in francophone Africa, it remains one of the most important external actors in Gabon. This stems from Gabon’s colonial heritage as a French territory, but also from strong economic links that Gabon has as a member of the CFA zone. The French diplomatic presence in Gabon is extensive, with separate, economic, military (Campe de Gaulle), and political branches of the Embassy. The French expatriate community is estimated at some 15,000. The French Ambassador is one of the most important political forces in Gabon, enjoying direct access to the executive.

It must be recognised that much of the concern generated about Chinese activity in the country stems from other foreign market-players, notably the French, whose entrenched commercial and geo-strategic interests are being threatened. Reflecting this, according to a senior Western diplomat, Foreign Minister Jean Ping has stated that China will never replace France. It remains to be seen whether this is a warning to China or intended to placate France. Interestingly, a senior civil society representative felt that fears that China will destroy Gabon’s natural resources were exaggerated. He pointed out that the conservation lobby in Gabon was quite strong and, furthermore, enjoys government support (see Loango case study below). While some may doubt this, it must be recognised that the World Bank was able to halt Sinopec’s exploration activities in Loango National Park (see case study below).

Similarly, a government official pointed out that many countries in Francophone Africa were increasingly seeing China as a strategic partner to counter the influence of France. This stemmed from the recognition that France could not continue to maintain present levels of support to the region - therefore other strategic partners needed to be found. The President has reflected this position, remarking in an interview with the French radio station France Inter that since France and America could no longer do anything for Gabon, and had not done much in the past, it was time to form a new alliance. However France and the US remain the biggest investors in Gabon’s oil sector. These comments by the President can be interpreted as reflecting a resentment of this dominance and a wish to diversify not only the economy, but the nationalities of investors in the country. This approach is seemingly vindicated by President Sarkozy’s recent speech at Dakar University in Senegal, which was widely rejected as racist, and condescending to Francophone Africa.

A senior Gabonese government official in the legislature, argued that if Gabon, as part of francophone Africa, were to approach the UK or US for assistance, it would be seen as a betrayal of France. Therefore China, as a non-aligned power and without a colonial heritage, was a favourable option for assistance. While China is also an attractive partner for African leaders
because of its non-interference policy, China is also viewed by several senior government officials as model for economic development. This is possibly because China has achieved high rates of economic growth while retaining an authoritarian regime, a model that African leaders, such as Bongo would like to emulate.

III) General landscaping of China’s engagement of Gabon

In December 1960, Gabon established diplomatic relations with Taiwan but severed them in March 1974. A month later, on 20 April, Gabon officially recognised Beijing when the Joint Communiqué on the Establishment of the Diplomatic Relations between the People’s Republic of China and the Republic of Gabon was signed. Relations between the two countries remain cordial and have advanced co-operation in political, economic, diplomatic, cultural, medical and educational arenas.

High-level Political Visits & Agreements

Chinese leaders and officials who have visited Gabon include: Chen Muhua, Vice Premier of the State Council (August 1978); Gong Dafei, Vice Minister of the Ministry of Foreign Affairs (October 1981); Zhao Ziyang, Premier of the State Council (January 1983); Wu Xueqian, Vice Premier of the State Council (March 1990); Qian Qichen, Member of the State Council and Minister of Foreign Affairs (January 1993); Li Lanqing, Vice Premier of the State Council (November 1995); Tian Cengpei, Vice Minister of the Ministry of Foreign Affairs (April 1996); Li Peng, Premier of the State Council (May 1997), Chen Jinhua, Vice Chairman of the NPPCC (July 2000); Tang Jiaxuan, Minister of Foreign Affairs (January 2001); and Wei Jianxing, Member of the Central CPC Standing Committee.

From October 10-12, 2000, Jean Ping, Gabonese Minister of Foreign Affairs and Cooperation, and in charge of affairs for French-speaking countries, attended the Ministerial Meeting of the Sino-African Cooperation Forum. The volume and frequency of high-level visits are a testament to the strengthening relations between the two countries. A steady stream of high-level visits between the two countries has also ensured a strong basis for renewed engagement following the first Forum on China-Africa Co-operation (FOCAC) in 2000.

President Bongo has undertaken 10 trips to China, the most recent in 2005. Due to his long tenure as President, he has known each generation of Chinese leaders since the formation of the People’s Republic of China – representing substantial political capital. Indeed, a senior government
representative commented that Bongo *de facto* was at the centre of China-Africa relations. While perhaps an exaggeration, it places emphasis on the sense of history attributed to the Sino-Gabonese relationship and the important role that Bongo sees for himself in the nexus of China-Gabon affairs. This seems to be characteristic of authoritarian African leaders, such as Zimbabwean President Robert Mugabe and Angolan President Eduardo dos Santos, particularly as they have cultivated links with Chinese leadership for decades.

Leaders and officials who visited China from Gabon include:

- **Konighi Okoumab D'okwatsegue**, Minister in charge of foreign affairs and cooperation of the presidential office (June to July 1974);
- **Edmond N’Kogho**, Chairman of Economic and Social Council (June 1994);
- **Marcel-Eloi Chamberier-Rahandi**, Speaker of the National Assembly (July 1994);
- **Prime Minister Casimir Oye Mba** (September 1994);
- **Jean Ping**, Minister of Foreign Affairs and Cooperation, and in charge of the affairs for French-speaking countries (April, October, 2000);
- **Jean-François Ndongou**, Representative at ministerial level in charge of finance, economy and privatisation (April, October, 2000);
- **Ali Bongo**, Minister of National Defence (April 2001);
- **Louis Gaston Mayila**, Chairman of Economic and Social Council (November 2001); and
- **Paul Mba Abessole**, Minister of Human Rights and State Affairs (September 2002).

Since Chinese President Hu Jintao’s 2004 visit, bilateral engagement has increased considerably. Most notably the bi-national commission was re-instated after an adjournment of more than 20 years. Several observers from senior diplomatic, NGO and foreign business sectors remarked that the Chinese have achieved market traction exceptionally quickly, particularly in the mining, forestry and oil sectors.

**Agreements:**

Sino–Gabonese relations also benefit from the fact that the current Minister of Foreign Affairs and Vice-Prime Minister, Jean Ping, has a Chinese father who settled in Gabon during the 1930s. Ping is a seasoned diplomat, having
represented Gabon as Ambassador to UNESCO and the UN in the 1970s and 1980s; he presided over the 59th session of the UN General Assembly in 2005.

**Official agreements:**

- **20 April 1974** - Joint Communiqué on the Establishment of the Diplomatic Relations between the People’s Republic of China and the Republic of Gabon was signed.
- **December 1982** - Gabon and China formed a Bi-National Commission. The first meetings were held in 1983, in Libreville, followed by a second meeting in 1985 in Beijing. The commission then did not convene for more than 20 years, but was re-instated in 2006. The 3rd meeting was held in August of that year.
- **December 2002** - the PRC signed an agreement with Gabon to provide non-interest loans. The Government of the People’s Republic of China and the Government of the Republic of Gabon also signed an Agreement on Investment Protection Between the two countries.

China’s success in reducing domestic poverty levels and convincingly entering the global political and economic arena is much admired by Gabonese officials. Indeed, according to a senior diplomat, before the last presidential elections in November 2005, a poll conducted in Gabon by a Gallup-affiliated organisation found that the country believed its best economic development partner was China. This is illustrative of the nationwide perception of China vis-à-vis more traditional partners.

There is a perception that the Chinese influence policy in Gabon through political overtures, notably in terms of gifts that they give to the government. Thus one senior diplomat observed that China’s growing need for natural resources encouraged Chinese companies to take bigger risks than other companies in order to secure access to natural resources. But many senior Gabonese government officials, while acknowledging these concerns by Western officials, believe them to be hypocritical, considering the West’s own previous actions on the continent – France in particular. Western concerns over environmental issues are consequently thought by Gabonese government officials to be overstated and exaggerated.

Many Gabonese government officials are invited to China to attend training programmes. Nevertheless, several senior Chinese diplomats commented that they wished to provide infrastructure benefits to the entire Gabonese population, not just civil servants. This may relate to the fact that the largest buildings completed by the Chinese are the National Assembly and Senate buildings. It is evident that the Chinese Embassy is aware that in order to cultivate a better image, not only within Gabon but amongst the international community, their assistance to Gabon would be better served
if invested in national infrastructure, of which little exists outside Libreville. A good international reputation is important for Chinese political and economic interests and may prove important leverage for the international community, should it wish to influence how Chinese aid money is spent in Gabon.

Xue Jinwei, China’s Ambassador to Gabon since March 2005, is widely recognised by the diplomatic community in Gabon to be pivotal in China’s relations with Gabon. Aside from the manner in which Chinese embassy handled the incident at Loango National Park (see case study), Ambassador Xue is very receptive to both local and international media. Ambassador Xue is seen as part of a new generation of Chinese diplomats who recognise the importance of press liaison and mediation, again possibly precipitated by the experience of Loango. The Economic Counsellor to Gabon, Wang Qin, also remarked on the China’s new openness of China and displayed a relative willingness to discuss China’s activities in Gabon.

Interestingly, however, the Gabonese executive is aware of the dangers of relying too heavily on any one economic partner. According to a senior diplomat, during the Beijing FOCAC Summit in November 2006, a senior Gabonese government official contacted an embassy in Gabon, stating that a Chinese company was interested in the manganese concessions owned by a mining company of embassy’s nationality. The Gabonese government official requested that the embassy ensure that the mining company in question retain control of the concession and not cede it to the interested Chinese company. This implies that the Gabonese government is aware of the importance of investor diversification, as it dilutes the influence any one external actor may have on Gabon’s economy.

IV) China’s investment and commercial profile with Gabon

China’s strategic interest in Gabon lies principally in their considerable reserves of oil, gas and minerals, such as manganese and iron.
In 2002, bilateral trade reached US$237 million between the two countries, of which Chinese exports - mainly textiles, mechanical and electrical products - comprised just US$4.7 million. Trade between the two countries has continued to boom, particularly since PRC President Hu Jintao’s visit in Gabon in 2004. Bilateral trade doubled between 2005 and 2006 alone, from US$ 440 million to US$ 880 million, illustrating the potential for further growth (see Figure 4.1 above).

**Figure 4.1: Gabon’s GDP by sector (2004)**

![Pie chart showing Gabon's GDP by sector (2004)]

**Figure 4.2: Gabon’s trade with China, in millions of US$ (1995-2006)**

![Bar chart showing Gabon's trade with China, in millions of US$ (1995-2006)]

Source: OECD

Source: World Trade Atlas Data
Most manufactured goods are imported from Europe, particularly from France and the United States, whereas agricultural products are sourced from Cameroon (see Figure 4.2 above). Libreville is consequently the second most expensive city in Africa and the sixth most expensive city in the world.\textsuperscript{35}

But since Gabon’s population is fairly small, it is unlikely that the country is viewed as an important market for Chinese goods. Indeed China ranks far below France and the United States in terms of imports (see figure 4.2). Gabon imported US$ 43 million of goods from China in 2006; a moderate increase in Chinese imports was recorded in 2004 (see Figure 4.2) when President Hi Jintao paid his state visit.

As illustrated in Figure 4.3, the bulk of Chinese imports to Gabon comprise machinery and parts, illustrative perhaps of the entry of Chinese construction companies into the local market, as most of their equipment imported from China.

Figure 4.3 : Gabon’s Top 10 Import Partners, millions of US$ (2000-2007)

Source: Gabon Customs Authorities

Chinese imports of Gabonese products are set to increase. Gabon’s exports to China during the first 5 months of 2007 stood at US$ 222 million, already more than entire figure for 2005.
While the value of Gabon’s exports to China is fairly insignificant when compared to exports to France and the US, they did increase dramatically in 2006, nearly doubling in value (as seen in Figure 5). This could be attributed to several prospecting deals signed between Gabon and Chinese mining companies.

Source: Gabon Customs Authorities

Source: World Trade Atlas Data
Aside from the interest in natural resources, principally oil and iron ore, China is a major exporter of Gabonese wood (see Figure 6). Many Chinese logging companies have acquired logging concessions in Gabonese forests. Gabon is viewed as a strategic partner on account of the regional influence of its president while its political stability adds to its suitability as a commercial base.

Figure 4.6: Gabon’s Top 5 Exports to China (1996 - 2006)

The EU maintains that its concern over China’s rapid market entry is primarily due to its concerns for Gabon’s environment. It is not, they claim, due to a concern over a loss of market share since Gabon is not considered a large strategic market. Nevertheless, EU trade with Gabon is not inconsiderable; six of Gabon’s top ten import origins are from the EU. The Gabonese Customs Authority estimates EU-Gabon trade at US$ 1.2 billion. But it does appear that a loss of market share to China would set a dangerous precedent, particularly given France’s tenuous hold on the rest of Francophone Africa. Despite asserting, at least publicly, that “there is enough to go around”36, it seems that there is an undercurrent of real concern that French influence is being eroded in the country.

a) Chinese investment in Gabon’s Mining Industry

Minerals are one of Gabon’s primary exports to China. According to a senior Western diplomat, Compagnie Minière de l’Ogooué (Comilog), a subsidiary of the French company Eramet37 that is jointly-owned by French and Gabonese interests, exports 50 percent of its mineral yield to China.
Two Chinese companies enjoy mining concessions in Gabon. The mining company Sinosteel was awarded rights to develop the Mbigou manganese mine in April 2006. Sinosteel also has mining rights for iron, chrome and nickel. In September 2006, Huazhou Mining Investment Company Ltd was also granted manganese prospecting rights. In February 2007, Huazhou Industrial and Commercial Mining Company (CICMH), a partnership between China’s Ningbo Huaneng Kuangye and Huazhou, began development of a US$ 35 million manganese mine in the Bembélé Mountains. The mine, located 36km from the town of Ndjole, near the Trans-Gabonese railway line, is estimated to have reserves of 30 million tonnes with a mineral purity estimated at 30-40 percent. The mine will, according to reports, eventually have an annual yield of one million tones of manganese and will employ 300 Gabonese workers. CICMH also have mining rights for lead, zinc and silver deposits.

One of the most notable Chinese investments is the awarding by the Gabonese government of sole rights to develop the Belinga iron reserves in north-east Gabon (refer to case study). As part of the contract, China National Machinery Equipment Import and Export Company (CEMEC) agreed to invest heavily in infrastructure that will benefit the country, as well as assist with ore extraction. It includes a deep-water port, a railroad and a hydro-electric plant. This “coalition investment project” of Chinese companies across diverse sectors is a developing trend in investment in Africa’s extractive industries.

b) Chinese Investment in Gabon’s Oil Industry

Gabon has proven reserves of an estimated 2.5 billion barrels, making the country sub-Saharan Africa’s fifth largest oil producer. Although previously a member of the Organization of Petroleum Exporting Countries (OPEC), Gabon withdrew in January 1995, citing an inability to pay the annual dues of some US$ 2 million. Gabon’s current production rate has declined from a peak of 370,000 barrels per day in 1997, to 268 000 in 2006. This represents a drop of more than 37 percent. However, Gabon remains strategically important given calculations that, by 2010, Africa will supply 30 percent of global oil demand. Furthermore, West African ‘sweet crude’ is highly prized as its lower sulphur content requires less refining and poses fewer environmental threats.

Unipec, a subsidiary of Sinopec, signed a contract with the French oil company Total Gabon in February 2002. Under the contract, China, for the first time, bought Gabonese crude oil. Sinopec and CNOOC share oil exploration blocs. Sinopec has invested in blocs off Port-Gentil, sinking three wells, but have still not found oil. It is possible that China has seized the opportunity to acquire concessions in an oil region while Western companies lose interest given declining production volumes.
c) China’s investment in Gabon’s Forestry sector

According to the Ministry of Water, Forestry, Fisheries and Environmental Protection, timber exports contributed 2.5 percent of GDP in 2005. This is nevertheless an important industry, as it contributes 15 percent of the government’s foreign receipts and provides employment for 600,000 of Gabon’s population of 1.6 million. This makes the forestry industry the second largest employer after the state. Its strategic importance to the economy does not reflect in its contribution to GDP and should not be underestimated.

More than 60 percent of Gabon’s timber exports go to Asia. China currently receives approximately half of Gabon’s forest exports. In 2005, 58.6 percent of all okoumé wood exports went to China while 36 percent of all other wood varieties were also imported by China. In contrast, exports to France declined by two percent less during the last year.

Four small saw mills operate in Gabon; accordingly the bulk of wood is exported raw, particularly to China, the largest importer of Gabonese wood products. In-country processing would stimulate the local economy and significantly raise the value of exports, but is not an option that has been greatly explored in terms of investment. In fact Libreville’s beaches are strewn with logs that have been abandoned, evidence of years of wasteful practices in this industry. Standards are only enforced where the product is exported to the EU, where strict import regulations on imports are upheld.

There has been a huge increase in the activities of Chinese companies in the forestry industry in Gabon over the last 20 years; one large Chinese-Malaysian conglomerate and several other smaller Chinese operators operate in the country. Chinese companies are redeveloping the industry, buying up smaller forestry companies that are in financial difficulty, even smaller French companies. It appears they have either financed or bought equity in the smaller operators. By helping them with their debt, they secure preferential supply agreements for China’s domestic market.

European companies voice concerns over the environmental practices of Chinese companies. They claim that the companies do not follow sustainable logging practices, cutting down young trees whose trunks have not reached a mature diameter. It has been reported that up to 20 percent of Chinese forestry operations contracts are operated under conditions damaging to the forest.

Global Timber, a UK-based organisation monitoring the global timber trade, goes further: “[a] high proportion of China’s imports of wood-based products are associated with illegality - here defined as “in conflict with either the letter or intent of the law or otherwise associated with corrupt practice”. By implication, this means that as much as 80 percent of China’s imports from
Gabon are associated with a disregard for the law; reportedly tax is evaded on two thirds of area allocated as forest concessions.\textsuperscript{50}

A Western NGO representative remarked further that while the Gabonese forestry industry is known for its opaqueness, the entry of Chinese companies has done little to improve transparency in the sector.\textsuperscript{51} Due to maladministration, law enforcement standards are not high in the sector and Chinese companies, as well as other operators, do not seem to respect labour laws or road safety standards, thus reducing the potential for developing sustainable forestry practices.

According to one environmental activist, the same concerns were raised 15 years ago when Malaysian companies entered Gabon's forests.\textsuperscript{52} These concerns never materialised; the activist expressed the opinion that the same would prove to be true of the entry of the Chinese logging companies. It does appear that China is increasingly concerned about the international reputation of Chinese companies and negative publicity is not welcomed. It is in the Chinese commercial interest to set an example over environmental standards (refer to the Loango case study).

V) China’s Aid / Developmental Assistance Profile in Gabon

China has built a large number of prestige projects for the Gabonese government:

- The National Assembly Building, completed in 2002 and inaugurated in January 2003 was built by the China Overseas Engineering Company (COVEC),
- The Senate building, built by Shanghai Construction, was built between 2002 and 2004 and inaugurated in 2005,
- The Cité des Informations, currently being constructed by CEMEC, will be completed in 2008. This building will house the state-owned radio and television channel offices and the Ministry of Communication. Interestingly, some respondents commented that the Minister of Communications should not be housed in the same building as the TV and radio station since the latter were supposed to be independent. Other respondents pointed out that this was in fact requested by the Gabonese government.

These prestige projects led one Western NGO representative to remark on the “politics of exhibitionism”. This refers to the fact that they are created not only for the Gabonese government to demonstrate how they provide national infrastructure – albeit that these are all government buildings – but that they are an advertisement for the Chinese companies and their construction.
These buildings also present African governments with opportunities for political capitalisation. These ‘gifts’ from China to Gabon are intended to create goodwill particularly because they are delivered efficiently. The Chinese are requested by African countries to build structures, such as football stadiums, as they will be seen by many people – they are visually accessible. Additionally, schools and hospitals are directly accessible to the people, allowing them to see and experience change and progress.

The source of financing for these projects is unclear, although it is understood that they are part financed by China and Gabon, guaranteed by oil. A senior diplomat had heard that 82 percent of the projects were interest free while the remaining 18 percent was to be financed at two percent interest.

Chinese contractors have developed a reputation among Gabonese government officials for delivering projects quickly, efficiently and on time. Chinese workers contracted to a project receive a working visa of one to two years and work daily ten hour shifts. While some Gabonese workers are employed on these sites, the contracts are not popular among local workers on account of the long hours and poor pay by local standards, some 60 000 CFA per month (approximately US$ 125). Most of the workers, materials and technology are thus brought from China. Prohibitively high import tariffs on goods sourced from neighbouring African countries are a further incentive to source from China.

A senior government official however pointed out that because the projects were partly a gift and not paid for in full by the Gabonese government, the technology and quality of construction was of a lesser standard. He complained about the way that the doors in the Senate Building were made, pointing out that they were not solid wooden doors, as was the case with most government offices in Gabon. The allocation of office space was also more compact, presumably allocated according to Chinese, as opposed to more Western specifications.

The government official concluded that the Chinese had not adapted their mentality to the conventions of host countries. All Chinese buildings were constructed with logistical features for mass accommodation. He pointed out that in Gabon status and rank were important, given also a low population density. Chinese projects did not seem to take this into account, he felt.

a) Medical Assistance

After the inception of diplomatic relations in 1974, China and Gabon signed a protocol in June 1975 for China to dispatch medical teams to work in Gabon. The first medical mission, with 27 personnel, was sent the following year.
According to Ambassador Xue⁵⁷, a total of 15 missions have been sent since then, of about 20 medical officers each, to work in Libreville and Franceville.

China has also built two hospitals. The first was built in 1980 in Bellevue, a suburb of Libreville, while the other was built in Franceville in 1985. Since 2000, both these hospitals, staffed by Chinese medical doctors, have been undergoing renovation to enlarge their facilities and improve the quality of treatments offered. In addition, western medicine some traditional Chinese treatments are also offered, the most popular being acupuncture. The Chinese Ambassador noted that several celebrities undergo regular acupuncture treatments, which has served to popularise the treatment. A dozen or so practitioners have now established small acupuncture clinics around Libreville. Traditional Chinese medicine has become popular among the local Gabonese, possibly due to a cultural affinity and acceptance of plant-based medicine, as well as the fact that it is cheaper than Western generics. Chinese investors are reportedly interested in the wealth of biodiversity found in Gabon’s forests and their potential medicinal properties.

VI) Implications for Gabon’s Agricultural Sector

China is also supporting small-scale, state-initiated agricultural projects intended to diversify the economy and provide poverty relief. There are also some rice production ventures in the provinces. China has also sent agricultural experts to Gabon within the framework of the FAO’s South-South Cooperation initiative to assist small-scale farmers in improving crop and animal production.⁵⁸

VII) China’s Educational and Cultural Engagement with Gabon

In April 1986, the two countries signed a protocol for China to send teachers to teach in Gabon. China has sent five teachers to teach in the high schools in Gabon.

Since 1975, China has provided Gabon with scholarships for higher education. From 2004, 13 full scholarships have been awarded annually to Gabonese students. In 2006 this was increased to 20 and, according to Ambassador Xue; it was increased to 31 in 2007. Fifty Gabonese students currently study in China⁵⁹. The students generally embark on a one to two year Mandarin Chinese language programme in China before beginning their studies. According to the Economic Counsellor Wang Qin, the number of students assisted with training has risen from 46 in 1997 to 215 by 2007.

The students are encouraged to enrol in engineering and computer studies, partly as a response to the large long-term investment that a Chinese company has made in the Belinga iron-ore fields in North-east Gabon (see
case study). A professor at the University of Omar Bongo expressed the hope that these students, having studied engineering in China, would be integrated into the project. They would not only be fluent in Mandarin but would be familiar with the technology used in the project.

Gabonese students in China have assisted in facilitating Sino-Gabonese relations. Approximately 20 students have studied in China and returned to Gabon. They have been incorporated into the Ministry of Youth and the Ministry of Higher Education. The University of Omar Bongo, whose main campus is in Libreville, is currently negotiating to open a Confucius Institute. The university needs to demonstrate the physical capacity to host such a centre. The centre would focus on teaching Mandarin to students and professionals, thereby facilitating Sino-Gabonese relations.

In 2007 China inaugurated courses on administrative training to Gabonese government officials drawn from various departments. The courses, which last for up to three months, are intended to introduce government officials to China, thereby also strengthening bilateral relations and facilitating diplomatic exchanges. Ambassador Xue notes that these courses are not only offered to Gabon but to several other African countries. They form part of the FOCAC pledge of educational assistance. Each year, approximately 100 government officials are sent for training to China.

VIII) Chinese Migration to Gabon

The actual number of Chinese nationals living in Gabon is difficult to determine. While the Chinese Embassy may lay claim to such statistics, they do not necessarily reflect reality. According to Ambassador Xue, about 600 Chinese people are settled in Gabon and, if one counts those who come to Gabon on work visas, the number increases to about 1 000. A recent report by French radio station France Inter cites a figure of 2 000 while a senior Chinese diplomat estimated the number at 3 000 in 2007. Interestingly, other members of the diplomatic community have put the number at between 20 -30 000. These latter figures appear exaggerated however.

Chinese immigrants have lived in Gabon since the early part of the twentieth century. An area just outside Libreville is known as “Bambou-chine”, a testament to the Chinese trader immigrant community that settled there. According to the Chinese Ambassador, the area was a Taiwanese settlement abandoned after the switch in diplomatic ties in 1974. It is possible that Chinese immigrants who came to Gabon before 1960, before the politicisation of the One-China policy, did so to escape the political upheavals in China at the time.
IX) Identification and Evaluation of Emerging Trends

a) Economic Impact of China’s Engagement with Gabon

On a macro-scale, it is widely understood that the Chinese have a long-term strategic interest in Gabon for oil, timber and minerals. But a senior NGO representative remarked that increasingly in Africa, China will need to modify its rules of engagement if this kind of development is to be sustainable. He believes that as China becomes more engaged in the global economy, this would indeed happen as China increasingly adopted international convention.

Negotiations between China and Gabon are quite secretive and there is a noticeable, widespread reluctance on the part of government officials to clarify aspects of China’s engagement. It is however recognised that while the investment brought in by Chinese companies will profit Gabonese people as a whole, the benefits may not filter down through the more needy sectors of the population.

Chinese investments are criticised in some quarters, notably by other foreign investors, that China is not ensuring an equitable distribution of wealth in the country. They point out that most Chinese companies source much of their own materials and human capital requirements from China. The technology utilised is also often imported from China and may not be accessible to local technicians, fuelling concerns of long term viability and project maintenance. Why this may indeed be true, these practices are no different from other foreign companies’.

With some validity, Chinese companies maintain that they cannot find the necessary skills locally and, due to very high regional import tariffs and transportation costs, it is often cheaper to source materials from China. It is also worth noting that traditional commercial partners, facing the same challenges, have done the same.

Furthermore, the rise of Chinese and other foreign investor and commercial interests should help to diversify Gabon’s trading profile. This should benefit local development with the likelihood of start-up entrepreneurs and fledgling industries gaining a foothold in an economy that is not dominated by a handful of companies.

On the micro-scale though, Chinese traders are replacing small, medium and micro enterprises - a small and underdeveloped section of African economies but an important one for African populations dependent on the informal economy. In Gabon, local participation in the informal economy is not yet significant; instead Chinese traders are replacing traditional players in the market, such as the Lebanese. This merely translates to one ethnic community displacing another, with little actual impact on the local population.
b) Environmental Impact of China’s Engagement with Gabon

In terms of environmental impact there have been instances of Chinese companies not respecting environmental regulations. Because the Gabonese forest is home to a significant percentage of the population they are a very important and ecologically highly sensitive resource.

Interestingly however, a senior civil society representative remarked on the tendency, particularly of European investors, to vilify and demonise Chinese activities in Africa in general, usually because this new actor threatened their vested interests. The respondent went on to say that while China is often accused of a lack of concern for the environment and indigenous populations, other foreign actors have been guilty of the same contraventions in the past. The concern was that conservation interests might be held hostage to media wars between different forestry companies. It seems that the Gabonese government, particularly following the creation of 13 national parks, is increasingly aware of the importance of ecological conservation. This is borne out by the willingness to negotiate a compromise over between conservation concerns and mineral exploitation (refer to case study). Chinese companies, for their part, since the release of China Exim Bank’s environmental policy paper, will increasingly be under pressure to adhere to environmental standards in order not to tarnish Chinese investors’ reputations in general.

c) Political Impact of China’s Engagement with Gabon

Several senior civil society representatives and Gabonese government officials agree that Chinese companies enjoy heavy government support for their commercial enterprises in Gabon.

