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## **THE POLITICAL ECONOMY OF CHINESE CAPITAL IN SUB-SAHARAN AFRICA: IMPLICATIONS FOR GOVERNANCE**

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### **ABSTRACT**

China has emerged as the largest investor in Sub-Saharan Africa. Chinese capital has funded numerous projects in various sectors of African economies, especially in the extractive industries. China has also become Africa's largest trading partner and Beijing's development assistance has increased significantly. Yet, while the region celebrates the discovery of a new "partner in development", a debate has emerged about the long-term implications of Chinese investment for governance in the region. Unlike western capital which comes with intrusive human rights and governance-related conditionalities, China de-emphasizes these conditions in line with the principles of the "China-Africa Partnership" and in the process encouraging authoritarian governance. This article makes two central arguments: Beijing's engagement with Sub-Saharan Africa is motivated more by a preservation of China's national interest rather than a genuine desire to assist Africa, and China's current policy of condoning bad governance is a recipe for future conflicts and ultimate retardation of development in the region. The study is informed by the realist approach which sees states as motivated largely by a desire for self-preservation and the protection of national interests in the conduct of international relations. It analyzes China's growing interest and investments in the region and demonstrates that the development of African host economies is tangential to the overriding objective of deepening Chinese influence in Africa in a post-cold war era.

## **THE POLITICAL ECONOMY OF CHINESE CAPITAL IN SUB-SAHARAN AFRICA: IMPLICATIONS FOR GOVERNANCE**

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### **1. Introduction**

China's economic engagements with Africa have soared to unprecedented levels in the last two decades, becoming the largest investor in Sub-Saharan Africa. Chinese investments have increased in various sectors of African economies, with the extractive industries being the most prominent. Smaller Chinese state-owned companies and private investors have also been active in Africa, investing in infrastructure construction and gas exploration. Consequently, both the volume and value of Chinese investments in African economies have seen a dramatic increase. For example, during the ten-year period between 2000 and 2010, China's trade with Africa grew from a paltry \$10 billion to a whopping \$123.3 billion (Edinger and Pistorius, 2011, p. 152). This figure rocketed to \$160 billion in 2011 (Gray, 2012). Currently, Africa is China's second largest trading partner behind the United States, although Africa accounts for just two per cent of China's global trade (Alden, 2007, p. 14; Le Pere and Shelton, 2007, p. 141). Similarly, Chinese aid to Africa has increased dramatically. Between 2001 and 2005 Chinese aid increased by 35 per cent annually, and China has cancelled the bilateral debt of some 31 African countries for approximately of \$10 billion (Hansen, 2008). As well, Chinese concessionary aid to Africa rose from \$800 million in 2005 to a commitment of \$10 billion between 2009 and 2012. This contrasts with the World Bank's lending to Africa which has remained at an average of \$4.5 billion annually since 2006 (Ali and Jafrahi, 2012).

Marginalized in the world economy in the post-cold war era (Callaghy, 2009), African countries are delighted to have found a new development partner in China (Sautman and Hairong, 2007). The west, which has historically been the main source of African development

assistance, is coming to terms with the realization that the region is being "wrestled away" from Washington to what is now euphemistically referred to as the "Beijing consensus".

In the midst of Africa's euphoric celebration of the founding of a new friend in development, however, a debate has emerged about the long-term implications of Chinese investments and general trade relations for governance in Sub-Saharan Africa. One school of thought, comprising largely of African leaders, posits that Chinese capital promotes economic growth and infrastructural development, which have remained low in Sub-Saharan Africa. At a time when Africa faces glaring disinvestment and declines in overseas development assistance (ODA) from the west, China is a welcome alternative source of aid and investments. Access to Chinese capital and investments, the argument goes, should take precedence over any other consideration. A contrary view held by critics of China, however, opines that by failing to insist on good governance practices, China was setting the stage for anti-developmental tendencies, including a reversal of the modest gains made by Sub-Saharan Africa on democracy and human rights in the post-cold war era. The argument holds further that the long-term costs of Beijing's economic engagements with Africa are far greater than the short-term benefits from Chinese capital. Sub-Saharan Africa, the argument goes, should not trade Chinese capital for good governance.

This article reconstructs the key arguments in this debate and makes two central assertions. First, China's investments in, and aid to, Sub-Saharan Africa are not necessarily guided by a genuine desire to help the latter out of its economic quagmires, as admirers of China believe. Rather, by increasing its presence in Africa, China aims at promoting its economic and political interests. Hence, advantages that accrue to Sub-Saharan Africa as a result of Chinese investments are accidental to the overriding objective of increasing Chinese presence and securing natural resources to fuel its growing economy. Second, while providing aid to a region that has fallen behind in global investments and has seen a massive reduction in its share of global trade, Chinese investments may in the long term become the proximate, in fact direct, catalysts for bad governance, conflicts and stagnated growth in Africa. The negative effects of Chinese commercial activities are not only re-

flected in the stifling of human rights and democracy, but also in the emergence of poor environmental governance. The article is divided into five sections. The next section provides a brief overview of the conceptual debates on the motives for aid and trade. This is followed by some background information on Sino-African relations. The next section takes a critical view on the claims that Chinese aid is untied. This is followed by a reconstruction of the debate on the merits and demerits of Chinese investments in Sub-Saharan Africa, and the conclusion summarizes the key arguments raised in the article.

## **2. Conceptual Debate**

Traditionally, two main schools of thought – idealism and realism – have featured in the literature to provide theoretical explanations for the motives of foreign aid and foreign direct investments (FDI). These positions present contrasting perspectives on the nature and dynamics of international relations, but also on the underlying motives of states in providing aid and FDI. It is argued that the realist interpretation offers a better understanding of the motives of Chinese economic relations with Africa. We briefly review some of the key assumptions of each of these positions relevant to the present study.

