

U.S. and Chinese Engagement in Africa

Prospects for Improving U.S.-China-Africa Cooperation

Report of a December 5-6, 2007, conference cosponsored by the
Center for Strategic and International Studies,
China Institute for International Studies, and
Stockholm International Peace Research Institute

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We are grateful to keynote speakers Aguinaldo Jaime, deputy prime minister of Angola, who participated by video conference; Ambassador Liu Guijing, China's special envoy to Darfur; Sam Ibok, director of the African Union Peace and Security Department; and Andrew Natsios, then U.S. special envoy to Sudan. We are especially grateful to conference participants (listed in the annex) who traveled great distances and dedicated their time and expertise to further develop this collaboration.

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The CSIS Africa Program takes sole responsibility for the opinions and conclusions expressed in the conference summary.



INTRODUCTION

Jennifer Cooke

The CSIS Africa Program, in collaboration with the Stockholm International Peace Research Institute (SIPRI) and the Chinese Institute for International Studies (CIIS), hosted a conference in Washington, D.C., on December 5–6, 2007, on U.S. and Chinese engagement in Africa. The conference included senior leaders and expert analysts from China, the United States, and African countries, including Kenya, Nigeria, Angola, Ghana, Swaziland, and Uganda. The event followed on from a 2006 conference hosted in Beijing by CIIS, in partnership with CSIS, which examined the scope, characteristics, and drivers of China’s engagement in Africa. The CSIS event in December was intended as a complement to the 2006 initiative, seeking to solicit a range of African views on the impacts of Chinese engagement in Africa and to identify areas for possible U.S.-China-Africa collaboration.

At the December 2007 conference, commissioned papers were tabled that examined in depth China’s engagement in Kenya, Angola, and Nigeria. The authors, experts from the three focal countries, each drew on extensive in-country interviews. Following presentation of the case studies, four panels examined opportunities for U.S., Chinese, and African cooperation in energy security, public health, corporate social responsibility, and building African security capacity. A special off-the-record luncheon session focused on conflict resolution in Darfur, with lead speakers Ambassador Liu Guijin, China’s special envoy on Darfur; Ambassador Samuel Ibok, director of the African Union’s Peace and Security Department and a lead mediator on Darfur; and Andrew Natsios, then U.S. special envoy to Sudan.¹ Deputy Prime Minister Aguinaldo Jaime of Angola spoke to the conference via digital video conference at a dinner keynote session.

China’s Expansive Engagement in Kenya, Angola, and Nigeria

The commissioned papers examining China’s engagement in Kenya, Angola, and Nigeria offer, in our view, an informed, ground-level analysis, that has been largely absent from most discussions of China’s expanding role in Africa. Although the authors varied considerably in their approach and focus, all three described a largely positive and pragmatic relationship with China and emphasized that engagement is maturing as country capacities and priorities evolve. The three country studies are attached as full chapters in this report.

1. Although the December 6 discussion was off the record, audio of a public event the following day is available online at http://www.csis.org/component/option,com_csis_events/task,view/id,1451/.

Michael Chege, UN Development Program (UNDP) adviser to Kenya's Ministry of Planning and National Development, argues that China's resounding economic entry into Africa has been poorly served by most literature on the subject, which often depicts African economies under threat of malevolent Chinese investment strategies and a flood of cheap manufactured goods. In the Kenyan instance, the China-Kenya relationship has by and large been mutually beneficial.

Chege challenges the assertions that increased imports from China have harmed the Kenyan economy, arguing that Kenya's manufacturing output has risen and become more diversified while imports from China have been rising to record levels. Chinese construction firms are not inherently detrimental to Kenyan interests; they are a leading source of employment and create infrastructure at lower costs, making Kenya's economy more competitive overall. The study finds that most Kenyans are pleased with the transportation networks Chinese firms have provided, despite widespread criticism of inferior Chinese construction.

China's share of Kenya's external development assistance has increased dramatically, from 0.08 percent of total assistance in 2002 to 13 percent in 2005. In Kenya, there is no single predominant oil or other natural resource base. Accordingly, China's investments are spread across multiple other sectors.

Kenya will need to manage its bilateral relationship carefully if it is to be successful in the long term. Kenya continues to struggle to boost the volume of its exports to China in the face of a large surplus in China's favor, and it will continue to be tested when Chinese businesses engage in poor environmental practices or illegal activity. Protectionism or limiting its cooperation with China will only harm Kenya in the long run. Chege argues that Kenya's competent technocratic cadre and business sector have thus far been able to manage the relationship to Kenya's benefit. The larger enduring challenge, in his view, is for Kenya to come to terms with evolving global competition.

Indira Campos and Alex Vines, research assistant and head of the Africa Program at Chatham House, respectively, describe in their analysis a largely pragmatic relationship between Angola and China, which the Angolan government has leveraged to meet the country's urgent reconstruction priorities. Angola has benefitted from large quantities of Chinese financing when concessional funding from international institutions, like the IMF, was not available. Chinese financial and technical assistance has kick-started over 100 projects in the areas of energy, water, health, education, telecommunications, fisheries, and public works, enabling Angola to become one of the fastest growing economies in sub-Saharan Africa in a span of five years. The China-Angola relationship is unique in the China-Africa context in that Angola consistently runs a large trade surplus with China, owing to the rapid rise of Chinese oil importation.

In Angola there is a clear quid pro quo: China's desire for natural resources as against Angola's stark development needs. Crude oil represents over 95 percent of all Angolan exports, and it is also China's main Angolan import. Over the last six years, China has been the second-largest importer of oil from Angola behind the United States, consuming up to 30 percent of Angola's total oil exports. Despite the U.S. lead in the importation of Angolan oil, since 2002 Angola's oil exports to China have increased seven-fold, compared to only 3.5 times to the United States. However, Angolan oil production is still dominated by Western companies such as ChevronTexaco, Total, BP, and Exxon Mobil.

Despite rising Chinese investment, Angolan officials insist that China is only one of several major external partners, and they remain wary of becoming beholden to any single external partner or resource. This pattern is visible when looking at the origins of Angola's imports over the years: China's share has increased significantly, but so have the shares of India, South Africa, and Brazil. Similarly, Angola's exports over the years have significantly diversified.

Angola is acutely aware of many of the challenges it faces in its relationship with China. It acknowledges that it is often unable to utilize local capacity to fill the mandated 30 percent Angolan workforce quota for infrastructure projects under Chinese credit lines. It has established a mechanism whereby it reinvests 5 percent of its oil proceeds into the non-oil sector. It seeks to improve its relations with Western institutions by agreeing to pay, on an accelerated basis, the bulk of its debt of \$2.5 billion owed to Paris Club creditors and seeks greater foreign direct investment by claiming to have eased local laws governing international investment. It has also responded to Western criticisms of opaqueness in its Chinese credit lines by issuing a statement in Luanda in October 2007 clarifying the Angolan terms for use of those funds. Although this is a welcome development, Vines and Campos argue that more disclosure on the part of the Angolans is needed.

As Angola continues developing its relationship with China, controversial issues such as local content and employment may intensify over time, and tensions may rise over the slow pace of implementation and relative decision power in the relationship. However, Angolan officials appear confident that their efforts to diversify donors and investment into non-oil sectors will succeed in the long term.

Deputy Prime Minister Aginaldo Jaime, who spoke to the CSIS conference by digital video conference, echoed these themes, emphasizing that Angola is intent on a policy of political and economic diversification. As the country addresses urgent reconstruction priorities, it is at the same time seeking to diversify international partners and to diversify sources of GDP away from the oil sector. China has been an important partner in reconstruction and engaged at time when the rest of the international community attached difficult and unrealistic conditions to more robust assistance. But Angola now seeks to fully restore economic relations with the United States and Europe, as well as with Asia and the rest of Africa.

Angola seeks assistance from multiple partners on development, pandemic diseases, de-mining, technical assistance, and assistance that enhances trade. There is no point in liberalizing trade if developing countries cannot benefit because of supply-side constraints. The United States and China can have a complementary role if they continue to provide credit for projects that enhance trade capacity. The deputy prime minister appealed for assistance from the United States and China that would encourage investments in sectors other than oil.

Pat Utomi, a political economist and senior faculty member at the Lagos Business School at the Pan-African University, details in his analysis an increasingly complex, rapidly evolving relationship between Nigeria and China. He makes the case that Nigerian perspectives on that engagement, even within the government itself, are far from uniform.

Utomi's study explains that many career foreign affairs officers and politicians feel that a China-Nigeria partnership could offer greater benefits than collaboration with the West. There are, however, many areas of the relationship that need increased attention and improvement: the risk of heightened dependence on China and often weak official Nigerian leverage in the relationship; the quality of project implementation; and uncertainty over technology transfer. Nigeria's private business community also exhibits mixed feelings about Chinese business incursions into Nigeria. Businessmen welcome trading with a lower-cost economy, securing financing from Chinese partners, and learning from Chinese manufacturers and business models, but worry that Chinese firms might be benefitting in greater proportions than Nigerian businessmen.

In order to combat some of these challenges, Utomi calls for expanded debate within the Nigerian government and across the business, academic, and civil society communities on how best to optimize Western and Chinese engagement. He argues that Nigerian policymakers, including national and local officials, are not setting policies that will have the strongest possible

impact on Nigeria's long-term economic growth for the widest array of its citizens. To overcome this challenge, strong pressure must be placed on Nigerian leaders to effectively balance U.S. and Chinese engagement to maximize African growth and opportunity.

Emerging Themes

Several important cross-cutting themes emerged from the off-the-record discussions held at CSIS on December 5–6, 2007.

- **Correct for exaggerations.** First, there was a widely held view that much of the rhetoric surrounding China's engagement in Africa has been overblown, particularly the emphasis on negative impacts in terms of internal governance, business and donor practices, and the environment, as well as the potential for a major clash with U.S. strategic interests. This negative rhetoric is fueled by generalized uncertainty as China's engagement rapidly expands and in part by concern about African capacities to manage and shape this engagement to their countries' ultimate benefit. While serious tensions and challenges were acknowledged, on balance there was a shared sentiment that there are several areas in which U.S., African, and Chinese interests intersect and where greater collaborative efforts can yield positive results.
- **Need for African leadership.** Second, there was a strong consensus that both African state and nongovernmental interests need to play a more proactive role in shaping and directing U.S.-Chinese cooperation. African states are too often discussed as the scene in which U.S.-Chinese strategic competition plays out, and Africans are frequently cast as passive recipients of potential cooperative development or security assistance. If African governments assert themselves strategically, they will leverage competition to their countries' long-term benefit and set priorities for cooperative efforts.
- **African diversity.** Third, there is no single "African" perspective on China's engagement in Africa. Africa features a wide diversity of actors and interests, across countries, across sectors, between governmental and nongovernmental actors, and within African governments themselves. In many countries that have enlarged the political space for civil society, these various interests and perspectives have become increasingly influential, and the demands on African governments for competent and accountable management will likely continue to increase. A priority for the international community should be to build the capacity of nongovernmental entities—the business sector, civil society, and the media—to engage their governments on a strategy to manage increasing external competition and opportunities for cooperation.
- **Multiplicity of Chinese interests.** Fourth, China itself is not a monolithic entity, and Chinese engagement, contrary to popular rhetoric, is often not directed from Beijing. It is often unclear how priority policy actions are vetted internally and what form of coordination exists among the Ministries of Foreign Affairs and Commerce, the National Development Reform Commission (NDRC), China's Exim Bank, and security agencies. The number and types of Chinese actors engaged in Africa are rapidly diversifying, including diplomatic representatives, state-owned enterprises, private enterprises, and individual families, each driven by different interests and with different modus operandi. There are instances where Chinese national interests and those of state-owned enterprises appear increasingly independent of one another. To maximize opportunities for cooperation at multiple levels, both U.S. and African actors will need a more comprehensive and nuanced understanding of these realities.

- **Early U.S.-China dialogue.** Fifth, there have been tentative steps toward U.S.-Chinese dialogue and cooperation in Africa, conducted at the assistant secretary level; in the case of Sudan, between special envoys and in actions taken in the UN Security Council; and in the case of Liberia, generated through innovative cooperation on the ground. These efforts have yielded concrete gains on Darfur and on Liberia security sector reform. Especially important have been Chinese diplomatic leadership in the UN Security Council and its pressures on Khartoum, both essential forces contributing to the Security Council authorization in July 2007 of the deployment of a 26,000-person joint United Nations–African Union peace operation to Darfur. Much more effort, backed by high-level commitments on both sides, will be needed to sustain the peace efforts in Darfur and to address the widening regional conflict between Sudan and Chad and the worsening crisis within the Comprehensive Peace Agreement that ended the north-south war in Sudan in January 2005.

Opportunities remain for U.S.-Chinese project cooperation in less politically sensitive areas like agriculture and health. There is a case for active U.S.-Chinese cooperation on peacekeeping in Africa, but resistance from both sides remains strong with various political and structural constraints. On the structural side, U.S. statutory limits—for instance, a provision contained in the National Defense Authorization Act of FY 2000 barring cooperation with the People’s Liberation Army except for humanitarian purposes—makes direct military cooperation difficult.

There is need for continued dialogue on areas of disagreement and tension: most importantly, human rights, governance, donor lending and debt terms, business practices, and environmental standards, for example. In each of these areas, African regional organizations and nongovernmental players could facilitate debate and create a greater African voice. Across the board, stronger leadership from African interests is needed to drive these efforts forward on a sustained basis.

- **Transnational expert networks.** The final cross-cutting conclusion is that much analysis concentrates too narrowly on government-to-government engagement in discussion of U.S.-China-Africa relations. Greater priority is needed to strengthen nongovernmental, policy-focused, transnational networks. Universities, research institutes, advocacy groups, and environmental and health policy organizations could play a powerful role in promoting corporate social responsibility, environmental stewardship, and community development.

Energy Security

China is sensitive to being lectured on “gobbling up” Africa’s oil supplies. There is often exaggeration of the scope of Chinese energy engagement in Africa, which is frequently portrayed as a zero-sum “scramble” for African energy resources. China’s demand for oil resources is indeed rising steeply, but in absolute terms China remains a relatively small player in African oil exploration. Today Africa accounts for 30 percent of China’s overall oil imports (oil imports constitute 30 percent of China’s total energy consumption), and Africa’s share of oil imports is certainly set to rise. Given projected Chinese energy demands, China, like the United States and the rest of the world, has a long-term interest in both oil conservation and the development of alternative energy sources. At present however, total Chinese oil consumption is one-third that of the United States. Further, China’s share of total African oil production is approximately 9 percent, versus Europe’s 33 percent share or the United States’ 32 percent share.

The Chinese argue that China's investment in upstream oil exploration and production should not be considered threatening but in fact welcomed since it expands global supplies. Logistically, it is easier to ship West African oil to markets in Europe and North America, and, commercially, the incentive is to choose those markets that fetch the best price. Although approximately half of China's equity oil production worldwide comes from Africa (approximately 300,000 of 600,000 barrels per day, of which 225,000 barrels derive from Sudan), the majority of that equity production is not shipped to China but sold on the global market. China, like the United States, will continue to rely overwhelmingly on the open market for years to come.

Chinese state-owned companies operate with increasing independence from the Chinese state. It is largely a myth that the Chinese central government directs state-owned firms where to invest or that these companies rely overwhelmingly on financial support from Beijing. State-owned companies act primarily according to commercial versus geopolitical interests. Particularly in places like Sudan, where the reputational costs of Chinese investment have been considerable, there is increasing divergence between the interests of companies and the interests of the state, as well as uncertainty as to how energy security is achieved for China through support for state-owned companies. China's actual oil imports from Sudan are less than 100,000 barrels per day. The lead Chinese company, the Chinese National Petroleum Corporation (CNPC), has been doing well financially in its Sudan operations, but the Chinese government has been the target of massive international criticism, for what, in a global context of 85 million barrels of production per day, is a paltry volume of oil imports from Sudan.

Many African partners look to China for models of energy investment that differ from those of traditional Western companies. The latter have tended to operate in enclave-type settings, engaging a narrow elite, with weak connections to the rest of society or to other economic sectors. There is a need in Nigeria, for example, to diversify away from the energy sector. China, through its multisectoral package deals, appears engaged in a broader range of sectors, including critical infrastructure, which Western companies and donors shun, but are critical African needs. The Chinese development model is in its early stages in Africa, and positive long-term impacts on development and equity are not guaranteed. However, persistent disillusionment among Africans with Western commercial approaches has played to China's advantage.

There are several energy-related areas where U.S., Chinese, and African interests intersect.

Working together on addressing climate change and developing clean and sustainable energy sources will be at least as important as managing upstream investment. While this will be a long-term challenge, cooperative efforts should be given greater priority now.

Ensuring the security of energy personnel, infrastructure, and transportation is a shared interest. Chinese workers are proving as vulnerable to local conflict and violence as Western and often African interests, demonstrated by the attacks against oil workers in the Ogaden and Sudan and in hostage taking in the Niger Delta.

China's principle of noninterference will be increasingly tested in unstable, conflicted settings, opening new opportunities for cooperation on conflict resolution and collective international pressure on governments in energy-producing states to invest in long-term stability and good governance. Should the government of Nigeria become seriously engaged in addressing long-standing grievances in the Niger Delta, both the United States and China would have a shared interest in supporting an effective solution and each would bring special strengths to a potential resolution and reconstruction strategy.

The protection of physical infrastructure and sea lanes in West Africa's Gulf of Guinea is also of increasing common interest, and the United States may look to China to play a more active and

cooperative role in ensuring maritime security, building African coast guards, and establishing control over rich coastal fisheries that are now often plundered through illicit industrial harvesting.

Finally, transparency and reliable rules of engagement are ultimately in the interests of oil investors and energy-producing countries. Neither China nor the United States wish to be at the mercy of oil states or see market investment opportunities subordinated to narrow political calculations and unstable, poorly governed states.

Africa's Public Health

China and the United States have both rapidly expanded their public health initiatives in Africa, at a time when international attention on global public health is also expanding. HIV/AIDS, malaria, avian flu, and SARS have generated a greater appreciation for the internationalization of health and the need for international health diplomacy and cooperation. Major government initiatives, along with the expansion of efforts by nongovernmental organizations, multilateral institutions, foundations, and faith-based organizations, offer new opportunities for collaboration to address African public health challenges.

Africa's challenges are many, and there are ample areas for coordinated work. At least 300 million cases of acute malaria are diagnosed annually. Malaria kills over 1 million people each year in Africa and is among the leading causes of death for children under age five. More than 8 million new cases of tuberculosis are detected annually, and despite the availability of effective treatment, those numbers continue to rise. Sub-Saharan Africa is home to 85 percent of the world's HIV/AIDS cases, and the disease compounds other diseases and other developmental problems. New epidemics such as avian influenza could be devastating. As Africa's urban populations expand, alcohol, drug abuse, and chronic diseases like hypertension, heart disease, and diabetes are increasing as well.

Structural challenges persist, including lack of trained health personnel and health infrastructure, weak interest internationally in tropical disease research, and limited African capacity, for example, in minimizing the influx and proliferation of counterfeit drugs.

U.S. contributions to Africa's health challenges have risen dramatically in recent years, enjoying strong bipartisan support that is likely to endure. By the end of the first five-year phase of the President's Emergency Plan for AIDS Relief (PEPFAR) in late 2008, the United States will have expended over \$19 billion on global AIDS control, roughly 60 percent in Africa. To date, U.S. efforts have been focused primarily on tackling specific infectious diseases—first and foremost HIV/AIDS—and targeting select focal countries. In fighting HIV, there is increasing recognition that long-term management will require greater support for building health systems, and PEPFAR's next five-year phase will almost certainly devote greater resources to the training of skilled personnel. President George W. Bush has also launched a major \$1.2-billion, five-year initiative on malaria. In 2007, the United States spent \$338 million on malaria efforts in Africa versus \$1 million spent in 1997. Compared to HIV, control of malaria is more straightforward and affordable, with respect to the science of the disease as well as prevention and treatment. The challenge is to remain focused over time and to collaborate with partners to ensure maximum coverage.

Chinese contributions to Africa are gradually increasing and are an important component of China's Africa policy overall. China will continue to send medical teams to Africa and increase cooperation with Africa on prevention, treatment, research, and the application of traditional medicines. There are approximately 1,000 Chinese medical workers in 38 countries in Africa; more than half of the doctors are senior physicians and surgeons. Together they have treated an

estimated 170 million patients suffering from various diseases. China has helped build numerous hospitals in Africa and has plans in the next three years to build 10 hospitals and 30 malaria clinics in Africa. On training, the Chinese Ministry of Health provides 15 courses each year to African participants in the areas of HIV/AIDS, malaria, hospital management, and health reform. Malaria will remain a prominent focus of China's health efforts.

China's expanding health engagement and efforts to link it to an international strategy are new and worthy of encouragement. Through one promising initiative, the Ministry of Health has turned to global health experts at Peking University to help review existing Chinese programs, develop a long-term Chinese health strategy for Africa that updates the Chinese approach and ties it more effectively to African health outcomes, and identify opportunities for collaboration with the international community. These experts have recently concluded a summary review of all donor activities in the area of health in Africa. It is expected that reform of health approaches will take several years to formulate and execute.

There are promising areas for public health cooperation among China, the United States, and African countries, although currently there are bureaucratic obstacles to greater dialogue and joint projects. At a minimum, there is need for greater communication to avoid duplication of efforts and identify gaps.

African countries should engage China and the United States on bilateral projects, but also on multilateral efforts. Moreover, China could play a more active role in multilateral initiatives, building on its present substantial contributions to the board of the Global Fund to Fight AIDS, TB, and Malaria, and its leadership of the World Health Organization. China and the United States bring complementary strengths to the table: China places an emphasis on infrastructure and health systems, and the United States on treatment of specific diseases. African governments with robust public health strategies in place can push for cooperation in what they identify as priority areas.

