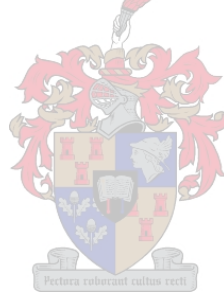


***The role of the China-Africa Development Fund in China's Africa Policy***

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Thesis presented in partial fulfillment of the requirements for the degree of  
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Supervisor: Dr Sven Grimm

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## DECLARATION

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## ABSTRACT

China and Africa's increased interaction over the past decade has received attention from the media, academics, economists and politicians alike. The rise of China as a potential world economic power has sparked both concern and suspicion. Concern over China's impact in African states has been voiced by Western and African leaders. The Chinese economy has experienced robust growth since embarking on ambitious reforms to open up its economy to outside investment and trade, as well as policies geared towards encouraging Chinese enterprises to go abroad. China's rise in importance in the international arena has led to increased scrutiny of its foreign policies and internal policies. In order to gain a balanced view of China's engagement in African states it is necessary to examine the various components of their involvement.

This thesis has chosen to focus on CADFund as its main unit of analysis, and has illustrated that the Fund fulfils both a political and economic role in China's relations with Africa. This study will explore the political and economic motivations behind China's interest in Africa. Conclusions are drawn from the structural organisation, investment approaches and projects of CADFund. The way in which CADFund fits into China's Africa policy will be determined by looking at the Fund's activities and how they fit into the principles set out in China's Africa Policy.

The main question posed by this study was regarding the role which CADFund plays in *China's Africa Policy*. The mandate of the Fund is to provide funding and advisory and support services to Chinese enterprises wishing to invest in African states. With 60 completed projects to date, the Fund has arguably indeed helped to progress the Chinese government's goal of encouraging Chinese enterprises to invest in Africa.

Recommendations for future research are encouraged in order to build on this specific field. For example, more extensive research could be pursued concerning CADFund linkages with the Chinese government. Together with

this, questions regarding the perceived effectiveness of CADFund could also be addressed – specifically by investigating how projects are managed and monitored by CADFund. In these follow-up explorations, theoretical frameworks such as the “principle-agent theory” could also be incorporated as frameworks with which to view CADFund’s relationship with the Chinese government.

## OPSOMMING

China en Afrika se verhoogde interaksie oor die afgelope dekade het baie aandag van die media, akademici, ekonome en politici ontvang. Die opkoms van China as 'n potensiële wêreld ekonomiese mag, het gelei tot beide agterdog en kommer. Kommer oor China se invloed binne Afrika state is geopper deur Westerse sowel as Afrika leiers. Die Chinese ekonomie het ongekende groei beleef sedert hul vertek op ambisieuse hervormings, om hul ekonomie meer vry en oop te maak vir buitelandse belegging en handel, sowel as beleid hervormings wat daarop gemik is om Chinese ondernemings oorsee te bevorder. China se opkoms as 'n belangrike moondheid op internasionale gebied, het gelei tot nadere ondersoek van sy buitelandse beleide. Om 'n gebalanseerde beeld van China se betrokkenheid in Afrikastate te kry, is dit noodsaaklik om verskeie komponente van hul betrokkenheid te ondersoek.

Hierdie tesis kies om te fokus op China-Afrika Ontwikkelingsfonds (CADFund) as die vernaamste eenheid van analise en beskryf beide die fonds se politieke sowel as 'n ekonomiese rol in China se betrekkinge met Afrika. Hierdie studie sal die politieke en ekonomiese beweegredes agter China se belange in Afrika verken. Gevolgtrekkings word gemaak van strukturele organisasie, belegging benaderings en projekte van China-Afrika Ontwikkelingsfonds. Die manier waarop China-Afrika Ontwikkelingsfonds by China se Afrika-beleid inpas, sal vasgestel word deur te kyk na die fonds se aktiviteite en hoe hulle by die neergelegde beginsels van China se Afrika-beleid inpas.

Die belangrikste vraag wat hierdie studie stel, is met betrekking tot die rol wat China-Afrika Ontwikkelingsfonds in China se Afrika-beleid speel. Die mandaat van die fonds is om finansiering, raadgewende en ondersteunende dienste aan Chinese ondernemings te bied wat in Afrika-state wil belê. Met 60 voltooid projekte tot op datum, het die fonds inderdaad gehelp om by te dra tot die Chinese regering se doelwit om Chinese ondernemings aan te moedig om in Afrika te belê.

Aanbevelinge vir toekomstige navorsing word aangemoedig om voort te bou op hierdie spesifieke gebied. Byvoorbeeld, meer uitgebreide navorsing oor China-Afrika Ontwikkelingsfonds se bande met die Chinese Regering. Samehangend hiermee, vrae in verband met die vermeende doeltreffendheid van China-Afrika Ontwikkelingsfonds kan ook ondersoek word - spesifiek deur te ondersoek hoe projekte bestuur en gekontroleer word deur China-Afrika Ontwikkelingsfonds. In hierdie opvolg ondersoeke, kan teoretiese raamwerke soos die "principle-agent theory" ook ingesluit word as raamwerke waarna China-Afrika Ontwikkelingsfonds se verhoudinge met die Chinese Regering gekyk kan word.

## ACKNOWLEDGEMENTS

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*This thesis is dedicated in loving memory of my uncle Richard Matchett*

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## LIST OF ABBREVIATIONS AND ACRONYMS

AfDB	Africa Development Bank
CADFund	China Africa Development Fund
CDB	China Development Bank
EU	European Union
FAW	China First Automotive Works Group
FDI	Foreign Direct Investment
FOCAC	Forum on China Africa Cooperation
MOFCOM	Ministry of Commerce
MFA	Ministry of Foreign Affairs
PRC	People's Republic of China
PAC	Pan African Congress
SOEs	State Owned Enterprises
UN	United Nations
UNDP	United Nations Development Programme
UNSC	United Nations Security Council
USA	United States of America
UK	United Kingdom
WTO	World Trade Organisation

## **CHAPTER 1: INTRODUCTION**

China-Africa relations are a contentious and current topic within academia, the media and the international political arena. Relations between China and Africa are often shrouded in speculative claims and controversial statements (Large, 2008: 45). The China-Africa Development Fund (CADFund) was established as part of the eight measures announced by Chinese President Hu Jintao at the 2006 Forum on China-Africa Cooperation (FOCAC). The establishment of CADFund is part of the Chinese government's practical implementation of some of its plans and objectives for the African continent, of which have been laid out in its Africa policy. *China's Africa Policy* was released by the Chinese government in January 2006. This document outlines the principles upon which the Chinese government basis its relations with African states. It highlights the main political, social and economic areas in which China and African states should enhance their cooperation.

The Chinese government asserts that its relations with African countries are mutually beneficial and that relations result in what has been coined a *win-win situation*. To imply that China-Africa relations are automatically or exclusively *win-win*, oversimplifies the nature of the economic and political interactions between the emerging world power and the world's poorest continent. Whilst China has achieved impressive economic growth in the last two decades, many African states are dealing with fundamental political and economic difficulties. In order to understand China-Africa relations and be able make well-informed deductions about China's involvement in African states, it is necessary to critically evaluate both the political and economic motivations which drive the Chinese government's interest in African states (Taylor, 2009:4). This is also the case for assessing the more specific instrument of CADFund.

One of the main objectives of this study is to gauge the role which the Chinese government plays in CADFund. In academia and media alike, the Chinese government is often portrayed as a kind of monolithic entity which has control over Chinese businesses, organisations and people operating abroad. The Fund asserts that it is an independent organisation and that its decisions are guided by market

principles. From the onset of this study it was known that it is unlikely that the Fund operates completely independently from the Chinese government and yet the degree of involvement was unclear. One theory which would be useful in framing the relationship between CADFund and the Chinese government is the *Principal Agent Theory*. The use of such a theory would help in assessing what kind of mechanism have been put in place by the Chinese government to monitor or even control CADFund's actions (Lipsey and Chrystal, 2007: 220). One idea found in *the Principal Agent Theory* is the notion that the principal, for example the Chinese government cannot control every action of its agent, for example CADFund. So in order to maintain some level of control over the agent, the principal needs to have monitoring mechanisms in place to ensure that the agent is not simply pursuing its own agenda but rather is representing the interests of the principal as well (Lipsey and Chrystal, 2007: 220). The main aim of this thesis is to identify the role which CADFund plays in China's Africa Policy, and therefore the use of the *Principal Agent Theory* was decided against, although elements of the theory are alluded to in the study when discussing some of the misconceptions regarding the Chinese government and its involvement with CADFund and when looking at the organisational structure of CADFund.

## **1.1 PURPOSE AND SIGNIFICANCE**

The purpose of this thesis is to investigate questions pertaining to the *how* and *why* CADFund was established. The main research question of this thesis is "what is the role of CADFund in China's Africa Policy?" Questions pertaining to *drivers* of China's interests in African states will be investigated by examining the political and economic advantages which African states offer Chinese actors. This study aims to contribute to the academic debate by examining the broader nature of China's involvement in Africa and more specifically the role which CADFund plays in China-Africa relations.

One of the main objectives of this study is to gauge the involvement of the Chinese government in CADFund.

In summary, the purpose of this study is:

- a) to gauge what the main strategic interests of the Chinese government in Africa are and determine how CADFund is helping the Chinese side to progress their strategy.
- b) to investigate the Fund's activities to date against the backdrop of its mandate
- c) to highlight the role and approach of Chinese institutions such as FOCAC in *China's Africa Policy*.
- d) to investigate how CADFund operates
- e) to assess the possible role which CADFund is playing in *China's Africa Policy*

## **1.2 LIMITATIONS AND DELIMITATIONS**

One important limitation of this research concerns questions of conceptualisation. Key concepts in this discussion may be defined differently from the classifications used by other sources in the literature. The concept of what is meant when speaking of 'China' may differ from source to source. As will be explored in this thesis, China constitutes a range of actors including the Chinese government, Chinese enterprises, Chinese institutions etc. Which actors are taken into account, by various authors, when using the term China is important as it impacts on the over understanding of Chinese involvement in Africa. In order to remedy somewhat the pitfalls associated with inconsistent conceptualisations of key concepts, effort will be made to be as concise and descriptive as possible regarding which Chinese actors are being referred to.

Limitations concerning literature exist with regard to availability and quality. Discrepancies also occur in terms of the various methodologies and data-gathering techniques employed by researchers. While there has been a substantial amount written about China-Africa relations regarding their historical, economic and political engagement, few academic pieces have been written specifically on CADFund and its functioning. To overcome this gap in academic literature, news articles and interviews pertaining to CADFund have been utilised along with academic literature regarding various aspects of China-Africa relations. By doing so this study aims to provide a clearer understanding of what role CADFund is playing in China-Africa relations.

Regarding the interviews conducted for this thesis. One key limitation was the fact that the interviewees, in general, gave information found on the website and in CADFund's official brochure. As a result the interviews did not provide a substantial amount of new information or personal insight regarding the Fund. The reluctance of the interviewees to divulge personal insight regarding the Fund meant that the true inner workings of the Fund were not made clear. The use of more interviewees would have been useful. Interviews with those involved in projects set up by the Fund would have been useful, as it may have provided insight into the procedures which guide projects. Interviewing a representative from the government where the projects are set up, who had dealt with CADFund, would have provided a better understanding of the effectiveness of the Fund and its projects.

This study will be delimited to the use of English sources. Although not a significant shortcoming considering that much of the literature, including official Chinese government papers regarding Africa, are published in English, it is necessary to bear in mind that no reference will be made to Mandarin sources. Furthermore, the focus of this thesis is on China's relations with Africa and not on Africa's relations with China, despite the overall importance of this perspective. .

### **1.3 STRUCTURE AND CHAPTER OUTLINE**

Chapter 2 will briefly examine the history of China and Africa's relations, this chapter will also discuss the formation of FOCAC. The chapter will also discuss *China's Africa Policy*, focusing on statements made in the Policy. The establishment of CADFund will also be briefly discussed. Chapter 2 aims to provide the background and context upon which the remainder of the thesis will be based.

The next section of this thesis, chapter 3 and 4, will investigate some of the leading political and economic motivations for China's interest in African states. Economic factors such as resources and markets will be examined in chapter 3. Chapter 4 will focus on political motivations for China's involvement in Africa such as South-South Cooperation, the need for international allies and the working towards creating a positive image will be addressed.

The focus of chapter 5 will be on CADFund and how it operates as an institution. The structure and investment approaches of the organisation will be discussed. Some of the main projects which the Fund has been involved in will be discussed.

To conclude chapter 6 will analyse CADFund's role in *China's Africa Policy*. The main findings of the preceding chapters will be presented in chapter 6.

#### **1.4 LITERATURE REVIEW**

The sources consulted in this thesis display a predominant focus on China and Africa's general engagement on a macroeconomic and political level (Alden, 2007; Alden *et al*, 2009; Brautigam, 2009; Gill and Reilly, 2007). Much of the literature seeks to highlight the background of China and Africa's relations as well as their growing economic involvement. Concerning previous research dealing with the topic of China and Africa's engagement, this thesis will consult various publications which will be expanded on in the literary review. Previous research has mainly focused on the increase in China's relations with African states (Uchehara, 2009; Large, 2008; Taylor, 2009 and Cheru and Obi, 2010). In addition, previous research has sought highlight China's rise as an international power and its renewed interest in Africa (Brautigam, 2009; Taylor, 2009; He, 2007 and Alden *et al*, 2009). A large portion of previous research has sought to investigate the influence which China is having in African countries, this has led to varying viewpoints on whether China can be seen as a responsible actor with a positive impact on African countries or whether China is another colonial force in Africa (Alden *et al*, 2009; Botha, 2006; Campbell, 2008 and Cheru and Obi, Edoho, 2012). The issue surrounding China's impact in Africa has given rise to much debate and the issue of resource extraction is a contentious one.

In order to enhance our understanding on the findings of research relating to China-Africa relations in the contemporary era, it is necessary to consult various sources. Regarding the content of these sources, one sees how that existing literature on China-Africa relations examine various topics such as China and Africa's history, the China's economic activities in African states.



A gap exists in the literature regarding CADFund, very few academic pieces have been written about CADFund to date. Typically, the Fund is only mentioned briefly as one of the Eight Measures set out by President Hu Jintao at the 2006 FOCAC meeting in the consulted academic literature (Brautigam, 2009; Alden *et al*, 2009; Taylor 2011). This made gathering reliable academic information on the Fund a challenge. This study aims at contributing to the debate on Chinese-African relations by filling this gap.

#### **1.4.1 China's Africa Policy-rhetoric and meaning**

Although the interaction between China and African countries has increased substantially in the past few years, it is important to remember that this interaction is not new. In her article "*Balancing act of China's Africa Policy*" Chinese scholar He Wenping asserts that China's involvement with Africa is not simply based on China's need for resources and is more complex (He, 2007). She asserts that China and Africa's interaction is based not only economic interests but also on political factors: "*China's Africa Policy* transcends a mere quest for resources. While China's growing need for raw materials and energy is important to the country's engagement in Africa, it is certainly not the only, nor the key, factor" (He, 2007). In order to understand 'interests' in African countries it is necessary to take into account China's strategic interests. He points out that in order to understand China's policies and motivations on the African continent, it is necessary to take a broader view that takes into account China's overall diplomatic strategic pursuits which include China's global position, its striving for the sustainable development of its economy and the need for political support on the important issue of Taiwan reunification and the prevention of secessionism (He, 2007).

