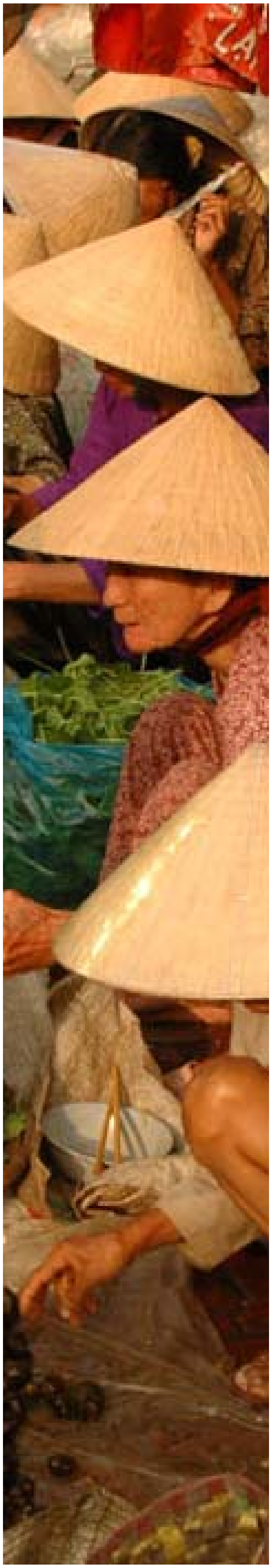

Centre for Business and
Development Studies
Porcelænshaven 18
DK-2000 Frederiksberg
Denmark
Email: cbds@cbs.dk
www.cbs.dk/cbds

INTO AFRICA: FDI WITH CHINESE CHARACTERISTICS

Andrew Crabtree

CBDS Working Paper Series
Working Paper Nr. 9, 2008

INTO AFRICA: FDI WITH CHINESE CHARACTERISTICS

Andrew Crabtree

CBDS, Copenhagen Business School

Abstract

China's FDI to Africa has drawn much attention recently, partially because of the high profile China has given it, and partially because of the political and economic effects it is having on Africa. This paper begins by outlining the political context which is needed to understand Chinese outward FDI, namely the introduction of the "open door" policy and, more particularly, its policy towards Africa. The paper then goes on to give an overview of Chinese FDI in Africa. The paper then turns to ask the question: Is Chinese FDI developmental? To answer this question, it examines the notion of development and argues that much of the "western FDI" debate is severely limited in as far as it concentrates on income poverty and ignores other aspects of multidimensional poverty. After giving an overview of China's involvement in Africa, the paper turns to four case studies of Chinese FDI, examining the developmental impacts on a variety of dimensions (as far as is possible) of different types of FDI in different regimes, namely resource seeking and manufacturing in Zambia, an infrastructure project in Botswana and construction/tourism in Sierra Leone. It warns against generalising from these cases, but suggests that the developmental effects so far have been limited.

Keywords: *China, Africa, Foreign Direct Investment, multidimensional poverty*

CBDS Working Paper Series
Working Paper Nr. 9, 2008 ©
March 2008

ISBN 978-87-92111-09-8

Editor: Henrik Schaumburg-Müller

1 INTRODUCTION

Foreign direct investment (FDI) is commonly divided into four types: resource, market, asset or efficiency seeking. But the question is: why do firms invest? For capitalist firms of the Anglo-Saxon tradition, the answer is fairly straightforward, namely to make a profit which in turn is either ploughed back into the firm or passed on to the shareholders. If we ask the same question about Chinese outward FDI, the answer is less clear, although China claims that many of its firms make a profit, or at least break even, Chinese FDI is through and through political and profit is not necessarily the be and end all, at least in the short run. The overall aim of Chinese FDI is to be consistent with Party policy, a policy that is embracing a *form* of capitalism so as to ensure social stability at home and keep the Communist Party in power. As far as Africa is concerned, Chinese FDI is not simply a question of individual companies investing in various countries, rather Chinese FDI comes in the "poverty package" of China's Africa policy which has a specific socio-economic dimension to it. China's FDI in Africa is by nature different.

The importance of FDI for development was one of the mainstays of the Washington Consensus, and the relationship between FDI and income poverty reduction has received much attention. Interestingly, given the emphasis placed on FDI by the IMF and World Bank, a review of the empirical evidence suggests that the evidence is inconclusive (Sumner 2005).

It is now widely held that income is an inadequate measure of poverty. Indeed, in its World Development Report 2000/2001, the World Bank claimed that multidimensional poverty was now the traditional view of poverty. If this is so, we might ask: What is the relationship between FDI and multidimensional poverty? Does it have a positive effect? This paper seeks to take a tentative step towards answering these questions in relation to Chinese FDI in Africa. As stated above, Chinese FDI is not necessarily profit oriented, and as it comes with a "poverty package" we might expect to see it having positive outcomes in terms of multidimensional poverty.