Collaboration on malaria is a particularly promising area in which to build cooperation, given the priority African governments attach to this disease and rising commitments by both the United States and China. It is also an area that could deliver significant, rapid returns and perhaps help encourage future cooperation in more complex health efforts. Despite China's interest in malaria, the Chinese and other Asian governments were absent at the 2007 Roll Back Malaria Partnership Board meeting in Addis Ababa. China should be welcomed and encouraged to participate more fully in these and other multilateral global health fora.

Cooperation on health will require greater political will—by the United States, China, and African governments—than currently exists. This will require senior leadership that supports innovation and flexibility in the field, minimizes political obstacles to communication, and favors joint initiatives.

A future priority should be strengthening African capacities to address chronic diseases as well. Cooperation should not be limited to government-to-government engagement. Linking non-governmental organizations, research institutes, faith-based organizations, and corporate interests in active partnerships should also be a priority.

Corporate Social Responsibility

Though Chinese and U.S. firms have responded to growing pressures to pursue corporate social responsibility (CSR) initiatives, these efforts have often had little meaningful impact on the ground and are seen by many Africans as exercises in public relations. Much more effort is needed to

transfer adequate skills or resources to local African communities and provide for worker and community safety and environmental stewardship.

It is in the area of environmental stewardship that Chinese engagement has been most problematic. The Chinese government's response to concerns over illegal logging has been limited. While China has signed resource-use agreements, it has not shown strong interest in upholding them. As an increasing number of non-state-owned companies are engaging in Africa, environmental enforcement will become an even more complex and conspicuous challenge.

Ultimately, the responsibility to set terms for enforcing effective CSR falls to African host governments. Collusion between host governments and corporations often tilt CSR projects to benefit state, not community, interests. Communities often expect corporations to deliver services and resources that are more appropriately the responsibility of the government. Weak environmental laws and labor standards, high levels of corruption, and weak governance structures hamper effective CSR. Few African governments have mandated strict operational guidelines for foreign companies within their borders. Those that have, like Angola, which mandated that at least 30 percent of an international company's workforce be Angolan nationals, have found these guidelines difficult to sustain. Violations of environmental laws or regulations are rarely pursued.

There have been positive examples of corporate social responsibility in the health field as the threat of HIV/AIDS has generated a number of successful public-private and community partnerships. There may be lessons on which both Chinese and U.S. companies can build.

On environmental issues, there has been positive, albeit very slow, acknowledgment of the long-term economic, developmental, and security costs of illegal logging and other harmful environmental practices. Until very recently, the United States and China appeared alike in regarding environmental issues as a second-tier priority and solely the responsibility and problem of producing countries. This has begun to change, and nongovernmental groups and governments themselves have made more information available on the nexus among environmental degradation and conflict, food security, and long-term economic costs.

When pressed, Chinese manufacturers have shown an ability to adjust quickly. In recent years, they eliminated the use of ramin wood very rapidly, following an international agreement to control its trade and a precipitous drop in U.S. demand. Similar progress was seen in the reduction of illegal trade in rhino horn. The United States and China are now negotiating bilateral agreements to address illegal timber trade, a welcome development.

Perhaps the most important challenge is for African governments to set up effective monitoring and enforcement structures, to establish regulations to protect African resources, and to develop African capacity for environmental governance. Here, pressure, information, and policy advice from nongovernmental actors can play a critical role. Strengthening transnational networks of African, Chinese, U.S., and international advocacy, policy, and research institutes should be a priority.

Building Peacekeeping Capacity

The idea of U.S.-China cooperation on security engagement in Africa is new. Just a few years ago such a discussion—even on the less politically sensitive issue of building peacekeeping capacity—would have been unlikely. However, both China and the United States are becoming increasingly aware of the importance of building African security capacity. U.S. and Chinese commitments in this area coincide with increased commitments by African states, regional and subregional organizations, and international organizations.

In recent years, there has been an unprecedented rise in global peacekeeping operations: today, there are 15 UN peace operations, totaling 90,000 troops and another 26,000 police and other civilian personnel. Seventy percent of the UN's operations, which cost \$7.5 billion annually, are in Africa. An increasing number of deployments are peace enforcement operations in complex environments. Force generation and logistics are an enduring challenge. The United Nations has relied extensively on partnerships with African regional organizations, in integrated missions in Sierra Leone and Liberia, and now a hybrid operation with the African Union in Darfur. The African Union has set as a priority the stand-up of the African Stand-by Force—five regional brigades with rapid deployment capacity—and sought international support.

Both China and the United States have an interest in protecting their citizens and their investments in Africa and in strengthening African capacities to manage conflict, including filling key gaps such as airlift capacity, communications, command and control capacities, and surveillance.

In the United States, higher commitments are seen in the establishment of the U.S. Global Peacekeeping Operations Initiative (GPOI), launched in 2004, and in the 2007 establishment of the U.S. Africa Command (AFRICOM). Having U.S. military engagement in Africa coordinated within a single command may make cooperation with other donor states (and with African regional bodies) less difficult.

China has an equal stake in African security and stability. Chinese entrepreneurs have been more willing than Western companies to go to dangerous and conflicted places, and they have suffered economic and human losses at the hands of non-state actors and reputational costs in international public opinion.

Compared to U.S. and EU engagement, Chinese military involvement on the continent is limited but growing. China has only 14 military attachés in Africa, out of the 107 it has globally. But China is increasing its UN peacekeeping commitments, contributing more forces to UN operations in Africa than any other permanent member of the UN Security Council, and often in interesting ways. In Liberia, for example, China has deployed 570 military engineers as part of UNAMIL, and these engineers are now working to rehabilitate the country's roads in a joint effort with the World Bank and the Liberian government. Engineers have been deployed as part of UN peacekeeping operations in the Democratic Republic of Congo, in Southern Sudan, and in Darfur.

China's growing involvement in peacekeeping is an important turning point to encourage enlargement of the base of external actors participating in building security capacity in Africa. Direct U.S.-China cooperation in this arena may remain difficult for some time, but there may be promising opportunities in nontraditional security areas such as disaster relief and humanitarian assistance.

In some instances, informal cooperation and complementary U.S. and Chinese approaches are already yielding results. In Liberia, the U.S.-China relationship has been positive and mutually reinforcing. The United States has taken the lead in the recruitment and training of the Liberian armed forces, which was entirely disbanded after the Liberian conflict, and in strengthening the management capacity of the Liberian Ministry of Defense's civilian staff. China has been helpful in complementary ways: assisting with hardware, refurbishing buildings, providing office equipment for the ministry, and constructing facilities in the northern areas of the country.

At present, improved U.S.-China communication and coordination of efforts—if direct cooperation for now is premature—is an important first step to strengthen efforts by the African Union, subregional organizations, state forces, and the international community. But given the complexity of conflicts and the many challenges and costs ahead in building African security capacity, direct U.S.-China cooperation and higher levels of commitment will be needed in the future.

Conclusions

In the last two years rich dialogues have proliferated among U.S., African, and Chinese officials and experts on China's expansive engagement in Africa. CSIS has greatly profited from a sustained partnership with CIIS since 2006, as well as its continued relationships with many African centers of thinking and with Bates Gill and Chin-hao Huang at SIPRI. Others, like David Shinn and Josh Eisenman, as well as colleagues at the Council on Foreign Relations and the Sullivan Foundation have pursued a parallel track of building analysis and dialogue with Chinese and African partners.

These dialogues have now reached a threshold. They have aired the major issues, enlarged African input, built civil exchange, and revealed a consensus that China's expansive role in Africa is a reality that puts Africa into play globally in new ways; that this does not signal a new form of strategic superpower competition; that there are opportune areas for cooperation—especially in agriculture, public health, and creating greater African peacekeeping capacity. For such cooperation and engagement to be most effective, African stakeholders, both governmental and nongovernmental, will need the willingness and capacity to shape, direct, and prioritize collaborative initiatives.

Official collaboration between the United States and China on Africa remains at an early point. Field-driven innovations in Liberian security sector reform have proved that concrete cooperation can arise quickly to meet immediate important contingencies. The shared desire for effective collaboration in the UN Security Council helped prompt an alignment of U.S. and Chinese approaches to Darfur in 2006–2007. These are each promising developments that reveal it is possible to override the innate resistance from both the Chinese and U.S. sides to get too close to the other and risk diluting the sovereign stamp on their widening engagements in Africa. Over time, presumably, more pragmatic instances of effective cooperation will appear, and on each side high-level interest in making these a priority will rise.

At the same time, U.S., Chinese, and African policymakers must acknowledge and prepare for potential areas of tension and deep political differences, particularly in their respective approaches to governance and conflict resolution in Africa. The dialogue on Darfur has seen a gradual movement toward a more cooperative approach, but the convergence has come late, with the situation on the ground becoming increasingly intractable in the interim. The Sudanese Comprehensive Peace Agreement (CPA), between Khartoum and the government of Southern Sudan has foundered badly, and national elections slated for July 2009, and the subsequent referendum on self-determination for Southern Sudan in March 2011, are likely to be highly fraught and contentious. The United States and China will very likely find themselves deeply divided on their objectives and diplomatic approach to full implementation of the CPA. Serious and focused discussion with the African Union and with other international partners should begin early to avert a worst-case outcome and build an effective, cooperative, multilateral approach. The crisis in Zimbabwe too may test U.S.-China cooperation in conflict resolution. In these and similar contentious issues, African leadership will be increasingly important in harnessing U.S. and Chinese leverage in constructive ways.

1

ECONOMIC RELATIONS BETWEEN KENYA AND CHINA, 1963–2007

Michael Chege¹

Introduction

Few subjects in contemporary international relations cause as much excitement and controversy as the current rise of economic initiatives by the People's Republic of China in Africa. Speaking from the sidelines of the November 2006 China-Africa Summit, Wenran Jiang, a political scientist from the University of Alberta, commented that no major power had accomplished what China, a developing country with big-power ambitions, had done that month: to bring 48 out of 53 African heads of state to Beijing for a conclave on aid, trade, and economic cooperation. "I don't see any parallel in history. The U.S. never did this nor did Russia...symbolically, this is a very, very big event."² Economic deals emanating from the Beijing forum between the 48 African countries and China amounted to \$1.9 billion. Writing in Africa's leading periodical, *New African*, the Nigerian columnist Femi Akomolafe claimed to be joyous about the increased presence of China in Africa.³ On the other hand, Human Rights Watch in New York deplored the absence of human rights violations (in Sudan and Zimbabwe especially) from the summit's agenda. Antoine Half for his *National Interest* article picked a catalogue of African denunciations of Chinese neocolonialism, polluting industries, cheap goods, and "mercantilism."⁴ Writing for South Africa's influential *Business Day*, columnist Alan Beattie also warned that "the money China is pouring in, despite protestations of good intent, does have potentially malign consequences for the economies and politics of the continent," citing adverse environmental factors and the risk of unsustainable public debt.⁵

But the excitement spurred by the subject goes beyond such sharp differences in opinion. Compared to well-worn subjects like global terrorism, the wars in Iraq and Afghanistan, the Middle East, Caesar Chavez, and the interminable negotiations of the Doha Round, the escalating trade and investment activities of China in Africa, particularly in the exploitation of natural resources, comes with a sense of novelty, even drama. These are sparked by speculation about China's political motives and their consequences on "Africa" and "Africans," often presented in these discussions as single, undifferentiated entities. In alarmist terms, it is speculated that China

1. Michael Chege is UNDP adviser to Kenya's Ministry of Planning and National Development. This essay, however, expresses his personal views.

2. *The Guardian* (London), November 4, 2006.

3. Femi Akomolafe, "Go East, My Son," *New African*, November 2007, 9.

4. Antoine Half, "The Panda Menace," *The National Interest* (July/August, 2007). Half is convinced nonetheless that the United States should constructively encourage, not hinder, China's economic initiatives in Africa.

5. *Business Day* (Johannesburg), April 24, 2007.

intends to exploit African resources to consolidate the country's claims to super-power status, in which case China's preemptive "grab" of choice resources from Africa could provoke new competition among the world's most powerful states, reminiscent of the "Scramble for Africa" in the 1880s. A new "scramble for Africa" is in fact a recurring theme of the growing literature and political commentary on the consequences of China's new economic role in Africa. And what if China comes out on top as a result of its Africa strategy? Some contend that this would be the beginning of the end of Western interests in Africa. Forget the tired subjects of contemporary international relations. A new global power game could be shaping up unobserved in Africa. That is new and worthy of attention.

Unfortunately, a solid and objective understanding of the brave new world likely to be sparked by China's resounding economic entry into Africa has been poorly served by most of the academic and nonacademic literature on the subject, which can be split into two broad categories. At one extreme, there is a growing literature based on a hyped "yellow peril in black Africa" syndrome blending into supposedly academic analysis on the subject, which shockingly reproduces some of the worst racial stereotypes this side of the Civil Rights Movement. The majority of what is written in this genre makes sweepingly alarmist, exaggerated, and ominous predictions on the long-term impact of China's trade and investment initiatives in Africa, for the West and for Africans. To the extent that it is based on any economic analysis, it tends to see China-Africa trade and investment as a "mercantilist" zero-sum game, in which Africa is most likely to lose while China gains.⁶ In many ways, the literature faithfully but unwittingly reproduces the old Marxist-oriented and now-discredited "underdevelopment" and "dependency" theories of the 1960s and 1970s, under which exploitation of African natural resources by Western multinationals led to extended African poverty and super profits to the West. Goods in Africa are said to replace African products and retailers in much the same way as Western trading companies of the colonial era allegedly did.⁷

Much of this flies in the face of the historic economic gains that China and East Asia made from global commodity trade and investment in the second half of the last century. Often highly speculative, some of this commentary contends that China's imminent displacement of Western political and economic interests in Africa will jeopardize prospects of widely shared prosperity, economic liberalization, and democratization, guided by Western states and the Bretton Woods institutions, just when reforms are beginning to show promise. Like the dependency theorists, this literature treats Africans as inert pawns in a big power game. In condescending terms, some authors make the case for more Western technical advice on building of institutional capability to enable Africans to weather the self-serving schemes of a cunning China. This ignores the diverse forces of agency among African states, investors, and business groups. One must wonder what is meant when African states are urged to avoid "unequal relationships" (another favorite of the dependency authors) and to "recognize that there are important areas where their national interests diverge from Beijing's"—the most elementary rule in international relations.⁸

6. See for instance Jonathan Hoslag, "China's New Mercantilism in Central Africa," *Journal of African and Asian Studies* 5, no. 2 (2006).

7. One of the best summaries and rebuttal of the "dependency" argument is Robert A. Packenham, *The Dependency Movement* (Cambridge, MA: Harvard University Press, 1992). The argument that Western multinationals exploit African resources for unilateral gain that extends Africa's poverty and underdevelopment is spelled out in Greg Lanning and Marti Mueller, *Africa Undermined* (New York: Penguin Books, 1979). The similarities with what is now being said about China in Africa today are obvious.

8. See for example Chris Alden, "Leveraging the Dragon: Toward an Africa that Can Say No," YaleGlobal Online, <http://yaleglobal.yale.edu/article.print?id=5336>.

Fortunately, not all the writing on China's policies in Africa takes on the alarmingly speculative and analytically mistaken characteristics of this trend. There is a growing but well-informed minority opinion, to which this paper is wedded, that treats China's contemporary economic activities in Africa as no more than a subset of globalization; that is, south-south trade and investment, partly underwritten by Western finance and technology in which the north and the south stand to gain. Subject to rule-based economic interaction between states, China's entry into Africa has the potential to increase economic and political competition in the continent that would result in an overall welfare gain for African peoples. The rules at issue are the need for a more liberal multilateral trading and investment system, now hostage to political interests in the Western world and some developing countries.⁹

This does not imply that China's transgressions in supporting African dictatorships should be overlooked. Far from it. The problem of how the democratic world (and the United Nations) should deal with tyrants and serial abusers of human rights—in places from Burma to Sudan to Zimbabwe today (and who knows where else tomorrow)—should be dealt with as a separate issue, whose solution lies in diplomatic and military responses as much as in economic and commercial ones. Moreover, the problem of big power support for tyrannies abusing human rights in Africa is not one that can be restricted to China. As *The Economist* recently reminded its readers, “China is not the only country to prop up brutish regimes” in Africa, citing the example of French support for Chad's Idriss Deby among others.¹⁰

To find out whether the speculative perversity hypothesis presented here or its opposite, beneficial globalization as espoused in this paper, fits best the realities of Chinese economic relations with Africa, it is necessary to test both positions against available empirical evidence. One way of doing so is to examine the universe of China's commercial and investment activities in Africa, using historical trends or cross-section data from different countries in order to find out if they confirm or refute either of the two positions. Another approach, which this paper adopts, is to analyze the effects of China's economic interaction with African states on a country-by-country basis.

It begins with the backdrop to contemporary economic relations between China and Kenya by revisiting the hostile relations between the two countries in the Mao Zedong era, over the relevance of a socialist revolution in Kenya. In the wake of Deng Xiaoping's “four modernizations,” that hostility gradually mutated into a fruitful phase of interaction between China and Kenya. From the evidence presented by this paper, economic interaction between China and Kenya—particularly after 2002—derogate from the received wisdom of a predatory China let loose among hapless Africans (at worst) or a calculatingly benign Beijing out to gain more from the deals than its African partners (at best). It also brings into center stage, the power of agency, demonstrating that African states are indeed capable of making choices that benefit them in the intensified phase of trade and investment in cooperation with China. It concludes that Kenya's case may not be as exceptional as it seems at first blush.

9. See in particular Harry G. Broadman, *Africa's Silk Road: China and India's New Economic Frontier* (Washington, DC: World Bank, 2007). The author is indebted to many perspectives in this pioneering book. See also Andrea Goldstein, Nicholas Pinaud, Helmut Reisen, and Xiaobao Chen, *The Rise of China and India: What's In It For Africa?* (Paris: OECD Development Centre, 2006), which argues that although the impact of the rise of China and India in Africa will be differentiated, its impact will be largely positive provided African countries take measures to avoid resource dependency and “Dutch Disease” from the influx of foreign mineral earnings.

10. *The Economist*, March 15, 2008, 13.

The Mao-Kenyatta Era: Differences over Revolution

Kenya acquired its independence from Britain in December 1963, and diplomatic relations with the People's Republic of China, as opposed to Taiwan, were established soon after, courtesy of the radical left wing of the ruling Kenya African National Union (KANU) party led by then KANU vice president and Minister for Home Affairs Jaramogi Oginga Odinga. On February 5, 1964, Wang Yutien was appointed China's ambassador to Kenya. For the KANU left however, harnessing China's revolutionary agenda and that of their own to the emerging trajectory of independent Kenya proved more difficult than they had anticipated. Not only did they meet stiff resistance from the right wing of their own party and from entrenched Kenyan capitalist interests, but they also suffered machinations from Western intelligence operatives in Nairobi that saw them sidelined from the mainstream of Kenya politics by the late 1960s. As a result of this internal acrimony and the decline of the left, China-Kenya relations went into cold storage for a decade and did not begin to thaw until after Mao's exit from the stage in 1976 and that of Kenyatta two years later.

Economic ties between Kenya and China, however, antedate independence. As a British colonial state, and despite the Cold War, Kenya was exporting raw materials to be processed in China in the 1950s and early 1960s: sisal fiber, raw cotton, wattle bark extract, and pyrethrum. In return, Kenya bought semi-processed and finished products from China: base metals, tea, fabrics, fruit preparations, and sundry manufactured goods. In 1963, Kenya's last year under colonial rule, the volume of trade between the two countries amounted to 9.2 million Kenya shillings (\$1.2 million at the prevailing exchange rate), and it was largely in Kenya's favor: Kenya's exports were valued at thrice what the country bought from China. In the following year (1964), however, the value of Chinese exports to Kenya rose, and they were more diversified than they were previously. It is interesting to note that the new product range (at the height of Maoism) essentially differed little from that observed at the close of the twentieth century: paper, stationery, cotton yarn, textiles, sheet glass, and household items like clocks, chinaware and porcelain, toys, hand tools, and bicycles.¹¹ Kenya's export product range to China did not change immediately after independence either, but the volume of trade rose to thrice that of pre-independence levels. However, it is worth observing that this trade was a tiny proportion of the volume of international commerce transacted by the two states. But it was a foundation on which much else was to be built in the ensuing period.

In July 1964, the Chinese ambassador paid a visit to then Minister of Finance James Gichuru to negotiate economic and technical cooperation between the two countries. They soon agreed on the dispatch of a Chinese delegation of 15 experts to Kenya in order to nail down specific areas of economic cooperation. Meanwhile the relevant departments in the Kenya government were invited to forward suitable project proposals to the Ministry of Finance. From a long list of proposals from the Kenya side, the Chinese delegation in early 1965 committed itself to the construction of a textile factory and a sugar refinery, both to be financed from the sale of Chinese consumer goods provided gratis to Kenya.¹² This was customary Chinese "aid" at the time. Offers to train Kenyans in the skills of ivory and bamboo carving in China were thrown into the bargain. None of these proposals was to see the light of day.