He (2007) argues that China's economy and its foreign policy makers need African states for many reasons, with a population of around one billion people the continent of Africa offers great human resources capabilities and importantly it offers Chinese exporters a market for its numerous goods. *China's Africa policy* is also inherently driven by its long-term strategic interests and the rise of China's international power. He notes that Africa should be regarded as an important actor in international affairs, especially as a key force for the world's developing nations: "Africa accounts for almost half of the non-aligned nations and a full third of United Nations member

countries” (He, 2007). According to He most African countries have proved “reliable supporters of China’s position” (He, 2007).

As a government of a developing country itself, the Chinese government claims to have faced many of the same issues and interests as developing countries in Africa (FMPRC, 2006). In the World Trade Organization’s negotiations over agricultural issues, thanks to a firm stand taken by China and African countries to jointly safeguard their rights, the developed countries ultimately had to compromise and promise to lift trade subsidies for agricultural products (Manji and Marks, 2007). Sino-Africa relations also add to the Chinese government’s interest in deepening what has been termed South-South Cooperation, that is the developing countries of the world banding together to promote and forward their own interests and not simply turning to Western countries for support (Owen and Melville, 2005).

In 2006, the Chinese government published its white paper on African policy, entitled *China’s Africa Policy*. This is the first policy paper of its kind (FMPRC, 2006). In the paper *beyond European conditionality and Chinese non-interference: an exclusive approach in regulating EU-Africa trilateral relations* China- Africa scholar Chien Huei Wu notes that although *China’s Africa Policy* does not provide detailed and in-depth elaboration, it has attracted much political attention and academic interests (Chien Huei, 2010). The Policy highlights, as Chien Huei points out, China being the biggest developing country and of Africa being the continent of the biggest number of developing countries (Chien Huei, 2010). By highlighting this fact the Chinese government is deliberately trying to form a sense of common interest (or camaraderie) with African countries and this has helped form the relationship between China and African countries. *China’s Africa Policy* puts forward general principles and objectives guiding China’s foreign policy toward Africa (FMPRC, 2006). They are namely: sincerity, friendship and equality; mutual benefit, reciprocity and common prosperity; mutual support and close coordination; learning from each other and seeking common development. The Chinese government reiterates its adherence to Five Principle of Peaceful Coexistence and reiterates that “One China principle” is the foundation of the relations between China and African countries (FMPRC, 2006). These official lines are challenged and explored by academic writers.

China-Africa scholar, Chris Alden has written numerous articles and books on the subject of China in Africa. In his 2007 paper entitled “*Emerging countries as new ODA players in LDCs: the case of China and Africa*”, he points out that “though the official rhetoric of continuity speaks otherwise, the fact is that China’s engagement with Africa has been episodic, shifting from periods of intense activism in the 1960s and early 1970s to outright neglect for much of the 1980s” (Alden, 2007). He asserts that in order “to understand the changing dynamics in China’s approach to Africa, it is necessary to place it in the context of Chinese foreign policy from the inception of the Communist Party government in 1949 to the rediscovery of Africa in the contemporary period” (Alden, 2007). Alden highlights the fact that “for Africa, China’s transition from an oil exporter to an oil importer in 1993 was a significant milestone in its development” (Alden, 2007). He notes that “energy resources are the most important focus of China’s involvement on the continent, and occupy the bulk of the thrust of its investment and diplomacy, but other forms of resource-based commercial engagement with Africa play an important part in shaping trade and investment ties” (Alden, 2007).

The Chinese government’s principle of non-interference has been highlighted as a major guiding principle for its engagement with African states and has caused much criticism from Western countries, which see this stance has an irresponsible one. The principle of non-interference was again reiterated in China’s 2006 Africa Policy and as scholar Jin Ling points out, in his article *aid to Africa: What can the EU and China learn from each other?*, has been a guiding principle for China and Africa since 1964: “since China’s aid principles were first proposed in 1964, the ‘no conditions attached’ principle has always been the most important one and was reiterated in *China’s Africa Policy Paper* in 2006” (Jin, 2010). Jin makes the point that regarding the ‘no conditions attached’ principle, two main points need clarification. “Firstly, in providing concessional aid, there will also be a kind of contract between China and partner countries specifically regulating the modes of implementation, which will effectively be a type of ‘condition’, e.g. the project implementer should be from China, a certain percentage of procurements should be acquired through the Chinese market, etc” (Jin, 2010). These ‘conditions’ are sometimes considered as a form of economic conditionality. Another of China’s aid principles is the ‘win-win’ principle, which is a way to achieve ‘win-win co-operation’,

which is a kind of mutual economic investment. These economic conditions are clearly different from Europe's economic conditionality, which effectively dictates reform measures to be taken by partner countries (Jin, 2010).

#### **1.4.2 China's renewed interest in Africa – Debates about motives**

In his book *China's New Role in Africa*, Ian Taylor has cited three main events as reigniting Beijing's interest in Africa towards the end of the 1980's (Taylor, 2009: 14). The Chinese government's interest dwindled in Africa in the late 1970's when they were more focused on developing internally and modernising (Taylor, 2009: 14). African countries were technologically underdeveloped and the Chinese were more interested in "looking West" for guidance in its modernisation programme (Taylor, 2009). The rationale behind supporting anti-Soviet elements in Africa became less relevant and thus Africa became fairly insignificant in China's foreign policy objectives (Taylor, 2009: 14). In the early 1980s under Deng Xiaoping, the Chinese state underwent a number of reforms and began opening up its economy to the rest of the world (Taylor, 2009: 14). Then in 1989 the Chinese army used force against student-led protesters who were demanding greater freedom of press and political reform in China. A number of civilians were killed, causing an outcry internationally and boycotts and sanctions were imposed against China (Taylor, 2009: 14). During this time China found allies in Africa, sparking Chinese interest in Africa again. Secondly new reform programmes in Africa, in the 1990s, were looking promising and Beijing had hope that African economies would grow. Lastly China's rapidly growing economy meant that it was in need of new markets and raw materials, Africa offered the opportunity of both and led increased interaction by the Chinese in African countries (Taylor, 2009: 14).

In line with Taylor's assertions China-Africa scholar Debra Brautigam in her book, *The Dragon's Gift: the Real Story of China in Africa*, identifies the political and economic challenges as causing the Chinese government to become more involved in Africa (Brautigam, 2009). Brautigam identifies The Chinese economy's rapid growth which was outpacing China's natural resources as a main factor in China's increased involvement in Africa (Brautigam, 2009). Politically Africa has been important in the Chinese government's desire to be viewed as a responsible rising power and Africa has provided the Chinese government's with a chance to utilise its diplomatic skills (Brautigam, 2009). Building schools, hospitals and infrastructure

around Africa has helped the Chinese government's gain friends among Africans which serves them well in international forums such as the United Nations (UN) General Assembly where it is based on the one state, one vote principle. Although there is still much criticism surrounding China's engagement in Africa, China has been making a concerted effort to be viewed as a responsible emerging power in Africa, one which acts like a partner as opposed to another imperialist power. By exchanging resources for much needed schools, clinics and hospitals the Chinese government has improved the living conditions of many Africans which helps China look less like an aggressive colonial power and more like a partner, argues Brautigam (2009: 77).

#### **1.4.3 The appeal of the China Model of development**

In their article *friends and interests: China's distinctive links with Africa* Sautman and Yan (2007) discuss the idea of a China Model of development and its attractiveness as an alternative to the Western model of development, for African states. Similarly in his article *beyond 'dragon in the bush': the study of China-Africa Relations* Large (2008) discusses the appeal which the China Model of development has for African states.

#### **1.4.4 China's economic and political interests in Africa**

Attention has been given to China's economic ties in Africa, by both the media and academics. While economic motives are regarded as a major and important driver in the Chinese government's interest in African countries, political considerations are also a key factor. China-Africa scholars Gill and Reilly note that "China's interests in Africa go well beyond the continents wealth of resources and include important political and diplomatic considerations" as African states offer China a kind of diplomatic leverage (Gill and Reilly, 2007: 37). Numerous scholars make the argument that for China, Africa offers political and diplomatic gains as well as economic ones (Li 2007, Sautman and Yan 2007, Swan 2007, Taylor, 2009 Alden *et al*, 2009 and Brautigam, 2009). This thesis will explore both the political and economic motivations behind China's involvement in African countries.

Building on the above broad literature review, the hypotheses of this thesis are the following four points:

- a) The Chinese government – at least indirectly – steers the activities of Chinese enterprises and institutions operating in Africa
- b) CADFund is one instrument in this overall policy and is meant to furthering the principle of South-South Cooperation
- c) The Chinese government is mainly interested in African states for economic reasons, even though political perspectives are still relevant.
- d) Within the economic (and political) rationale, the quest for resources is the main driving force behind the establishment of forums such as FOCAC and institutions such as CADFund

## **1.5 RESEARCH METHODS**

This study is both explanatory and descriptive and therefore takes the form of a qualitative study, as it seeks to offer an investigation into specific cases and processes in a particular context in order to give and establish meaning (Babbie and Mouton, 2004: 71)

The time dimension that this study considers will be since 2000, i.e. since the renewed interest of Chinese actors in Africa. The study will specifically focus on the time since 2006, i.e. since the time when the commitment to establish CADFund was announced. Using characteristics of cross-sectional and recent past time dimensions, both the recent past and present trends evident in China and Africa's relations will be investigated (Babbie and Mouton, 2004: 71)

Data and literature pertaining to CADFund will be mostly obtained from primary sources obtained through interviews with CADFund representatives and the CADFund and the China Development Bank (CDB) website. This use of primary information is necessary as CADFund is relatively new institution and as such few academic pieces have been written about the Fund to date. Secondary sources such as current affairs and news media reports as well as academic journal articles will be made use of when examining the history and nature of China-Africa relations. This study will include the information gathered from two interviews. Interviews were conducted with two key decision-makers within CADFund. The interviews were deemed useful to this thesis as they provided perspectives from decision makers from both the Beijing and Johannesburg branch of CADFund. Due to the fact that

CADFund is still a fairly new organisation and as such little academic literature exists regarding the Fund, it was essential that interviews were conducted in order to gather primary information regarding the Fund. The Interviews were of a semi-structured nature and interviewees were asked a series of questions but also asked to comment and add information they deemed relevant.

## **CHAPTER 2: CONTEXTUALISING CHINA-AFRICA RELATIONS**

### **2.1 INTRODUCTION**

During China's Cultural Revolution in the late 1960s/early 1970s the country remained isolated from the international community. Even though today China is more globally integrated, the Chinese government remains comparatively less transparent about its internal affairs than Western governments, not least so the United States (US) (Taylor, 2009: 161). Lack of information regarding China has led to speculation and generalisation in many instances. This chapter will provide the policy context and background to the more specific analysis of CADFund.

As part of the broader background, this chapter will discuss the Forum on China-Africa Cooperation (FOCAC). FOCAC was established in 2000 and has provided a platform for Chinese and African actors to increase their economic and political ties with one another. The Forum was started in 2000 as part of China's strategic foreign policy towards Africa to secure both economic and diplomatic interests (Grimm, 2012: 1). One of the outcomes of the 2006 FOCAC meeting was the establishment of the China Africa Development Fund (CADFund) in 2007.

Finally, the chapter will discuss *China's Africa Policy* which was released in January 2006. The policy outlines the approach which the Chinese government wishes to pursue with regards to economic and political cooperation with Africa (FMPRC, 2006). The Policy serves a largely symbolic role as it sets out the principles upon which the Chinese government proclaims to base its relations with African states. The policy does not specify measurable goals but rather highlights the areas in which the Chinese government would like to improve cooperation efforts.

### **2.2 MISCONCEPTIONS**

China-Africa scholar Daniel Large highlights in his article, *beyond dragon in the 'bush': the study of China-Africa relations*, that research on China-Africa relations has been limited on both sides (Large, 2008: 46). The consequences of this lack of research, by the relevant parties, regarding China-Africa relations have been that China's presence in Africa states have been met with xenophobic attitudes at times.



Large asserts that in order to understand the relations between African countries and China, research must move beyond the “dragon in the bush” rhetoric which “describes and simplifies China as a monolithic dragon in an unvariegated African bush stripped of historical and political context” (Large, 2008: 46). There exist a range of actors who must be considered when analysing China’s activities in African states. These actors include Chinese businesses, municipalities, provinces and the central government (which in itself is made up of various ministries and interest groups) all of these various entities have their own interests and strategies (Taylor, 2009: 3).

China is a one party state and while there have been major economic reforms in China, political and personal freedom is still limited. It is evident, however, that China is changing and that the government is losing some of its control over its citizens. Increases in protests across China indicate that Chinese citizens are unhappy with the current situation in China and that there is a desire for greater personal and political freedom (The Economist, 28 January 2012). The failure to address the grievances of its citizens internally indicates that the Chinese government is unlikely able to control all of the various Chinese individuals and enterprises living and operating outside its borders. This is an important realisation when trying to understand China-Africa relations. Indeed to understand the complexities of China’s engagement in Africa it must be understood that China is not a unitary actor and the Chinese government does not have control over the activities of all Chinese enterprises operating abroad (Taylor, 2009: 3).

Cold War media and even academic coverage of China’s involvement in Africa can in many ways compare to today’s coverage. During the Cold War era The PRC was viewed as an

“intentionally destabilizing revolutionary factor in Africa versus China’s [current] inclination to maintain the status quo” and the PRC was previously portrayed as an “ideological threat to newly independent African states versus China as an interest-driven threat to good-governance or democratisation today” (Large, 2008: 47).

The vocabulary may have altered but the same concern about China’s impact on Africa and African politics remains and has intensified as the engagement between

the states intensifies. In order to gain an objective understanding of economic and political relations between China and African countries, we must move away from sensationalising their engagement either by being unduly critical or overstating their involvement with one another.

### **2.3 HISTORICAL CONTEXT**

China's engagement with Africa has "waxed and waned according to its domestic situation, Cold War politics and its dispute with the Soviet Union" (Alden et al, 2009: 4). Throughout these changes China's involvement with Africa took different forms, its foremost motivation for engaging with the continent was not based on resource needs but was initially ideologically driven (Taylor, 2009:13). Africa initially became important for the PRC in the late 1950s when Chinese diplomacy began to take shape after the Korean War (Alden et al, 2009: 4). The first diplomatic ties which China formed with an African state were in 1956, with Egypt.