### **2. 1. Idealism**

Idealists argue that FDI and aid are consistent with the moral imperative intrinsic in international relations. Aid is given because wealthy developed countries are under a moral obligation to assist poor and least developed countries (Riddell, 1987, p.17). Motivated by a desire to promote international peace after the First World War, aid and investments are seen to promote not only development in an international system shattered by war, but also the promotion of security. Foreign aid is thus an ethical issue whose primary objectives include alleviating poverty and promoting development (Lumsdaine, 1993, p.3). In this context, aid is seen not as an instrument for the acquisition of state power and influence, but a moral imperative of the international system. This thinking became part of the ideology of liberal internationalism which pushed a liberal agenda with the use of aid and trade

during the interwar period (Brown and Ainley, 2005, p. 21). Idealists argue, moreover, that power alone does not define the nature of the international system. Rather, cooperation and collective action are the visions of states in the pursuit of peace, security and development.

An intellectual tradition dreading war and global insecurity in the aftermath of the First World War, idealism emphasized the importance of international trade. This is thought to mitigate conflicts among actors in the international system, especially states. International trade is conducted, moreover, for the mutual benefit of states to promote peace and development. The tendency for states to accept international trade is informed by the belief in the harmony of interest shared by states. These shared interests include the desire for progress, peace and development (Brown and Ainley, 2005, p. 22). Interdependence, which diminishes the import of self-help by states, is central to the beliefs of idealism. Interdependence underscores the reality of state self-insufficiency and the need for cooperation with other states in the quest for survival and development. In this regard, a country provides aid in the hope of reciprocal benefits. In short, idealism posits that the motives for providing aid and investment are altruistic, and they reflect a genuine desire of creditors to promote longer-term development in recipient states.

## **2. 2. Realism**

Realism, on the other hand, offers a contrasting perspective on international relations, the behavior of states and on the theoretical understanding of the motives for aid and investments. Emerging after idealism, realism represents a critique of idealism, describing the latter as “utopia” that describes the normative outlook of international politics. Realism holds that idealism describes what ought to happen and not what actually happens in international relations (Booth, 1991; Carr, 2001). A central proposition of realism is the dominance of states in international relations and their interaction with each other in an anarchical environment. The persistence of anarchy in the international system results from the absence of a supranational government (comparable to the central authority in a territorial state) to enforce order. In this

anarchical international environment, moreover, morality and ethics have no roles in restraining the actions of states. Realism holds that states are inherently individualistic and resort to self-help instead of cooperation in a bid to survive.

Two other assumptions of realism relevant for the current discussion on China are the preservation of the national interest and the desire to amass power and influence. To be sure, national interest does not only refer to protecting a country's security and its borders, but also pursuing courses of action which together promote the political and economic advancement of states. In this regard, promoting trade and FDI are both elements and instruments of the national interest. The anarchical environment characterizing the international system is also the arena where states pursue their national interests. Such interests are often conflicting, making self-preservation an inevitable principle in international relations. Mutual suspicion among states diminishes the imperative for cooperative action and limits the chances of a state entrusting its security in the hands of another. Thus, self-preservation and the promotion of national interest are central objectives of states in their interaction with each other (Vasquez, 1983, p.18).

A logical consequence for self-preservation and the promotion of national interest is the tendency to amass power. Power is a critical tool in the promotion of a state's interest, and some writings in the classical realist tradition, in fact, contend that international politics is all about power (Morgenthau, 1967). Morgenthau argued further that power was expressed not only in military capabilities, but also in territory, population, resources and the quality of diplomacy. Until the abatement of the Cold War, many realists held the belief that military capabilities were the leading indicator of power. This thinking was informed by the rather narrow perception that threats to the state were essentially external in source and primarily military in nature. Thus, during the Cold War both Washington and Moscow, the leading ideological protagonists, built military arsenals as a means of deterrence, but also as a source of power.

In the aftermath of the Cold War, however, it became clear that the ability to influence other actors in the international system required the possession of additional attributes other than military capabilities.

The abatement of the Cold War saw an expansion in the focus of security to include not just states but more importantly people and economics. The quest for trade, markets and technology became objects of competition among states. What is now decorously referred to, as the “new scramble for Africa” is not just one over territory and domination but more crucially over resources and markets, which have also become symbols of power and influence. China’s engagement with Africa, it will be argued, is influenced by the imperative to gain economic, but also political influence in the region. In the pursuit of this objective, China uses not military might, but aid, trade and FDI. Moreover, for China, Africa is a battleground for which the logic of promoting the national interest dictates that every tactic is used as long as it serves the ultimate ends of self-preservation, national interest and increased economic power. The World Bank, which has been accused by critics of using aid to serve the foreign policy agenda of western states, candidly admitted that foreign aid and FDIs were aimed at promoting long-term growth and alleviating poverty, but also promoting the short-term strategic interests of donors (World Bank, 1998, p. 7). In sum, according to the realist perspective, aid is an instrument for the promotion of a country’s national and strategic interests.

### **3. Background: Sino-African Economic Relations**

Sino-African relations date back to 1949 when the People’s Republic of China was established. However, China’s relations with Africa during the 1950s were largely diplomatic and they had limited trade and investment contents. One of the main concerns of Sino-African relations during the immediate aftermath of the Chinese revolution was the implementation of the “One China” policy by which Beijing sought to counter the diplomatic moves of Taiwan and other constituencies seeking autonomy. Africa thus became one of China’s main diplomatic game fields. China ingratiated itself to Africa by, among other things, identifying with the continent’s anti-colonial sentiment, having itself been a victim of Japanese colonialism. In particular, China established friendships with newly independent revolutionary governments in Africa as part of its anti-colonial campaign. Although China undertook infrastructural

development such as building stadia in friendly African countries, and a railway line in Tanzania, its overall economic engagement with the continent was paltry and minimal. However, China's economic relations with Africa took a radical turn by the end of the 1980s.