Instead, they fell victim to the internal political schism within the Kenya government between the radical left in the ruling party (which favored socialism and closer ties to the Soviet bloc and

11. Kenya National Archives (KNA), File AE/446, Ministry of Commerce and Industry, 1964.

12. KNA, File AE/14/70, 1965. Letter from the Kenya government to the Chinese ambassador dated May 9, 1965.

China) and the increasingly dominant faction of the party led by President Jomo Kenyatta and KANU party secretary General Tom J. Mboya, which preferred a “mixed economy,” predominantly driven by the private sector but with ample room for producer cooperatives, state-operated enterprises (the “parastatals”), and small-holder production for the market. Kenyatta and Mboya were suspicious of Chinese political intentions in Kenya at the time (with good reason) and were determined to increase cooperation between the new state, and the United States, Britain, and Western Europe.¹³

Shortly after independence, Jaramogi Oginga Odinga led a high-powered Kenyan “good-will delegation” to Beijing to discuss enhanced ties between the two countries. Even though the delegation consisted mainly of his allies in the party, he had the full support of Jomo Kenyatta at the time. In Beijing, Odinga implored China to join independent African states in a war against apartheid South Africa and the remaining colonial territories on the continent.¹⁴ Imperialism and colonialism, he told his hosts, were a mutual enemy of China and Africa. His ally, Information Minister R. Achieng Oneko, followed suit in August 1964 and met then Chinese vice premier, military commander, and minister for foreign affairs Marshall Chen Yi, no less. This was no minor achievement considering Marshall Chen Yi’s high profile in China’s political establishment at the time.

Earlier in the same year, Chinese premier Chou En-lai had made his famous statement about an “excellent revolutionary situation in Africa” after a visit to some 10 African countries. The Kenyatta government’s immediate response was that the Chinese premier’s expectations did not apply to Kenya, as it had already completed its anticolonial revolution in the previous decade. Relations between the two countries throughout 1965 were tense, reflecting the divisions in the cabinet. In March 1966, Kenya expelled the third secretary in the Chinese embassy, Yao Chun, on suspicions of plotting subversion. He had in fact protested at the adoption of a motion by Kenya’s Senate condemning Chou En-lai’s “ripe for revolution” remarks. In the growing internal breach, speeches were made by the anti-China side in Kenyan Parliament warning against imperialism from the Eastern bloc, led by cabinet ministers close to Kenyatta and Mboya. As left and right in the ruling party fought it out, China became even more closely identified with the left wing of the ruling party, much as the Western states were associated with their opponents. The prospective economic ties between China and Kenya were the first casualty of this two-way struggle. Relations between the two states deteriorated, ending in diplomatic break in 1967.

As the war of words between the two sides escalated, the Chinese embassy protested against speeches by three cabinet ministers in Parliament—Mboya, J.N. Osogo, and Daniel arap Moi—claiming that they had subjected the People’s Republic of China “to slander, vilification and grave provocation.”¹⁵ Moi in particular was accused of “brazenly vilifying China.” In August 1966, the Red Guards held a demonstration outside the Kenya embassy in Beijing, pasting it with posters protesting Kenya’s “reactionary politics” and breaking some windows. The Kenyan government handed a protest note to the Chinese embassy in Nairobi, but unable to get a satisfactory explanation, it recalled Kenya’s ambassador to China. In apparent retaliation to the Red Guards’ actions,

13. The left lost the battle and was evicted from government in April 1966. The epic struggle between the two factions in the party, waged with partisan support from the respective blocs in the Cold War, is narrated in Cherry Gertzel, *The Politics of Independent Kenya* (Nairobi: Heinemann Educational Books, 1968) and by the U.S. ambassador to Kenya at the time, William Attwood in his memoirs, *The Reds and the Blacks* (New York: Harper and Row, 1967).

14. *East African Standard* (Nairobi), May 7, 1964.

15. *East African Standard* (Nairobi), July 13, 1966.

youths affiliated with Kenya's ruling party KANU staged a counterdemonstration outside the Chinese embassy in Nairobi, during which some of the embassy's windows were broken. In June 1967, Kenya declared the Chinese chargé d'affaires *persona non grata*, ordering him out of Kenya immediately. Since the Chinese ambassador was on leave in China, this left the embassy without any serious top-level representation. In response, China expelled the Kenya chargé d'affaires in Beijing in July 1967, leaving the Kenya embassy there without any top-level representation—a condition analogous to that of the Chinese embassy in Nairobi. The Chinese ambassador did not return to Kenya after his leave was over, and his Kenyan counterpart did not go back to Beijing either. With the ambassadors and their deputies now out of their stations, China and Kenya had severed diplomatic relations in all but name. This remained the case for 11 years. The economic dreams of 1964 could not therefore be realized. This was to remain the case until Mao Zedong and Jomo Kenyatta had exited the scene. The thaw began with the first visit to China by a Kenyan head of state, when President Daniel Arap Moi (Kenyatta's successor) paid a state visit to China in 1980.

Yet even then, economic and political relations between Kenya and China did not immediately assume the proportions that worried some observers 20 years later. They went through a transition from state visits for the first time in history, and confidence-building mechanisms at the highest levels of both governments that cascaded downwards to the levels of cabinet ministers, legislators, and leaders of the ruling parties in both countries. This was followed by the obligatory “friendship” agreements that typified China's relationships with African countries in that era, followed by more detailed arrangements on development projects, technical assistance, and limited state-managed trade. The phase of freer trade and investments that was to characterize economic relations between the two countries in the first decade of the twenty-first century had yet to begin. But the confidence-building mechanisms, the toning down of revolutionary and counterrevolutionary rhetoric, and the new efforts at promoting trade and economic development in the 1980s helped lay the foundation for change from the politically charged climate of the 1960s and 1970s to the mutually beneficial era of the opening decade of the new century.

Transition to the Business and Investment Era

President Moi, the same man who had repeatedly accused China of plotting revolution in Kenya in the 1960s, lost no time in reaching out to the post-Mao People's Republic of China. Moi's main motivation was to diversify the sources of Kenya's external development funds, but the visit also had a subsidiary agenda: to secure new development projects for Moi's Rift Valley home region in order to shore up his political base. Moi held talks with China's de facto leader, Vice Chairman Deng Xiaoping, and Prime Minister Zhao Ziyang. Kenya had dispatched an ambassador to China at the end of 1978, thus opening the embassy that had been technically closed at the height of the “Cultural Revolution” in 1967. China had in the meantime appointed an ambassador to Kenya. Ji Pengfei, the then vice premier of China's State Council, visited Kenya in August 1980, and Moi paid a state visit to China a month later, the first of the three he was to make there before his retirement in 2002.¹⁶ The man who had berated China in Kenya's parliament in 1966 now came back full of praise for China's modernization, orderliness, and cleanliness. By the time he left office in 2002, Moi had succeeded in endearing of himself to the political authorities of the People's Republic of China.

Moi's initial state visits opened the way to a flurry of negotiations and diplomatic exchanges at lower levels of government. Between 1978 and 2000, two Kenyan foreign ministers led strong

16. The others took place in October 1988 and May 1994.

delegations to China: Wilson Ndolo Ayah in 1991 and Bonaya Adhi Godana in 1999 and 2000. KANU leaders and parliamentarians led by the Speaker followed suit. But this was a trickle compared to the number of top-level Chinese delegations that came to Kenya in the Moi years, indicating how seriously China took Kenya, the gateway to eastern Africa and the most developed and diversified economy in the region. Between 1980 and 2002, 20 top-level Chinese diplomatic entourage came to Kenya. They included Prime Minister Zhao Ziyang (1983), Foreign Minister Wu Xueqian (1987), President Jiang Zemin (1996), and Prime Minister Zhu Rongji (2002). These visits in turn spurred lower-level technical exchanges and activities, such that by 2000 in Kenya, the press reported an important development or commercial initiative involving China virtually every month of the year. At this point it should be observed that China did not just come to Kenya as a donor and as the beneficiary of “mutual trade and cooperation.” As a rapidly modernizing developing economy making the transition from Communist-era central planning to globally competitive production, China was also in Kenya to learn from areas where Kenya had made outstanding progress like agriculture and tourism.

As a result of Moi’s first visit to China in 1980, Kenya and China concluded two agreements. The first one was on “economic and technological cooperation,” covering a wide variety of projects: a new sports stadium (which had been under discussion since 1977); technical support to two new universities; scholarships; and military and cultural exchanges. The second one was another state-managed trade agreement between Kenya and China that resembled those of the 1960s in many ways. Typical of China at the time, this involved exchanges of goods between a China state trading agency and its equivalent in Kenya. The most important component of the economic cooperation agreement, however, was the Moi International Sports Center in a suburb just outside of Nairobi’s central business district. It was built at the cost of 930 million Kenya shillings (approximately \$52 million), 48 percent of which was financed by Kenya. It included a sports stadium with a seating capacity of 60,000 people, an Olympic-size swimming pool, and a modern gymnasium thrown into the bargain. It was intended for completion in time to host the fourth All-Africa games in 1987 and to thus showcase the new China-African cooperation to all of Africa. China’s contribution to the construction costs (52 percent) was funded by an interest-free loan from China, thus marking a break from the Chinese commodity-financed projects of the 1960s and 1970s, like the aborted Kenya textile mill in 1964.¹⁷

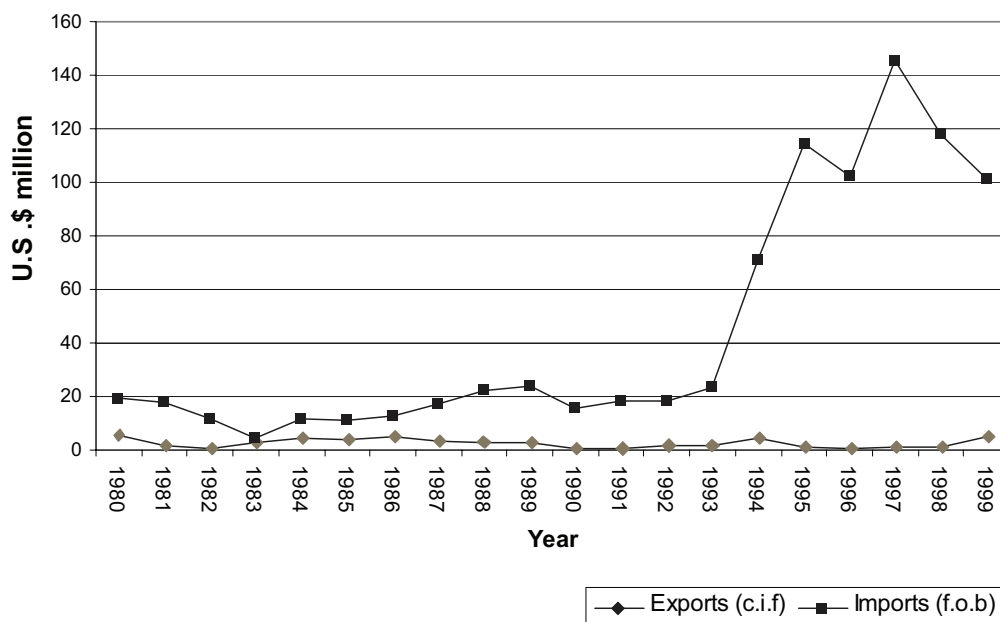
Under the economic cooperation grant, China also constructed a new teaching hospital at the brand new Moi University in Eldoret, the Gambogi-Serem highway, and provided teaching equipment at Egerton University. All these projects were located in Moi’s Rift Valley Province homeland, although, to be fair, they did serve a national constituency. China committed itself to providing 10 scholarships annually to Kenya and two top-level military exchanges per year.¹⁸ But it was not all a one-way affair. Keen to develop its own tourist industry, China in 1980 requested Kenya to train Chinese students in tourist management at Utalii College in Nairobi, Kenya’s flagship training institution for skills in the tourism industry. Chinese officials also seemed interested to learn from Kenya’s tea and coffee sectors—products that were to feature two decades later in its agricultural modernization drive. Kenya replied positively to both requests.

17. Most equipment and construction material came from China, but from Kenya too. After some false starts, the complex was completed in time for the All-Africa Games.

18. That Kenya was looking after its own interests is demonstrated by a 1980 agreement signed with the United States, which allowed the U.S. Rapid Deployment Force to use Kenya ports and some bases. Kenya’s army received equipment and training from the United States and still does.

In view of the remarkable transition that was made in China-Kenya trade in the run-up to the second half of the 2010 decade, it should be observed that in the 1980s there was little growth or diversification in Kenya's exports to China. It was not until the second half of the 1990s that Kenya's imports from China picked up (see figure 1). At no time between 1980 and 1993 did Kenya's exports to China exceed \$5.1 million. Apart from 1983, when they hit an all-time low, Kenya's imports from China in that period ranged between \$12 million and \$24 million. All of this was a small part of each country's total trade. The proportion of Kenyan exports to China between 1980 and 1999 was less than 1 percent of Kenya's world exports. In contrast to the sluggish growth in exports to China, Kenya's imports from there grew gradually from an average of \$10.81 million between 1980 and 1985 to an average of \$29.3 million between 1990 and 1994. After 1995, imports from China amounted to five-fold their 1989 value. Unlike the early 1960s, the trade balance now favored China. And it was a sign of coming change: total trade in 1999 was about four times that of 1980.

Figure 1. Trends in Kenya's Trade with Mainland China



Source: IMF, *Direction of Trade Statistics Yearbook* (Washington, DC: IMF, various years).

The phenomenal growth of Kenya's imports from China after 1994 deserves an explanation particularly in view of the fact that the Kenyan economy was undergoing a most difficult phase over these years. Kenya's real GDP grew at an average of 1.9 percent between 1990 and 2003, while income per capita declined by 0.6 percent over the same period.¹⁹ The rapid increase in Kenya's imports from China (and elsewhere) in the second half of the 1990s therefore did not originate from rising incomes in Kenya. It originated from two other sources. First, Kenya fully liberalized

19. The data are from World Bank, *African Development Indicators* (Washington, DC: World Bank, various years), http://publications.worldbank.org/ecommerce/catalog/simple-search?has_results_p=1&search_type_to_pass=title&search_text=african%20development%20indicators.

the exchange rate in 1994 as part of its economic liberalization program, with World Bank and IMF support. This made it possible for Kenyan firms and citizens to purchase foreign currency to import goods at lower real prices because the reform program had also reduced external tariffs, substantially. Second, China's industrial modernization, using domestic and foreign capital (Asian and Western) was turning out products that Kenyans (and Kenyan industries) desired at more competitive prices than other suppliers, including those based in Kenya. What was happening was displacement of import sources and local suppliers in favor of China. Chinese exports to Kenya now consisted of household electrical appliances, capital goods, agricultural tools, textiles, drugs, building materials and equipment, and machinery. They were thus more diversified than they were in the 1960s and 1970s. For the first time, Kenyan firms and individual traders began traveling to Dubai and then eastward to Hong Kong and mainland China to obtain products directly rather than through intermediaries like the old state trading corporations. It is worth noting that despite repeated efforts by both governments to boost the volume of Kenya's exports to China, the balance remained still overwhelmingly in favor of China.

Cooperation in Making Money: 2002–2007

The much despised Moi government gave way to a broad-based reform coalition (the National Alliance Rainbow Coalition or NARC), which won the 2002 general elections, the third in a series of competitive elections the country had held since 1992 when KANU acceded to the principle (but not the spirit) of competitive multiparty politics.²⁰ The government had presided over a slow-motion economic calamity that brought the average annual GDP growth rate down from the 7 percent (1970–1979), when it came into office, to 0.6 percent in 2002. It had also raised the national poverty level from 48 percent in 1982 to an estimated 56 percent in 1997.²¹ The Moi government had an appalling human rights record and had instituted systematic terror against political opponents. China overlooked these realities as it strengthened its economic relations with Kenya—but then so had some Western governments like Britain (until the late 1990s) and France. One can argue that, amid the many failures of the Moi era, one positive development it made was to lay the foundations for improved trade and economic cooperation with China, thereby diversifying the country's investment sources and widening the country's access to external markets, without jeopardizing existing ones.

When President Mwai Kibaki took office in January 2003, his government instituted a broad governance and economic reform program that produced economic recovery within three years and accelerated growth thereafter, resulting in the longest period of sustained growth (2003–2007) since the roaring Kenyatta years. GDP growth rose from 2.9 percent in 2003 to a projected 7.1 percent in 2007. Poverty levels declined from 56 percent in 1997 to 46 percent in 2006, according to the best household expenditure survey done on the country to date.²² Economic growth was broad based, originating from all sectors of the economy: agriculture, tourism, wholesale and retail trade,

20. For details on how the Moi government manipulated its way to electoral victory in 1992, assisted by disunity in the opposition, consult David Throup and Charles Hornsby, *Multiparty Politics in Kenya* (Oxford: James Currey, 1998); and see Marcel Rutten, Alamin Mazrui, and Francois Grignon, *Out for the Count: The 1997 General Elections and Prospects for Democracy in Kenya* (Kampala: Fountain Publishers, 2001) for details of the 1997 election.

21. United Nations Development Program (UNDP), *Country Programme Action Plan 2004–2008* (Nairobi: UNDP, 2004), 5.

22. Kenya Central Bureau of Statistics (CBS), *Kenya Integrated Household Budget Survey*, vols. I & II (Nairobi: CBS, 2007).

manufacturing, telecommunications, construction, transport, and the financial sector. The government instituted free primary school education in 2003 and also improved the delivery of health care particularly to the most needy. As a result, HIV-prevalence rates fell from 15 to 6 percent between 1999 and 2004.

Most of the investment driving this growth was domestic. Unlike many other African states, external aid to Kenya accounted for only 5 to 10 percent of the budget over this period, and foreign direct investment (FDI) inflows, though growing exponentially by 2007, were modest in comparison to local capital formation.²³ The United Nations Conference on Trade and Development (UNCTAD) estimates cumulative FDI into Kenya from 2000 to 2004 at \$402 million—an annual average increase of \$50 million—which, as in 2006, was much smaller than the annual gross fixed capital formation. FDI sources were still largely European and mostly British.²⁴ Yet even if investment from China (or elsewhere) did not play a central role in this economic turnaround, prospects for profits in the reinvigorated economic life of Kenya were already attracting external investors keen to gain a foothold in a promising economy. Corporations choosing to invest in Kenya were not necessarily attempting to spur economic growth; rather, they were investing in an already growing economy in which they saw an opportunity for profit. By 2007, General Electric, Virgin Atlantic, Google, Hewlett-Packard, Cisco, and Tata of India, among others, had opened offices in Kenya. The spectacular rise of Chinese trade and investment in Kenya during the Kibaki years followed similar profit-seeking motives.

China-Kenya economic relations in the Kibaki era also began with high-level political contacts between the two states followed by a series of agreements. But this time, unlike in the past, independent operators from Kenya and China were part of the act. President Mwai Kibaki made a state visit to China in August 2005, with 11 Kenyan trade- and investment-seeking delegations in tow. He held extensive talks with President Hu Jintao and Chinese government officials, resulting in a five-part agreement covering official development assistance in grants (for infrastructure and energy), extended air services between the two countries, technical assistance for assessment and classification of standards in industrial products, and modernization of equipment and training at the state-owned Kenya Broadcasting Corporation. President Kibaki's delegation also paid the obligatory visit to Shanghai, where he held discussions with its mayor, Han Zheng, on the functioning of special export industrial zones. Kenyan business delegations explored prospects in tourism, joint ventures in power generation, and machinery.

This visit was followed by a highly successful Chinese trade exhibition in Nairobi in mid-2006. Meanwhile a Chinese trade delegation came to Nairobi following up clues and suggestions from the China Trade Center in Nairobi—the largest in eastern Africa—all the time protesting that they were in Kenya to buy more local products rather than sell Chinese ones. In April 2006, President Hu Jintao visited Kenya, as part of a five-nation tour that took him to the United States, Saudi Arabia, Morocco, and Nigeria, once again indicating the seriousness with which China was taking Kenya. The reasons behind this can be read in the trends over the last five years in trade, the rise in official development assistance, investment in the construction industry (particularly roads), and

23. Compared to \$4.1 billion in gross capital formation in 2006, FDI that year was \$50.1 million. The year 2007 could turn out to be an all-time record following the privatization of 51 percent of Kenya Telkom, which brought in US\$400 million to the government from the new majority owner (51 percent) France Telkom and US\$170 million invested into Equity Bank (the fastest-growing bank in Kenya) by Helios, a London-based private equity fund.

24. As of 2005, about 70 percent of Kenya's FDI originated from Western Europe and the rest from South Africa, India, and other Asian countries. See UNIDO, *Africa Foreign Investor Survey 2005* (UNIDO, 2005), 35.

the so-far futile prospecting for oil in northeast Kenya and the coast. It would be useful to look at trends in each of these sectors more closely.

Trade

As a result of new investment and trading opportunities in Kenya's expanding economy, Kenya's imports from China continued to rise along the lines we observed in the 1990s, but this time the pace was even faster. Imported Chinese goods to Kenya rose by a factor of three between 2001 and 2005, from \$139 million to \$457 million.²⁵ In addition to the increase in value, the composition of imports was also changing as the breakdown of trade between the countries in 2006 shows (see table 1).

Table 1. Composition of Kenya's Trade with China, 2006 (in thousand U.S. dollars)

Commodities	Domestic Exports	Percent	Imports	Percent
1. Food	2,981	15.7	3,102	0.8
2. Beverages and Tobacco	n	n	n	n
3. Crude (non-fuel) materials	12,751	67.0	1,622	0.3
4. Mineral fuels/lubricants	n	-	1,622	0.4
5. Animal/vegetable oils	7	0.0	53	n
6. Chemicals	288	1.5	40,714	10.0
7. Manufacture Goods	2,902	15.3	201,429	49.0
8. Machinery/Transport Equipment	91	0.5	163,678	39.7
9. Miscellaneous	-	-	-	-
Total	19,020	100	412,217	100

Source: Customs Department, Kenya Revenue Authority, 2008.

n = negligible

Applied exchange rates are those of the IMF for 2006.

From table 1, which is typical of China-Kenya trade in the past eight years, it is evident that in addition to volume growth, the composition of China-Kenya trade had changed considerably from the period of the 1960s to the 1980s when Kenya sent agricultural products to China and received lower-end consumer goods and textiles in return. In the post-liberalization period, the value of Kenya's traditional exports to China (food, beverages and tobacco) amounted to about \$3 million (16 percent of total exports), a declining share. The bulk of Kenya's exports to China consisted of two new major commodity classes: (i) unprocessed nonfuel materials (mainly soda ash and recycled metals), which contributed 67 percent of all exports and (ii) most interestingly, manufactured goods which accounted for 15.3 percent.