During the 1960s and 1970s the Chinese government provided support for liberation struggles in African countries, a fact which has helped China gain favour with African leaders today (Aning and Lecoutre, 2008: 40). Later as China began to move into a phase of socialist modernisation under Deng Xiaoping in 1980s, it began to focus inwardly and its involvement in Africa dwindled (Taylor, 2009: 12). The Chinese government was focused on pursuing modernisation policies for China's development and for this needed to gain knowledge and technology from countries that were more economically developed and technologically advanced than most newly independent African states. The previous rationale behind supporting anti-Soviet elements in African countries had also dwindled and this meant that there was little reason for the Chinese government to be as involved in African countries as it had previously been (Taylor, 2009: 13).

Chinese interest was reignited in Africa in the early 1990s (Brautigam 2009; Taylor, 2009). This renewed interest was sparked by a few key events in both China and Africa. One such event was the Tiananmen Square uprising. From 15 April 1989 to 4 June 1989 a series of demonstrations were held across China (Taylor, 2009:13). Protestors, mainly students, were calling for increased media and political freedom among other things. On 4 June protesters demonstrating in Tiananmen Square were

fired upon by the army (Taylor, 2009: 13). In the aftermath of this event, the Chinese government was criticised and diplomatically isolated by many Western states, not least by the United States. African countries for their part maintained relations with China during this time, resulting in increased ties between China and the African continent (Taylor, 2009: 14).

Another factor which played a role in renewing China's interest in Africa were the reform programmes which were undertaken by many African countries, embarking on such reforms was an indication to the Chinese government that African states would be able to offer greater economic prospects for Chinese businesses (Taylor, 2009: 14). Lastly China's rapidly growing economy and industrialisation during the late 1980s and 1990s meant that the country was in demand for raw materials to support further economic expansion and a market for its growing output of exportable products (Brautigam, 2009: 78). Often regarded as a watershed moment is 1993, when China became a net importer of oil. This is understood to have had a profound impact on Chinese foreign policy, particularly towards oil rich African states (Eisenman *et al*, 2007: 29). From a Chinese perspective Africa provided a mixture of resources, potential new markets and an international friend at a time when China needed all three. When considering the historical context behind China's involvement in Africa, it is evident that China's presence in Africa today has longer and deeper roots, and needs to be understood as an ongoing process (Brautigam, 2009: 78).

Today China and Africa are more politically and economically involved than ever before. This is evident when considering what a significant trade partner China is for African states. China is Africa's largest trading partner, surpassing the United States and traditional European partners as of 2011 (BBC, 22 May 2012). With this increased economic interaction, conferences such as FOCAC have become necessary to provide China and African states with a platform through which to discuss their growing political and economic engagement.

#### **2.4 THE FORUM ON CHINA-AFRICA COOPERATION (FOCAC) AND CADFUND**

FOCAC was formed in 2000 and was as a result of China's strategic foreign policy towards Africa, aimed at securing China's economic and diplomatic interests (Grimm, 2012: 1). The first ministerial meeting of FOCAC was held in Beijing in

October 2000. More than 80 ministers from 44 African countries and China, representatives of 17 regional and international organizations, people from the business communities of China and Africa were invited to the conference (FOCAC, 2011: 1). The Second Ministerial Conference of FOCAC was convened in Addis Ababa, capital of Ethiopia during December 2003. The Third FOCAC meeting was held in Beijing in November 2006. 2006 was referred to as China's "Year of Africa" by Chinese officials and in the beginning of 2006 the Chinese government released its first white paper on Africa titled *China's Africa Policy* (Grimm, 2012: 2). Chinese and African representatives met in Sharm El Sheikh, Egypt during November 2009 for the Fourth FOCAC Ministerial meeting. After each of the four conferences action plans were drawn up outlining how the various goals and objectives discussed at each conference would be reached within the time period precluding the next FOCAC meeting (FOCAC, 2011: 1).

The latest FOCAC meeting was held in Beijing during July 2012. The Beijing Action Plan (2013-2015) was yielded. The Action Plan highlighted the need for increased cooperation regarding people to people exchanges between China and African countries and emphasised a commitment to furthering African integration (Liu, 2012: 1). Five priority areas were decided on at the Fifth FOCAC meeting, these areas are identified sectors in African countries which need development and where Chinese investment will be focused. These areas are namely, manufacturing, agriculture, infrastructure and small and medium enterprises (Ghana Business News, 2012: 1). The theme for the Fifth Ministerial FOCAC was "build on past achievement and open up new prospects for new type of China-Africa strategic partnership (FOCAC, 2012: 1).

FOCAC is an important component of China-Africa relations and has become a platform through which economic and political ties between African states and China are strengthened. The Forum also reflects the fundamentally bilateral way in which China-Africa relations are often conducted. Although representatives from regional African and Chinese bodies as well as leaders in the business community are invited to FOCAC, it is government-to-government deals which dominate the gathering (FOCAC, 2012; Grimm 2012).

During the FOCAC Beijing Summit of 2006 it was announced that the China-Africa Development Fund (CADFund) would be formed. The Fund was established with the purpose of encouraging investment by Chinese companies in African countries (Zhu, 2010: 1). The initial US\$1 billion was funded by China Development Bank, this amount is set to ultimately increase to US\$ 5 billion (Zhu, 2010: 1). CADFund forms part of the eight measures announced by President Hu Jintao at the 2006 FOCAC summit. The eight measures were set forth as part of a commitment by the Chinese government to support African development (see table 1).

**Table 1: China's Eight-Point Proposal Supporting African Development**

1. Double the 2006 level of assistance by 2009
2. Provide US\$5 billion in preferential loans and credits within the next three years
3. Provide US\$5 billion to support Chinese companies to invest in Africa
4. Construct a conference centre for the African Union
5. Cancel debt owed by heavily-indebted poor countries
6. Increase zero-tariff export items to China from 190 to over 440 from the least developed countries
7. Set up additional Sino-African trade and economic zones
8. Send Chinese experts to Africa and train African professionals in areas of agriculture, health, education, science and technology

Source: FOCAC website <http://www.focac.org/eng/jlydh/sjzs/t715195.htm>

At the Fourth Conference of Chinese and African entrepreneurs held Beijing during July 2012 CADFund, after receiving an additional US\$ 2 billion, committed to investing this amount in 60 Sino-African projects across 30 African countries (People Daily, 2012). According to the FOCAC website the Fund is to help facilitate projects by Chinese enterprises in Africa that will “contribute to local technological progress, employment opportunities and sustainable socio-economic development” (FOCAC, 2011: 1).

The first branch of the China-Africa Development Fund, the head office of the organisation is in Beijing, was opened in Johannesburg in March 2009 with the next opening in March 2010 in Addis Ababa, a third and fourths offices have been opened

in Lusaka in and in Accra in 2011.<sup>1</sup> Each branch provides advisory services and funding to Chinese enterprises operating in their region. The Zambian branch oversees most of the Southern African investments, lifting some of the burden off the South African office which reportedly oversees investments from all over the continent (Zambia Weekly, 2011: 5). Representatives of CADFund have stipulated that one of the Fund's goals is to better cooperation with the African Union (AU) which is based in Addis Ababa, Ethiopia (Minney, 2010: 1). This could be a contributing factor as to why an office was opened in Addis Ababa as opposed to other countries in the horn of Africa region such as Sudan or Kenya.

As part of the research process for this thesis, an interview was conducted with Mr Li Shenglin, the Project Manager of CADFund Johannesburg Office. One of the questions Mr Li was asked was how he thought the establishment of CADFund fitted into the aims of *China's Africa Policy*, Mr. Li stated that CADFund was a pioneering move in the process of mutually beneficial cooperation between China and Africa, it remedied the gap under the traditional model of free aid and loans. He asserted that CADFund remedies this gap without increasing the debt burden to African countries, through a market-oriented operation aimed at achieve the sustained and healthy self-development of African states.<sup>2</sup> To which end CADFund has truly done this is difficult to determine. Clearly, however, CADFund is becoming increasingly active in African states and is involved with numerous projects across the continent, as will be discussed in greater depth in chapter five of this thesis.

The CADFund website reveals little about the projects that the Fund is involved or has been involved in. The heading "project overview" on CADFund's website lists areas of activities, namely: agriculture, manufacturing, industrial, infrastructure and natural resources. There is, however, no detailed information about projects contained under the listed headings (CADFund, 2011). Finding the exact number of and information about the various projects which CADFund is involved has proved to be a difficult task. News reports discussing CADFund's involvement in specific projects have been consulted in order to determine what kinds of projects CADFund

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<sup>1</sup>Interview with Mr Li Shenglin, (Project Manager of CADFund Johannesburg Office) on 7 September 2011.

<sup>2</sup> Ibid

is involved in. According to Mr Li CADFund has over the past four years been involved in roughly 60 projects and undertaken a number of joint-ventures with various Chinese and African companies.<sup>3</sup> The Fund is still a relatively new organisation and component of China-Africa relations and as such few academic sources exist regarding the Fund and its projects in Africa. Lack of information by CADFund regarding its projects in Africa is one criticism which can be levelled against the Fund.

## **2.5 CHINA'S AFRICA POLICY IN CONTEXT OF ITS GLOBAL ENGAGEMENT**

In January 2006, only months before FOCAC II, the Chinese government released its first white paper on Africa titled *China's Africa Policy*. The paper consists of six sections which each deal with a specific area of interest namely;

- “Africa’s position and role”,
- “China’s relation’s with Africa”,
- “China’s Africa policy”,
- “enhancing all-round cooperation between China and Africa”,
- “Forum on China-Africa Cooperation and its follow-up actions” and finally
- “China’s relations with African regional organizations” (FMPRC, 2006: 1-12)

The paper highlights the growing importance of African countries in international relations and reiterates the claim that China and Africa have shared historical experiences and shared current interests (FMPRC, 2006: 1-12).

The principles upon which the Chinese government claims to base its engagement with African states are outlined in part three. These principles are as follows: sincerity, friendship and equality, mutual benefit, reciprocity and common prosperity, mutual support and close coordination and learning from each other and seeking common development. Part three of the policy emphasises the fact that adherence to the One China policy is the political foundation upon which all relations between China and African countries are built. The paper states that

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<sup>3</sup> Interview with Mr Li Shenglin, (Project Manager of CADFund Johannesburg Office) on 7 September 2011.

“the Chinese Government appreciates the fact that the overwhelming majority of African countries abide by the One China principle, refuse to have official relations and contacts with Taiwan and support China's call for reunification. China stands ready to establish and develop state-to-state relations with countries that have not yet established diplomatic ties with China on the basis of the one China principle” (FMPRC, 2006: 3).

The adherence to the One China Policy as a prerequisite for African states establishing economic and political relations with China, dispels the notion set forth by Chinese officials that China's political relations with African countries is based on the principle of no strings-attached.

In part four of *China's Africa Policy*, guidelines for enhancing China and Africa's cooperation, in the political, economic, educational, cultural and social field as well as in the field of peace and security, are laid out. Under the heading “the economic field” it states that “the Chinese Government encourages and supports Chinese enterprises' investment and business in Africa, and will continue to provide preferential loans and buyer credits to this end” (FMPRC, 2006: 5). It also states that “African countries are welcome to make investment in China”, it is unclear, however, whether the Chinese government offers any support for African enterprises operating in China (FMPRC, 2006: 5). The China-Africa Development Fund is an example of an institution which provides support for Chinese enterprises wishing to operate in African states. African enterprises wishing to receive support from the Fund for their projects in Africa are required to find a Chinese enterprise as a partner (CADFund, 2011).

The principle of solidarity is a prominent theme in *China's Africa Policy*. In practice we see that in multilateral platforms such as the United Nations (UN) and the WTO the Chinese government has in various instance shown a shared agenda with that of other developing countries (Eisenman *et al*, 2007: xv). In the Fifth FOCAC Ministerial Declaration, both African and Chinese ministerial officials called for changes to be made in the international system and a reform of the UN in particular the United Nation's Security Council, calling for a larger representation of African countries in the Security Council as well as other UN agencies (FOCAC, 2012).



The advancement of the WTO Doha Round was also emphasised in the latest FOCAC declaration (FOCAC, 2012: 1). “The Doha Round is the latest round of trade negotiations among the WTO membership. Its aim is to achieve major reform of the international trading system through the introduction of lower trade barriers and revised trade rules. The work programme covers about 20 areas of trade” (WTO, 2012: 1). The Round is in a deadlock and this has a major impact of Africa countries who are large traders in primary goods, the subsidising of agriculture in countries in Europe for instance has a major impact on African countries who are trying to compete internationally. The Doha Round discusses matters such as farming subsidies and aims to make international trade fairer; the advancement of these talks is of importance to many developing countries including China (Eisenman *et al*, 2007: xv).

China is a permanent member of the United Nations Security Council (UNSC). Having a permanent seat at the UNSC provides China with a veto power, meaning that China’s government can halt any proposals which do not coincide with its foreign policy objectives. The Chinese government has been criticised for its relations with so-called “rogue states” such as Sudan (now Sudan and South Sudan) and Zimbabwe. During the Darfur crisis China vetoed resolutions calling for UN intervention in Sudan. After growing international pressure, not least threatening the successful conduct of the Beijing Olympics in 2008, China was eventually instrumental in convincing President Omar Al Bashir to allow UN and African Union (AU) peacekeeping troops into Darfur and Sudan in 2007 (Harniet-Sievers *et al*, 2010: 186-188). More recently China’s decision to veto resolutions such as those to impose sanctions on Syria in 2012 for example caused major controversy and criticism from France, the UK and the USA who all supported the resolution (BBC, 19 July 2012). China in many ways has positioned itself as a force for multipolarity, which, in effect, means that it works against Western dominance. China seems to use its veto power, along with Russia, in UNSC to act as a counterbalance to the remaining three Western states.

The Chinese government attributes the highest importance to a strict understanding of the country’s sovereignty. Non-interference in what is deemed ‘internal affairs’ is a vital international principle, one which it upholds fervently in forums such as the

UNSC. For African governments, sovereignty is also an important element of international relations, in a number of cases serving as a protection for authoritarian regimes and autocratic leaders. (Zhongqi, 2010: 227). The fact that the Chinese government itself has been subject to international criticism regarding human rights abuses and China's authoritarian political system indicates that China has vested interest in emphasising the principle of sovereignty and non-intervention by outside forces in the internal affairs of a state. It is this very principle which shields China's regime from intervention by outside forces in its internal matters.

## **2.6 CONCLUSION**

China is not a unitary actor and should not be seen as such. While the Chinese government sets out its foreign policy towards Africa with the aim of achieving certain objectives, the implementation involves numerous institutions and also non-state actors. Even though China's political system is authoritarian, the control the Chinese state has over enterprises and institutions operating in Africa is at times exaggerated; rivalries exist between the aims of Chinese enterprise coming to Africa and the aims of the Chinese government (Taylor, 2009: 161).

In order to understand the complexities of China-Africa relations it is necessary to understand the historical context of these relations. China and Africa have a long history of engagement and their relations have gone through periods of intense interaction and periods of relative neglect. Since the beginning of the 21<sup>st</sup> century, Chinese actors have become a major force of influence in many African countries and offer Africa leaders alternative political and economic partners to that of traditional Western state partners (Taylor, 2009: 23).