But, according to assessments by rival commercial firms, the Chinese are so eager to acquire mineral resources that they are overpaying for the resource assets. One senior diplomat suggested that this generous state-subsidised pricing was part of an incentive package to the Gabonese government to ensure the awarding of tenders.63

Other foreign interests in Gabon concede, however, that the Chinese are very adaptable in the commercial landscape of African countries. It is interesting to note that the EU Commission has begun to heavily support civil society movements in the hope that a stronger civil society will produce more lobby groups. This, in turn, may create more pressure for transparency in the state-heavy deals that emerge between China and Gabon.

According to various senior representatives from various government departments,64 the project delivery track record of Chinese companies is far superior to that of more traditional market players. This accounts for the
generally positive opinion held by Gabonese government officials towards Chinese construction and engineering firms present in the economy.

d) Social Impact of China’s Engagement with Gabon

Two factors need to be considered in an assessment of the social impact of Chinese engagement in Gabon. The first is the acceptance of Chinese communities by the local population. At the moment, social relations between the Chinese and local Gabonese communities do not appear to involve any friction. This is explained on the grounds of the ostensibly small number of Chinese migrant workers, coupled with the low population density of the country. But social frictions may emerge. One member of the diplomatic community remarked that as China strengthens its presence in Africa, it should be aware of a potential backlash.65 As yet, however, there is little negative interaction between Chinese communities and the local population. Most Chinese communities are very insular and settle outside major urban areas; socially they also rather insular.

The second aspect concerns the relations on project sites between Chinese and Gabonese workers. Unlike French businessmen, Chinese workers and entrepreneurs are not perceived as former colonialists and this is thus not a factor in the work environment. Respondents remarked on the lack of personal enmity between Chinese and Gabonese workers, ostensibly because the Chinese do not have a conspicuous expatriate lifestyle or live in better conditions than the locals. The Chinese workers complete projects quickly and without labour strikes, which are frequent occurrences with Gabonese labour.

According to a middle level Gabonese government official, the only labour relations challenges on Chinese projects are due to Chinese employers treating Gabonese workers like Chinese workers, conditions to which they are not used to. Some Gabonese workers complain that the hours are long and the work is hard; but they respect the fact that the Chinese work as hard as they expect Gabonese workers to and live in similar circumstances.

By contrast, European expatriates are widely seen as being hypocritical for expressing concerns about China’s influence on the future of the Gabonese population, while they themselves have done little to better Gabon’s socio-economic circumstances.

X) Case Studies

a) Chinese Investment in Belinga’s Iron Ore Deposits

The Belinga iron deposits, located in north-east Gabon, were discovered in 1955. Despite the richness of the deposits, they had not been exploited
due to the remoteness of the area and the prohibitive cost of infrastructure development required to extract the mineral wealth. Interest in the deposits was spear-headed by a consortium of firms - two Chinese companies, one of which was CEMEC, the Brazilian mining giant *Companhia Rio do Vale Doce* (CVRD)\(^66\) and the French company Eramet.\(^67\)

The project was welcomed by the Gabonese government because a fear that most of their oil fields were maturing precipitated a pressing need to diversify the economy. According to newspaper reports, the other consortium partners pulled out due to the cost of the infrastructure required for extraction or, as in the case of CVRD, decided to make a separate bid.\(^68\) According to several senior Western diplomats party to the negotiations, however, CVRD was originally granted the mining concession and exploration license to exploit the iron reserves in Belinga, but that the project was then deferred to CEMEC. The rationale was that CEMEC was prepared to begin the project immediately, whereas CVRD required more time to complete their required feasibility studies. CEMEC was officially awarded the project in September 2006. Because CEMEC committed to the project without the normal feasibility studies, there have been a few difficulties and delays on account of the project’s large and complex nature.

Although speculation abounds with regards to this transaction, a senior Gabonese government official and a senior Western diplomat\(^69\) both suggested that French ex-President Jacque Chirac intervened for the Chinese company and secured for them a foothold in Gabon in exchange for market access in China for French interests. While this can not be verified, it is true that Chirac was an influential figure in Gabonese politics, enjoying a close relationship with President Bongo, and may indeed continue to do so. He is also well known for his interest in China, visiting China in October 2006, just one month after CEMEC was awarded the Belinga contract. The purpose of the visit was to lobby for deals in China on behalf of French companies.\(^70\)

In addition whereas CVRD had only committed to a 200 km extension of the existing TransGabonese railway, CEMEC’s offer of infrastructural investment was far more extensive. CEMEC committed to constructing a special purpose deep-water port at Santa Clara, a railway track running 560 km from Belinga to the coast and a hydro-electric power plant to facilitate the energy required for the operations. It is a long-term project, intended to endure for 15-20 years, and will involve not only the extraction of the iron ore, but the development of auxiliary products.

It has been announced that the project will get underway in early 2008 and reach completion in 2011. This would be the preferred time-line of the Gabonese government, as presidential elections are scheduled for 2012, although doubts have been expressed by some observers as to this probability.\(^71\) Reports have already emerged announcing operations will only
commencement in 2011\textsuperscript{72}.

A joint-venture company between China and Gabon has been formed, called Comibel, to manage and oversee operations. CEMEC is the majority shareholder, with 85 percent of Comibel, while the Gabonese Government holds the remaining 15 percent.

This project represents a substantial investment which will bring in about 30 percent of GDP, at a value of US$ 3.5 billion, with an estimated initial capital requirement of US$590 million. The World Bank offered assistance to the Gabonese government, in the forms of a cross-sectoral package of expertise, but this was turned down. The WB offered the same package to the Chinese company, a role as a middle-man and possibly even as an investor, but were also turned down. A senior NGO representative argues that the Chinese rejected WB assistance because even though the WB had needed expertise, its involvement would increase costs, delay implementation, attract too much media and overemphasise environmental concerns.

In terms of the long-term benefits for Gabon, senior Western diplomats doubt that the project will create employment amongst Gabonese. The process itself - which will be largely Chinese-owned and operated – and the extraction and transportation of iron ore for use in China’s industrial development runs the risk of not benefiting Gabon’s development. Further research into this matter may be required taking in order to evaluate the views of the Chinese contracting firms. Gabon will however undoubtedly benefit from the infrastructure investment, the potential for economic activity along the proposed railway track and the development of a deep-water port. On the one hand, it must be recognized that they will pay for this capital investment with their natural resources; on the other, without an agreement of this kind, it is doubtful that Gabon on its own would have had the resources to extract the minerals and develop the infrastructure.

There are continued concerns about the environmental viability of the project, particularly over the proposed port at Santa Clara. But many observers are withholding their judgment until project activities start. They also feel that the government made much fanfare over the project during the elections with promises of economic diversification and jobs. But the excitement could be a bit premature as operations have yet to start in earnest.

\textit{b) Oil exploration in Loango National Park}

In 2006, the US-based conservation group Wildlife Conservation Society (WCS) accused the Chinese oil company Sinopec of abusing its exploration license in an area which falls within the ambit of Loango, one of Gabon’s 12 national parks formed in 2002. \textsuperscript{73}
The government of Gabon had signed an agreement with the Global Environment Facility Trust Fund (GEF) and the World Bank (WB) in May 2005 which made the WB the executor of a fund of US$ 10 million to be invested in the Loango National Park. Under the agreement, no economic activity could take place without the appropriate environmental impact assessment (EIA). It was discovered, however, that the government of Gabon had authorised the Chinese company Sinopec to conduct seismic exploration activities in the park, despite the fact that the EIA conducted by Sinopec had not been approved by the relevant government ministry. The technology being used, described by a leading conservation activist as “fairly old-fashioned in comparison to techniques used by most oil-companies today” was viewed as damaging to the environment.

Complications arose because although Sinopec violated laws enforced by the Ministry of Forestry and National Parks Administration, the company’s operations were supported by the Ministry of Mines, Energy and Petroleum.

Because the Gabonese government was found to be in violation of a legal agreement, the World Bank and various conservation groups based in Gabon, such as WCS and Brain Forest, managed to halt Sinopec’s activities in September 2006, in order to conduct the required EIA procedures. This occurred with initial resistance from Gabonese and Chinese leadership, according to international press reports, despite support for the action by Gabon’s Minister of Forestry and Environment, Emile Doumba. This suggests that certain ministries are afforded more support from the Gabonese executive than others as the Gabonese executive sided with the Ministry of Mines, Energy and Petroleum which is powerful, given that it manages the sectors responsible for the large portion of Gabon’s GDP.

According to an activist involved in the process, the situation arose because all the parties concerned were at fault. Gabonese authorities did not guide the Chinese company through the correct processes; the Chinese company did not communicate well and did not, at the outset, respect the various relevant environmental laws, while the NGO community did not pre-empt what happened.

The World Wildlife Fund (WWF) and WCS have been asked to audit the process. This is the first time that the Gabonese government has asked the NGO community to have such an active role in a key process and it has encouraged the formation of an independent team of observers to monitor the process. The project is now widely credited to have become a model operation from earlier fears of a catastrophe.

An EIA has since been conducted and Sinopec has agreed to follow procedures in terms of their activities in Loango. A senior member of the diplomatic community mentioned that in a meeting hosted by the Chinese
Ambassador, the World Bank maintained that the current standards utilised by the Chinese company are now higher than those imposed by international conventions. Sinopec, it seems, has now raised the bar on environmental standards for other companies to follow. The studies are being conducted with government participation.

What is noteworthy from this incident is that while both China and Gabon were not initially receptive to civil society intervention, the latter’s engagement eventually brought about a positive result. This is due to a number of factors. Firstly both China and Gabon came to realise that the situation’s resolution was in their interests. For Gabon, President Bongo had only recently created the 13 new national parks, to great acclaim. To allow such damage to what many believe will be Bongo’s legacy to Gabon would have been embarrassing. In addition, China has recently come under fire internationally for the lack of environmental concern of its SOEs. Both had much more to gain by reaching an amicable resolution with both the World Bank and conservationist groups.

In addition, WCS particularly has been acknowledged for the sensitive manner in which the issue was handled. Essentially, rather than being accusatory towards Sinopec and the Ministry of Mines, WCS strove to achieve consensus amongst all partners. The World Bank has now adopted this approach and dialogue continues between all parties. This illustrates well the incentives that both the Gabon and Chinese executive respond to and how they were played to by civil society in order to achieve the desired result.

XI) Summary

The Government of Gabon has recognised the urgent need for economic diversification and investment. Like most African countries, it suffers from a lack of public sector resources to address current socio-economic problems. China, as a commercial partner, has the potential to off-set the dependency many fear Gabon has with France in particular. This is so particularly with the revitalisation of infrastructural investment that China’s entry into the Gabonese economy has precipitated. If properly directed, Chinese assistance and investment could substantially improve and diversify Gabon’s economy which has stagnated in the past few years, as oil production has declined. This is particularly in view of China’s growing demand for Gabon’s timber resources and the potential for the Belinga investment to simulate the mining sector. Nevertheless, the Gabonese government has recognised the need to temper China’s rapid entry into Gabon’s markets so as to remain receptive to further investments by traditional market players or even new investors.

China’s approach to engagement with Gabon is similar to engagement
processes it pursues in other parts of Africa. China is willing to invest in projects such as Belinga even though it will only yield long term benefits. These deals are arranged around a barter system whereby the infrastructure is paid for by extracted resources. Investment, particularly in the extractive industries are structured as a coalition investment project whereby Chinese companies across several sectors, such as fund management, construction and mining can collaborate on the same venture.

The Gabonese government, like other governments, is impatient to see results in their partnership with China. They believe that the successful completion of infrastructural projects will assist them at the election polls and try to co-ordinate the completion of projects with election years. It is not uncommon for economic progress to be influenced by political cycles but the danger is that it may overshadow the need for the country’s development, particularly if President Bongo steps down.

Thus, the question of succession is very important and may indicate a major break with Gabon’s previous policies, depending on who succeeds the current president. President Bongo, in power for 40 years, has been the central figure in Gabon’s foreign relations. His successor will face the challenging task of taking over from a powerful personality with extensive regional connections. Particularly as so much power has been consolidated around the executive, the personality and networks of the presidential successor will be extremely influential in terms of Gabon’s economic and political future. Due to a lack of civil society and industry, Gabon has few domestic political or economic lobbies independent of the government. Most decision-making is thus directed by the executive and influential foreign investors. This should be taken into account in terms of future engagement with Gabon.

Endnotes


19  Toungui was appointed Finance Minister in 2002. He was previously Minister of Mines, Energy and Petroleum.

20  Interview, Libreville, 19 June 2007.

21  Interview, Libreville, 30 June 2007

22  Interview, Libreville, 22 June 2007

23  Previously an independent freelancer, this journalist now works for one of the state-owned news services. Interview, Libreville, 20 June 2007


25  Interview, Libreville, 26 June 2007


27  Interview, Libreville, 22 June 2007


29  Interview, Libreville, 21 June 2007

30  Interview, Libreville, 19, 20, 22 June 2007

31  Interview, Libreville, 26 June 2007

32  Interview, Libreville, 26 June 2007

33  Interview, Libreville, 21 June 2007


35  Interview, Libreville, 19 June 2007,

36  Interview, Libreville, 23 June 2007

37  Eramet is a French company that produces non-ferrous metals and their chemical derivatives


Okoumé is a mahogany sub-species with a dark red-brown colour and is highly prized for high-quality paneling. Together with ozigo, okoumé exports accounted for 50 percent of all timber exports in 2004.


Interview, Libreville, 20 June 2007
Interview, Libreville, 26 June 2007
Interview, Libreville, 21 June 2007
Interview, Libreville, 21 June 2007
Interview, Libreville, 22 June 2007


Confucius Institutes, managed by the National Office for Teaching Mandarin as a Foreign Language, are centres for learning Chinese language and culture. They are being rolled out across the globe. Generally the institute is established when a Chinese and a foreign university enter into a partnership to promote mandarin in the foreign country. This is an attempt by the Chinese government to make Mandarin language learning more accessible.

CVRD is broadly recognized as a global leader in mining with concessions all over the world. The company is also Brazil’s second largest multinational, superseded only by the national oil company Petrobras.

Lawson, Antoine (2007) "Gabon chooses China to mine its iron deposits", Business Report, 28 February, pp. 6


Interviews, 20, 23 June 2007


Interview, Libreville, 20 June 2007.


Interview, Libreville, 20 June 2007


Interview, Libreville, 26 June 2007

Interview, Libreville 22 June 2007
## South Africa

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
<th>Source</th>
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<tbody>
<tr>
<td>Area</td>
<td>1,219,912 sq km</td>
<td>CIA</td>
</tr>
<tr>
<td>Population</td>
<td>43,997,828</td>
<td>2007 est., CIA</td>
</tr>
<tr>
<td>Life expectancy (years)</td>
<td>45</td>
<td>2006, AfDB</td>
</tr>
<tr>
<td>Infant mortality</td>
<td>59.44 deaths/1,000 live births</td>
<td>2007 est., CIA</td>
</tr>
<tr>
<td>GDP</td>
<td>US$ 271.779 billion</td>
<td>2007 est., IMF</td>
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<tr>
<td>GDP/capita</td>
<td>US$ 5,679.796</td>
<td>2007 est., IMF</td>
</tr>
<tr>
<td>GDP growth</td>
<td>5 %</td>
<td>2006 est., CIA</td>
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<tr>
<td>Size of government budget</td>
<td>US$ 72.15 billion (revenues)</td>
<td>2006 est, CIA</td>
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<tr>
<td></td>
<td>US$ 75.93 billion (expenditures)</td>
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<tr>
<td>GINI</td>
<td>0.72</td>
<td>2001, SARPN</td>
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</table>
Chapter 5: South Africa

I) Introduction

The beginning of the 1990s signalled the start of a new era as apartheid structures began to disintegrate and previously banned parties such as the African National Congress (ANC) could re-enter the political arena. South Africa's first democratic elections were held in April 1994, which the ANC under the leadership of Nelson Mandela won with a 62 percent share of the vote. Thabo Mbeki became the second democratically-elected president in 1999 and was re-elected in 2004 when the party won almost 70 percent of votes cast. The ANC is currently characterised by factionalism. President Mbeki has failed to consolidate power and marginalised political opponents such as former vice-president Jacob Zuma who was implicated in corruption and sex scandals, was recently elected chairman of the ANC. The ANC-COSATU-SACP Tripartite Alliance that dominates government has become stronger with the election of Jacob Zuma and feelings are that the alliance partners will have greater leverage in influencing South Africa’s trade and industrial policy.

The economic performance of the country was satisfactory under the Mbeki government and infrastructural development has been extended; however, the South Africa Government continues to face a high unemployment rate, vast inequality, poverty amongst a large percentage of the population and the growing HIV/AIDS epidemic.

South Africa relies heavily on the primary sector, principally mineral resources and agricultural products, for economic growth. It has begun diversifying its output over the past four decades, increasing production of tertiary sector products and value-added exports. While the primary sector, consisting of mining, agriculture, fishing and forestry, constituted almost 25 percent of GDP during the 1960s, it only accounts for around 10 percent today.

The tertiary sector, which includes wholesale, retail, trade, tourism, transport, communication, and services, has grown remarkably. In 2004, service industries contributed 65 percent of gross domestic product (GDP) with the
largest contributions coming from wholesale and retail, finance, real estate, business and hospitality services. Overall economic performance is solid, with growth remaining uninterrupted since 1999, averaging 3.5 percent per annum over this period. There are, however, increasing problems associated with the country’s infrastructure such as energy provision and harbour capacity and there is also a skills shortage currently being experienced in many sectors of the economy.

A prominent legacy of the Apartheid regime is a strong correlation between race and socio-economic status, with black South Africans mostly representing the disadvantaged and lower classes of societal structure. Unemployment, lack of housing and service delivery, as well as crime, remain at the top of the government’s challenges, affecting not only disadvantaged communities, but all citizens in some form or another.

**Figure 5.1: Mid-year Population Estimates for SA by Population Group, 2006**

<table>
<thead>
<tr>
<th>Race</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>African</td>
<td>79.5</td>
</tr>
<tr>
<td>Coloured</td>
<td>8.8</td>
</tr>
<tr>
<td>Indian/Asian</td>
<td>2.5</td>
</tr>
<tr>
<td>White</td>
<td>9.2</td>
</tr>
</tbody>
</table>

Source: Stats SA

While the official unemployment level stands at 25 percent, the real rate is believed to be in the range of between 40 and 50 percent. As a result the informal sector is growing rapidly, with more and more people engaging in alternative economic practices to meet basic needs. HIV/AIDS also represents a fundamental crisis in South Africa with over four million South Africans believed to be HIV positive in 2004. The HIV/AIDS pandemic has been worsened by a lack of clear government policy on how to combat the disease.

An affirmative action program known as Black Economic Empowerment (BEE) has been implemented to address economic and social inequality. Through BEE, the government provides a wide range of benefits and incentives to institutions to ensure the ethnic profile of their employees and shareholders is in line with the national profile. While the program has clearly made some significant contributions, it has proved difficult to implement and is regularly exploited. Corruption is perceived to be increasing across the country although certain Government institutions such as the Department of Home Affairs appear more prone to irregularities than others. Nepotism is rife across all sectors, although relationships often appear to be based on ad hoc associations amongst alumni or work colleagues, rather than ethnic or cultural associations.
II) Identifying Key Policy-making Actors and Canvassing Opinions

a) The role of the Presidency

The presidency appears to fully recognise the potential economic and political benefits of relations with China and is genuinely interested in strengthening engagement with the Chinese leadership. The President and other high-level government representatives regularly travel with an entourage of senior officials and businessmen to China. The composition of these groups provides a particularly interesting insight into the internal dynamics of the presidency. A number of observers suggest that the same individuals often participate in such trips. The details of these delegations are rarely publicised and the precise function of each participant is not always apparent. We may assume that activities of this nature provide the individuals involved with significant networking opportunities while also presumably being used by the presidency to bolster political support.

b) The role of Parliament

South Africa’s National Assembly signed an agreement with the Chinese National People’s Congress in September 2006. The inter-parliamentary agreement formalises “a strategic political partnership” between the two legislatures. It provides opportunities for interaction and commits the two Parliaments to monitoring the implementation of the SA-PRC bilateral agreement which includes cooperation in economic, agricultural, technology, judicial and military fields.4

A steady stream of South African parliamentarians also regularly visit China to encourage discussion on a broad range of issues. A delegation of the opposition party, the Democratic Alliance, including the party leader Tony Leon and chief whip Douglas Gibson, were invited for a discreet visit to China in 2005.5 Although low profile, the visit could be viewed as an indication that China is “covering its bases” and engaging with political organisations outside of the ruling party.

c) The role of government bureaucracy

The South African Government is reasonably well-organised and relatively efficient, especially compared to other bureaucracies on the continent. The South African Government has been broadly engaged with China with an increasing number of department heads and senior officials visiting China and receiving Chinese delegations. The Department of Foreign Affairs (DFA) and the Department of Trade and Industry (DTI) are the two primary institutions responsible for collecting information and developing policy
recommendations concerning China. Both departments suffer serious capacity constraints. One senior foreign diplomatic representative suggested that the quality of staff in the DFA is significantly higher than many of the other government departments, but that there are many vacancies and that recruitment is subject to very long delays. The DTI, until recently, had three employees focused on China, but this number is believed to have dropped to one, while the DFA has three staff members on its China desk in Pretoria.

One senior civil servant in the Department of Tourism explained that the Chinese Government constantly invites South African Government delegations from all ministries and departments to visit China on the smallest pretext; however, he and his colleagues across Government are trying to be discerning about which invitations to accept for fear of wasting time and resources. An increasing number of Chinese delegations are visiting South Africa but there is a growing sense that many of the Chinese officials involved treat such opportunities as vacations rather than opportunities to increase meaningful engagement.

The relevant people in DFA and especially DTI would not respond to requests for interviews for this study. A researcher at a prominent political science research institute suggested that the South African Government is uncomfortable publicising the details of its engagement with China. Another prominent China analyst suggested that officials are trying to avoid being tied down to specific policy recommendations, following the fiasco associated with the implementation of the textile quotas (refer to case study). A senior Chinese diplomat in Pretoria remarked that South African Government officials are notoriously difficult to contact. He speculated that this is probably due to the capacity challenges of Government, resulting in the high workload of South African public servants, but added that a serious disjuncture in protocol between the South African and Chinese Governments may also be responsible. Senior Chinese diplomats and government officials are often not accorded the recognition they expect and they find the inflexibility of the South African Government on this issue disconcerting. The Chinese diplomat cited the example of Chinese provincial heads who are accorded the same status as Ministers in China but who are not permitted to use the VIP lounge at OR Tambo Airport when visiting South Africa. Evidently, government dignitaries below the rank of Minister are not considered VIPs, despite the fact that many Chinese provincial heads oversee economies several times larger than South Africa.

d) The role of civil society

South African civil society is much more robust than that of other African countries having played an active advocacy role during the apartheid era. Following the 1994 democratic elections and the rights to freedom of speech enshrined in the South African Constitution (1996), civil society has been
allowed the space to lobby policy issues. This includes engagement with Chinese leadership and companies. While there is an active interest, South African civil society generally lacks the knowledge and capacity to effectively engage with government on these issues and make concrete contributions to policy debates.

The unions, particularly COSATU, have been extremely vocal against the Chinese and the impact of Chinese imports on local industry. As a member of the Tripartite Alliance with the ANC and SACP, the unions were in a strong position to influence government policy. In addition, the well-developed media industry, both the state-owned South African Broadcasting Company (SABC) and independent stations have maintained a relatively informed debate on the increasing impact of Chinese engagement with South Africa on all levels. Business publications have been especially active in this regard, not only due to the wide-reaching implications of increased trade with China on domestic industries, but also due to growing South African investment in China.

South Africa also has a number of policy think-tanks and research units dedicated to the study of international relations. While few of these conduct exclusively China-oriented research, these institutes added to the public dialogue surrounding engagement with China and have contributed to a heightened public awareness of the significance of South Africa’s relations with China, relative to other African countries. It must be remembered, however, that South African-based China-related research is embryonic and not as well established or recognised as their international counterparts.

There seems to be a growing interest nationally over the consequences of China’s political and economic engagement with South Africa. In early 2007, as temporary chair at the United National Security Council (UNSC), South Africa controversially sided with China in blocking sanctions to Iran and UN intervention in Myanmar. This provoked domestic and international outrage and South Africa’s reputation as a defender of human rights was questioned.

e) The role of the private sector

In any assessment of the response of South African business to China’s engagement one needs to distinguish between different sectors. A number of business sectors, including the manufacturing and construction sectors, are extremely anxious about the entry of Chinese companies. They are concerned that they will lose market share and have gone to great lengths to protect their share of the domestic market. In contrast, the retail and wholesale sectors are very supportive of China’s entry into the market, as a source of low-cost manufactured items. These sectors were outraged by the government’s moves to implement import quotas on Chinese products, and petitioned the government on numerous occasions (refer to
case study). However, the retail lobby only succeeded in delaying the date for the implementation of the import quota. Such trade restrictions may be considered to be only a temporary measure of trade policy, as South Africa has embarked on a trade liberalisation agenda in accordance with its commitment as a signatory to the WTO.\(^{13}\)

Figure 5.2: South Africa’s GDP by Sector (2006)

The wholesale and retail sectors account for approximately 11.7 percent of South Africa’s GDP while manufacturing contributes approximately 16 percent. Though employment figures for trade, both formal and informal, are higher than manufacturing,\(^ {14}\) the latter is arguably more beneficial for the long-term growth of South Africa’s economy. DTI clearly recognise this fact and pushed for the implementation of quotas, despite the long term negative implications associated with the need to make the industry internationally competitive.

f) Strategic importance

South Africa’s extraordinarily high level of development and infrastructure relative to the rest of Africa and its geo-strategic location at the southern tip of the continent make it very important for most countries looking to engage Africa. The US has identified South Africa as an “anchor state” in its engagement with the continent. According to a senior Chinese diplomatic representative in Pretoria, Beijing also ranks South Africa as one of the most important states in Africa along with Kenya, Nigeria, and Egypt.\(^ {15}\) Chinese
companies, such as China National Overseas Engineering Corporation (COVEC), have established a logistical base in South Africa to support their operations across the rest of the continent. COVEC opened an office in South Africa more than a decade before they engaged in any construction work in South Africa itself.

The South African Government’s network across Africa and the experience of South African companies such as MTN, Group Five, Murray and Roberts, Eskom, South African Airways, SAB Miller, DSTV, Game and Shoprite provide an invaluable competitive advantage in countries across the continent. The Chinese clearly recognise this and many observers have suggested it is only a matter of time before they attempt to properly harness such skills and experience. The acquisition of a 20 percent share of South Africa’s Standard Bank, valued at US$5.5 billion, by the 70 percent government owned Industrial and Commercial Bank of China (ICBC) in December 2007 is a clear indication that the Chinese have already began to tap into this expertise. Standard Bank is the largest bank in Africa with 240 branches in 18 countries across the continent. In November 2006 there were strong rumours that a Chinese company was preparing to take over MTN and its interests across Africa. Shares in MTN experienced a 7.5 percent increase in November 2007 in response to reports that China Mobile had expressed interest in the company. Chinese companies operating in Africa face a serious challenge in dealing with human resources which is the key strength of many South African in Africa. Buying into South African companies is an obvious way for Chinese companies to overcome this problem.

III) China’s political profile with South Africa

The first Chinese arrived in South Africa as indentured labourers in the mid 1800s. Initial Chinese diplomatic representation was established in the early 1900s to support these labourers. Between 1904 and 1910 there were almost 64,000 Chinese working on the Witwatersrand gold mines around Johannesburg. By the late 1950s, the apartheid South African Government was becoming increasingly nervous about the PRC’s solidarity with the colonially-oppressed in the developing world, particularly in Africa. The PRC’s participation at the Asia-Africa or Bandung Conference in 1955 served to validate these fears. Furthermore, the Chinese Communist Party (CCP) supported the promotion of anti-colonialism and racial equality. This reinforced Pretoria’s fears that the PRC government might lend support to the liberation struggle while also undermining its own domestic and regional economic and security interests.

Ideologically, the apartheid government was opposed to the pro-communist stance of China and regarded the Chinese involvement in Africa as potentially harmful to its own agenda. The threat of communism taking
root in Africa, and inciting violent uprisings in African states, was in direct opposition to the ideals of the Apartheid government. Official diplomatic relations thus ended in 1960. The Pretoria government established diplomatic relations with Taiwan in 1976. Despite the cessation of official relations between Mainland China and South Africa, economic relations were maintained, albeit on a more furtive level. The CCP supported various liberation organisations throughout Africa, including the ANC and the Pan-African Congress (PAC).

