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DESENVOLVIMENTO E COOPERAÇÃO INTERNACIONAL

MASTER´S FINAL WORK

DISSERTAÇÃO

CHINESE GOVERNMENT AND COMPANIES: COOPERATION IN AFRICA

WEI JIAXIN

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LISBON SCHOOL OF ECONOMICS & MANAGEMENT
UNIVERSIDADE DE LISBOA

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SUPERVISION:
MANUEL ANTÓNIO DE MEDEIROS ENNES FERREIRA

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Abstract

China´s increasing presence in the African continent is intensely discussed both in the business and academic fields. Although China´s companies are not traditional investors in the continent, the history can still be traced back to the period just after the establishment of the People´s Republic of China. In recent years, the influence of the Chinese government and companies in Africa couldn´t be neglected any longer, which also goes hand-to-hand with controversies and accusations like neo-colonialism and debt-trap. Differing from traditional investors, observers always attribute China´s success in Africa to its strong state power. The Chinese government does have its role in the process, what is more important, however, could be the escalating collaboration between state power and companies. Mostly by qualitative approach, I list several methods by which China´s government could cooperate with overseas investors, particularly in Africa. Also in this paper, the transaction cost problem is selected as the theory lens to elaborate the reason why cooperation between government and firms is so important for Chinese African investment.

Key words: Africa, China, Investment, Policy

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1 . Introduction

China´s increasing presence in the African continent is intensely discussed both in the business and academic fields. Although China´s companies are not traditional investors in the continent, the history can still be traced back to the period just after the establishment of the People´s Republic of China. In recent years, the influence of the Chinese government and companies in Africa couldn´t be neglected any longer, which also goes hand-to-hand with controversies and accusations like neo-colonialism and debt-trap. In view of the significant role played by China´s state power, some people are blaming China´s government for undermining the fairness of the market. At the same time, more and more people are curious about how exactly does China´s government operate during the process so that Chinese companies could maximize ROI - Return on Investment in such a short term, compared with some traditional investors.

The factors that influents the Chinese outward investment in Africa is a hot topic for academics. Dunning (2008) divides the outward investment into three types by different motivation: market, resource and efficiency seeking. Chinese investment can also be attributed to these three ones. In the report of Sanfilippo (2010), he indicates that Chinese firms tend to invest in Africa because of natural resource and potential market of the continent. Anyanwu and Yaméogo (2015) demonstrate their opinion about the factors which drive FDI flows to Africa, and they also identify whether they were policy or non-policy, "pull" or "push", "demand side" or "supply side" and "institutional factors" or not. With reviews of selected literatures, they found that these factors are more considered as basic economic factors, trade and the exchange policies, and other factors of the investment environment from perspectives of both investors and recipients. Kolstad and Wiig (2011), for instance, use quantitative analysis with the establishment of econometric model to illustrate that the most dominant motivation for China is to access natural resources from Africa. Alden (2005) hold the similar opinion about Chinese resource-seeking investments in Africa, but he also emphasizes it would be a mistake to consider natural resource as the single motive to the relationship. He mentions four factors, including resource security, potential markets and investment opportunities, symbolic diplomacy and development cooperation, and strategic partnerships. Similar theme, but from the other perspective, is also discussed in the article of Dupasquier and Osakwe (2006), in which the authors noted that political and macroeconomic instability, lack of development, weak infrastructure, poor governance, inhospitable regulatory environments, and ill-conceived investment promotion strategies, are considered as key factors which impede FDI inflows to Africa from nearly all foreign investors.

In terms of the impact of China´s participation in Africa, using the fixed-effects and instrumental variable approaches to 36 countries over the period 2003-2012, D. Adonsou and Lim (2018) indicate that Chinese FDI actually promote the development of personal income in Africa. And they mentioned that the explosion of Chinese FDI Africa is proceeded by different presidents´ visits to Africa. For example, a new relationship was established between China and Africa after then President Jiang Zemin´s tour in Africa in 1996, which shows that political interaction between two counterparts is the engine of economic cooperation at the early stage.

Some writers discuss about the Chinese mode in Africa from all kinds of aspects. Vadra (2017) describes the so-called Angola-mode, which massively focuses on large-scale infrastructure and mining projects, as an interesting framework that China, specifically its SOEs, has utilized as this kind of business strategy on the continent, and the overwhelming majority of these SOEs are state-owned like Sinopec, etc. Ross (2019) explicitly addresses the role of institutions on Sino-Africa foreign direct investment. His results highlight that countries that are able to provide a stable political environment and effective control of corruption and other rent-seeking activities which exert the greatest effects on Chinese foreign direct investment. Eventually, they suggest three aspects of development to accelerate the development and maintain the sustainability of Chinese investment in Africa: the mechanisms to better control corruption, long-term political stability, and supply-side investment. In the paper of Yao, Sutherland and Chen (2010), the authors use the failure of Chinalco

[1], as a case study to illustrate two theoretical propositions. First, the efforts of China´s big strategy to “go global” can be considered as being part of a “national power-building globalization strategy”. Second, thanks to the protection from the state power, China´s large SOEs could afford active economic activities and take much more risks than their foreign competitors could, when it comes to international investment.

From the theoretical perspective, economic history evolves with the process of gradual specialization, no matter geographical or occupational, which causes transaction cost problems from all kinds of aspects. For instance, because of the development of cross-border trade, there are two major transaction cost problems. One is a classical problem of agency, and the other one is contract negotiation and enforcement, particularly, in underdeveloped countries or regions.