*China's Africa Policy* sets out the principles which guide the Chinese government's foreign policy toward Africa states. *China's Africa Policy* states that "China attaches great importance to the positive role of the Forum on China-Africa Cooperation in strengthening political consultation and pragmatic cooperation between China and Africa" (FMPRC, 2006). In practice China's foreign policy objectives are implemented using a range of diplomatic and economic instruments, FOCAC (and within this framework: CADFund) are examples of instruments which the Chinese government uses in promoting economic and diplomatic ties with Africa countries.

Under the section “enhancing all-round cooperation between China and Africa” *China’s Africa Policy* highlights areas of cooperation in the political and economic field. It is for this reason that the two next chapters will discuss the economic and political motivations behind China’s engagement with African states, in order to have better understanding of China and Africa’s economic and political ties. In the concluding chapter how CADFund fits into these political and economic ties will be discussed as well as how it fits into *China’s Africa Policy*.

## **CHAPTER 3: CHINA'S ECONOMIC RELATIONS WITH AFRICAN COUNTRIES**

### **3.1 INTRODUCTION**

Resource extraction and trade have generated the largest amount of literature with regards to China's engagement with Africa (Large, 2008: 46). Resource extraction in general is given as the main motivating reason behind Chinese involvement in Africa (Alden and Alves, 2009; Butts and Bankus, 2009) This assumption oversimplifies China-Africa relations to a relationship which is of a largely exploitative nature and does not take into account other motivating factors such as political and diplomatic factors which play a role in China's interest in Africa and vice versa (Large, 2008: 55). Indeed economic interests are behind many of China's activities in African states and therefore are an important element in China-Africa relations. It is, therefore, necessary to analyse China's economic motivations for strengthening ties with African states.

Alden asserts that contrary to popular discourse China and Africa have in reality had relative brief interactions before now. In his book *China in Africa*, Alden seeks to find, among others, the reason behind the "dramatic change in ties between two regions" (Alden, 2007: 3). He notes that one of the main reasons behind this dramatic increase in interaction is China's growing need for access to natural resources and energy (Alden, 2007: 4).

China's growing economic engagement with Africa has brought with it issues such as low labour standards by Chinese enterprises, Chinese companies' disregard for the environment and cheap imports, which have flooded African markets leaving many local producers unemployed (Alden, 2007: 4). The following chapter will look at China's economic interest in Africa and focus in on investment, trade, resource extraction and the search for new markets as motivating reasons for China's interest in Africa.

### **3.2 TRADE – GROWING BUT IMBALANCED**

The discussion on China-Africa trade relations and relations in general, needs to be contextualised. As scholar Lucy Corkin points out, the Chinese government's

increased outreach to Africa is only one component of China's growing global integration (Corkin, 2011: 61). This international integration is a culmination of the Chinese government's "going global" (走出去, *zouchuqu*) policy which was initiated as part of Deng Xiaoping's socialist modernisation scheme in the 1980s (Brautigam, 2009: 74).

The impressive levels of growth in trade and investment which we see between China and Africa can also be seen with China and other regions of the world such as South America. The African continent captures only a fraction of China's total global trade (4.2 %) and investment (2.7%) (Corkin, 2011: 61). It is important to bear this in mind when analysing China-Africa relations, in order to avoid exaggerating the overall importance of Africa to China. China's involvement in Africa has received a disproportionately large amount of scrutiny and criticism and this has meant that certain prejudice about relations between the two has at times inhibited thorough unbiased research.

In 2010 the Chinese government released a white paper titled "China-Africa Economic and Trade Cooperation" (FMPRC, 2010). This paper details the Chinese government's desire to continue and increase trade between China and Africa. The paper also, to an extent, acknowledges trade imbalances between China and Africa but mainly focuses on positive developments between China and Africa. It speaks of promoting balanced development of trade between China and Africa, according to the paper "China-Africa bilateral trade volume was only US\$12.14 million in 1950, it rose to US\$100 million in 1960, and exceeded US\$1 billion in 1980" in 2000 trade reached the US\$10 billion mark in 2000" and in 2008, China-Africa "bilateral trade volume exceeded US\$100 billion" (FMPRC, 2010). In 2009, even though trade volume dropped to US\$91.07 billion, mainly as a result of the international financial crisis, China still became Africa's largest trade partner that year for the first time (FMPRC, 2010). It is easy to get caught up in these impressive figures, but it is important to also evaluate the negative impacts which Chinese imports have had in Africa.

There are only a handful of countries which enjoy a trade surplus with China. Angola is one such example. In April 2008 Angola was China's top crude oil supplier, ahead of Saudi Arabia, Iran and Russia (Bloomberg, 2008). When natural resources such

as oil and natural gas are excluded from trade figures, it is clear that China exports far more to Africa than it imports from them. African countries are the recipients of a large amount of Chinese exports such as textiles and electronic goods. The effect of these imports from China on African states has been profound. It has led to the closing down of many local businesses and damaged local industries such as the textile industry in South Africa for example (Le Pere and Shelton, 2007: 27). The influx of large quantities of cheap textiles to countries like South Africa, have put many local manufacturers out of business. An abundance of labour, lower wages and superior manufacturing capabilities have all contributed to Chinese producers being able to produce and export products in larger quantities at a far lower cost than local manufacturers are able to (Le Pere and Shelton, 2007: 27).

China exports a range of goods to African countries including machinery, electronics, technology, textiles and various other manufactured goods. In turn, China imports mainly raw materials from African countries such as copper from Zambia, platinum from Zimbabwe and oil from Sudan (Taylor, 2009: 18). Although African exports to China are increasing, the trade balance is still tipped in favour of China (Botha, 2006: 36). The fact that African countries rely heavily on exporting primary goods means that they are more vulnerable to market volatility. Fluctuations in commodity prices have an immediate and extreme effect on African countries because they rely on commodity goods for export income. Africa boasts a significant share of mineral resources relative to the world's reserves. The paradox of Africa's resource wealth and massive poverty of its inhabitants has given rise to the *Resource Curse Theory* (Edoho, 2011: 114). This theory asserts that the richer a country is in natural resources and the more it relies on these resources to support its economy, the more vulnerable and unstable the economy. This is because commodity prices are volatile and fluctuations will have a tremendous impact on economy. Reliance on one primary product has also hinders the development of other sectors in African states and has led to fighting over access to resources causing instability and nurturing corruption in resource rich states.

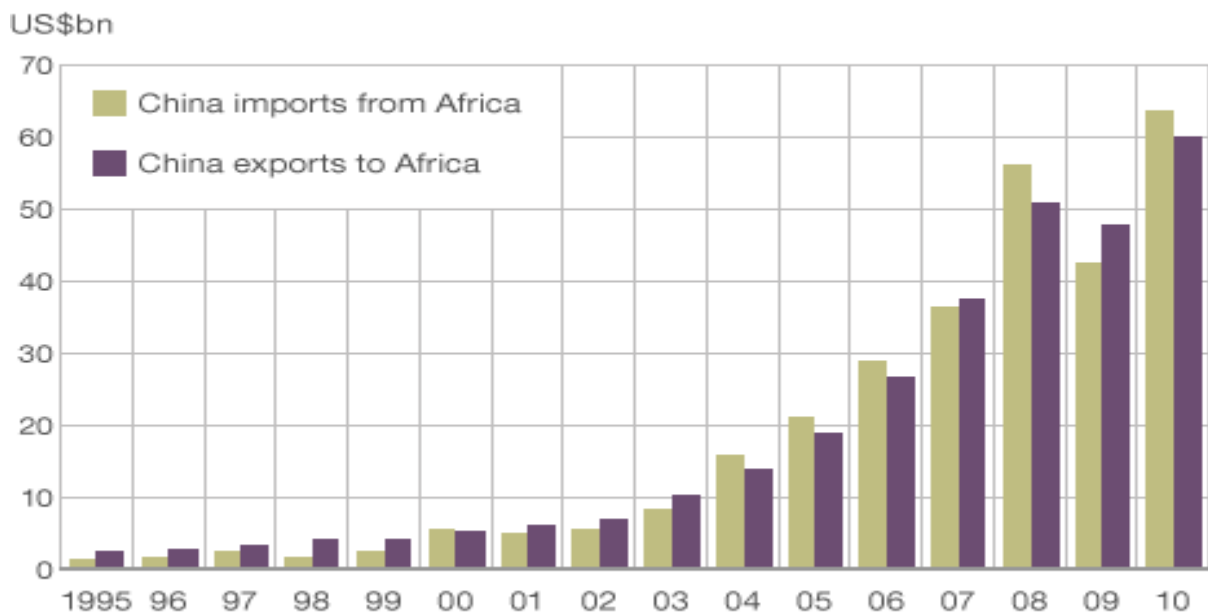
Africa does have an important role to play in China's economic growth and vice versa. China's expansive manufacturing base, rising middle class and growing urbanisation has increased its demand for raw materials of which African states can

offer (Botha, 2006: 34). Chinese producers also need a market for their exports and Africa offers a large consumer market base. Africa is in need of capital investment and infrastructure development. African countries are heavily reliant on the importation of manufactured products, due to the fact that the manufacturing sector of African countries is undeveloped. If directed to the correct areas Chinese investment could benefit undeveloped sectors such as the manufacturing sector and service industry in African states (Botha, 2006: 34).

One positive effect which Chinese imports have had in African states is that the availability of low-cost products has meant that for the first time many Africans are able to afford electronic goods such computers, radios and various kitchen appliances (Brautigam, 2009: 77). This has led to a rise in the living standards for numerous locals. Infrastructure development is another positive outcome of Africa’s involvement with China. Chinese construction companies are constructing mobile telephone networks, railways and roads, improving infrastructure and accessibility in African states (Brautigam, 2009:77). A large number of construction companies operating in Africa are Chinese SOEs and in exchange for infrastructure the Chinese government receives access to Africa’s natural resources (Brautigam, 2009:77).

**Graph 1: China and Africa’s trade (1995-2010)**

**China and Africa's growing trade relationship**



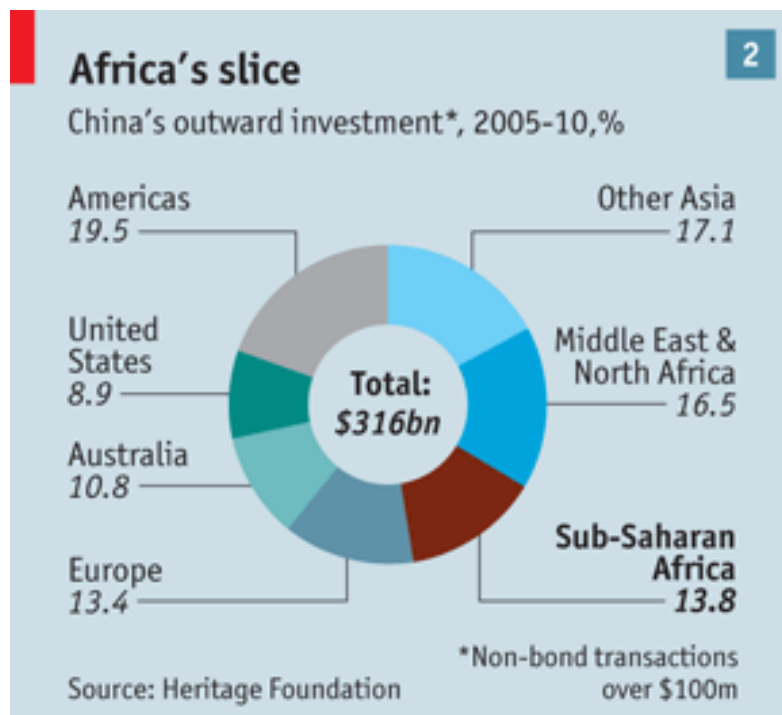
Source: China Customs data; Frontier Advisory analysis, 2011

When looking at the above graph (graph 1) it is evident that trade between China and Africa has grown tremendously from 1995 to 2012. If natural resources are removed from these figures, as stated for the example of Angola above, then we see that the trade is skewed in favour of China (Rotberg, 2008: 9).

### 3.3 INVESTMENT – CHINESE ENGAGEMENT ACROSS THE CONTINENT

Foreign Direct Investment (FDI) is a major component of Chinese economic cooperation with Africa. According to the figure below (figure 1), originally from Heritage foundation, a conservative American think-tank, Sub-Saharan Africa was the recipient of 13.8 percent of Chinese investment abroad (The Economist, 20 April 2011: 1).

**Figure 1: China’s FDI (2005-2010)**



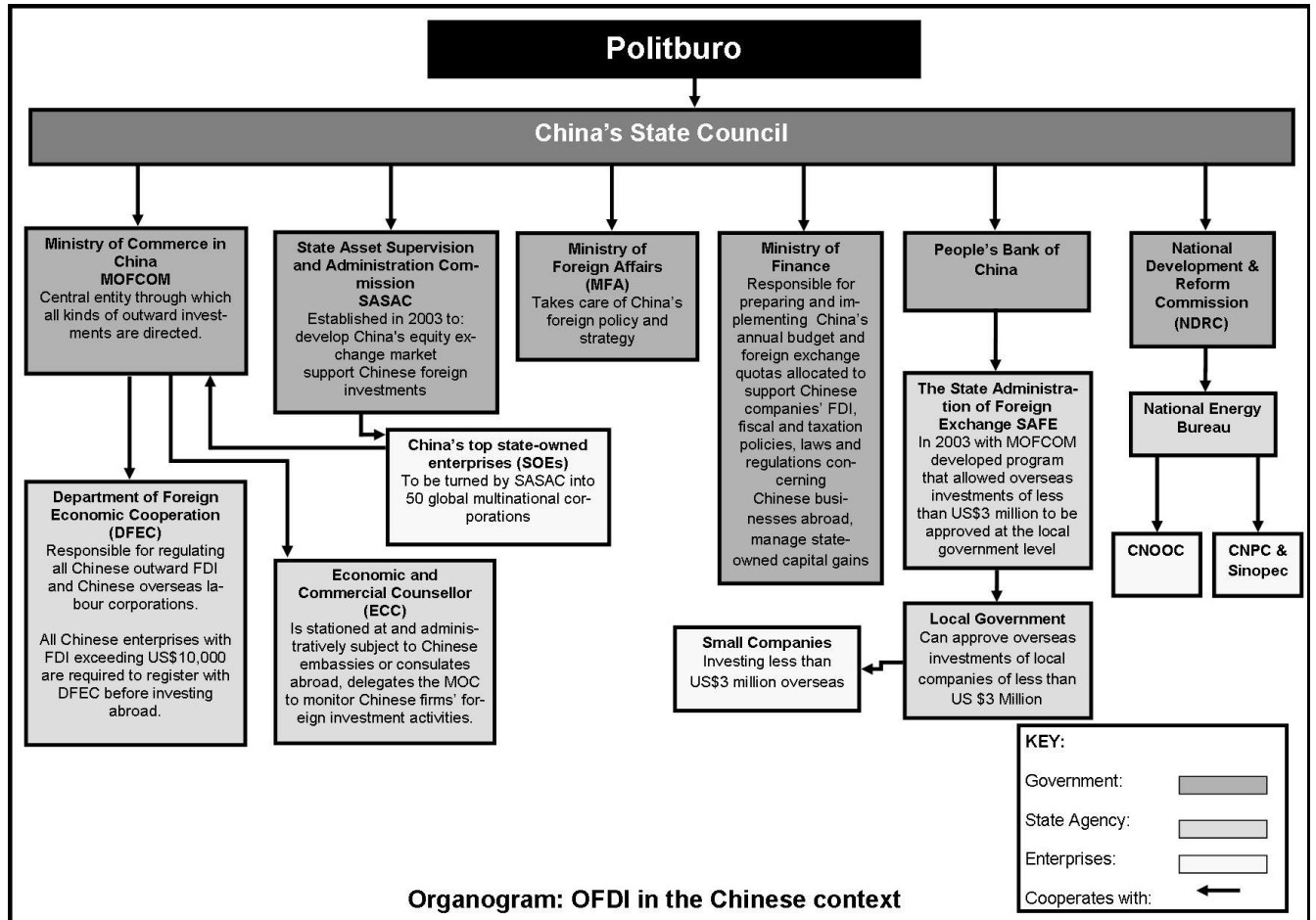
Source: the Economist website <http://www.economist.com/node/18586448>

At the end of 2006, Chinese investment in Africa had reached US\$11.7 billion and over 800 Chinese companies are said to be operating in Africa, engaged in various fields such as trade, manufacturing, natural resource exploitation, transport and



agriculture (He, 2009: 152). Not all investment is supported directly by the Chinese central government; there is also an emerging dynamic of regional investment from lower levels of Chinese government including the provincial level and private entrepreneurial investment is also increasingly prevalent (Alden et al, 2009: 14). The figure below (Figure 2) depicts which Chinese actors are involved in FDI allocation.

