WHAT IS DRAGON LOOKING FOR IN THE TROPICS?

CHINA'S CONTEMPORARY TRADE AND INVESTMENT RELATIONS WITH AFRICA

By Grazina Raguckaja

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Supervisor: Laszlo Csaba

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Abstract

The present study focuses on the issue of intensification of contemporary Sino-African economic linkages from the Chinese perspective. More precisely, it investigates the reasons of China's recent emergence in Africa as a major investor and trade partner, and how this course of action fits into general Beijing's foreign policy agenda towards the African countries. The study argues that China's current foreign policy as with regard to Africa is primarily shaped by Beijing's economic interests, especially by the occurrence of China's oil dependency that endangers the sustenance of the heavy-industry based economic growth of China. Therefore China's foreign policy towards Africa serves for the purpose of its economy and that constitutes a divergence from the classical Stalinist-Maoist approach that regards the material wealth as "moral sin". China's relations with Sudan are used to illustrate the dominance of the economic concerns over ideology in the China's foreign policy towards Africa.

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Introduction

In the beginning of the new millennium the world is witnessing the unique burgeoning of China's political and economic relations with Africa[1]. This recent dynamic, that is a symptom of emergence of new "south-south" cooperation era, mostly takes the form of high-level official exchanges, intensification of bilateral trade flows, and growing Chinese outward investment into the African countries. While rather enthusiastically regarded by both Chinese and African political leaders, the issue appears to carry extremely controversial character. Therefore it is not surprising that contemporary Sino-African relations attract considerable amount of media and press attention all over the globe. Nevertheless, the scholarly level analysis and research on the topic has been quite limited in scope. It is largely due to the fact that this phenomenon is truly recent and novel which implies lack of systematic and long-term evidence. However, the significance and potential impact of intensifying Sino-African relations either on China, Africa or world-wide requires an in-depth study covering at least one element of this phenomenon. This was the main motivation of the author to dedicate the following thesis to the area of contemporary economic Sino-Africa relations.

The way China perceives cooperation with Africa stands in contrast with the position of developed countries. While Africa is synonymous with poverty, conflict and underdevelopment for the majority of Western countries, Beijing seems to disregard this general prejudice and sees cooperation with the continent as highly beneficial in the long-term. Thus, though decades ago China's relations with African countries were determined

[1] World "Africa" in this part of the thesis and all following chapters refer to the Sub-Saharan Africa region.

by ideological considerations, the current re-emergence of Sino-African relations has a different nature and there are clear indications that China's policies regarding Africa are driven by the economic interests of Beijing.

Such assumption is truly appealing in the available studies on re-emergence of e Sino-African relations. Majority of research tends to concentrate exclusively on the analysis of potential implications of such development on African countries. For instance, the detailed study of Goldstein, Pinaud, Reisen and Chen, that are experts at the Development Center of the Organization for Economic Co-operation and Development, analyze the implications of China and India's ascendance on Africa. The study tries to formulate policies for African countries aimed to maximize possible benefits and minimize the costs of economic cooperation with India and China.[2] The research conducted by Jenkins and Edwards examines the impact of China and India's growth and trade liberalization on poverty in Africa by investigating the potential implications of Africa's economic links with Asian powers on Africa's exports, imports, as well as third-country markets, and foreign direct investment flows. The study concludes that there are both challenges and opportunities for the African countries because of China and India's involvement and growth.[3] China's recently accelerated trade and investment in Africa and its implications on the Africa's economic growth is also a focus of the volume "Africa's Silk Road: China and India's New Economic Frontiers" by Harry Broadman. The volume provides empirical evidence on the performance and patterns of Sino-African trade and investment. The author concludes that China's economic involvement

[2] Goldstein, Pinaud, Reisen, Chen "The Rise of China and India: What in it for Africa?" Organization for Economic Cooperation and Development, Development Centre Study, May 2006.
[3] Jenkins, Edwards "Effect of China and India's Growth on Trade Liberalization on Poverty in Africa", Department for International Development, United Kingdom, May 2005.

in African countries, quite similarly to India's, either through trade or investment flows, holds great promise for the continent's economic development provided certain policy reforms on both continents are implemented.[4] A similar type of analysis has also been conducted by the World Bank Group that explores Sino-African trade and investment linkages, using firm-level data.[5]

As illustrated, the number of projects related to the rise in Sino-African economic cooperation has a focus on macroeconomic analysis of the potential implications on African countries. However, while attempting to predict the possible consequences of such relationships, none of them is targeted at scrutinizing the core reasons of intensified economic cooperation between China and Africa itself. The majority of the publications simply assume that China's recent trade and investment linkages with Africa are the outcome of China's rapid economic growth. This constitutes a noticeable gap in the literature that hinders our ability to understand the implications of such trends namely, the lack of explanation why China is economically involved in Africa despite poor investment returns and volatile trade conditions. In other words, in order to assess the potential impact of intensifying Sino-African trade and investment links either in Africa or China, it is essential to examine what has caused this trend to occur.

Therefore, one of the main tasks of this study is to investigate the reasons for China's recent emergence in Africa as a major investor and trade partner, and how this course of action fits into general Beijing's foreign policy agenda towards the continent. Moreover, the present thesis intends to demonstrate that China's current foreign policy towards Africa is primarily driven by economic considerations. This finding indicates the

[4] Broadman H."Africa's Silk Road: China and India's New economic Frontier", The World Bank, 2007.
[5] "Patterns of Africa-Asia Trade and Investment: Potential for Ownership and Partnership", The World Bank Group, October 2004.

existing conflict between contemporary Beijing’s foreign policy towards Africa and its socialist ideology that is supposed to guide all areas and policies of China’s state.