From the early 1990s, as China's economic transition resulted in a change from an oil exporter to a net importer, Beijing abandoned its policy of self-reliance and pretence of self-sufficiency which had hitherto guided its development policy as a communist state. China's economy boomed during the 1990s, recording spectacular economic growth rates between 8 and 10 per cent per annum (Mol, 2011, p. 785). China's increased demand for energy and other commodities dictated the need to explore new sources of energy and raw materials. Consequently, China turned to other parts of the world, especially Africa, which had large deposits of natural resources. The infusion of Chinese capital in Africa, however, took a rapacious turn following the government's adoption in 2001 of the *Zou chugu* (go out, go global) policy. Consistent with this policy, private and state-owned enterprises were motivated to be involved in the search for raw materials and minerals from overseas to meet the ever growing demand of the Chinese economy. The *Zou chugu* policy further encouraged Chinese companies to be part of the country's overseas infrastructural development program (Mol, 2011, p. 788). China's objectives in Africa were to access natural resources and, as a logical consequence of its industrial growth, find markets for its products.

On the diplomatic front, China organized a series of meetings of the Forum on China-Africa Cooperation (FOCAC). The first was in 2000 in Beijing, which was attended by no fewer than 44 African countries. The second meeting was held in the Ethiopian capital of Addis Ababa, which is also where the African Union (AU) is headquartered. A third FOCAC meeting was held in 2006 in Beijing and was attended by 48 African countries – almost the entire continent. Each of the FOCAC meetings produced a detailed action plan as well as areas of cooperation and trade between China and Africa (Le Pere and Shelton, 2007, pp. 146-156). Additionally, in the mid-2000s top Chinese statesmen undertook high-profile tours in selected African countries. In addition to cementing relations with Africa, the FOCAC meetings and tours by

Chinese leaders also set the stage for massive infusion of Chinese financial capital into Africa.

#### **4. What China Requires from Africa**

China's major needs from Africa are minerals, raw materials, and markets, which it seeks to secure through investments, trade and foreign aid. The main minerals demanded by the growing Chinese economy are aluminium, copper, nickel and especially crude oil. It has been estimated that China will, in the next 10 years, replace the United States as the leading consumer of crude oil (Hanson, 2008). In 2010, China surpassed the United States as the leading nation in terms of energy consumption. The increasing demand for these natural resources led China to undertake massive investments in mines and in oil exploration in Africa. While Africa is by no means the sole external source of crude oil for China, as it continues to rely on the Middle East, its supply accounts for 80 per cent of China's trade with the region and a third of its total oil imports. Since crude oil is among the leading requirements of the Chinese economy, Chinese investments are disproportionately higher in oil producing Sub-Saharan African countries. For example, oil-endowed countries such as Angola, Ethiopia, Nigeria and Sudan attract 70 per cent of China's infrastructural projects in Africa.

The exact number of Chinese companies investing in Sub-Saharan Africa remains an issue of speculation, as much of China's overseas investment data is shrouded in secrecy. However, both the United Nations Conference on Trade and Development (UNCTAD) and the Export-Import Bank of China (Exim Bank) reported that by 2005, between 700 and 1000 Chinese companies were investing in the region (Mol, 2011, p. 788). While the major Chinese off-shore oil and energy companies investing in Africa remain the China National Off-Shore Oil Company (CNOOC), the China Shenhua Energy Company, the China Petroleum and Chemical Corporation (Sinopec) and the China National Petroleum Corporation (CNCP), a lot more private and smaller state-owned companies joined the fray by 2008 and were engaged in oil and mineral mining operations in no fewer than thirteen African countries (Raine, 2009, p. 35). It is noted that Chinese companies are currently

operating in 49 African countries and involved in over 300 projects with investments worth billions of dollars (Le Pere and Shelton, 2007, p. 150). In addition to oil, mineral, and gas exploration, Chinese companies have also been involved in a number of sectors, including commercial logging in Equatorial Guinea and Liberia, sisal agriculture in Tanzania, soya processing in Mozambique, and textile manufacturing in Kenya and Lesotho (Alden, 2007, p.13; Akokpari, 2005).

In addition to the exploitation of natural resources, China has also been interested in deepening trade relations with Africa. An inevitable outcome of China's industrial development during the last two decades is the need for overseas markets. Recognizing Africa as an important market, the Chinese government has established trade promotion centers across the continent and opened a branch of the Bank of China in Lusaka, Zambia, in 1997 (SWB, 1998). As noted, China's "go global" policy led to an influx of Chinese companies — both private and state-owned — in Africa. By 2007 Chinese companies were involved in various ventures across Africa, some in the retail industry and selling low-cost Chinese products (Hanson, 2008). China's exports to Africa have largely included manufactured goods, electronics, machinery and medical supplies (Broadman, 2008). China's biggest trading partners in Africa have been those mineral-endowed countries with bigger Chinese investments — Angola, Equatorial Guinea, Gabon, Nigeria, Republic of Congo, Sudan and Zambia (Alden, 2007, p.14). In total Africa's imports from China reached \$73 billion in 2011, an increase of 23.7 per cent of the 2010 value (Gray, 2012).

At the same time Africa's exports to China have grown. This has been facilitated by China's elimination of tariffs since 2005 on some 440 products, including food, textiles, minerals and machinery from Africa to the Chinese market. This concession, however, applied only to countries maintaining diplomatic relations with China. Notwithstanding the selectiveness of the concession, Africa's exports to China generally saw a significant annual growth of 48 per cent between 2000 and 2005. This percentage growth was 5.2 and 4 times as fast as Africa exports to the United States and European Union, respectively, during the same period (Broadman, 2008). The rise and growth of the Chinese middle class, whose demand for value-added items such as cotton and food products

that have undergone processing in Africa, further helped the rapid expansion in African exports to China.