**Figure 2: Chinese FDI in context**



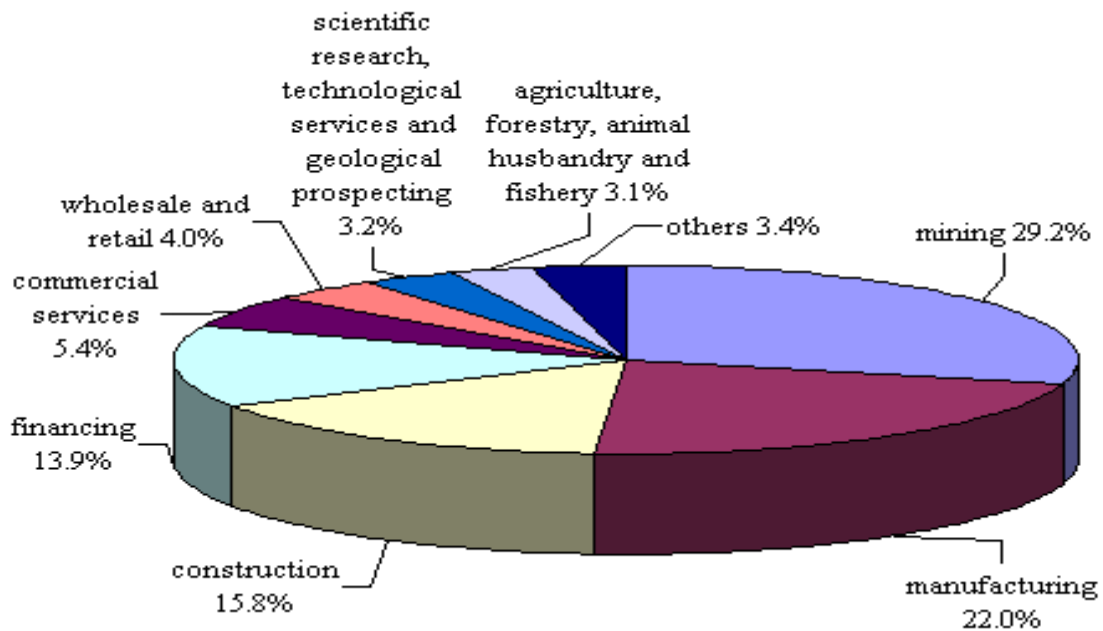
Source: Report from Centre for Chinese Studies website. Van der Lugt et al. 2011: "Assessing China's Role in Foreign Direct Investment in Southern Africa"

Chinese investment has largely been concentrated in resource-rich countries in Africa, but there has been an increase in the level business activity across the continent, even in countries such as Sierra Leone with relatively untapped markets (Parenti, 2009: 118). Due to increased levels of investment by Chinese enterprises in African states, the Chinese government has established Chinese Trade Centres in across Africa to these enterprises. These Trade Centres assist by providing

information to Chinese businesses, operating in African states, regarding investing and trading and also provide a degree of logistical support for starting up businesses. CADFund is an example of such a centre and was established with the aim of encouraging and assisting Chinese investment in Africa (Alden et al, 2009: 14).

Most African countries depend almost exclusively on one or a few raw materials for their export income which, as explained earlier in this chapter, can be a risky strategy. Nigeria for example receives almost 90 percent of its foreign exchange from the export of crude oil (Edoho, 2011: 114). Sierra Leone relies of diamond exports for more than 60 percent of its export income and Zambia now depends heavily on copper exports, mainly to China, for its income (Edoho, 2011: 114). Relying so heavily on primary goods means that resource rich African countries are vulnerable to the volatility of commodity prices (Edoho, 2011: 104).

**Figure 3: Distribution of China's Direct Investment in African Industries (by the end of 2009)**



Source: Chinese Governments official web portal: [http://english.gov.cn/official/2010-12/23/content\\_1771603\\_3.htm](http://english.gov.cn/official/2010-12/23/content_1771603_3.htm)

The figure above (figure 3) is found in the *China-Africa Economic and Trade Cooperation* document and indicates the distribution of China's FDI according to which African industries the investment was made. According to this 22 percent of Chinese investment in African countries has been in the manufacturing sector (FMPRC, 2010). Increased investment in the manufacturing sector is vital for the diversification of African economies and if correct these investment percentages could have a positive effect on developing and diversifying African economies.

Skills development is an essential part of allowing African countries to move away from exporting only primary goods such as minerals and agricultural products. China has to date been instrumental in allowing many African countries to improve their infrastructure by improving road and railway networks for instance. If African countries can direct investment towards education and skills development as well as factory building then this would certainly help them to develop the secondary and tertiary sectors of their economies (Edoho, 2011: 105).

### **3.4 THE QUEST FOR RESOURCES AND NEW MARKETS**

Since 1978 the Chinese government has focused on China's economic development. From 1990s, it became necessary for the Chinese economy to acquire international resource supplies including energy (Alden et al, 2009: 7). The need for resources drew China closer to Africa and raw material acquisition is now policy imperative for the Chinese government. Chinese enterprises have not been allowed access to a large portion of the Middle East's oil supplies because of the dominance of mainly American oil companies in Middle Eastern states. This has led the Chinese government to look for alternatives, such as oil rich countries in Africa to help fulfil their growing energy requirements (Alden et al, 2009:7).

The quest for new markets for Chinese exports has also become a policy imperative for the Chinese government. African markets have displayed strong commercial potential for Chinese businesses. The Chinese government, Chinese entrepreneurs and businesses regard Africa as a continent with growing economic potential in the form of relatively untapped and a growing consumer base (Alden et al, 2009: 7) Chinese enterprises in many cases receive support from the central government when investing in Africa and as such are not as burdened with investment

constraints or concerns about political instability which affect other foreign investors. This support has been a key factor in directing Chinese foreign direct investment to Africa. Africa has become a place for Chinese companies to gain experience as well as establish and expand their business ventures internationally (Alden et al, 2009: 7).

### **3.5 AFRICA'S TASK: MAKING THE MOST OF IT**

The level of Chinese investment and trade in Africa makes China a key partner for African states. China is Africa's largest trading partner and is a vital source of investment for African states. The last few decades have seen going from a relatively small actor in Africa to arguably the most important international partner for many African countries. (Edoho, 2011: 104).

Trade between China and Africa surpassed US\$120 billion in 2011 and in the past two years China has given more loans to poor countries, mainly in Africa, than the World Bank. Chinese competition, however, in African countries has caused damage to local suppliers. Hundreds of textile factories across Nigeria collapsed in recent years because they could not compete with cheap Chinese garments, this has meant that many thousands of jobs were lost (The Economist, 20 April 2011: 2).

Many Africans have expressed concern when it comes to China's presence in their country. Inferior working conditions in Chinese owned mining companies have become a contentious issue in countries like Zambia. Zambian President Michael Sata, made Sino-scepticism his trademark campaigning tool. And there are cases of other opposition parties, especially in southern Africa, building their campaigns on anti-China platforms. Every country south of Rwanda has had acrimonious debate about Chinese "exploitation" (van Bracht, 2011: 1).

Chinese companies in many instances bring over their own labour but as a by-product local employment is created. Chinese companies need local African workers to provide auxiliary services such as cleaning and translators for example (Alden et al, 2009: 14). Chinese goods may have damaged local industry but it has also led to an improved standard of living for the average African consumer, who can now afford Chinese electronics and textiles (Alden et al, 2009:14). On a state to state level Chinese and African government deals have led to increased infrastructure

development with the building of roads, railways, schools, clinics, stadiums and hospitals in exchange for resource agreements. Understanding China's economic impact in Africa is difficult as it is a very dynamic and complex relationship which has positive and negative aspects. It is the way in which each facet of the engagement is dealt with which will determine its consequences (Brautigam, 2009: 77).

In order to benefit from Chinese growing economic engagement with African states, leaders must direct Chinese investment into developing local manufacturing industries and make use of the opportunity to access to technology and skills from Chinese enterprises. China can offer a viable alternative to Western investment if it is used in the correct manner. It is recommended that African leaders develop policies which protect local industries and which insist upon local employment by Chinese businesses operating in their state (Brautigam, 2009: 77).

### **3.6 CONCLUSION**

China and Africa's economic engagement have grown substantially in recent years. Although China's is the African continent's largest trading partner. China imports mainly natural resources such as copper and oil from Africa while African states import manufactured products from China. African countries are the recipient of a large variety and amount of electronic products and textiles exports from China and that these Chinese exports flood African markets and put local traders out of business. Reliance on primary commodity exports has meant that other sectors of African state's economies have remained underdeveloped.

In order to develop Africa's secondary and tertiary sectors, foreign investment needs to be directed into developing the correct industries. A significant portion of Chinese investment has reportedly been in the manufacturing sector and this offers African states the opportunity to develop this sector if investment continues and is utilised effectively.

An institution like CADFund promotes increased economic ties between China and Africa by encouraging and facilitating Chinese investment in African countries. In order to gain a great understanding of China's growing ties with Africa states it is necessary to take into considerations both the economic and political elements of

this engagement. The presence of such an institution in African states is also an indication of China's growing political engagement with African countries. CADFund was formed as part of the commitments made by the Chinese government at the 2006 FOCAC, FOCAC is a meeting of government officials and is an important diplomatic platform through which China-Africa relations are intensified. As part of FOCAC's outcomes CADFund serves a diplomatic purpose and represents part of the Chinese government foreign policy toward African states. China's interest in African states has moved beyond the need for resources and encompasses a range of political considerations as well. These political motivations will be examined further in chapter 4.

## **CHAPTER 4: POLITICAL MOTIVATIONS FOR CHINA'S INVOLVEMENT IN AFRICAN COUNTRIES**

### **4.1 INTRODUCTION**

China's involvement with African countries is often described as Chinese businesses and the Chinese government pursuing resources and markets, but, as argued above, there is also a strong political element which motivates the Chinese government's interest in African states. The Chinese government has initiated and with the help of SOEs completed numerous projects all over Africa and while many of these projects have been concentrated in resource rich states, China is becoming increasingly involved in states such Ethiopia which do not offer an abundance of natural resources. Before the 1990s China's involvement in Africa was more politically motivated than economically motivated (Brautigam, 2009: 76). Today China-Africa relations have a strong political and economic element to them. This chapter will focus on the political motivations behind China's involvement with Africa.

Internationally criticism has been levelled against the Chinese government regarding its handling of the Tibet struggle for greater independence from the central government and the issue of an international recognition of Taiwan. Allegations of human rights abuses have also tainted China's image internationally (Brautigam, 2009: 76). Most criticism toward China comes from Western states which view China as authoritarian state which despite robust economic growth in recent years, still has to undergo politically reforms if it is to be accepted as a responsible world power.

In international forums such UN General Assembly decisions are based on one-country-one-vote, the number of allies which a state has, becomes important (Botha, 2006: 65). China's UN representatives rely on African states' support in order to block undesired proposals such the acknowledgement of Taiwan as a sovereign state. This need for friends in the international community is one of the motivations for China's increased involvement in Africa (Botha, 2006: 65).

China has positioned itself as a potential leader of "the global south" (i.e. of developing countries) (FOCAC, 2011: 1). China's involvement with African countries helps portray an image of China as a leader and partner to developing countries. As

a part of this positioning, the concept of South-South Cooperation has become increasingly prevalent in discussions on international relations (DIE, 2007: 2) The debate surrounding intensified cooperation between countries of the developing global south have been led by countries such as China, Brazil and India, as well as smaller actors like Colombia or South Africa. China and Africa's relations are one (prominent) example of South-South Cooperation (DIE, 2007: 2).

The notion of a China model for economic development is one which has received attention in both media and academic circles. Most Chinese actors do not recognise the existence of a "China-model" and have not tried to advocate such a model for development in Africa (Grimm, 2011: 30). For African leaders such as President Robert Mugabe of Zimbabwe the notion that such a model exists is an alluring one because it stands in contrast to the traditional Western model of economic liberalisation and political democratisation which has not been successful in many African states. Mugabe has propagated the "look east" policy as an alternative to traditional Western partners for African nations (Grimm, 2011: 30). China so far has managed to achieve remarkable economic growth without democratising or fully liberalising its economy. Whether this path of development is a sustainable one remains to be seen. China's focus on trade and investment above issues of governance and human rights has caused much criticism particularly from European countries and the USA. Learning from China's experiences may hold some value for African leaders, but it essential to remember that democratisation and economic liberalisation has also led to successful development for countries in Southeast Asia and Europe (Grimm, 2011: 30).

This chapter will examine some of the main political motivations behind China's engagement in Africa. These motivations include the need for international allies, the advantages of South-South Cooperation. The idea of a China-Mode for development will also be discussed.

## **4.2 BACKGROUND TO POLITICAL RELATIONS**

Modern Sino-Africa relations date back to the foundation of the People's Republic of China, a fact which is often highlighted by Chinese and African officials when referring to Sino-African relations today (Grimm, 2011: 12). During the 1955



Bandung Conference, which was attended by 29 Asian and African countries including China and African states, increased economic and cultural cooperation was encouraged. The attending nations shared a colonial history and through the conference hoped to increase political and economic ties with one another as a way for them to rely less on relations with their respective former colonial powers (Uchehara, 2009: 96). It was here that the PRC forged political and economic relations with many African nations (Uchehara, 2009: 96). China's relations with Africa have ebbed and flowed through the years. When Mao Zedong was the political leader of China (1945-1976), Chinese involvement in Africa was largely ideologically motivated (Alden et al, 2009: 11).