On the import side, the change in commodity composition was just as dramatic. Although the volume of imported Chinese household consumer goods continued to rise, other manufactured

25. IMF, *Direction of Trade Statistics Yearbook, 2006* (Washington, DC: IMF, 2007).

goods (electronics, building fittings, office equipment, medicine, furniture, etc.) now dominated the manufacturing category, which on its own accounted for half of all Kenya's imports from China. Significantly, about 40 percent of the Chinese imports to Kenya were made up of machinery and transport equipment, for industrial and agricultural production, and the services sector. In other words, although Chinese household consumer goods continued to find their way into the Kenyan market by dint of competitiveness, a large proportion of imports from China went to fuel productivity in building construction, agriculture, and the industrial sector of a resurgent economy. Both countries gained from this. In February 2006, the Kenya government removed all duties on computers and computer components, thereby adding another item to the growing list of rapidly increasing goods from China, which in this case helped strengthen a nascent information and communications technology (ICT) sector mostly in Nairobi and Mombasa.

There is a popular view among critics of China-African relations that Chinese imports are ruining the African manufacturing sector. Chinese retailers are said to be edging out African ones, as if African consumers are not the ones who decide whose business to patronize as in all market economies. Chris Alden, for example has claimed that this was happening in Central Kenya.²⁶ In fact the opposite was true. Retail trade in Kenya is overwhelmingly dominated by small scale, "informal sector" operators, and nowhere more so than in Central Kenya and Nairobi. The products traded include local manufactures (bottled drinks, toiletries, cigarettes, processed foods), local farm produce, and—for sure—imported goods including many from China, notably clothing and textiles, electronic goods, and home-construction components. The retail trade sector has been one of the drivers of Kenya's renewed growth. From a decline of 2.5 percent in 2002, wholesale and retail trade has steadily grown to the rate of 11 percent in 2006, among the four fastest growing sectors.²⁷ Wholesale and retail trade is also labor intensive in a job-scarce society. There have been gains, therefore, for exporters to Kenya (like China) and for Kenyans themselves.

Neither did Kenya manufacturing suffer as a result of Chinese imports. The manufacturing sector in Kenya grew at between 4.5 and 7 percent between 2003 and 2006.²⁸ Kenya's manufactured products were diverse and growing, ranging from food processing, textiles, wood products, footwear, paper products, cement, chemicals, industrial equipment, and medical drugs. These were sold in local and regional markets of eastern Africa, but exports to Europe and the United States were also growing.²⁹ Those were the same products China critics claimed were being displaced by the "flood" or "tsunami" of cheap Chinese goods. Kenya's manufactured output therefore rose even as imports from China were rising to record levels. Both Kenyan retailing and manufacturing

26. Chris Alden, "China in Africa," *Survival* 47, no. 3 (2005): 156. In a sweeping statement typical of this literature, Alden claims that "across the continent from Namibia to Central Kenya, traditional products and retailers have been edged out by Chinese businesses."

27. Kenya National Bureau of Statistics (KNBS), *Economic Survey, 2007* (Nairobi: KNBS, 2007), 31.

28. KNBS, *Economic Survey, 2007*, 31.

29. KNBS, *Statistical Abstract 2007*, 64–67. In his congressional testimony, "China's Approach to East, North and the Horn of Africa," on July 21, 2005, (<http://www.gwu.edu/~elliott/news/transcripts/shinn4.html>), David H. Shinn mentions the "negative impact of Chinese textile exports to Kenya's garment exporters to the US under the African Growth and Opportunity Act (AGOA)." In fact, Kenya's exports to the United States rose from \$38,500 in 2002 to \$285,000 in 2006. See KNBS *Statistical Abstract 2007*, 74. (Dollar figures have been arrived at using weighted annual exchange rates from the IMF). Kenya's textiles export sector has undergone serious problems and has laid off employees, but the causes are of Kenya's own making: inefficiency in provision of electricity, high energy costs, corruption, and high wage costs relative to its competitors.

businesses, therefore, were expanding in spite of the country taking a record Chinese imports—and in some measure *because* of those imports.

To be sure, there were some serious problems in Kenya's trade with China, but these are not the kind on which critics of China-African economic ties focus. One perverse effect of Kenya's exports to China, for example, is the increasing procurement of local scrap metal for sale to Chinese companies. As we saw from table 1, "crude" metals, are one of the fastest rising Kenyan commodity exports to China. These go to meet China's well-known appetite for metals like iron and copper. Not all of it, however, is legally acquired. Kenya has in fact witnessed the growth of criminal syndicates that steal telephone and electric wiring and then smelt it into copper for export to China. The same thing is happening in iron and steel edifices that are pilfered, broken down, and then exported as scrap metal. One might call this export diversification via theft and plunder. The government has taken action in the last two years to stop these activities. Arrests and prosecution followed, but it remains a problem all the same. Corrective action is therefore necessary on the part of the Kenyan law enforcement machinery. Equally important, the rules governing trade regulation between the two countries call for a closer look, something best done in multilateral fora like the World Trade Organization (WTO), since the problem affects other countries in the region too.

Development Aid

Although as stated earlier, Kenya is not as aid-dependent as most of its African neighbors, the government is still determined to increase both the volume of concessional development aid and its absorptive capacity for it, to supplement local investment, and FDI.³⁰ Part of the inter-donor initiative to support the government's efforts has been the Kenya Joint-Assistance Strategy (KJAS), which brings together 17 donors (mostly Western governments and multilaterals like the World Bank, the European Union and the UN family) in the interests of "coordination" among themselves and "harmonization" of their programs with those of the government. All this is in line with 2003 Paris Declaration on Aid Effectiveness to which most donor governments and multilateral development agencies subscribe. This new administrative device was expected to raise both the levels of aid and the capacity to use it more effectively. Whether the Paris accords are working as assumed or not is a matter of dispute. However, China is not a member of the KJAS, which is a source of irritation to the Western donors in Kenya, particularly in view of China's increasing role as a bilateral donor to Kenya, as illustrated in table 2.

Kenya's main multilateral donors have traditionally been the EU, the World Bank, and the African Development Bank, while its main bilateral partners are the United States, the United Kingdom, Japan, Germany, France, the Nordic countries, Italy, and now China. That China's contribution in aid to Kenya increased from 0.08 percent of total external assistance in 2002, to 13 percent in 2005, is significant in its own right. But it belies the fact that China rose from among the lowest contributors of development assistance to Kenya to become the largest bilateral donor in 2005 (with \$56 million), second only overall to the European Union (\$60 million). This, however, should not be taken as something indicative of a trend. Aid disbursed to Kenya by different donors varies greatly from year to year, depending on Kenya's institutional capacity to absorb funds, delays in project preparation, and tendering for construction work. Other donors could come out on top in 2006 and 2007 when the figures are finally computed. But by collaborating only with the

30. Ministry of Finance, *Kenya External Resources Policy Paper* (Nairobi: Ministry of Finance, 2007).

Kenya government, China had clearly become an important—not to mention popular—player among Kenyans, largely because of more rapid design and completion of projects.

The attraction of Chinese development assistance lies in its bare-bones bureaucratic simplicity, in comparison to the donor red tape that in part motivated the Paris Declaration toward higher efficiency through improved coordination between donors. Once agreed on at the political level, China-funded projects are completed by Chinese contractors more quickly than others. Kenya's attraction to Chinese projects does not therefore spring from China's habit of not asking questions about human rights and democracy in African states—the reason for which China has been roundly (and rightly) censured for its operations in Sudan and Zimbabwe.³¹

Table 2. Distribution of Aid Sources to Kenya Showing China's Contribution: 2002-2005 (in million U.S. dollars)

Sources	2002	2003	2004	2005
Multilateral	181	229	266	242
China	0.20	6.5	7.1	56
Other Bilaterals	272.8	300.5	342.9	379
Total	454	536	616	677
China's Share (%)	0.08	2	2	13

Source: UNDP, *Kenya Development Cooperation Report* (Nairobi: UNDP, 2006).

Between 2003 and 2005, most of China's development aid to Kenya went into a rural telecommunications project that linked Kenya's administration units, with Chinese equipment of course; the controversial "tying of aid" to donor suppliers is still part of China's aid policy. But China is not the only culprit. Bilateral donors who "untie" aid to Kenya are still a minority. Other projects included rural and urban roads and additional maintenance at the Kasarani Sports Complex. The Nairobi Roads Project, now in progress, is a fine example of the "China way" of doing development, which has earned China's aid the popularity referred to earlier. As a result of the economic boom since 2003, there has been an unprecedented growth in the number of personal and business vehicles, particularly in and around Nairobi. Kenya registered an average of 5,000 vehicles per month in the first six months of 2007, and the trend is unrelenting. This is partly a reflection of growth in business and partly an example of the consumer priorities of an emerging middle class indulging itself in personal cars, mostly used ones from East Asia. But roads in and around the capital have remained the same, and worse for the unattended wear before 2002. As a result, driving in Nairobi has become synonymous with long traffic jams and habitual breaking of traffic rules in the effort to get ahead. The drive from the city center to the airport, which used to take 20 to 30 minutes, now consumes two to three hours at the worst of times. This is now a political as well as an economic issue.

The Kenyan government and its international development partners had been working on a new road network for the city since 2003. But the project became a victim of delays in preparation,

31. Before the catastrophic handling of the December 2007 elections and the subsequent interethnic violence, Kenya had the best Freedom House ratings (i.e., 3 on a scale of 1 [best] to 7 [worst]) in eastern Africa. Western donor concerns in 2004 and 2005 had more to do with laxity to deal with past and present corruption at high level. Budget support was cut, but the project aid continued. There is agreement now that the judicial and administrative machinery to fight corruption is in place, but there is continued disagreement on how effective it is.

bidding, and tendering. As a result it failed to take off, adding to the misery of Kenyan drivers, not to mention trucks from the neighboring countries (Uganda, Rwanda, Burundi, Sudan) on their way in and out of Mombasa harbor. When President Mwai Kibaki attended the November 2006 Sino-African Summit in Beijing, he must have had that in mind. He secured a 676-million-yuan aid package (approximately \$95 million), part of which (174 million yuan) was intended for the upgrading and expansion of a 30-kilometer road linking the Jomo Kenyatta International Airport to the Nairobi city center. But after last-minute consultations between the two governments, China agreed to throw in an additional 69 million yuan to decongest traffic in Nairobi, bringing the total deal to 745 million yuan. And so in addition to the city-to-airport road, China pledged to construct 72 kilometers in bypasses from the central trunk roads in and out of the city (to the southern, northern, and eastern suburbs) removing some six “roundabouts” (or traffic circles) in the process. This will give Nairobi’s road network a facelift of the sort it has not had since the 1950s. In April 2007, Jia Qinglin, a leading Chinese oil official, came to Nairobi to sign the project agreements. Within two months, Chinese surveyors had taken site surveys to lay groundwork for the earth movement in advance of the construction of “China Road.” And the motorized middle class and business transporters were relieved.

Large-scale Construction and Contracts

It is now estimated that there are 44 firms from mainland China operating in Kenya. Nobody knows for sure. The large ones include Jiangsu International Economic and Technological Cooperation Company, Sichuan International Economic and Technological Cooperation Company, China Road and Bridge Construction Company, China Import Export Group, China Import and Export Corporation, and China Wu Yi Construction Company. There is also an increasing number of small- to medium-size Chinese firms in auto repair and maintenance, home furnishings, construction equipment, agricultural machinery, and of course, restaurants and the hospitality industry. Kenya’s Ministry of Trade and Industry estimates that completed construction and engineering projects by Chinese companies in 2006 accounted for \$870 million.³² That amount will be doubled, and possibly more than doubled, if one considers the projects due for completion by Chinese companies in Kenya in 2008.

Of all Chinese construction companies in Kenya, the most successful so far is China Road and Bridge Company, and it has attracted admiration and condemnation in equal measure. Since entering the Kenya market in 1985, it has built more than 1,000 kilometers of trunk roads. By 2005, it had completed 11 projects worth nearly \$200 million.³³ Among these are the Gambogi-Serem and Kipsigak-Shamakhokho roads in western Kenya, both of which will open up some of the least-developed parts of Kenya to local and international markets. Its most ambitious construction project so far, however, has been part of the Nairobi-Mombasa road, the Mtito Andei-Bachuma Gate section of which, by consensus among Kenyan motorists, is now the best road in Kenya. “We call this section ‘China Road,’ and it is the best road in Kenya even in East Africa” a 35-year old Kenyan driver, Francis Kuria, is quoted as saying.³⁴ The travel correspondent of Kenya’s leading newspaper was even more effusive: “Mombasa Road must be one of the greatest drives in the world...I mean it.”³⁵

32. Interviews, Ministry of Trade and Industry, Nairobi, October 2007.

33. Peoples Daily Online, <http://english.peoplesdaily.com.cn/200507/15>, downloaded on November 5, 2007.

34. Ibid.

35. John Fox, *Sunday Nation* (Nairobi), April 13, 2008.

The criticism against China Road comes from local and international contractors who complain that at this rate they will be shut out of business permanently. It is again the sort of example that is often cited in support of the argument that success of Chinese enterprises in Africa comes at the expense of African ones. But, looking at the road construction scene in Kenya today, one can detect a fair distribution of operators between local, European, and Chinese contractors, a competitive scene in which to be on a winning streak, Chinese companies must be offering a quality product at a lower cost than their competitors. In the current economic boom, construction in Kenya by Chinese companies (particularly in roads and housing) is not only a leading source of employment, but it is also providing infrastructure at lower costs, thereby making Kenya's economy more competitive overall.

But an even bigger player in the Kenya construction industry has come in recently, China Wu Yi Company, which secured a \$37.2-million bid for the first phase of the modernization of Nairobi's Jomo Kenyatta International Airport (eastern Africa's aviation hub) in September 2006. The total Nairobi airport modernization program is expected to cost \$1.23 billion, 90 percent of which will be financed by a syndicated loan from Kenyan banks and financial institutions and 10 percent by the World Bank. The first phase, of which China Wu Yi Company won the competitive bid, involves the building of a new apron, new taxiways, and an extended fuel-hydrant system. The project has been broken into three phases, lest construction becomes too disruptive for normal operations. The project was scheduled for completion in just 10 months, indicating the urgency with which it is viewed, but the deadline was extended by several months after the post-election riots disrupted operations.

The airport requires this facelift because when it was completed in 1977 with World Bank International Development Association (IDA) credit, it had the capacity of 2.5 million passengers annually. No improvements were undertaken throughout the Moi era. Indeed the airport became the locus of major scams in customs, immigration, cargo handling, and allocation of duty-free shops. But with Kenya's international tourist arrivals having risen from 977,000 in 2003 to 1.4 million in 2006, the airport was handling 4.2 million passengers in 2006 compared to the 2.5 million it was designed for.³⁶ Facilities were congested and uninviting. By March 2008, China Wu Yi was still at the site with crews working around the clock. Apart from the disruption caused by the post-election violence, the main cause of the delay was a cement shortage, local production capacity having been exhausted by the surging local construction needs and those of the region.³⁷ China Wu Yi and China Road and Construction Company provide yet another example of Chinese construction companies that are providing African countries with quality infrastructure at a bargain, something confirmed by the analysis of the performance of Chinese construction firms in Angola, Sierra Leone, Tanzania, and Zambia by Stellenbosch University's Center for Chinese Studies.³⁸

But local competitors do not see it that way and are increasingly demanding protection. There were 224 "large-scale firms" in building and construction in 2006, according to the government survey of industrial production, buildings, and construction.³⁹ Yet although Kenya's emerging construction industry contains a large and increasing number of large-scale players, in addition to

36. Airport "passenger" figures are based on the number of times people transit in or out of the airport.

37. In response, one local cement manufacturer, Athi River Mining, was constructing a new plant, while the other two, Bamburi and Portland Cement were expanding their capacity.

38. "China's Interest and Activity in Africa's Construction and Infrastructure Sectors," Center for Chinese Studies, Stellenbosch University, 2007.

39. KNBS, *Statistical Abstract 2007*, 139.

a profuse informal sector, concerns about China's entry and impact have been raised, as we have seen with respect to China Road and Construction Company. Kenyan construction firms demanding protection rationalize it in the fashion of the old "infant-industry" argument: they need to be shielded against foreign competition in order to emerge as profitable domestic and regional players. In a typical example, Spenco Limited, a Kenyan construction firm with 28 years of experience, most of it handling large-scale donor-funded projects in Tanzania, Zambia, Mozambique, Uganda, Malawi, and Sudan, is now demanding protection against Chinese construction companies that "have taken the country by the storm."⁴⁰ Its regional director for Kenya is cited as demanding "a bit of protection—because we do not have the competitive edge over our partner," concluding that "we should not expose ourselves to too much competition."

There may be a case for state nurturing of local construction companies into successful international competitors. It is sometimes suggested that is what the Asian newly industrialized countries (NICs) did, even though there are disagreements on exactly how it was done. But it was different from protection against international competition, which is what is being proposed here. The old infant-industry protection argument lay behind the failure of African industrialization initiatives in the 1960s and 1970s, even as East Asian countries were laying the groundwork for entry into international markets by a mix of policies—concessional credit, research and development, and new skills—all intended to help them break into global markets. Protection hurts home nationals the most. And it is a mistake Kenya dare not repeat.

Critics of Chinese construction firms in Kenya and in the rest of Africa, however, may be on firmer ground when they make allegations of violation in local labor laws by Chinese employers, whether hiring their own or local workers. At one extreme the companies are charged with using prison labor, even if no evidence to that effect has ever come out in Kenya. However, as the International Confederation of Free Trade Unions in Brussels has said, "China is not the only country where such exploitation is rife, but its blanket ban on unions is greatly facilitating the phenomenon."⁴¹ In addition, Chinese construction firms have been accused of undercutting competitors through financial subsidies from their government in one form or another. All these complaints relate to "behind the border" reforms of the type identified by Broadman,⁴² which are best settled by compliance to international standards established by the WTO and the International Labor Organization (ILO). Reforms of that kind, not least within Kenya, would go a long way in leveling the playing fields and establishing a fair basis of competition.

Tourism and Air Travel

In May 2004, China designated Kenya as "an approved tourist destination," thereby opening the way for Chinese citizens to gain hard currency for visiting Kenya as tourists. Kenya Airways, the country's national carrier, 40 percent of whose equity is owned by KLM, therefore began planning flights to mainland China in addition to the already existing ones to Hong Kong. Critics of the growing China-Africa relations immediately balked at this development as a threat from Chinese tourists "flooding" Kenya's famed game parks and other attractions. Nothing of the sort, however, has happened. The number of mainland Chinese tourists to Kenya in 2006, the first time such data was collected, was insignificant compared to the number of international visitors arriving from the

40. *Business Daily* (Nairobi), July 12, 2007.

41. *Business Daily* (Nairobi), July 12, 2007.

42. Broadman, *Africa's Silk Road*.

United Kingdom (the leading source of foreign visitors to Kenya), Germany, Italy, France, and the United States—Kenya’s traditional sources of in-bound long-distance travelers.⁴³ The occupation of hotel bed-nights by visitors from China to Kenya was, in fact, put at only 25,000 in 2006, a mere 0.4 percent of the total.⁴⁴ Whether the numbers will increase in the future is difficult to tell. Yet if the expected tourist influx from China failed to materialize in the first two years since the approval was granted, Kenya and China have found other ways to mutual gain that were wholly unanticipated by the fixation on international tourist travel in 2004.

Kenya Airways is one of the few airlines that has been reporting consistently increasing profits (until 2006) despite rising fuel prices, global terrorism, and disease scares like the avian flu. It has earned numerous international awards including “Airline of the Year” in 2006. In its 2005–2006 financial year, it reported a record after-tax profit of \$54 million, up from \$50 million the previous year. It experienced, however, a drop of 19 percent in profit in 2007 for the first time in years. A large part of this remarkable performance is explained by outstanding (Kenyan) management of the airline, based on a strategy of converting Nairobi into an African travel hub. This strategy aims at connecting international travelers arriving in Nairobi to African destinations, and then bringing to Nairobi African passengers who wish to connect to flights going to Europe, Asia, the Middle East, or other parts of the world. In May 2005, Kenya Airways inaugurated flights to Shanghai and Guangzhou and was toying the following year with direct flights to Beijing. In November 2007, however, the issue was resolved in favor of providing a daily flight to Guangzhou, and then entering into cooperation with South China Airlines to connect its passengers to other destinations inside China.

None of the Kenya Airlines routes to Asia is running at a loss, the absence of large numbers of Chinese tourists notwithstanding. And the reason is to be found in the “hub and wheel” strategy for Africa described above. The airline brings African business travelers—from west, eastern, and central Africa—to Nairobi for its connections to China, and particularly to Guangzhou, easily one of the most popular market sources for China’s manufactured goods and fabrics sought by African suppliers. It then brings them to Nairobi, for connections to the rest of Africa. For African business travelers, this routing enables them to avoid the cumbersome and sometimes humiliating application for transit visas in Europe, which is the alternative route to the Far East. Far from being exploitative, then, this is a win-win situation: Kenya Airways makes a profit on its air flights to China (and indeed Southeast Asia and Dubai), while Chinese firms get access to African markets.

The Failed Expedition for Natural Resources

As evident from the foregoing, China’s economic interests in Kenya so far have been predominantly outside the much-hyped area of its voracious appetite for African natural resources. This demonstrates that China’s business policy toward Africa goes beyond investment in oil, timber, and minerals, a point recently made by Chris Alden.⁴⁵ In focusing on trade, construction, and travel in Kenya, China’s interests are no different from those of its Western and African competitors. Still, China has shown interest in oil prospecting in Kenya and in one mining project on titanium. Neither of them can be classified as a success yet. In fact both have run into serious problems.