North (1991) Emphasizes the importance of transaction costs to enterprise-level economic activities. Due to the use of the market to allocate resources, when companies conduct economic exchanges, transaction costs are divided into two categories. The first set of transaction costs arises before the contract is concluded, including search costs, contract negotiations, and “government-imposed costs”. The second group of transaction costs is incurred to the company after the contract is concluded, including costs related to surveillance, compliance, and mandatory violations. In essence, transaction costs are caused by incomplete and asymmetry of information, and due to the uncertainty of the operating environment of recipient countries, the costs of multinational companies in foreign direct investment may increase. (Ross & Omar & Xu & Pandey, 2019)

In this dissertation the major objective is to show how the cooperation between China´s government and companies can effectively reduce the transaction cost problem, which is the reason why its investments have such significant achievement

[1] Chinalco is one of the largest public-owned aluminum corporations in China. Since the Rio Tinto has accumulated huge debts before the outbreak of Financial Crisis of 2008, Chinalco agreed to inject capital to help Rio Tinto´s survival and secure China´s iron supply. Just before the final approval of the Australian Foreign Investment Review Board (FIRB), however, Rio Tinto rejected the cooperation with Chinalco and announced an alternative plan to establish a joint venture with BHP Billiton. (Yao, Sutherland and Chen, 2010)

during these decades. For this purpose, and methodologically, this dissertation is based on two-fold literature review: theoretically on transaction costs and empirically on data and studies about Chinese involvement in Africa. In order to have a complete picture about this high-level cooperation, there is the systematically analysis of the evolution of policies published and implemented by both central and provincial government. It is also important to illustrate the development of relevant institutions and platforms related to Sino-African cooperation which play the role to reduce transaction cost caused by various factors. Differing form many articles focusing more on the motivations and results of China´s investment in Africa, this is the one whose emphasis is the whole process. For those emerging investors, it´s important to have a comprehensive view about the evolution and enforcement of the competitor like China with the unique political institution. For China, it´s also necessary to know how to balance the investment from public and private firms, increasing the participant of OFDI (Outward Foreign Direct Investment), so that it could have a sustainable development in Africa.

The dissertation is structured as follows: section one is the overall introduction of the background and related literature; Section two is the introduction about the so-called "Chinese model" in Africa, including its evolutional history, distribution and so on; Section three and four describe actions taken by China´s government and firms respectively; Section six describes how do they cooperate with each other; Section seven is the conclusion and direction for further researches.

2 . Chinese model in Africa

With the OECD´s standardized definition of aid as "official development assistance" (ODA), which is official financing given at concessional rates with a grant element of at least 10 to 45 percent depending on the developing country income classification, in order to promote economic development and people´s welfare there. In its framework, other official flows, such as preferential export credits, cannot be considered as the part of the aid architecture, and military aid can´t be counted in as well. As a donor, China has played its role immediately since the establishment of the People´s Republic of China in 1949, particularly, in the African continent. Since the Chinese government so engaged in relationships with those African countries, closed diplomatic ties exist between China and its African friends, which is one of the most important factors that helps PRC to return to the United Nations as the only representative of China in 1971. In 1996, the then president Jiang Zemin´s tour of Africa initiates the new era of Sino-African relationship, which is different from the one during the period between 1963 and 1976, when China´s Africa policy was shaped by its ideological consideration. (Alden, 2005) Because of the sanction imposed by western world after Tiananmen Square Event and the on-going market-oriented reform, the country tries to embrace the outside world at that time with a more diversified diplomatic and economic objective. After 2000, because of the apparently arising worries about China´s emergence as a world power, government of PRC begins to promote the idea of China´s peaceful rise. (Alden, 2005) At the same time, along with the entry in WTO and other international organizations and the growing amount of cross-border commerce, votes from African countries have been crucial to Beijing. A good example is the winning of the host of the Olympic games in 2008.

In 2003, China, in a diplomatic move, invited eight African countries which still recognise the Republic of China (Taiwan) to the second ministerial conference of China-Africa Cooperation Forum. In 2018, 53 African countries and the Commission of African Union attended the Forum on China-African Cooperation, which means, by far, all the continent, except Eswatini (ex-Swaziland), engages in cooperation with China in all kinds of aspects. Currently, Eswatini is the only one African country that still maintains diplomatic relationship with Taiwan. Although the diplomatic competition between Beijing and Taipei is not as intense as it was in the past, a real “Quanjiafu”, a photo with all family members, still has significance for China.

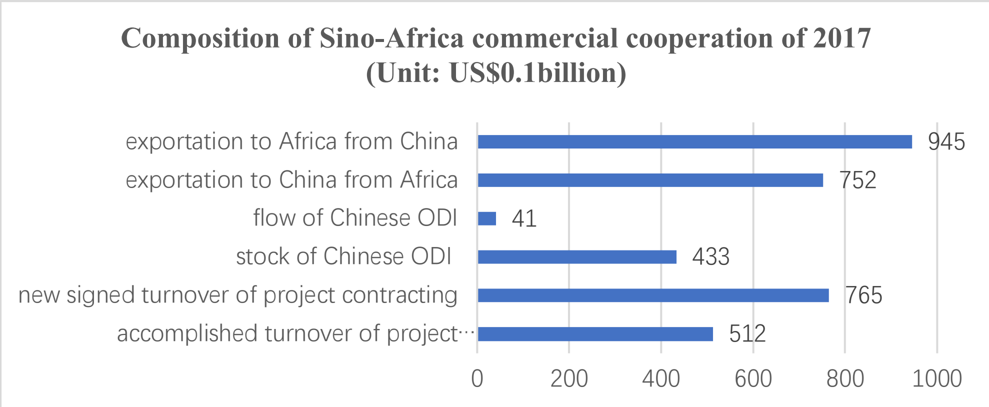
Just like what is mentioned by Deborah Brautigam (2010), China´s grant aid and zero-interest loans usually connect with broader diplomatic objectives. As one of the major non-DAC donors, however, China has its own definition of foreign aid or "external assistance", which is still a controversial issue. It is related to another discussion, this is, the need to adjust current institutions and terms because of those emerging donors, like China. Meanwhile, China is establishing its own institutions in terms of foreign aid and investment, accompanied by state-level strategies, diversified financing channels, and relevant companies.

In the report of Kitano and Harada (2014), the definition of China´s foreign aid is also a practical one, but they divide all points into six terms: “(1) grants and interests-free loans managed by the Ministry of Commerce, (2) grants managed by other departments responsible for foreign aid, (3) scholarships provided by the Ministry of Education, (4) the estimated amount of interest subsidies of concessional loans, as bilateral aid, and (6) the budget for international organizations.”

In general, Chinese investment in Africa can be divided into three types: the first one is pure aid which always associates with diplomacy; the second one is export credits which mix diplomacy and business objectives in order to promote exports of goods or services from Chinese domestic companies; the third one is mixed. The latter two are often criticized as the “tying-aid”, which may reduce the efficiency and accountability of assistance.