During 1962-1964 when then Premier Zhou Enlai visited Africa, he proposed the "five principles of peaceful coexistence". These principles were to govern China's relations with African (Li, 2007: 70). These principles are namely;

- mutual respect for each other's territorial integrity and sovereignty,
- mutual non-aggression,
- mutual non-interference in each other's internal affairs,
- equality and mutual benefit, and
- peaceful co-existence.

In the wake of a wave of decolonisation in Africa, these principles were set forth by the Chinese government as a way for African nations and China to co-exist in a peaceful manner (Li, 2007: 70). The five principles are often referred to in Chinese policy documents and have become part of the Chinese government's arsenal of diplomatic rhetoric used when discussing Sino-African relations.

During the 1970s, the PRC's foreign policy was driven by perceived ideological anti-imperialist affinities. It was during this time that China sent technicians to nominally leftist African states to provide military training and modest economic aid during the liberation wars (Aning and Lecoutre, 2008: 40). This history of support for the plight of African liberation movements is something which is also often quoted by both Chinese and African actors when referring to their historical ties.

In the 1980s attention receded as the Chinese government was focusing its own internal development efforts. After the Tiananmen Square protests in 1989, African

countries provided support in a time when the Chinese government was being criticised by many countries for the killing of protesters and was being pressurised internationally to free its media and allow greater political freedom for its people (Taylor, 2009: 13). During this time many African countries were also being pressured by western powers to reform politically and economically (Owen and Melville, 2005: 1). This in part led to China and African states renewing their relations. Throughout the 1990s the Chinese government increased aid to the continent and resumed earlier rhetoric of “mutual respect” and “concern for diversity” which had previously characterised China’s engagement with the continent (Owen and Melville, 2005: 1).

African states have since remained important in China’s foreign policy agenda. It is clear that the Chinese government has many objectives motivating its involvement in African countries, not least of which involve the acquisition of resources (Swan, 2008: 1).

#### **4.3 THE RELEVANCE OF THE ‘ONE CHINA’ POLICY**

The issue of the One China Policy is key foreign policy issues for China. Adherence to the One China Policy is a non-negotiable precondition for African countries wishing to engage politically with the PRC (Sautman and Yan, 2007: 78). There are only four remaining African states which officially recognize Taiwan, they are Burkina Faso, The Gambia, Sao Tome and Principe and Swaziland. In August 2006 Chad relinquished its ties with Taiwan and chose to forge relations with China instead, this was a major setback for Taiwan as Chad was the only African state, which held real potential in terms of resources (Alden et al, 2009: 9). The fact that China has such a stronghold in Africa means that Beijing has become less concerned about the remaining Taiwan-recognising states in Africa and in 2006 even invited the five states to attend FOCAC 3 as observers, presumably also as part of a larger strategy to tempt these states to sever ties with Taiwan (Alden et al, 2009: 9).

In 2006 trade between Taiwan and its five African trading partners reached just over US\$56 million and for Taiwan, Africa represents a fairly small proportion of its foreign trade (Large, 2008). Despite the dominance of Chinese actors in Africa, Taiwan continues to promote itself in Africa and in 2007 the first Taiwan Heads of State

Summit was held in Taipei. The gathering saw the five Taiwan-recognising African states meet to discuss five core areas which were; information and communication, economic development, medical assistance, the environment and peace and security. The summit was structured similarly to that of FOCAC and saw an Action Plan and Follow-Up Committee being established (Alden et al, 2009: 9). Taiwan's quest to gain the support of African states can be interpreted as having less to do with economic interests and more to do with political ones.

Since 1971, with the change to Mainland China as the sole representation of China, Taiwan has not been a member of the United Nations and has been lobbying for readmission to the organisation for a number of years. In order to be readmitted Taiwan would need support from a large number of states. In September 2007, however, the UN General Assembly's General Committee decided not to place the issue of Taiwan's admission to the UN on the agenda, which meant that the re-admission of Taiwan was not even discussed (Alden et al, 2009: 11). With regards to issues such as Taiwan's re-admission into the UN, the Chinese government, as previously discussed relies on its allies for support in keeping the issue off the agenda of the UN General Assembly (Sautman and Yan, 2007: 78).

#### **4.4 SOUTH-SOUTH COOPERATION AS A CENTRAL THEME**

The Chinese government has portrayed itself in many ways as a kind of leader of the global south and champions a new international political and economic order which is based on equality, sovereignty, mutual benefit and one which safe guards the interests of the developing world (Alden et al, 2009: 7). The Chinese foreign agenda forms part of its effort to foster cooperation among the developing world and demonstrate its status as a leading power (Uchegara, 2009: 96). The Chinese rhetoric of protecting the rights and interests of the developing world was echoed in *China's Africa Policy* which states that China hopes for a new world order based on rationality and justice which will see the global South play a much more important role (FMPRC, 2006).

In November 2010 the United Nations Development Programme (UNDP) and China signed a Memorandum of Understanding for strengthened South-South Cooperation. According to *UNDP Highlights of 2011*, the UNDP and China piloted a trilateral

cooperation project aimed at identifying a developing country with a need for aid and starting a project with the UNDP, China and the selected developing country (UNDP, 2012). The UNDP has previously stated that it supports the idea South-South Cooperation as a way for developing countries to collaborate and help with each other's respective development challenges (UNDP, 2012).

A particular role in political projections is played by FOCAC. The forum has become a tool for Chinese and African officials to elevate the achievements that have been made between the China and Africa and set new objectives for relations between the two. FOCAC has also become a symbol of South-South Cooperation. Although the FOCAC summit focuses on economic topics it has a clear political dimension to it (Grimm, 2012: 1). FOCAC serves as a way for China and Africa states to make economic agreements as well as forge stronger diplomatic ties. FOCAC is also in many ways the Chinese equivalent to gathers such as Franco-African Summit and the Commonwealth Conference (Grimm, 2012: 1). Other emerging powers such as India and Turkey have also been spurred to establish high level meetings with African officials. Such gatherings increase South-South Cooperation between emerging powers and African countries (Grimm, 2012: 1). CADFund fits into this overall policy pattern as a tool to further South-South Cooperation. By encouraging Chinese enterprises to invest in African states, CADFund increases economic engagement between Africa and China. CADFund can also be seen as fulfilling a diplomatic role as it is mandated to represent the Chinese government's policy objectives, one of which is increasing economic cooperation between China and Africa.<sup>4</sup>

#### **4.5 ATTRACTIONS OF SUCCESS - THE 'CHINA MODEL'**

After setbacks in their economic development in the 1980s, many African leaders became disillusioned the Western model of development which advocated political democracy and economic liberalisation as the only viable way for newly independent states to develop effectively and achieve economic growth (Girouard, 2008: 1). The Chinese path to economic growth has stood in contrast to this. It is unlikely that the Chinese government will be able to maintain high levels of economic growth with

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<sup>4</sup> Interview with Mr Li Shenglin, (Project Manager of CADFund Johannesburg Office) on 7 September 2011.

limited political freedom (Girouard, 2008: 1). Increased protests around China hint to the fact that things are changing in China. Chinese citizens are demanding better service delivery from the government and accountability from political leaders. The fact that we are increasingly seeing and hearing about protests in China, in international media is already an indication that change has occurred in China (The Economist, 28 January 2012). The Chinese government has managed to achieve substantial economic growth with limited political freedom by focusing on its economy. Through economic liberalisation policies and by focusing on trade and investment, the Chinese government has been able to achieve high levels of economic growth which has perhaps quelled dissent, up until now, amongst its citizens (The Economist, 28 January 2012).

Most Chinese actors deny the existence of a Chinese model for economic development (Grimm, 2011: 30). Yet, for African actors an alternative to the Western model of development is an appealing notion (Davies, 2010: 23). After numerous failed attempts by many African societies to democratise their political systems and foster economic growth, African actors are searching for an alternative development path. Indeed there are certain lessons which Africa states can learn from China's development strategy. One such lesson could be to follow the Chinese government focus on encouraging local enterprises to invest abroad by creating a favourable investment climate for them internationally. The Chinese government's corporate engagement strategy in Africa consists of numerous elements. Top Chinese officials help create a favourable investment climate in Africa through a mix of prestige diplomacy, economic assistance and diplomatic support for Africa leaders (Gill and Reilly, 2007: 37). At home in Chinese bureaucratic agencies, the Chinese government encourages Chinese State-Owned Enterprises (SOEs) to increase investment and trade with Africa countries. China's SOEs both implement China's aid programmes and extract natural resources (Gill and Reilly, 2007: 37).

The Chinese government encourages its SOEs to seek exploration and supply contracts with countries rich in oil, natural gas and other resources (Parenti, 2009: 121). This has led to a dominance of Chinese companies in the energy sector in countries such as Angola. Resource acquisition especially oil and gas is economic imperative for the Chinese government and is a major motivating factor for China's diplomatic activities in oil rich African states (Parenti, 2009: 121). The majority of

Chinese companies operating in Africa are involved in the building of transport electrical and communication infrastructure. Chinese workers provide low-cost expertise and manual labour. By 2006, roughly 74 000 Chinese workers were said to be involved in Chinese projects in Africa on a temporary basis (Gill and Reilly, 2007: 40). Chinese enterprises tend to use Chinese workers in construction projects for instance and this takes away from the potential local employment element which would benefit many unemployed African locals. Even Chinese aid projects seldom make use of local labourers (Davies, 2010: 21).

As corporate interaction between China and African countries increases, the Chinese government and enterprises are likely to find itself faced with the “principal-agent” dilemma (Gill and Reilly, 2007: 37), meaning that tensions will emerge between the interests and aims of government principals, the bureaucracies based in Beijing tasked with advancing China’s national interests and the aims of the agents of Chinese companies and businesspeople operating on the ground in Africa countries (Gill and Reilly, 2007: 37). Chinese businesses operating in Africa have previously received unfavourable media coverage because of allegations of poor working conditions, low wages and other labour disputes (The Economist, 20 April 2011). This negative media coverage, while it might often be undifferentiated and oversimplified, still reflects poorly on China as a whole and damages the diplomatic efforts of the Chinese government in African states.

The Chinese “model” of giving aid seems to differ from aid given by Western states (Grimm *et al*, 2011: 1). Chinese actors setting up aid projects in Africa largely use Chinese companies and Chinese labourers for projects. This again means that local workers miss out on the opportunity of employment. Chinese actors assert that in this way projects are finished faster because Chinese labourers are willing to work for less compensation and Chinese companies do not have to deal with local labour unions (Sautman and Yan, 2007: 78). Chinese aid is not usually given in the form of monetary assistance by rather in funding for specific projects such as building schools or roads (Sautman and Yan, 2007: 78). Observers have noted that this method of giving aid has helped to curb some of the corruption which has marred Western aid giving the risk of African official embezzling funds directly is mitigated somewhat by giving aid in the form of projects. New schools, hospitals and infrastructure given by the Chinese have meant that many Africans are experiencing

an improved standard of living (Sautman and Yan, 2007: 78). These Chinese aid projects in African states are also advantageous for Chinese enterprises (mainly SOEs) and workers who get to work on these projects. These projects also serve as diplomatic tool for the Chinese government and allow the government advance a certain image of a responsible power, in African states.

#### **4.6 CONCLUSION**

In Chinese foreign policy, issues such as the One China Policy are a foreign policy imperative for the Chinese government and keeping Taiwan from becoming a member of the UN are of vital importance. As such African states must not only adhere to the One China Policy in order to develop economic and political relations with China but they are relied on to support China in its bid to keep Taiwan from being admitted as a member of the UN.

The Chinese government uses diplomatic rhetoric and aid to advance its goal of creating a certain kind of image on the African continent, that of a peaceful and responsible emerging power. The promotion of the notion South-South Cooperation is part of the Chinese government's diplomatic rhetoric. Meetings such as FOCAC and institutions such as CADFund are tools which are utilised to perpetuate this notion. Thereby, CADFund also fulfils a diplomatic purpose by encouraging investment by Chinese enterprises in Africa, greater economic and investment cooperation forms part of the Chinese government's foreign policy agenda in Africa.

To conclude after analysing some of the main economic and political motivation for China's involvement in Africa in chapter three and four, chapter five will look at CADFund in further detail.

## **CHAPTER 5: CADFUND'S ROLE IN SINO-AFRICAN RELATIONS**

### **5.1 INTRODUCTION**

In the past five years since it began operating in 2007, CADFund has become an increasingly important institution in China-Africa relations. The Fund has representative offices in four African countries with plans to open more.<sup>5</sup> These offices act as advisory services for Chinese businesses operating in African countries and each office is in charge of supplying funding and consulting services to selected African countries in their region<sup>6</sup> CADFund has helped fund numerous Chinese enterprises and their respective projects in African states. The Fund acts as a tool for the Chinese government to encourage Chinese enterprises to invest in African countries.

During the Fifth Conference of Chinese and African entrepreneurs held in Beijing during July 2012, 20 projects between Chinese and African entrepreneurs were signed with a reported total investment of US\$341 million. During the same conference CADFund committed to investing US\$2 billion in 60 Sino-African projects across 30 African countries. The China Development Bank (CDB), separately to the Fund, committed US\$1 billion in investment for small and medium enterprises in Africa (Xinhua, 2012: 1). With the USA and Europe still suffering from the effects of the global financial crisis, China has stepped in and has taken advantage of the opportunities which African states have to offer. The following chapter will look at CADFund's organisational structure, investment approaches and projects in Africa.

### **5.2 CADFUND'S SETTING AND OPERATIONS**

The China-Africa Development Fund is the subsidiary of China Development Bank, and is a market-oriented operating fund with 50-year duration. The Fund presents its operations under the rhetoric of cooperation and development (Grimm *et al*, 2011: 17). CADFund aims to facilitate China-Africa cooperation and to enhance capacity

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<sup>5</sup> Interview with Dr Hao Rui (Senior Manager, Research and Development Department, CADFund Beijing Office) on 12 July 2012

<sup>6</sup> Ibid



building of African economies, through direct investment and advisory services.<sup>7</sup> According to a senior manager in the Research and Development Department of CADFund in Beijing, CADFund is China's first fund that focuses on Africa investment, encourages and supports Chinese enterprise's investment in Africa. The Fund envisions strengthening commercial ties between China and African countries through its investment and advisory activities.<sup>8</sup>

CADFund conducts equity investment in Chinese enterprises that launch business in Africa. The CDB website describes CADFund's objective as aiming "to promote economic cooperation between China and Africa and advance Africa's economic development" (CDB, 2012: 1). The Fund invests directly in Chinese enterprising who have already set up operations in Africa or provides funding for those who are planning on doing so. CADFund can also be seen as a potential diplomatic tool for the Chinese government and according to the CDB website, "CADFund will embody the Chinese government's diplomatic and economic policies toward Africa and boost a new type of strategic partnership between China and Africa" (CDB, 2012: 1). CADFund operates differently to Chinese aid in that it is operated on and based on market economy principles; it is solely responsible for all its profits and losses. The Fund's target group is Chinese enterprises who are active in or wish to invest in projects in African countries. According to the CDB website all enterprises which CADFund invests in must comply with laws, statutes and regulations of China and the recipient country which is being invested in (CDB, 2012: 1). It is unclear, however, what mechanisms are in place to ensure that enterprises which the Fund invests in adhere to these laws. If enterprises are not monitored adequately then this could be a potential shortcoming of the Fund as it would reflect poorly on the Fund and in turn the Chinese government if funded enterprises do not adhere to local and Chinese laws.