43. The total number of international visitors to Kenya from Asian states (other than India or Japan) in 2006 was 54,600 (i.e., 3 percent of the 1.4 million tourists who visited the country that year).

44. KNBS, *Statistical Abstract 2007*, 37.

45. Christ Alden, “China and Africa.”

After the visit by China's president to Kenya in April 2006, the Kenya government allocated China National Offshore Oil Company (CNOOC) exclusive rights, with no competitive bidding, to 6 out of the 11 available oil exploration blocks in the country. Current but outdated mining laws allow the government to do that.⁴⁶ This opened 28 percent of total oil exploration area coverage in Kenya to CNOOC. The decision provoked immediate protests from Spain's Compañia Espinola de Petrolas (Cepsa) and Sweden's Lundin International, both of which had lodged application for exploration rights before CNOOC. Furthermore, both companies complained that CNOOC had given Kenya an inferior deal compared to theirs. A deal was subsequently worked out under which CNOOC ceded some of the blocks to Cepsa and Lundin International, but at a fee to CNOOC. Though reprehensible, this is again perfectly legal under Kenya's laws. However, CNOOC's exploratory studies had shown no promise by mid-2007. Petroleum exploration in Kenya started in the 1950s when Shell and British Petroleum drilled 10 wells at the coastal town of Lamu that proved to be dry. With improved underground oil surveillance technology, more companies have since joined in: Woodside Energy (Australia), Chevron, Exxon, and Petronas of Malaysia. None of them has found commercially exploitable quantities of natural gas or oil. And it remains to be seen if CNOOC will buck this trend.

With regard to titanium mining, China made entry into this project, located at Kwale, south of Mombasa, through a Canadian company, Tiomin of Toronto. Tiomin started the project in the 1990s but experienced financial problems just as production was about to come on stream. The project had experienced delays as a result of protests from environmentalists, bureaucratic delays in government, and most important of all, difficulties in buying out local land-owners whose lawyers had laid claims in court for higher compensation than what Tiomin and the government valuers had proposed. The delays cost Tiomin financial backing from its underwriters in Canada. China then offered, or was asked, to step in, depending on whose version of the story you hear. But as of April 2008, excavation had not commenced, and Tiomin laid off a large number of its Kenyan staff pleading delays in the arrival of capital funding from China and Canada. The titanium mining case and that of oil exploration confirm the theme of China's enthusiasm for natural resources from Africa. But, as previous sections of this paper indicate, it was only a small part in a wider set of Chinese economic engagements in Kenya. Trade, construction and investment were just as important, and they have ample room of benefiting both the African state concerned as well as China.

Alleged Perverse Competition with Kenyan Products

Press reports that China is about to embark on mass production of agricultural goods currently marketed globally by Kenya and other developing countries have caused some concern in Kenya. The products concerned are three: (i) cut flowers, of which Kenya is now the leading global supplier to European markets up from nothing in the 1980s; (ii) tea; and (iii) coffee.⁴⁷ Tea and coffee have historically been Kenya's leading commodity exports. Whether this adverse eventuality will

46. The right to allocate oil prospecting and drilling rights rests with an inter-ministerial committee chaired by the minister of energy with representation from the Ministry of Finance, National Environment Management Authority, the attorney general, and the National Oil Corporation of Kenya.

47. See "Africa in tight spot as China enters the coffee market," *Business Daily* (Nairobi), November 26, 2007; and "China's budding flower industry makes some waves," *Business Daily* (Nairobi), November 29, 2007.

come to pass, and whether there are ways in which Kenya can position itself to retain its market share, or change to producing other farm products is a matter of conjecture. It is worth noting the products China has in mind are not identical with those of Kenya. Product differentiation in the three commodities is fairly advanced. A lot depends on what Kenya does to anticipate global market trends in these and other production lines and to respond accordingly. This is the basis of survival in markets through the ages, and it should be no different now—for Kenya or any other African states that feel threatened either by China or other competitive Asian agricultural producers notably Vietnam, Malaysia, and Thailand.

In any case, it is not true that China, as a country, is behind calculated moves to undermine Kenya in marketing these products globally. If anything, Kenya's real threat to the European flower market comes from lower-cost neighbors like Ethiopia, which is already attracting Kenyan flower farmers with subsidies, free land, and 10-year tax holidays. Uganda, Tanzania, and Rwanda are late entrants into the international cut-flower market in competition with Kenya, in most cases with official development assistance. It would be more appropriate to state that international agribusiness firms—in both Kenya and China—are positioning themselves in competition, particularly with regard to cut flowers. Over time, ownership of Kenya flower-production enterprises geared to the European market has fallen into the hands of multinationals (mostly Dutch and British) like Finlays, Oserian, Sulmac, and Flamingo Holdings. Those promoting flower cultivation in China—predominantly for the Japanese as opposed to the European market—include the same or similar multinationals: Finlays of Australia, Van Den Berg Roses of Holland, and AGB Flower Lily, a Dutch-Taiwanese company. This seems like globalization in action—international companies producing in a low-cost country for export to a third country. The solution to the problem lies in coming to terms with global competition, not baiting new entrants or alleging conspiracies to undermine African producers.

Conclusion

If there is one unambiguous lesson that impoverished African countries can learn from post-Mao China and other rapidly industrializing countries in East Asia, it is that closer integration into global markets at all levels—investment, production, trade, migration, ideas—is one of the surest ways out of mass poverty at this juncture of human history. That also happens to be the incoming lesson from India, as that country gradually dismantles its Nehru-era protectionist regime and excessive business regulation, welcomes foreign investment, and embraces foreign trade as a driver of growth. It is not a painless transition, any more than it was when Western Europe and North America made it, and there are bound to be false starts, setbacks, as well as pleasant surprises. It is a rapidly changing environment in which each country, as Dani Rodrik has so elegantly put it, should pursue a pragmatic set of policies best suited to its conditions under the principle of “one economics, many recipes.”⁴⁸ What remains off limits in this scheme of things is the intellectual diktat of one-size-fits-all development formulas and ideas contrary to quintessential liberalism, including the benefits of pluralism, competition, and nondiscrimination on such bases as race, gender, and national origin.

This paper on China's economic relations with Kenya has sought to demonstrate that while a small number of outstanding studies on this increasingly popular subject have made a significant contribution to a pragmatic repertoire of mutually beneficial policies between China and Africa, as Rodrik recommends, a large proportion of what is available tends to be unnecessarily brash

48. Dani Rodrik, *One Economics, Many Recipes* (Princeton, NJ: Princeton University Press, 2007).

and ominous about the emerging relationship. Its evidence also tends to be selected to suit the argument being made. In many cases the “facts” it provides are not even true, as we saw in case of the retail trade, textile exports, and tourism in Kenya. It assumes African governments, business classes, intellectuals, and policymakers to be either inert pawns or easily manipulable in the hands of China. Either way, “Africans” are deemed to be badly in need of the gratuitous advice the literature offers or recommends. Its economic analysis is often faulty and it uncannily reproduces the old arguments of African and Third World exploitation by external capital, only this time the rhetoric is slightly more conservative in orientation. None of this will help Africa anymore than it has in the past.

It is true that China has made colossal political blunders in its policies toward Sudan and Darfur, in its support for the dictatorship of Robert Mugabe in Zimbabwe, and in its interpretation of the sources of electoral violence following the December 2007 elections in Kenya.⁴⁹ For that it deserves censure, as do all states that have made and continue to make or support political mischief in Africa. China’s business corporations have been accused of wreaking environmental havoc, but then so have many local and Western companies. Irresponsible political decisions and irresponsible business behavior in Africa deserve to be halted irrespective of who is involved. It would be to throw out the baby with the bathwater to condemn, on these bases, China’s economic engagement with Africa, against so much evidence of mutual gain that is associated with it.

The surging entry of China into African economies will continue to raise anxieties. As Albert Hirschman wrote, all epoch-making political and economic innovation tends to provoke fierce rhetoric on the damage that radical change is likely to do to the old order, even when some benefits are grudgingly accepted.⁵⁰ The rhetoric emphasizes the perversity that change will cause (like the alleged pollution and exploitation by Chinese firms), the jeopardy into which existing reforms like democracy in Africa will be placed by China, and the futility of the new policies since they will change little, as some say of China’s investment in Africa. Such rhetoric was invoked when universal suffrage was decreed in Western democracies, when automobiles were invented, and when rock music became popular with young Westerners. To quote another example, the purchase of Rockefeller Center in New York City by the Japanese Mitshubishi Estate (part of the Mitshubishi Motor Corporation) in 1989, led to wide speculation that the Japanese would bid for all choice American properties, before descending on the best American homes. This did not happen, but it had an effect on American property values sparked primarily by the speculation—which assumed its own life—rather than anything Japanese investors did. One must therefore guard against the same eventuality overtaking the alarmist positions now being paraded about China in Africa.

As the Kenya case demonstrates, there are severe challenges as well as rousing opportunities for African countries in the emerging economic relationships between China and Africa. Useful and objective analysis should be concerned with working out modalities of reform, within and between countries as Broadman⁵¹ shows us, to advance areas of mutual gain while counteracting perversities. There are plenty of these in China-African economic cooperation, not to mention inter-African trade, to occupy those who wish to help rather than engage in scaremongering based on speculative scenarios.

49. *The Peoples Daily* (December 30, 2007), blundered in attributing the violence in Kenya to premature imposition of democratic elections by the West. Kenyan civic groups and the press immediately denounced the comment.

50. Albert Hirschman, *The Rhetoric of Reaction: Perversity, Jeopardy and Futility* (Princeton, NJ: Princeton University Press, 1992).

51. Broadman, *Africa’s Silk Road*.

2

ANGOLA AND CHINA A PRAGMATIC PARTNERSHIP

Indira Campos and Alex Vines¹

Introduction

Angola has enjoyed a period of sustained peace since April 2002 and is preparing for legislative elections in 2008—the first since 1992. From having one of the most protracted conflicts in Africa, Angola has within five years become one of the most successful economies in sub-Saharan Africa. Fuelled by record-high international oil prices and robust growth in both the oil and non-oil sector, Angola has experienced exceptionally high growth rates in recent years. In 2006, real GDP reached 18.6 percent, following the already impressive 20.6 percent in 2005. The IMF projects GDP growth to remain high at 23.4 percent in 2007 and 26.6 percent in 2008. Meanwhile, inflation has fallen from over 300 percent in 1999 to 12 percent in 2006, and surging oil revenues have led to large fiscal and external current account surpluses.²

With the war now over, rapid post-conflict reconstruction has become the government's priority. The People's Republic of China (China) has in particular played an important role in assisting these efforts. Chinese financial and technical assistance has kick-started over 100 projects in the areas of energy, water, health, education, telecommunications, fisheries, and public works. On the occasion of Chinese prime minister Wen Jibao's visit to Angola in June 2006, Angolan president Eduardo dos Santos described bilateral relations as being "mutually advantageous" partnerships that were "pragmatic" and had no "political preconditions."³

With 2008 marking the 25th anniversary of the establishment of bilateral relations between the two countries, this paper takes a fresh look at the issue of Angola and China's partnership.⁴ The study benefits from fieldwork carried out in Angola in September 2007 and January 2008

1. Indira Campos and Alex Vines are, respectively, research assistant and head of the Africa Program at Chatham House, London. A longer version of this paper is available at http://www.csis.org/media/isis/pubs/080306_angolachina.pdf.

2. International Monetary Fund (IMF), *Angola: 2007 Article IV Consultation Staff Report*, IMF Country Report No. 07/354 (Washington, DC: IMF, October 2007).

3. "PR defende cooperação constutiva com a China," *Jornal de Angola*, June 21, 2006.

4. See for instance: DFID/Centre for Chinese Studies, *China's Interest and Activity in Africa's Construction and Infrastructure Sectors* (Maitland, South Africa: University of Stellenbosch, 2006); Centre for Chinese Studies, *China's Engagement of Africa: Preliminary Scoping of African Case Studies* (Maitland, South Africa: University of Stellenbosch, November 2007); Sabine Fandrych, "China in Angola—Sustainable Reconstruction, Calculated Election Campaign Support or Global Interest Politics?" *International Politics and Society* 2 (2007); Ian Taylor, *China and Africa: Engagement and Compromise* (London: Routledge, 2006).

and includes numerous interviews with Angolan officials. Chinese embassy personnel in Luanda declined to comment on the report.⁵

Political and Diplomatic Relations

China's involvement in Angola dates back to the early years of the anticolonial struggle through its support for the three major liberation movements in the country: the Movimento Popular de Libertação de Angola (MPLA), União Nacional para a Indêpendencia Total de Angola (UNITA), and the Frente Nacional para Libertação de Angola (FNLA). At that time the Cultural Revolution was raging in China, and relations were defined by Cold War politics. In the early 1960s, the MPLA counted on Chinese political and military assistance,⁶ but following the then–Organization of African Unity's recognition of FNLA and UNITA as legitimate liberation movements, that support ceased and China took a special interest in the two rival movements. In 1963, Holden Roberto of FNLA met with Foreign Minister Chen Yi in Nairobi, and China is reported to have agreed to provide most of their armaments. Likewise, in 1964, Jonas Savimbi of UNITA met with Chairman Mao Zedong and Premier Zhou En-lai in China, where he received military training and became a disciple of Maoism.⁷

With the end of the Cultural Revolution in the early 1970s, China provided military training to MPLA commanders and guerrillas. Internal splits within the MPLA but also China's desire to balance the USSR's strong support for the MPLA made this aid short lived.⁸ China's support once again shifted to the two main rival liberation movements. Although UNITA received some sporadic aid, China's attention was mainly targeted at the FNLA. In 1974, the FNLA received a 450-ton shipment of arms and benefited from the assistance of 112 Chinese instructors based in former Zaire.⁹ China's foreign policy of aid to the three rival groups turned out to be a major flop, when in November 1975 the Soviet-backed MPLA came to power and declared Angola independent.

The Chinese initially refused to recognize Angola's independence, and formal diplomatic relations between Beijing and Luanda were only established in 1983. The first trade agreement was signed in 1984, and a Joint Economic and Trade Commission was created in 1988, but its first meeting was held as late as December 1999, with a second meeting in May 2001.¹⁰

In the early 1990s, there were allegations that Chinese weapons had been brought into UNITA-controlled territory from Zaire. In April 1993, the government captured light and medium artillery of Chinese manufacture from UNITA in northern Angola. According to UNITA, these arms had not been procured directly from China.¹¹ A U.S. military intelligence report from 1993

5. The Chinese embassy in Angola permitted two meetings; however it refrained from commenting on any of the issues addressed in the paper. According to Xu Weizhong, director of the Department of African Studies at the China Institutes of Contemporary International Relations in Beijing, each Chinese embassy enjoys significant autonomy in how it operates; interview, Paris, November 22, 2007.

6. In 1962–1963, China stopped being a major supporter of the MPLA because of rivalry with the Soviet Union. In 1963, Viriato de Cruz, then secretary-general of the MPLA and a key intellectual voice, split partly over the China issue and fled to Beijing, where he died in 1973.

7. Taylor, *China and Africa*.

8. Piero Gleijeses, *Conflicting Missions: Havana, Washington, and Africa, 1959–1976* (Chapel Hill: University of North Carolina Press, 2002).

9. Taylor, *China and Africa*.

10. The third meeting of this commission only occurred in March 2007.

11. Interview with UNITA, Luanda, February 28, 2007.

also identified that UNITA used Chinese manufactured Type 72 antipersonnel mines.¹² In May 1993, the Chinese embassy in Luanda denied that it had supplied arms to UNITA.¹³

Relations between Angola and China improved gradually in the 1990s, and Angola became China's second-largest trading partner in Africa (after South Africa) by the end of the decade, mostly because of defense cooperation.¹⁴ For example, in October 1997, Yang Wesheng, Chinese deputy minister of economy, trade, and cooperation, announced while visiting Angola that trade had been increasing significantly over the previous six months. In October 1998, President dos Santos also visited China, seeking to "expand bilateral ties" in meetings with Chinese premier Zhu Rongji and other officials.¹⁵

Following the end of the conflict in 2002, China's relationship with Angola shifted quickly from a defense and security basis to an economic one.¹⁶ Relations between China and Angola reached an even higher level on March 2, 2004, when the Export-Import Bank of China (Exim-Bank) pledged the first \$2-billion oil-backed loan to Angola to fund the reconstruction of shattered infrastructure throughout the country. Since then, cooperation between the two countries has been characterized by frequent bilateral visits of important state officials aimed at strengthening the partnership further. These visits have contributed to the normalization of bilateral relations and have resulted in the signing of various political, diplomatic, economic, cultural, and social agreements.

China currently maintains an embassy in Luanda with 17 officials. Likewise, since 1993, Angola maintains an embassy in Beijing. In April 2007, increasing investments in Hong Kong led Angola to open a consulate there, and in November 2007, an Angolan consulate was also opened in the former Portuguese colony of Macau. A new consulate is to open in Shanghai in 2008.

Financial and Economic Cooperation

Increased political activity between Angola and China has enabled bilateral economic ties to progress quickly. This relationship has often been misunderstood. This section aims to clarify and map out the investment and commercial profile of China in Angola. Although there were difficulties with data collection, the authors have tried to verify this information on the ground.

Financial Cooperation

The bulk of Chinese financial assistance in Angola is reserved for key public investment projects in infrastructure, telecommunications, and agro-businesses under the Angolan government's National Reconstruction Program. The China Construction Bank (CCB) and China's EximBank provided the first funding for infrastructure development in 2002. The Angolan Ministry of Finance had little input in these arrangements since CCB and EximBank funding was provided directly to Chinese firms.

12. U.S. Army Foreign Science and Technology Center, Intelligence Report, "Landmine Warfare – Mines and Engineer Munitions in Southern Africa (U)," May 1993, section 2-2.

13. *Jane's Defense Weekly*, June 18, 1994, p.19; Reuters, May 5, 1993.

14. During the mid-1990s, when low commodity prices put Angola in a tight financial squeeze, Taiwan reportedly tried to encourage Angola to consider switching recognition to Taipei by sending an official to Luanda for a few months to offer significant incentives. In the end, however, nothing resulted from these efforts.

15. Xinhua, October 13, 1998.

16. According to China's submission in September 2007 to the UN Registry on Conventional Arms, no transfers of major military equipment were made in 2006 by China to Angola.

Financial relations between China and Angola grew in late 2003, when a “framework agreement” for new economic and commercial cooperation was formally signed by the Angolan Ministry of Finance and the Chinese Ministry of Trade. On March 21, 2004, the first \$2-billion financing package for public investment projects was approved. The loan is payable over 12 years at a deeply concessional interest rate, Libor plus a spread of 1.5 percent, with a grace period of up to three years. It is divided into two phases, with \$1 billion assigned to each. The first tranche of the loan was released in December 2004, and by the end of 2007 nearly \$837 million had been utilized. In March 2007, the second half of the loan was made available, with the majority as yet unused. As of December 2007, only \$237 million of the second phase had been disbursed.¹⁷

The first phase of this credit line involved 31 contracts on energy, water, health, education, communication, and public works. This corresponds to 50 projects across the whole country, valued at \$1.1 billion. Seven Chinese firms are engaged in this initial phase, and the largest project is the rehabilitation of 371 kilometers of road between Luanda and Uíge. Valued at \$211 million, the China Roads and Bridge Corporation estimates it will complete this contract by June 2008. In the health sector, the priority has been the rehabilitation and enlargement of the provincial and municipal hospitals and various district health centers. In the education sector, the focus is rehabilitation of secondary schools and polytechnics. In agriculture, \$149 million permitted the acquisition of new agricultural machinery as well as the rehabilitation of irrigation systems in the localities of Luena, Caxito, Gandjelas, and Waco-Kungo.

The second phase of this loan will fund implementation of 17 contracts, involving over 52 projects, some of which are unfinished projects of the first phase. Although education remains a priority, the second phase also supports fisheries and telecommunications projects. By the end of 2008, the majority of these projects will be underway. In fisheries, the contract signed with China National Machinery Equipment Import Export Corporation will finance the acquisition of 36 large fishing trawlers and 3,000 boats for industrial and artisanal use, as well as 10 coast guard vessels. This investment of \$267 million envisages the creation of employment for 20,000 people directly and 100,000 indirectly.¹⁸ In telecommunications, approximately \$276 million will be used for the construction of next generation networks, including optical transmission networks, Internet protocol, very small aperture terminals, and intelligent networks across 13 provinces.¹⁹

In May 2007, an extension of \$500 million was negotiated with EximBank to finance “complementary actions” to first phase projects that had not been budgeted for. Under this new financial facility some priority projects include water and energy networks for newly built institutes and schools, the construction of new telecommunication lines, and water treatment plants. To date, no disbursement has been made under this line of credit.

In September 2007, a further oil-backed loan of \$2 billion was signed in Luanda by Angolan finance minister José Pedro de Morais and Chinese EximBank president Li Ruogu. This new credit line will finance an additional 100 projects approved by the Council of Ministers in November 2007.²⁰ According to Minister de Morais, the government will continue to prioritize health and

17. Angolan Ministry of Finance (2008).

18. “Comunicado do Conselho de Ministros,” Angola Press News Agency, February 22, 2006.

19. On a related agreement, China’s ZTE Corporation International also pledged to invest \$400 million in Angola in 2008. \$300 million will be used to modernize and expand Angola Telecom’s fixed-line network, and the remaining \$100 million is to be invested in military communications, the development of a mobile telephone factory, the creation of a telecommunications training institute for Angolan employees, and a telecommunications research laboratory. “China vai investir USD 400 milhões em telecomunicações,” *Jornal de Angola*, November 24, 2005.