Despite their communist links, Sino-Soviet relations at the time were poor. The PRC competed with Russia to fund liberation movements in Africa. This enabled the PRC to promote their own ideological agenda and make powerful alliances with opposition leaders in Africa. In Cold War terms, such alliances were crucial in securing future cooperation in other areas such as within the United Nations. The PRC competed with Russia to fund liberation movements in Africa. This enabled the PRC to promote their own ideological agenda and make powerful alliances with opposition leaders in Africa. In Cold War terms, such alliances were crucial in securing future cooperation in other areas such as within the United Nations. With Taiwan being a permanent member of the UNSC, it was important for Beijing to oust Taiwan. Support from the African bloc was crucial in achieving this goal.

Relations between the CCP and the ANC became more strained when the ANC decided to align itself with the Soviet Union for ideological, financial and technical support. This accorded with the alliance between the ANC and the SACP, where the latter was more closely aligned to Moscow. In response, the CCP started to develop closer relations with the PAC; however, their aid contributions were never very substantial and support remained rather 'meagre and unreliable'.

When the Soviet Union started to experience serious political and economic problems during the 1980s they were unable to continue to support African liberation movements and encouraged them to look towards alternative sources. The ANC then renewed its engagement with the CCP, strengthened ties after 1983 when it was announced by China that all liberation organisations would be treated equally and without discrimination.

In 1997, South Africa decided to switch diplomatic recognition from Taipei to Beijing after President Mandela's proposal of dual recognition was rejected outright by the PRC leadership. This was viewed as the beginning of a new era in Sino-South African relations. South Africa established formal diplomatic ties with the People's Republic of China on the 1st of January 1998. After this political engagement, economic ties and cultural exchanges developed rapidly with the PRC.

Both the PRC and South Africa have emerged as key players on their respective continents. The two countries co-operate in many multilateral fora. This, in turn, has also increased their mutual interdependence, which is clearly reflected in their expanding volumes of bilateral trade and other interactions.
b) Political Exchanges

After the re-establishment of diplomatic relations, the South African Vice President, Thabo Mbeki, paid a visit to China in September of 1998, followed by the Speaker of the South African National Assembly, Frene Ginwala, in October. The following year, Chinese Vice President Hu Jintao visited South Africa and President Nelson Mandela paid a state visit to China. At the invitation of President Mbeki, Chinese President Jiang Zemin paid a state visit to South Africa in 2000.25

The two presidents conducted an in-depth exchange of views on bilateral ties along with international and regional issues before reaching a consensus on various issues. China and South Africa are both regarded as developing countries with significant influence in their respective regions. There were also independent talks held with other prominent actors in the South African political scene. 26

In the following year contact between the PRC and SA increased in the form of official visits by foreign ministers, trade ministers and heads of state. In 2001, a large delegation, led by President Mbeki, visited China at the invitation of President Jiang Zemin. During this visit, President Jiang and President Mbeki co-chaired the first meeting of the PRC-SA Bi-National Commission. President Jiang suggested that this meeting brought forth a new stage in bilateral, friendly cooperation between China and South Africa.27 The Centre for Chinese Studies (CCS) was created within this framework at the second meeting of this Commission which took place in 2004. Some of the other points discussed at the meeting included the reaffirmation of China’s policy statement on Africa and new measures to strengthen China-Africa cooperation as elaborated in the Addis Ababa Action Plan (2004 - 2006) of the Forum on China - Africa Cooperation (FOCAC). China’s commitment to building a new type of partnership with Africa based on long-term stability, equality, mutual benefit and all-round cooperation were also emphasised. There has also been considerable cooperation between the two countries within the framework of the United Nations. Having met regularly at the UN General Assembly, the countries expressed their commitment to shared interests and each other’s foreign policy agendas.

In February 2007, President Hu Jintao started an African tour, visiting eight African countries including South Africa, Cameroon, Liberia, Sudan, Zambia and Mozambique. This tour highlighted China’s renewed interest in the continent and provided a platform for new agreements and dialogue between the countries involved.
Because of the continued investment and aid from China into the SADC region,²⁸ the organisation is committed to utilising and optimising involvement with the PRC. There have been certain issues raised by political actors within the region that point towards troublesome Chinese business practices and an over-supply of manufacturing goods such as textiles. These have cast a negative light on China’s engagement in Africa, but overall, SADC is committed to building on the relations already established and to broaden opportunities for cooperation between themselves and with the PRC.

The African Union (AU) has also expressed support for the continued engagement of China and the African continent. To support the AU’s efforts to strengthen unity and integration on the continent, the PRC has committed to building new headquarters for the AU in Addis Ababa. The two sides also commended cooperation between FOCAC and the New Partnership for Africa’s Development (NEPAD), and have resolved to strengthen such cooperation and further explore specific areas of cooperation.
c) Military Relations

Between 2001 and 2006, Chinese military leaders visited Africa over 30 times touring virtually every country that recognises the PRC. Although there has been an increase in military exchanges between Africa and China, South Africa is the only African country that holds security consultations with China. South Africa and China initiated the Meeting of the Sino-South African Defence Committee in April 2003 in Pretoria. Deputy chief of the General Staff Xiong Guangkai represented the PRC and since then South Africa and China have had three meetings with location alternating between the two countries. The most recent meeting was held in Pretoria in December 2006. Despite the growing exchange of personnel there had been no exchange of military goods as South Africa manufactures a good deal of its own military equipment and sources the rest from Europe.

[V] China’s investment and commercial profile with South Africa

a) Economic ties and Trade

South Africa is China’s second largest trading partner in Africa, after Angola. The trade volume between China and South Africa accounted for 20 percent of the total trade volume between China and Africa. The direct bilateral trade between the two countries started in the early 1990s. China is now South Africa’s fifth largest trading partner, after having been granted market economy status by South Africa, one of the first of China’s trading partners to do so.

Figure 5.3: South Africa’s Trade with China in US$ million (1995-2006)
As seen in Figure 5.3, there is a substantial difference in the trade figures declared by MOFCOM and DTI. The discrepancy in these figures may be attributed to a broad range of factors including smuggling and corruption; however, the Chinese economic and trade counsellor suggested that the reasons for the discrepancy are “technical” rather than political.29 Ron Sandrey explains, “The variance in such figures can be attributed to currency fluctuations, different valuation methods (fob versus cif),30 timing differences, the role of a third port such as Hong Kong and intermediaries such as the European diamond market.”31 The trade imbalance presented by the South African government’s DTI data is accentuated by the fact that South Africa records cif values for imports and fob values for exports. The sudden trough in South Africa’s imports from China in 2003 is a result in the drop in the value of the Rand during that period.

While the precise dimensions remain difficult to ascertain, all data shows that trade between the two countries is growing rapidly and that South Africa is experiencing a trade deficit that began to spike around 2002. Chinese figures put the total value of trade at almost US$ 9.9 billion in 2006, up from US$1.3 billion in 1995; while the South African Government suggests trade has grown from approximately US$ 770 million to US$ 8.7 billion over the same period.

South Africa runs a large trade deficit with China, but the same can be said for its trade with the rest of the world due to its resource dependence and development trajectory. Because South Africa’s main exports to China are raw materials and semi-processed goods, the value-added component to exports is limited and result in trade terms that are not as beneficial as they could be. Opportunities for South African products in the Chinese market, beyond natural resources are yet to be properly exploited. South Africa and China have committed to work together to create favourable conditions for growth in relations between the two countries and to balance trade.

As South Africa aims to improve the value-added and technology levels of its exports, China poses a major challenge, both because of competition in these areas and because China’s growth itself raises the relative prices of raw materials on international markets.
b) Chinese Investment in South Africa

Chinese investment in South Africa was until recently relatively small. A senior Chinese diplomatic representative in Pretoria, interviewed three
months prior to ICBC’s US$5.5 billion investment in Standard Bank, suggested the total value to be around US$ 600 million. The main areas in which the Chinese have invested are in the mining industry, with a particular focus on chrome, and the assembly of electronic goods.

The Chinese company, Hisense, entered South Africa in 1997, with the procurement of the South Korean Daewoo electronic factory. The company expanded its facilities in early 2004 and currently produces 200,000 TVs, 50,000 VCDs and DVDs, and 10,000 HiFi home theatres each year. With a staff of over 200 people, it exports its products to over ten countries in the region including Namibia, Lesotho, Mozambique and Botswana. The company is currently planning a US$19 million expansion scheduled for completion by the end of 2009 that will enable it to produce 400,000 colour televisions, 300,000 refrigerators and 100,000 washing machines annually. Since arriving in South Africa, the company has maintained annual production, sales and profit growth averaging 20-30 percent and in 2006 the South Africa branch of Hisense registered sales income of US$47 million with a profit of US$1.26 million dollars.

Sinoprima Investment and Manufacturing South Africa is a subsidiary of Xiamen Overseas Chinese Electronic Co. Ltd (XOCECO) and was established in South Africa in 1998 as a manufacturer and distributor of consumer electronics specializing in CRT TV, Plasma and LCD TV.

Other Chinese companies involved in South Africa include FAW Vehicle Manufacturer (Pty) Ltd. which manufactures heavy vehicles; Hence Trade 88 (Pty) Ltd. that spins yarn and distributes cotton to companies; and the telecommunications equipment and service providers Zhongxing Communications (ZTE) and Huawei Technologies (Pty) Ltd.

c) South African Companies in China

South Africa is the only African country to have significant investment in China, although once again it is extremely difficult to ascertain the precise value of the total investment. Several of the companies listed in the box have significant proportions of their investment listed in third countries or Hong Kong. Few of these companies have invested more than US$ 5-10 million with the exception of SAB Miller which is by far the single largest investor. According to a senior representative of the company, its total investment is between US$500 million and US$1 billion. One informed industry observer put the total figure of South African investment in China at between US$ 1.2 billion and US$ 1.5 billion, though acknowledged it could possibly be as high as US$2 billion if offshore listings were included. A senior Chinese diplomat in Pretoria described these figures as excessive and quoted MOFCOM figures that put the total figure for South African investment in China at between US$ 600 and US$ 800 million. He suggested that offshore listings and joint ventures with Chinese companies in Hong Kong and the Mainland contribute to the difficulty in obtaining accurate data.
South African companies have proved particularly successful in China. It has been suggested that their experiences operating in similar environments across Africa with extremely poor infrastructure and limited levels of governance have provided them with a strong competitive advantage over Western companies. The South African government does not appear to provide any support to South African corporations operating in China beyond consular assistance to South African nationals present in the country.

V) China’s Aid / Developmental Assistance Profile in South Africa

Chinese aid to South Africa has been minimal and largely restricted to education and training. As a senior Chinese official explained, his Government identifies the shortage of skilled labour as a major impediment to South Africa’s development. During the visit of Prime Minister Wen Jiabao in July 2006 the Chinese government announced that approximately US$ 6.3 million dollars would be made available for technical training in South Africa and President Hu Jintao promised an additional US$ 25 million during his visit to the country in February 2007. The Chinese initially approached the textile industry and the Skill Education Training Authorities under the Department of Labour for input on the most appropriate way to make use of these funds, but have received no response to date. They have since approached the Deputy President's office and have begun dispersing the funds through the Accelerated Shared Growth Initiative for South Africa (ASGISA) and the Joint Initiative for Priority Skills Acquisition.

Major South African Companies Operating in China:
- Naspers/MIH
- Kumba Resources
- Sasol
- AngloGold Ashanti
- AngloCoal
- Bateman
- First National Bank
- Goldfields
- SAB Miller
- Metspan
- Old Mutual
- Standard Bank
- African Explosives Limited (AEL)
- Spur
- Freeplay
- Landpac
- Beijing Axis
- Anglo American
(JIPSA). Interestingly none of the money is being spent on the development of the textile industry as originally intended by the Chinese; but rather on technical training in agriculture, tourism, defence and foreign affairs.

VI) Implications for the Agricultural Sector

The Chinese are not involved in the South African agricultural sector and there is no trade of any consequence in agricultural products between the two countries.

VII) Educational & Cultural Engagement

Since South Africa switched diplomatic recognition to the PRC there have been various cultural exchanges between China and South Africa aimed at strengthening the education and promotion of Chinese culture in South Africa. Some of the most important delegations who have visited SA from the PRC include an art delegation organised by a Beijing television station that staged performances in South Africa to celebrate the establishment of the diplomatic relations between the People’s Republic of China and the Republic of South Africa in August 1998. Another Chinese Cultural Delegation led by Minister of Culture Sun Jia Zheng visited South Africa in October 1998.


An eight member Chinese TV camera crew visited South Africa in April and May 2005 to shoot a TV series entitled Zheng He and His Voyages Overseas. The Chinese crew investigated such places as the Cultural and History Museum, the Pretoria University Museum, and the South African National Archive. This enabled them to obtain first-hand information about Chinese porcelain along with ancient Chinese paintings and clothes which have been proved to be left over by Zheng He’s fleet passing through the region after 1420.

At the invitation of the Department of Arts and Culture of the Republic of South Africa, a six member China World Heritage Delegation attended the 29th World Heritage Conference was held in Durban, South Africa from 8-20 July 2005. At the end of 2005 the Chinese government donated US$ 30,000 to the African World Heritage Protection Foundation to assist with world heritage protection on the African continent and to provide training in this field.
b) Student Exchanges

There have been increasing exchanges of students between China and South Africa since 1998. Over 3,200 Chinese students have studied in South Africa and more than 60 South African students have studied in China. The Centre for Chinese Studies (CCS), Stellenbosch University, in partnership with the Department of Education and the Chinese Embassy, administers the South African section of the Chinese Government Scholarship Programme. Ten scholarships are awarded to South African nationals biennially. Compared to other African countries with a similar scholarship programme, there are very few South Africans studying in China. This is attributed to a lack of knowledge and understanding of China and the study opportunities available, despite the high level of diplomatic engagement and business exchanges that occur between the two countries.

VIII) Chinese Migration to South Africa

The long history of engagement between the two countries and the sizeable Chinese diaspora in South Africa has facilitated a broad range of opportunities for social and cultural exchange, though interaction remains limited. The vast majority of the Chinese who first came to South Africa around the turn of the last century left and those who stayed behind form a relatively tight community. The second influx was from Taiwan during the 1980s and the most recent group has come from Mainland China over the past 5-8 years.

One very prominent member of the Chinese diaspora suggested the total number of ethnic Chinese in South Africa from all three groups could be approaching one million. Other informed observers described this figure as a gross exaggeration. Representatives at the Chinese Embassy were adamant the current figure could not exceed 100,000. A number of other informed observers suggested the figure is mostly likely in the region of around 300,000. Accurate data is impossible to ascertain as a large number of ethnic Chinese in South Africa are illegal immigrants who have either overstayed their visas or have entered illegally from neighbouring countries, especially Lesotho and Swaziland. Individuals within this community are extremely marginalised and regularly exploited. Without a legal status they are unable to open bank accounts, have little to no recourse to the law on issues relating to labour and are reluctant to involve the police when victims of crime.

While maintaining a strong sense of community, after more than a century the majority of the first Chinese migrants to South Africa have assimilated with the rest of the population and many of these people can
no longer speak Chinese. A certain degree of tension exists between these communities and the Taiwanese who arrived in the 1980s, although this is often overstated. Of more interest is the tension between the Chinese mainlanders, who have arrived since 2000, and the South African-born Chinese (SABC) who have been in South Africa for generations. It is felt by many within the Chinese community that the ‘newcomers’ are attracting unwanted attention to from both the media and the government associated with a range of issues from political tension over South Africa’s trade deficit with China to issues of integration that reflect on all ethnic Chinese in South Africa. In addition, there was a spate of murders of Chinese entrepreneurs in mid 2006. Observers suggest this was not targeting the Chinese community per se, but rather their money. The issue was widely described in the South African media as the emergence of xenophobia towards Chinese in South Africa while the international Chinese Government newswire Xinhua voiced concern for the safety of Chinese businessmen in South Africa.

The physical presence of the Chinese in South Africa and their engagement across a broad range of businesses from restaurants to the retail sector and health clinics have clearly had an impact on the consciousness of the average South African. The Chinese do not constitute a prominent political constituency and have maintained a relatively low profile throughout the various political changes that have taken place in the country since 1994.

a) Perceptions of Chinese nationals in South Africa

General perceptions toward the Chinese population in South Africa are not negative, but have been tainted by certain issues such as cheap imported products and the low quality of goods. There is some confusion surrounding ethnic Chinese and other Asian minorities since all persons of East Asian descent are commonly considered Chinese. Overall, the Chinese are seen as highly intelligent and shrewd businesspeople with capacity for hard. The Program on International Policy Attitudes polls reveal that 62 percent of South Africans believe China is having a positive influence on the world.44

As mentioned before, there have been some negative perceptions and also a certain degree of politicisation surrounding specific issues, for example textiles. Highly publicised and politicised, the issue surrounding job losses in the textile industry has impacted negatively on the Chinese image. A historically important sector, especially in the context of the employment of low-skilled labour from underprivileged communities, the job losses in this sector made headline news and continue to be a topic of debate in the country.

b) Crime
The activities of organised criminal syndicates associated with the Chinese community and known as the Triad has received some publicity in South Africa. Police investigations during 1992 and 1993 confirmed for the first time that individuals linked to at least three different Triad societies were actively involved in the country and that their illegal activities were much broader than originally thought. These included various forms of fraud, drug-trafficking, firearm-smuggling, extortion, money-laundering, prostitution, illegal gambling, the smuggling of illegal immigrants, tax evasion, and the large-scale importing of counterfeit goods.

The illicit harvesting and exporting of abalone and shark fin remains an important component of Triad business but no longer constitutes the core activities of these groups. The expansion of illicit activities often necessitates the establishment of legitimate businesses to facilitate them. Therefore, some Chinese-owned import/export companies facilitate not only the legal export of abalone to the East, but also the illicit trade of this commodity in South Africa.

IX) Case Studies

a) The South African Textile Industry

The textile, clothing and footwear industry is South Africa’s sixth largest domestic industry and eleventh largest exporter of manufactured goods. The industry directly employs around 143,000 people, with an additional 200,000 workers from related industries such as transportation and packaging. In 1997, total South African retail apparel sales exceeded US$117 billion, with the textile industry sales reaching US$58 billion. This total rose to about US$190 billion in 2004, with textiles contributing US$ 97 billion and clothing the remaining US$93 billion.

In 1992, the government instituted a program to drastically reduce tariffs for textiles and apparels over a twelve-year period. Textile tariffs were to be reduced from: 100 percent to 45 percent on clothing, 50 percent to 25 percent on fabrics, 35 percent to 17.5 percent on yarn, 15 percent to 10 percent on fibres, and 60 percent to 30 percent on household textiles. At present the clothing industry is protected by a 40 percent tariff.

Impact of Chinese textile imports on the South African market

In the post-1995 period, as the Multifibre Agreement began to be phased out, the South African textile industry became stagnant and even began to decline in certain areas. Local clothing manufacturers lost an estimated third of all market share while Chinese imports increased from US$ 55 million to around US$ 870 million between 1995 and 2006 according to Chinese
Government reports. The footwear and textiles industries have followed similar patterns, with Chinese imports growing 370 percent and over 19,000 percent respectively. China produces the majority of garments imported into South Africa and has put a serious strain on domestic markets as a result of China’s undervalued currency, efficient production, and cheap labour costs that South African manufacturers claim make them less competitive both locally and internationally.

<table>
<thead>
<tr>
<th>Important acts and treaties:</th>
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<tr>
<td>• The Multifibre Agreement (1974) served to broaden the liberalisation of the textile trade and aimed at removing global quotas on textiles and clothing. It was eventually phased out by the WTO Agreement on Textiles and Clothing, beginning in 1995.</td>
</tr>
<tr>
<td>• The African Growth and Opportunities Act (AGOA) improved US-market access to selected African countries by removing import duties and thus making them preferential on the world market.</td>
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<tr>
<td>• Memorandum of Understanding signed in 2006 between the Government of the Republic of South Africa and the People’s Republic of China placing quotas on Chinese export of textiles to South Africa.</td>
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The effect has been a massive loss in jobs for workers across the industry, and although the precise figures are difficult to calculate, estimates range from 23 000 to 85 000. According to an application filed by South African Clothing and Textile Workers Union (SACTWU) to the International Trade Administration Commission (ITAC) in 2005, more than 75 000 jobs have been lost since 1996. In a country where unemployment and poverty are major socio-economic challenges, this number total is perceived by many as unacceptable.

Union and government response

Trade Unions have always played a prominent role in South African politics, with vocal leaders, powerful alliances with the governing party, and an active membership that is organised and historically unified. The most important union representing workers in the textile and clothing industry is the SACTWU, which is an active member of COSATU and has a membership of over 110,000. SACTWU has actively engaged relevant stakeholders in business and government, forming a task team that is convened by the Minister of Trade and Industry Mandisi Mpahlwa and has formulated various proposals for industry restructuring.

The reason for union’s significance in influencing policy formulation is the cross-over of senior members and leadership between unions and the ANC, the current ruling party. The close ties between the two organisations are
formalised through the tripartite alliance within the South African government which gives unions some leverage in engaging government.\(^49\)

It is, however, important to understand that while formal ties exist between the organisations and the leadership does have close relations, it remains uncertain how far the influence of unions stretches purely because of the fact that all government decisions have not been in favour of union policies and lobby. The head of SACTWU commented on this fact after the agreements were signed in 2006, saying that it was “too little, too late” since a large number of jobs had already been lost in the years leading up to the signing of the agreement.\(^50\)

In 2006, labour and manufacturers successfully lobbied government to initiate discussions on import limitations with China. As a founding member of GATT and the WTO, the South African Government is bound by their agreements. It has offered to implement ‘safeguard measures’ which are compliant with the WTO’s code of behaviour. The decision by the Chinese government to accept the request was described by a senior Chinese diplomatic official as a political decision to promote good will between Beijing and Pretoria.\(^51\) The Memorandum of Understanding (MOU) was initiated in June 2006 during the Chinese Prime Minister’s visit to South Africa. The Chinese agreed to place voluntarily restrictions on 31 categories of export products for a two-year period to allow the South African industry to restructure and prepare itself for direct competition with China. It is also interesting to note that the Chinese were receiving considerable pressure from the EU and US concerning the undervaluation of the RMB and the impact on China’s trade competitiveness.

Trade Unions have recently demanded that the country’s retailers maintain a 25 percent ceiling on all imported goods. Measures were also put forth by government in order to restructure various tariffs and quotas that will enable more competitive prices and quality.

The South African wholesalers and retailers were reportedly not consulted by the DTI and were concerned at the sudden implementation of such a program as they were preparing for the busy Christmas season. They successfully applied to have the implementation of the quotas delayed until

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**Important actors:**

- COSATU: The main union organisation with 21 affiliates, including SATCWU, established in 1985
- SATCWU: The South African Textile and Clothing Workers Union
- Department of Trade and Industry – International Trade and Economic Development Division (ITEDD)
- Cloth trade and Textile Federation

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A number of South African wholesalers continued to import Chinese garments beyond the limits of the quota through third countries such as Dubai while others immediately began to source products from countries such as Vietnam and India. There have been no apparent increases in the demand for local produced textiles and eight months into the implementation of the quota system the garment industry has apparently made no attempts to restructure or increase capacity in preparation for competition with China.

Evaluating the effectiveness of the quota has proved extremely difficult with no effective methods for monitoring the number of garments being imported into the country; however, it appears unlikely that the industry will use this opportunity to restructure and the compromise made by the Chinese Government to implement the quota appears to have been wasted.

The Chinese Government has approached the South African textile industry with an offer to train workers and build capacity in preparation for the resumption of competition, but has to date, received no response. The funds are currently being used to build capacity in other industries and there are no signs that the South African garment manufacturing industry will be competitive in the international market in the short to medium term future.

b) COVEC and the Vaal River Eastern Sub-system Augmentation Project

The US$ 357 million Vaal River Eastern Sub-system Augmentation Project (VRESAP) was initiated as part of the South African government’s US$ 53 billion infrastructure investment plan. The aim of the project is to increase the supply of water for the expansion of Sasol’s operations and the reopening of power stations by Eskom in Secunda in Mpumalanga Province approximately 280km east of Johannesburg. The project is being managed by the Trans Caledon Tunnel Authority (TCTA) on behalf Ministry of Water Affairs and Forestry and Vaal Pipeline Consultants (VPC) were selected as the consultants for the project. VRESAP will consist of a 121km steel pipeline with a diameter of 1.9m that will deliver 160 million cubic metres of water a year.

The project was divided into two sections and tenders were issued internationally in line with requirements from the European Investment Bank that is one of the financial institutions supporting the project. While the manufacture and installation of the pipeline was given to the large South African construction firm Murray and Roberts; in December 2005 COVEC won the contract for the civil engineering component with a US$ 61 million bid that was US$ 14 million lower than that next highest bidder. This sent shockwaves through the local construction community, just at a time when it is anticipating boon conditions on the back of scaled-up infrastructure investment by government. This is also the first major contract awarded
to a Chinese construction company in South Africa where the construction sector is traditionally very competitive. The South African Federation of Consulting Engineering Contractors (SAFCEC), protested to the department of trade & industry, but to no avail. 53

COVEC has over 30 years experience with an accumulated US$ 2.6 billion worth of contracts. The company is listed by the U.S. magazine Engineering News Records as one of the top 225 in the world with project experience across Asia and the Pacific. Over 70 percent of the company’s business is in Africa,54 with projects in Angola, Botswana, Cote D’Ivoire, Kenya, Zambia, Mauritius, Mali, Morocco, Mozambique, Sudan, and Madagascar. COVEC is also about to invest $300 million in two copper and cobalt mining projects in the Democratic Republic of Congo.55 Formerly under China’s Ministry of Foreign Trade and Economic Cooperation (MOFTEC), COVEC recently joined China Railway Engineering Corporation (CREC) and is one of the 167 SOEs selected for preferential support by China’s State-owned Assets Supervision and Administration Commission (SASAC) as a flagship enterprise.

COVEC is generally believed to have won the tender on price alone with no interference or support given by either the South African or Chinese Government. Senior South African officials involved in the project explained that serious problems were evident from the beginning. It was obvious to the majority of observers that the company would be hard pressed make a profit with such a low quote, though as a senior manager at TCTA explained the low price did not provide adequate grounds to disqualify them.56

The company clearly underestimated the cost of doing business in South Africa and has had serious problems recruiting senior construction staff. One observer explained that the company had been advertising for professionals with over 20 years experience and only offering around US$ 21,000 which is half to a third of the price for such skills in South Africa. In the original contract the Chinese agreed to bring in only 18 Chinese nationals, but faced with the shortage of such skills in South Africa, 45 Chinese workers have been approved to date. It has also been suggested that COVEC seriously underestimated the implementation of laws and regulations relating to construction, labour, and the environment in South Africa. COVEC has had a great deal of experience operating across Africa and approached South Africa in a similar manner.

The work practices of the Chinese company and their approach to planning and implementation were also at odds with local practices and the expectations of the consultant and management companies.57 Apparently the Chinese expected to be left to do the job without interference while in South Africa dialogue between the consultant and contractor is usually constant. The Chinese have been reluctant to provide method statements detailing precise plans, procedures, and specifications for discrete components of
work and prefer to simply “wing it.”

Another serious impediment has been from the local engineering industry. Fearing competition from the Chinese many local suppliers and engineering companies have effectively black listed COVEC and refuse to provide them with support and materials.

All of these problems have been compounded by problems associated with language and cultural differences. One senior individual involved explained that communication has been very difficult and described negotiations at tortuous. “It takes hours to decide on simple points that should take a few minutes and then some weeks after agreeing the Chinese constantly want to renegotiate.”

To pre-qualify, COVEC was required to form a joint venture with a local company. COVEC had previously worked with Mathe Construction (MC) in Botswana on the construction of housing and hospitals and entered into a joint venture with MC taking a 25 percent stake. MC has been involved in construction since 1985; however, its experience in large projects of this nature is limited and the apparent input of the local partner which was well positioned to deal with many of the challenges associated with the procurement of materials and local labour has been negligible.

There is also a strong sense that the COVEC head office is not fully cognisant of the problems associated with this project and has not been providing adequate support to the project which has been described by some insiders as being on the verge of collapse.

A consulting company was engaged to consult with all the stakeholders, identify the issues, and develop a strategy to move forward. The consulting company has in effect played the role of a mediator: focusing attention on the key problems and prompting them to take the necessary action. The last step proposed by the consulting company was to mobilise political pressure within Chinese and South African Governments. The Ministry of Water Affairs and Forestry, the Ministry of Foreign Affairs and DTI have all been informed and the Chinese Embassy in South Africa is also aware of the problem, but none have yet been formally requested to respond. Elsewhere in Africa, the Chinese Government has applied pressure and in some instance provided support to ensure that Chinese companies deliver to expectations.