When it comes to economic and trade cooperation, there is a different methodology to do the grouping: traditional commerce, project contracting, and investment. The Chart 1 shows amount and different importance of each kind in 2017, which illustrates that it has an apparent drawback in terms of FDI from China towards Africa.

Chart 1



Source: MOFCOM

Although the overall FDI of major investors, including China, significantly reduces in 2018, the YoY growth rate of the Chinese FDI in Africa is the second highest among all destinations, up to 31,5%. When it comes to the proportion of total amount, however, it´s just 3,8% of Chinese OFDI in 2018. And in terms of the participation in total stock, the value is 2,3% which is much lower than those major destinations like North America and Europe. The following table shows that the net ODI towards Africa is around US$5,4 billion. Meanwhile, the volume of ODI towards Asia in 2018 is more than US$10 billion, according the same source.

Table 1

Overseas Direct Investment in Africa (USD 10 000)

COUNTRY OR REGION	**NET OVERSEAS DIRECT INVESTMENT**		**OVERSEAS DIRECT INVESTMENT STOCK AT THE END OF 2018**
	2017	2018	
ALGERIA	-14053	17865	206286
SUDAN	25487	5712	132507
GUINEA	623	20317	74244
MADAGASCAR	7120	5560	80335
NIGERIA	13795	19470	245346
SOUTH AFRICA	31736	64206	653168
AFRICA	410500	538911	4610353

Source: National Bureau of Statistics of China

2.1. Distribution

When it comes to the distributional situations about Chinese outward investment in Africa, it is obvious that the investment tends to concentrate in particular countries and sectors. Currently, China has invested in 52 countries in Africa. From the perspective of the quantity of flow in 2018, DR Congo was the most important destination of Chinese direct investment, receiving more than US$640 million. In terms of stock of capital, however, the biggest one is South Africa, nearly US$6,5 billion, followed by DR Congo, nearly US$4,4 billion. From perspective of stock, in 2018, 85,1% of the total investment, which is up to US$36,74 billion, flows to five sectors, including construction (32.0%), mining (22,7%), manufacturing (13,0%), finance (11,0%), and leasing and business services (6,4%).[2] Besides that, since China is a country which needs to feed over 1,4 billion people, and the investment towards the agricultural sector by land acquisitions cannot be ignored. In 2009, China's investment in Africa's agricultural sector was 30 million U.S. dollars. By 2013, this figure had increased to 127.26 million U.S. dollars, an increase of nearly 3.2 times in five years.[3]

The distributional situation has been evolving, particularly after 2010. Sanfilippo (2010) indicates that, during the period 1979-2000, Chinese investors preferred to invest in manufacturing (especially textiles) and resource extraction (amounting to 74 per cent of the total value of FDI). Due to increasing investment in telecommunications and construction industries which has historically occupied an important position in China’s investment in Africa, the tertiary sector has been becoming much more relevant from 2010. Currently, however, the dominant sector which attracts Chinese investment is construction of infrastructure, because of the overcapacity of construction materials inner domestic market. Meanwhile, we can easily find data from National Bureau of Statistics of China about gross annual

[2] Data from Report on Development of China´s Outward Investment 2019, by Ministry of Commerce of China

[3] Data from http://www.tradeinvest.cn.

contract values of Chinese companies´ construction projects in Africa. On the one hand, from 2000 to 2015 in which Chinese construction companies obtained the highest contracts from Africa in recent years, with a sharp increase that is more than 500%; on the other hand, the 2018 is the third consecutive year that gross annual contract values of Chinese companies´ construction projects in Africa have declined, totaled US$48,84 billion, a 0.5% decrease from 2017. Just following Asia, Africa is the second largest project contracting market for China. However, in 2018, the amount of new-signed contract in Africa soared to more than $78.4 billion which is 32,4% of the total amount. (MOFCOM, 2019)

2.2. Institutions

In the article of Ross et al. (2019), the authors conclude that, after the empirical analysis, efficiency-seeking FDI has now gradually become the primary firm-level motivation of China´s FDI in Africa instead of resource-seeking FDI. This demonstrates that, with the development of China´s economy, so does the apparent strategic orientation of their investment patterns pay attention on investment quality and ROI. Because of market imperfection is inherent, particularly under the African instability in which the business environment is vulnerable, and institutions are underdeveloped, some specific state-level institutions established by home and recipient government, and international organizations could be mutually beneficial. From the perspective of Africa, lack of efficient institutions is likely to prevent recipients from fully utilizing the FDI. And for China, efficient institutions are important to reduce the transaction costs of Chinese firms´ investments, and at the same time, to monitor and improve the ROI (return of investments).

It was widely said that China doesn´t have an independent central agency related to foreign aid or investment. In fact, there are some subordinations of the Ministry of Commerce which play important roles during the operational process, including the Department of Western Asian and African Affairs, and the Department of Outward Investment and Economic Cooperation. Their jobs include: (1) collect and release information, operating with the embassy of the locality; (2) operate the accountability of the outward investment; (3) cooperate with other departments involved in the state initiative, etc.

We mean institutions not only those established by Chinese government, but also the impact from China´s government on local institutions. Ross (2019) mentions in his article, for instance, that Chinese investors tend to prefer the stability of the recipient government, as this arguably replicates the sustainability of home countries´ investment and related policies. By the end of 2018, China has established a joint economic and trade committee or mixed committee mechanism with more than 50 countries and sub-regional organizations in Africa to continue to play the role of economic and trade cooperation mechanisms. (MOFCOM, 2019)

2.3. Financial instruments

In the report of Deborah Brautigam (2010), he lists three financial instruments that made observers confused: "(1) Preferential export buyer´s credits; (2) mixed Credits; and (3) natural resource-backed lines of credit", which always occur in the cases of recipients rich in natural resources. Since the enlarged overseas investment, the sources of financing flows have been diversified a lot. The most relevant one is China´s Export-import Bank (Exim Bank), under orientation from the Ministry of Commerce, which administers the concessional loan program using subsidies from the public fiscal budget. Exim Bank is just one of three "policy banks" set up by the government to directly finance its development plans. The other two banks are the China Development Bank and China Agriculture Development Bank. Generally speaking, they have similar strategy, but different inclination. Moreover, China has developed diversified sources of official financing: equity funds; non-concessional loans; a growing mix of market-rate and preferential export buyer´s credits offered by policy banks; and other funds offered by commercial banks with public subsidies in order to support domestic companies´ overseas business activities. There is another public institution related to finance of the outward investment: China Export&Credit

Insurance Corporation (SINOSURE) which is also "policy-oriented" to meet the needs of economic globalization and the development of China´s outward business.