The main hypothesis to be tested in the present thesis is that dominance of economic concerns over socialist ideology reprimanding enrichment and material wealth, in the contemporary China’s relations with Africa is the pay-off of country’s failure of economic modernization. The second hypothesis to be tested is the claim that the actual nature of China in terms of its government playing a pivotal role in the economy and at the same time prevalence of capitalism elements creates friendly conditions for economic expansion into the Africa.

In order to investigate the validity of hypothesis the methodology to be employed in the present study will first of all rely on the examination of recent publications and media reports monitoring the development of Sino-African relations. This is intended to contribute to our understanding of the character of the contemporary China’s foreign policy towards Africa because, as it was already mentioned above, the study on the recent intensification of Sino-African relations is still very limited. Media reports examination will be complemented by the analysis of Chinese officials’ statements regarding the Beijing’s policy agenda towards Africa and by the overview of the officially published China’s policy agenda towards the continent, such as Beijing Action Plan for year 2007 - 2009.The primary shortcoming of the method, however, is that is does not allow to expose the true motives of China’s accelerating relations with African continent. This limitation will be eliminated by the analysis of statistical data on Sino-African trade and investment flows. Here the author had to rely on data sources of the World Bank, UNCTAD and National Bureau of Statistics of China, as well as on data of the recently published volume “Africa’s Silk Road: China and India’s New Economic Frontier” by Harry B. Broadman. Still the author faced substantial shortage of data on China’s outward investment into African countries. Finally in order to investigate whether there is a strong linkage between the internal economic conditions of China and its foreign policy towards Africa, the analysis of data on China’s economic structure will be analyzed.

The paper will have the following structure. The first chapter will attempt to apply the contemporary Sino-African relations within the theoretical framework of The World System approach developed by Immanuel Wallerstein. More broadly the chapter aims to illustrate that contemporary Sino-African relations can be interpreted through the lens of the interaction between semi-periphery and periphery – the terms developed by Wallerstein.

The second chapter aims to demonstrate the implications of China’s domestic development on its foreign policy towards Africa. For this purpose, the chapter will start with an overview of China’s industrialization pathway, country’s current economy composition and the institutional challenges for China’s economy modernization. This section will be followed by a sub-chapter examining the implications of internal economic conditions on China’s foreign policy and the one towards the African continent. Here, the reader will have an opportunity to get familiarized with the issue of China’s energy dependency and how it shapes China’s economic relations with Africa.

The third chapter is strongly analytical in nature, and will discuss characteristics of China’s current trade and investment relations in Africa. The chapter will mainly provide an empirical analysis of Sino-African trade and investment flows and will determine the main commercial interest of China in Africa.

The forth chapter is a case study of China's economic relations with Sudan. This chapter intends to substantiate the claim that China's foreign policy serves the domestic economic considerations of Beijing through the case study on Sudan. It will be argued that the strategy employed by China toward Sudan does not correspond to the classical Stalinist–Maoist approach.

The final section of the paper will draw final conclusions as well as identify the validity of the hypotheses described above.

II The theoretical framework of analysis of Sino-African economic relations – The World System Approach.

For the purpose of this thesis, and in an attempt to explain China's contemporary economic relations with Africa, it is appropriate to draw upon the "The Modern World System" approach as suitable theoretical framework, which is usually associated with the name of Immanuel Wallerstein. In order to identify the relevance of The Modern World System Theory to the case of contemporary Sino-African trade and investment relations, it is essential to get familiarized with the main assumption and principles of it.

The World System theory was primarily developed upon the foundation of the dependency theory. However, it extended the unit of analysis from a single country to the global system of trade. Thus, the World System approach is primarily aimed at providing a clear understanding of both changes in the global world system and the interactions between its constituencies.

Wallerstein classifies the world system as "a social system, one that has boundaries, structures, member groups, rule of legitimation, and coherence" and is interrelated by the complex network of economic exchange links. A world system is what Wallerstein terms a "world economy", integrated through the market rather than a political center, thus capitalist driven, in which two or more regions are interdependent with respect to necessities such as food, fuel, and protection; two or more polities compete for domination without the emergence of a single perpetual center.[6]

[6] Goldfrank, W. "Paradigm Regained? The Rule of Wallerstein's World – System Method", Journal of World-System Research, Vol.6, No.2. 2000., p.

The author claims that the capitalist world system contains an extensive division of labour that is not only occupational but also geographical. This division of labour, which refers to the current relations of production in the world economy, is unequally distributed throughout the world-system and determines relations between different regions as well as labour conditions within each region. Moreover, it results in the emergence of three main classifications of the world regions; core, semi-periphery and periphery. [7]

While the core region is technologically more advanced and produces complex products that are capital-intensive, the main role of the periphery is to provide the raw materials and other labour-intensive goods for the service of core region.[8] Because the capitalist world-economy principally remunerates accumulated capital (also human) rather than "raw capital", the economic and social disparities between the core and periphery tend to expand and create the power hierarchy between core and periphery, in which prosperous "core" dominates and exploits the poorer "periphery". As Wallerstein proves by the analysis of European colonialism, especially strong incentive for core to expand to periphery occurs during periods of over-consumption that causes inadequate demand for goods and thus increases need for the cheap factors of production that peripheral states can offer.