China's FDI to Africa has drawn much attention recently. It has been high profile with 48 African heads of state being invited to Beijing, and the *African* Development Bank meeting was held in *Shanghai* in May 2007. China has been anxious to stress the positive effects of its FDI and its avowed intent to be developmental (here called the "poverty package"): job creation, debt reduction, educational exchanges, the establishment of hospitals health and, not least an alternative to International Monetary Fund and World Bank conditionality[1]. Indeed China puts itself forward, with good reason, as an extremely successful alternative model of development. Another stereotype of China's FDI is also beginning to emerge: it is resource seeking, it ignores human rights and good governance, cares little about its effects on the environment, and exploits workers. The prime examples being its interest in Sudan's oil and its support for Robert Mugabe in Zimbabwe. Chinese involvement in Africa is colonialisation. This paper will argue that reality is more complex.

[1] Angola turned to China for loans when it had problems with the IMF (New Statesman 4 July 2005).

In order to understand the nature of Chinese FDI, it is necessary to place it within its political context which is provided in section 2 that examines the general background of Chinese policy, namely the introduction of the “open door” policy and, more particularly, its policy towards Africa. Section 3 gives an overview of Chinese FDI in Africa. Section 4 asks the question is Chinese FDI developmental? It argues that much of the “western FDI” debate is severely limited in as far as it concentrates on income poverty and ignores other aspects of multidimensional poverty. After giving an overview of China’s involvement in Africa, it turns to four case studies of Chinese FDI, examining the developmental impacts on a variety of dimensions (as far as is possible) of different types of FDI in different regimes, namely resource seeking and manufacturing in Zambia, an infrastructure project in Botswana and construction/tourism in Sierra Leone. It warns against generalising from these cases, but suggests that the developmental effects so far have been limited. Section 6 concludes.

2. FROM OPENING THE DOOR TO GOING GLOBAL

As early as 1971, it was clear to some of the Chinese Communist Party leaders that China would have to change its policy if the Party were to stay in power (Jacobsen and Oksenberg 1990). As Deng Xiao Ping was to put it, “Poverty is not socialism, to be rich is glorious.” If one irony is that the Chinese Communist Party’s inability to run a socialist economy led to its embracing of a form of capitalism to stay in power, the other must surely be that in a period which saw the rise of market oriented minimal state neo-liberalism in the West (and from there outwards), China’s communist party led economic strategy saw it rise to become the third largest economy in the world, to its having a huge trade surplus, being one of the largest recipients of FDI, having one of the most spectacular reductions in income poverty, and now a rapid growth in outward FDI (Nolan 2004, Chen and Ravallion 2007, UNCTAD 2007).

Prior to Mao’s death, the Fourth National People’s Congress in 1975 saw Zhou Enlai introduce the notion of the “four modernisations” (agriculture, industry, science and technology, and defense), which, after being temporarily derailed by the Gang of Four, became Party policy under Deng Xiaoping in 1978. The aim was to achieve modernisation by the end of the century, a desire that entailed a shift from isolation to entering the world arena, the so-called “open door policy”.

Deng Xiao Ping did not foresee how open China would become, however, the changes he introduced led to “path dependence”. The reforms have had their own momentum so that ever since China started moving towards openness it has been difficult to change directions (Nolan 2004). Internally, there have been policy shifts resulting from the conflicts between reformists and conservative hard liners, not least surrounding the protests and massacre at Tiananmen square, and the problems that the economy was having at that time with rising inflation, bottlenecks in significant parts of the economy such as energy, transport and raw materials, and due to the migration of workers from the countryside to the cities, the rural areas lacked sufficient labour. These problems were also coupled with a trade deficit. The attempted solution was a return to planning in order to regain control over the economy. The events of Tiananmen Square also led to an *external* break on openness. Negotiations concerning China's entry into the General Agreement on Tariffs and Trade (GATT, the forerunner of the World Trade Organisation) were suspended, and inward FDI slowed dramatically. However, the austerity measures that were introduced to solve these problems resulted in a recession and, ultimately, a "socialist market economy" becoming official policy (Naughton 1995).