It is obvious that China´s government is relentlessly using financial methods to support Chinese companies making international businesses, like foreign acquisitions. For instance, after 2008, since the global financial crisis and subsequent economic downturn, Chinese companies began to actively seek new opportunities for more significant participation in foreign resource companies, often financially supported by state-owned banks´ generous credit offers. (Yao & Sutherland & Chen, 2010)

In 2018, because of constant impact by commodity price fluctuations and the US interest rate hike and reduction of balance sheet, some countries experienced temporary economic development difficulties like sharp decrease in foreign exchange income. Foreign debt risks in some countries tended to increase, and some projects were under suspension together with difficulties in the advancement of new projects. In some countries, the problem of arrears in construction projects is frequent, and some countries require local firms to have priority participating in government construction projects. They also have more strict requirements for cooperation models and technology transfer. Traditional construction subcontracting, construction general contracting, sovereign financing and other cooperation models cannot meet the current cooperation needs any longer. More and more African countries such as Angola and Nigeria have vigorously adopted the PPP model (public-private partnership) for infrastructure construction.

PPP model has been popular all over the world for a while, because these partnerships often work effectively when technology, innovation and efficiency of private sector combine with incentives offered by government to complete projects on time and within budget, which allocates risks between private and public entities. In developing countries, particularly in African countries, governments face various restrictions on borrowing money for important projects. In this case, private entity is selected with the process of open competitive bidding and needs to adopt some particular conditions from local governments like performance linked payments. Currently, more and more private capital from China has been participating in investments in Africa with PPP model. The majority of these enterprises are from digital industry such as internet and telecommunication companies, which may accelerate the progress of digitalization and the development of logistics in the continent. In order to standardize the PPP model, both in internal and external market, China Public Private Partnerships Center (www.cpppc.org) was founded in 2014 which is subordinate to the Ministry of Finance (MOF).

3. Chinese government

When Chinese companies begun investing aboard, they could not match their western competitors at that moment, in terms of technology, management, logistics and other business operations. What´s more, when they started to seek investment opportunities beyond China´s national boundary, they lost their monopolistic positions in their own industries and they didn´t enjoy dominant market power they held within inner market any longer, so they needed extended state support. (Yao & Sutherland & Chen, 2010)

3.1. Initiative from China´s government

As is mentioned before, from the very beginning, China´s investment in Africa often is accompanied by diplomatic objectives. Therefore, the government plays an essential role as the state-level back-up by some incentive policies, consistently establishing platforms for all players. China has also been donating UN agencies targeting Africa and related agendas, such as the UN Trust Fund for African Development and the UN Environment Programme, which significantly increases its discourse power in terms of topics related to African issues within the UN framework.

The Forum on China-Africa Cooperation (FOCAC), attached to the Ministry of Foreign Affairs, is one of the most enforceable institutions related to Chinese investment towards Africa, whose members contain 53 African Countries that have diplomatic relations with China, the Commission of African Union, and China. In the FOCAC, the topics are not subject to business cooperation, which has expended to diversified fields. From the Beijing Action Plan generated in 2018, we can see there are many chances for both sides to have achievements, including politics, economy, social development, culture, and military. Referring to the economic aspect, within the FOCAC´s framework, China encourages diversified policy-based and developmental financial institutions with different inclinations. It offers, for instance, the "Special Loan for the Development of African SMEs" to enhance support for Sino-Africa industrial capacity cooperation which could "boost the industrialization of Africa".

3.2. Economic & Trade Cluster

Another significant function of the Chinese government is to help domestic companies, including state-owned and private ones, to build industrial clusters in African countries, like the special economic zones and industrial parks, which can improve the convenience and efficiency for both Chinese firms and their counterparts. Meanwhile, the Chinese government engages in sharing its experience with African countries through technical assistance and personnel training. According to the list published by the official website of Foreign Economic Cooperation (www.fec.mofcom.gov.cn), currently there are four approved economic cooperation zones operated by Chinese companies in Africa. Besides those clusters which gather factories from the same province or the homogeneous industry, there are some different forms.

For example, the first phase Djibouti International Free Trade Zone (DIFTZ) has launched in 2018 with the help of China, which is a $3.5 billion project with the area of 4,800 hectares. The $370 million pilot zone covers an area of 240 hectares and includes four industrial clusters, with diversified sectors including trade and logistics, export processing, business and financial support services, and manufacturing and duty-free products retail. Located at the interaction of the Red Sea and the Gulf of

Aden in the Horn of Africa, DIFTZ is the largest international free trade zone in Africa, managed by Djibouti and three Chinese companies: China Merchants Group, Dalian Port Authority and IZP which is a cross-border trade and big data company. Besides the free trade zone in Djibouti, in terms of infrastructure, between Djibouti and landlocked Addis Ababa (the capital city of Ethiopia), a 756-kilometer (470 miles) railway was built by China, which costs up to $4 billion and makes DIFTZ an important entrance of African market.

3.3. Financial Support

Besides some state-level initiatives and diplomatic operation, financial back-up is another effective tool utilized by China´s government. In the case of natural resources and infrastructure, in particular, the state and SOEs have to work together to simultaneously achieve both private and social goals. Those SOEs always have relative soft budget limitation financially backed up by China´s central and provincial government, particularly through easily attained low cost bank credit, provided via state-owned financial system. (Yao & Sutherland & Chen, 2010) And there is a new trend, recently, the Chinese government has a pledge of zero-tariff treatment for 97% of tax items from African LDCs having diplomatic relations, which is related to the strategy of the Chinese government to internationalize its currency and reduce influence and restriction from the greenback by abandoning SWIFT system during the transaction which enables the US government to monitor.