Alongside investments and trade, Chinese aid to Africa has also increased. Chinese overseas development assistance (ODA) has taken the form of grants, humanitarian assistance, technical and military aid, and debt remission. Like western aid, China ODA to Africa is largely bilateral. China deals with each African recipient country as a separate entity and on its own merit. However, because of the lack of transparency and the general secrecy which often characterize Chinese aid disbursements, accurate figures on Beijing's actual aid to Africa are not readily available. As such only a proportion of known Chinese aid is officially classified as ODA, which is defined as "flows of official financing to developing countries provided by official agencies which have a clear development or anti-poverty purpose and are at least partially concessional in nature" (Lum *et al*, 2009, p.1). Nevertheless, the evidence suggests that China has become a major disburser of aid to Africa in recent years. As noted, China committed to providing ODA to the tune of \$10 billion between 2009 and 2012 to Africa, a dramatic increase on the \$800 million it provided in 2005 (Ali and Jafrani, 2012).

Chinese aid has become attractive to Africa because it lacks the intrusive conditionalities that have attended western ODA, and hence easier to access. Chinese leaders have maintained that the primary motive behind their foreign policy is economic and not political. In a visit to Africa in 2004, Chinese president Hu Jintao stated his country's desire to strengthen cooperation with Africa "free of political conditionality and serving the interest of both Africa and China" (Le Pere and Shelton, 2007, pp. 130-131). This position was in line with China's policies of respect for the sovereignty of states and the non-interference in the internal affairs of countries. This stance was re-echoed by a Chinese Foreign Ministry spokesperson in October 2006: "China has adopted the principle of non-interference of other nations' internal affairs in its foreign relations. China does not accept any country imposing its values, social systems and ideology upon China. Neither will China allow itself to do so to others" (Cited in Bosshard, 2008, p. 11). Accordingly, China has found it expedient not to mix politics and commerce. In a response to criticism about its insensitivity to human rights abuses in Sudan while

doing business in the country, former Chinese deputy foreign minister, Zhou Wenzhong, stated in August 2004, “Business is business. We try to separate politics from business....” (French, 2004). China maintained further that human rights were relative and there could be no universally established definitions for them. Consistent with this position, China neither demand democratic reforms nor adherence with the rule of law from its African clients. Indeed, some have suggested that China’s obsession with maintaining “economic success at home does not give [its] policy makers the luxury of conditional involvement on the African continent” (Le Pere and Shelton, 2007, p. 123).

Africa’s errant and rogue states which have been targets of western scorn and vilification, as well as the bulk of African regimes, which have perceived western aid conditions as intrusive and irritating, have found China a more accommodating and friendlier source of aid. The rogue states have become the major beneficiaries of China’s international diplomacy. Sudan, for example, has profited immensely from Chinese protection, which enabled President Omar al-Bashir to survive global condemnation over his regime’s atrocities in Darfur. Similarly, Robert Mugabe’s ZANU-PF government has been extremely relieved to find an alternative source of credit in China, which prescribes less stringent conditions, after being shunned by the west and the International Monetary Fund as a pariah regime.

### **5. Is Chinese Aid to Africa Truly Unconditional?**

In practice, however, the claim that Chinese aid is unconditional is often overstated and plays down the underlying motives for Chinese capital investments in Africa. China is a typical state in the international system with an agenda to pursue and an interest to promote. Thus, notwithstanding the kind words that are used to describe its generosity (see Sautman and Hairong, 2007), China is mercantilist and realist in economic ideology, and nothing could be further from the truth. Despite its pretence to be friendly, China’s aid to Africa does not arise out of sheer philanthropy. As Mason (1962, p. 3) noted several decades ago, “foreign aid programs are shaped by the interest of the aid-giving countries primarily in mind.” China is no exception; its aid is designed

to meet the policy objectives of its government. As such, in meeting its foreign policy objectives, Beijing's aid to Africa could not be unconditional. In fact, at least three conditions, even if less intrusive as those from the west, can be discerned from Chinese aid.

First, African recipients of Chinese aid are required to sever relations with Taiwan in line with Beijing's "One China" policy (Pehnelt and Abel, 2007). No African country currently receiving official Chinese aid maintains diplomatic ties with Taiwan. Even South Africa, the economic giant of Africa, which would ordinarily have been expected to resist, has succumbed to this particular Chinese aid conditionality. For example, it was widely believed that South Africa's refusal to grant an entry visa to Tibet's exiled spiritual leader, Dalai Lama in early October 2011 to attend the birthday celebration of fellow Nobel Prize laureate, Archbishop Desmond Tutu, was the result of Chinese pressure. In recent years China has provided a huge market for South African products. For example, South African agricultural exports to China grew by 30 per cent, from \$112 million in 2006 to \$247 million in 2009 (Sandrey et al, 2008). South Africa maintains a heavy business presence in China. Among the South African companies in China are SABMiller, a South African brewery company, which holds equity in about 30 local breweries (Goldstein, 2004); SASOL, which is investing heavily in China's petroleum sector; and ABSA Bank and Nedcor which have also made significant inroads into China's financial sector (Kaplinsky et al, 2006, p. 21).

South Africa has hosted the highest number of Chinese investments and, by 2001, had the second largest value on the continent after Zambia (World Bank, 2004). Moreover, South Africa's recent admission into BRICS, a new economic bloc, comprising Brazil, Russia, India and China, limited Pretoria's ability to contradict China, which has influential status in the bloc. As the *New York Times* quoted Desmond Tutu in his frustration, "clearly they [the South African government] were quite determined that they [were] not going to do anything that would upset the Chinese" (Polgreen, 2011). Today, of the 23 countries worldwide maintaining diplomatic relations with Taiwan, only four — Burkina Faso, Gambia, Sao Tome and Principe, and Swaziland — are African countries. Confronted by severe cash shortage, it is a matter of time for Swa-

ziland to change its position on Taiwan and switch allegiance to China. Gambia, too, is likely to sooner rather than later shift towards China as the regime of Yahya Jammeh's appalling human rights record continue to make international headlines (Amnesty International, 2011).