20. “Aprovado acordo de crédito com Eximbank,” *Jornal de Angola*, November 29, 2007.

education by carrying on the construction of schools and hospitals throughout the country as well as investing in the energy and water sectors.²¹ In this new financial agreement, the repayment terms were increased to 15 years with a revised interest rate of Libor plus 1.25 percent. Conditions attached to Chinese exports were relaxed, but the local-content rules for reconstruction were tightened to ensure greater local participation.

Project proposals identified as priorities by the respective Angolan ministries are put forward to the *Grupo de Trabalho Conjunto*, a joint committee of the Ministry of Finance and the Chinese Ministry for Foreign and Commercial Affairs (MOFCOM). Having recently emerged from war, the Angolan government considers every project a priority, and therefore there are rarely any disagreements between the two parties regarding the projects being put forward. MOFCOM has in the past suggested further areas of development where it feels China can provide important know-how, such as in telecommunications and fisheries, which were not included in the first phase.

For each project put to tender, the Chinese government proposes three to four Chinese companies. All projects are inspected by third parties not funded by the credit line. A multisectoral technical group, GAT (*Gabinete de apoio tecnico de gestão da linha de crédito da China*) oversees the implementation of projects financed by the EximBank credit line, ensuring fast and efficient completion of the projects. Sectoral ministries are in charge of managing these public works and making certain that sufficient staff (nurses, teachers, etc.) are trained.

The loan operates like a current account. When ordered by the Ministry of Finance, disbursements are made by EximBank directly into the accounts of the contractors. Repayment starts as soon as a project is completed. If a project is not undertaken, no repayment is made. Revenue from oil sold under this arrangement is deposited into an escrow account from which the exact amount toward servicing the debt is then deducted. The government of Angola is free to use the difference at its own discretion.

China International Fund Ltd. In 2005, China International Fund Ltd. (CIF)²², a private Hong Kong-based institution, extended \$2.9 billion to assist Angola's postwar reconstruction effort.²³ This credit facility is managed by Angola's Reconstruction Office, *Gabinete de Reconstrução Nacional* (GRN), which is exclusively accountable to the Angolan presidency.

GRN was set up in 2005 to manage large investment projects and ensure rapid infrastructure reconstruction prior to national elections. Headed by a military adviser to the president, General Helder Vieira Dias "Kopelipa," GRN was designed to provide work for demobilized military in order to bring new dynamism to the reconstruction effort. It was also created on the assumption that the ministries would not have the organizational and technical capacity to manage the large inflows of money directed to the GRN. According to a senior government official close to the presidency, GRN projects are valued somewhere around \$10 billion. CIF was meant to provide the funds to undertake these projects. How these funds were to have been allocated across projects however remains unclear.

GRN was designed to kick-start the following projects:

- Rehabilitation of the 497.5-kilometer highway from Luanda to Lobito;

21. "Presidente da República aborda cooperação com Eximbank," *Jornal de Angola*, September 29, 2007.

22. See <http://www.chinainternationalfund.com>.

23. CIF appears to be the construction arm of Beiya International Development Ltd., the parent company of China Angola Oil Stock Holding Ltd., which trades Angolan oil. Hong Kong-based Xu Jinghua is the board chairman of Beiya International Development.

- Rehabilitation of the 1,107-kilometer highway from Malanje to Saurimo, Saurimo to Luena, and Saurimo to Dundo;
- Phase II of the rehabilitation of the Luanda Railway;
- Rehabilitation of the 1,547.2-kilometer Benguela Railway and of the 1,003.1-kilometer Moçâmedes Railway;
- Drainage and improvement works in the city of Luanda;
- Construction of 215,500 residential units in 24 different cities across Angola's 18 provinces;
- Construction of a new Luanda International Airport at Bom Jesus;
- Studies and projects for the new city of Luanda.

As with China's EximBank credit line, disbursements from the credit line are paid on a project-by-project basis to Chinese contractors and suppliers. Financial flows of the GRN officially pass through the Finance Ministry's accounts; however, day-to-day management of projects do not.

In 2007, many GRN projects came to a standstill, drawing a lot of media speculation. Although it was reported that CIF had some difficulties in raising funds to complete the projects, a GRN technician admitted that a lack of planning on the part of the GRN also contributed to many construction projects failing to start. As he explained: "we went ahead with projects pressured by strict time deadline and did not take into account the forward planning that is required in a country like ours... We overlooked crucial elements such as the fact that our ports would not be able to cope with the increased amount of material being imported for these projects."²⁴ Chinese construction firms have also complained about CIF cajoling contractors into taking part in projects in Angola, routinely delaying payment for completed work, and keeping rates as low as possible.²⁵

As a result, some of the funds from the second EximBank loan will be used to continue the major programs of GRN, but the Ministry of Finance was forced to raise \$3.5 billion in domestic funding by issuing treasury bonds. This is a new departure for Angola, as Angolan funds for the first time are being used to finance Chinese firms to ensure completion of these projects.

Behind the CIF loan there is an opaqueness that can be traced back to the first loan in March 2004. According to the Angolan media, the first loan appeared to have contributed to a struggle within the Angolan leadership for access and coordination of disbursement of these funds.²⁶ It appears that senior presidential advisers may have been sidelined after the Chinese became concerned at rent seeking. Rumors in Luanda during this period alleged that the Chinese Secret Services had provided President dos Santos with a list of 20 Angolan businesses seeking to benefit illegally from this new arrangement.²⁷ What is certain is that in December 2004, Angola's finance minister visited Beijing, and shortly after that President dos Santos created the GRN to manage the CIF loan.

In 2007, CIF's opacity attracted renewed media attention. In March 2007, a Chinese construction company, Hangxiao Steel Structure Company Ltd., came under investigation by the China Securities Regulatory Commission (CSRC) for suspected stock price rigging in deals related to

24. Interview, Luanda, October 3, 2007.

25. "China's Stock Bubble Can Be Traced to Angola," *Asia Times Online*, March 27, 2007.

26. "Financiamento Chinês: Lei obriga a subcontratação de empresas angolanas," *Semanário Angolense*, July 1–8, 2006.

27. "José Pedro de Moraes sossega Chineses," *Semanário Angolense*, December 25, 2004; "Toninho versus Feijó: crónica de um duelo anunciado," *Voice of America*, December 10, 2004.

Angola.²⁸ Suspicion around the company followed a statement in February by Hangxiao that it had signed a \$4.4-billion contract to sell the China International Fund Ltd. construction products and services for its “Residents’ Heaven” public housing projects in Angola. In April of the same year, CSRC fined the Shanghai-listed construction company \$52,000 for failing to follow legal procedures in the release of financial information.²⁹ Hangxiao, however, blamed its Hong Kong-registered partner, CIF, for failing to supply details of contracts with the Angolan government.

Allegations of mismanagement of Chinese funds emerged again during the 2007 trial of Angolan security chief General Fernando Garcia Miala for attempted insurrection. Reportedly, Miala threatened to reveal the names of individuals in senior government positions who had benefited from the diversion of funds from Chinese lines of credit. Miala was dismissed from the army and sentenced on September 20, 2007, to four years in jail for insubordination.

Angolan civil society, some international nongovernmental organizations (NGOs), and international donors have also raised concerns regarding transparency in the use of Chinese funds for some time. Probably partly as a response to General Miala’s allegations and reflective of the tensions between more technocratic government departments and the opaque management procedures of the presidency, the Ministry of Finance, on October 17, 2007, issued in Luanda a statement denying any misuse of Chinese funds. They also published details of the lines of credit managed by the ministry.³⁰

Although, this is a welcome development, more disclosure is needed, especially regarding the GRN, as many of the larger Chinese infrastructure projects are managed out of that office. Unlike projects undertaken by the Ministry of Finance, it is unclear how much money is directly managed by the GRN, how funds are allocated among projects, and how much money so far has been spent.³¹

Bilateral Trade

Commercial trade between China and Angola has grown remarkably in recent years. Throughout the 1990s, bilateral trade between the two countries ranged on average from \$150 million to \$700 million. In 2000, trade exceeded \$1.8 billion, and by the end of 2005, it increased four-fold to \$6.9 billion. Within a year it nearly doubled to \$12 billion, making Angola China’s largest trading partner in Africa.

Crude oil represents over 95 percent of all Angolan exports, and it is also China’s main Angolan import. Over the last six years, China has been the second-largest importer of oil from Angola behind the United States, representing roughly 9.3 to 30 percent of Angola’s total oil exports.³² Despite the U.S. lead in the imports of Angolan oil, since 2002 Angolan oil exports to China have increased seven-fold, compared to only 3.5 times to the United States.³³

28. “Hangxiao Steel Structure defends handling \$4.4b Angola contracts,” Xinhua, March 27, 2007.

29. “Chinese Investors Claim 2.7 Mln Yuan Compensation From Company releasing False Information,” Xinhua, December 26, 2007.

30. “Governo nega mau uso dos créditos da China, Comunicado do Ministério das Finanças,” *Jornal de Angola*, October 18, 2007.

31. The slowdown of GRN projects raised further speculations on chairman General Kopelipa’s future in late December 2007 when Angolan private newspaper *Folha 8* published allegations that General Kopelipa, along with de José Maria, chief of intelligence services of the Angolan Army, were detained by the Angolan Military Judiciary Police. On December 27, 2007, the presidency issued a statement denying the allegations.

32. Data provided by Banco Nacional de Angola, 2007.

33. “Angola exporta 29.9 bilioes de dolares em petroleo,” *Portugal News*, August 8, 2007.

Angola's oil exports to China reached \$3.9 billion in 2004, making it a major supplier and ranking it third after Saudi Arabia and Iran. By 2005, Angola had overtaken Iran with exports totaling 17.46 million tons, 45.5 percent of China's African oil imports.³⁴ During the first six months of 2006, Angola temporarily leapfrogged Saudi Arabia as the largest supplier of crude oil to China, with 23.45 million tons of crude shipped from the African nation that year. Angolan oil imports now represent over 18 percent of China's total oil imports, and this proportion is increasing.

In recent years, Chinese imports to Angola have also seen a significant increase.³⁵ In 2004, China became Angola's fourth-largest trading partner at \$194 million, up from being its seventh-largest trading partner the year before. In 2006, China kept its position despite the fact that Chinese exports to Angola quadrupled, with steel and iron bars, batteries, cement, and automobiles as the principal imports.³⁶

In early 2007, China surpassed Brazil and South Africa as the second-largest trading partner behind Portugal. Imports reached \$368 million, an increase of 106 percent from the same period the year before.³⁷

Despite the rise in the value of both imports and exports in the period analyzed, Angola has consistently run a large trade surplus with China, owing to the rapidly rising rate of Chinese oil importation. With the increase of infrastructural projects and the greater competitiveness of Chinese exports compared to European exports in Angola, it is expected that in the next few years the penetration of Chinese products in Angola will rise significantly, equaling the level of Portuguese imports.

Foreign Direct Investment

In addition to trade, China has significantly stepped up its foreign direct investment (FDI) to Angola in recent years. While the largest Chinese operations in Angola are concentrated in oil exploration and construction, there has also been a dramatic increase in non-oil Chinese FDI to Angola overall.

According to Guo Zhen Fu, president of Nissan in China, economic stability in Angola has reduced the risks of investment and provides stability for investors.³⁸ The Angolan government has also encouraged private-sector development through a new investment law that provides equal treatment to foreign and Angolan firms, a new commercial code, and a land tenure law with the aim of clarifying property rights and customary tenure. In addition, the Angolan government through its National Agency for Private Investment (ANIP) actively promotes private investment by Angolan and foreign nationals by providing tax incentives in targeted industry sectors and development zones. In the last four years, ANIP has been involved in the launch of over 1,124 projects, totaling more than \$4 billion in investment capital.

As of December 2007, 51 Chinese firms were registered with ANIP. Over 50 percent of these firms were engaged in construction; others are involved retail trade of foodstuff products, manufacturing of rubber products, mineral water bottling, and other light industries.

34. "Africa accounts for 30 percent of China's oil imports: official," *People's Daily Online*, October 19, 2006.

35. All import figures should be interpreted carefully as official data do not capture the number of products that originate from China and are redirected to Angola via other countries (i.e., Portugal or South Africa), implying a degree of uncertainty regarding the real trade balance.

36. "Angola em Movimento," *Agência para o Investimento e Comércio Externo de Portugal (AICEP)* N° 35 (August 2007).

37. Data provided by Banco Nacional de Angola, 2007.

38. "Angola garante confiança ao investidor," *Jornal de Angola*, November 21, 2007.

Between 2005 and 2007, 50 projects, valued at \$73.6 million were approved by ANIP and were underway by Chinese companies. Although this is a significant increase from the 1990s when FDI increased from \$500 thousand to \$1 million, it is still relatively small when compared to other players such as Portugal and South Africa. Nevertheless, Chinese FDI to Angola is predicted to grow in the next few years as new cooperation agreements are signed by the two countries to attract prospective investors, providing credible legal protection and stability to their investment. According to Huang Zequan of the University of Beijing, over 10,000 Chinese businessmen have visited Angola in recent years to get to know the market and identify local opportunities.³⁹ The 2007 Luanda International Fair in particular drew many participants from China who demonstrated a keen interest in investing in Angola. Over the 2006–2007 period, the number of Chinese businessmen requesting visas to Angola increased by 30 percent.⁴⁰

Some Chinese firms engaged in projects tied to Chinese credit lines are establishing themselves in Angola after completion of their projects. China Jiangsu and China Roads and Bridges Cooperation have pledged \$5 million and \$1.1 billion of their own assets respectively, for private-sector projects. Sino Hydro, one of China's largest hydropower engineering firms, has also recently been contracted by the World Bank to build a \$20-million water supply network. The growing participation in construction reflects the urgent need for infrastructure. Local capacity is weak, and the Chinese have a record for quality construction, completed more quickly and cheaply than rivals.

Extractive Industries

China has shown the greatest interest in Angola's extractive industries. Following the opening of China's first credit line to Angola in March 2004, China Petrochemical Corp., better known as Sinopec Group, acquired its first stake in Angola's oil industry, 50 percent of the BP-operated block 18. Sonangol Sinopec International (SSI)—a joint venture between Angolan national oil company Sonangol and Sinopec—was created to explore the stake on the block. Sinopec Group holds a 55 percent stake in the joint venture and Sonangol the remaining 45 percent. Although BP's former license partner Shell had agreed to sell its stake to India's state-owned Oil and Natural Gas Corporation (ONGC), the Chinese on their first involvement in the Angolan oil industry sidelined ONGC with an offer that media sources estimate at \$725 million.⁴¹ The company reportedly spent an additional \$1.5 billion for the development and exploration of the block.⁴²

In March 2005, during Chinese vice premier Zeng Peiyang's visit to Angola, nine cooperation agreements were signed, most related to energy. Sonangol also entered into on a long-term up-lift agreement to supply oil to China's Sinopec. Additionally, the two parties also signed a memorandum to jointly study plans for the exploration of the shallow offshore blocks 3/05 and 3/05A (previously known as block 3/80) that was withdrawn from the French group Total in late 2004. Later that year, the two parties agreed that China Sonangol International Holding (CSIH), a subsidiary

39. Huang Zequan is an academic at the University of Beijing and adviser to firms wanting to invest in Africa, "Angola atrai milhares de potenciais investidores chineses, diz consultor," Agência Lusa, March 13, 2006.

40. "Milhares de empresarios chineses pretendem investir no pais," *Jornal de Angola*, November 17, 2007.

41. "Sinopec Beats ONGC, Bets Angola Block," *Financial Express*, July 14, 2006, as cited by China Institute, University of Alberta.

42. "China Buys More Angolan Crude than Saudi," *International Herald Tribune*, March 19, 2006.

of Sonangol E.P., jointly owned by Beiya International Development Ltd., would explore the 25 percent stake.

In March 2006, the Sino-Angolan joint venture SSI acquired three new Angolan offshore oil blocks with proven reserves of 3.2 billion barrels. It offered \$750 million for 20 percent of ENI-operated block 15 and made a record bid of \$1.1 billion as signature bonus payment for each of the relinquished offshore of block 17/06 (27 percent) and 18/06 (40 percent). In addition to the bids for the rights to prospect for oil, the joint venture earmarked \$200 million for social projects. Both companies also agreed to jointly study plans for a new \$3-billion oil refinery in Lobito (Sonaref) with a capacity of 240,000 barrels per day.⁴³

The Sonaref negotiations collapsed in early 2007 with Sonangol declaring it would manage the project on its own.⁴⁴ Later that year, SSI also renounced its stake on the three newly acquired concessions. The news raised speculations about tension in Sino-Angolan relations, and Portuguese media reported that Galp Energia SGPS of Portugal was to replace China's Sinopec's stake on the blocks, under the instructions of Sonangol.⁴⁵ However, Francisco de Lemos, finance director of Sonangol Holdings, denied these claims stating that genuine commercial factors had led Sinopec to renounce its participation in the blocks. As he explained: "many oil companies have expressed interests on the blocks, but Sonangol has yet to make a decision on who's to replace SSI on the blocks." In the interim period, CSIH has replaced SSI, taking on the blocks temporarily until a permanent equity partner is found.⁴⁶

The Chinese have also shown an interest in Angola's diamonds. On April 6, 2005, the Angolan Council of Ministers accepted a joint venture agreement between Angola's state-owned diamond company, Empresa Nacional de Diamantes de Angola, Exploração e Produção (Endiama, EP), and CIF. It also approved Endiama's participation in the creation of Endiama China International Holding Ltd. (Endiama China) to prospect, produce, and market diamonds, including diamond cutting and production of jewelry in Hong Kong.⁴⁷ In September 2005, Angola's Ministry of Geology and Mining authorized a joint venture between Miracel and Endiama China and approved a prospecting, research, and diamond recognition contract between them.⁴⁸ In March 2007, the Angolan media reported that the joint venture agreement between Endiama, EP, and CIF had been annulled by the Council of Ministers.

43. "Sonangol rubrica acordo para desenvolvimento da refinaria do Lobito," Angola Press News Agency, March 16, 2006.

44. Manuel Vicente, president of Sonangol, criticized the Chinese in the Angolan media, claiming that "we can't construct a refinery just to make products for China." This would suggest some resistance to the strategy of locking in supplies through long-term contracts, which China has applied elsewhere. However, according to Chang Hexi, the Chinese economic counselor in Luanda, negotiations over the refinery were deliberately obstructed by the Chinese negotiators because they were not genuinely interested in the deal. See Centre for Chinese Studies, *China's Engagement of Africa: Preliminary Scoping of Africa case studies* (Maitland, South Africa: University of Stellenbosch, September 2007).

45. "Galp Declines Comment on Reports of JV with Sonangol, Petrobras, ONGC," AFX News Ltd., November 30, 2007.

46. Interview, Luanda, January 28, 2008.

47. "Comissão Permanente do Conselho de Ministros reuniu sob orientação do Presidente da República," *Angonotícias*, April 6, 2005.

48. "Mining Ministry okays constitution of association in participation," Angola Press News Agency, September 12, 2005.

China and Angola's Special Relationship: A Perfect Marriage?

China's growing role in Angola has generated debate and speculation. From both the Angolan and Chinese perspectives, the relationship is pragmatic and strategic. On the occasion of the Chinese prime minister's visit to Angola in June 2006, President dos Santos stated simply that "China needs natural resources and Angola wants development."⁴⁹

From Angola's perspective, the Chinese provide funding for strategic post-conflict infrastructure projects that Western donors do not fund. Chinese financing offers better conditions than commercial loans, lower interest rates, and longer repayment time. Non-Chinese credit lines that Angola secured in 2004 demanded higher guarantees of oil, with no grace period and with high interest rates.

Chinese financing was provided when concessional funding was not available for Angola. Relations between the international financial institutions and Angola had been poor for years. The recurrent episodes of hyperinflation and stabilization had prevented any lasting accord with the IMF. Relations with the World Bank were also limited to emergency and humanitarian assistance projects in the absence of an agreed framework with the IMF. At the end of the war in 2002, the IMF and many Western donors wanted Angola to negotiate a staff-monitored program (SMP) and show good performance for three trimesters before being eligible to receive financial support. An SMP would give credibility to Angola's economic policies and open the way for a donor conference to raise funds to rebuild the country. However, the Angolan government felt it could not agree to IMF conditionalities, and after multiple rounds of consultations they announced that they would no longer seek to conclude an IMF agreement. This was not the first time: agreement with the IMF had collapsed several times previously during cycles of high commodity prices.⁵⁰

Integral to this renewed cooperation is China's need to access energy resources. Over the last two decades, China's dynamic economic growth has led to a surge in its oil consumption. In 2003, China became the world's second-largest consumer of oil behind the United States. The following year, it became the world's third-largest oil importer after the United States and Japan, with net oil imports accounting for 46 percent of domestic oil consumption. According to projections of the International Energy Agency (IEA), this dependency will rise to 77 percent by 2030.⁵¹

Angola possesses significant oil reserves, is a key player in Africa's oil industry as both a major producer and exporter, and in 2007 joined OPEC. It produces high-quality mid- to light-weight crudes, is the fourth-largest producer in Africa and the second in sub-Saharan Africa after Nigeria. As new oilfields come into operation, oil production is projected to increase to an average of 2.4 million barrels per day (bpd) in 2010—an increase of 90 percent from 2005.⁵²

In the construction sector, Angola is a particularly favorable market for Chinese companies. Angola needs significant outside investment, and there is relatively little competition. As a result, Chinese firms have found profitable deals.

For the Angolan government, this new cooperation brings significant advantages to the

49. "Angolan leader addresses OPEC summit in Saudi Arabia," Angola Press News Agency, November 19, 2007.