3.4. Accountability

Many individuals hold negative attitudes towards Chinese investment. It is one of the widespread accusations about investments or aid from China: the capital from China often supports corruption and lacks accountability. Chinese government needs to confess that it is supposed to take more explicit methods to reduce the suspicions rather than blaming others for harboring negative attitudes.

Because of the complex finance system and the poor release of data, the transparency of Chinese outward investment is a major concern of observers. In addition, due to the lack of development financing data and poor management, the gap between de facto development financing providers and the international reporting system designed to track their activities is increasing. (Dreher, Fuchs, Parks, Strange, and Tierney, 2018) In the report published by OECD, the author, Davies (2013), suggests that, in order to increase the transparency of country´s policies towards outward investment, more detailed and understandable OFDI data could be published on a regular basis. The growth of Chinese OFDI has been so rapid that it has been insufficient to have just a periodically statistical reporting. In 2003, MOFCOM established a single website focusing on FDI news and data (www.fdi.gov.cn). The website, however, was originally conceived as an inward investment promotion tool. It does contain limited information about outward investment activities, but it still focuses more on inward ones.

Currently, as the major end-user of MOFCOM and SAFE statistics, National Bureau of Statistics has been publishing China´s OFDI data in its annual statistical yearbook and the website with the name of "Foreign Trade and Economic Cooperation". In order to offer a more clarified information publicity, the department of outward investment and economic cooperation established a separate website exclusively for China´s OFDI (www.fec.mofcom.gov.cn) which contains data, laws, introduction and consulting service, etc.

Institutional problems and limitations related to the accountability are risky not only for receiving countries but also for Chinese companies and government, and, to some extent, it restricts the development of foreign investment. Currently, several related departments are involved in the system of supervision, including the Ministry of Commerce, the People's Bank, the State-owned Assets Supervision and Administration Commission, the China Banking Regulatory Commission, the China Securities Regulatory Commission, the China Insurance Regulatory Commission, and the Foreign Exchange Bureau. Resulting from the diversity of investments, Chinese government tends to focus on the monitoring and evaluation during the process and after the project. Every project needs to be put on the record in advance. In order to be more efficient and comprehensive, Chinese government designates its supervision as “Dual spot check, Single release” which means, in the process of supervision, randomly selected law enforcement inspectors will be responsible for randomly selected inspection objects, and the investigation results will be released to the public. Meanwhile, the government will impose some constraints over those companies with bad credit history, like strengthening the audit of theirs loan application.

At the same time, the government created strong environmental and social policies together with recipients to maximize the benefits of investments for both sides. In the report from Leung and Zhou (2014) of the World Resources Institute, the authors keep exploring this issue by examining the rapid increasing in financial outflows from emerging economies, including China and Brazil, and conclude that there are certain requirements for sustainable development, including supervision by regulatory agencies of lending and recipient countries; clean regulations; cooperation between actors involved; transparent processes of decision-making and operation; and negotiation process with affected people, obviously, which requires efforts from investor and recipient to “anticipate, identify, and mitigate harm.”

3.5. High-tech instruments and Military Force

Although the central government consistently keeps enthusiasm on Sino-African relationship, local or provincial governments still hold different attitudes towards investment in Africa. For some backward provinces, especially at early stage, they were not as enthusiastic as central level was, because the investment of both public and private investors, in an unstable environment like Africa, would make provincial governments more risk-taking.

According to data from National Bureau of Statistic of China, now there are more than 200,000 Chinese workers working in Africa.[4] In 2018, the top 5 destination of Chinese workers are Algeria, Angola, Nigeria, Kenya and Ethiopia with around 58%

[4] These figures do not include irregular immigrants such as merchants and shopkeepers.

of total in Africa, and Algeria alone accounts for 30% of total. The number of all Chinese citizens in Africa continent is close to 300,000. The following table shows the situation of recent years in terms of workers abroad, from which we can see that, by the end of 2018, the total number of persons abroad is close to 1,000,000. The number of Chinese labors in Africa accounts for 30% of total overseas labors, which is a significant participation.

Table 2

Statistics of Dispatched labor and Persons abroad in Contracted Projects and Labor Services during 2016-2018

YEAR	CONTRACTED PROJECTS		LABOR SERVICES	
	Dispatched labor (10 000 persons)	Persons abroad by the end of year (10 000 persons)	Dispatched labor (10 000 persons)	Persons abroad by the end of year (10 000 persons)
2016	23.02	37.29	26.40	59.60
2017	22.21	37.68	30.02	60.23
2018	22.70	39.07	26.50	60.61

Source: National Bureau of Statistics of China, China Statistical Yearbook

With a huge amount of labors in Africa, Beijing and local governments have to pay more attention on protecting overseas nationals, especially in some African countries with frequent incidents like coup d'état, kidnapping and vandalism. The latest China-Africa Action Plan (*Forum on China-Africa Cooperation Beijing Action Plan*, 2018) states that the "security of major domestic economic projects" and "safety of Chinese nationals, Chinese companies, and major projects" will be more important by enhancing intelligence and military cooperation of two sides. In 2018, Uganda deployed its military force to provent Chinese interests from being injured by locals. It is the first African country which takes explicit action like this. (Birybarema, 2018) In its neighbor country Kenya, a specialized police division was set up to safeguard the Mombasa-Nairobi railway. What´s more, in order to reduce threats to its investment, some technological methods, like facial recognition, are provided by Chinese companies to enhance local intelligence collection, surveillance and response capabilities. A bilateral agreement has been signed with Zimbabwe to deploy facial recognition software from Chinese tech company CloudWalk in the capital city Harare. From the perspective of Beijing, it could train its algorithms on Africans to diversify the datasets. Meanwhile, the advanced technology can be used to improve the public security, from the perspective of Zimbabwe. In Angola and Ethiopia, we can easily find equipment from same company.