X) Summary

Beijing’s relations with Pretoria have grown quickly since relations were established almost a decade ago primarily as a result of South Africa’s strategic importance on the continent. Chinese investment in South Africa
remains minimal; however, the country provides an important base from which Chinese companies can launch into the rest of the African continent. While South Africa is the only country in this study with any significant investment in China, its trade relations and the substantial surplus China enjoys are in line with the trade relations of the majority of African countries. Beijing’s willingness to implement quotas on its exports to South Africa clearly under-score the importance it attaches to this African country.

South Africa is considerably more developed than the other countries included in this study and while the various organs of Government and the private sector make a significant contribution to the country’s engagement with China; relations remain heavily dominated by the presidency.

Endnotes
2  Cosatu is the Congress of African Trade Unions
5  Interview, Johannesburg, 26 June 2007.
7  Interview, Pretoria, 28 June 2007.
8  Interview, Johannesburg, 27 June 2007.
9  Interview, Cape Town, 18 July 2007.
13  Although WTO agreements were ratified by the South African Parliament, they do not form part of South African public law, as they were never promulgated. The South African Constitution, however, explicitly states that international agreements should be used as reference and guidelines in the interpretation of domestic laws. Refer to Niel Joubert, The Reform of South Africa’s Anti-Dumping Regime: managing the challenges of WTO participation: case study 38, (http://www.wto.org/english/res_e/booksp_e/casestudies_e/case38_e.htm#Intext15)
16  Thomas Orr, ICBC-Standard Bank deal is only the beginning, Opinion/Analysis, Business Report, 30 October 2007 [http://www.busrep.co.za/index.php?fSectionId=553&ArticleId=4104578].
17  (http://www.standardbank.co.za/SBIC/FrontDoor_02_01/0,2354,12816627_23283565_0,00.html)
19  (http://www.ioltechnology.co.za/article_page.php?from=rss_IOLTechHome&iSectionId =2883&iArticleId=4105479)
28 The Southern African Development Community (SADC) is a grouping of 14 states in Southern Africa, committed to alleviating poverty, developing economic growth of the region and supporting the socially disadvantaged.
30 Cost, Insurance and Freight (cif) includes the cost of the goods, the freight or transport costs and the cost of insurance while the Free On Board (fob) price is simply the value of the goods excluding the transportation and associated costs.
31 The paper discusses methodologies to capture relevant information from such data.
35 http://www.sinoprima.co.za/DNA.htm
36 Interview, Johannesburg, 28 June 2007.
37 Interview, Johannesburg, 30 June 2007.
41 http://www.info.gov.za/asgisa
42 Interview, Johannesburg, 28 June 2007.
43 Interview, Pretoria, 29 June 2007.
49 Since the 1994 elections, the ANC has formed part of a coalition known as the Tripartite Alliance, which also includes the Congress of South African Trade Unions (COSATU) and the South African Communist Party (SACP).
51 Interview, Pretoria, 20 July 2007
# Uganda

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<tr>
<td><strong>Area</strong></td>
<td>236,040 sq km</td>
<td>CIA</td>
</tr>
<tr>
<td><strong>Population</strong></td>
<td>29.85 million</td>
<td>2006, AfDB</td>
</tr>
<tr>
<td><strong>Life expectancy (years)</strong></td>
<td>51.1</td>
<td>2006, AfDB</td>
</tr>
<tr>
<td><strong>Infant mortality</strong></td>
<td>77.5 deaths/1,000 live births</td>
<td>2006, AfDB</td>
</tr>
<tr>
<td><strong>GDP</strong></td>
<td>US$ 9.443 billion</td>
<td>2006 est., IMF</td>
</tr>
<tr>
<td><strong>GDP/capita</strong></td>
<td>US$ 316</td>
<td>2006 est., IMF</td>
</tr>
<tr>
<td><strong>GDP growth</strong></td>
<td>5.3%</td>
<td>2006 est., CIA</td>
</tr>
<tr>
<td><strong>Size of government budget</strong></td>
<td>US$ 1.943 billion (revenues) US$1.994 billion (expenditures)</td>
<td>2006 est., CIA</td>
</tr>
<tr>
<td><strong>GINI</strong></td>
<td>0.43</td>
<td>2002/2003, DFID</td>
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Chapter 6: Uganda

I) Introduction

Uganda is a landlocked country in East Africa situated on the northern shore of Lake Victoria at the head of the Nile River. The country has a population of almost 28 million people with a per capita income of US$330. It covers an area of 241,000 square kilometers. There are 48 different tribes in Uganda, the largest of which, the Buganda, represent approximately 20 percent of the population. English is the national language and Swahili is widely spoken, especially amongst the rural population.

Uganda gained independence in October 1962. Edward Mutesa II, the Buganda King or Kabaka was installed as the President, only to be overthrown by Milton Obote in 1966. For 20 years thereafter Uganda suffered a series of military coups d’état, the last being effected by the current leader Yoweri Museveni and the National Resistance Movement (NRM) in 1986. On coming to power, Museveni retracted his socialist revolutionary rhetoric, quickly embracing Western donors along with World Bank and IMF structural readjustment programs in return for political and economic assistance. The NRM instituted an interim government which developed a constitution and a single party “Movement” system. Elections were held in 1996 and Museveni was elected president.

Despite political instability along many of Uganda’s borders, particularly the north and east, the country enjoyed strong economic growth due in large part to donor aid. The international community provided considerable quantities of development assistance. However this reliance on external support provided Uganda’s donors with a high degree of leverage. Domestic opposition forces and certain sectors of civil society mobilised to pressure the government into holding a constitutional referendum in July 2005 which saw a multiparty political system adopted in 2006. The issue was closely related to Museveni’s efforts to amend the constitution to allow him to stand for a third term of office. The NRM became a political party and in February 2006 Museveni was elected for a third term in office. The three main opposition parties today are the Forum for Democratic Change (FDC), Democratic Party (DP) and the Uganda Peoples’ Congress (UPC). All
suffer from internal tensions and are generally ineffective in opposing the government.

The Judiciary operates as an independent branch of government although it continues to suffer from a high degree of corruption and interference from the presidency. The judges of the High Court are appointed by the president while judges of the Court of Appeal are appointed by the president and approved by the legislature. The legislature is the third independent branch of government but is often sidelined on important issues such as committing the Uganda People’s Defence Forces (UPDF) beyond the country’s borders. The majority of respondents perceived parliament to be ineffective. Power in Uganda is thus strongly focused in the president’s office and the cabinet.

Uganda continues to enjoy relative political and economic stability. The country has also benefited significantly from the aid, humanitarian assistance and subsequent construction and development in southern Sudan following the signing of the January 2005 Comprehensive Peace Agreement (CPA). However, growing income disparities, steadily increasing inflation, lack of adequate planning resulting in chronic power shortages, and slow economic growth are placing extreme pressures on the Government. The Government is also struggling to maintain a respectable international image. Rampant corruption the fragile peace in the country’s north as negotiations continue to end the 21 year long conflict that has resulted in over 1.2 million internally displaced persons (IDPs) and an unquantifiable loss of life; while periodic civil demonstrations, such as the recent riots triggered by the sale of one of Uganda’s last remaining forests; all have had a negative impact on Uganda’s international standing.

In 2000 the rate of urbanisation was 14.2 percent.¹ Uganda’s population growth rate of 3.6 percent is amongst the highest in the world. This compromises the effect of economic growth on the country’s development resulting in a further deepening of poverty.² Uganda’s exports consist primarily of raw materials. As the industrial sector is very small there is little capacity to produce value-added goods. In addition, Uganda lacks an indigenous technology base and suffers from a lack of skilled labour, remaining heavily reliant on the importation of basic manufactured goods.

In the late 1980s the Government of Uganda began to implement a series of policy reforms to liberalise the economy and encourage private sector-led economic growth. This was in line with demands by the World Bank and the IMF for structural adjustment. In 1997 the Government launched the poverty Eradication Plan (PEAP) as a national planning framework to promote economic growth and reduce poverty.

II) Identification of Policy-making Actors and Canvassing their Opinions
a) The role of government

Depending on how the initial contact is made, the Ugandan Ministry of Foreign Affairs (MFA) is very often the initial contact point with potential investors—Chinese or otherwise. The appropriate departments and ministries, such as the Ministry of Trade and Industry for initiatives of an industrial nature or the Ministry of ICT in the case of telecommunications, are also key contact points. The Uganda Investment Authority (UIA) is another common point of first contact. Queries received from Beijing are generally referred to the UIA which provides an overview of the situation before referring inquiries to the appropriate line ministries. It also facilitates interaction with appropriate local suppliers, manufacturers and transport agencies. The UIA is tasked with providing assistance to investors in the form of advice and introduction. While several foreign (non-Chinese) investors voiced dissatisfaction with this process, all the Chinese companies consulted during the research process were very satisfied with the service provided by UIA. The UIA has made the pursuit of Chinese investment a priority and is proactively engaging China.3

The majority of large investors entering Uganda strive for direct approval from the President or his associates. Chinese investors are no different and will usually make efforts to secure approval from the President or one of his close “either formal or informal, advisers” as one senior Chinese official suggested.4 Political relations between the two countries are very strong and we may presume the Chinese diplomatic mission facilitates connections for potentially large investors, as do Western diplomatic missions. Interestingly Chinese Ambassador Fan suggested that the overseas Chinese Association was better placed to assist China-Uganda business ties than the Chinese Embassy. The OCA has a better understanding of the local environment and is better positioned to respond to the needs and requirements of people involved in business between the two countries. The Ambassador suggested that Chinese nationals tended to avoid the Embassy, arguing that they only approached his Embassy when they encountered problems.5 Once sealed at the highest possible level, the appropriate government ministries and departments are brought in to facilitate the needs of the investor.

The nature of the project determines which particular government entities are to be involved while the scale and geographic location determine, to a large extent, which particular levels of government are engaged. The smaller the project and the further away from Kampala, the more susceptible the project will usually be to corruption and regional politics. Larger projects involve greater largesse, hence the more pronounced the political attention they receive. A Chinese official explained that while there have been substantial improvements in recent years, the Ugandan Government continues to face serious coordination challenges. He suggested that, as with many African countries, dealings with the Ugandan bureaucracy require an inordinate degree of patience.6 The single biggest constraint on government
is capacity and resources. While improvements in telecommunications, particularly internet connectivity, have made a considerable contribution to communication - and keep people informed - government institutions remain seriously under resourced. For example, only six officials in Uganda's Ministry of Foreign Affairs deal with all 42 countries in the Asia-Pacific region.

While the majority of respondents described Parliament as a “rubber stamp” institution, it did recently prove to be a stumbling block in the establishment of a National Information and Communication Technology (ICT). Parliament objected to the interest rate on a loan provided by the Chinese Export-Import Bank to contract Huawei. One well-informed observer attached to a foreign diplomatic mission in Kampala and who had lived in Uganda for almost a decade suggested however, that parliament was simply holding the government to ransom over an unrelated issue concerning Members’ of Parliament Constituency Development Funds payment. Once this issue was resolved, Parliament approved the Chinese Export-Import Bank loan. Steady streams of parliamentarians have visited China. Government officials naturally receive travel allowances and stipends; the majority return from China with bags full of consumer goods bought considerably cheaper than their prices in Uganda. Many are also not available locally. A significant number also return to Uganda as representatives of Chinese companies eager to enter the Ugandan and African market. Some officials secure formal agreements to represent the Chinese firm. The greater number involves informal agreements to identify and introduce the Chinese firm to a suitable Ugandan partner. The vast majority of such deals are simply a matter of facilitating trade and the incentives take the form of commissions in money or kind.

Despite capacity restraints, the civil service has demonstrated the ability to properly mobilise around priority issues. In preparation for Chinese Prime Minister Wen Jiabao’s visit to Uganda in June last year the Ugandan Government was invited to prepare a list of priority investment opportunities, or “wish list”, to be considered by the Chinese Government and potential Chinese investors. A task team was assembled by the Vice President’s office consisting of MFA officials and various relevant ministries that drew up a well considered list of investment opportunities. They focused on transport, energy, mineral development, textiles, fruit processing and tourism.

b) The role of the private sector

Uganda’s business sector has grown significantly over the past decade or so and is heavily reliant on trade. The country’s manufacturing industry is very small and consists of a relatively small group of local businesspeople, a significant proportion of who are of Indian ethnicity. While a handful of the more prominent Indian businesspeople have been in Uganda several generations, the majority have arrived in Uganda since the current Government came to power in 1986 and are generally very supportive of the
Presidency.

The Ugandan Government offers a range of investment incentives including import duty exemptions, duty drawback facilities, and corporation tax relaxations to attract investment. Interestingly, however, one senior Chinese businessman in Kampala suggested that Chinese businessmen generally see little value in tax waivers. They are primarily interested in:

1) How quickly the official paperwork and formalities can be completed;
2) How quickly they can establish themselves physically on the ground; and
3) How they can make quick profits.\(^{10}\)

A large number of Ugandans visit China. There are daily flights between the two countries, usually via Nairobi, Dubai or Addis Ababa, depending on the airline. Obtaining a visa at the Chinese Embassy in Kampala is a fast and straightforward process and is infinitely easier for Ugandan nationals who wish to securing visas for visits to Western countries. It is also very easy for Chinese to obtain visas to visit Uganda. As an aside, it is worth noting that a Taiwanese national suggested it was becoming gradually more difficult for Taiwanese to secure visas to Uganda.\(^{11}\) The ease with which visa processes can be finalised is an indication of the growing business ties between Uganda and China, particularly as the reverse seems true for Taiwanese, suggesting that politics and economics are closely intertwined.

c) The role of important foreign actors

Kampala represents a major transportation hub in the region - into Southern Sudan, northeastern DRC, Rwanda and Burundi. While Rwanda and Burundi receive a good number of their imports through Tanzania an estimated 80 million people in the region consume goods transported through Kampala—approximately 10 percent of sub Saharan Africa’s total population.

**Figure 6.1: Potential Regional Market Access (2007)**

<table>
<thead>
<tr>
<th>Country/Region</th>
<th>Population (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Uganda</td>
<td>30.3</td>
</tr>
<tr>
<td>Northeast DRC</td>
<td>24.1</td>
</tr>
<tr>
<td>Southern Sudan</td>
<td>11</td>
</tr>
<tr>
<td>Rwanda</td>
<td>9.9</td>
</tr>
<tr>
<td>Burundi</td>
<td>8.4</td>
</tr>
<tr>
<td>Total</td>
<td>83.7</td>
</tr>
</tbody>
</table>

Source: Various\(^{15}\)

Uganda is a relatively small country; despite the recent discovery of oil and the known mineral deposits within the country, the primary interest of external actors remains the country’s geo-strategic location. Uganda is located in a politically volatile area adjacent to the conflict ridden states of
Sudan and the DRC. These two countries are arguably not only two of the most politically insecure countries on the continent, but also the most heavily resource-endowed. As such they are very attractive to China. In recent years there has been perceptible increase in the level of attention paid to Uganda by the main powers such as the EU, US, UK, Germany, Netherlands Denmark, Sweden, and Norway. President Museveni’s successful bid to amend the constitution and pursue a third term in office has however diminished his standing amongst the donor community and led to a reduction in international aid to Uganda. When Britain and other European countries reduced aid to Uganda in 2005 as a result of concerns over the country’s human rights, Museveni wrote in an open letter: “I have a real problem with this paternalistic arrangement of the so-called ‘donor’ and ‘beggar’ relationship” He later praised China’s hands-off, no-conditions approach.

Nevertheless, the deployment of the UPDF to Somalia saw a sudden increase in Washington D.C.’s support to Uganda while and the UK, Germany and the EU also recently announced an increase in aid to the country. Given Uganda’s relatively small size, donors and international partners can establish an influence in a strategically important area at relatively less cost than elsewhere in the continent.

Chinese investors appear reluctant to venture into insecure states and as a result their presence in Southern Sudan and the eastern DRC is minimal. A Chinese factory manager in Kampala suggested that Sudan and the DRC remained too unstable for investment; accordingly his company had established a depot near the border area which supplies their products to traders to sell into Sudan. Despite widespread perceptions that Chinese companies are prepared to take risk following their increasing presence in Africa, their actions in central Africa reveal they are relatively prudent investors.

Uganda is moving toward integrating into the East African Community (EAC), consisting of Uganda, Tanzania, Kenya, Rwanda and Burundi. Indeed, full economic integration has already been tabled. The “new” EAC aims at achieving deeper regional integration among the five member states with the progressive establishment of a customs union, a common market, a monetary union, and ultimately a political federation. This will render EAC a political unit with a population of approximately 120 million people. According to a mid-level Ugandan diplomatic representative the leaders of the five East African countries recently agreed that the EAC is to be subsumed by the eight-member Great Lakes Forum. This is expected to facilitate the region’s ability to negotiate with larger and more powerful political entities, including China. More importantly, the number of border points requiring surveillance will be reduced, strengthening the capacity of customs to deal with smuggled and counterfeit goods.

Furthermore, the Great Lakes Forum, an expansion of EAC regional ties,
is to be considerably larger. The Secretariat of the Great Lakes Forum was launched in Bujumbura in May 2007. A special fund for reconstruction and development projects in the region will be established. It is expected that donors will be canvassed for contributions. The Chinese government has shown a strong interest in the development of the Great Lakes Forum and has already expressed interest in several aspects of this initiative. China is expected to be among the more generous donors, boosting its existing reputation with the Ugandan government as an alternative source of donor funding.

III) China’s political profile with Uganda

Beijing was one of the very first countries to establish diplomatic relations with Kampala on 18 October 1962, only nine days after Uganda received independence from Britain. Although tightly within British and American spheres of influence, Uganda along with other African countries, strongly supported China’s resumption of a legitimate seat at the United Nations in 1971. It has continued to support China on the “one China policy” vis-à-vis Taiwan. Uganda has twice backed China’s stance at sessions of the UN Human Rights Commission, in 1996 and 1997. In 2000, Uganda supported the bill put forward by China on the need to maintain and observe the Anti-Ballistic Missile Treaty at the UN.

High level political visits

<table>
<thead>
<tr>
<th>Ugandan military officials who visited China include:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defense Minister F. Nyangweso (September 1973)</td>
</tr>
<tr>
<td>Commander of the National Liberation Army Tito Okello (September 1982)</td>
</tr>
<tr>
<td>Vice President and Minister of Defense P. Muwanga (August 1984)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Chinese military officials who visited Uganda include:</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Liu Jingsong, Commander of the Lanzhou Military Area Command (January 1996)</td>
</tr>
<tr>
<td>General Li Zhongli, Deputy Director of Information, (November 2006)</td>
</tr>
<tr>
<td>Major General Zhu Cheng-hu, Commandant of the Defence University of China, (June 2007)</td>
</tr>
</tbody>
</table>
**Chinese leaders and officials who have visited Uganda include:**

State Councilor Gu Mu (April 1987)
Foreign Minister Qian Qichen (January 1991)
Li Ruihuan, Member of the Standing Committee of the Political Bureau & Secretary of Secretariat of the Central Committee of the Communist Party of China (July 1991)
Chen Muhua, Special Envoy of the Chinese Government & Vice Chairperson of the Standing Committee of the National People’s Congress (April 1992)
Vice Premier Jiang Chunyun (April 1997)
Foreign Minister Tang Jiaxuan (January 1999)
Xu Jialu, Vice Chairman of the Standing Committee of the National People’s Congress (January 1999)
Jia Qinglin, Member of the Political Bureau of the CPC Central Committee and Party Secretary of Beijing (July 2000)
Hu Jintao, Member of the Standing Committee of the Political Bureau of the Central Committee of the CPC & Vice President (January 2001)
Wen Jiabao, Prime Minister (June 2006)

**The Ugandan leaders who visited China include:**

Prime Minister A. M. Obote (July 1965)
Vice President P. Muwanga (August 1984)
Foreign Minister Ibrahim Mukibi (January 1987)
Second Deputy Prime Minister and Foreign Minister Paul K. Ssemogerere (March 1989)
Foreign Minister R. Rugunda (January 1996)
Second Deputy Prime Minister and Minister for Tourism, Trade and Industry Brig. Moses Ali (July 1999)
Third Deputy Prime Minister and Foreign Minister Wapakabulo (April 2002)
Speaker of the Uganda Parliament Edward Ssekandi (October 2002).
Prime Minister Apollo Robin Nsibambi (September 2003)
IV) China’s Investment and Commercial Profile with Uganda

China’s commercial footprint in Uganda was first visible in 1991 when mostly small-scale entrepreneurs opened restaurants and health clinics. This presence had increased by 1996 as Chinese entrepreneurs moved into other sectors such as import-export, construction, and small-scale industry in cotton ginnery, textiles, footwear and mineral water.

The Ugandan Government has been extremely receptive to Chinese investors. In 2006, the Government of Uganda presented a document to the visiting Chinese Premier Wen Jiabao outlining priority investment opportunities in the following areas: transport, energy, mineral development, textiles, fruit processing and tourism.

The Chinese Government has committed itself to developing Uganda’s ICT infrastructure and has expressed serious interest in oil exploration. At the 2006 Forum of China-Africa Co-operation (FOCAC) summit, the Chinese Government committed to provide two x-ray scanners for shipping containers reportedly valued at around US$5 million and motor vehicles for use by the Uganda Revenue Authority (URA); approximately US$250,000 for anti-malarial drugs; US$100,000 for computers to the Mulago Infectious Diseases Institute; construction of an Agricultural Demonstration Centre and a rural primary school; construction of a government office complex; and technical support to enhance Ugandan national television and radio broadcasting.

Chinese Ambassador Fan recently described China’s trade with Uganda in military hardware as “satisfactory.” Between 1996 and 2004, China’s arms sales were estimated at US$2.5 million; however recent unspecified agreements are expected to boost this figure significantly. During a visit in November 2006 Peoples’ Revolutionary Army (PRA) Deputy Director of Information General Li Zhongli announced the donation of one hundred military transport trucks to Uganda. The China Wanbao Engineering Company (CWEC) is building a new US$30 million headquarters for the UPDF. CWEC is a wholly-owned subsidiary of the PRC’s state-owned

**Agreements:**

- **October 1962** - China and Uganda signed a Joint Communiqué to establish diplomatic relations
- **September 2003** - China and Uganda signed an agreement on Economic and Technological Cooperation
- **May 2004** - China and Uganda signed an Agreement of Economic and Technological and an Agreement on Mutual Promotion and Protection of Investment.
- **April 2005** - A Memorandum of Understanding on cooperation in Tourism was signed in Beijing granting Uganda Approved Destination Status.
Norinco which manufactures and exports a range of military equipment including both high-end products\textsuperscript{21} to low-end products like anti-riot gear and small arms.\textsuperscript{22} China has trained 167 Uganda officers and 37 more officers are currently training at various Chinese academies.\textsuperscript{23} Apart from training, the Chinese government refurbished the defence ministry headquarters in Bombo and built the Senior Command and Staff College in Kimaka. China donated 50 heavy duty Jiefang trucks valued at US$1.3 million to the UPDF in March 2002.\textsuperscript{24} In June 2007 the Chinese government donated 51 military trucks to the UPDF, bringing to 128 the total number donated since 2002.\textsuperscript{25}

Chinese companies have relatively few sizeable investments in Uganda. Their primary interest clearly lies in trade, not only with Uganda but surrounding countries including Sudan, DRC and Rwanda. Uganda is thus seen as a gateway or commercial launch pad for Chinese companies to the Upper Great Lakes Region which is one of the most densely populated areas in Africa.

\textit{a) Trade}

Uganda’s fledgling industrial sector, strained by chronic power shortages and slow economic growth, has been heavily affected by the influx of cheap Chinese consumer items. Uganda’s recorded trade with China reached US$156 million in 2006, up from US$99.5 million the preceding year and US$12.6 million in 1995. Uganda’s exports to China increased from US$10,000 in 1995 to US$20 million in 2005, but dropped to US$17.7 million last year. Raw cotton accounted for 63 percent of Uganda’s exports to China in 2005, but dropped to below 40 percent last year. This decrease may be attributed to a general drop in the production of cotton resulting from the implementation of controversial policies implemented by the government run Cotton Development Organization (CDO).\textsuperscript{26} It should be noted that Ugandan farmers are also being encouraged to diversify production away from cotton.\textsuperscript{27} Oil seed, animal products, coffee, wood, fish, tea, and minerals constitute the rest of Ugandan exports to China.
The Special Preferential Tariff Treatment Program introduced by Beijing in 2005 has seen the removal of import tariffs on 422 items from 25 different African countries, including Uganda, and provides an excellent opportunity for export growth, although it must be noted that Uganda has been notably slow to seize a similar opportunity presented by the US with the African Growth and Opportunity Act (AGOA).

Uganda is an expensive place to do business due to myriad challenges presented by the distance from the coast and the time and expense of transport. While this situation can be expected to improve with the rejuvenation of the railway line between Kampala and Mombasa, Uganda is unlikely to experience any significant investment in manufacturing beyond the processing of local commodities and the production of items for regional consumption. The potential for such production is substantial given the size of the regional market.
Figure 6.3: Major Commodities Traded between Uganda and China (2006)

<table>
<thead>
<tr>
<th>Uganda’s imports from China</th>
<th>Uganda’s exports to China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Footwear</td>
<td>Cotton</td>
</tr>
<tr>
<td>Telecommunications Equipment</td>
<td>Cobalt</td>
</tr>
<tr>
<td>Textiles</td>
<td>Oil seeds</td>
</tr>
<tr>
<td>Electronic Equipment</td>
<td>Animal products and leather</td>
</tr>
<tr>
<td>Medical Equipment</td>
<td>Chemical products</td>
</tr>
<tr>
<td>Batteries</td>
<td>Coffee</td>
</tr>
<tr>
<td>Bags and cases</td>
<td>Copper ores and concentrates</td>
</tr>
<tr>
<td>Motorcycles and parts</td>
<td>Cotton yarn</td>
</tr>
<tr>
<td>Fabric and textiles</td>
<td>Timber</td>
</tr>
<tr>
<td>Pharmaceuticals</td>
<td>Cocoa</td>
</tr>
<tr>
<td>Bicycles</td>
<td>Niobium, tantalum, vanadium, and zirconium</td>
</tr>
<tr>
<td>Rubber items</td>
<td>Lead ore and concentrate</td>
</tr>
<tr>
<td>Furniture</td>
<td>Ivory, tortoise shell and horns</td>
</tr>
<tr>
<td>Blankets</td>
<td>Fish (Fresh and dried)</td>
</tr>
<tr>
<td>Padlocks and keys</td>
<td>Tea</td>
</tr>
</tbody>
</table>

Source: World Trade Atlas Data

As regards China-Ugandan trade, all figures should be relied upon with caution. The general lack of capacity makes it extremely difficult to record and collate accurate trade flows in Africa. This is especially the case in an environment like Uganda where a recent study suggested that approximately half of the trade across Uganda’s borders is informal and not properly tracked by the relevant customs authorities.

As seen in Figure 6.2, China enjoyed a substantial trade surplus with Uganda in 2006 after a certain degree of parity had prevailed until around 2002. China has implemented measures to address this recent imbalance, listing Uganda as one of the African countries permitted to export particular items to China tariff free under the Special Preferential Tariff Treatment Program, mentioned above. Uganda has worked to increase and diversify exports, but with little effect due to lack of capacity and the challenges associated with organization in such an environment.

Respondents interviewed for this study expressed varying concern regarding the flow of competitively priced Chinese products into Uganda. One very senior Ugandan Government official, speaking confidentially, suggested that while the ability of Uganda’s customs and tax authorities to check smuggling and counterfeit goods had improving rapidly, the political will to address this issue remains negligible. The same official pointed out however that the average Ugandan would not be able to afford such commodities if they had
not been imported from China. The overwhelming majority of consumers benefit from the availability of affordable products from China. By contrast, the Ugandan manufacturing sector feels threatened by these imported products since it cannot compete in terms of price or variety. A representative of the Ugandan Chamber of Commerce cited the example of how a large Ugandan manufacturer, producing a variety of plastic consumer goods, was faced with Chinese traders smuggling forged consumer goods into the country branded with the Ugandan company’s name.

A U.S. Embassy official cited a similar elaborate scheme where over US$260,000 worth of fake Kiwi Shoe Polish was smuggled into the country in April 2006, reportedly from China with “Made in Kenya” on it. Kiwi shoe polish is manufactured in Kenya by the US-based company Sarah Lee Corporation. Evidently the cartons of shoe polish were fitted inside larger boxes, marked “Brushes made in China.”