Wallerstein describes the semi-peripheral region as somewhere in between the core and the periphery on a series of dimensions, such as the complexity of economic activities, strength of the state machinery and cultural integrity. They demonstrate the characteristics of both the core and the periphery. Some of the semi-peripheries in the

[7] Martinez-Vela C."World System Theory", essay.
[8] Ibid

past were either core –regions of given world economy that experienced decline or peripheral areas that are attempting to improve their relative placement in the world economic system.[9] Semi-peripheral countries are necessary structural element of the world economy, because by playing the similar role as the middle trading groups play in empire, they partly prevent the political pressures which groups primarily located in peripheral areas might otherwise direct against core-states. However, the interests primarily located in the semi periphery do not necessary correspond or are able to serve the political objectives of the core-states. Moreover Wallerstein assumes that the semi-periphery behaves as a core region towards the peripheral areas and as a peripheral zone when it interacts with the core region.

The described framework of analysis in accordance with Wallerstein's theory suggests truly interesting option for shedding light on the Sino-Africa trade and economic relations. If we consider division of labour as the main factor determining whether region is core, semi- periphery or periphery, the China could be perceived as the semi-periphery with it's heavy-industry orientated economy, while African region, that mostly supplies goods with low-value added or raw materials could be regarded as periphery. According to The World System Approach semi-periphery should act as a core when it deals with peripheral areas, namely exploits their abundance of human and natural resources for the accumulations of its internal capital. Therefore according to this approach, China's trade and investment networks with African region should carry exploitative characteristic. The following chapters will attempt to test this assumption.

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[9] Immanuel Wallerstein, "The Modern World-System: Capitalist Agriculture and the Origins of the European World-Economy in the Sixteenth Century". New York: Academic Press, 1976, pp. 229-233.

III China's energy dependency and its implications on its foreign policy towards Africa.

> *Some emerging powers in modern history plundered other countries' resources through invasion, colonization, expansion, or even large-scale wars of aggression. China's emergence thus far has been driven by capital, technology, and resources acquired through peaceful means… [China wants to] transcend the old model of industrialization and advance to a new one. The old industrialization was characterized by rivalry of resources in bloody wars and by high investment, high consumption of energy and high pollutions. Where China to follow this path, it would harm both others and itself.*
>
> "Peaceful Rising to Great Power Status",
> Zheng Bijian
> Foreign Affairs, September/October 2005

The main goal of this chapter is to determine the impact of China's development strategy resulting in strong overseas energy resources dependency, predominantly oil, on country's foreign policy towards Africa.

The first sub - section is intended to explore the recent economic characteristics of China with special focus on the overview of country's industrialization nature, current economy composition and main institutional barriers to country's modernization. The second sub-chapter will discuss the implications of China's old fashioned type of industrialization on the emergence of China's energy dependency and extend the analysis to energy dependency's impact on the formulation of China's general resource based foreign policy taking Africa as a case study.

1 China's Contemporary Economic Characteristics

In order to understand the current problems and challenges of China's economic growth sustenance that have significant implications on the country's foreign policy, including its economic relations with the African continent, it is essential to explore the main characteristics of China's development path.

1.1 Overview of China's industrialization pathway

When in 1949 the Communist Party of China established the People's Republic of China, their main aim was to create a populous and prosperous country. At that time the political leaders perceived this goal to be achieved through the option of a heavy industry-oriented economic development strategy.[10] Thus, with the first Five Year Plan China comprehensively adopted the Soviet type industrialization strategy which was explicitly focused on the development of numerous heavy-industry projects. A centralized planning mechanism was created with the aim to concentrate and allocate all available resources in order to lay down the preliminary foundation for a socialist industrialization, whereas industry and commerce were nationalized and agriculture was collectivized. [11] However, despite of the fact that strong efforts resulted in the rapid development of the Chinese economy, the country faced problems connected with severely worsening economic structure and thus fragile economic conditions. Nevertheless, China did not modify its development strategy and remained focused on

[10] Jun Z." Triggering the Economic Growth in Post-Reform China: What Have We Known?" Paper presented at the conference on Globalization and Economic Success: Policy Options for Africa, Cairo, November 2006.p.3.
[11]Ibid.

the sustenance of a high growth rate in output by means of inputs of capital and other resources.[12]

Due to the fact that the development of the heavy industry required substantial initial investments of factors of production, China, lacking the sufficient capital, had to artificially reduce the costs of the heavy industry development with cheap labor, capital, raw material and equipment. For this purpose, the policy of centralized price determination and planned resources allocation mechanism were introduced, which consequently resulted in disequilibria between supply and demand of credit, foreign exchange, raw materials and agricultural products.[13]

The growth strategy, featuring high objectives, a high level of inputs and growth, however was characterized by low efficiency and remained unchallenged until the Great Cultural Revolution in 1976 when the government realized that the country is not able to reach the goal of industrialization and modernization with the orientation on the path of extensive, factor driven development. [14]

With the start of the "Reform and Liberalization Policy" in 1978, the government of China undertook the attempt to reform the country's economy and promoted a shift from soviet-style centrally planned economy to a market-oriented, export led one, although within the same framework of political and ideological context, institutional

[12] Jinglian W." Does China Need to Change Its Industrialization Path?" Conference Paper, World Bank.p.206.
[13] Jun Z." Triggering the Economic Growth in Post-Reform China: What Have We Known?" Paper presented at the conference on Globalization and Economic Success: Policy Options for Africa, Cairo, November 2006.p.5.
[14] Jinglian W." Does China Need to Change Its Industrialization Path?" Conference Paper, World Bank.p.206.

arrangements and heavy – industry orientation. The reforms promoted by Deng Xiaoping abolished collective farms and "allowed the petty capitalism."[15]

This new system obtained the name of "Socialism with Chinese characteristics" and became an official term for the economy of the People's Republic of China where the wide spectrum of private and public ownership forms prevails, that as some authors argue are 'non-state activities that are by no means private.'[16] In other words "Socialism with Chinese characteristics" can arguably be referred as a hybrid model containing the combination of capitalism elements with the domination of the state over economy.