The ensuing reinvigoration of China's trade led to a huge trade surplus, and the accumulation of "China dollars" which was one of the pressures behind China's outward FDI (UNCTAD 2007), and the country's rapid growth entailed the search for resources outside China. The political nature of Chinese FDI is perhaps most clear in its "resource seeking" endeavours where its policy of non-interference has led it to invest in Sudan without many qualms[2], as then Deputy Foreign Minister Zhou Wenzhong said, `Business is business´. Between 2000 and 2003 China moved from being the eighth to the fourth largest importer of oil behind the USA, Japan and Germany. China's continued economic growth is clearly dependant on access to oil. China's investments in oil extraction in Africa enable it to diversify its sources and reduce reliance on Iran, Indonesia and Oman and the GUUAM group of countries Georgia, Uzbekistan, Ukraine, Azerbaijan, and Moldavia. Given the U.S.' heavy involvement in the Middle East, African oil producers provide an attractive alternative and thus agreements have been made with the Gabon, Algeria, the Congo, Nigeria, Equatorial Guinea, Angola and Sudan (Lafargue 2005).
In addition, Chinese policy makers were studying the economic histories and policies of other nations, not least Japan, and came to the conclusion that it needed to "pick winners" (Nolan 2004). It came with the realisation that if China was to be an economic power, it was necessary to expand. Thus in 1998, Wu Bangguo of the Chinese State Council observed

> *In our world today economic competition between nations is in fact between each nation's large enterprises and enterprise groups. A nation's economic might is concentrated and manifested in the economic power and competitiveness of its large enterprises and groups. International economic confrontations in reality show that if a country has several large enterprises or groups it will be able to maintain a certain market share and hold an assured position in the world economic order...In the same way now and in the next century our nation's position in the international economic order will be to a large extent determined by the position of our nation's large enterprises and groups. (Quoted in Nolan 2004).*

The government's belief in the necessity of outward FDI has meant that short term profit is not necessarily the main consideration. According to UNCTAD (2007), only one third of all Chinese FDI makes a profit, and a further third breaks even. More specifically, returns on investment in Africa are low. China is willing to support high risk investments

[2] Indian and Malaysian FDI in Sudan is more substantial (section), but receives little media attention.

where western companies are unwilling to go such as investments in Sierra Leone *prior* to the ending of the civil war.

The "Going global" policy was officially introduced in 2000 though Chinese investments were already taking place before that. A number of policies that have been designed to facilitate Chinese investment abroad including easy access to bank loans, simplified border procedures and preferential policies for taxation, imports and exports (UNCTAD 2007). In Africa's case, these have been backed up by a "poverty package" of government support.

3 FDI TRENDS IN AFRICA

The rise of China's outward FDI has grown rapidly from precious little in 1990 to approximately 12 billion dollars just fifteen years later in 2005 (UNCTAD :52). China's "going global" policy is also mirrored in the geographical spread of its FDI as there are now projects in no less then 140 countries and regions though outflows were mainly concentrated in Asia (53 per cent) and Latin America (37 per cent), while, despite the attention, outflows to Africa only accounted for just *three* per cent. In overall terms, the Chinese government has supported firms which either exploit resources, help Chinese exports, or engage in overseas R&D and Mergers and Acquisitions that improve China's competitiveness.

When we turn our attention to Africa, the picture is diverse. This contrasts with the discussion about the so-called "new scramble" for Africa which depicts Chinese FDI in Africa as being almost solely concerned with raw materials and in a race with the United States (for a discussion of the concept see Frynas and Paulo 2007). The "new scramble" view is misleading in many ways. Firstly and importantly, China is not just involved in resource extraction, but is involved in many sectors. Secondly, the "race" is not just between China and the US, there are many other players including France, the UK, India and Malaysia, which strengthens African countries' bargaining position. Thirdly, there is a political component, namely China's wish for support for its "one China" policy i.e. the reintegration of Taiwan.

In all, Chinese FDI reaches 48 African countries with total stocks amounting to 1,595.3 million dollars, a figure which is lower than that of both India ($1 968.6m) and Malaysia ($1 880.1m). By far the biggest recipient has been Sudan, but here its investments are dwarfed by those of India, and only marginally higher than those of Malaysia, both interested in oil. Table 3.1 compares the stocks of China's top ten recipients of FDI compared with stocks from India and Malaysia. With the exceptions of Sudan and South Africa, China is by far the major investor in these countries. The situation is reversed in other countries, whilst China has stocks of $26.8m in Mauritius, they are dwarfed by India $948.9m and Malaysia $618.7m. The same is true of Chad where Malaysia has $187.6m of stock and China a mere $2.7m and Namibia where Malaysia has $90.5m and China $2.4m.

Table 1 FDI stocks in selected African countries from China, India and Malaysia.

Country	China (2005)	India (2004)	Malaysia (2004)
Sudan	351.5	912.0	320.8
Algeria	171.2	-	-
Zambia	160.3	-	-
South Africa	112.3	23.0	456.2
Nigeria	94.1	-	-
United Republic of Tanzania	62.0	-	3.9
Kenya	58.3	-	0.3
Madagascar	49.9	-	0.3
Guinea	44.2	-	13.2
Zimbabwe	41.6	-	0.3

Source: Based on UNCTAD (2007)

The picture of Chinese FDI as mainly being resource seeking is modified somewhat when we look at the figures concerning the sectorial distribution of FDI. As table 3.2 shows, in terms of investment value manufacturing is the most important sector with resource extraction being only two thirds of the value.