Second, China often insists that disbursing Chinese banks should tightly control aid disbursement to Africa. Like Western creditors, Beijing insists that aid money is used specifically for the intended projects (Alden, 2007, pp 45-46; Hanson, 2008). While this requirement is good for Africa where aid money frequently disappear into private bank accounts of politicians, this still represents a condition since it denies recipient countries the freedom to use such money where unforeseen economic exigencies dictate. Related to aid is a further condition that countries unable to meet debt repayments targets do so through mineral concessions and exportation of cash crops and mineral resources to China. Zimbabwe acceded to this condition when it could not repay its debt owed to China (Hodzi, 2009, p. 75). The difference between China and the Paris Club on debt is the possibility of the latter allowing for debt rescheduling. While debt rescheduling compounds the interest on the original loan, it nonetheless offers debtors the much-needed time to service their debts. More critically, in spite of its negatives, debt rescheduling seems a better option than selling off a country's natural resources for cheap. Consistent with the logic of its engagement with Africa, China is interested in cheap natural resources, and not in debt rescheduling.

Thirdly, China has often insisted that at least 70 per cent of workers on Chinese-funded infrastructural projects in Africa, where unemployment figures are already staggering, be Chinese. Unemployment is rife in Sub-Saharan Africa, and by employing only 30 per cent of workers on Chinese projects, employments which are temporary anyway, Beijing does little to alleviate the situation. Thus, the \$40 million state of the art parliament building constructed by China in Lilongwe, Malawi, hardly alleviated the unemployment situation in the city, even temporarily. Worse yet, China makes no efforts to train the company's in-country workforce. There is a general concern that Chinese failure to employ local populations "deprives Africans of innumerable employment opportunities" (Rotberg, 2008, p. 11). Moreover, Chi-

na stipulates that at least 50 per cent of supplies and equipment used in projects financed by Chinese concessional loans and grants be procured from China. This condition intrinsically gives preference to Chinese companies over bidding companies from other countries in the award of contracts. Yet, even fundamentally, China funds projects only on condition that technical feasibility studies show that such ventures would bring economic dividends to Beijing (Hodzi, 2009, p.76). In short, while Beijing may not specify western-styled, democracy-related conditions, its aid is, in fact, not untied.

Chinese aid is largely low-interest loans and is mostly meant for infrastructural development, mainly roads and railway construction and hydropower ventures. Typically, these are projects implemented by Chinese contractors. In their report to the United States Congress, Lum *et al*, (2009) note that between 2002 and 2007, 54 per cent of Chinese aid and investment in Africa went to infrastructure or public work projects, 28 per cent to extractive and natural resource, with a meager 2.5 per cent going to humanitarian activities, technical assistance and military aid. Moreover, the distribution of aid in actual figures showed that \$22.379 billion was given as concessional loan, \$8,042 billion as government sponsored investment, and \$1,851 billion as grant money. The comparatively meagre fraction of total aid given for humanitarian assistance underscores the claim that far from being philanthropic, Chinese aid is meant to attract interest even if repayment terms appear more generous than western aid. Ultimately, China's objective is to maximize its national interest. China has implicitly made this clear as Halper (2010) notes:

African and Asian ambassadors [at the UN] have made off-the-record statements suggesting that China uses its aid and trade as leverage to make them tilt away from U.S. initiatives. If countries do not toe Beijing's line or don't abstain when asked, their economic projects could be put at risk.

In the end, China's aid conditionalities are not too different from the west. Chinese aid conditions are aimed at enhancing Beijing's ability to meet its foreign policy objectives, including promoting its national interest.

Two financial institutions that have played a central role in the disbursement of Chinese aid and the financing of investment projects are the Exim Bank of China and the China Development Bank (CDB). The Exim Bank's official mandate is to provide loans to overseas governments and also finance Chinese companies in the implementation of "state policies in industry, foreign trade and economy finance and foreign affairs" (Downs, 2007, p. 52). In 2005 the bank disbursed \$15 billion in financing, a figure that surpassed that of the World Bank. By 2007, the bank was financing ventures in 36 African countries and had 259 projects spread across Africa under its portfolio, many of which were concentrated in Angola, Mozambique, Nigeria, Sudan and Zimbabwe. These projects portfolios were mainly in the power, transport and telecommunication sectors (Bosshard, 2008, p. 2; Alden, 2007, p. 25). The CDB also financed a number of investment projects, although it specializes in financing equity investments. However, its disposable capital is much smaller than the Exim Bank. The CDB began with an initial capital of \$1 billion. This was expected to rise to over \$5 billion. The CDB is in the process of establishing a China-Africa Development Fund to finance equity investments in infrastructure projects in Africa (Bosshard, 2008, p.3). The reality of Chinese capital investments in Sub-Saharan Africa cannot be seriously disputed. What remain polemical, however, are the real benefits and costs of Chinese capital investments for Africa, an issue to which we now turn.

## **6. Chinese Capital – the Benefits to Sub-Saharan Africa**

African leaders have been the main admirers of China and its economic relations with the continent. In a speech on behalf of the Southern African Development Community (SADC), Lesotho Prime Minister, Pakalitha Mosisili, described the 2006 China-African summit as "a landmark of hope"(Le Pere and Shelton, 2007, p. 154). Similarly, impressed by the speed at which infrastructural projects were carried out in the country, Ethiopian foreign ministry officials depicted China not only as a genuine development partner, but also as a source of admiration and inspiration: "Never in modern history has a nation successfully made such a determined and massive effort as China in achieving pro-

gress within such a short span of time. Ethiopia has been following this remarkable achievement with great interest and admiration" (Alden, 2007, p. 35). The question is, what has been the basis for such affability towards China? African leaders generally point to some of the following benefits.