It is worth mentioning that at this stage the emergence of the reforms has marked the beginning of the gradual replacement of the "egalitarian Communist ideology by the combination of nationalism and materialism, where the end justifies the means".

In 1984 Deng Xiaoping proclaimed:

"What is socialism and what is Marxism? We were not quite clear about this in the past. Marxism attaches utmost importance to developing the productive forces. We have said that socialism is the primary stage of communism and that at the advanced stage the principle of from each according to his ability and to each according to his needs will be applied. This calls for highly developed productive forces and an overwhelming abundance of material wealth. Therefore, the fundamental task for the socialist stage is to develop the productive forces. The superiority of the socialist system is demonstrated, in the final analysis, by faster and greater development of those forces than under the capitalist system. As they develop, the people's material and cultural life will constantly improve. One of our shortcomings after the founding of the People's

[15] Csaba L."The New Political Economy of Emerging Europe", Akademiai Kiado, Budapest 2007.p.29.
[16]Ibid.p.31.

Republic was that we didn't pay enough attention to developing the productive forces. Socialism means eliminating poverty. Pauperism is not socialism, still less communism.”[17]

As result the material wealth and enrichment that were in essence “the mortal sins of socialist way of life and official ideals” became the promoted goal and responsibility of each individual. Moreover, this ideology gained the status of a ‘civic virtue.’"[18] Therefore the reforms of 1978 were evident signal of the alteration of the ideology that was perceived as the driving force of the regime.

1.2 China’s current economy composition

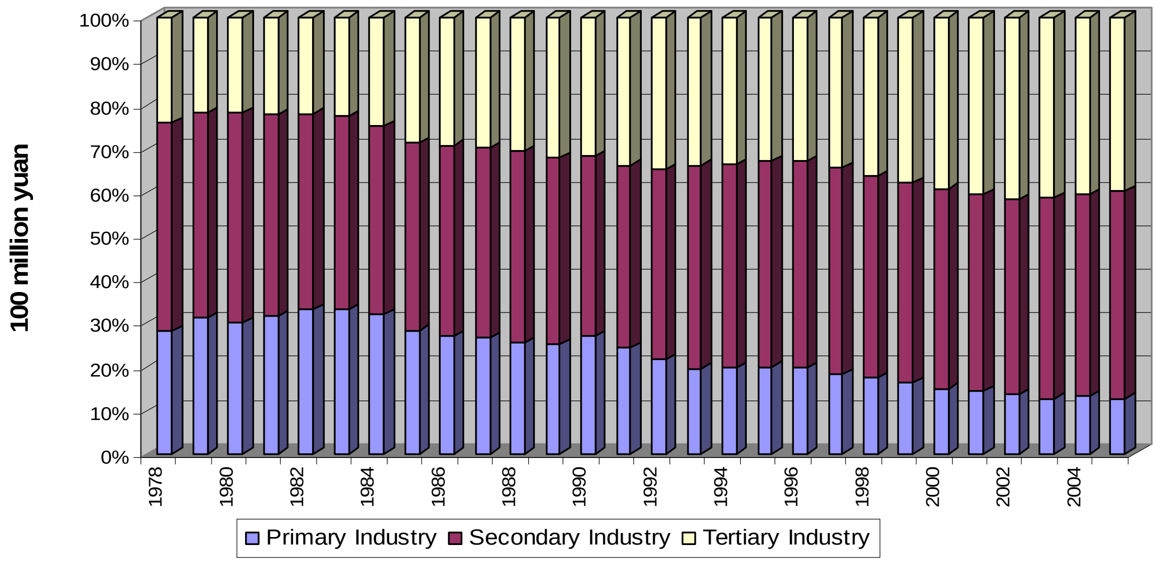
The novelties introduced by reforms in 1978 such as abolition of collectivization, increased authority of local officials, a large diversity of small-scale enterprise in services and manufacturing, openness to the foreign trade and foreign investors have been quite fruitful and resulted in the impressive growth of China. The success of these reforms can be evidenced by the fact that by 2006 China gained and unprecedented weight in the world economy earning the fourth ranking and overtaking France and United Kingdom. The country is predicted to overtake Germany by 2008 and Japan by 2020.

However, it can be argued that the reforms started in 1978 have not generated any substantial alterations in the economic structure of the country As it can be seen from Figure 1, the composition of GDP of China in 2005 was very similar to the one almost

[17] Xiaoping D.”Build Socialism With Chinese Characteristics”, June 30.1984.
[18] Csaba L.”The New Political Economy of Emerging Europe”, Akademiai Kiado, Budapest 2007.p.29.

three decades ago, which suggests that the country has failed to detach it economy from traditional Soviet type heavy industry-based growth.