Table 2 Sectorial distribution of China's FDI flows to Africa 1979-2000 in terms of investment value (millions of dollars).

Sector	Investment Value (millions of dollars)
Agriculture	48
Resource extraction	188
Manufacturing	315
Services	125
Others	6
Total	681

Source: UNCTAD 2007

The diversity reflects the Chinese government's wish to support investments in industrial processing in which it has comparatively advanced technology, agriculture in which China believes it can help based on its experience with its own food problems, natural resources necessary for China's economic growth and infrastructure projects which are sometimes, but not always, linked to resource extraction (UNCTAD 2007).

The Chinese government's support for foreign direct investment allows Chinese firms to compete in the international arena at, for example when tendering for infrastructure projects, very competitive prices undercutting other firms. Although the UNCTAD report suggests that most of China's FDI in Africa is profitable, the low prices question this claim. While the long term aim might be efficiency and profit, it is not required in the short run in which time the Chinese firms gain a foothold. Here there is a marked contrast with western investors who have to make a profit in the shorter run. The fact that the

Chinese government is behind the Chinese firms means that they can enter into high risk areas. Thus, for example in the cases we will investigate, no companies were interested in investing in the closed Chambishi copper mines in Zambia as they were judged unprofitable, or again, China was investing in Sierra Leona before the end of the civil war. Such cases do not suggest a “race for Africa”. Gaining a profit is not always the main motive for Chinese FDI, gaining experience is also deemed valuable. Part of the Chinese strategy is to pick winners that can compete on the global stage, and in some cases Africa is used as a training ground.

4. IS CHINESE FDI DEVELOPMENTAL?

The case study method has its advantages and disadvantages. Here we examine four cases: copper mining and textile manufacturing in Zambia, an infrastructure project in Botswana and construction/tourism in Sierra Leone. One of the aims is to show the diversity of Chinese FDI and its diverse impacts. A second is to show the limitations of what we know in respect to Chinese FDI’s impact on multidimensional poverty. As will be seen, the answer is “not much”. If, for example, we examine the dimensions of poverty relating to the Millennium Development Goals, it is almost impossible to check the effects on nutrition, child mortality, school completion, HIV/AIDS, gender issues and so on. The effects seem to be minimal, but one cannot rule out that, say, increased incomes have had a positive impact on nutrition. Moreover, the cases point to time aspects of such measurements. The Mulungushi Textiles factory in Zambia is now closed, the picture would have looked very different some years earlier. The projects in Sierra Leone are young and the potential benefits from tourism are yet to be seen, but may well be significant. Such problems are not normally reflected in the macroeconomic work such as that of Dollar and Kraay (2001), one of the most important studies in recent times. Here, attention is drawn to the limits of our knowledge. Before turning to the case studies, it is worth painting the general picture.

As argued, Chinese outward FDI is inherently different because of the role of the Chinese government. China’s policy in Africa is officially based on the five principles of sincerity, equality, mutual benefit, solidarity and common development (www.bw.china-embassy.org). More concretely, in terms of development, this has meant the cancellation of interest-free government loans, making available $3 billion in preferential loans and $2 billion for preferential buyers’ credit, allowing 440 goods to have zero-tariffs, doubling development assistance, sending 100 agricultural experts, establishing 100 rural schools and providing 4,000 scholarships for African students, building 10 hospitals and 30 anti-malaria clinics and offering $37.5 million for anti-malerial drugs (Gill, Huang and Morrison 2007). FDI to Africa comes with this package.

In terms of conditionality, China, unlike the IMF and World Bank, will not interfere in the internal affairs of a country with the exception that African countries must support the

One China policy[3]. Indeed, support for the One China policy may suffice for a country to receive FDI and aid. This appears to be the case with Sierra Leone where, in 1989, China strengthened its ties when Liberia ended diplomatic relations with China in favour of $200 million in aid and infrastructure from Taiwan (Corkin and Burke 2007). Support for China's position in the United Nations may well have outweighed the importance of profit.

One may interpret the policy of non-interference as being against development in some cases. If we consider that the multidimensional nature of poverty includes the capability to participate in society (Narayan Sen), then investing in countries which have repressive regimes such as Sudan is implicitly perpetuating or increasing a form of poverty.