The Chinese Embassy recognises the problems associated with counterfeit products and smuggling. Chinese Ambassador Fan explained that these embarrassments were caused by rogue traders and he described how the Chinese Government was taking measures to counter such practices. For example, the Chinese Government, as mentioned previously, recently provided the Uganda Revenue Authority with two mobile cargo x-ray scanners that will initially be deployed to the Malaba and Busia customs posts on the Kenya border. The equipment has the capacity to scan 18 shipping containers per hour, significantly improving both surveillance and clearing times. The machines, valued at US$4 million each, were supplied by the Chinese company Nuctech, which supplied similar machines to the Government of Ireland in 2004. The Chinese company is to provide technical and training support for one year.
The number of Chinese entrepreneurial traders in downtown Kampala grew from 100 in 2001 to approximately 500 in 2007 and it continues to grow. These traders deal in a variety of consumer goods including footwear, clothes, electronic goods, bags and textiles. They also trade in insecticides, pharmaceutical products, hand tools and motorcycles.

Figure 6.4: Uganda’s Top 5 Imports from China (1996-2006)

Source: World Trade Atlas Data

Figure 6.5: Uganda’s Top 5 Exports to China (1996-2006)

Source: World Trade Atlas Data
Chinese traders in Uganda are almost exclusively engaged in wholesale trade, engaging with distributors and retailers both locally and in neighboring countries. Chinese traders interviewed for this report explained their preferences for the wholesale sector as follows:

1) It offers greater profits,
2) It requires considerably less work than the retail sector,
3) It avoids competition and friction with local traders, and
4) It leaves local traders to engage in retail where they have a competitive advantage resulting from their better understanding of local distribution and retail networks.\(^{36}\)

Thus, China’s supply chain to the Ugandan economy does not compete head to head with local retail chains. This is a significant difference to the other countries included in this study with the exception of Ethiopia where they are prevented from entering into the retail sector by law. A limited number of Chinese have already begun to enter into the retail sectors in outlying rural areas which could possibly signify the beginning of a change in the general situation across the country; however, the Overseas Chinese Association is encouraging its members to refrain from retail for fear of causing tension with local traders.

b) Investment

According to the UIA, 108 projects worth over US$145 million and employing almost 10,000 people have been registered by the Chinese since 1991; however there are no figures available on precisely how many of these projects have actually been implemented and how much is dormant investment.\(^{37}\) Informed observers suggest considerably less than half of these projects have actually been implemented.\(^{38}\) According to Figure 6.6, Chinese investment appears to be particularly focused on manufacturing and consist of small factories including a cotton ginnery, textile mill, a mineral water company, as well as several shoe manufacturers. Nevertheless, the vast majority of Chinese investors engaged in manufacturing consist of small and medium enterprises (SMEs) who simply import parts and assemble products in Uganda using cheap local labour. In so doing they are able to access benefits availed to investors and circumvent certain export/import tariffs since the final product is ‘made in Uganda’. There are also several instances of Chinese companies importing machinery considered obsolete and uncompetitive in China but deemed appropriate for local circumstances in Uganda. For example, out-dated labour-intensive candle-making machines are being imported from China and utilised in Uganda. Such equipment may be considered appropriate for Uganda which has high levels of unskilled labour and relatively low levels of capital.

Despite growing Western concerns regarding China’s influence on the global economy, a recent study found a 50 percent of Ugandan business leaders
believe China’s increasing presence will have a positive impact on their businesses. Around 80 percent of the business leaders surveyed feel that Chinese investment in Uganda will have a impact on their businesses.

V) China’s Aid / Developmental Assistance Profile in Uganda

According to a senior Chinese diplomatic official in Uganda, China currently provides around US$4-5 million dollars in aid each year. Since establishing relations with Uganda in 1962, the Chinese Government has provided assistance to Uganda in the form of interest-free loans and grants to a cumulative value of approximately US$80 million by 2003. This is in addition to exchange student programs and medical personnel. The Chinese Government has also assisted in the construction of public buildings including the sports stadium and the MFA Building and has been involved in a broad range of different development projects Uganda Industrial Research Institute. Construction of the 1,721 acre Kibimba rice scheme in western Uganda began in February 1973. Over 300 Chinese technicians and workers were involved in the project which consisted of an irrigation system, a rice hulling mill with a capacity of 24 tons per day, a brick production factory with the capacity of 1.2 million bricks per year and a livestock and poultry farm. The project was completed in March 1976 and handed over to the Uganda Government in January 1982.

Construction of the 40,000-seat Mandela Stadium at Namboole, six kilometres east of Kampala, began in April 1993. Initially valued at US$28 million, the final value was estimated at over US$31 million. The Ugandan Government contributed US$7 million used to construct access roads, a water and sewage disposal system, and to provide compensation for some 300 families displaced by the project. The project was completed in November 1996 and handed over to the Ugandan Government in February 1997. The complex consists of a 120 bed hotel, two outdoor tennis courts, two volley ball training grounds, two basket ball training grounds and one football training ground. Since construction, the Chinese Government has sent three teams, totaling some 21 experts, to provide technical support and training for its maintenance.

China sponsored the development of the Uganda Industry Research Institute (UIRI), a parastatal based on the outskirts of Kampala, and operated under the auspices of the Ministry of Tourism, Trade and Industry (MTTI). Its goal is to promote industrialization in Uganda through the identification of appropriate technologies that will add value to local products, processed for national, regional and international markets. The development of the institute was divided into three phases. The first phase, lasting between 1992 and 1994, involved the construction of office buildings, laboratories and factories for trial production. The second phase, between 1998 and 2000, involved the development of production lines for ceramics, fruit
juice processing, bread production, milk treatment, ice cream and yogurt, milk powder and plastic cups. Several more laboratories, a boiler room, a refrigeration station and a generator were also installed. The third phase is ongoing and focused on technical cooperation. China sent a technical team to the Institute in 2001 to provide technical support and training for the maintenance and repair of the facilities. The Institute is situated on 10 acres of land and has 9,699 square meters of buildings with 24 researchers and 18 administrative staff.

In accordance with a 1985 protocol on Economic and Technical Cooperation, the Chinese Government sent experts to Uganda to construct seven pilot bio-gas projects in the Mbale and Tororo districts. The Chinese Government has since spent approximately US$170,000 on the construction of 20 demonstration biogas digesters in addition to training Ugandan nationals in the design, construction, and maintenance of such installations. This is an attempt to diversify Uganda’s energy utilization and protect the environment.

Ambassador Fan suggested that he has encouraged Chinese SOEs and private companies to assist with power generation but that they have showed little interest in investing in this sector. Following Prime Minister Wen Jiabao’s visit to Uganda in June 2006 the majority government owned newspaper *The New Vision* newspaper reported prominently that China had agreed to finance the construction of a railway line from Pakwach in northern Uganda to the southern Sudanese capital of Juba. Referring to the challenges associated with the sustainability of the TAZARA railway which has never operated at a profit, Fan explained that China has only committed to fund a feasibility study on the railway in northern Uganda.

**VI) Implications for the Agricultural Sector**

Rice production in the Doho swamps in eastern Uganda initially began in 1942 but faced several constraints including flooding during the wet season, water scarcity during the dry season, pests and diseases and the lack of appropriate crop varieties. The Ugandan Government purchased approximately 2,000 acres of land and Chinese expertise was used to develop the scheme that was completed in 1989. The government initially handled the management of the scheme, but has since shifted responsibility to the Doho Rice Scheme Farmers’ Association. The project now faces challenges with maintenance. The inability of local management to sustain such projects in the absence of external support presents a challenge to all donors and development organizations and hints at why Chinese companies are reluctant to enter into joint ventures with local companies.
VII) Educational & Cultural Engagement

The overwhelming majority of Ugandans have little consciousness of China, Chinese companies or the resident Chinese communities. East Asians in Uganda are often not differentiated from Caucasians. Both groups are referred to by the Swahili term *muzungu* (literally meaning aimless traveller) as distinct from ethnic south Asians (Indians, Bangladeshis) who are referred to as “Asians” or the increasingly derogatory expression: *muhindi*. In remote rural areas even these distinctions are often not made. This illustrates the lack of local distinction between various foreign national groups.

Educational exchanges between China and Uganda date from the 1950s before the establishment of official diplomatic ties and became more frequent after diplomatic relations were established. Ugandan students have visited China on Chinese government sponsored scholarships pursuing studies in medicine, construction, engineering, food science, ICT, and education. 53 Currently, 35 scholarships are provided annually to Ugandan students. Over 220 Ugandan students have studied in China to date. A number of Uganda teachers were recently invited to China for training in human resource development in accordance with commitments made at FOCAC. The Chinese Ministry of Education also recently donated 50 computers to establish computer labs in Makerere University in Kampala and Mbarara University in western Uganda.

The Language Institute at Makerere University has begun offering basic Chinese language courses. A senior official at the language institute explained that these comprise approximately 48 hours study over two months. While there are currently only approximately 20 students, interest is growing. 54 The Institute, which currently teaches six foreign languages and two local languages, has initiated the process to establish a Confucius Institute, aimed primarily at teaching Chinese language courses. The application was, at the time of writing, in the office of the Vice Chancellor of Makerere University awaiting approval before being forwarded to the Ugandan Ministry of Education. It will then be jointly presented to the Chinese Government and the Ugandan Ministry of Foreign Affairs. 55 The Language Institute also has plans underway to offer courses in English, Swahili and Luganda to the Chinese diaspora in Kampala. 56

VIII) Chinese migration to Uganda

In line with the trend in an array of African states, the number of Chinese nationals in Uganda has increased markedly over the past few years. A well informed and prominent member of the Chinese community estimated the size of the Chinese community at approximately 5 000 to 8 000. However this number is fluid since a large number constantly travel between China and Uganda leaving a core group of 2 000 to 3 000 at any point in time. 57
The community consists almost entirely of mainland Chinese with only a handful of Taiwanese present in the country.\textsuperscript{58}

Several respondents suggested that Uganda recently tightened access for both Chinese and Indians. One Ugandan government official described them as “fake investors” who enter the country with investment licenses but simply engage in trade.\textsuperscript{59} A prominent member of the Chinese community explained that the Chinese are extremely vigilant against criminal elements within the community and detailed a situation where a Chinese criminal gang tried to establish itself within Kampala. The Chinese community banded together and placed a great deal of pressure on them to leave.\textsuperscript{60} Uganda Interpol recently intercepted eight Chinese nationals with fake travel documents who were believed to have been on transit through Uganda.\textsuperscript{61}

IX) Case Studies

a) Chinese Companies’ Investment in Uganda’s Telecommunications Industry

Zhongxing Telecommunications Equipment (ZTE) and Huawei are extremely competitive and are now at the forefront of China’s economic expansion into Africa. They have great deal of experience, operating under similar conditions in Africa as in their home markets where extreme competition has resulted in phenomenal development. The number of telephones in China has risen from 30 million to over 530 million since 1993,\textsuperscript{62} illustrating the considerable growth of the Chinese telecommunications companies. Fixed line tele-density in China currently stands at around 28 percent while mobile tele-density is 35.3 percent.\textsuperscript{63} Annual revenues in China’s telecommunications industry are approximately US$81 billion per annum.\textsuperscript{64}

Tele-density in Uganda remains relatively low at around 12 percent with around 2.3 million mobile telephone subscribers.\textsuperscript{65} There are only three major service providers operating in the country but enormous potential for growth remains. Two additional services providers are about to enter the market. One of these, the House for International Technology (HITS), estimates Uganda’s potential total subscription market to be nine million. Both of the new companies claim they will focus their attention on expanding the market rather than competing with the established companies for their existing clientele.\textsuperscript{66}
Figure 6.6: Ugandan Mobile Telephone Subscribers by Company (2007)

<table>
<thead>
<tr>
<th>Company</th>
<th>Subscribers (million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>MTN Uganda</td>
<td>1.4</td>
</tr>
<tr>
<td>UTL</td>
<td>0.5</td>
</tr>
<tr>
<td>Celtel</td>
<td>0.4</td>
</tr>
</tbody>
</table>


ZTE and Huawei, have already established a presence in Uganda. ZTE has a sub-regional office in Kampala focused primarily on market analysis and engineering support. The company has engaged all service providers in Uganda but UTL is their main customer. They also provide a small amount of equipment to MTN. They are currently in negotiations with Celtel and have also submitted tenders to at least one of the new entrants, Hits Telecom.

In 2006 ZTE adopted a policy, targeting the structure of its human resources in order to more directly engage local markets with the slogan “Global Success, Local Wisdom.” The office in Kampala employs around 14 people, seven of which are Ugandan nationals. The country director and his deputy are both Ugandan. The company has a policy that all engineering, marketing and management staff should attend courses at the company’s training university in China at least once a year. A company representative interviewed for this study attributed the rapid success of the company to this educational and localization strategy.

Huawei is heavily engaged in the supply of telecommunications equipment to the major telecommunications companies in the region including Uganda Telecom (UTL) where it has a considerably larger presence than ZTE. In 2006 UTL, a 49 percent government-owned parastatal approached ZTE, Alcatel and Huawei for equipment to upgrade its system. Huawei came back with an offer of the equipment and a soft loan of US$58 million from the National Bank of China to buy it.

In the lead up to Chinese Prime Minister Wen Jiabao’s visit in June-July 2006, the different countries on his seven-nation African tour were invited to submit ideas for project funding. The Ugandan government designed and presented a concept for a national network system to spearhead the development of ICT in the country. This would facilitate cheaper and faster connectivity for voice data and video, in competition with the current link provided by the two national operators, MTN and UTL. The high capacity optical fibre telecommunications national backbone was approved by the Chinese Government and US$106 million is to be provided as a loan through the China EXIM Bank to finance the project.

Organizing the administration of the loan has proved a lengthy process.
During the FOCAC meeting the chairman of Huawei undertook to commence the project in advance of the promised funding. This was to enable the installation in preparation for the Commonwealth Heads of Government Meeting (CHOGM) to be held in Kampala in November 2007.71

Interestingly, as mentioned previously, the Ugandan parliament failed to ratify the loan although it is widely perceived to be only a rubber stamp. They objected to the interest rate on a loan provided by the Chinese Export-Import Bank.72 The Parliamentary Committee on the National Economy demanded an explanation for the two percent interest rate (US$2.12 million) to be charged on the US$106m for the national ICT backbone project over 20 years. They described the interest rate of two percent as high compared to other loans such as the World Bank which reportedly charges only 0.75 per cent.73

The Chinese are firmly establishing themselves as a major producer of telecommunications hardware and handsets. The two largest challenges Chinese companies face in Africa understanding the intricacies of local markets and human resource issues. While we have already observed ZTE tackling these issues, joint ventures with locally based companies would also provide an effective means for addressing these challenges. Several senior and mid level officials working in the Ugandan telecommunications industry agree it is only a matter of time before the Chinese either establish or acquire a telecommunications service provider in Africa and suggest they will most likely begin with a small provider as an experiment.74 In late 2006 there were rumours that China Telecom Corporation, China’s country’s largest fixed-line telecommunications operator, wanted to buy the South African telecommunications corporation MTN. While MTN denied any such takeover, the company’s value increased by 6 percent on the Johannesburg Stock Exchange (JSE).

The continent represents an enormous market and urgently needs infrastructural development. In Africa they can leverage their price advantage to enter new markets where until very recently Western-based companies did not appreciate the full value of engagement.75 A representative of one of the Chinese telecommunication companies acknowledged that markets such as Uganda were ideal for experimenting with new products.76 Such markets are very forgiving as a result of the limited competition and are expendable, due to their limited size.

As one informed observer noted, “China is taking a much longer-term approach that better integrates business and political objectives. If you’re the company that gets in there and builds the core network, you have a good shot at winning all upgrade contracts to follow. Many will be losing propositions, but those will be outweighed by the few that take off.”77
X) Summary

Despite the relatively small size of Uganda and the lack of currently identified resources, the strategic importance of the country in terms of its proximity to natural resources and markets in the region are clearly very important to China. Chinese investment in the Ugandan economy is relatively small and is focused on production for the local market; however, the primary interest of the Chinese in Uganda appears to be trade.

Corruption is a particularly serious problem in Uganda. It significantly inhibits business and development and reinforces the need for Chinese companies to rely on high level political intervention to succeed. As with the other countries in this study, the presidency is the primary institution. President Museveni clearly recognises the political and economic importance of China and appears to have been very proactive in engaging China on economic issues and ensuring the success of Chinese ventures.

Endnotes


3 Interviews, Kampala, 11 October 2006 and 27 April 2007

4 Interview, Kampala, 27 April 2007.

5 Interview, Kampala, 27 April 2007.

6 Interview, Kampala, 27 April 2007.


8 Telephone Interview, 8 July 2007.

9 Interview, Kampala, 29 April 2007

10 Interview, Kampala, 1 May 2007

11 Interview, Kampala, 26 April 2007


13 [http://www.guardian.co.uk/uganda/Story/0,,1672365,00.html]


15 The US Government has strong strategic interests in Somalia, but was reluctant to send its own troops to Somalia due to commitments elsewhere in the World and domestic sensitivities associated with the 1993 intervention in the country. As a result, the US has encouraged countries such as Uganda and Ethiopia to commit forces in pursuit of its own strategic interests.

16 Interview, Kampala, 24 April 2007.

17 Consists of the five EAC members in addition to Ethiopia, the DRC and Sudan.

18 Interview, Kampala, 20 April, 2007.

19 Interview, Kampala, 27 April 2007.


21 These include precision strike systems, long-range suppression weapon systems, and anti-aircraft and anti-missile systems

26 Interview, Kampala, 30 April 2007.
27 Interview, Kampala, 30 April 2007.
28 Interview, Kampala, 2 May 2007.
29 In addition, despite being counterfeit and of questionable quality, goods bearing designer brand-names are very popular.
30 Interview, Kampala, 1 May 2007
31 Interview, Kampala, 27 April 2007.
32 Interview, Kampala, 27 April 2007.
33 Interview, Kampala, 27 April 2007.
34 http://www.revenue.ie/index.htm?/press/pr_130206scan.htm
36 Interview, Kampala, 1 May 2007.
38 Interview, Kampala, 7 May 2007.
41 Interview, Kampala, 27 April 2007.
44 Uganda Industry Research Institute: http://www.ui.org
47 UN Food and Agriculture Organization, Factors Likely to Influence Forestry in Uganda During the Next Two Decades, Country Report—Uganda Forestry Sector Outlook Studies, FOSA/WP/41 [http://www.fao.org/DOCREP/004/AC427E/AC427E06.htm]
48 Interview, Kampala, 27 April 2007.
49 This newspaper is owned by the government.
51 Interview, Kampala, 27 April 2007.
53 These scholarships are offered annually to every African country with which China has diplomatic relations. The number of placements varies with each country.
54 Interview, Kampala, 26 April 2007.
55 Interview, Kampala, 26 April 2007.
56 Swahili is spoken extensively across East Africa and Luganda is spoken by the Buganda who are the original Bantu inhabitants of central Uganda.
57 Interview, Kampala, 25 April 2007.
58 Interview, Kampala, 25 April 2007.
59 Interview, Kampala, 26 April 2007.
60 Interview, Kampala, 25 April 2007.
61 Interview, Kampala, 27 April, 2007
66 Interview, Kampala, 3 May 2007.
67 Interview, Kampala, 2 May 2007.
68 Interview, Kampala, 2 May 2007.
69 Interview, Kampala, 2 May 2007.
70 Interview, Kampala, 27 April 2007
71 Interview, Kampala, 27 April 2007
74 Interview, Kampala, 20 April, 2007; 25 April, 2007.
76 Interview, Kampala, 2 May 2007.
### Zambia

<table>
<thead>
<tr>
<th></th>
<th>Value</th>
<th>Source/Year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Area</strong></td>
<td>752,614 sq km</td>
<td>CIA</td>
</tr>
<tr>
<td><strong>Population</strong></td>
<td>12 million</td>
<td>2007 est., IMF</td>
</tr>
<tr>
<td><strong>Life expectancy (years)</strong></td>
<td>38.8</td>
<td>2006, AfDB</td>
</tr>
<tr>
<td><strong>Infant mortality</strong></td>
<td>89.7 deaths/1,000 live births</td>
<td>2006, AfDB</td>
</tr>
<tr>
<td><strong>GDP</strong></td>
<td>US$ 10.942 billion</td>
<td>2006 est., IMF</td>
</tr>
<tr>
<td><strong>GDP/capita</strong></td>
<td>US$ 921.564</td>
<td>2006 est., IMF</td>
</tr>
<tr>
<td><strong>GDP growth</strong></td>
<td>5.8%</td>
<td>2006 est., CIA</td>
</tr>
<tr>
<td><strong>Size of government budget</strong></td>
<td>US $2.674 billion (revenues)</td>
<td>2006 est., CIA</td>
</tr>
<tr>
<td><strong>GINI</strong></td>
<td>0.42</td>
<td>2002-2003, UN</td>
</tr>
</tbody>
</table>
Chapter 7: 
Zambia

I) Introduction

Formerly a British protectorate, Northern Rhodesia, as it was previously known, changed its name to Zambia upon gaining independence in October 1964. Located in central southern Africa, the country borders eight different countries: Tanzania, Malawi, Mozambique, Zimbabwe, Botswana, Namibia, Angola and the DRC. Zambia is sparsely populated but is inhabited by more than 70 ethnic groups. Despite a relatively high degree of political stability Zambia remains one of the poorest countries in the world, ranking 165 out of 177 countries on the United Nations Development Programme’s (UNDP) Human Development Index. Unemployment is high while 76 percent of the population live on less than US$1 per day.1

The return of multi-party democratic elections in 1991, after a lengthy period as a one-party state, saw the defeat of Dr. Kenneth Kaunda, who had been president of the country since independence. The Movement for Multiparty Democracy (MMD), led by Fredrick Chiluba, won the election and embarked on an extensive economic reform programme geared toward revitalising the economy. Subsequent attempts to amend the constitution to enable Chiluba to seek a third term of office failed due to intense pressure from within his own party, opposition parties and civil society. This kind of public pressure has played an increasingly prominent role in Zambian politics since the shift from a one-party state to multiparty politics.

In the 2002 elections, the MMD presidential candidate Levy Mwanawasa was declared the victor by a narrow margin. He implemented further economic reforms including a campaign aimed at eliminating corruption. This resulted in the prosecution of his predecessor. His campaign against corruption has been interpreted by some as an attempt to consolidate power by marginalising potential threats within the ruling party.

The MMD continued to liberalise currency controls while a dramatic reduction in government spending resulted in a budget surplus in 2006. This had a significant impact on inflation which was brought down to single figures for the first time since the mid 1990s. The MMD, which is not perceived to
support medium or small business, was re-elected in September 2006 with 1.2 million votes, mainly from rural areas. The two largest opposition parties are the Patriotic Front (PF) and the United Party for National Development. The PF, led by Michael Sata, received 800,000 votes garnered in the country’s urban areas and in the Copperbelt, while the United Party for National Development received 700,000 votes, mostly in the south.²

Though Zambia is regarded to be amongst the more democratic states on the continent and is regularly cited as an example of a well functioning government, the presidency is very powerful. The judiciary is relatively independent but the legislature remains fairly weak and heavily influenced by the presidency. The 150 member parliament is elected in single-member constituencies while another eight MPs are appointed by the president. A constitutional review is currently underway to address these imbalances; however the process has been protracted. Attempts to reign in the powers of the presidency are met with stiff opposition. Since the introduction of multiparty politics, civil society has grown significantly and is an increasingly powerful political force although the trade unions remain relatively weak, mainly due to corruption and poor organisation.

The country has two state-owned daily newspapers and one independent daily newspaper while state-run radio and television services dominate broadcasting in Zambia. Private radio stations offer little political reporting and the government makes regular use of libel and security laws to intimidate journalists, particularly those who criticise the government or report on corruption.³

The economic liberalisation programme included the lifting of exchange controls and privatisation policies. This has resulted in significant investment growth, although there is no national framework in place for economic development. Vice-President Rupiah Banda recently expressed the Zambian Government's desire for the “formation of an investment framework that should reflect prevailing realities and face global competition.”⁴ The Zambia Development Agency (ZDA) was recently established by the Ministry of Commerce, Trade and Industry in an attempt to create a better environment for Zambian business and to promote investment. It began operating in January 2007, replacing five statutory bodies.⁵ Though, as yet, barely operational with minimal administrative structures in place, the ZDA is intended to be the focal point of the government's development strategies for trade and investment.⁶

In terms of trade, Zambia needs to diversify its limited number of exports while adding value to its exports of copper, cobalt, electricity, tobacco, cut flowers and cotton. Its principal imports are machinery, transportation equipment, petroleum products, electricity, fertiliser, foodstuffs and clothing. The country’s major trading partners are South Africa, Switzerland, China, Tanzania, Zimbabwe, Democratic Republic of the Congo, Thailand and the
UK.

Western donors have praised Zambia for boosting economic growth to above 5% and for attracting foreign investment, helped by the anti-graft campaign. The IMF, World Bank and Western donors cut Zambia’s foreign debt to US$502 million from an estimated US$7.2 billion in June 2005.

Although it played a vital role in liberation struggles across Southern Africa, Zambia has enjoyed close relations with the US and Europe, particularly Britain, while also maintaining good relations with Russia and China. Zambia does not have a coordinated foreign policy, external relations are managed more or less on an ad hoc basis that are predominantly reactive.

Zambia is a member of both the Common Market for Eastern and Southern Africa Free Trade Area (COMESA FTA) and the Southern African Development Community (SADC) Trade Protocols. The primary objective of these two multilateral organisations is to increase and promote intra-regional trade through the gradual reduction of tariffs.

Zambia benefits from the Cotonou Agreement, the European Union’s Everything But Arms Initiative (EBA) and the US African Growth and Opportunity Act (AGOA); but it faces serious challenges in taking full advantage of these as a result of its poor infrastructure and underdeveloped industrial sector.7

II) Identification of Policy-making Actors and Canvassing their Opinions

a) The role of the executive

The primary Zambian Government institutions engaged with the Chinese government and private Chinese investors are the Ministries of Foreign Affairs, Minerals and Mines, Commerce, Trade and Industry, Finance, and Works and Supply. The recently formed ZDA is also involved.8 The sequence to negotiations varies largely depending on the issue and very often depends on chance meetings between individuals. These meetings occur under different circumstances - ranging from the fringes of official exchanges to unscheduled meetings of business people through informal networks. Once initiated, the issue will be referred to the appropriate government body.

The majority of respondents consulted for this study agreed that the presidency plays a pivotal role in formulating policy toward China. A large number suggested it leads the country’s engagement although evidence to support such assertions is difficult to produce. Several respondents suggested a small number of particular influential advisers within the inner
circles of Government have a significant role in shaping the country’s dealings with China.

b) The role of the legislature

The majority of respondents perceived Zambia’s parliament to be heavily dominated by the presidency and simply a “rubber stamp” to its wishes. The Chinese Government’s January 2006 Africa Policy White Paper called for China to adopt broader engagement with public and private sector institutions. Accordingly, President Hu Jintao said during a meeting in February 2007 with the Speaker of the National Assembly of Zambia (NAZ), Amusaa Mwanamwambwa, that China’s National People’s Congress (NPC) and the NAZ have always maintained sound cooperative ties. He declared that communication between the respective legislative bodies constituted an important part of China-Zambia relations. He stated that “China is willing to enhance exchanges and cooperation between the two legislatures for all-round and in-depth development of bilateral ties.”

Many respondents suggested that the various ministries made very little input into policy formulation and design, simply implementing policies devised by the presidency. There is no doubt that many government departments are inadequately resourced. The Customs Department, for example, has difficulty classifying some imported goods. Many government institutions lack the capacity to deal properly with the range of issues involved with China’s engagement, particularly given also rate at which relations between the two are growing. The Ministry of Commerce is working on a programme to enforce laws on standards but faces significant challenges largely due to a lack of capacity. The Zambia Bureau of Standards (ZABS) and the Bureau of Weights and Measures also suffer serious capacity shortages. Standards legislation is outdated and not enforced due to problems with capacity and corruption.

The ZDA is the lead government institution dealing with economic relations with China. It receives investment delegations from a range of countries, including China, and issues investment licences. It also provides information on relevant rules, regulations and secondary permits such as immigration permits, manufacturing licenses, environmental impact assessments and aftercare, including advice on taxation and land issues.