Besides that, China´s military force is also increasing the presence in the African continent to protect its economic and strategic interests, in particular activities related to the Belt and Road Initiative. In 2015, a law passed by China´s legislative body that allows to deploy the People´s Liberation Army (PLA) and People´s Armed Police outside China´s national boundary. Two years later, Beijing installed its first naval base abroad in Djibouti, targeting at active piracy in the Gulf of Aden. China also seeks to establish naval facilities in the Namibian Walvis Bay port with the "Djibouti model" stated by local press. (Nantulya, 2019) In addition, the PLA Navy periodically visits ports in Cameroon, Nigeria, Ghana, the Ivory Coast and Guinea in the name of Anti-Piracy Task Forces. In order to further realize the institutionalization in the military cooperation with African counterparts, the office for International Military Cooperation of the Central Military Commission was founded in 2016. By far, however, the Chinese military force abroad still tries to keep a low profile to reduce concern about whether China tend to abandon the "Peaceful Rising" strategy in the future.

4. Chinese companies

In general, Chinese companies involved in the investment towards Africa can be divided by their forms of ownership. Public-owned companies tend to access to some specific sectors, like construction and resources extractive industries. For private ones, however, it´s hard to compete in these sectors which have plenty of requirements over capital, technology, and human resource. Therefore, private companies are inclined to invest in manufacturing and services. Kaplinsky and Morris (2009), in their report, identify two types of Chinese investors in Africa. The first type includes those big groups related to natural resource or infrastructure construction, which are often connected with tying-aid packages and loans offered by the state finance system. The second type is companies which are related to more diversified fields, including manufacturing, telecommunication equipment and wholesale trade, and the majority of them are small- and medium- private businesses.

It´s true that when it comes to large-scale projects, public-owned enterprises have absolute dominance, especially in energy and construction business. China´s state oil company, China National Petroleum Corporation (CNPC), for instance, has invested significantly to establish connection with national petroleum and natural gas companies in Sudan, Angola, Algeria and Gabon, etc. (Alden, 2005) Chinese state-owned company can efficiently build ties to the natural resources system in specific African countries by methods like acquisition of share, providing technical assistance and human capital, etc. In terms of size, small and medium private enterprises are the majority of all kinds of participants.

Mathews (2006) divides the development of MNEs (multinational enterprises) from the emergent world as two waves. The first wave MNEs, documented by authors such as Kumar and Mcleod (1981)[5], Wells (1983)[6] and Lall (1983)[7], "*success in oversea markets was due as much to the difficulties encountered at home countries (such as market restrictions and export difficulties) as to the incentives driving going out*". But the second wave is totally different, which is more about "pull" factors rather than "push" factors before. As Yeung (2000)[8] puts it: The rise of second-wave MNEs

5 Kumar, K., & McLeod, M. G. (Eds.). (1981). *Multinationals from developing countries. Lexington, MA: Lexington Books.*

6 Wells, L. T. (1983). *Third world multinationals: The rise of foreign investment from developing countries. Cambridge, MA: The MIT Press.*

7 Lall, S. (1983). *The new multinationals: The spread of third world enterprises. Chichester: Wil*

8 Yeung, H. W. C (ed.). (2000). ***The globalization of business firms from emerging economies***. Cheltenham, UK: Edward Elgar.

from emerging countries "*is less driven by cost factors per se, but more by a search for markets and technological innovations to compete successfully in the global economy*."

And in what concerns to China, Gu (2009) mentions that there are three major reasons for Chinese company to invest in Africa. First, they go to start up development projects through state-level initiative; Second, some textile manufacturers establish processing factories in Africa, so that it could be more convenient for them to sell products locally. At the same time, by changing the country of origin, so that they could utilize the preferential trade agreements between the United States and the European Union with Africa in order to get rid of the protectionist restrictions on products from Mainland China; Third, some firms related to natural resource extraction go to Africa for the richer reserve, including crude oil, gas and mine, etc. Differing from the first stage (1949-1980s) of Chinese companies' investment evolvement in Africa, nowadays the private firms, rather than governmental ones, are increasingly becoming the engine of economic activities between two counterparts, and they are involved in various sectors. After 2005, Chinese companies, especially private ones, began to find some alternative investment destinations overseas, in order to seek an escape from the growing pressure of surplus production and inner competition, particularly in some emerging markets like South Eastern Asia and Africa, in which they could explore stronger potential market with less intense competition. One of the main competition factors being the price.

4.1. Localization of Chinese firms in Africa

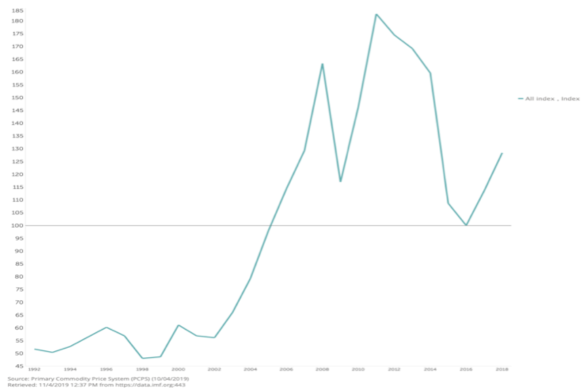
Because of different language and culture, localization is a serious problem for Chinese companies, which is also a major concern about China´s investment in Africa. What was consistently criticized by many is that Chinese companies often use Chinese workforces instead of locals. From some reports, however, we can also find different opinions. In the article by Barry Sautman and Yan Hairong (2015), they analyze the localization rates at China-related enterprises and projects among African states, and they find that there is some variation among countries, resulting in different levels of localization. Companies and projects in Angola and Algeria have lower localization rates (using fewer local labors than average, but still a majority). In Angola, the reason is the de-skilling problem because of 27-year civil war. In Algeria, the reason is brain drain to Europe. South Africa and Zimbabwe´s higher industrialization and education levels result in better localization level at Chinese firms there. For those labor-intensified industries, such as manufacturing and construction, it is impossible to hire lots of employees coming from China. In this sense, localizing is one of the most critical steps for them, which can also benefit companies in many other aspects: lower cost, improved relations with local government, and local knowledge and familiarity. In Madagascar, for instance, Razafindrevonona et al. (2008) calculate that, during 2000-2006, Chinese companies contributed 10% of the total employment created by foreign multinational companies. Onjala (2008) reports that, in Kenya, local employment accounts for 96% of the total new jobs created by Chinese FDI, Meanwhile, Edinger and Burke (2008) report that the Chinese SOE Baosteel, one of the world's top players in the steel industry, has invested around $300 million in the mining industry, creating about 2,000 new jobs for locals in Zimbabwe. Despite that, and for all companies from the rest of the world, it is unavoidable to face some backwards, including cultural conflicts, different work pace, and less specialization and discipline. Firms need to find a way to reach a balance.