What other general evidence do we have? In an interview in the Beijing Review, Kobus Van der Wath (No. 44. Nov 2 2006), the Managing Director of The Beijing Axis, a consulting firm based in Beijing and Johannesburg that serves foreign organizations with a "China agenda", was asked whether he thought Chinese investment had a trickle down effect. His answer was a cautious "things are changing".

> *I think there was a debate in the past that this was not the case. I would agree that toward the end of the 1990s there had been fairly little benefit felt by locals. The infrastructure [China helped to build], like stadiums and other venues, were not all that useful for the people but served a very productive function in the economy.*
> *But we see China investing far more in economically viable projects. These projects will have a trickle down effect on local industries, local communities and people in the street. We hope this will go forward.* (Beijing Review, 2006)

One constant theme and a common source of conflict concerns the potential job creating impact of Chinese FDI. This is often mitigated by the fact that Chinese firms often prefer to take their own labor. Estimates as to how many Chinese are working in Africa vary considerably. Hengari (2007) suggests a figure of 130,000. whereas Der Spiegel (May 30th 2007) suggested the number to be around 270,000. Either way, the number is large. This does not necessarily involve a transfer of skills. As Der Spiegel documents, Chinese labour can simply be cheaper. The other side of the coin is that construction and infrastructure projects do get completed on time. To get a more detailed picture, we now turn to the case studies.

[3] This may be changing. According to the British Minister for Africa, Asia and the United Nations, Lord Malloch-Brown China may stop its economic support to Zimbabwe and only give humanitarian asssistance (Daily Telegraph 1 September 2007).

4.1 ZAMBIA: RESOURCE EXTRACTION AND MANUFACTURING

Zambia is a heavily indebted poor country with approximately 70 per cent of its population of 11.5 million living under one dollar a day. Life expectancy at birth is 40 years and illiteracy rates are high (World Bank 2007c). It is placed 176 on the Human Development Index (United Nations 2006). Zambia is China's third most important destination for FDI and Zambia's stock of Chinese FDI stood at $160.3m in 2005. The total stock of FDI in the country at that time was $3.183.3bn. Net inflows from all countries were $259 million in 2005 (World Bank Country Profile Zambia 2007). It is one of a small number of African countries which has a trade surplus with China led by cotton, copper, and iron ore (Corkin and Burke 2007). Since 2005 China has given Zambia Special Preferential Tariff Treatment which meant that import tariffs were dropped on a wide range of products (Corkin and Burke 2007).

In terms of the general aid package, China has pledged to write off 800 millions of dollars of Zambian debt, provide new loans for road construction equipment, and build schools and a sports stadium as well as training agricultural workers (Inter Press Service, Johannesburg, 27 March 2007). Since 1978 China has given scholarships to 180 Zambian students and supplied teachers and medical personal (Corkin and Burke 2007). Two cases are examined here: resource extraction and manufacturing.

4.1.2 RESOURCE EXTRACTION: CHAMBISHI COPPER MINE

Privatisation of the Chambishi mines took place in the late 1990s and led to the shutting down of many of the activities as they were deemed unprofitable. This resulted in increased unemployment and poverty in the area, poorer health as a consequence of lower incomes and the loss of health coverage which had been related to employment in the mine (Gillejoy 2006). In 2003, China invested $32 million in the Chambishi copper mine leading to its reopening. The mines now employ an estimated 2,000 workers, who pay tax on their wages providing the government with revenue. A health clinic and a hospital are directly related to the project providing benefits for workers and local residents.

One might expect the investment to have a positive effect in terms of reducing poverty. However, the extent of its impact on poverty is very questionable. Management and administrative jobs are carried out by the Chinese which has two effects, namely that Zambian expertise is not used and that these workers consequently seek employment elsewhere. For the vast majority of workers, wages are very low as most are employed on a casual basis and their earnings are so low that they are unable to meet basic needs, and furthermore they do not keep in line with inflation (Gillejoy 2006). They are also much lower than those of mineworkers in other mines in Zambia. For example, the lowest paid workers in the Konkola mines recieve $424 a month. Furthermore, safety standards are low and in 2006, 49 miners were killed in an explosion. Demonstrations concerning conditions in the mine led to four mine workers being shot by one of the Chinese workers. The clinic at the site is inadequately serviced, and one report stated that the

Chinese doctors who were meant to work in the hospital ended up running Chinese restaurants instead (Inter Press Service, 27 March 2007).

There are also clear tensions between Zambians and the Chinese in part because of the mining activities. Sata, the leader of the Patriotic Front, gained considerable support in the elections from those areas where the Chinese were present, and President Hu Jintao's planned visit to the mines in March 2007 was cancelled because of possible demonstrations. Sata's threat to re-establish diplomatic relationships with Taiwan if he was elected resulted in a counter threat to pull out of the country. Sata was not elected.