Financial support from the Fund helps to resolve problem of capital shortage for fledgling Chinese enterprises wishing to open operations in Africa. The Fund also provides advisory services to Chinese enterprises, many of which lack African

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<sup>7</sup> Interview with Dr Hao Rui (Senior Manager, Research and Development Department, CADFund Beijing Office) on 12 July 2012

<sup>8</sup> Ibid

investment experiences. According to one of its senior managers, CADFund operates rather independently and has established structures against various market risks. He claimed that investment decisions were made independently by the board of directors, guided only by CADFund's investment policies and procedures.<sup>9</sup> The manager also asserts that based on the market principles and actual needs of African economies, CADFund looks into investments in areas such as agriculture, machinery manufacturing, infrastructure, construction materials, trade zones and resources development.<sup>10</sup> It is difficult to say how the needs of a particular African state are determined by CADFund. Representatives of the Fund assert that the Fund is required to meet annually with representatives from various Chinese government ministries.<sup>11</sup>

The Fund has been operating since 2007 and since then has been involved in funding 60 projects around the continent and is said to have another 100 projects in the pipeline.<sup>12</sup> The commitment made by CADFund representatives during the Fourth Conference of Chinese and African Entrepreneurs in July 2012 to invest US\$ 2 billion in Chinese and African projects means that there is likely to be more CADFund supported projects in the coming year in African countries (People's Daily, 2012: 1).

### **5.2.1 Structure of organisation**

CADFund underwent an organisational "restructuring in April 2012, the investment function is [now] re-organized from geographic-based departments to sector-based departments."<sup>13</sup> The four investment departments concentrate on infrastructure, mineral resources, agriculture and manufacturing respectively. In addition, the Marketing Development Department was established in 2012 to coordinate different investment projects and to manage CADFund's regional offices in Africa.<sup>14</sup> A potential reason for this reorganisation could be that CADFund projects are

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<sup>9</sup> Interview with Dr Hao Rui (Senior Manager, Research and Development Department, CADFund Beijing Office) on 12 July 2012

<sup>10</sup> Ibid

<sup>11</sup> Ibid

<sup>12</sup> Ibid

<sup>13</sup> Ibid

<sup>14</sup> Ibid

concentrated in a limited number of African states. When asked which states CADFund was most active in, Dr Hao, replied that

“investments are all made based on projects’ market-based valuation regardless their country origin. Currently, over 30 African countries are included and projects are mainly operated in the following nations: South Africa, Namibia, Guinea, Egypt, Liberia, Nigeria, Mozambique, Ethiopia, Benin and Tanzania. Among all the countries, investment in South Africa takes up about 20 per cent of total investment value.”<sup>15</sup>

The Supervisory Board of CADFund consists of representatives from each of the following Chinese organizations: the Ministry of Commerce, the Ministry of Foreign Affairs, National Development and Reform Commission, the Ministry of Finance, People’ Bank of China, China Banking Regulatory Commission, China Security Regulatory Commission, State Administration of Foreign Exchange and China Development Bank. The two representatives from the Ministry of Commerce and the Ministry of Foreign Affairs co-chaired the Supervisory Board. The Office of the Supervisory Committee falls under the Department of Western Asian and African Affairs which is located within the Ministry of Commerce. The Supervisory Committee convenes once or twice a year, to provide CADFund with guidance from the policy level.<sup>16</sup>

When looking at *figure 1* below regarding the organisational structure of CADFund, it is evident the “stockholder” is the first in the chain of command, it is unclear whether in practice this is the case or whether CADFund is more accountable to the Supervisory Board than indicated by the figure. Representatives from the various ministries of the Chinese government make up the Supervisor Board, as mentioned above. On the figure below the Supervisory Board is located between the “stockholder” and “directorate”, it is unclear what this position means, whether it is meant to indicate that both the “directorate” and “stockholder” report to the Committee is difficult to verify. The CADFund website has not been updated to reflect the new organisational structure, which now according to Dr Hao, consists of

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<sup>15</sup> Interview with Dr Hao Rui (Senior Manager, Research and Development Department, CADFund Beijing Office) on 12 July 2012

<sup>16</sup> Ibid

sector based departments and no longer geographically based departments as indicated on the figure below (CADFund, 2012).

**Figure 4: Organisational structure of CADFund (this figure still represents the old geographically based departments and not the new sector-based departments)**



Source: CADFund website, 2012. "Organisational Structure" available at: [http://www.cadfund.com/en/Article\\_List.aspx?columnID=85](http://www.cadfund.com/en/Article_List.aspx?columnID=85)

### 5.2.2 Investment approaches

According to the CADFund and CDB website, there are four main investment approaches which CADFund utilises when investing in Chinese enterprises. The first being equity investment which is where CADFund offers support for a Chinese enterprise to conduct economic and trade activities and set up operations in Africa (CADFund, 2012) In this case CADFund will not seek a majority share in company.

The second is quasi-equity investment, this is where CADFund may make any manner of investment under the auspices of Chinese state policy and that of the host

country. This form of investment may include preferred stock, hybrid capital instruments and convertible bonds (CDB, 2012) Thirdly, fund investment may be undertaken, in which case CADFund may invest, as a “fund of funds”, a reasonable proportion of its capital in other funds that invest in African countries. Lastly CADFund may provide knowledge investment in the form of management, consulting and financial advisory services to all Chinese enterprises, not limited to those being financed by the Fund (CDB, 2012).

CADFund stated that it does not base funding decisions on the criterion of how many years an enterprise has been operating for. It may thus invest in newly established enterprises or in enterprises which need capital to aid expansion or enterprises which have been operating for a long period of time. In general, the holding period of CADFund investment lasts no more than 10 years. Specific duration and exit strategies for each project will depend on negotiation agreements reached by all stakeholders. CADFund will determine its demanded investment return based on factors such as yield rate, risks evaluation, and deal structure. Return on investment includes income from dividends and capital appreciation. The Fund in theory will exit a project once it is up and running and generating a profit. The method of exit will vary from case to case and can include exit after Initial Public Offering, exit after the financed enterprise goes public in either domestic or overseas stock market or exit through transfer agreement (CDB, 2012: 2).

Application for investment from CADFund is made by submitting an application form containing information regarding the project, the project investors, total project investment and investment amount needed. Based on this the Fund’s investment team will decide if the project is worthy of investment. Interestingly, there is no direct access to the fund for African entrepreneurs. If Africa enterprises wish to apply for investment from CADFund, they must find a Chinese enterprise to partner with and then the Chinese enterprise must apply for investment from the Fund (CDB, 2012: 2). This indicates that African enterprises will most likely have less say if they are to partner up with Chinese enterprises and receive funding from CADFund. It seems unlikely that in this setting African enterprises will be treated as equal partners.

According to the CADFund website the projects which are invested in must abide by China's economic and foreign policies towards Africa; follow regulations regarding

Chinese enterprises' overseas investments; and satisfy relevant legislation and policy requirements in corresponding African host countries (CADFund, 2012). The interviewed senior manager noted that potential partners should possess complementary advantages against CADFund, combined with relevant industry competitiveness, investment experiences with Africa, the existence of local networks, competent management capability and team advantages, as well as understanding and recognition with CADFund investment and capital market principles.<sup>17</sup> Potential partners should also be leading enterprises in their respective industry with clear long-term strategies in Africa, well-functioning governance structure, and outstanding working teams. It is unclear how this is assessed and what kind of criteria must be met in order to gauge whether a Chinese enterprise is a leader in its industry and whether it has a clear long term strategy in Africa. The criteria provided, however, clearly indicate an envisaged role in promoting Chinese businesses that have a global potential. The driving force is a Chinese international strategy rather than putting African development in the first place.

In order to receive funding from CADFund the so-called "qualified projects" must fulfil certain criteria such as; being regarded as an investment undertaking that is based in Africa or if it is based outside Africa then it must be indirectly invested in Africa or serve the interests of African countries, this criteria seems vague and it is unclear what exactly would qualify as "serving the interests of African countries". Qualified projects are also supposed to demonstrate promising market prospects with a rapid yet steady growth potential and the ability to generate profits. Other criteria given by CDB for CADFund's decisions are that qualified projects should facilitate local economic development, and to contribute to general public's well-being improvement. Qualified project must follow African laws, and abide by local labour and environmental standards (CDB, 2012). It is not stipulated on the website what checks and balances are put in place by the Fund to monitor this, nor is there any indication for a role of African partners in this assessment.

According to the interviewed CADFund senior manager, CADFund is committed to in adhering to environmental and social responsibilities under relevant international

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<sup>17</sup> Interview with Dr Hao Rui (Senior Manager, Research and Development Department, CADFund Beijing Office) on 12 July 2012

evaluation standards.<sup>18</sup> This commitment is rather vague and does not provide concrete standards or measures which must be undertaken by CADFund or the enterprise to fulfil this mandate. A declaration on corporate social responsibility was announced at the closing ceremony of the Fourth Conference of Chinese and African Entrepreneurs, and it was jointly signed by the China Council for Promotion of International Trade, CADFund and CDB. The declaration aims to promote cooperation between China and Africa by encouraging mutual communication and understanding as well as encouraging scientific and technological cooperation between enterprises from both sides (Chinese Embassy to South Africa, 2012: 1).

### **5.2.3 Projects undertaken**

Limited information is provided on CADFund's website regarding the projects which the Fund is involved in, and the information provided is outdated. For this reason news sources and information from an interview were consulted to attempt drawing up a list of some of CADFund's recent and past projects. According to the interviewee, to date CADFund has helped finance and support 60 projects across 30 Africa countries.<sup>19</sup> The Fund received a capital injection of US\$2 billion during the July 2012 Conference of Chinese and African Entrepreneurs, CADFund has pledged to use its increased resources to help finance Sino-African cooperation projects (People Daily, 2012: 1).

When asked what projects CADFund was currently involved in, the interviewee noted the following projects;

- Tanzania Mchuchuma and Ligana coal-electricity-iron project;
- StarTimes Africa digital television project;
- Ghana Asogli power plant project;
- Nigeria Lekki free trade zone project and a
- Zambia cotton planting project.<sup>20</sup>

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<sup>18</sup> Interview with Dr Hao Rui (Senior Manager, Research and Development Department, CADFund Beijing Office) on 12 July 2012

<sup>19</sup> Ibid

<sup>20</sup> Ibid

Asked about some of CADFund’s successful projects, the following projects were listed (none of them from the above list):

- the Cotton Project in Malawi,
- the Ethiopia Leather Manufacturing Project,
- the Suez Economic Zone and
- the Liberia Bong County Iron Ore Project.<sup>21</sup>

More specifically exploring CADFund’s engagement in South Africa, its biggest area of operation, as stated above, the list of projects is presented in table 2.

**Table 2: CADFund Projects in South Africa**

<p>Chery, a leading Chinese automaker has entered into a joint venture with CADFund to further explore the potential of the African car market. The new name under the joint venture is Chery Overseas Industrial Investment Co Ltd and Chery will have a 55% investment stake. Chery sells around 15 000 cars in South Africa and Egypt respectively (China Daily, 2011).</p>
<p>China First Automotive Works (FAW) announced in February 2012 that it would be constructing a US\$ 100 million truck and passenger car plant in the Eastern Cape in South Africa. The plant will be built with funds obtained through CADFund (Ding, 2012: 1).</p>
<p>The Jinchuan Group, one of China’s largest mining companies joined with CADFund to create a joint venture and paid US\$ 227 million for an over 45 percent stake in Wesizwe, a South African platinum mining company. The Fund and Jinchuan pledged a further US\$ 877 million to fund the development of Wesizwe's primary asset, a Greenfield platinum mine in the North West of South Africa (du Venage,</p>

<sup>21</sup> Interview with Dr Hao Rui (Senior Manager, Research and Development Department, CADFund Beijing Office) on 12 July 2012



2012: 1).

A consortium made up of Baiyin Non-Ferrous Group, CADFund and Long March Capital has bought two-thirds of Gold One, a South Africa gold producer and explorer (African Investor, 2011).

In October 2010 Hebei Jidong Development Group and CADFund also jointly created a cement plant in South Africa. The cement plant is said to have a daily cement production capacity of 2,500 tons once operational (Capital Vue, 2011).

*Sources: media coverage, as indicated.*

CADFund is currently funding agriculture projects in Malawi, Mozambique, Tanzania and Zambia and plan to extend funding to Sudan (Ncube, 2012: 1). Malawi is an illustration of the political role that CADFund plays in *China's Africa policy*. The late Malawian President Bingu wa Matharika has praised China's unconditional aid which it has offered Malawi. China and Malawi have only had diplomatic ties since January 2008 when Malawi shifted allegiances from Taiwan to China. China has built a new parliament, conference centre, university, hotel and 100k kilometre road between Chitip and Karonga and has plans to build a national stadium for Malawi (Chikoko, 2012: 1). Besides these broader cooperation projects, CADFund and the Chinese government are co-funding cotton planting projects which will enhance local cotton production and processing capacity in Malawi (Chikoko, 2012: 1).

### **5.3 NEW STRATEGIC PARTNERSHIP? – FOCAC V DISCUSSIONS**

CADFund reportedly finds it difficult to assign funds to a sufficient number of projects across Africa (Grimm, 2012: 1). A large amount of projects by the Fund seem to be in Southern Africa, where the Fund has two branches, one in Johannesburg and another in Lusaka. The Ministry of Commerce's Director General of the Department of West Asian and African Affairs, CADFund's political principal, noted that CADFund had focused mainly on projects in Eastern and Southern Africa and that it should increase its activities in West Africa (Sesay, 2012: 1).

CADFund is reportedly planning to partner with agricultural development banks in African countries to expand the investment of the Fund. China's cooperation with African development banks dates back to 1985 when the government started supporting the African Development Bank (AfDB). Since then China has been providing aid in to African banks. According to its website accessed [on 20 April 2012] one of CADFund's core objectives is to expand Chinese farming investment in Africa. CADFund together with CDB want to partner with African agricultural companies and other financial institutions which support agricultural development (Ncube, 2012: 1).

According to an article in China Daily, CADFund is shifting its investment strategy with the focus moving to infrastructure, manufacturing and agriculture after a capital injection into the Fund of US\$ 2 billion (Ding, 2012: 1). Besides energy and resources, the Fund is looking to shift towards the above mentioned sectors. The new shift in strategy by the Fund is said to be in line with Africa's economic growth plan that prioritizes urbanisation and industrialisation (Ding, 2012: 1).