4.2. Collecting Intelligence

Besides information published by the government, it is necessary for companies engaging in Africa to pay attention to the commodity price which possesses a significant impact on the fiscal policy of the majority of African countries, especially for those Chinese firms deeply involved in. Data from the IMF shows that the price of commodities has been fluctuating sharply during recent years. For example, in terms of crude oil, its price dropped to the lowest point in the recent decade in January 2016: $36.44 per barrel. In June of 2014, however, the price was $113.48. Because of the significant decline, commodity-dependent countries face huge deficits. Angola, Ghana, and Zambia, for instance, applied for bailout loans from IMF. South Africa, whose largest exports are iron ore, coal, gold, and other minerals, was also impacted by the fall. During the presentation of the annual budget for 2016, the government announced unprecedented spending out of 25 billion rands (Ighobor, 2017). Nevertheless, it may be good news for some countries. Kenya, Rwanda, and Tanzania, for instance, are major oil importers in Africa, which means these countries may have more budget for other projects, like the construction of infrastructure.

Chart 2

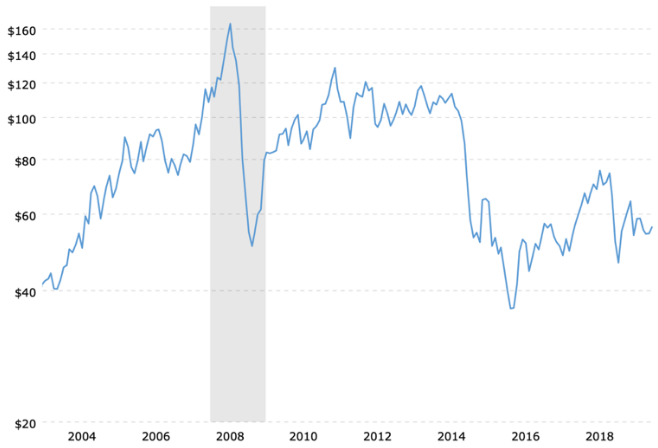
All Commodity Price Index (2016=100, includes both fuel and non-fuel price indices)



Source: https://data.imf.org

Chart 3

Crude Oil Price (WTI) (unit: per barrel)



Source: https://www.macrotrends.net

The price of commodities and crude oil is just a part of those information that are crucial for investors. In the report of Gu (2009), he illustrates the most important constraints for Chinese investors in Africa. The top five relevant factors include: “customs and trade regulations, quality of electricity, transportation, inflation and exchange rates and labor regulations.” Differing from big name public companies engaged in natural resources and constructions which care more about macroeconomic situation of the area, these factors about local business environment are more visible for SMEs.

The collection and analysis of such information and data related to the investment climate is essential for companies to invest in Africa, even though you could learn some of them from Central government´s publication and Chinese Embassies in Africa. Gu (2009) draws a series of conclusions targeting at constraints of Chinese investors when they invest in Africa, particularly those small and medium private companies. According to his survey, the most important sources of information are obtained via social networking and one´s own experience and related research, which are relatively more significant for those SMEs investing in Africa than information from central government, embassies in Africa and local business community networks. Moreover, the less important source chosen by the Chinese investors is the local government and other firms in the area.

People who wants to invest in Africa needs to have not only entrepreneurship, but also demands insights about your targeted market to develop more diversified business strategies. For example, there are several private security companies which are significantly present in the process of “going out” and BRI. For example, DeWe Security and Frontier Services is one of the major Chinese security contractors. Its work is to provide consultation and human resource to secure Chinese investors interests. In some special cases, employees of security companies need to provide more overt solutions as was the case of the rescue of 29 Chinese hostages in Sudan´s Kordofan State in 2012. Some of the employees employed by DeWe are former People's Liberation Army soldiers who rescued 300 Chinese oil workers captured in a gun battle between rival militias in the South Sudanese capital Juba in 2016.

5. How do they cooperate?

In the past, referring to the strategy in Africa, many say that there is an apparent gap between policy formulation and policy implementation. Usually, the policy was made without subsequent and effective enforcement, including relative institutions and mechanisms and standard operation procedures. For example, many investors didn´t register within the framework of central government because they fear the many complex steps. Many of them thought that registration with government would generate more troubles than benefits. In the interview of Gu (2009) made in 2009, when representatives from Chinese firms were asked about the explicit methods could be taken by Chinese government to support their businesses in Africa. The key issues were listed as the following order: (1) The local Chinese embassy and other official organizations are required to provide active support for investment. (2) “*More bilateral or multilateral free trade agreements.”* (3) Simplified procedures and regulations for Chinese companies to invest overseas and obtain the capital needed for such investment. (4) Easily access to loans from state-owned banks´ overseas branches.

For Chinese companies, on the one hand, they choose to do business in countries with huge market potential but, on the other hand, it also means they need more political support from the central government to secure business environment and property rights. Here are major methods:

(1) State-level platforms established by bi- and multilateral governments, which facilitates companies to obtain immediate information. Besides the Belt and Road Initiative and FOCAC, there is another state-level platform related to commercial cooperation with African countries: China International Import Expo (CIIE), which can provide those African exporters with a regular mechanism to promote their products, particularly of manufacturers from African countries. Another important method is bi- and multilateral Free Trade Agreement. By far, China has signed 17 FTAs with 25 countries and regions. It just signed the FTA with Mauritius in 2019, which is the first one signed with an African partner. In the framework of FTA, China and Mauritius will have deepened interaction in terms of trade in goods, trade in services and financial investments.

(2) State-level assistance programs. In 2015, MOFCOM published «Measures for the qualification identification of enterprises for foreign aid projects», so that relevant companies can participate in the Chinese foreign aid program by official bidding and accountability. According to “Measures”, there are specific restrictions for companies´ qualification, including tax, social credit and past performance etc.

(3) Financial instruments. Three “policy banks” set up by the government to directly finance its development plans, including EXIM Bank, China Development Bank and China Agriculture Development Bank. Moreover, China Export&Credit Insurance Corporation (SINOSURE) is a "policy-oriented" financial institution to meet the needs of economic globalization and the development of China´s outward business. Also, there are more and more diversified funds offered by commercial banks with public subsidies in order to support domestic companies´ overseas business activities.