The Private Sector Development Fund was established with strong financial support from Western donors to coordinate and promote Zambia’s business sector. The fund consists of six working groups and deals with policy formulation and private sector-government relationships. It is attempting to reduce various administrative barriers to business. One businessman, who consults for both the Zambian Government and various development associations, suggested that the Fund might be a good institution to focus on with regards to engagement with China in order to diversify mechanisms for
local commercial engagement with Chinese companies in Zambia.12

c) The role of the political opposition

In the run-up to the September 2006 national elections, Michael Sata, the PF leader, announced that if elected he would rid the country of “unnecessary” Indians, Lebanese and Chinese who, he claimed, were taking jobs away from Zambians.13 The remarks were dismissed at the time as “cheap politics” - a view shared by a senior official at the Economic and Commercial Section of the Chinese Embassy and by several Chinese managers.14 However, the Chinese Government announced that it would officially lodge a complaint with the Zambian Government regarding Sata’s comments that Taiwan was a sovereign state.15 Sata is a popularist and his remarks can be perceived to reflect an underlying antipathy towards one of Zambia’s most important investors. It should be noted that the Chinese government provided Zambia with US$1.3 million worth of materials to support the election process.16

A senior PF official recently claimed that the Chinese responded to Sata’s comments by tightening their relations with the executive branch of government.17 Rumours abound that the Chinese government contributed substantially to Mwanawasa’s campaign fund. Several keen political observers expressed surprise that Sata did not anticipate the strengthening of ties between Beijing and the Zambian presidency that his comments seem to have provoked. In the absence of hard evidence about the nature of such ties, these assertions are difficult to verify. While some senior Chinese officials do not appear overly perturbed by Sata’s remarks,18 it is reported that Sata and PF officials are now not invited to events involving the Chinese diplomatic representation or companies.19 Interviewed for this study, Sata suggested that the opposition had played an important role in influencing the government to act “more responsibly”, especially in its relations with China.20 He argued that his remarks were intended to ensure that the Chinese were not treated differently to other potential investors.

The remarks by Sata sparked attacks by opportunists on Chinese businesses in Lusaka. Despite extensive reporting in the international media of burgeoning political violence, particularly in the Chambishi Copperbelt area, the attacks were relatively few and isolated. Michael Sata argues that the Chinese should not be favoured by the Zambian government.21 A senior member of the PF explained that during the early days of Zambia’s engagement with China relations were strong, but that China’s investment has reduced significantly, salaries are poor and submitted that the Chinese “will not have it easy unless they change their ways,” and warned “the people will rise.”22 While his statement regarding decreasing Chinese investment in Zambia may be incorrect, popular sentiment toward the Chinese requires some clarification. Neo Simutanyi, a political scientist at the University of Zambia, says the anti-China sentiment that Sata raised in the run-up to the
election allowed him to establish a popular support base in Lusaka and the Copperbelt. 

It was initially intended that President Hu Jintao would visit the Copperbelt to lay the cornerstone for the Ndola stadium and to commission the Copper Smelter in the new economic zone. However, it soon became apparent that workers might use his visit to highlight their dissatisfaction over poor working conditions and his visit was cancelled. Additionally, concerned by the possibility of student protests, the police sealed off all access roads to the University of Zambia on the day of Hu’s arrival. Just days before his arrival, former workers from the Mulungushi textile factory workers staged a protest outside the Chinese Embassy to complain about the loss of their jobs. The Chinese Government is conscious of this issue and, according to several Chinese respondents, the Embassy regularly encourages Chinese companies to act more responsibly.

Objective opinions on China’s engagement in Zambia are difficult to obtain, due, according to a Zambian businessman, to the “constant bombardment of negative propaganda against the Chinese in Zambia.” Unlike many of the other countries examined in this report, the majority of Zambian nationals are at least conscious of China as a result of the lengthy historical relations between the two countries. With the exception of the Copperbelt, where the Chinese have a particularly bad reputation associated with the working conditions at the Chinese-operated mine, the overwhelming majority of people interviewed have very favourable perceptions of China, simply because they can now buy a broader range of affordable consumer goods.

d) The role of civil society

One informed respondent, who himself regularly advises government, pointed out that Sebastian Kopulande had until recently also served as a senior presidential advisor. He also noted that many prominent private sector actors engaged with China-Zambian issues have close ties to the Zambian executive.

Zambian trade unions are of little consequence in engagements between the two countries. They are enterprise-based, mostly under-resourced, usually poorly-organised and invariably prone to corruption. Apart from the business sector, there is generally little or no engagement between the Chinese and Zambian civil society. No NGOs could be identified that dealt specifically with China-related issues.

As described above, Zambia’s media is tightly controlled by government and is rarely critical of the Chinese presence in Zambia. The coverage of President Hu Jintao’s arrival in Zambia was reportedly reduced to only five Zambian camera personnel and two photo-journalists. Information Permanent Secretary Emmanuel Nyirenda explained that journalists...
would not be allowed to ask President Hu any questions, in order to “avoid overcrowding” him and simultaneously denied any gagging of the media.\textsuperscript{28}

e) The role of important foreign actors

Zambia has always been heavily influenced by outside actors. Sharing borders with seven countries, the country is strategically located on what was regarded during the colonial period as the “Anglophone frontier” against Francophone and Lusophone spheres of interest. From the mid-nineteenth century it had very strong relations with Britain. In 1924 it became a British protectorate and was one of the first southern African countries to gain independence. Though non-aligned during the Cold War period, the country was sympathetic to socialist interests and enjoyed considerable support from China during this period. China's involvement in Zambia receded during the 1980s while the influence of the IMF, World Bank and Western donors increased substantially. These donors have increasingly focused on issues of governance and economic liberalisation resulting in a certain degree of tension with both the government and the country's private sector. Furthermore, there is a feeling that Western countries are constantly shifting the goal posts.\textsuperscript{29} While the West, and particularly the Bretton Woods institutions, have engaged Africa within a conditional moral, institutional and legal framework, Chinese interaction is mostly devoid of such constraints.\textsuperscript{30}

Zambia's longstanding relations with the West have had a significant impact on the country. A substantial number of Zambians were educated in Europe and North America. One astute respondent suggested that Zambians were mostly “western-centric” and very susceptible to western anxieties concerning China's increasing involvement in their country.\textsuperscript{31} Civil society organisations in Zambia are heavily focused on North American and European donors which, apart from international institutions such as the UN and the World Bank, are their primary source of financial support.

Nonetheless, President Levy Mwanawasa played the “China card” in the African Business Forum organised by the Business Action for Africa\textsuperscript{32} in June 2007, when he challenged the West to match Chinese investment in his country. Mwanawasa announced that Zambia welcomed Chinese investment, credit and loans, despite domestic political opposition and unease in the West over the pace of China's drive to boost economic ties with Africa. He stated: “Those who oppose Chinese investment ... all they need to do is to equal the help we are getting from China. We only turned to the East when you people in the West let us down ... Give us the same or more cooperation we are getting from China and you will see that we are friends.” He went on to say, “The good thing is that I know of no strings that are attached to Chinese investment.”\textsuperscript{33} It is accepted that a non-negotiable tenet of Chinese assistance is recognition of Beijing over Taipei. Zambia shares a border with Malawi, which is one of only five African countries to recognise Taiwan.\textsuperscript{34} The issue of Taiwan is a major influence on the PRC's
foreign policy which goes to great lengths to counter the diplomatic presence of Taipei, thereby adding an important dimension to relations between Lusaka and Beijing.

The Chinese recognise Zambia's geo-strategic importance in the region. Zhao Zhanbin, a senior official at the Chinese Embassy in Zambia, recently suggested that it was beneficial to Zambia to have a strengthening currency when other countries in the region were experiencing declining economies.\footnote{35} Zambia is considerably more stable politically, economically and socially than many of its neighbours and several Chinese companies, particularly from the mining sector, make use of Zambia as a base from which to base their operations into the DRC and eastern Angola.

III) China’s Political Profile with Zambia

Three days after gaining independence, Zambia established diplomatic relations with the People’s Republic of China on October 29, 1964, becoming the first country in the southern part of Africa to do so. Staunchly non-aligned, President Kenneth Kaunda decided to “recognise China’s population of over 400 million people against Taiwan’s population of 18 million as a matter of principle.”\footnote{36} Kaunda worked in close collaboration with Tanzanian President Julius Nyerere to engage China.\footnote{37} Zambia provided crucial assistance to independence struggles in Angola, Congo, Namibia and Rhodesia, now Zimbabwe.

High level political visits

<table>
<thead>
<tr>
<th>Prominent Chinese leaders who have visited Zambia include:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vice Premier Zhu Rongji (1995)</td>
</tr>
<tr>
<td>State Councillor and the Secretary General of the State Council Luo Gan (1996)</td>
</tr>
<tr>
<td>Premier Li Peng (1997)</td>
</tr>
<tr>
<td>Vice Chairman of the Chinese People’s Political Consultative Conference (CPPCC) Chen Jinhua (1998)</td>
</tr>
<tr>
<td>Foreign Minister Tang Jiaxuan (1999)</td>
</tr>
<tr>
<td>Chairman Li Ruihuan of the CPPCC (2003)</td>
</tr>
<tr>
<td>Chairman of the Standing Committee of the National People’s Congress, Wu Bangguo (November 2004)</td>
</tr>
<tr>
<td>President Hu Jintao (February 2007)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Prominent Zambian leaders who have visited China include:</th>
</tr>
</thead>
<tbody>
<tr>
<td>President Chiluba (1993, 2000)</td>
</tr>
<tr>
<td>Vice President Miyanda (1995)</td>
</tr>
<tr>
<td>Foreign Minister Walubita (1998)</td>
</tr>
<tr>
<td>Defence Minister Sampa (1998)</td>
</tr>
<tr>
<td>Procurator -General Mutale (2001)</td>
</tr>
<tr>
<td>President Levy Patrick Mwanawasa (2003, 2006)</td>
</tr>
</tbody>
</table>
Relations between China and Zambia developed further after the MMD came to power in 1991 and the on-going exchange of high-level visits continued. While initial relations between the two countries were steeped in ideological rhetoric, interest in Zambia’s mineral resources soon formed the basis of Beijing’s economic engagement with Lusaka. The Chambishi Copper Mine is of significant importance as a source of copper for China and catalysted the rapidly growing Chinese investment in Zambia across a broad range of areas.

A senior official in the Zambian Ministry of Foreign Affairs suggested that it might be more difficult for the current younger generation of Zambians to understand China, in contrast to the older generation who had experienced both countries at a similar level of development when both were strongly influenced by socialism. This official explained further that around the period of the Bandung Conference, and into the 1960s, understanding between Asia and Africa had been strong. However, the regions began to drift apart during the early 1970s as countries across Asia began to experience a series of military coups. They also suffered the excesses of authoritarian regimes that were perceived as unpalatable by many fledgling African governments at the time. This trend continued into the 1980s during the implementation of World Bank and IMF structural adjustment plans in Africa. In turn, China turned inward and focussed on its own domestic political and economic challenges. Motivated by economic imperatives, it is only over the past decade that China has begun to effectively re-engage Africa.

Through the 1990s, Chinese companies began moving back into Zambia, led by the construction companies that had previously been active in projects such as the Tanzania-Zambia (Tazara) Railway. To facilitate improved commercial engagement, the Chinese established a series of Investment and Trade Development Centres across Africa. The Centre in Lusaka opened in June 2001. However, the institution has proved to be rather ineffective as companies and businesspeople in the two countries prefer to deal directly with each other. The establishment of the Association of Chinese Corporations (ACCZ) in September 2005 was initiated by the Chinese Government Economic and Commercial Counsellor to promote coordination between Chinese businesses operating Zambia. Similar organisations have been established in a number of other African countries but the Zambian ACCZ is the only one that enjoys an office, a formalised structure and a secretariat. The secretariat consists of one Chinese national, employed part-time, and a Zambian employed on a full time basis. The Association meets once a month. It consists of more than 100 ethnic Chinese including mainland Chinese and some Taiwanese companies active in Zambia. It provides a convenient network and information dissemination role to the Chinese community through a regular newsletter. It also assists Chinese companies and individuals with a range of issues, from...
personal and visa problems to issues associated with trade and investment regulations.41

President Hu Jintao arrived in Zambia on 3 February 2007, on the fourth leg of his eight-nation Africa tour.42 Hu stayed in Zambia for three days, considerably longer than any of the other nations on his tour. This was interpreted by many observers as a clear indication of the importance China attributes to its relations with Zambia. During his visit Hu announced a package of measures designed to further boost bilateral relations, including the following:

- The cancellation of debts to China in the form of interest-free government loans that matured by the end of 2005.
- Opening up the Chinese market by increasing items of zero-tariff Zambian exports to China from 190 to 422.
- Establishing a special economic and trade zone in the Chambishi mining area.
- Building a stadium in Ndola in the Copperbelt.
- Building an agricultural technology demonstration center, two rural schools, a hospital, and an anti-malaria center.
- Offering 117 Chinese government-funded scholarships between 2007 and 2008 and training more professionals for Zambia.
- Sending agricultural experts and youth volunteers to Zambia.43

President Levy Patrick Mwanawasa and President Hu Jintao issued a joint communiqué strengthening economic and political cooperation between their two countries during the latter’s 2007 visit. It signalled intensifying consultation and dialogue, the expansion of mutually beneficial cooperation, an increase in people-to-people and cultural interactions and the strengthening of international cooperation. Both countries pledged to continue supporting each other on matters concerning their sovereignty, territorial integrity, national stability and political and economic development. They also noted a reaffirmation of Zambia’s commitment to the one-China policy and opposition to “Taiwanese independence” in any form. The two sides agreed to strengthen consultation on international and regional issues, work together to uphold the interests of developing countries, promote South-South cooperation, and boost North-South dialogue in a common effort to achieve long-term peace and prosperity. It was agreed that cooperation would focus on infrastructure, agriculture, mining and human resources development and expanded cooperation in culture, education, health, tourism and aviation. Though political relations between China and Zambian remain extremely strong, Zambia has no strategy or coordinated policy towards China.

While the government officially welcomes China and the majority of government officials consulted for this study viewed the Chinese in a positive
light, there were a number of notable exceptions. One senior Government official involved in trade commented that, "where you find Chinese, you find trouble." And several middle and low ranking government representatives repeated anti-Chinese stereotypes voicing concerns over the use of prison labour, the importation of labour and the "disregard for human life." While arguments relating to different perspectives on rights and the value of human life lie beyond the scope of this study, no evidence relating to the use of prison labour could be found.

IV) China’s Investment and Commercial Profile with Zambia

a) Trade

Figure 7.1: Zambia’s Trade with China, in US$ millions (1996-2006)

Zambia is one of only 15 African countries to enjoy a trade surplus with China. Chinese exports to Zambia, consisting mostly of machinery, electrical equipment, chemicals, textiles and footwear, increased from US$8 million in 1999 to US$32 million in 2000. They hovered around this level for several years. This gradually increased to around US$50 million in 2005 before jumping to US$102.5 million in 2006, due in part to the transfer of US$22 million worth of aircraft to Zambia.
Zambia’s exports to China, consisting of cotton, copper, iron ore and other minerals, were always marginally higher than imports until, in 2004, a three-fold increase in exports occurred. The value of exports reached US$171 million and steadily increasing to US$269 million in 2006. The sudden spike in Zambia’s exports to China is largely attributed to the increase in copper prices. Additionally, Zambia was among 25 African countries granted Special Preferential Tariff Treatment from January 2005 which saw the removal of import tariffs on 190 items. The number of items was recently increased to 422 items in an attempt to further assist African countries diversify their exports.
b) Investment

China is the third largest investor in Zambia after South Africa and Britain. Precise figures for Chinese investment in Zambia are however difficult to ascertain. The Chinese Embassy regularly quotes Zambian Government statistics suggesting that more than 151 different Chinese companies have invested over US $3.8 million in a range of areas and employ over 10 000 Zambians. However, the real figures are widely believed to be substantially less. The ZDA assumes as a rough “rule of thumb” that only 60 percent of listed investment commitments are actually realised at any one time.

Currently 78 Chinese companies are listed in the manufacturing sector, representing 81 percent of Chinese investment in Zambia. These companies are engaged in a broad range of activities including the production of textiles and clothing, chemicals, wood, leather, food and beverages and agro processing. As might be expected, the primary focus is on the production of items associated with the mining sector, such as machinery, metal products and explosives. China’s primary interest in Zambia is copper. The Chinese invested in the Chambishi Copper Mine in the late 1990s when the price of copper was extremely low; however, the price has since quadrupled and the government has been looking for ways to introduce a “windfall tax.” The Zambian Government recently announce that it plans to defer payments on a 30 percent customs duty on imported mining equipment for up to one year to boost foreign investment in mining and increase mineral royalties from the current 0.6 percent to 3 percent and

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Figure 7.2: Zambia’s Top 5 Exports to China (1996-2006)

Source: World Trade Atlas Data

Figure 7.3: Zambia’s Top 5 Exports to China (1996-2006)
raise corporate tax to from 30 percent to 35 percent for mining companies.\textsuperscript{49}

Chinese involvement in the Chambishi Copper Mine has led to a large number of associated investments across a broad range of sectors, spurring a marked increase in the number of Chinese construction companies, traders, restaurants and medical clinics to establish themselves in Zambia.

Chinese corporations are also attracted to Zambia’s manufacturing sector as a way to access regional markets such as DRC, Angola, Zimbabwe and South Africa and trade organizations such as COMESA and SADC.

\textbf{Figure 7.4: Chinese Investment in Zambia (1993-2006)}

![Graph showing Chinese Investment in Zambia (1993-2006)]

Source: Government of Zambia, June 2007

Although figures for 2007 are not yet available, a senior ZDA official explained that at the first meeting of the ZDA in April 2007, investment commitments from Chinese companies had almost equalled the total value of commitments made in 2006. The vast majority of these focused on mining and investment in the Chambishi Copper Smelter.

The Mulungushi Textile Mill in Kabwe, about 140 km north of Lusaka, was built with an interest free loan from the Chinese Government. It was inaugurated in 1982. The Chinese provided the expertise and the initiative soon grew to become the largest textile mill in the country, manufacturing 17 million metres of fabric and 100 000 pieces of clothing a year. It won international awards for the quality of its cloth. The mill at that time employed over 1 000 people and made a substantial contribution to the economy of Kabwe; it sourced cotton from over 5 000 contract growers operating on 10 000 hectares of cotton. After the Chinese withdrew in 1994, the enterprise...
soon shut down as a result of local mismanagement, compounded by the country's deteriorating economic situation. Following a visit by Chinese vice-premier Zhu Rongji in 1995, the Qingdao Textile Corporation spent US$1.5 million to overhaul the factory, in exchange for a 66 percent stake in a new joint venture known as Zambia China Mulungushi Textile (ZCMT). The Zambian Government held a 34 percent stake. The Chinese resumed management with the Chinese Government providing an interest free loan for operational funds. The factory however quickly ran into problems associated with poor product quality and low levels of efficiency as a result of outdated equipment. This forced the ZCMT to spend an additional US$20 million on new machinery and computer systems. The supply of cotton also became a problem as a few large companies monopolised the market and made it difficult for ZCMT to source cotton at competitive prices. They then sourced cotton from Tanzania. In 1998, the company began to provide farmers with credit to buy seeds, fertiliser and pesticide. The venture was a tremendous success and from 2002 Mulungushi exported excess raw cotton to China. The company established subsidiaries in Tanzania and Namibia and took advantage of the AGOA to enter the US market. However, the company was unable to compete with Chinese textiles imported directly from China and was forced to close down earlier this year.

The Zambian Government had for some time indicated an intention to establish a special economic zone (SEZ); it thus welcomed Chinese interest in developing the country's first free trade zone in Chambishi over the next three years. Between 50 and 60 Chinese firms are expected to establish a presence in Chambishi. A broad number of incentives are to be provided under the ZDA Act, although the legal framework, including investment promotion and investment protection agreements, are yet to be drawn up for the zone. There is however, some confusion over just how local and international companies will be invited to participate in the zone. All Zambian Government officials interviewed for this report, including several senior officials, were under the impression that Zambian companies would be invited to participate in the zone. This, they hope, will promote the social and economic development of the region and work toward reducing the animosity of the local population toward the Chinese. However, a senior Chinese official in Beijing stated that only Chinese companies will be able to access the Chinese government financing for the SEZ. This illustrates a lack of clarity around the formation of the SEZ and the disparity in expectations as regards Zambian and Chinese officials.

There are big problems associated with the management and handling of information within and between both governments. This presents a serious challenge to organization and the development and implementation of coherent policies. Even senior officials will often rely on the general media which cannot always be relied upon for accuracy and leaves considerable room for speculation.
A prominent advisor on Chinese issues to the Zambian Government argues that the Chinese government does not necessarily coordinate its engagement with Zambia and, furthermore, that some Chinese initiatives appear *ad hoc* and poorly integrated into Beijing’s broader policies of engagement. He cited the example of how “out of the blue” the Chinese government recently approached the Zambian Government Ministry of Finance and National Planning with a request to sign a free trade agreement that would permit the free exchange of trade between the two countries. The invitation was made at a relatively low level and did not appear to appreciate the enormous implications it would have for relations between the two countries. As a result it was not viewed as a serious request; the Zambian government did not respond to the request and it has been put on hold.

Against the context of economic liberalisation policies, it is significant that private sector involvement in relations between China and Zambia has increased significantly over the past five years. As one government official explained: “the government is trying to withdraw and not inhibit private sector development, leaving it to the consumer to decide.” The chairperson of the Zambia-China Business Association (ZCBA), Sebastian Kopulande, led a delegation of 55 Zambian business people to the 101st China Import and Export Fair (Canton Fair) in Guangzhou. He was also one of only two foreigners invited to speak at the fair. One senior Chinese businessman noted that this clearly demonstrated the importance that China attaches to its relations with Zambia. In a subsequent interview, Kopulande explained that the delegation looked for opportunities and business collaboration with Chinese companies which reflected common interests. He argued...
that economic development could be achieved through special lines of credit, joint venture investments, technology transfer and joint research and development programs.62

V) China’s Aid / Developmental Assistance Profile in Zambia

Official statistics regarding China’s development assistance to Zambia are difficult to ascertain. Brautigam values Chinese aid to Zambia at US$ 372 million between 1967, when the first aid agreement was established, until 1996. She concedes that this figure covers traditional grants and zero-interest loans, medical teams and scholarships, and excludes concessional loans.63

China has been involved in over 35 aid projects in Zambia, including agricultural initiatives, infrastructure developmental projects such as roads and Tazara, public buildings including the Government Complex, a maize flour factory, a textile mill, several water supply developments and the Mulungushi Textiles plant. After all government-to-government debt was recently cancelled; President Mwanawasa announced that the Tazara railway line debt had been written off.64 However, loans involving non-government institutions were not included in the cancellation and the precise nature of many loans made by China to Zambia are far from clear.65 The details of many financial arrangements, such as loans associated with the Tazara railway, are several decades old and one informed senior government official in the Ministry of Finance and National Planning explained: “The precise details and values have yet to be worked out.”66

VI) Implications for the Agricultural Sector

The Zambian agricultural sector has attracted investments from 25 different Chinese companies who have listed investments of over US$10 million. They employ over 1 000 people.67 Many of these companies were started as small-scale private ventures by Chinese workers who originally arrived in Zambia to work with Chinese companies engaged in the mining and construction sectors. The vast majority of these companies is located around Lusaka and engage in market gardening and poultry farming for the local market, in direct competition with local farmers.

VII) Educational & Cultural engagement

China has accepted more than 180 Zambian students since 1978 while also providing a generous number of teachers and medical personnel to assist in Zambia’s education and health sectors.
Zambia has a relatively large Indian and, more recently, Lebanese diaspora, but no history of ethnic tension over these groups. However, the influx of Chinese migrants has not followed this trend. While many Zambians are grateful that they can for the first time afford “new” consumer products, as opposed to second-hand goods from Europe and North America, the presence of Chinese in the country is becoming increasingly politicised. As noted above, Michael Sata mobilised considerable support in the September 2006 national elections on the issue of poor working conditions and the poor quality of many Chinese consumer goods.

VIII) Chinese Migration to Zambia

Precise figures on the number of Chinese in Zambia have not been made public. Earlier this year, the Deputy Minister of Home Affairs, Chrispin Musosha, reportedly told Parliament there were are 2,300 Chinese in Zambia.68 Others have put the figure at as high as 80,000.69 While many informed sources consider this latter figure to be unreasonably high, most agree that the real figure is likely to be in the tens of thousands.

IX) Case Studies

a) Chinese Involvement in the Mining Industry

Zambia is richly endowed with various mineral resources such as copper, cobalt, zinc, lead, uranium and coal. It holds six percent of the world’s known copper reserves.70 Zambia’s mining sector was at its prime during the 1920s and 1930s and drew a large number of immigrants to the small mining towns in the Copperbelt region in the north. Zambia was at that time the largest producer of premium quality copper in the world. However, prices fell drastically to below US$2000 per ton during the mid to late 1990s. The Zambian Government embarked on a strategy to privatise the copper mines in the hope of resuscitating the failing mines and the state controlled Zambia Consolidated Copper Mines (ZCCM) was divided up into seven separate units and sold off under “development agreements” with “stability clauses” providing a range of attractive incentives to potential investors for 15 to 20 years with generous income tax allowances; income tax relief; customs, excise and VAT and mineral royalties of three percent but often negotiated to as low as 0.6 percent.71

A number of large international mining enterprises such as the British/Indian company Vedanta, South African company Anglo-Vaal, the Indian company Binani and the Canadian companies Glenmore and First Quantum were attracted to invest by the terms and conditions offered by the Government of Zambia. The Chinese state owned enterprise (SOE) China Non-Ferrous Company (CNF), Africa, was among these and bought the Chambishi Mine
in 1998 for US$20 million. The mine had closed some years earlier and had a skeleton staff of just over 100.72

Figure 7.6: China Non-ferrous Production Output (2003 – 2007)

<table>
<thead>
<tr>
<th>Year</th>
<th>Production (tonnes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>483,002</td>
</tr>
<tr>
<td>2004</td>
<td>782,911</td>
</tr>
<tr>
<td>2005</td>
<td>1,012,029</td>
</tr>
<tr>
<td>2006</td>
<td>1,264,182</td>
</tr>
<tr>
<td>2007</td>
<td>1,350,000*</td>
</tr>
</tbody>
</table>

*Predicted

CNF has had a reputation for paying low salaries. While the salaries are substantially lower than other foreign-owned mines and relatively low in comparison to the cost of living in the region, the company has increased wages in an attempt to address its flagging reputation. Skilled workers such as mechanics receive a basic gross wage of US$190 per month.73 This is markedly higher than the US$30 per month reported by some researchers who have reported on China’s impact on the region.74 According to one company representative the company currently employs 58 Chinese, including three based in Beijing, and 1 082 Zambians including 39 who are engaged in middle management.75 An additional 700 hundred or more Zambians are reportedly employed on part-time contacts and on terms below their full-time colleagues.76 Following a series of what one Chinese Government Foreign Ministry official described as “unfortunate incidents” the company is trying to improve its public image by demonstrating some level of corporate social responsibility, rehabilitating roads and making contributions to school and health clinics in the area. It has spent some US$ 243,000 this year so far.

In April 2005 an explosion at the Beijing General Research Institute of Mining and Metallurgy (BGRIMM) explosives factory resulted in the deaths of approximately 50 workers. BGRIMM is a subsidiary of China Non-Ferrous Company. In May 2007 it held a consultative meeting with the community with a view to re-establishing operations which were closed in April 2005. The report on the cause of the explosion has not yet been presented to the public although the majority of observers believe it was due to negligence on the part of the company. In 2006, during a strike over delays in payment at CNF, a large number of employees protested in the vicinity of the living quarters of the Chinese managers. Two protesters were shot and wounded by a Zambian national working as the head of the company’s mine police — a private security company operated by CNF. No prosecutions were initiated. The security manager was subsequently transferred to the nearby town of Chingola.
NFC’s presence has attracted a large number of other Chinese companies to Zambia and especially the Copperbelt over the past few years. Sino Metals Leaching is a joint venture between NFC and the provincial Government of Yunan province in China. It was established in late 2006 and currently has around 60 employees most of who are full-time employees. Very few casual labourers are employed. Sino-Metals pays considerably higher than average wages, with attendants receiving US$200-300 per month and mechanics receiving above US$500.77

One of the largest Chinese ventures to establish itself in the region is Chambishi Copper Smelter owned by Zambian central government and Yunnan provincial government. The project is valued at US$200 million. It is scheduled to begin operation in 2008, initially producing 150 000 tons of copper blister per annum with plans to double capacity over the following five years at an additional investment of US$200 million.78 Chambishi Copper Smelter plans to employ approximately 700 people of whom only 30 to 50 will be Chinese. The company plans to establish an aggressive program to identify and train local workers to be integrated in all facets of the operation including management. It hopes to eventually appoint a Zambian national as deputy Chief Executive Officer (CEO). The company deals primarily with the Ministry of Mines and Minerals Development but expects to work with the ZDA once the smelter is established. The site was selected due to its proximity to the copper mines; they plan to source copper not only from Chambishi but from other companies such as Konkola, Luanshya and the soon to be opened Lumwana mine. Transport from the mines to the smelter and to Lusaka will be by truck. The primary market will be China.