Figure 1.China's GDP composition, 1978 – 2005.[19]



The dominant position of the secondary sector in China's economy has not changed during the last quarter of century – in 2005 it accounted for almost 48 percent of China's GDP, the same number as in 1978, with the industry generating approximately 42 percent of country's economy. While before the economic reforms most of the industrial output was produced by state-owned enterprises, after 1978 there was a noteworthy increase in production by enterprises sponsored by local governments, especially townships and villages, and, increasingly, by private entrepreneurs and foreign investors. Still, at the present time the majority of such industries as iron, steel, coal, machine building, armaments, light industrial products, are state-owned. Moreover, it is

[19] Based on data of China's National Statistics Bureau

worth mentioning that the types and mechanism of their management have experienced a very modest change since the decade of reform completed in 1989.

China's strong reliance on the heavy industry resulted in the ranking third of factory output worldwide, however the pay-off from such growth is severe consequences of environmental degradation (due to the strong heavy industry reliance on coal as primary energy source) and general inability to meet the domestic energy demand, especially petroleum. The energy shortage has also occurred because of rising living standards, urbanization and automatization.

The urgent need for economic restructuring of China, was addressed by the ninth Five Years Plan. Herein the main goal has been defined as the "transformation of the economic growth strategy from the factor-driven to productivity-driven one". The tenth Five Year Planned followed the same orientation and pointed to the need of economic reorganization and upgrading as the core task.[20] Despite these political initiatives, however, it remains to be seen, as when economic restructuring of China will take place.

1.3 Institutional challenges to China's modernization

China's 11th Five Year Plan for economic and social development from 2006 to 2010 sets only two specific objectives: doubling per capita GDP in 2010 as compared to 2000 and decreasing energy input per unit of GDP by 20 percent as compared to 2005. These objectives seem to reflect the central dilemma the Chinese policy makers are facing, namely how to ensure the sustenance of rapid economic growth in order to

[20] Jinglian W." Does China Need to Change Its Industrialization Path?" Conference Paper, World Bank.p.206.

preserve the legitimacy of Communist Party and at the same time solve the problem of satisfying the increased energy demand required to achieve the first goal.[21]

Although one can identify manifested initiatives of Chinese political leadership directed at eliminating the impact of the Stalinist socialist industrialization and the transformation of intensive growth in accordance with the principles of modern economic development, the core of the dilemma lies in the institutional arrangements and system itself. Namely the current policies and institutions remained similar to those in times of traditional industrialization path, thus they tend to support the traditional growth strategy of China.

First of all the government remains dominant and retains control over the allocation of resources, thus excluding the possibility of principle market mechanism to introduce more efficiency in allocation. As evidence to the aforementioned could serve the monopolist position of government's partially or totally controlled enterprises on the market.[22]

Secondly as China has decentralized resource allocation, decentralization serves as a way of sharing burdens and responsibility; and the allocation is primary a task of local bureaucracies. [23] The lack of central coordination creates the obstacle to effectively address the problem that has large, country-wide scope.

Thirdly, the political legitimacy and achievements are predominantly determined by the GDP growth rates, thus making the material production the goal that should be achieved at any costs. Therefore government officials have the incentive to allocate the

[21] Klare M. "Fueling the Dragon: China's Strategic Energy Dilemma".p.1
[22] Jinglian W." Does China Need to Change Its Industrialization Path?" Conference Paper, World Bank.p.207.
[23] Csaba L."The New Political Economy of Emerging Europe", Akademiai Kiado, Budapest, 2007.p.25.

resources in the industries that bring and manifest immediate results, rather than into sectors having long-term perspectives. Moreover because China has a production-oriented value tax that is directly related to the local aggregate output, the political leaders on various levels of hierarchy encourage and support investment into heavy industry projects generating significant output, thus high tax revenues.[24]

Finally, distortion of resource prices still prevails – as fifty years ago the prices are set artificially low with the aim to achieve profitability in the resource and capital intensive heavy industry projects. The recent research conducted by the World Bank has estimated that because of the unnaturally low energy prices unable to mirror true costs and scarcity of energy, China's energy consumption has increased by at least 9 percent.[25] Consequently poorly energy-resource endowed China fails to utilize its main advantage of extraordinarily large population and reorient towards the industries requiring low energy consumption.

The above described aspects of Chinese system seems to imply that current China's institutional and policy arrangements provide incentive for local government and enterprises to promote the short-term interests of quantitave expansion by the combination of enormous amount of low-priced labour, capital, natural resources with low efficiency technologies. As result it 2003 China's GDP accounted for approximately 4 percent of the world total with the resource utilization rate being much higher – with more than 7, 31 and 30 percent of crude oil, coal and iron ore consumption percentage respectively.

[24] Jinglian W." Does China Need to Change Its Industrialization Path?" Conference Paper, World Bank.p.207.
[25] Ibid.

2 How does China's energy dependency matter for its foreign policy towards Africa?

The main goal of this chapter is to determine the impact of China's development strategy resulting in strong overseas energy resources dependency, predominantly that of oil, on country's foreign policy towards Africa. While the first section is intended to explore the emergence of China's oil dependency, the second section aims to present the impact of such situation on the general formulation of Chinese foreign policy. The third section is dedicated to demonstrate the characteristics of a resource based China's foreign policy towards the African continent.