South Africa Trade and Investment Minister, Rob Davies claimed that there had been a shift away from traditional partners such as the USA and European countries by South Africa and other African countries to emerging powers such as China and India (Gateway to Africa, 2012: 1). This is evident when considering that China has become Africa's largest trading partner. The Fifth FOCAC meeting held in Beijing in July 2012 reiterated the important role which China is playing in African states. During the Forum, President Hu Jintao announced that China would double its loans to African countries compared to the 2009 FOCAC meeting, promising US\$20 billion. The loans will be aimed specifically at supporting infrastructure, manufacturing, agriculture and supporting small and medium enterprises in African countries (Ghana Business News, 2012: 1). In line with this during the closing statement of the Fourth Conference of Chinese and African Entrepreneurs, held in Beijing in July 2012 it was announced that more than twenty Chinese and African enterprises had signed eight economic cooperation projects with a total investment of US\$ 341 million (Chinese Embassy to South Africa, 2012: 1).

In his speech regarding ties between China and Africa, Minister of Commerce, Mr Chen Deming noted that trade between China and Africa hit a record high of US\$ 166.3 billion in 2011 and that Chinese direct investment in African countries reached US\$ 14.7 billion by end of 2011 (Chen, 2012: 1). Chinese projects in Africa such as a CADFund funded shoe factory in Ethiopia, a hydropower station in the Democratic Republic of Congo (DRC) which was established with aid of Chinese credit and cotton plantations in Malawi cultivated by local farmers with instruction given by Chinese experts, painted a positive picture of China- Africa relations (Chen, 2012: 1).

UN Secretary General Ban Ki Moon spoke at the Fifth FOCAC, and during his speech he noted that African countries involvement with China provides “opportunity for African countries to diversify their economies, create jobs and improve healthcare and education” (Asia One, 2012: 1). He also noted that there are three areas in particular in which FOCAC can better development of African countries. These areas are poverty reduction, in which case the Forum needs to increase development impact of trade and infrastructure projects and make sure that they better the lives of African people. Secondly the Forum can help strengthen African capacity by continuing skill and technical training and knowledge sharing between Chinese and African experts. Lastly the Forum needs to focus on Greener development by encouraging environmental awareness and assessing impact of projects on environment (CNTV, 2012: 1). The UN Secretary General also applauded China and Africa’s relations as forwarding South-South Cooperation which the UN has promoted for many years (CNTV, 2012: 1).

South Africa President Jacob Zuma thanked China, during the 2012 FOCAC meeting, for treating African countries as equals but also warned against continuing the unequal trade structure between Africa and China. Zuma highlighted that Africa was still heavily reliant on raw material exports to China whereas China exports a range of manufactured goods such as textiles and electrical products to African countries. This reliance on primary goods, according to Zuma, was not sustainable and African countries needed to focus on diversifying their economies if they hoped to compete in the international market place and grow their economies (Asia One, 2012: 1).

President Zuma's speech highlighted the ongoing dilemma which many African countries face. Engagement with China is essential and beneficial in many cases yet African countries must make the decision of how to engage with one of the world economy's giants. If meant to diversify African economies, Chinese investment needed to be directed to underdeveloped sectors such as manufacturing. .

The above assertions by officials offer varying perspectives on the changing relationship between China and Africa. The role which African states play in China-Africa relations and in international relations is often one of a weaker actor, one which relies on other states for assistance and guidance.

#### **5.4 CONCLUSION**

CADFund is playing an increasingly prominent role in Africa and in numerous ways is helping the Chinese government to achieve its political and economic objectives in Africa. The Fifth FOCAC meeting has illustrated China's continued commitment to maintaining close ties with African countries. With US\$ 20 billion in loans being made available by China for African states, China is investing in furthering its ties with Africa. Criticism from Africa about the structure of the relationship, however, is also voiced.

Organisations such as CADFund are one way in which the Chinese government is promoting investment ties with the continent. With over 60 projects already up and running and with US\$ 2 billion being injected into the Fund for future Sino-African cooperation projects, CADFund is proving to be an important institution in China-Africa relations. Increased economic and political engagement as well as "solidarity and cooperation with African countries" are objectives laid out in many of the Chinese government's policies regarding Africa (FOCAC, 2006: 3). CADFund is encouraging Chinese enterprises to begin operating in African countries by providing funding and advisory services and in this way fits well into the Chinese government's foreign policy objectives in Africa.

While CADFund lays out numerous stipulations regarding funded enterprises adhering to local laws and acting in an environmentally and social conscious way, it

is unclear how this is monitored and to what degree African decision-makers are involved in their selection. This makes a direction towards African development clearly less certain than consideration of the Chinese priorities. Whether CADFund has mechanisms in place to assess and monitor enterprises activities is difficult to assess. One of the shortcoming of CADFund as an institution is that it lacks transparency. Behind the rhetoric offered by the website, little information is given regarding the way in which CADFund is truly fulfilling its mandate.

## **CHAPTER 6: CONCLUSION**

China and Africa's increased interaction over the past decade has received attention from the media, academics, economists and politicians alike. The rise of China as a potential world economic power has sparked both concern and suspicion. Concern over China's impact in African states has been voiced by Western and African leaders. The Chinese economy has experienced robust growth since embarking on ambitious reforms to open up its economy to outside investment and trade, as well as policies geared towards encouraging Chinese enterprises to go abroad. China's rise in importance in the international arena has led to increased scrutiny of its foreign policies and internal policies. In order to gain a balanced view of China's engagement in African states it is necessary to examine the various components of their involvement.

This thesis has chosen to focus on CADFund as its main unit of analysis, and has illustrated that the Fund fulfils both a political and economic role in China's relations with Africa. The intention for this section is to provide answers to the research questions posed in Chapter 1, by drawing from the discussions and conclusions presented in the preceding chapters. Qualified answers will be given regarding the political and economic motivations behind China's interest in Africa. Conclusions are drawn from the structural organisation, investment approaches and projects of CADFund. The way in which CADFund fits into *China's Africa Policy* will be determined in this chapter by looking at the Fund's activities and how they fit into the principles set out in *China's Africa Policy*.

According to the Chinese government, *China's Africa Policy* is a way "to present to the world the objectives of China's policy toward Africa", the policy outlines "proposals for cooperation in various fields in the coming years" (FMPRC, 2006). How an institution such as CADFund fits into these objectives will be determined by looking at China's economic and political interests in Africa, which were presented in this paper.

Chapter 2 provided an overview of issues which pertain to the remainder of the thesis and provided a background and contextualisation of China-Africa relations as

a whole and the key areas of interest for this thesis. An important finding of this chapter is that China is not a monolithic entity. That, in fact, there exist a range of actors which need to be considered when trying to gain insight into China-Africa relations.

Despite its authoritarian rule, the Chinese central government is not an omnipresent force, it is not in control of every aspect of China's engagement with African states. While China's government might even at times struggle to assert control over all internal matters, controlling activities beyond its borders (even by own citizens) is clearly often an over-stretch. This does not exempt the government from overall responsibility in international relations, but puts the debate about "China in Africa" somewhat into perspective.

The control which the Chinese government has over an institution such as CADFund is difficult to gauge. The Fund meets with the Supervisory Board, which is made up of representatives from relevant Chinese government ministries, once or twice a year to receive policy information, which means that there is a certain level of government control; the fund clearly has to follow policies as set out by the government. The selection of projects by the Fund is likely to be guided by foreign policy considerations, at least to some extent. One such consideration is the Chinese government efforts to be perceived as a more equal partner to African states as opposed to other international actors across the continent - not just in resource rich states. This may explain the selection of CADFund's projects in states such as Malawi and Ethiopia. Based on the interviews conducted for this study, the day to day operations of the Fund appears to be controlled by the Fund itself. The fund does, however, explicitly mostly follow the rationale of Chinese economic interests, as illustrated; African development also features as a criterion for project selection, but without clear guidelines what this means and how to assess the achievement of this goal.

## **CHINA'S POLITICAL ENGAGEMENT WITH AFRICA**

Chapter 4 investigated some of the political motivations behind the Chinese government interest in African states. One such motivation is the Chinese government's One-China Policy. This policy is an important part of China's global foreign policy and the recognition of China over Taiwan is a non-negotiable criterion for having economic and political relations with China. The fact that African states are required to adhere to the One China Policy in order to build relations with China, clearly indicates that the rhetoric of China having a "no strings attached" relationship with African states is false.

As discussed in chapter 3 China's relations with African countries have received a disproportionate amount of media attention when considering the Chinese perspective. For China, trade with African states only represents a small percentage compared with its trade with other regions of the world such as South East Asia or Europe; yet, for many African states, China represents an important international actor and is now the largest trading partner. Even though Chinese actors repeatedly assert that they are equal partners with African states, the relationship is highly unequal. China is now a world economic power and African states' economies are heavily reliant of trade and investment from China. When looking at the structure of China's trade relations with African states they are not that different from Western countries trade relations. Like Western states China is interested in resources from African states and as such is more involved in resource rich states such as Sudan and Nigeria. Although the Chinese government is making an effort to be seen as an equal partner to African states, Chinese actors in many ways are rather similar to Africa's traditional trading partners.

The fact that commitments have been made to redefine China and Africa's engagement – latest during the FOCAC V meeting in July 2012 – indicate that the Chinese government and African governments are aware of the fact that China-Africa relations to date have not been based on equal partnership.

This study highlights that by engaging with developing states of the south, the Chinese government has the opportunity to establish itself as a leader of the global south. It is already an economic giant in the developing world and is a vital trading



partner for many states. By increasing diplomatic ties in the form of increased cultural exchanges and other forms of interactions as is highlighted in *China's Africa Policy*, China has the opportunity to create an image of leader in the global south. In this regard Africa offers China the opportunity to assert its leadership potential.

In this context, an institution like CADFund helps promote South-South Cooperation by increasing investment by Chinese enterprises in African states. The growing presence of Chinese enterprises in Africa leads to an increasing number of Chinese citizens in African states, inevitably resulting in interactions between African locals and Chinese. Indirectly, CADFund is thus promoting the people-to-people interaction that is highlighted as one of the aims of *China's Africa Policy*.

Resource acquisition and the search for new markets are two main economic driving forces behind China's engagement with African states, as argued above. Africa offers China a large relatively untapped market for their exports. Although Chinese investment activities in Africa are focused mainly on resource-rich states such as Sudan, Nigeria, South Africa and Zambia, Chinese involvement in countries such as Malawi and Ethiopia is on the rise and serves as an indication that the Chinese government's is interested the African continent for reasons other than just access to energy and minerals. Beyond resource supply, African states provide the Chinese government with the opportunity to improve their image international and be viewed as a responsible world power. Various aid projects and UN peacekeeping missions, supported by Chinese troops, in Africa help the Chinese government to create an image of China as a more peaceful and responsible emerging power.

### **CHINA'S ECONOMIC INTEREST IN AFRICA - BEYOND RESOURCES**

Chapter 3 of this thesis explores the economic motivations behind China's interest in African states. The Chinese government benefits from its engagement with African states by gaining access to resources, new market potential and political allies. For African states the benefit is that they receive infrastructure development and investment. Yet, as the investor, China is the stronger partner in this relationship. While it might not be morally questionable to act in a self-interested manner, it is essential to frame China-Africa relations in an understanding of self-interest; a thorough analysis requires moving away from idealistic rhetoric.

Indeed, African leaders might be able to learn – and benefit – from China’s economic development strategy. China’s focus on developing local industries and encouraging them to expand their operations internationally has contributed to its robust economic growth in recent years. African leaders could benefit from directing Chinese investment to key economic sectors. Skills development and education investment is also a key area which African states should focus investment on.

This thesis has highlighted the need for African leaders to take control of China’s presence in order to derive the maximum benefit from this engagement. China’s presence in Africa is as Dambisa Moyo puts it a “golden opportunity” for African states if they use it well (Moyo, 2009: 120). In her book “Dead Aid”, Moyo provocatively asserts that it is better for African people to face hardship in a state with a thriving economy than to be faced with an aid-dependent states in which opportunities to lift oneself out of poverty do not exist (Moyo, 2009: 122). African states are being offered more opportunities for economic growth due to Chinese investment and Chinese aid projects have in some cases improved living standards for African people. However the fact that Chinese labour and enterprises are still largely used in aid projects often means that African enterprises and labourers are overlooked. In order to benefit from Chinese economic engagement, African leaders need to put policies in place which protect local industries and local labour. For instance African governments could insist that Chinese enterprises use a certain percentage of local labour.

The Chinese government promotes economic ties with Africa by providing Chinese business wishing to invest in African countries with information, coordination and financial assistance. Ease of funding procurement and access to information has become a motivating factor for Chinese businesses opening their operations in African countries. The Chinese government has set up investment and trade promotion centre around Africa, these centres provide business consultation services, special funds and make approval procedures less complicated for enterprises. One such example of a centre is CADFund which provides Chinese businesses with information about the country they are investing in and provide a source of funding for enterprises.

## **CADFUND'S ROLE IN CHINA'S AFRICA POLICY**

The main question posed by this study was regarding the role which CADFund plays in *China's Africa Policy*. The mandate of the Fund is to provide funding and advisory and support services to Chinese enterprises wishing to invest in African states. With 60 completed projects to date, the Fund has arguably indeed helped to progress the Chinese government's goal of encouraging Chinese enterprises to invest in Africa.

The promotion of South-South Cooperation is also noted in *China's Africa Policy* and is often mentioned in Chinese government's diplomatic rhetoric, institutions such as CADFund and meetings such as FOCAC are useful in promoting increased interaction between Africa and China which in turn promotes the idea of South-South Cooperation. To this end CADFund is assisting Chinese enterprises in Africa. It is, however, not mandated with helping African enterprises in China or in Africa. While this fund has potential to benefit Africa in terms of increasing FDI into Africa, the Fund clearly is China-centric and primarily intended to achieve the interests of Chinese firms, with little if any input of African partners. African enterprises are not the primary focus of the Fund and African countries cannot voice their interests and priorities within the fund, since it is administered by the Chinese Development Bank. There is a potential conflict in promoting Chinese enterprises and wanting to foster African development at the same time (Munyi, 2011: 16); yet, the fund does not explore or address this tension.

An additional point of criticism is a lack of transparency. The CADFund website as one of the most vital sources of information for the fund, is outdated with regards to the information it offers. The site seems to offer all the relevant information about the fund but under the offered headings, there is little or no up-to-date information regarding the Fund's current or past activities in African states. Without proper information it is difficult to gauge the impact of CADFund in African countries. This ultimately devalues the Chinese claim of being a 'better partner' than Western states. Greater transparency by the Fund itself regarding its activities in Africa would serve to better our understanding of the Fund and its activities.

Recommendations for future research are encouraged in order to build on this specific field. For example, more extensive research could be pursued concerning CADFund linkages with the Chinese government. Together with this, questions regarding the perceived effectiveness of CADFund could also be addressed – specifically by investigating how projects are managed and monitored by CADFund. In these follow-up explorations, theoretical frameworks such as the “principal-agent theory” could also be incorporated as frameworks with which to view CADFund’s relationship with the Chinese government.

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