Spillover effects are varied. On the one hand, the use of Chinese suppliers and services for goods consequently reduces possible benefits to the local economy (Gillejoy 2006). On the other, there is a fast growth in Chinese run firms (Corkin and Burke 2007). Whilst miners pay taxes on their low wages, profits are repatriated and the Chinese owners neither have to pay import duties or value added tax.

All in all, it can be said that the re-opening of the mines perhaps had a beneficial impact compared to not having any mining activity (why else would people work there?), which would have been the other scenario as western firms were not interested in investing there. However, the overall impact on poverty has been limited. Despite a possible improvement of the previous conditions, if wages are so low that workers and their families are unable to meet basic needs, then absolute poverty can not be said to have been reduced (note, to show that income poverty has been reduced because of FDI, one would need to prove, for example, that those working for a company were on less than $1 a day, and not that they had moved from a job that paid more than $1 a day to another job that paid even higher. This is seldom attempted). Moreover, although there are health benefits derived from the reopening of the hospital and clinics, health and safety in the mines is so poor as to question the overall benefits. Effects on other dimensions of poverty suggest an increase in community conflict, whilst on other scores, such as education, no discernable difference can be traced. It is practically impossible to establish the exact effects on poverty due to increased government revenues, but given the tax exemptions and repatriation of profits, it is likely that they are minimal.

4.1.3 MULUNGUSHI TEXTILES

The textile and clothing industries have had an important role in the Zambian economy since independence. Initially, from the 1960s to the mid-1980s, the sector grew as it was protected by the policy of import substitution industrialisation. In this phase it increased its percentage of total value added to the manufacturing sector from 10.1 to 18.4 per cent, and employed some 25,000 workers. However, as the debt crisis set in, Zambia was forced to undergo IMF and World Bank structural adjustment policies. And as a result of privatisation, the sector declined rapidly and by 2002 the sector only employed 10,000, the number of companies being reduced from 140 to 50 (Koyi 2006).

It was against this background that the Chinese entered into a joint venture with the Zambian government to create what was to become the largest textile manufacturer in the country, namely Zambia-Cina Mulungushi Textile Joint Venture Limited. The enterprise came to employ 2,000 workers in the factory and 5,000 contracted farmers growing cotton (cotton was subsequently imported from Tanzania due to quality problems). Updating the firm required large scale investment which was partly provided by the Chinese and partly paid for via a soft loan. The company also set up a marketing chain (People's Daily reprinted in Koyi 2006). The factory is now closed.

This is an example of the footloose nature of some Chinese investments. The factory is an example of `quota hopping´ (Koyi 2006). The passing of the African Growth and Opportunity Act gave preferential treatment to clothing and textiles coming from Africa onto the American market. This was further spurred on by the WTO's Uraguay Round which placed trade barriers on Asian exports into both Europe and the US. By locating in Africa, Chinese manufacturers were able to get round these obstacles. When the barriers were removed in 2005, Chinese manufacturers returned to China where they could produce much more cheaply, flooding the African markets, and the overall result was loss of jobs (again) (Tull 2006).
Traceable benefits seem to be limited to increases in income and the effects that this has. As can be seen sustainable livelihoods were not maintained.

4.2 BOTSWANA: INFRASTRUCTURE PROJECT, THE DULTWE-MORWAMSI ROAD

Botswana does not fit into the stereotype of Chinese investment in Africa, or indeed the stereotype of Africa more generally. In terms of economic growth, Botswana is the world's outstanding success story having had the highest average growth rates in the world since its independence in 1966. This growth has been based on the diamond industry, and has lead Botswana to becoming an upper-middle income country. Furthermore, it is democratic, has a free press and is less corrupt than several European nations (Transparency International 2006).

Botswana practiced "sound economics" before the IMF and World Bank started preaching it and has never had to resort to either institution for loans. It has always had a favorable attitude towards FDI which has played a major role in the development of the country's diamond industry. Chinese FDI stock in Botswana was worth $18.1m in 2005 (UNCTAD 2007) out of a total of inward FDI of 278.6 million (World Bank 2007a).

Despite being an upper-middle income country, Botswana ranks low on the Human Development Index as 24.1 per cent of those between the ages of 15 and 49 are HIV infected (World Bank 2007a). Despite government initiatives especially in the rural areas.

The Dultwe-Morwamsli road project is part of the governments overall policy to spread economic growth, that is to say that its overall aim is to have positive developmental effects (President's State of the Nation Address 2006). It lies on the western side of Botswana where the main source of livelihood is subsistence agriculture. The road will help connect those living in the area to the administrative, health and educational amenities in Lethakeng. Schooling and health facilities, including antiretroviral drugs, are free in Botswana.