First, China not only provides aid and credit, but also does so without stringent conditions. At the 2006 FOCAC summit in Beijing, Chinese president Hu Jintao announced to the African delegates that China would provide \$3 billion in preferential loans and an additional \$2 billion in preferential buyers' credit to Africa over the next few years. He stated further that total Chinese aid to Africa was expected to double by 2009 (*ibid*). Today, nearly all Sub-Saharan African countries have benefited from either Chinese concessional loans or loans for infrastructural development mainly in transportation, telecommunication, ports, roads and highways and telephone systems. China's readiness to provide such assistance has especially been gratifying to the demonised "rogue" states of Africa which otherwise have no hopes of obtaining western credit. Also, as noted, China provided assistance in the form of debt remission to the tune of \$10 billion. John Shinkaiye, the African Union Commission's chief of staff, expressed appreciation for China's respect for Africa in its aid dealings, and noted: "China has assisted Africa with her development enterprise without demanding that Africa must become China or imitate China" (Xinhua News Agency, August 29, 2011).

Second, African countries have admired the speed at which credit arrangements were concluded with China, in contrast to the circuitous and dense bureaucracy which they must permeate in accessing aid. As Sahr Johnny, the Sierra Leonean ambassador to Beijing, stated:

The Chinese are doing more than the G8 to make poverty history...If a G8 country had wanted to rebuild the stadium, we'd still be holding meetings! The Chinese just come and do it. They don't hold meetings about environmental impact assessment, human rights, bad governance and good governance. I'm not saying it's right, just that Chinese investment is succeeding because they don't set high benchmarks (Quoted in Hilsum, 2005).

Thus, in terms of speed and lack of hassles in concluding investment deals, China seems preferable to western aid.

Third, China creates jobs through its investments and private companies. This is desirable in a region where the average unemployment rate is over 20 per cent. Countries like Liberia and Sierra Leone, which have recently emerged from violent internal conflicts, have much higher unemployment rates. In spite of the prescription for 70 per cent of the work force on its funded projects to come from China, some argue that Chinese funded projects nonetheless alleviate unemployment, even if marginally and temporarily. Thirty per cent of workers employed from within local communities on Chinese funded projects are seen by some as better than nothing. Private Chinese companies not officially funded by the Chinese government or major Chinese banks, however, are not constrained by the conditionality to draw 70 per cent of their labor forces from China. These companies enjoy the freedom to employ mostly locals. In some Sub-Saharan African countries, therefore, Chinese have created jobs. In Lesotho, for example, the Ministry of Trade and Industry reports that Chinese-owned textile factories employ more than 40,000 Basotho (IRIN, 2008). This figure excludes the number of Basotho employed by smaller Chinese retail shops scattered across the Mountain Kingdom. This is a country with a total workforce of less than one million. Chinese in South Africa and Zambia, where the former have large business communities, have employed locals.

Fourth, Chinese bring in cheap and less expensive products that meet the purchasing power of the largely impoverished African population. The prices of Chinese merchandise are comparatively lower than wares from shops of other nationals. In their study of Chinese businesses in Oshikango, a small trading town in Namibia on the border with Southern Angola, Kaplinsky *et al.* (2006, p. 21) noted that Chinese traders imported basic consumer goods, including textiles, clothing, mattresses, electronics and footwear, which were sold to local consumers at incredibly low prices. For example, with \$100 a customer could buy a carton of 300 shoes. Low prices have been the hallmark of Chinese merchandise across Sub-Saharan Africa. In most cases, however, Chinese products, including electronic goods have been found to be of inferior quality and not durable. They are not often covered by

warranty, and although cheaper, buying them is always a gamble. Corruption is rife in China, and this allows supervising officials to overlook the manufacture of sub-standard products. For the impoverished populations of Africa, however, Chinese traders offer affordable merchandises.

Sub-Saharan African governments are also glad to receive education and technical assistance from China. At the 2006 FACOC meeting, the Chinese government committed itself to training 15,000 African professionals, building schools and hospitals, establishing malaria prevention centers and doubling the number of African students receiving Chinese scholarships (Le Pere and Shelton, 2007, p. 154). True to its word, China has deployed doctors and other health professionals to treat sick Africans and has also hosted thousands of workers and students from Africa in Chinese universities and training centers. By 2005 China had granted scholarships to more than 18,000 Africans, and sent 15,000 medical workers to Africa who treated over 170 million patients (*ibid*, p.157). At a time when the west is reducing the number of scholarships to African students and workers, the Chinese gesture would seem appreciable to Africa.

Sino-African relations have led China to support some major African initiatives. China has pledged support for the African Union's security program. In addition to providing varied forms of military aid to individual African countries, China has, in recent years, supported the African Union's post-Cold War peace and security architecture. It has, for example, contributed peacekeepers to United Nations missions in Liberia and Darfur. China was influential in getting Sudanese president Omar Al-Bashir to accept the deployment of a joint AU-UN hybrid force in Darfur in 2007. As well, China was instrumental in getting the governments of the Democratic Republic of Congo (DRC) and Rwanda to resolve the conflict in eastern DRC. China has also become the biggest single military aid supplier to Sub-Saharan Africa. According to a report by the NGO, Saferworld, during the 2006-2007 period China's military aid transfer agreements with Sub-Saharan Africa totalled \$600 million. This exceeded the corresponding figures for Russia (\$200 million) and the US (\$166 million) during the same period (Saferworld, 2011, p. 45). In addition, China has built a new \$200 million African Union Commis-

sion headquarters in Addis Ababa as a gift to the continent. China has been praised for siding with Africa on important international issues. However, it surprisingly abstained from voting on United Nations Security Council Resolution 1973 which imposed a “no-fly zone” over Libya in March 2011. As a permanent member of the Security Council, a veto vote would not have made the NATO’s brutal military assault on Libya possible. Moreover, China failed to fully support Africa’s position during the November 2011 COP17 international conference on climate change in Durban, South Africa.