50. Tony Hodges, *Angola: from Afro-Stalinism to Petro-diamond Capitalism* (Oxford: James Currey, 2001).

51. International Energy Agency (IEA), *World Energy Outlook 2006* (Paris: IEA, 2006), 101.

52. IMF, "Angola: 2006 Article IV Consultations, Preliminary Conclusions of the IMF Mission, March 29, 2006," <http://www.imf.org/external/np/ms/2006/032906.htm>.

country: helping to support economic growth. As a commodity-based economy emerging from 27 years of conflict, Angola was in desperate need of new partners and a new source of FDI. China provides a new model of cooperation, based on credit lines, economy, and commerce, which contrasts with Western efforts of cooperation based on aid attached to conditionality.

China also offers Angola cheap technological transfer opportunities. These tend to be more suitable for Angola than those from Europe or the United States, where the technological gap is bigger and more expensive. Currently, 66 students are benefiting from scholarships from the Chinese government.⁵³ According to the Chinese embassy in Luanda, 23 scholarships were offered to Angolan students in 2007 to pursue undergraduate and postgraduate studies in China. The Chinese government has also offered numerous short-term courses to Angolan employees and government officials in areas such as health, education, fishing, and enterprise management and administration. In 2007 alone, more than 100 Angolans went to China to participate in these courses.

Impact on Poverty Reduction

Although not easily measured, Chinese investment has contributed to poverty reduction in Angola. The construction and rehabilitation of electrical and hydro-electrical infrastructure by the Chinese has expanded electricity access to over 60,000 new clients in Luanda. The rehabilitation of water supply systems across the country has granted thousands of people access to clean water.

The rehabilitation of roads, bridges, and rail networks provides access to parts of the country that had been disconnected by the war and facilitates commercial activities. The rehabilitation of the rail system across the country will benefit people commuting into towns and the transport of goods across the whole southern African region. Once new carriages begin operating on the Luanda railroad, 240,000 passengers per month are expected to benefit from the Caminho de Ferro de Luanda.

Lastly, the rehabilitation of hospitals, health centers, schools, and polytechnic institutes will provide access to education and health to many communities that for years had been deprived of it. The government of China has also agreed to send 18 doctors to Angola. The doctors are to stay in Angola for two years and provide medical assistance as well as training to Angolan doctors. Nevertheless, serious human capital challenges remain despite the efforts of the government to train professionals in these fields.

A Geopolitical Strategy

The influence of China in Angola is often overplayed, and there is a growing fatigue among senior Angolan officials about the West's fixation with China's engagement in Angola. For the most part, Angolan officials are open about their cooperation with China and candid about not wanting to depend on any one development or commercial partner. President dos Santos made this point clear in his 2008 New Year's address to the diplomatic corps by stressing that the Angolan government plans to reinforce its bilateral and commercial relationships with other countries: "[...] globalization naturally makes us see the need to diversify international relations and to accept the principle of competition, which has in a dynamic manner, replaced the petrified concept of zones of influence that used to characterize the world."⁵⁴

53. "Milhares de empresarios chineses pretendem investir no país," *Jornal de Angola*, November 21, 2007.

54. José Eduardo dos Santos, presentation of New Year's greetings by diplomatic corps, Luanda, January 10, 2008.

As rightly noted by Finance Minister José Pedro de Morais, “Angola and China’s growing bilateral ties will by no means exhaust the commercial and investment potential that Angola has to offer to the world... Angola has just recently purchased a fleet of aircraft from the U.S. company Boeing,” he recalled, “and the majority of new cars are still imported from Japan, computers and software from Western countries, and railway material is now being imported from India, etc.”⁵⁵

This pattern is visible when looking at the origin of Angola’s imports over the years. China’s share has increased significantly, but so have the shares of India, South Africa, and Brazil. With the exception of Portugal, the EU’s share has decreased. Rui Miguêns, deputy governor of the Angolan National Bank, explains that “with constant appreciation of the euro, it should not come as surprise that European imports have decreased in the last couple of years.” In fact, the growing relationship with China should not be regarded as a current “phenomenon” but rather as a logical reorientation of trade partners as a response to the expensive products coming from Europe. Angola will increasingly import from China, although some high-quality imports will continue to be imported from Europe and the United States.⁵⁶

Similarly, Angolan exports over the years have significantly diversified. Since Angola started pumping oil in the early 1970s, the United States has been the main importer followed by China. Although the United States remains the number one importer of Angolan oil, its share has significantly decreased in contrast to those of China and South Africa, which have more than doubled.

Although there are signs of growing Chinese FDI to Angola, such investment remains small when compared to Western FDI. Outside the extractive industry, the Portuguese still dominate, with over \$200 million invested in 2006 alone, representing 57 percent of total FDI to Angola. Angola welcomes any investment in the non-oil sectors and the recent trade mission by Japanese, British, Turkish, Indian, and Pakistani businessmen clearly demonstrates this. Likewise, despite China’s efforts to enter the oil sector, production is still dominated by Western companies such as Chevron, Total, BP, and ExxonMobil. With Angola’s increased importance for China’s energy security, one can expect China to be visible in the 2008 bidding round for 10 new blocks.

The scale of the Chinese loans directed to infrastructure reconstruction is large, but Angola’s developmental needs are even larger. In his address to the OPEC summit in November 2007, President dos Santos stated that “Angola needs over \$20 billion to guarantee its reconstruction.”⁵⁷ Not surprisingly, the Angolan government is extending its credit lines to other commercial partners. Traditional partners like Portugal and Brazil remain fully engaged in Angola’s postwar reconstruction. In 2007, both countries announced that they would nearly double their credit lines to Angola in a move to drum up business for their own firms and help Angola rebuild its economy. In addition, Israel’s export credit agency, Israel Export Insurance Corporation, also increased its credit line to \$500 million.

The need to diversify sources of financing further and at the same time sustain existing dependence on Western technology has triggered the government to strengthen its relationship with the Paris Club. In late 2006 and early 2007, Angola paid the bulk of its principal interest estimated at around \$2.5 billion to Paris Club creditors. In November 2007, the issue of overdue interest arrears of about \$1.8 billion was also resolved with the government pledging to repay the outstanding amount in three tranches by 2010. The agreement with the Paris Club clears the way for the normalization of Angola’s relations with the rest of the world. This is already evident with the World

55. Interview with José Pedro de Morais, finance minister, Luanda, October 13, 2007.

56. Interview with Rui Miguêns, deputy governor of Angola’s National Bank (BNA), Luanda, September 26, 2007.

57. José Eduardo dos Santos, OPEC summit, Riyadh, Kingdom of Saudi Arabia, November 17, 2007.

Bank doubling its funds to Angola in 2007 and Spain pledging \$600 million for Angola's reconstruction in late November 2007. Other donors such as France, Italy, and Germany have also taken a recent interest in Angola and have shown that they are now ready to expand their credit lines.

Chinese Migration

The number of Chinese residing in Angola has grown significantly over the last three years; nonetheless, reports of a flood of poorly skilled Chinese workers to Angola are overstated. Until 2005, the Portuguese were the principal foreign labor force in Angola. In 2006, the Chinese surpassed the Portuguese with nearly 15,000 residing in Angola with work visas. In 2007, the number reached over 22,000.⁵⁸ Most of these Chinese are low-skilled migrant workers who enter the country under the ambit of the Chinese credit line. They usually come on one- to two-year contracts and return to China on the completion of their contracts. They live in closed compounds, often at the site of the actual construction. There have been few reports of serious social problems, as these workers barely have any contact with local Angolans and language remains a serious challenge for them. According to an independent Chinese entrepreneur in Angola, these workers earn a very low salary and therefore lack the financial ability, language skills, and contacts to establish their own businesses in Angola, where he estimates that setting up a business costs at least \$400,000.⁵⁹

Despite the costs of doing business in Angola there is a growing number of young Chinese entrepreneurs pursuing business ventures throughout the country.⁶⁰ They often complain, however, about the language barriers, the lack of infrastructure, and the bureaucracy. Angola has inherited the Portuguese bureaucratic system, which gives Portuguese and Brazilian businessmen cultural and linguistic advantages over others. With talk of establishing a Chinatown in Luanda, and weekly flights linking Beijing to the Angolan capital, the number of professional Chinese venturing into Angola may rise.

Implications and Recommendations

The Chinese seem to be settling in for the long haul in Angola. Although both China and Angola stand to benefit from the increased economic cooperation, the relationship also raises new policy challenges for Angola.

There is an urgent need for better mutual research and understanding. The absence of historical, cultural, and linguistic links between China and Angola leaves both countries ill equipped to do this. Angola does not have a Chinese-language program at present. In late 2007, the Catholic University in Luanda created a small cell to explore the Sino-Africa relationship. Lopo do Nascimento, a former Angolan prime minister, participated in the 2006–2007 Africa-China-U.S. Trilateral Dialogue, supported by the Brenthurst Foundation, the Chinese Academy of Sciences, the Council on Foreign Relations, and the Leon Sullivan Foundation. He is one of the few Angolan intellectuals thinking about the long-term impact of Africa's relationship with China and its implications for Angola.⁶¹

58. Data provided by the Angolan Ministry of Interior.

59. Interview, Luanda, October 12, 2007.

60. Alec Russel, "The New Colonialists," *Financial Times Magazine*, November 17, 2007.

61. Lopo do Nascimento, "A Emergência de uma Nova Geografia da Cooperação Económica Internacional," presented at "EU-Africa: A New Common Strategy?" conference by Fundação de Serralves, Porto,

Likewise, Beijing has very little knowledge of Angola, with only one ex-ambassador acting as an adviser on Angolan issues to Chinese research institutes.⁶² Chinese researchers complain that despite the growing economic importance of Angola to China, China's intellectual capacity to analyze the country has not increased. This highlights a serious sociocultural deficit for promoting a more realistic understanding of nonelite bilateral relations. Both governments need to take more aggressive steps to broaden their bilateral cooperation beyond their narrow elite business dialogue.

Currently, the detailed research is being conducted by Western-funded projects. The UK Department for International Development has supported research by the Centre for Chinese Studies at the University of Stellenbosch and also the South African Institute of International Affairs. The University of Durham is starting a project funded by the UK Economic and Social Research Council in partnership with Luanda's Catholic University. In the United States, foundations have taken the lead, with funding for the University of Stellenbosch, CSIS, and the American Foreign Policy Council to examine China's engagement in Africa, including Angola. Norway, too, is considering support for a link-up between China, Norway, and Angola following a successful project in Nigeria.

Having recently emerged from civil war, Angolan policy is focused on reconstruction. Rebuilding infrastructure quickly and at the lowest possible cost is the top priority. In this regard, the Chinese have made a broadly positive contribution. With well over half of Angola's working-age population jobless, the rapid influx of Chinese workers and businessmen raises both employment and transfer of know-how prospects. Under existing agreements, Chinese companies have access to 70 percent of the contracts, leaving 30 percent for Angolan contractors. However, the Angolan government is finding it difficult to fulfill their contractual obligations. Competent Angolan companies are over-stretched and in much demand, and the Chinese have raised concerns regarding the standards of quality of the services provided by Angolan contractors, as well as time frames for delivery.

Moving quickly toward reconstruction after the war has dictated the current policy of the Angolan government. As the country evolves and the situation changes, the government will pursue policies where local content becomes increasingly a nonnegotiable priority. Nonetheless, Angola should be wary of outsourcing jobs that Angolans could do themselves. According to a senior government official, Angola spends over \$800 million annually on transportation of materials. The government should do more to promote and improve national companies such as Sécil Marítima, the country's maritime shipping company. Angolan contractors should at least be able provide basic services such as the supply and transportation of materials, as well as provision of services like security. Moreover, the absence of local players to enter joint ventures with Chinese multinationals may limit opportunities to achieve real transfer of know-how and technology. The government needs to design policies to consolidate local firms and position them as a matter of policy to partner and learn from Chinese companies.

China's massive credit lines to finance infrastructure development also raise important questions related to the sustainability of these projects. Without downplaying the importance of the schools, hospitals, dams, roads, and bridges that are being built around the country, there is legitimate concern about the government's capacity to maintain such investments after their completion, taking into account the country's enormous deficiency in human and institutional capacity. Although the government is making efforts to train people, it would be unrealistic to think that

September 2007.

62. Interview with Wang Hongyi, deputy director, division for South Asian, Middle East, and African studies, China Institute of International Studies, Beijing, London, April 16, 2007.

they train people as quickly as they build infrastructure. Furthermore, with Angola's low level of technology, there is the threat of long-term dependence on China. This was recently witnessed when the central air conditioner of the newly renovated Ministry of Finance broke down, and spare pieces to fix it had to come from China. The government will need to focus more attention on planning and organization to ensure the sustainability and transfer of know-how—or risk relying on the Portuguese and others returning in the near future to rebuild what the Chinese have just completed.

China's growth into an economic powerhouse has pushed global commodity prices to unprecedented highs, which has contributed to Angola's rapid economic growth in recent years. Although the commodity boom favors the economy—and in particular the reconstruction effort—it poses very severe challenges for economic management. Reliance on oil exports may contribute to real exchange appreciation, preventing diversification into more labor-intensive sectors like manufacturing and agriculture (so-called Dutch disease). This may have implications for the government's effort to diversify the economy beyond oil. Angola needs to take explicit steps to counteract the dangers posed to existing and future capabilities in industry.

The inflow of money and credit lines from China gives Angola's rulers the ability to resist pressure from Western financial institutions about transparency and accountability. Yet this should not be exaggerated, as Angola has said it will continue to work with the IMF on technical assistance. Recently, the government also published substantial new data on the oil sector that goes far beyond what several members of the Extractive Industries Transparency Initiative (EITI) have disclosed.

The investigation and \$52,000 fine in 2007 by the China Securities Regulatory Commission (CSRC) of Hangxiao Steel Structure Company Ltd. for suspected stock price rigging is significant and shows that the Chinese are concerned to limit corrupt practices. However, there does not appear to have been an investigation of its Hong Kong-registered partner, CIF. Nonetheless, Angolan civil society and some international NGOs and Western governments have raised concerns regarding transparency in the use of Chinese funds. The \$2.9 billion extended by CIF and its management through GRN have in particular been opaque.

The Ministry of Finance October 2007 statement about Chinese funds reflects diverse opinion in Luanda. More disclosure is needed, especially regarding the GRN and its relationship to CIF. This would be a good issue for the CSRC to investigate further, especially CIF and its dealings under Chinese law. In Angola, new research efforts—such as the Catholic University's on the Chinese relationship—could also provide more information on such deals, which could then be used by parliamentarians, civil society groups, and the media. It is clear that there is a growing trend in Angola of governmental disclosure. Appraisal of what becomes of the Chinese loans and investment is an important part of Angola's post-conflict development.

3

CHINA AND NIGERIA

Pat Utomi¹

Introduction

Nigeria's relations with China have grown in the last decade from the limited and intermittent contact that marked the immediate post-independence era to an increasingly complex and expansive engagement.

While, like most other African countries in the 1960s and 70s, Nigeria viewed China as a nonaligned developing country, it did little to foster business or even special diplomatic relations with the Asian giant. Nigeria's trade focused primarily on European and North American countries, which proclaimed themselves development partners. China's own economic and political challenges made it an unlikely development partner at that time. Following Deng Xiaoping's reform policies of the 1970s and 80s, China's dramatic growth and modernization, and attendant industrial, energy, and market expansion needs, brought it into greater contact with Africa. Its new expanded presence offered a partnership seen by many stakeholders as an alternative model to Western relationships.

China's increasing presence in Nigeria, and elsewhere in Africa, has spurred much speculation about the nature of the emerging partnership model. A national debate across sectors on this partnership will be a healthy exercise and may drive more rigorous analysis of what best serves African countries' quest for human material advance; friendly, mutually beneficial relations in trade and politics; and stewardship of the shared heritage of the planet.

There is a tendency in analyses of Chinese engagement in Africa to view African perspectives on the relationship with China—and African government perspectives, even more so—as monolithic. In fact, perspectives within Nigeria are far from uniform whether on China's motives, on potential competition with Western partners, or on the possibilities of cooperation between old and new partners. This paper focuses on how various stakeholders in Nigeria view China's engagement. The study is based on interviews with a wide array of actors, including Nigerian government officials, businessmen, academics, and residents of Chinese extraction who have lived and operated in Nigeria for many years. Other groups interviewed for the study include Chinese diplomats in Nigeria, Chinese traders and leaders, and Chinese project teams.

The Evolution of Trade and Diplomatic Ties

China's rhetoric today draws on ties with Africa forged long before the continent's wave of independence. The nature of the relationship that flowed from China's early contact is described

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as non-imperial in its intentions, an evocation intended to distinguish China's approach from Western colonial intervention and justify why China's renewed interest in the continent is radically different from the model of Western partnership.

In his address to the African Business Leaders Forum in Johannesburg, then-Chinese ambassador to South Africa Liu Guijin stated that this history, dating back to the Ming Dynasty, was proof positive that China's motives are directed primarily at helping African countries "improve their own development ability." He dismissed the characterization of contemporary China's motives in Africa as "neocolonialism" and "western noise," recounting how 600 years ago, Zhen He led the largest fleet in the world, 28 ships and 27,800 people, on voyages that brought them to three continents, including Africa. Unlike Christopher Columbus in the New World, said Guijin, "China did not occupy an inch of any newly discovered land or set up any military fortresses."

In the early post-independence era, economic exchanges between China and Africa were largely marginal, as language and cultural barriers kept trade levels relatively low in comparison with Western powers that had established strong colonial linkages. China's strategy was largely centered on the search for ideological allies against capitalism and opposition to Western influence. But despite China's role in the nonaligned movement and broader Asian efforts to woo African states in forums such as the Bandung Conference, the conservative Nigerian government in Lagos at independence was an unlikely ally of a communist government and did not rush to embrace its Chinese counterpart. Chinese premier Zhou En-lai's 10-country trip to Africa in late 1963 did not include Nigeria.

Under the leadership of Deng Xiaoping, China's relationship with Africa shifted from a period of indirect political and ideological support to direct support for various national liberation movements. Nigeria, as a self-styled frontline state against white-led regimes in southern Africa, served as a facilitator of support for liberation fighters. This interface strengthened diplomatic relations with China but affected trade only marginally, because Taiwan remained the favored trading partner at the time. Nonetheless, this period saw an incipient expansion of Chinese trade relations with Nigeria. Hong Kong Chinese were especially successful in investing in Nigeria. At the invitation of the premier of the Northern Region of Nigeria in the 1960s to take advantage of thriving cotton production in the region, their investment helped shape the early days of textile manufacturing in Nigeria.

In spite of these warm diplomatic ties, which saw Nigeria support the "One China, Two Systems" policy and the return of Hong Kong to China, there were very few high-level visits to Nigeria by Chinese leaders for many years. The visit of a former premier of the State Council Li Ping in 1997 was the highest level of visitation. On that visit several protocols were signed on subjects as wide ranging as investment protection and enhanced cooperation in the electric, steel, and oil industries. Implementation of these agreements, however, was half hearted at best.

The volume of trade between Nigeria and China continued to grow at low levels until rapid growth turned China in 1993 from a net exporter of crude oil to the second-largest importer of crude oil in the world. Gulf of Guinea countries like Nigeria, which produce sweet, low-sulfur crude and offered developing markets open to international investment, were particularly attractive to the Chinese. As China secured various joint-venture contracts with Nigerian oil companies, often in exchange for low-interest loans and targeted development projects, the volume of trade rapidly increased from 1.3 billion Nigerian naira in 1990, to 5.3 billion in 1996, to 8.6 billion. Most of this growth was attributable to the oil sector, with a small fraction emanating from the importation of cheaply manufactured Chinese goods and products.

Nonetheless, many imported Chinese goods were often substandard, leading the Standards Organization of Nigeria in October 1996 to threaten China that a formal complaint would be lodged with the World Trade Organization if the situation was not immediately corrected. The Chinese responded by explaining that they had not deliberately engaged in the dumping of inferior goods in Nigeria and that it was often Nigerian businessmen of dubious disposition who were ordering products of questionable quality. Problems with corruption and unethical conduct by Nigerian businessmen and public officials would later resurface as a key obstacle in the Sino-Nigerian relationship when the Chinese blamed these forces for contributing to the ineffectiveness of a Chinese project to revive the Nigerian Railway Corporation.

Despite these challenges, the Sino-Nigerian relationship continued to expand as a wide array of development projects were contracted to the Chinese. Ironically, the relationship expanded significantly during the presidency of Olusegun Obasanjo, even though the president was seen as having close ties with Washington and London, which should have put him at some distance from Beijing. One major project undertaken was the Abuja All-Africa Games village that was contracted to the China Civil Engineering Construction Corporation (CCECC) in 2000 to build some 5,000 housing units for international athletes participating in the eighth annual All-Africa Games. The construction of the village provided an opportunity for the Chinese to showcase their increasing cooperation with Africa in a high-profile international setting. Today, such large-scale, public infrastructure projects being undertaken by Chinese contractors are being referred to as “prestige projects.” The launching of the Forum on China-Africa Cooperation (FOCAC)—a program designed to boost economic and social development for Africa that consisted of three high-profile ministerial meetings between 2000 and 2006—further cemented the China-Africa relationship, leading to a particularly important role for Nigeria.

By 2006 the tone of the Chinese had changed, and President Hu Jintao and Prime Minister Wen Jiabao of China were participating in regular shuttles to Africa, with Nigeria as a major port of call. Hong Kong Chinese, who entered the Nigerian market earlier than other Chinese, as well as businessmen from the traditional mainland, were establishing new manufacturing ventures for export and local markets at a time when Nigerian manufacturing was uncompetitive and collapsing into a state of deindustrialization. Suddenly, Nigerian state governors began leading delegations to China—seeking investments, aid, and development partnerships—in the belief that increasing ties to China could significantly benefit their communities.