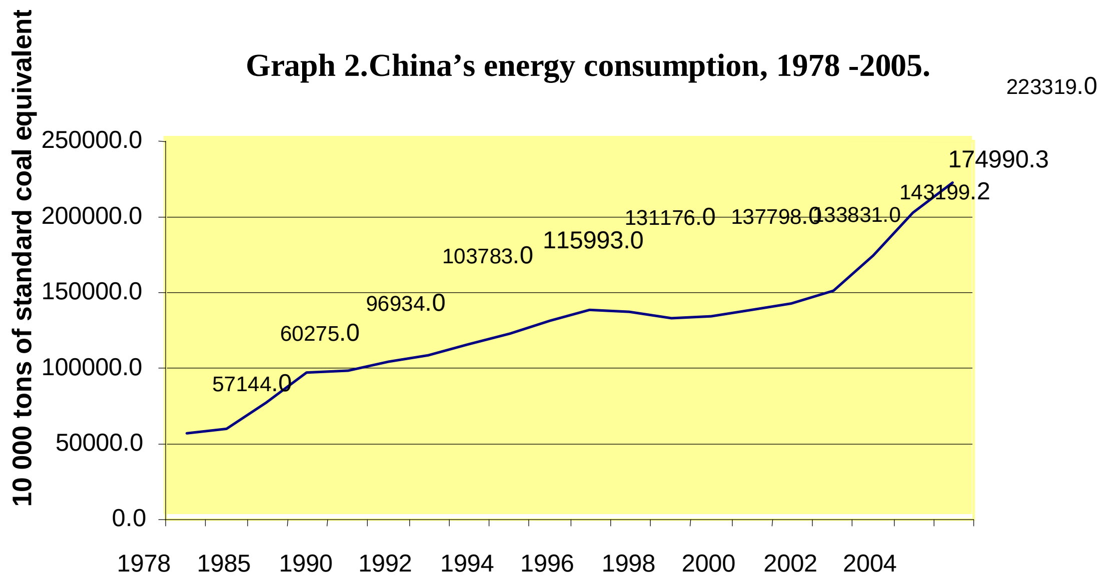
2.1. Emergence of China's energy dependency

As the understanding of China's domestic energy structure is essential in order to interpret the country's behavior with regard to ensuring its energy resources, the main goal of this section is to analyze the present patterns of energy supply and demand in China.

Being the biggest developing country in the world with a dynamic expansion of the manufacturing sector, the largest population and rapid urbanization, China's energy consumption has risen substantially during the last few decades. China's rapid growth since the market reforms of the late 1970s and their impact on country's economic profile have significantly lifted its demand for energy from 57144 ten thousand tons of standard coal equivalent (SCE) in 1978 to 223,319 ten thousand SCE in 2005. (See Graph 2[26])

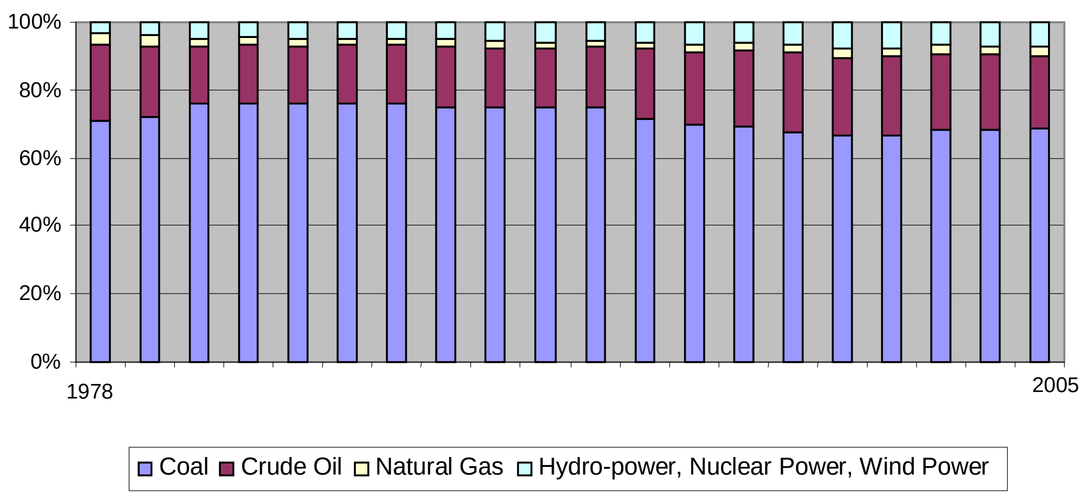
[26] Based on data of National Bureau of Statistics of China, www.stats.gov.cn

Graph 2.China's energy consumption, 1978 -2005.



Although it could be stated that China is a primary coal–based economy with the energy consumption mix following a monolithic pattern during the last three decades (See Graph 3[27]) and it is abundant with its main energy resource - coal, the increasing petroleum consumption in absolute terms has resulted in China's strong dependency on imported energy resource.

Graph 3.China's energy consumption composition, 1978 - 2005



[27] Based on data of National Bureau of Statistics of China, www.stats.gov.cn

Whilst oil imports accounted for less than 7 percent of total oil consumed in 1990, in 2005 China had to import more than 50 percent of its oil consumed (See Table 1[28]).