With the development of more efficient processing techniques, the slag heaps of former mines are now being reprocessed. Though illegal, the practice is widespread amongst local business people who collect these deposits from around the region and from across the border in the DRC, smuggling it into Zambia to sell to leaching plants. A growing number of small scale Chinese mining companies are entering Zambia, acting as middlemen and selling deposits to Chinese buyers.

While the Zambian Government is eager to foster relations with China, officials are acutely aware of the need to encourage Chinese investors to act responsibly. One very senior Zambian Government official, speaking on condition of complete confidentiality, recounted a situation where his superior threatened him with dismissal should he force the closure of a Chinese company for not implementing necessary safety standards. He explained that he was told to be creative and make use of less drastic means to have them to comply with relevant regulations.79 In May the Zambian Government did shut a manganese mine operated by the Chinese company Chiman Manufacturing Ltd at Kabwe, approximately 150 kilometres north of Lusaka, due to pollution relating to poor environmental management. The company
was also found liable for failing to provide adequate personal protective equipment for staff. And in June Zambian Authorities closed the Chinese-owned Collum Coal Mining Industries in southern Zambia as a result of air pollution amid reports that workers were being sent underground without protective clothing or boots.

Despite these instances and questionable safety practices of some Chinese companies it should be noted that none of the mine employees interviewed for this study articulated concerns over safety standards. While many foreign companies implement strict safety measure, workplace safety standards are generally low and rarely enforced anywhere in Zambia. The primary concerns of workers employed by CNF are limited to delays and low levels of pay.

The Chinese are amongst a growing number of international investors operating in Zambia and while their practices have in the past been lacking, the more recent arrivals are conscious of their image and appear to be paying adequate attention to working conditions and pay.

X) Summary

Zambia and China have enjoyed a long history of relations of extremely close relations. The driving force behind these relations has changed over the years from primarily ideological or political to economic as China’s need for commodities such as copper has increased. Zambia is also strategically important to Beijing. The country is relatively politically stable and provides the Chinese with important access to markets and resources into neighbouring countries such as Angola, DRC and Zimbabwe which are considerably less stable.

As one of only 17 countries on the continent to enjoy a trade surplus with China, Zambia is in a stronger position to engage China than many countries on the continent. Despite this relative position of strength, however, it is noteworthy that the Zambian Government has still to develop a coherent strategy for long-term engagement with China, despite the country’s increasing footprint in the Zambian economy.

The presidency appears to have dominated engagement with China: maintaining strong control over the other branches of government and civil society. Considerable progress has; however, been achieved in governance and fighting corruption over recent years and this has proved important in enforcing laws and regulations governing the activities of Chinese companies operating in the country.
Endnotes

5 The former five institutions were the Export Board of Zambia, Export Processing Zones Authority, Small Enterprises Development Board, Zambia Investment Center, and Zambia Privatization Agency.
8 Established in late 2006 with the passing of the ZDA Act which amalgamated five separate acts including: the privatization act, the investment act, the export act and the small scale development act.
12 Interview, Lusaka, 10 May 2007.
14 Interview, Lusaka, August 2006.
17 Interview, 11 May 2007, Lusaka.
18 Interview, Lusaka, August 2006.
22 Interview, 16 May 2007, Lusaka.
23 Isabel Chimangeni, China’s Growing Presence Met With Resistance, IPS, 18 October
26 Interview with Yusuf M. Dodia of the Private Sector Development Association, 10 May 2007, Lusaka.
27 Interview, 18 May 2007, Lusaka.
31 Interview, 10 May 2007, Lusaka.
36 Interview with former Zambian President Kenneth Kaunda, Lusaka, August 16, 2006.
41 Interview, Lusaka, 17 May 2007.
42 The other countries include: Cameroon, Liberia and Sudan, Namibia, South Africa, Mozambique and the Seychelles.
45 People’s daily Online, Interview: Zambia, China benefit from increasing bilateral trade, investment, 18 May 2007 [http://english.people.com.cn/200605/18/eng20060518_266658.html]
46 Isabel Chimangeni, China’s Growing Presence Met With Resistance, IPS, 18 October
54 Interview 17 May, 2007, Lusaka.
55 Interview, 16 May 2007, Lusaka.
56 Interview, Beijing, 22 June 2007.
57 Interview 18 May 2007, Lusaka
58 Interview 17 May, 2007, Lusaka.
60 Interview, 15 May 2007, Lusaka.
64 Republic of Zambia, China writes off $211m, 09 November 2006 (http://www.statehouse.gov.zm/index.php?option=com_content&task=view&id=224&Itemid=47)
65 Interview, 17 May 2007, Lusaka
66 Interview, 17 May 2007, Lusaka
73 Interview, 13 May 2007, Chambishi.
75 Interview, 14 May 2007, Chambishi.
77 Interview, 13 May 2007, Lusaka.
Chapter 8: Emerging trends & recommendations

The vast majority of challenges facing African countries in their dealings with China are relevant to their dealings with international actors across the board, and not China alone. China’s engagement with Africa is dynamic and any meaningful analysis will require constant revision. What is clear is that China’s political and economic linkages with Africa will continue to strengthen. This engagement will pose new challenges and offer new opportunities for Africa’s future development prospects. The purpose of this research undertaking was to investigate China’s engagement with the African continent from an African perspective. This is in order to provide an appropriate context for analysis of China-African by ensuring African ownership of and participation in such a process.

The respective in-market case studies in each country were chosen as prime and topical examples of China’s engagement of these countries and the interaction with local African stakeholders that they represent.

a) Angola Case Studies:

*The Sonangol-Sinopec International (SSI) joint venture*

In March 2006, a joint venture between Angola’s state-owned Sonangol and China’s state-owned Sinopec was established (Sonangol Sinopec International – SSI). It was also announced that a US$ 3 billion refinery would be built by SSI. The negotiations unraveled a year later, despite the apparent importance of such a project in Angola’s oil sector for China. This illustrates the potential for African countries to use the leverage of access to their commodities in negotiations with China.

*Benguela Railway*

The Benguela Railway is a flagship reconstruction project to be undertaken by Chinese companies under one of the Chinese credit lines extended to Angola.

b) Ethiopia Case Studies

*Chinese construction firms dominate the road construction industry*
Chinese construction companies have spearheaded China’s engagement with Ethiopia. They are among the primary actors in relations between the two countries and have made a clear contribution to the country’s development. Since pushing out foreign competition in road construction, Chinese companies are operating on healthy profits and have begun to move into other sectors of construction, such as government buildings and housing. Strong competition from Chinese companies has forced the local construction industry to become more competitive as it continues to flourish with the strong growth of Ethiopia’s economy.

**Consumer leather goods manufacturing**

Manufacturing is the largest component of current and pledged Chinese investment in Ethiopia, and is continuing to show significant growth. While the impact of such investment has not yet been felt by local industry, there is significant potential for growth if the local industry can be restructured to compliment Chinese manufacturers. In addition, the Ethiopian Government is keen to promote agriculture and initiatives that expand and diversify the country’s agricultural products. The local leather industry in Ethiopia is one of the few industries in Africa to compete successfully against Chinese exports in the domestic market and the export of leather products from Ethiopia to Europe is now showing strong growth.

c) Gabon Case Studies:

**Belinga Iron Ore deposit and infrastructure corridor**

Sole rights to the Belinga iron reserves were secured by China National Machinery and Equipment Import & Export (CEMEC). This is a large-scale project, requiring over US$ 3 billion in infrastructural investment. The company plans to, *inter alia*, develop a railway line and a hydroelectric power station. The deal is anticipated to create 30,000 job opportunities for local citizens and will help with much-needed economic diversification away from the flagging oil sector.

**Extractive Activity in the Loango National Park**

Sinopec’s seismic activities in Loango National Park precipitated a strategic collaboration between conservation groups, the World Bank, the Chinese Government and the Gabonese Government in order to formulate policy that would ensure a more sustainable exploitation of Gabon’s natural resources. This process could set an important precedent for resolving issues in similar cases where Chinese commercial activities in Africa are opposed on environmental grounds.

d) South Africa Case Studies:

**COVEC’s entry into the South African construction sector**

Chinese construction companies have only recently entered South Africa and received a strong negative reaction from local competition. COVEC is
one of the largest construction companies operating in South Africa and has faced enormous challenges adapting to the local market, revealing a great deal about the company’s mode of operation.

**Imposition of quotas on Chinese textile & garment imports**

In 2006, trade unions and local garment manufacturers mobilised support within the South African Government to encourage the Chinese Government to take the political decision to reduce clothing exports to South Africa. The case reveals a great deal about relations between the South African Government and civil society, as well as their relations with Beijing.

e) Uganda Case Study:

**Chinese involvement in the Telecom sector**

Chinese investment in Uganda is limited with the exception of the telecommunications sector. Chinese companies are engaged in two large-scale projects in the sector. This demonstrates the importance China attaches to this African country as both companies benefit from funding by the Chinese government although one is state-owned and the other is private. It also provides an example of how Chinese investments can become embroiled in domestic power struggles and used as political leverage between different arms of the Ugandan government.

f) Zambia Case Study:

**Chambishi Special Economic Zone (SEZ)**

China’s engagement in the Chambishi Copper mine is one of the more prominent Chinese investments in Africa and has attracted considerable controversy surrounding labour, particularly after it was highlighted in the political opposition’s most recent election campaign. The Chambishi zone is the first of a number of proposed Chinese SEZs to be announced on the African continent.

I) Identifying Emerging Trends

Although varied, each case study provides new insights into China’s engagement with the continent and more importantly, how African actors are responding to China’s move into the continent. What has surprised observers – both local and foreign – is the pace at which this process is occurring. African leaders’ policy response has been slow in comparison to the PRC Government’s ability to execute foreign commercial policies towards African states and the subsequent rapid market entry of both state-owned and private foreign companies. It was obvious in all countries surveyed that African policy-makers did not foresee or adequately anticipate China’s engagement strategy toward the continent and this has prompted reactive, rather than pro-active decision making.
From the analysis of the case studies, several aspects emerged that should be taken into consideration when evaluating China-Africa engagement:

**a) The Central Policy-making Role of the African Executive**

In each of the countries examined, supreme power rests with the office of the executive, more specifically, with the Presidency. This is especially so in the case of countries like Gabon and Angola, where the current heads of state have been in power for extended periods (since 1968 and 1979 respectively), allowing them to amass control and influence over government structures. In many cases, African governments, in particular the executive, comprise a political elite whose reality is much removed from the rest of the population. This results in policy-makers and influential opinion-leaders crafting policy approaches that are not beneficial to the more impoverished sectors of the population.

Additionally, big business has close ties to the political elite and it is often difficult to distinguish between the two. Thus, efforts to empower the poor and vulnerable by encouraging more broad-based benefits will be interpreted as being at the expense of patronage networks and will be perceived as a threat to the political elite and big business. As a result there is little political will in either sector to effect social change through policy reform.

The lack of electoral and judicial accountability in certain states surveyed – Angola and Ethiopia – is conducive to the “developmental state” rapidly becoming a “predatory state” where state intervention in the economy is abused for the financial gain of the ruling elite. Put simply, economic development is prioritised over political freedoms and democracy. The two are not necessarily inclusive.

An effective government bureaucracy that can accurately inform and advise the executive can also be regarded as a moderating force as it implements the decisions of the executive. Where the bureaucracy is deemed inefficient, the president of the country often justifies further centralisation of power in order to circumvent the bureaucracy. This is evident in Angola where President dos Santos forms presidential tasked commissions for priority sectors, such as the Department for National Reconstruction. These commissions report directly to the Presidency, unhampered by government process in order to fast-track procedure, but lack accountability and ultimately centralise Presidential control. The degree to which African governments function properly is important in defining the development benefits that accrue to the country through engagement with China.

The Chinese actors with whom African executives engage tend to be state-owned enterprises in the extractive industries and construction sectors, as well as the policy banks – China Exim Bank and China Development Bank. These bodies are the agents of China’s foreign commercial policy projection.
What we are witnessing on the continent is state mercantilism – a marriage of national and commercial interests in foreign policy. African states’ own developmental models are less clearly formulated. Thus, although the African executive is powerful there is uncertainty over the role of the state and its interventions in domestic economies.

b) The influence of an African state’s geo-strategic nature on Chinese engagement

According to a senior Chinese diplomat, African embassy postings are ranked according to the economic significance of the host country. The official went on to explain that South Africa, Kenya, Egypt, Nigeria are considered high priority engagement countries. This ranking is generally due to their economic and political dominance in the region. The geographic size and location of the country, its strategic importance in terms of whether it has natural resources such as oil, copper and the size of its market are all important factors determining the particular country's strategic value to China.

Countries which have no large market or natural resource base, but which still enjoy a high level of Chinese engagement, can be considered strategic for other reasons. For instance, Uganda and Tanzania are important transport gateways to Eastern and Central Africa. This will be enhanced following the development of infrastructure corridors by Chinese companies such as ICT backbone in Uganda and the Tazara railway.

The Chinese government appears to view the continent in its entirety with a long-term perspective. Each African country is evaluated in terms of its potential for trade and political exchange with China.

c) The long-term perspective of Chinese commercial interests in Africa

The Chinese Government adopts a long-term view of its business forays in Africa. This longer term vision of commercial engagement also quantifies risk in a different manner to traditional investors. Chinese companies are often perceived to be less cognisant of risk when investing in Africa compared to other foreign invested; however, this is not necessarily true. Chinese state-supported investors are simply afforded a longer time-period in order to allow their investment to be realised. China’s “state capital” approach to engagement through the likes of China Exim Bank is answerable to political stakeholders, not private or institutional shareholders.

Furthermore, the infrastructure that Chinese companies construct is exchanged for secure access to oil and raw materials or mining concessions for Chinese companies. This is most evident in several African countries where Chinese companies work on projects spanning construction and extractive industries such as Gabon, Zambia and Angola, hence the term
“the Angola Model”. The substantial infrastructure investments also further facilitate the extraction of such resources in Africa.

The development of transport infrastructure will also assist with the wider market distribution of Chinese imported goods. Chinese investment in road and railway systems such as the Benguela, Tazara and Belinga railways is of strategic importance in providing market access for Chinese products. In addition, heavy investment by Chinese companies in telecommunications infrastructure, in countries such as Angola and Uganda, oil pipe lines from southern Sudan to Port Sudan on the Red Sea coast, electric power lines, massive irrigation and hydroelectric power systems, along with procurement, supply and distribution networks across the continent can be expected to have a significant impact in reducing the cost of producing and transporting products.

The competitive landscape of Africa is thus being transformed by China’s commercial engagement. Some sectors of African economies are clear beneficiaries of this emerging trend, but this is likely to come at the expense of traditional investors and donors on the continent as well as the less competitive sectors of African economies.

d) Playing the ‘China Card’ in Domestic African Politics

As Chinese investment in Africa deepens, the question of whether the Chinese can continue to adhere to its policy of non-intervention and refrain from intervening in domestic politics is raised.

Several observers have described China’s involvement in Zambia’s 2006 elections as one of the first clear examples of China’s shift away from its well-publicised position of domestic non-interference. This is a clear indication that the “One China” Policy is prioritised above the principle of non-interference.

Furthermore, the abduction of five Chinese workers in the Niger Delta earlier this year and the killing of nine Chinese oil surveyors in eastern Ethiopia in April 2007 have also indicated to Beijing that substantial investments in unstable African countries may require protection, not only through military means, but in terms of political advocacy. The modification of Beijing’s stance on the Darfur crisis in Sudan in terms of persuading Khartoum to allow the entry of an AU/UN peace-keeping force is a clear sign that its non-interference policy is not as immutable as originally anticipated by foreign observers.

Further instances of China’s purported influence on domestic politics can be found in Angola and Gabon. Gabon’s Government, in its eagerness to fast-track the development of the Belinga mining project, favoured the Chinese bid, although many senior NGO representatives in Gabon have expressed
doubts as to whether adequate feasibility studies have been conducted. Similar circumstances surround the rehabilitation of the Benguela railway in Angola, and it is plausible that Angolan legislative and presidential elections will be delayed to coincide with the completion of Chinese infrastructure projects. This is in order for the ruling party to maximise the benefit such improvement to the national infrastructural may have on electoral opinion.

e) Labour and Environmental Issues

In a recent report published by the World Bank, 16 out of the 20 most polluted cities in the world are located in China. As the Chinese Government tackles this issue, we can expect heavily-polluting industries to move offshore, to regions such as Africa where environmental regulations are not so rigorous or adequately enforced. There have been no reports of Chinese companies dumping toxic waste in Africa; however, Chinese companies are not generally perceived to uphold environmental standards during the implementation of projects in Africa. A US$200 million Chinese manganese mine was closed down in Zambia as it emitted air pollution beyond the statutory limits affecting both workers and nearby residents. Such issues can be expected to increase as the Chinese establish more manufacturing plants in Africa. Rising pollution levels in China have prompted the Chinese Government to encourage the construction of such plants in external markets to mitigate the pollution production. Furthermore, Africa is in need of value-adding processes for its exports and is currently prioritising economic development over environmental concerns.

Many business groups have accused Chinese companies of low labour and environmental standards in their protests against market entry of Chinese companies. These allegations are often dismissed by the African host government as “sour grapes”. Furthermore, numerous examples of substandard environmental practices by Western companies have seriously diminished the power of lobby groups for important issues of this nature.

While some Chinese companies do not have a good track record in terms of environmental standards, the recognition that this must change in order to cultivate and retain a good international image for Chinese companies, steps have been taken to address this issue. The China Exim Bank released in April 2007 a code of environmental conduct for the Chinese companies undertaking projects financed by the bank. While this may not necessarily guarantee adherence to the code, it provides a platform for local and international NGOs to engage China Exim Bank, as the financier of such projects on this issue.

II) Summary

African states' attempts to define the “developmental state” are, we would argue, in response to the East Asian – and more particularly – China’s
economic growth success. Although unintentional, China’s less tangible export to Africa is the perceived concept of the “Chinese developmental model”, which Africa and the rest of the world is still trying to properly understand. The “China model” is currently being debated within academia and government in South Africa, as well as amongst other African states. What is important to observe however, is that the Chinese leadership does not advocate the wholesale application of China’s growth model to another context, instead encouraging developing countries to formulate their own solutions specific to their own situation.

This lack of coherent response from African policy-makers’ vis-à-vis China’s domestic development trajectory and foray into the African continent, however, is not just confined to government. The private sectors across all six countries have also reacted in a belated fashion to China’s entry through the trade supply chains into their economies. This general languid response of both public and private sectors is compounded by so-called “low trust” political economies in the countries surveyed.

It seems that African states’ policy-responses to China’s engagement of the continent have generally been inadequate up until now. Policy has been made without an understanding of the drivers and determinants of China’s strategies. China’s engagement of the continent can be leveraged positively and offers significant developmental opportunities for the uplifting of African economies. This is provided that interventions by Africans themselves into the policy process are informed, pragmatic and developmentally-oriented. Recommendations toward this follow.

**III) Recommendations for interventions toward more beneficial Africa-China engagement**

It is recommended that actions are channelled through the support of various actors and sectors in the African context. Such an approach acknowledges the complexities of African countries’ relations with China. It will also facilitate interaction with Chinese counterparts on various levels. This will diversify the channels of communication, ensuring that they are not limited to or monopolised by any one sector of African society (often government). This will maximise and reinforce more broad-based benefits from engagement with China through diplomatic, cultural, political and economic means. Several of these recommendations may take a long time to manifest concrete or measurable results; nevertheless they will be important foundations on which more balanced interactions between Chinese and African actors can take place.

It is evident from our study that there are four principle areas where donor engagement will have the maximum impact in terms of harnessing China-Africa engagement for pro-poor growth in Africa:
a) Building African government capacity;  
b) Engaging the African private sector;  
c) Supporting African civil society;  
d) Improving cultural relations.

a) Building government capacity

It is evident from the emerging importance of the African executive and the state-directed nature of Chinese SOE activities in Africa that negotiations between Chinese and African stakeholders is dominated by government to government interaction. As the primary interface for Chinese government officials and commercial interests, it is therefore important that African governments are able to negotiate from a position of strength in order to maximise commercial and political engagement with China. It cannot automatically be assumed that broad-based economic empowerment will result from more informed African governments. Nevertheless, it is argued that a lack of coordination and capacity within African governments currently curbs any such process that might take place. African governments are responsible for industrial policy implementation and enforcement of the regulatory frameworks that govern foreign investors’ operations. These are the keys to an enabling environment in terms of private sector growth and skills and technology transfer that will contribute to job creation.

Recommendation #1: Build capacity of African Governments to negotiate with China

Description: In June, a CCS research team visited China, where they held discussions with multiple African embassies on the management of their relationships with the PRC Government. The African Ambassadors Group based in Beijing is responsible for the negotiations with the FOCAC Secretariat/PRC Ministry of Foreign Affairs and the commitments of the Chinese government around the FOCAC process. However, it was very apparent from the conversations that the respective embassies lack adequate access to information and are poorly prepared to effectively negotiate with China. This applies to a broad number of African governments, irrespective of size and institutional capacity.

Africa governments require research support around China’s engagement with their respective economies and regions. In addition, it appears that there is an overall lack of information sharing amongst African governments on their relations with China.

To facilitate government interaction between Africa and China, it is proposed that a dedicated institute be established to facilitate, support and promote the process of building China-Africa relations. This institute would facilitate and support African government relations with the PRC through the provision of policy research and support.
Evidence from case study: Through our team’s various discussions in the target countries, a strong need for such multilateral institutional support around China was apparent.

It was recognised by a senior Gabonese government official that whereas China has a very long-term view of engagement with Africa, this is completely absent from Gabonese policy-making perspectives. This was echoed amongst government officials in several of the other country case studies. It is thus implicitly recognised that there is a current lack of capacity and pro-activity as regards policy development vis-à-vis effective engagement of China.

A senior Government official in Ethiopia explained that during recent negotiations over a soft loan from China Exim Bank, the Chinese frequently referred to what they termed the “Angolan Model.” He was not familiar with China’s relations with Angola and suggested that he and his team would have benefited significantly from access to such information and access to his counterparts in Angola who had dealt with the Chinese.

In addition to these comments, similar sentiments have been expressed by the NEPAD Secretariat that sits within the African Union structure. The Secretariat seeks to play the role of interlocutor and facilitator. This will entail gathering information around China-Africa relations that is relevant to the AU member countries. It is foreseen that the NEPAD Secretariat will thus be empowered to leverage the relationship between China and AU member states, resulting in greater development impact from China’s involvement in African economies.

Intervention: The creation of an Africa-China Policy Institute (ACPI) that will service the research and information needs of African Governments and the African Ambassadors Group in Beijing, China. ACPI would be geared to carry out a number of tasks that would increase the capacity of African Governments in the management of their relations with China. This concept has already received support in principle from the NEPAD Secretariat. The tasks are:

a) To provide research support to African Governments regarding the FOCAC process;
b) To provide research support to the PRC Government regarding the implementation of the FOCAC process;
c) To provide a training service in China research for African policy-makers;
d) To consult on a regular basis with policy-makers around bilateral relations and facilitate interaction between the various African states and the PRC Government;
e) To conduct research into the FOCAC process and commitments
arising from FOCAC between the Chinese and African sides;

f) To build a database of information pertaining to China-Africa relations that can be accessed by African and Chinese policy-makers alike;

g) To serve as a hub of academic exchange between Chinese and African institutions

It is important to note that this institution must be built with consensus from participating AU members in terms of its structure and how it is incorporated into existing AU and NEPAD mechanisms. Particularly given the region-specific concerns of African interaction with China, as well as internal tensions with the AU, implementation at a regional level, using Regional Economic Communities (RECs) as vehicles, such as SADC, COMESA, EAC, may be preferable or more appropriate to continental-level action.

**Outcome:** ACPI will perform research and capacity-building service on behalf of African and Chinese policy-makers alike. The desired result will be to improve the collection and dissemination of information and knowledge amongst African states and China toward a more coordinated management of relations.

**Recommendation #2: Training African labour to cater for Chinese demand**

**Description:** The Chinese companies engaged in each of the countries studied were observed to be at the forefront of the transformation of the economy, with investments in manufacturing, construction and resource extraction. Amongst the most prominent challenges reported by Chinese investors in each of the countries examined was the serious shortage of skilled labour.

While several of the countries provide basic primary education, secondary and tertiary education facilities are limited and the capacity of technical training institutions was extremely poor. The economies of these countries are changing rapidly and there is a high demand for skilled workers.

**Evidence from case studies:**
A distinct shortage of skilled and experienced workers was reported by a range of Chinese investors in Zambia, Uganda, Angola and South Africa. Investors in Zambia and Uganda suggested that the shortage of such skills was the primary reason for the importation of Chinese labour. Several senior representatives in Angola remarked on the inability of the Angolan workforce to capitalise on Angola’s burgeoning economy, due to a lack of skills.

In South Africa, the Chinese government has already recognised this need and have attempted to address the issue by establishing educational exchanges with each of the countries examined, a technical training facility
in Ethiopia, and the provision of approx. US$35 million for skills development through the Joint Initiative on Priority Skills Acquisition (JIPSA) initiative in South Africa.

**Intervention:** Research is needed on the dynamics of each economy, its trajectory, and the skills that will be required for continued development. This is a project that could be sponsored by donor-based funding. Appropriate skills training could then be provided by donors and the appropriate local government departments in partnership with Chinese firms and donor-government-private (Chinese) partnerships.

**Outcome:** Increasing the local skills base will make a clear contribution to further economic development, facilitate more equitable wealth distribution through the creation of jobs for the structurally unemployed, and reduce the need to import labour.

**Recommendation #3: Evaluate and improve the focus of Chinese foreign aid**

**Description:** There is much speculation concerning the nature and intentions of Chinese foreign assistance to Africa and the various forms that it takes. Chinese foreign aid spending commitments to the African continent have received much publicity in recent years, especially in the aftermath of Beijing FOCAC Summit in November 2006. The recently approved China-Africa Development Fund will be disbursing US$ 5 billion to Chinese companies as incentives to invest in Africa. Technical and medical assistance, as well as major infrastructure projects have been welcomed by African leaders. However, it remains unclear how the large aid disbursements promised by the PRC will be implemented on the ground.

Given Africa’s perceived propensity to fall into the “aid trap”, it is crucial that the PRC engages effectively, with a coordinated, consultative approach, to ensure that the needs of the poor and vulnerable are met.

A number of African civil society organisations, for example, the African Forum and Network on Debt and Development (AFRODAD) have spearheaded projects to examine how African civil society may most effectively make use of Chinese aid for poverty-alleviation. There is also scope for more research to be done on the way in which Chinese aid can be harmonised with the approaches of traditional donors and the methods by which projects can be more effectively implemented. For example, Chinese expertise in the ICT field could be paired with Western medical assistance in the form of telemedicine – improving the access of the most isolated and vulnerable to essential healthcare.

In addition to improving aid harmonisation through civil society with traditional donors, other initiatives could be put in place to ensure timely and
effective completion of aid projects.

**Evidence from case studies:**
Respondents working with international humanitarian agencies in all of the countries surveyed believed that increased cooperation and coordination with Chinese aid would result in substantial benefits to the community.

For instance, in Angola, Chinese road projects supervised by independent consultants such as the German company Galf, assured the quality and durability of the infrastructure. This formula for collaboration, if more widely utilised, would maximise the benefit of the Chinese credit-line to the national infrastructure rehabilitation.

**Intervention:** A donor-funded study into available Chinese expertise that could more effectively complement existing aid programs and strategies.

**Outcome:** More efficient and wide-reaching aid provision, that makes effective use of the funding and expertise available focussed especially the opportunities that China presents in this field.

**b) Engaging the African Private Sector**

African governments need to be empowered in order to level the playing field in their engagement with China. Nevertheless, the dominance of government-to-government interaction weakens the African private sector at the level of small and micro-enterprises. Whereas big business often has access to government negotiations, this is not the case for small-scale entrepreneurs, which are key in terms of economic empowerment at a grassroots level. It is argued here that the strengthening and support of African entrepreneurs, in facilitating direct interaction with their Chinese counterparts would stimulate economic growth and empowerment from a more broad-based level. It would also dilute the *de facto* monopoly that governments currently exercise on China’s commercial relations with Africa in bypassing such channels of communication.

**Recommendation #4: Empowering small and micro African business to export to China**

**Description:** In the targeted African states that were visited, the CCS came across numerous examples of small scale African business that is profiting from exporting to the China market. However, outside of South Africa, these examples are, admittedly, rare. Repeated comments from the private sector clearly indicated the need for a small business support mechanism that would assist exporting to the Chinese consumer market. Similarly, Chinese traders control the flow of Chinese products to Africa, as African traders in many cases lack the knowledge, access and contacts to benefit from the African demand for Chinese goods.
The business chamber institutions in many African states are usually highly politicised and often dysfunctional and unable to deliver upon their mandates. We do not foresee a successful support mechanism being run through the established chamber network which tends to cater to larger scale businesses.