The project was won, after tendering, by China State Construction and Engineering Corporation Pty Ltd, and is jointly financed by the Chinese and Botswanian governments (all competitors were Chinese).

Dultwe is one site of Botswana's new found coal deposits which are expected to meet national needs and allow for international exports not least to China and India (Chinese Embassy in Botswana May 31st 2007). Such resource exploitation would enable Botswana to diversify from its dependence on the diamond industry, create jobs and gain foreign exchange. However, the mining industry, in general, is a poor creator of jobs, only accounts for 10 per cent of jobs in Botswana, and has little effect in terms of forward and backward linkages (UNCTAD 2007).

The developmental impact may be not that great. In terms of the road itself, it is unclear whether or not local construction workers are being employed. If not, the income effects will be minimal. One South African observer of Chinese construction work in Botswana and Africa more generally stated

> *In most cases these companies would bring Chinese labour with them and house them in construction camps. Workers would work for long hours a week [and] would not be allowed to leave these camps until that particular project had been completed. We would not even know how much money these guys were paid.* (Carl Grim, the chief executive of Aveng, Business Report. May 21 2006)

The practice is confirmed by the Beijing Review (No 44 Nov. 2 2006). From a Chinese point of view, taking the labour force with them ensures skilled labour. If this is the case, then supposed benefits of FDI in terms of Job creation, and the transfer of knowledge and skills are restricted.

In terms of the other developmental benefits associated with China's FDI, Botswana is not indebted, so it does not need debt relief. It is not clear as to whether or not Botswanan exports to China will have low import tariffs, and thus the impact of these is low. Overall, the evidence suggests that the impact of this project is of limited immediate value though there are possible long term effects not just in terms of income poverty but also other aspects of multidimensional poverty.

4.3 SIERRA LEONE: CONSTRUCTION AND TOURISM

According to the World Bank, Sierra Leone is the poorest country in the world with a per capita of $240, it is second lowest on the human development index (World Bank 2006, United Nations 2006). It has a population of 5.5 million, 70 per cent of which live on less than one dollar a day. Life expectancy at birth is 37.4 years. 27 per cent of children under five are malnourished, and there are poor levels of schooling (World Bank 2007b). Unemployment is between 35 to 40 per cent (Corkin and Burke 2007). External debt is over 200 per cent of GDP (World Bank 2005). Donor funds make up 65 per cent of the government's budget which totals $96 million. Net inflows of FDI totaled $58.6 million in 2005. Parliamentary elections are currently (September 2007) taking place.

Chinese aid to Sierra Leone has consisted of infrastructure projects which include a number of government buildings including the Parliament and National Stadium. It has also helped to develop Sierra Leone's university complex. Furthermore, it has built dams and hydroelectric power facilities. In terms of agriculture, China has constructed 12 agricultural promotion centers and demonstration farms (79 per cent of the rural population live under $1 a day) (Corkin and Burke 2007). In addition over the past 40 years 181 students have been to study in China and 12 medical teams have visited Sierra Leone (Chinese Embassy of Sierra Leone 2005). China has also cancelled the $44 million debt (IMF 2002). Future projects include the construction of a 100 bed hospital (Concord Times 10 September 2007)

China accounts for the largest share of FDI in the country. Indeed it invested in Sierra Leone during the civil conflict (1992-2003). Interestingly, despite Sierra Leone's richness in diamonds and gold, Chinese FDI has not been in those areas, but mainly in construction and, to a lesser extent, agriculture.

Construction and tourism: Bintumani Hotel and Lumley Beach

As Sierra Leone's Poverty Reduction Strategy Paper makes clear, the government is eager to tap the potential benefits of its tourist possibilities. It is a growth area that currently employs 8000 people. The increased growth in the sector is expected not only to increase employment in both urban and rural areas, but also to boost the demand for agricultural products, thus increasing rural incomes. This is central to the second main pillar of the government's strategy, namely ensuring pro-poor growth, food security and job creation (World Bank 2005a).

China's first investment in recent times was the rebuilding of the Bintumani Hotel which was undertaken by the government owned Beijing Construction Company and is managed by the Chinese at a value of $10 million. Much of the inventory, such as televisions, was imported from China (Granta 1992), and, as in other cases, much of the building material comes from outside Sierra Leone (Corkin and Burke 2007). Thus it appears that the investment has had little direct development benefit. However, one should not underestimate its *symbolic* significance: FDI in Sierra Leone is minimal and gaining international media attention plays a role beyond the immediate significance of the project.

The investment is now being followed by a much larger undertaking in the Lumley Beach area where The Chinese company Henan Guoji are planning a $270 million investment for a complex which will include hotels, conference centers, sports facilities a casino, night club and a promenade (BBC 9 March 2005). It remains to be seen how beneficial the project is. It is not clear whether local people or the Chinese will be actively involved in the construction work (there is high unemployment in the area).