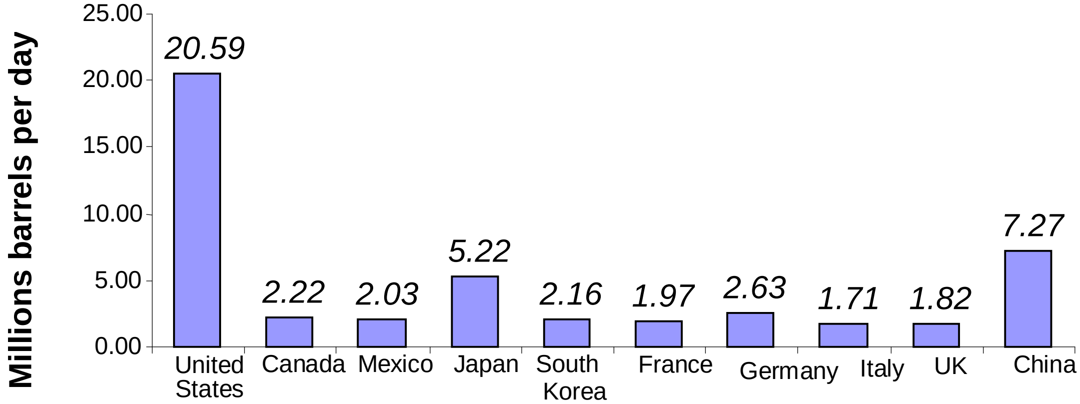
Table 1.China's imported energy resources as percentage of total amount of energy consumed

	1990	1995	2000	2003	2004	2005
Imported coal as percentage from the total coal consumption	0.2	0.1	0.2	0.7	1.0	1.2
Imported oil as percentage from the total oil consumption	6.6	22.6	40.8	47.8	53.0	53.0

According to the statement of Energy Information Administration (Official Energy Statistics from U.S. Government), in 2006 China's oil consumption grew by almost half a million barrels per day, accounting for 38 percent of the total growth in the world oil demand, and making China the world's second largest consumer of oil after the United States (See Graph 4[29]). Moreover, due to the acceleration of industrialization and urbanization, China's energy consumption is predicted to grow at an average annual rate of 3 to 5 percent in the coming two decades.

[28] National Bureau of Statistics of China, *www.stats.gov.cn*
[29] Based on data of Energy Information Agency, http://www.eia.doe.gov

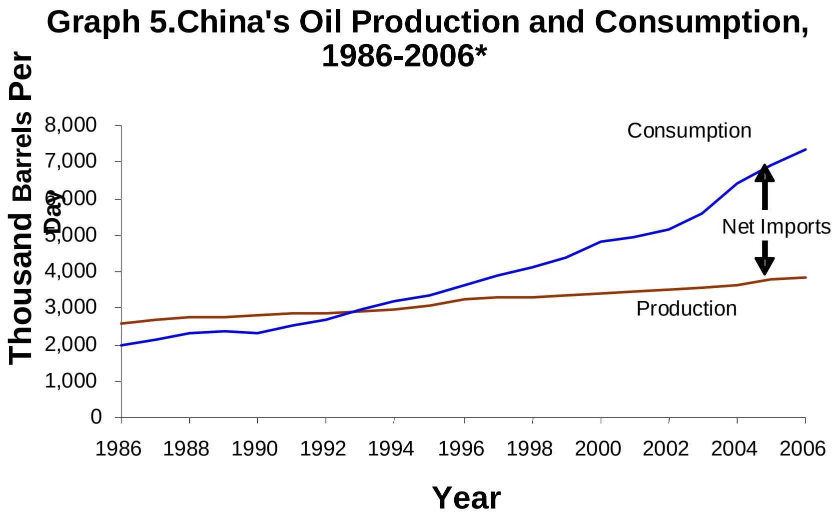
Graph 4.Ten main oil consuming countries in 2006



China's strong dependency on imported oil has been an outcome of the fact that the most dynamic economic growth of China has appeared in the Eastern and Southern part of the country, where no significant reserves of coal, oil and hydropower are located. Due to the poorly developed internal energy-delivery infrastructure it was more beneficial for China to feed its economically expanding regions with overseas energy resources than to rely on coal and the insignificant amounts of oil from the Northern and Western parts of the country. Thus, the imported energy, most notably oil, has become an attractive alternative in most industrialized and commercial parts of China. [30]

Consequently, China's shift to the status of oil importer in 1993 (see Graph 5. [31]) has radically invalidated the three-decades experiment of the Communist Party's that promoted a self-sufficiency originating from the country's strategic and security considerations.

[30] Downs E.S. "China's Worldwide Quest for Energy Security", RAND Corporation, 2000. p.7.
[31] EIA International Petroleum Monthly



The country previously had been dependent of foreign oil supply in the 1950's and the 1960's, when it was obtaining the significant part of its oil imports from the Soviet Union. However, contrary to the present situation, the problem of China's oil dependency forty years ago was solved by developing domestic resources such as the Daqing oil field.[32]

During the 1970's and 1980's when the internal supply of oil matched the domestic demand, and China's oil prices were fixed by central planners, the country was immune to energy market disruptions.[33] Moreover, the country even started to rely on petroleum-led export growth which consequently caused the restraint of oil supply offered on domestic market. Yet such strategy proved to cause economic stagnation and the government was forced to abandon the goal of oil self-sufficiency in 1986.[34]As a result in the beginning of 1990's, failing to discover substantial new domestic oil

[32] Downs E."China's quest for energy security",RAND, p.12.
[33] Jaffe A.M, Lewis S. "Beijing's Oil Diplomacy", Survival, vol. 44, no.1, Spring 2002, p.117.
[34] Downs E."China's quest for energy security",RAND, p.12.

reserves, China faced a similar level of vulnerability to the shocks of the global energy market as other industrialized nations and was forced to prioritize energy security in the long-term economic policy agenda.[35]