There already exists a model in the Beijing-based China-Africa Business Council (CABC). This organisation was established in 2005 and was co-funded by the UNDP and DFID. It is intended to run on a sustainable basis without funding assistance from donor organisations after a specified period of time. The CABC is active in promoting Chinese trade and interaction with Africa, but does little to facilitate African engagement of China through small business trade promotion. Furthermore, there are several African communities existent in Southern China whose strategic potential for African traders in Africa is currently unrealised through a lack of co-ordination.

**Evidence from case studies:**

In Uganda and Zambia business people who are not aligned with the executive or ruling party complained that they have no access to participation in the trade fairs or delegations exchanged between the two countries. Small businesses in these countries and South Africa have difficulty finding information on business opportunities in China and rarely have the capacity to visit China to establish links for themselves. Similarly in Angola the Chinese credit line is a government to government agreement, thus facilitating contracts for Chinese SOEs and Angolan government-owned *empresarios de confiança*. No access for local Angolan businesses is encouraged, putting nascent SME development at a distinct disadvantage.

**Intervention:** It is envisioned that the creation of regional secretariats designed to assist small business be established – along the lines of the CABC, but designed and geared entirely to assist African private small and micro enterprises access the China market. The locations of these service-oriented secretariats will be divided regionally and set in major urban areas. While local government and donor support would be necessary for such an initiative, it is envisioned that it be largely driven by the African business sector.

**Outcome:** The provision of assistance to African small and micro business to establish and grow their trading links with the Chinese economy. The end result will be increased access to the domestic Chinese market for the purpose of both import and export, facilitating employment creation.

Ultimately, it is desirable that African manufacturers and traders are able to compete with their Chinese counterparts in third markets. Increased access and exposure to the Chinese market and Chinese goods will
potentially initiate this process. With sufficient support in the areas of market intelligence, technical capacity, business development services and financial support, the regional secretariats may assist this process.

**Recommendation #5: Identify and disseminate models of Chinese employment localization**

**Description:** The vast majority of senior and middle managers in Chinese investment initiatives in each of the countries examined were Chinese nationals. This situation inhibits skills and training transfers to the local African population and presents a serious challenge to Chinese companies and their ability to properly understand the dynamics of the local environment and properly engage local markets. On the other hand, there are also concrete examples of Chinese companies employing mostly local labour.

**Evidence from case studies:** ZTE has recently adopted an Africa-wide policy to employ local people in an attempt to engage and serve local markets more effectively. This was encountered in Uganda and Zambia. This policy appears to have served them well in competing with other Chinese firms. In Zambia, the Chinese owner of a construction company explained that it would be considerably more cost effective to employ local workers and save money on flying Chinese nationals from China.

**Intervention:** To conduct case study evaluations of the employment strategies of Chinese firms such as ZTE that have adopted localization policies, translate the findings into Chinese, and disseminate this information amongst target audiences in China to encourage them to adopt similar policies. While the research could be independent and donor-funded, this strategy would require the co-operation of Chinese firms and the Chinese government for effective dissemination.

**Outcome:** Increase local employment by the rising number of Chinese companies active on the African continent, make Chinese companies more responsive to local needs, and facilitate the more effective delivery of products and services.

**Recommendation #6: Leverage China’s investment in Special Economic Zones and Spatial Development Initiatives for greater local development**

**Description:** A theme apparent in all the countries studied is the role of Chinese state-owned and private companies in infrastructural projects in Africa. Infrastructure was emphasised as a key area for co-operation At the FOCAC summit in November 2006, illustrating the political support behind Chinese companies engaged in this sector. The PRC Government also committed to the establishment of three to five trade/industrial zones on the African continent that we refer to as special economic zones (SEZ). The first
has already been announced – in Chambishi, Zambia.

In addition to SEZs, Chinese firms are involved in the construction or rehabilitation of transport corridors across the continent. Prime examples of these are in the country studies of Angola (Benguela corridor from Benguela to the copper belt region) and Gabon (linking Santa Clara to Belinga). These infrastructure projects were proposed by the respective national governments and are designed to facilitate the extraction of resources from the mining regions to the ports at the end of the infrastructure corridors.

Policy coordination between the Chinese and the African governments on where the SEZ are to be established is currently very poor. Despite the relative scale of these infrastructure projects, public knowledge of their establishment or roll out is minimal. There exists a great deal of developmental potential in and around the SEZs, as well as along the infrastructure corridors. A campaign highlighting the potential of these infrastructural developments amongst local and foreign business is be required to encourage the participation of local enterprise in these processes. The opportunity to draw local communities into these projects so as to maximise their developmental impact while minimizing the negative implications is enormous.

Evidence from case study: In the case of Zambia, a conversation was held with the Economic Adviser to the President of Zambia, Levy Mwanawasa. It was clear that no coordination is taking place between the Zambian and Tanzanian Governments around China’s establishment of an SEZ in Chambishi and the possibility of a further SEZ to be established in Dar es Salaam – linked by the rehabilitated Tazara railway line. In Angola, a senior NGO representative highlighted the potential for the Benguela Railway to assist with the resettlement of displaced communities that have relocated to an already overcrowded Luanda.

The high capacity fibre optic telecommunication backbone that the Chinese are to build across Uganda will provide cost effective internet access to local government and businesses. A broad range of development initiatives in education, health, and access to information on agriculture are expected to be implemented along the length of the backbone.

Intervention: A detailed analysis of China’s SEZ rollout under the FOCAC program and the construction of infrastructure corridors are required to gain an understanding of the key infrastructure development projects. Studies into the developmental and perhaps environmental impact of these infrastructure projects will maximise the possibility of creating sustainable business clusters – both African and Chinese – aligned with these projects. While this study could be donor-funded, it would require the cooperation from Chinese and African government.
Outcome: The major desired outcome is the leveraging of China’s infrastructural projects on the African continent – both national and transnational – for maximum developmental impact of the poor and vulnerable in the designated geographic areas i.e. the inclusion of local populaces into the developmental agenda set by the respective African government and the PRC Government. An understanding of the infrastructural rehabilitation taking place in African countries would also allow the emergent African private sector to harness the improving environment of business.

**Recommendation #7: Develop downstream timber related industries**

**Description**: Timber comprises a large percentage of several African countries’ exports. Despite the fact that treated and processed timber increases exponentially in value, few African countries possess the industrial capacity to produce this kind of value-added product. The result of this is that timber products are exported in a raw state, at a lower value. Furthermore, the timber industry is often poorly monitored allowing timber to be harvested at an unsustainable rate. This causes the country in question to lose out not only on potential revenue, but also on the employment and local industrial development that the value-add process would precipitate. The sustainability of such an important industry is also threatened.

**Evidence from Case Studies**: The export of raw timber and the need to stimulate and diversify the local economy is very evident in Gabon. In addition, the fact that 50 percent of Gabon’s timber is exported to China further indicated the growing importance of China in Gabon’s timber industry. Development in the timber industry would also benefit countries such as the DRC and Sudan, which also possess large natural timber reserves. While timber reserves in Uganda may be limited, the vast majority of timber exported from Sudan and the eastern DRC transit Uganda en route to Mombassa on the coast.

**Intervention**: It is proposed that a donor-funded research study be conducted to investigate the feasibility of developing down-stream industries in the timber and forestry industries. The research would also encompass at the identification of ways to encourage foreign actors, including Chinese firms, to invest in the development of timber processing and treatment plants as a condition of entry into the country’s timber industry, as well as ways to ensure the implementation of such regulations. It is already a prerequisite for foreign investors in many countries, including China, to develop joint-ventures with local partner and process goods before they are exported in order for the host country to benefit from the industries, employment and skills transfer thus created. African legislative frameworks can be developed through learning from and adapting the regulatory frameworks present in China which encourage skills and technology transfer. This undertaking would ideally incorporate Chinese and African government support for the
initiative.

**Outcome:** The development of down-stream timber–related industries would assist in economic diversification through the stimulation of additional local industries and investment in key sectors, allowing the host country to maximise the benefits of its natural resources. In addition, opportunities for job creation would be provided providing a direct assistance for unemployment and poverty alleviation.

c) **Supporting Civil Society**

African civil society has played an important role in raising awareness of issues and monitoring government and private sector activities in Africa, particularly in the realms of environmental matters, labour and human rights which are key issues for Africa’s poor and vulnerable. As with any investor activity, in order for Chinese engagement in Africa to be sustainable in the long-term, it is important that these concerns are kept on the agenda.

**Recommendation #8: Establish a Network for Environmental Issues**

**Description:** In many of the countries visited, it was observed that the forestry and fishery industries, while crucial for the livelihood of many poor and vulnerable sectors of the population, are being overexploited by foreign companies, among which are Chinese firms. This is generally due to the lack of capacity to effectively monitor these industries. A support system to ensure the protection and sustainable use of these natural resources is required.

The need to foster environmental sustainable practices has been recognised by China Exim Bank which issued environmental procedures in November 2004. These environmental guidelines for Chinese companies financed by China Exim Bank were made public in April 2007. China Exim Bank has also engaged with several international environmental NGOs such as the International Rivers Network to establish these guidelines demonstrating China Exim Bank’s willingness to consult more broadly on environmental issues. The Bank’s participation area would provide substantial leverage over Chinese companies in Africa’s forestry and fishing industries, as a large number of them are financed by China Exim Bank.

**Evidence from the Case Studies:** As seen in the case study of Loango National Park, consultative policy-making occurred between the Gabonese government, the Chinese Embassy, Sinopec and various environmental organisations. This facilitated co-operation between the relevant stakeholders and led to the formulation of higher environmental standards being adhered to in Loango. This is also relevant to in other countries not studied, such as Mozambique, Sierra Leone, Sudan and DRC that face the same
threat in terms of their fishing and forestry-related industries.

**Intervention:** A network of environmental organisations and protection agencies should be developed and supported. This platform would bring together the relevant policy-makers from African countries where Chinese companies are involved in forestry and fishing industries in Africa.

**Outcome:**
The establishment of this network, which would take the form of a conference and various working sessions, would facilitate the exchange of experiences of various African countries’ interactions with Chinese commercial interests in these environmentally vulnerable sectors. Chinese companies, Chinese Environmental NGOs and China Exim Bank which provides the funding for many of these firms, would also be invited to participate.

This conference would also address the need to develop practices to encourage the sustainable extraction of timber and fish stocks, in order to protect the livelihood of the poor and vulnerable sectors that depend on these resources. An eventual goal could be to have China and the relevant African countries commit to signing the Extractive Industries Transparency Initiative (EITI).

Furthermore, cooperation and collaboration between Chinese and African stakeholders on issues such as environmental standards could provide the foundation to tackle further issues of relevance such as labour and governance issues.

**Recommendation #9: Facilitate cooperation between African and Chinese civil society**

**Description:** In both China and Africa, the crucial value of civil society has gone largely unrecognised by the government in championing the rights of the poor and vulnerable. Despite political challenges on the African continent, civil society in Africa is more vocal, experienced and developed than in China, despite similar political contexts. CSOs in both regions would benefit greatly from the sharing of knowledge and experience on a range of issues – as both are developing regions facing similar challenges for pro-poor growth and fulfilling the basic needs of their populations. For example, comparative discussion on topics such as combating the spread of HIV/AIDS, or tackling environmental challenges with industrialisation would facilitate greater positive engagement of these issues.

**Evidence from case studies:** The Director of a Zambian agriculture NGO, cited the challenges associated with relations between African and European
or North American civil society institutions that have completely different experiences and face difficulties in communication and fostering meaningful exchanges. He suggested that interaction with Chinese institutions that operate in a context with similar developmental challenges would provide an infinite range of exchanges and an opportunity to benefit from more appropriate technology and ideas.

**Intervention:** Establish linkages between Chinese and African civil society institutions around issues relating to HIV/AIDS, labour, health, academia, and the environment. This could be achieved through the creation of a China-Africa Civil Society Forum that could meet regularly to discuss thematic issues, both in China and various African countries. This would also facilitate discussion, cultural understanding and further strengthen ties between the two regions at a CSO level. This could take place on the sidelines of larger political gatherings such as FOCAC, or indeed, meetings of organisations such as the African and Asian Development Banks (note that a civil society forum was conducted on the sidelines of the African Development Bank meeting in Shanghai in May 2007). Furthermore, the Forum could be an institutional context through which various “fact-finding” missions could be conducted – for African CSOs to visit rural China and vice versa. This forum would be more general than the proposed environmental network proposed in recommendation 6, as it is felt that environmental issues require a dedicated forum, due to the vulnerability of Africa’s non-sustainable resources. Furthermore, particularly as environmental issues already have Chinese government support, it is envisioned that recommendation 6 could be a precursor to recommendation 7.

**Outcome:** The fluid exchange of knowledge, ideas and experiences between Chinese and African civil society organisations, free of political baggage, would strengthen Chinese and African CSOs’ responses to the developmental challenges in their respective contexts.

d) **Improving Cultural Relations**

On a general level, beneficial interaction with Chinese counterparts is limited by a lack both of linguistic and cultural understanding. This is especially at a grassroots level, where communities do not often have access to learning Mandarin Chinese or exposure information on Chinese cultural customs despite increasing interaction with Chinese immigrants in rural communities. Addressing the cross-cultural divide is important for local empowerment.

**Recommendation #10: Research and understand the Chinese diaspora in Africa**

**Description:** The influx of Chinese nationals, especially since 2000, has resulted in the formation of communities and Chinese “cluster economies”
in various African countries. There has been a tendency for Chinese migrant families to group together, forming inward-looking communities in which local Chinese dialects are spoken, children are schooled in special Chinese community schools, and little interaction takes place with the society around them.

This has also been a trend amongst Chinese workers who have been brought to the continent to work on various projects and who tend to live, work and socialise among themselves. This affects their impressions of Africans, the impressions Africans have of them, and the level of acceptance into their new society.

There is a tendency to generalise about Chinese communities in African countries and an assumption that they are homogenous. However, they vary greatly, and even within the same country there can be serious cleavages. For example, in South Africa, tensions exist between the local South African-born Chinese (SABCs) who have been born and raised in the country, speaking English and attending local schools, and recent immigrants from Mainland China, who regard themselves as “more Chinese” than the SABCs. There is also a small Taiwanese population who have stayed on in the country and become entrepreneurs after South Africa switched diplomatic recognition.

The displacement of local business has also been a source of contention in many of the country case studies conducted, leading to negative perceptions toward all who look “Chinese”. This element in the establishment of Chinese communities requires more research – examining the existing trade links between diaspora Chinese communities and the Chinese Mainland, as well as how to integrate these communities into local African societies and how this may be leveraged for the benefit of the poor and vulnerable.

**Evidence from case studies:** The local impact of these Chinese communities varies in different country contexts. Despite the increasing number of Chinese entrepreneurs in Angola and Gabon in recent years, little is known of their economic or social impact. It is suspected that they are merely replacing other established foreign entrepreneurs, such as the Lebanese traders, with little subsequent impact on the local communities. This requires further research.

In Uganda and Zambia, Chinese communities are growing quickly and their presence is becoming increasingly politicised as demonstrated in Zambia’s 2006 national elections.

**Intervention:** Undertaking a donor-funded study examining the different groups that compose Chinese communities in a selected number of countries, their motivations for migrating, their relations with the local community, the element of entrepreneurship, and possibilities for skills
transfer and furthering cultural understanding. What steps need to be taken to encourage Chinese integration into African societies and is this outcome welcomed by the African societies themselves?

**Outcome:** Developing a deeper understanding of the cultural, commercial and social dimensions of the Chinese diaspora on the African continent and how this new dynamic can benefit the African communities that they are living within.

**Recommendation #11: Track and build the African Scholarship Network**

**Description:** The Chinese government has been providing scholarships to African students for further education at Chinese communities for several years. On their return, anecdotal evidence suggests that several of the students are absorbed into a variety of government ministries or asked to act as intermediaries on an ad hoc basis between local and Chinese companies. It is however unclear as to what their concrete contribution to engagement with China is. Despite the potential value of these students to their host country on their return, there have been no initiatives to monitor their numbers or progress while studying in China, much less track their movements on their return to their country. The Chinese government also makes no effort to connect these African students in a support network during their stay in China.

**Evidence from Case Studies:** While the number of scholarships and the process of application vary from country to country, it is clear that each African country that has diplomatic relations with the PRC benefits from such a program. In Gabon particularly, returning Gabonese students have been recognised as a resource to be leveraged. Students who are awarded these scholarships are encouraged to study engineering and other such subjects that will ensure their employment on the Belinga project on their return. All of the countries examined have established exchange student programs with China.

**Intervention:** It is proposed that a network be set up that will track the progress of African students in China and their re-entry into their host country. The network will facilitate liaison and sharing of knowledge between the students and help to synergise their contribution to better knowledge, understanding and communication of and with Chinese diplomatic and business representatives. These African students can be actively recruited into sectors where their skills, language and otherwise will be most appropriately applied in order to extract maximum value from the scholarship program both for the host country and the individual student. This initiative would require the support of both the relevant African and Chinese Government authorities, although donor assistance with capacity is recommended.
Outcome: The deliberate recruitment of African scholars having studied in China will broaden the African knowledge base of China and assist in the formulation of informed policy with regards to China’s engagement in Africa.

Recommendation #12: Create objective perceptions of China’s role in Africa

Description: Little substantive market research has been carried out on local perceptions of China and Chinese people on the African continent. From the countries examined in this study, the level of knowledge and understanding of China and Chinese people is relatively poor, and misperceptions abound. These misperceptions range from assumptions about the appearance of Chinese people (Korean, Japanese and many Oriental Southeast Asian people are often categorised as “Chinese” by local Africans), and their cultural practices, to broader questions of what the Chinese (be it SOEs, government representatives, private business, or migrant workers) are doing in Africa. This has a significant impact on race relations in many country contexts.

These perceptions vary greatly from country to country, and it would be extremely timely to determine the various factors – history, political context, economic impact – that shape these perceptions. And in turn, what impact do these perceptions have on Chinese engagement with the continent in general?

There is much speculation around the Chinese reaction to these perceptions, and media hype around anti-Chinese sentiment has only served to perpetuate stereotypes. In some contexts, these misperceptions have escalated to the extent of xenophobia, where job losses are solely blamed on the influx of Chinese migrants and companies (e.g. Lesotho), and allegations of the Chinese use of prison labour have been made.

This impact can be viewed at different levels of society – community, government, business segments.

Evidence from case study: In Angola, the increasing number of Chinese workers is eliciting negative reactions from the local media. By contrast, the local population remains generally unmoved by increasing numbers of Chinese immigrants as they have not yet integrated into local communities.

Additionally, it is evident that these African perceptions of Chinese migrants have been used to generate domestic political leverage – especially in the Zambian context in the run up to the presidential elections of 2006.

Despite the fact that they use Chinese consumer products on a daily
basis the vast majority of people at the local level in each of the countries surveyed—with the exception of Zambia which has a long history of relations with China—are barely conscious of China or the Chinese. While the Chinese are not popular in and around Chambishi, Western media of reports anti-Chinese sentiments across Zambia are highly exaggerated and largely unfounded.

**Intervention:** Undertaking a wide ranging donor-funded study, contracting market research company to do surveys across a number of selected countries to accurately determine what perceptions of China and the Chinese are on the ground. What impact does this have on Chinese communities and the way they engage with local populations? What impact does this have on broader Chinese engagement with the countries in question? Local media would be useful collaborators in this study.

**Outcome:** A greater understanding of African perceptions of China would be of immense use to policy makers and inform three-way interaction between Chinese people, poor and vulnerable people and civil society. It would also help to dispel unfounded assumptions, upon which much of the international community have based their interventions, and would create opportunities for constructive dialogue and more effective engagement.

**Conclusion**

It is evident from this study that the challenges that face African leadership in leveraging China’s engagement for sustainable development are inherently structural in nature. Consequently, they are not necessarily China-specific, nor are solutions attainable in the short term. The recommended actions are largely exploratory in nature and advocate further research in most cases. Insufficient research has been conducted on any of the issues to date and further information is required for successful interventions.

As China’s economy opens up, the nature of Chinese actors engaging with Africa is diversified. These range from Chinese government officials and SOEs to private firms and small-scale entrepreneurs. These recommendations propose the means to strengthen the multiple channels through which Africans can interact with their Chinese counterparts. It is an effort to empower African governments to respond adequately to a Chinese presence on the continent, and also to ensure that such relations are not dominated by the state.
Endnotes

1 Interview, Pretoria, 20 July 2007.

5 An example of this is the US$ 938 million aluminium smelter that Chinese companies will construct in Egypt. This deal emerged from the 2006 FOCAC Summit in Beijing.

Chapter 9: Conclusion

China's interests in Africa are guided primarily by economic imperatives. In this respect, Chinese engagement is little different from Western multinationals. It is the scale of Chinese operations and their mode of engagement that has caused concern among many traditional actors. This is compounded by the condition of the African state and its inability to monitor and manage such large inflows of investment and foreign economic activity. Chinese interests naturally prefer to position themselves in resource-rich countries with booming economies, such as Angola, or in countries where there is also a long history of relations with China, such as Tanzania. However, there are signs that Chinese companies are expanding into countries seen as strategic gateways to the Africa market.

The Chinese government and companies approach investment in Africa with a longer time-frame in mind than other markets players in terms of strategic considerations, focusing on areas where they perceive medium to long-term benefit. The extensive infrastructural development undertaken by Chinese companies in several African states testifies to this. A long term perspective thus both prompts and informs relations with countries such as Angola, Zambia, and Sudan. In addition, they emphasise 'win-win' relations that distinguish their relations from the lop-sided interaction between Africa and the more traditional Western actors.

It is important to note that nature of Chinese actors in Africa is diversifying. Considerable variation exists in terms of the size, capacity and capability of Chinese interests entering Africa. The determining factors are methods of operation, the capital and technology at their disposal, previous experience in operating overseas and the geographical origins of particular companies in China itself. The bigger SOEs and state-directed initiatives generally have more experience in the African context, advanced equipment and technology, and greater access to capital. On the other hand private companies, though small in number, and small-scale entrepreneurs are quickly finding their niche. In contrast to the large-scale SOE operations, it is important to note that some small-scale entrepreneurs come to African countries for short-term profit. Such enterprises may move among several countries, following promising market opportunities. It is too early to determine the impact of
these businessmen on local communities and industries, but further research in this direction is required.

There are concerns arising from the lack of an institutional framework and government capacity to monitor and encourage direct investment. An additional problem in some cases is the questionable transparency of government-to-government loan arrangements. Actions to improve this will require considerable political will. Government bodies, investment promotion agencies and donors need to reinforce the promotion of joint-ventures and the development of corporate responsibility among all firms entering markets across Africa. This will ensure that the positive contribution of the rapidly expanding Chinese investment on the continent has sustained socio-economic benefits. This would include such initiatives as developing and enforcing a regulatory support structure for foreign investment. The establishment of networks between government departments across the region and the continent, to improve dialogue and information exchanges concerning Chinese engagement in Africa, could be explored. Utilising existing regional networks, in terms of government, civil society and businesses to share and exchange information about Chinese market entry into various industries would be a start. Countries such as Zambia, where a Chinese presence is more established, could provide valuable insights for countries whose relations with China are newly developed.

Many African states, particularly resource-endowed states, are finding themselves in stronger positions in what some perceive to be the latest scramble for Africa. Countries such as Angola, which have greater leverage to negotiate with the PRC government, can demand that foreign companies establish joint ventures with local firms, share research and development, and use local supply chains. They should also be able to enforce conditions linked to the awarding of contracts.

**Engaging China on development**

The Chinese government in the past demonstrated little or no inclination to become involved in multilateral development initiatives. Indeed, as mentioned earlier, China has preferred to establish its own vehicles for development assistance and economic interaction with Africa. This accords with its policy of non-interference in the internal affairs of African states while it also ensures that China has greater oversight over the disbursement of its own aid budget. This appears to be changing with their pro-active role in the AU, Great Lakes Secretariat, and the NEPAD Secretariat. This has important implications for the development of China Africa relations in the political sphere and bodes well for RECs to play a more active role in such engagement.

Chinese aid to Africa is also increasingly under the spotlight. However, it should be noted that, in comparison to the cumulative amount of aid from
European donors, Chinese aid levels, until recently, were very small. China prefers to deepen co-operation on the trade and investment front, and in the extension of concessional loans. Traditional donors have expressed concerns about possibilities of unsustainable debt for African countries as a result. Nevertheless, at least rhetorically, attempts to engage the Chinese government in the collaboration and co-ordination of aid appear to have been more successful in recent months. In May 2007, shortly after the AfDB meeting in Shanghai, the World Bank and China Export-Import Bank signed a memorandum of understanding to improve cooperation and co-ordination of aid policies in Africa, further recognising China’s growing role on the African continent.

The rhetoric of the Chinese Communist Party’s 5th and 6th year plan acknowledged the importance of environmental and safety concessions in industry and in August 2005 several regulatory measures were put in place to safeguard these. In April 2007, China Exim Bank made public environmental guidelines for Chinese companies using Exim Bank money. Thus Chinese companies may prove more receptive to NGO lobbies to implement such safeguards in Africa.

In addition, the US has been lobbying for China to have a larger role in multilateral bodies as the World Bank and IMF in the hope that an increased role in these institutions will encourage more ‘responsible’ Chinese actions as a rising global power. It remains to be seen how the self-evident tensions between China’s own policies of non-intervention and the IFIs’ conditional assistance will be resolved. NGOs wishing to engage with China on development issues may further their cause by lobbying for an increased role in these very multilateral institutions.

What is clear, however, is that African countries need to develop a coherent strategy to address their changing economic realities following China’s entry into their political and economic landscape. Attempts by the international donor community to mediate and participate in this kind of response needs to be carefully considered if it is not to be seen as meddling or an external imposition of differing values. For an approach to have meaning and resonance, it needs to be fully accepted, integrated, adopted, and owned by African and Chinese policy makers and opinion leaders.

Finally, it is also important to recognise that the nature of China-Africa relations is extremely dynamic. Efforts to formulate a strategic response is, in essence, trying to pursue or capture a moving target. Consequently, any adopted approach must be flexible and fully recognise the complexity of the nature of this engagement.
Endnotes

1 According to Global Witness, 10 percent of Angola’s oil revenues are unaccounted for, illustrating the corrupt nature of public finance in that country.
The Centre for Chinese Studies (CCS) is the first institution devoted to the study of China on the African continent. The CCS promotes the exchange of knowledge, ideas and experiences between China and Africa. As Africa’s interaction with China increases, the need for greater analysis and understanding between our two regions and peoples grows. The Centre seeks to fulfill this role.

Housed at Stellenbosch University in the Western Cape Province, the CCS is a joint undertaking between the Governments of South Africa and the People’s Republic of China having been agreed to at the South Africa-PRC Bi-national Commission held in June 2004. The Centre conducts analysis of China-related research to stakeholders in Government, business, academia and NGO communities. We are also active delivering lectures to academic and business audiences at both locally and internationally.

The Centre is active in delivering business strategy content to academic and business audiences at the Graduate School of Business at Stellenbosch University, as well as private sector corporates. The CCS also forms part of the African Economic Research Consortium’s Asian Driver Programme which seeks to investigate China and India’s developmental impact on the African continent.

The CCS hosts visiting academics and Government officials within the China Forum that provides a platform for discussion and debate on China-Africa related subjects. China Forum events are often hosted in collaboration with other institutions.

The CCS has co-operative linkages with key Chinese universities and institutions pursuing both research collaboration and exchange undertakings. These linkages include Beijing University and the Chinese Academy of Social Sciences.

The Centre for Chinese Studies is also home to the Confucius Institute, the
first of its kind in South Africa. Through the Confucius Institute, the CCS is projecting Chinese language and cultural studies in the Africa region. The CCS thus serves as the foremost knowledge bridge between China and the African continent.
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Lucy coordinated and formed part of the CCS research team that investigated China’s investment in the infrastructure and construction sectors in Africa, a research undertaking completed in November 2006 for DFID-China. Her research interests focus on the activities of China’s emerging multinationals, particularly on the African continent, as well as the CIBS (China, India, Brazil, South Africa) dynamic.

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Nastasya has completed an internship with the Office of the Prosecutor at the UN International Tribunal for Rwanda, based in Arusha, Tanzania. She was also an intern at the London office of Human Rights Watch, with the Africa and Development divisions, while studying for her Honours degree. Upon completing her studies in London, she worked briefly in the Policy & Advocacy division of the African Medical & Research Foundation UK (AMREF), before taking up her position at the Royal African Society. Nastasya has also spent time as a researcher in Banda Aceh, Indonesia, evaluating aid expenditure in the aftermath of the 2005 tsunami.

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