5. CONCLUSION

Data concerning the developmental effects of Chinese FDI are difficult to obtain. One of the `problems´ with case studies is that of generalisation, they provide richer detail, but that does not necessarily fit another case. Individual case stories question the value of Chinese operations, but there is a strong possibility of bias. Those stories that hit the media are the good and the bad ones. Trying to chase the effects of Chinese FDI on coffee growing in Uganda has proved impossible, the story is not newsworthy enough, and the usual government sources provide scant details. China engages in 700 projects in Africa, a few case studies do not necessarily reflect an overall trend. That being said, the general information presented in the section and confirmed by the case studies suggests that the impact of China's FDI including the packaging has almost no significance compared to the problems Africa faces. China *cannot* cancel western debt which is far higher than debt to China. 100 schools, 100 agricultural experts, 10 hospitals, jobs created and so forth, while potentially beneficial, are little compared to Africa's needs.

References

Chen and Ravallion M (2007) How have the world's poorest fared since the early 1980s. www.worldbank.org

Chinese Embassy Botswana (no date) China's Africa Policy, http://bw.china-embassy,org

Corkin L and Burke C (2007) China's Interest and Activity in Africa's Construction and Infrastructure Sectors, Corkin and Burke 2007 http://www.ccs.org.za/downloads/DFID%203rd%20Edition.pdf

Der Spiegel May 30 2007, China's Conquest of Africa

Dollar D and Kraay A (2001), Trade, Growth and Poverty. Economic Journal. Journal of Economic Literature 26 1120-71

FrynasJG and Paulo M (2007) A New Scramble for African Oil? Historical, Political and Business Perspectives, African Affairs 106 (423) 229-251

Gill B, Huang C, Morrison J S (2007) Assessing China's Growing Influence in Africa, China Security, Vol. 3 No 3 Summer 2007 pp 3-21

Gilliejoy Ltd (2006) Environmental Impact Statement for NFC Africa Mining PLC, Chambishi Copper Mine, Kitwe

Hengari AJ (2007) China must give up its Africa Policy Ethical Content, http://crgp.stanford.edu/news/global_projects_realnews_china_must_give_its_africa_policy_ethical_content.html

Hilsum L (no date) We Love China, Granta 92 C:\Documents and Settings\ac\Desktop\England\EADI china paper\sierra leone\Granta 'We Love China' by Lindsey Hilsum.htm

Hilsom L (2005) The Chinese are Coming in the New Statesman 4 July

International Monetary Fund (2002) Sierra Leone: Enhanced Heavily Indebted Poor Countries (HIPC) Initiative Decision Point Document www.imf.org

Jacobsen H and Oksenberg M (1990) China's Participation in the IMF, the World Bank and GATT: Towards a Global Economic Order, Ann Arbor: University of Michigan Press

Koyi G (2006) The Textile and Clothing Industry in Zambia in Junch H and Traub-Merz R The Future of the Textile and Clothing Industry in Sub-Saharan Africa, Friedrich-Ebert-Stiftung, Bonn

Lafargue F (2005) China's Presence in Africa, China Perspective No 61, French Centrre for Contemporary Research in Africa

Naughten B (1995) Growing out of the Plan, Cambridge University Press, Cambridge

Nolan P (2004) China at the Crossroads, Polity Press, London

Sen A (1999) Development as Freedom, Oxford University Press, Oxford

Sumner A (2005) Can we conceptually link FDI and capabilities poverty? Paper for the EADI Conference Bonn 2005

Transparency International (2006) Report on the Transparency International Global Corruption Barometer 2006 www.transparency.org

Tull DM (2006) China's Engagement on Africa: Scope, Significance and Consequences, Journal of Modern African Studies 44,3 pp 459-479

United Nations (2006a) A Practical Plan to Achieve the Millennium Development Goals http://unmillenniumproject.org/reports/fullreport.htm

United Nations (2006b) Human Development Report 2006, Oxford University Press, Oxford

UNCTAD (2007) Asian Foreign Direct Investment in Africa

World Bank (2000/2001) Development Report Attacking Poverty, World Bank, Washington DC

World Bank (2005a) Joint IDA_IMF Staff Advisory Note on the Poverty Reduction Strategy Sierra Leone www.worldbank.org

World Bank (2005b) Zambia Poverty Reduction Strategy Paper www.worldbank.org

World Bank (2006) World Development Report, World Bank, Washington DC

World Bank (2007a) Country Profile Botswana www.worldbank.org

World Bank (2007b) Country Profile Sierra Leone www.worldbank.org

World Bank (2007c) Country Profile Zambia www.worldbank.org