But the reactions of other Nigerian stakeholders to increasing engagement with China were mixed. This paper, utilizing personal interviews with various elements of Nigerian society, strives to explain how each group perceives increasing Chinese involvement in Nigeria, what accounts for these perceptions, and how each group’s positions affect overall Nigerian policy toward China’s engagement.

Perceptions of the Motives and Strategy of Chinese Engagement

Career foreign affairs officers, often the first point of contact for Chinese nationals and government officials, have an important role in shaping the evolving relationship with China. Their views on changing relations with China were expressed to the author often with more conviction than diplomatic finesse. Similar to the views of former Chinese ambassador Liu Guijin in Johannesburg, several of the career diplomats in the Nigerian Foreign Affairs Ministry stated that the characterization of China’s intentions as neocolonial were Western propaganda. While some

officials expressed certain reservations about Chinese intentions, there was a consensus that the partnership could offer greater benefits than collaboration with the West, which had left Africa impoverished despite half a century of aid. To support this view, officials cited a series of agreements among the West and African, Caribbean, and Pacific states dating back to the Lomé Convention of 1975, which they considered insincere, arguing that promises of Western aid often infringed on their sovereignty and led to meddling in the country's internal affairs. Conversely, they argued that China's no-strings-attached policy made relations on foreign aid and trade more manageable and user friendly.

There were some aspects of China's engagement that foreign ministry officials thought could be improved and needed increased attention, although none of these complaints was serious enough to threaten the overall relationship. Officials noted that China has a tendency to deal with Africa as a monolith rather than individual countries with different goals and potentials. This is an area where they believed the Western approach of treating each African country as a separate entity was a healthier strategy. Officials also voiced unease about the possible emergence of an unbalanced system in which the Chinese would become the dominant power and Africans would lack the capacity to exert their own influence.

Similar apprehension existed about the realities of technology transfer and job creation for Nigerian citizens. Public officials outside the foreign affairs sector explained that although Chinese businesses are more attractive partners because the development gap is less daunting than with the West, actual technological transfer and job creation is low because the Chinese import their own labor. They also complained that when Africans have an opportunity to gain employment in Chinese industries, labor conditions do not meet African standards. Some referred to "slave-like" conditions, citing the example of the September 2002 fire at a Chinese-owned factory in Lagos in which at least 37 Nigerians were killed after a factory foreman reportedly locked the building doors. Lastly, there were references to illegal enterprise and criminal activity. It was mentioned that customs officials had to shut down a Chinatown in Lagos because many contraband items were being sold openly. In this instance the shut down did not last long, because the city's first lady, facing pressure from shoppers who appreciated cheap Chinese goods, sometimes at one-third the going rate, agreed to revoke the suspension.

The shopping example is an important illustration of how Nigerian officials view Chinese engagement in their country. Overall, they welcome Chinese involvement and see the potential for great benefits for Nigerians, but they also have serious reservations about some of the negative consequences that have occurred. This has created a vociferous, but healthy, debate among public officials about how their relationship with China can be better managed.

Officials welcomed the Chinese policy of aid without strings attached but expressed concern that some of the support for grand infrastructure development that had been agreed to, such as railway modernization, had not been implemented. This has led to Chinese and Nigerian officials trading blame on whose bureaucratic bottlenecks are responsible for the lack of project effectiveness. On the other hand, some projects were cited as being very productive. Officials explained that the recent donation of firefighting equipment to one of the states in southwest Nigeria was aimed at immediate utility and not constrained by traditions of project justification, which Western donors demand.

Officials were also concerned about a low-level commitment to human dignity and individual freedom in China's collectivist tradition. They argued that these traditions could on the one hand encourage human rights abuses by the Nigerian government, but on the other hand could serve

as a positive societal force. Some commented that if these traditions were applied appropriately, they might result in a more disciplined society and possibly help to tackle such important Nigerian problems as corruption. Ultimately, there was consensus that a middle ground, balancing Western over involvement or meddlesomeness with Chinese traditions of noninterference, would best serve Nigerian development interests.

Lastly, there was a debate on whether Chinese concern for their own citizens, and China's overall approach to Nigeria, was changing over time. Nigerians remarked, for example, that the strong interest of Chinese officials in the fate of a Chinese engineer who was kidnapped while helping set up a motorcycle assembly plant in Anambra State was different from previous traditions in which the well-being of Chinese citizens abroad drew little official attention. Similarly, there was debate on how long the Chinese policy of noninterference could last. Nigerian officials suggested that kidnappings could affect China's disposition to investing in such states or, on the other hand, could pressure them to get involved in local politics. Proximity to the high-risk operating environment of the Niger Delta is said to be behind a Chinese decision to terminate a major industrial park agreement with Iwo State and relocate it to Ogun State. Even though some expressed the views that political pressure from former Nigerian president Obasanjo, who is from Ogun State, led to the decision to relocate the project, the official Chinese position is that Imo is a neighbor to the trouble spot of Rivers State in the Niger Delta.

The Business Community

The business community exhibited mixed feelings about Chinese business incursions into Nigeria. Similar to Nigerian public officials, the Nigerian business community felt that China's engagement could bring substantial benefits to their own enterprises but also identified a few problem areas that needed to be more adequately addressed.

Nigerian businessmen welcomed the opportunity of trading with a lower-cost economy than those of their traditional trading partners and valued the ability to purchase lower-cost merchandise. They expressed interest in learning from Chinese manufacturers and business models that have enabled some Nigerians to manufacture and export profitably at a time when the country has been witnessing a collapse in manufacturing and deindustrialization, ostensibly because of poor infrastructure. Despite the challenges of operating in Nigeria, one Chinese manufacturer is in fact shipping the goods he manufactures in Nigeria to China. Using empty containers from goods shipped to Nigeria, he is able to profitably export goods by taking advantage of lower transport costs.

Local businessmen commented that they greatly benefitted from the willingness of many Chinese partners to arrange financing for their projects. This was seen as an opportunity to engage in joint ventures while also learning from Chinese business practices. Another incentive for doing business with the Chinese is the willingness of Chinese expatriates to accept the same living conditions offered to local workers. Nigerians commented that this was often an impediment when dealing with expatriates from other countries. It was argued that the reduced costs of hiring Chinese expatriates made Nigerians more competitive with large Western multinational corporations.

In spite of these benefits, members of the Nigerian business community raised serious concerns about a few particular aspects of Chinese business practices. Overall, the nature of their grievances seemed to reflect a broader concern that Chinese engagement in Africa is better for the Chinese than it is for Nigerians. While some Nigerians are in fact benefitting, they seem to be merely riding the coattails of the Chinese businessmen who are making the most money.

Nigerian businessmen cited a few reasons as to why the Chinese have been so successful. First, many believed that the Nigerian government, during the Obasanjo years, courted the Chinese at the expense of local manufacturers by manipulating tariffs to encourage Chinese imports. This has led many Nigerians to accuse the Chinese of dumping cheap Chinese products onto local markets, stifling the competitiveness of domestic production. Second, Nigerians have indicated that poor Chinese labor practices persist. Largely unchecked by the Nigerian government, the Chinese have a distinct advantage by paying “slave wages” for dangerous work that most Nigerians will not undertake. Lastly, some Nigerian businessmen commented that there is stiff competition between China and Taiwan for the hearts of businessmen in Nigeria. Long-time residents in Nigeria, originally from Hong Kong, have gone to great lengths in the media to discourage participation in Taiwanese trade. This indicated that many may have felt that fair competition and access to markets were not a reality in Nigeria and that the business environment is dominated by the Chinese.

Engaging the Private Sector

For many years, China’s economic engagement with Nigeria was limited. Relations stayed at the government-to-government level, consisting of aid agreements and development projects. However, relations have since greatly expanded into the private sector, with investment often directly encouraged by both the Nigerian and Chinese governments. The Chinese business presence, previously limited to the venturing of Hong Kong textile producers and steel processors, is increasingly being replaced by big commitments from Chinese financial institutions. The climate in Nigeria now features Nigerian consultants marketing themselves as having the capacity to manage project financing from China. The acquisition of a stake in Standard Chartered Bank, one of Africa’s leading banks, as well as a stake in IBTC-Chartered Bank in Nigeria, by one of China’s largest banks, has significantly raised China’s investment profile. As Chinese banks continue to support Chinese enterprise in Nigeria, a surge in the level of business involvement is expected to grow sharply.

Outreach to local communities has also shifted. Early Chinese business engagement into Nigeria featured limited contact with the local community, with the exception of the customer interface. In the new era of Chinese enterprise, trading has been a larger part of the picture with big Chinese retail markets increasingly making contact with local African communities. The Chinese footprint in Africa and Nigeria is now much larger, with everyday Africans conscious of this involvement.

The difference in approach between China and the West toward local communities in Africa has been radical, but the jury still seems to be out on which method Africans prefer. China and the West vary significantly in their approach toward corporate social responsibility (CSR). While companies from the West have tended to institutionalize CSR, promoting it as part of a public relations program to win goodwill, Chinese businessmen are more eclectic and personal in their approach. Their response to individual distress and community trouble has been known to be impassioned and generous, yet they do not seem to attract particular attention for an approach to corporate social responsibility. It was noted that some Chinese companies and businesses have tried to be more proactive before engaging in high-risk conflict zones such as the Niger Delta. Chinese consulate officers in Lagos stressed an experience different from those of Western firms in the Niger Delta, where companies would set up farms and help to build schools before pursuing business prospects.

Development Cooperation

As China attempted to win the battle for the hearts and minds of Africans during the Cold War days, it emphasized its nonaligned credentials and tried to become known for its no-strings-attached development assistance. Today, as it raises its profile of economic interest in Africa to secure access to raw materials, energy resources, and markets for its manufactured goods, China has again tried to highlight its generosity and human approach to development. It has tried to stress the importance of coordinating its efforts throughout the continent in such forums like FOCAC while also encouraging strong bilateral relations with key countries of particular strategic significance.

Nigeria, China's second-biggest trading partner, an important source for future petroleum and gas supplies, and a country with strong ties to Western businesses, has enjoyed increasing attention as a strategic country of focus for the Chinese. Beijing has engaged in a series of high-level visits, from the presidential level to leaders of subnational governments and the work of the Nigeria-China Joint Commission, in order to develop and strengthen its ties to this important Gulf of Guinea state.

Notwithstanding its interest in Nigeria's petroleum sector, China's development assistance also attempts to strengthen infrastructure and revive the agricultural sector. In agriculture, a tripartite agreement involving China, Nigeria, and the Food and Agricultural Organization (FAO), pledged the deployment of 500 Chinese experts to help with food production and water conservancy in arid regions of the country. Already, 400 of the 500 pledged experts are hard at work in Nigeria. In addition to the development of the agricultural sector, several protocols and agreements in the last few years have resulted in several Chinese companies, from both the public and private sectors, becoming active in rehabilitation and expansion in such areas as electricity, road and rail transportation, and telecommunications. The companies that have entered the Nigerian market to work on these important initiatives include ZTE Company, Alcatel-Shangai-Bell, and China Putian.

Unfortunately, despite all these efforts, there was agreement among several public officials that the Nigerian government has not done enough to get organized and act together to tap into the goodwill of the Chinese in order to expand development outside of the petroleum sector. In particular, officials felt that more could be done to revolutionize Nigeria's laggard agricultural sector, which has the potential for creating millions of jobs and diversifying the base of the economy that has been so dependent on oil.

China's Growing Economic Interest: Impact on Economic Growth In Nigeria

Will Chinese aid, trade, and corporate social responsibility help reduce Nigerian poverty and drive growth? A growth-driver framework that identifies six key sets of variables that, if affected positively, have the potential to drive sustainable economic growth, helps to evaluate Nigeria's prospects. In order for sustained growth and development to occur, demonstrable progress must be achieved in the areas of policy choices, institutions, human capital, entrepreneurship, culture, and leadership.²

2. See Pat Utomi, *Managing Uncertainty: Competition and Strategy in Emerging Economies* (Ibadan: Spectrum Books, 1998).

Policy Choices. Interviews with a wide array of Nigerian actors, as well as accumulated data, suggest that Nigerian policymakers, including national and local officials, are not setting policies that will have the strongest possible impact on Nigeria's long-term economic growth for the widest array of its citizens. While many of the current policies being pursued are likely to benefit Nigeria and significantly contribute to economic development in some areas, the strategies seem to neglect essential long-term needs, important segments of the population, and the targeting of essential sectors leading to a diversified economy. For instance, even though evidence suggests that much profit can come to Nigeria by stimulating agriculture through some of the same policies that helped benefit an industrializing China, a robust agricultural development program remains to be seen. Similarly, although development models suggest that a strong middle class is the backbone of growth, the government has not focused its attention on providing basic needs to a broad segment of the population.

Institutions. The evidence suggests that Nigeria is dramatically underperforming in spite of strong revenue flows from high-priced crude oil exports. Various bureaucratic obstacles and a lack of strong institutions have led to constrained progress in areas of infrastructure, agriculture, and technology transfer. Similarly, widespread corruption has not transferred wealth to the lower classes and has stifled foreign direct investment in the nonpetroleum sector. Until Nigeria can develop credible, accountable, and transparent institutions, a free-market system that encourages investment, diversification, and competition is unlikely to emerge.

Human Capital. The case study also suggests that on human capital development, language barriers and cultural differences weigh heavily against the transfer of technological skills and education from Chinese to Nigerian citizens. Because cheap Chinese labor is often used, large industrial projects rarely transfer skills to local African populations.

Entrepreneurship. Of all the variables that lead to sustained economic growth, interviews suggest that a strong degree of progress has been made in the development of Nigerian entrepreneurs. Some Nigerian businessmen have learned to export successfully by using Chinese models and have profited by partnering in joint ventures with the Chinese. Nonetheless, language and cultural barriers have resulted in relatively small and educated elite as the primary beneficiaries.

Culture/Leadership. Nigeria's elite officials have made China's engagement a priority, but the strongest leadership has been observed on the Chinese side. African leaders have dictated to the Chinese which development projects they would like to undertake, but the absence of true leaders who are willing to stand up and articulate a long-term development strategy that adequately addresses the needs of the majority of Nigerian citizens remains a key challenge. Nigeria's rampant corruption has also proven to be a serious cultural obstacle that must be overcome if Nigeria is to successfully leverage its demands vis-à-vis China.

Recommendations

- Nigeria's first priority lies in developing the capacity to better manage its own policies toward China's engagement. Nigeria needs to realize that China's engagement gives it a unique opportunity to significantly expand its development and articulate a comprehensive strategy that addresses its long-term needs. The Nigerian government should avoid short-term fixes and front-loaded deals with the Chinese and move beyond arrangements that focus solely on the petroleum sector. High commodity prices are only a temporary vehicle that can be utilized to drive Nigeria's economy into a more economically diversified state, the true mechanism for sustained growth.

- Nigeria should focus on how China's engagement in Africa fits into the broader picture of international engagement. In particular, Nigeria has an opportunity to diversify its development by balancing Western assistance with that of China but needs to better understand how each type of aid can be beneficial, and to what sectors, in order to implement a successful strategy. For instance, China's experience as a more disciplined society has the potential to curb corruption in Nigeria, while the United States' commitment to human rights and transparency restrain an abuse of power.
- Nigerians should learn from the successes and failures of other states' relations with China and their policies toward development, while also learning from their own experiences. Nigeria should undertake a thorough review to investigate what policies have been beneficial for Nigeria's long-term development and what areas need improvement. Nigeria should also more closely examine the United States' relationship with China and replicate successful policies. The United States has a long history of trade disputes with China, challenging it in such multilateral institutions as the World Trade Organization. Nigeria appeared successful in its ability to confront China when it was being inundated with inferior goods by threatening a WTO complaint. Whether they learned anything from the U.S. experience is unclear, but Nigerians could certainly tap into the vast array of Western expertise on how to better manage a difficult economic relationship and how to protect important sectors of the economy against foreign competition.
- Nigerians should be pragmatic as they strive to "build institutions." Past attempts to build institutions in Nigeria and other corrupt societies have shown that just uprooting and transplanting institutions does not work. The process is evolutionary in nature and dependent on political will and strong leadership to make the necessary changes. Most importantly, there needs to be transparent oversight, largely monitored by a large middle class. Since a large middle class is dependent on sustained economic growth, it will take time to build credible institutions, but small steps can be taken. One of the most critical elements in institution building is support for civil society organizations and social enterprises that enable the emergence of market institutions, transparent and accountable governance, and budget-monitoring mechanisms. Nigerian civil society organizations should press the Nigerian government to make their processes more transparent and to join such programs as the Extractive Industries Transparency Initiative (EITI).
- Greater emphasis should be placed on building human capital and overcoming language and cultural barriers to facilitate the transfer of business knowledge and technology to a wider array of the Nigerian population. Exchanges between Chinese and Nigerian businessmen in the manufacturing sector seem to be a first step, but Nigerian businessmen need to develop the capacity to become leading entrepreneurs independent of the Chinese. World class business schools and public administration institutes focusing on building competences, leadership skills, and values need to be more greatly supported in Nigeria.
- Advances in entrepreneurial skills need to be accompanied by similar advances in building a culture of leadership that is not only concerned about enriching themselves but about enriching their country as well. The fact that Nigerian businessmen have been accused of ordering the same inferior products that Nigerian citizens have complained about demonstrates that stronger values are needed. Nigeria needs business leaders who are willing to press for reform and advocate the added value of transparent business practices. The limited success of the Lagos Business School in its passionate emphasis on business ethics shows the possibilities for considerable support of such initiatives.

- Lastly, in order to meet all of these important needs, Nigerians should utilize their own talent by pooling together leading officials, scholars, businessmen, and civil society representatives to form a committee dedicated to prescribing ideas on how to optimize Western and Chinese engagement. At the same time, an inter-ministerial implementation committee drawn from the ministries of foreign affairs, industry, trade, agriculture, and investment promotion, should be set up to reduce all the protocols, using a critical path analysis of action plans, with civil society as monitors. On specific “accelerator” infrastructure interventions, like energy and transport, a project team with people seconded from the private sector, diaspora experts, and key government technocrats will be required to drive some key timelines.

Conclusion

While the possibilities certainly exist for Nigeria to derive higher value from China’s growing influence, Nigerians have not fully capitalized on the potential benefits. Far more needs to be done to expand policy creation, institution building, human capital, entrepreneurship, and the culture and leadership capabilities to maximize gains. Most importantly, Nigeria needs to develop a comprehensive strategy to more effectively balance the engagement of China and the West to leverage its own strength and create a plan for sustainable development that resonates with its citizens.



ANNEX

CONFERENCE AGENDA

December 5-6, 2007

CSIS, 1800 K Street NW, Washington DC

December 5, 2007

2:30-3:30

Opening Remarks

J. Stephen Morrison, Director, CSIS Africa Program

Yuan Jian, Vice President, China Institute for International Studies

Bates Gill, Director, Stockholm International Peace Research Institute

Overview of U.S. Policy Perspective

Todd Moss, U.S. Deputy Assistant Secretary of State for African Affairs

3:30-5:45

Panel I: China's Engagement in Kenya, Nigeria, and Angola

PRESENTERS:

Michael Chege, UNDP Adviser to the Ministry of Planning and National Development, Kenya

Pat Utomi, Senior Faculty, Lagos Business School

Alex Vines, Director, Chatham House Africa Program

Indira Campos, Research Assistant, Chatham House Africa Program

MODERATOR:

Jennifer Cooke, Codirector, CSIS Africa Program

6:30-8:00

Dinner Keynote Address

Aguinaldo Jaime, Deputy Prime Minister of Angola

December 6, 2007

9:15-10:30

Panel II: Energy Security

PRESENTERS:

Zha Daojiong, Professor, School of International Studies, Peking University

Trevor Houser, Director, Energy Practice, China Strategic Advisory

Pat Utomi, Senior Faculty, Lagos Business School

MODERATOR:

Victor Gao, Director, China National Association of International Studies

10:45–12:00 Panel III: Public Health

PRESENTERS:

David M. Serwadda, Director, Makerere University School of Public Health

Li Mingzhu, Director, Department of International Cooperation, Ministry of Health, China

Wang Hongyi, Associate Research Fellow, China Institute of International Studies

Mark Dybul, U.S. Global AIDS Coordinator

Tim Ziemer, Director, President's Malaria Initiative

MODERATOR:

Peter Lamptey, President of the Institute for HIV/AIDS, Family Health International

12:00–1:30 Luncheon Roundtable Discussion: Conflict in Darfur

SPEAKERS:

Liu Guijin, Chinese Special Envoy for Darfur

Sam Ibok, Director, African Union Peace and Security Department

Andrew Natsios, U.S. Special Envoy to Sudan

MODERATOR:

J. Steve Morrison, Director, CSIS Africa Program

1:30–2:45 Panel IV: Corporate Social Responsibility and Environmental Stewardship

PRESENTERS:

Victor Gao, Director, China National Association of International Studies

Allan Thornton, President, Environmental Investigation Agency

Thuli Makama, Director, Yonge Nawe Environmental Action Group, Swaziland

MODERATOR:

Charles Freeman, CSIS Freeman Chair in China Studies

3:00–4:15 Panel V: Building African Capacity on Security

PRESENTERS:

Charles P. Kosak, Principal Director, Office of African Affairs, U.S. Department of Defense

Margaret Vogt, Director, Africa Division, UN Department of Political Affairs

MODERATOR:

Xu Weizhong, Director, Department of African Studies, China Institutes of Contemporary International Relations

4:15–5:00 Wrap-up Discussion

CHAIR:

J. Stephen Morrison, Director, CSIS Africa Program

DISCUSSANTS:

Yuan Jian, Vice President, China Institute for International Studies

Bates Gill, Director, Stockholm International Peace Research Institute

Lucy Corkin, Projects Director, Centre for Chinese Studies

David Shinn, Professor, George Washington University

Princeton Lyman, Adjunct Senior Fellow for Africa Policy Studies, Council on
Foreign Relations