### **7. Chinese Capital in Sub-Saharan Africa – the Costs to Good Governance**

The illusiveness of governance has been identified as a major cause of underdevelopment in Sub-Saharan Africa (World Bank, 1981; Guest, 2004). Poor governance in Africa has been reflected in widespread corruption, especially among political elites, lack of respect for human rights and the rule of law, lack of transparency and accountability, dictatorship and personalized rule and the over centralization of power. Since the end of the Cold War, aid conditionalities, such as the requirements to democratize political spaces, organize free and fair elections, respect human rights, and establishing a culture of transparency imposed by the west have helped to mitigate some of the poor governance practices in Africa. Thus, as a result of such conditions, elections have been held in many African countries, while authoritarian regimes have been displaced and replaced by democratic and human rights-respecting regimes.

However, in spite of these gains the governance situation in Sub-Saharan Africa is far from perfect. The region still experiences fraudulent elections and the emergence of what Diamond (1997, p. 3) has described as “pseudo-democracies”, human rights violations and genocides. China’s lack of insistence on good governance, and more worryingly its support for regimes with poor human rights record, undermines the modest gains Africa has made in entrenching good governance. China disdains the meddling in the internal politics of countries, but seems to have underestimated the connection between good governance and development. Studies have emphasized the im-

portance of good governance to sustainable growth and development (World Bank, 1998; Santiso, 2001; Guest, 2004). While conditionalities may be criticized for being morally repugnant, they nevertheless remain the most potent method for compelling stubborn African regimes to conduct themselves in accordance with internationally acceptable norms. China's tacit support or its failure to chastise errant recipients of its aid undermines Africa's efforts to achieve good governance.

Worryingly, too, China always rescues African regimes that have been denied western aid in reaction to their poor governance performances. For example, in mid-2005, western creditors hesitated to grant a loan facility to Angola because of concerns over the government's human rights record and lack of transparency. China came to the aid of Angola with a loan of \$2 billion and a further \$2 billion in 2006 (Kaplinsky *et al.*, 2006, p. 30). Similarly, after been blacklisted for failing to repay existing loans and having been isolated by the international community over human rights concerns, the Exim Bank of China granted concessional loans to the Zimbabwean Ministry of Water for infrastructural development in 2001. Robert Mugabe's regime continues to enjoy strong friendship with China, receiving Chinese aid and investments worth billions of dollars. China remains the key investor in, and source of credit to Zimbabwe. Sudan is another major beneficiary of China's "no interference" policy. China has provided aid worth millions of dollars to Khartoum. It has so far donated \$11 million in humanitarian aid to Darfur, \$1.8 million toward peacekeeping efforts in that country and cancelled \$70 million of Sudan's bilateral debt to China (World Savvy Monitor, May 26, 2008). On his state visit to China in June 2011, Omar Al-Bashir praised China for its support to his country and recalling, "[W]hen the American companies refused to work in the oil fields and when restrictions were imposed on the Western companies operating in Sudan, we found in China the real partner" (Spegele and Dean, 2011). China is the main foreign investor in Sudan's oil sector. It is also one of the main importers of Sudan's crude oil. In 2008, its crude oil imports from Sudan were 9 million metric tons, this increased by 33 per cent to 12 million metric tons in 2010 (*ibid*). China is Sudan's most reliable trade partner.

Moreover, Chinese aid gives African states leverage around tight western conditions. Today, African countries can stand up in open defiance to the West's calls for the respect of human rights, knowing well that China is ready to fill any void left by departing western companies or cuts in aid. In addition to countries which are predominantly Islam and in which same sex relations are never contemplated, let alone practiced, a number of other African states, including Ghana, Malawi, Nigeria, Uganda, Zambia and Zimbabwe, have passed laws criminalizing homosexual relations. This was done in defiance of British and American threats to cut aid to countries that discriminate against homosexuals. Sudan has continued to defy the voice of the international community over its policies in Darfur — all because of the certain assurance that China would step in almost immediately when western credit lines are severed. Recalcitrant African regimes are boastful of the fact that the previously tight control the west exercised over their domestic policies has now waned because of China. However, as one African commentator candidly put it, China's passiveness on human rights, transparency and democratic norms "indirectly encouraged the return of political authoritarianism in Africa" (Brautigam, and Gaye, 2007).

Equally injurious to governance, peace and stability is China's military aid to Africa. China military arms sale to the continent equalled \$1.3 billion in 2003, a figure that was twice the value of British arms sales to Africa. (Alden, 2007, pp. 25-26). Beijing has since the mid-1990s been supplying arms to the Sudanese military. The value of China's military aid to Sudan between 1996 and 2003 totalled over \$100 billion and included tanks, ammunitions, helicopters, and fighter jets (Brown and Sriram, 2008, p. 257). Human Rights Watch (HRW) documented that during Khartoum's war against the Sudan People Liberation Movement/Army (SPLM/A) this military hardware were part of the machinery used to brutalize and forcefully displace civilians from areas earmarked for Chinese oil exploration between 1998 and 2001 (HRW, 2003). China's small arms export to Sudan increased 137 times between 2001 and 2006, some of these exports occurring after the United Nations Security Council passed Resolution 1591, imposing an arms embargo on Sudan in March 2005. Chinese arms companies have, in fact, established small arms factories in Sudan for manufacturing light weapons for use in the

region (Alden, 2007, pp. 25-26). Presently, the conflict in Darfur rages on with high civilian casualties and with little prospects of ending because of Chinese military aid to Khartoum. As well, Chinese military assistance to Angola enabled the Luanda regime to perpetuate human rights abuses against its opponents in the Cabinda province (Laufman, 2010, pp. 64-65, 68-69). Zimbabwe, too, has regularly received arms shipments from China. However, in early 2008, a ship carrying arms from China meant for Zimbabwe was prevented from unloading its cargo in the South African port of Durban because of concerns that Harare would use the weapons against its citizens. This was a time of increased government atrocities against opposition elements (Tran, 2008). China has also sold arms to conflict-ridden Sierra Leone, Democratic Republic of Congo, Chad, as well as Ethiopia and Eritrea during the 1990s, thus fuelling conflicts in those countries (Hansen, 2008).