(4) Assist companies to build clusters. Local business clusters will result in the significant improvement of productivity, which also benefits the future strategic management of the Chinese investment in Africa. Currently, there are some large-scale business clusters disperse on the African continent. Some clusters, for instance, are made up of diverse companies from the same province in China, and they engage in different industries, including textiles, garments, and wood processing, etc. A cluster combined with a collective living area can also protect employees from the instability in some African countries. According to the list published by the official website of Foreign Economic Cooperation (www.fec.mofcom.gov.cn), currently, there are four approved economic cooperation zones operated by Chinese companies in Africa: Zambia-China Economic & Trade Cooperation Zone (ZCCZ) in Zambia, operated by China Nonferrous Metal Mining Co., Ltd. (CNMC); TEDA SUEZ Economic & Trade Cooperation Zone in Egypt; China-Africa Lekki free trade zone in Nigeria; Ethiopian Eastern Industry Zone in Ethiopia.

(5) Accountability mechanism. Currently, several related departments are involved in the system of supervision, including the Ministry of Commerce, People's Bank, State-owned Assets Supervision and Administration Commission, China Banking Regulatory Commission, China Securities Regulatory Commission, China Insurance Regulatory Commission, and Foreign Exchange Bureau. China´s government is establishing a comprehensive platform for the whole accountability, including monitoring of credit, bidding and projects checkout etc.

(6) Security issue of Chinese labor and property. In the main African destinations of Chinese investment like Kenya, Uganda and Zimbabwe, China´s government has signed agreements with local governments in terms of protection of Chinese interests through local military or police force. Meanwhile, China also exports some technologies and skilled professionals related to security issue including facial recognition and hiring ex-PLAs to protect its foreign nationals´ security.

(7) Scholarships and Confucius institutes. According to the annual Global Education Monitoring Report 2020 produced by UNESCO, China´s government was set to offer 12,000 scholarships to sub-Saharan African students, through various agencies, which is the largest provider in the Top 50 in which government initiatives dominate scholarships provision targeting African students. The scholarship gives more African students opportunities to study in China, and some Chinese firms would like to join in. Alibaba, for instance, offers several internship positions just for students from Africa.

There are overall 61 Confucius institutes and 48 Confucius classrooms in 46 African countries for African students who might be interested in learning Chinese or knowing more about Chinese culture. Also, it´s a platform for cultural exchange between China and African friends. From the perspective of firms´ investment in Africa, it´s better for them to employ local workers who can speak Chinese.

6.Conclusion and further research

China´s government has been infiltrating its state power into every detail of the whole process of Chinese investment in African markets, because of some unusual factors existing in some of those countries. The majority of these methods is designed, intentionally or coincidentally, to reduce the transaction costs arising with the growing investments in Africa from Chinese public-owned and private firms. For example, the set of FOCAC and the International Import EXPO and other similar platforms is to solve the problem of asymmetry information caused by long distance, different language and diverse culture. At the same time, the periodical gathering could effectively remove searching cost, negotiating cost and enforcement cost. The bilateral and multilateral accountability mechanisms established by counterparts could, to a large extent, reduce contracting cost and monitoring cost, eliminating rent-seeking activities. The responsibility of state-owned financial institutions is to decrease financing cost and risks taken by those companies if they have needs during their overseas invest process. The military forces and technological methods are deployed in order to improve the enforcement efficiency and avoid unnecessary lose.

It is important for everyone to know that China´s unique political and societal system is the foundation of its state power, combining with its leaders´ entrepreneurship for going out, which are objective and subjective factors. However, as an emerging investor, it has some obvious drawbacks and hidden dangers:

First, the unevenness is pretty obvious between the competitiveness of public-owned and private companies. It´s a common idea that private firms have a weak position in China, which also has expended to the overseas market. Public companies have a stronger capability to access some particular sectors like construction and energy which need plenty of capital and human resources to underlie the bid. In order to balance, public institutions tend to offer more opportunities to those mature private firms.

Second, it´s a tough and critical mission to deal with the concerns of local NGOs, civil or social groups and the worries of ordinary Africans, which also need the bilateral effort, from both government and companies. Besides the project contracting of infrastructure, the Chinese government and companies are planning to increase attention on the direct investment, operating local factories to manufacture and export products, which could improve the repayment capacity of local governments and hire more local employees. Meanwhile, companies with the intention to have long-term development in Africa, cannot ignore the concerns about the environment and labor rights.

Third, outsiders would be worried about the transparency and accountability of Chinese companies, particularly when it comes to high-tech products. The CloudWalk, for instance, would be requested to be more transparent in the way it stores and uses Zimbabweans´ facial information. With the increasing investments in telecommunication and AI across the African continent, there are more and more concerns about human rights issues related to cybersecurity and personal data protection.

Fourth, the Chinese government is facing with many strong competitors, including the USA, Japan, Russia, and Brazil, etc. Comparing with China, these players also have their own advantages. America and Japan are traditional donors and have engaged in diversified business activities for a long time, with mature institutions, in Africa. Russia and Brazil also specialize in different industries. What´s more, the American federal government underlies its development financial institution OPIC which helps U.S. businesses gain footholds in the emerging market, providing investors with financing, political risk insurance, and support for private equity investment funds. The Blue Dot Network was just jointly launched by America, Japan and Australia, which also relates to infrastructure in emerging countries.

For further research, there are certain directions related to this topic. The most important method is to conduct interviews with Chinese investors in Africa, including those from both public and private sectors or large and small firms. Questions are mainly focusing on their feelings about China´s government´s role within their investments. By establishing an evaluation mechanism, we could know more about their views in terms of several aspects such as registration, transparency of bidding, information publicity, financial back-up and accountability mechanism. One more question is related to their feelings about the evolution of cooperation between government and firms, setback or improvement, during this decade.

Just as Kolstad and Wiig (2011) mention in their article that since the high-level integration of aid, trade and FDI in the package of Chinese investments, it´s important to consider the more comprehensive impact instead of different investments flows only. Hopefully, this paper could bring a relatively comprehensive view for all.

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