In dealing with its African clients, China has frequently engaged in unethical business practices and provided bad examples. Some Chinese transactions with African states have been secretive and lacked transparency. The OECD countries require members to conduct business in transparent ways. Transparency is required during bidding for contracts and the disbursement of foreign aid. However, Transparency International (TI) has cited China as willing to pay bribes to African governments in a bid to secure contracts. *The New York Times* carried a story in its September 22, 2009 issue in which it provided details of an investigation into Nuctech, a Chinese company, over charges that it secured a government contract through bribing of Namibian officials. It was alleged that Nuctech, whose president at the time was the son of the Chinese leader, Hu Jinato, aimed to share a concessional loan of \$100 million provided to Namibia by the Chinese government. Although Nuctech denied any wrongdoing, Chinese officials have so far failed to cooperate with Namibian authorities investigating the allegation (LaFraniere, and Grobler, 2009). Similarly, Chinese companies' blatant disregard for fair labor practices is disconcerting. It was noted, for example, in Angola that Chinese construction workers were paid the equivalent of \$1 a day, in contrast to the \$3 to \$4 per day contractually required to be paid to workers by non-Chinese companies. The point is Chinese companies are not constrained by Angolan labor laws, thereby

giving them an unfair advantage over other foreign firms (Alden, 2007, pp. 45-46). Chinese companies take advantage of the dearth of jobs to underpay their African workers (Akokpari, 2005). Surely, the lack of transparency, corrupt deals and unfair labor practices are not good examples for Africa's fledgling democracy, governance and development.

Worse yet, the influx of Chinese goods and companies into sectors previously dominated by locals has resulted in the destruction of local industries, the creation of unemployment and the causing of social unrests. The textile and leather industries have been particularly affected. The floods of lowly priced Chinese textiles and leather products, along with Chinese companies entering these sectors, have truncated the ability of local industries to stay in competition. Consequently, nascent industries in these sectors in Kenya, Lesotho, Mauritius, Nigeria and South Africa, just to name a few, have either had to close down or lay off significant numbers of the working forces, in the process compounding the already grave unemployment situation in these countries. Kaplinsky *et al.* (2006, p. 13) have noted that between 2004 and 2005 alone, employment in the textile industries plummeted by 9.3 per cent in Kenya; 28.9 per cent in Lesotho; 12.2 per cent in South Africa and a whopping 56 per cent in Swaziland. In Zambia, a textile factory built and supported by China in Mulungushi in the 1970s was closed in 2007 due to competition from Chinese textile export to Zambia. Ironically, the closure occurred when Chinese President Hu Jinato was visiting Zambia. The closure of the factory cost the jobs of 1,000 Zambians (Kaplinsky, 2008, p. 12). Similarly, a study of 96 micro, small and medium-sized local enterprises in the shoe industry in Ethiopia found that 28 per cent became bankrupt while 32 per cent had to downsize. Moreover, employment in the micro-industries fell on the average from 7 to 4.8, and those of small-to-medium enterprises from 41 to 17 employees (Egziabher, 2006). The demise of industries and loss of jobs is the fate of nearly all Sub-Saharan African countries where Chinese have entered into the textile and leather industries. This has serious implications not just for short-term employment but also for long-term industrialization in the region.

In addition to causing unemployment which has a potential of generating social tensions, Chinese investments also degrade the environment which can lead to conflicts and induction of eco-refugees. Chinese investments impact negatively on the environment partly because of Beijing's lack of guidelines such as those adopted by western firms (Bosshard, 2008, p. 3) and partly because of China's prioritization of economic development over environmental conservation. The major Chinese investments in Africa are mostly concentrated in oil and gas exploration, hydropower, mining and timber extraction, all of which are environmentally sensitive ventures. Since Chinese investments are not guided by any environmental protection standards, they have tended to degrade the environment. The construction of hydropower dams, for example, displaces populations and floods neighboring game reserves, as witnessed in the cases with the Chinese-funded Merowe and Bui dams in Sudan and Ghana, respectively. Oil exploration pollutes the environment and damages the natural habitat of game and fish while excessive timber lumbering facilitates deforestation, soil erosion and ultimately desertification (Bosshard, 2008). The negative impacts of Chinese capital investment projects in Africa have generated complaints by international NGOs and civil society groups across Africa (Mol, 2011, p. 790). Chinese investments are thus coming to Africa at a cost.

## **8. Conclusion**

China has during the last two decades invested massively in Sub-Saharan Africa, along with deepening trade and providing concessional aid. African leaders have mostly welcomed China as a good partner in development. However, this article has attempted to show that far from being a humanitarian agency, China's commercial involvement in Africa has been motivated by the imperative of promoting its national interest. China is interested in Africa's natural resources, including oil, minerals and timber to meet the demands of its growing economy. To gain these resources, China uses investments, trade and aid with Africa. While the Sub-Saharan African countries appear to benefit from such investments, aid and trade, the bulk of the benefits accrue

to China. Moreover, contrary to popular opinion, Chinese aid is tied. While Chinese aid conditionalities are not governance-related, they are meant to enable Beijing to derive maximum benefits from its economic engagement with the African region. While the West attaches conditions aimed to promote good governance to the ultimate benefit of Africa's development, Chinese conditions are aimed at benefiting its economy.

Importantly, the seeming benefits to Africa from Chinese economic engagements in the form of aid, investments, trade, employment and friendship conceal the more damaging consequences of Sino-African economic relations. These are reflected in the promotion of authoritarian leaderships, violation of human rights, the escalation of unemployment, the stifling of industrialization, as well as the facilitation of environmental degradation which together are potential sources of social tensions, conflicts and underdevelopment. These disconcerting tendencies are a serious negation of the gains Africa has made in governance. In the end, the seeming short-term gains from Chinese capital are at a cost to Sub-Saharan Africa long-term peace, stability and development.

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