2.1 The implications of energy dependency on China's general foreign policy.

The implications of the rapid economic growth in China, which has caused an unprecedented need for natural resources, have recently strongly contoured the foreign policy agenda of the country. The combination of the booming economy, rapid urbanization, increased export processing and the massive population has placed energy security among the top rankings in Beijing's list of priorities. This is due to its grave significance for the future prosperity and social stability of the country, and thus the survival of the current political elite, namely the Chinese Communist Party. When at the beginning of 1990's it was becoming obvious that China, although blessed with abundant coal reserves, lacked adequate reserves of oil and natural gas, the government had to abandon its traditional goal of energy self-sufficiency and develop an "outward-looking oil economy".[36]

One of the initial signals manifesting in the obvious shift in the government's approach to energy security was Premier Li Peng's policy statement on China's Policy on Energy Resources in 1997, where he mentioned that "as the economy develops and people's living standard rises, demand for oil and gas is certain to increase by large

[35] Jaffe A.M, Lewis S. "Beijing's Oil Diplomacy", Survival, vol. 44, no.1, Spring 2002, p.115.
[36] Troush S. "Neijing Oil Diplomacy toward Central Asian and Russia: Basic Motivations and the Impact of the Events of 11 September 2001", USA-Canada Institute, Russian Academy of Science.

margins. While striving to develop our own crude oil and natural gas resources, we have to use some foreign resources".[37]

Because of the risks related to the country's increasing energy import dependency that cause severe threat to national energy security, Chinese government got actively involved in the promotion of natural resource-seeking overseas investment, mostly in the policy framework of "going global strategy". The "going global strategy" was introduced as a tool for securing energy and raw material resources access abroad and also as a countermeasure to intensifying competition and overcapacity in a number of key sectors of domestic economy. Because of China's accession to WTO in 2001, the strategy aimed to function as a complement to the Chinese government's successful promotion of foreign direct investment into China as a key pillar of support for the country's economic development.[38]

The strategy includes the implementation of investment-friendly policy frameworks, such as the reduction of foreign currency control that was undertaken by the State Administration of Foreign Exchange in 2003. It also covers regulations which granted tax reimbursements, foreign exchange management assistance, low-interest loans from state-owned financial institutions and other kinds of financial support for Chinese enterprises, making overseas investments in strategically important sectors.[39]

As mentioned above, China's "going global" strategy in the context of the energy industry is primary intended to reduce China's oil-supply insecurity through the internationalization of Chinese oil sector. Given the large amount of foreign currency

[37] Li Peng, "China's Policy on Energy Resources," FBIS *China*, 15 July 1997.
[38] Lunding A."Global Champions in Waiting :Perpectives on China's Overseas Direct Investment", Deutshe Bank Research, August, 2006.p.1.
[39] Zhang, A."Going Abroad – China's Corporations Go Global", PriceWaterhouseCoopers, 2004.

reserves originating from China's substantial trade surpluses generated by an export-oriented economy, the country's investment into the overseas oil sector could be regarded as one of the most appropriate options for the optimal utilization of these reserves. Beijing's national energy security agenda is primary implemented through the overseas investment of Chinese state owned oil enterprises, notably China National Petroleum Corporation (CNPC) and China National Offshore Company (CNOOC).[40] The other major state-owned company which has been given mandate to handle offshore exploration and production of oil is China Petroleum and Chemical Corporation (Sinopec).[41]

As a result, since the "going global" strategy was introduced, Chinese state-owned oil enterprises have started to aggressively pursue oil deals in North and South America, Africa, Asia, and the Middle East. According to a report published by the Energy Information Administration, for the time being CNPC has acquired exploration and production interests in 21 countries and in 2005 the company announced its intentions to invest further $18 billion in foreign oil and gas assets until 2020. CNPC is particularly active in Sudan, where in 2005 it invested more than $8 billion into the country's oil sector, including investment in a 900-mile pipeline to the Red Sea. The same year CNPC also finalized the purchase of PetroKazakhstan, Encana's oil and gas assets in Ecuador and PetroCanada's oil assets in Syria.

Similarly to CNPC, Sinopec looks intensively for oil exploration and production possibilities and in June 2006 the company acquired a 97 percent stake in Undurmneft wchich is a mid-sized unit of BP's Russia vehicle, TNK-BP. Sinopec has also purchased

[40] Downs E."China's quest for energy security",RAND, .p.10.
[41] Lunding A."Global Champions in Waiting :Perpectives on China's Overseas Direct Investment", Deutshe Bank Research, August, 2006.p.1.

a 40 percent stake in Synenco Energy's Northern oil sands project in Canada.CNOOC has been equally aggressive with regard to foreign expansion in recent years, and it became the biggest operator in the offshore Indonesian oil sector when in August 2005 the enterprise purchased the Repsols – YPF's oil field. Moreover, in 2006 besides acquiring a 45 percent stake in an oil gas field in the Niger Delta, CNOOC also succeeded to reach smaller contracts for exploration and development rights in Equatorial Guinea and Kenya.[42]

The wide geographic variety of oil suppliers to China is primary aimed at reaching the risk diversification targeted to establish a sustainable oil supply. Moreover, Chinese companies, as a rule, have sought to establish a presence mostly in countries where no particular commercial interests of Western countries prevail, such as Iran, Sudan, Uzbekistan and Venezuela.[43] Such a tactic eliminates the competition with more experienced and technologically advanced Western companies, creating the possibility to strengthen the dominance and monopolist status of Chinese enterprises. However, being relatively late in taking steps to secure steady oil supply, because of the established dominance of Western countries over the main oil resources, the share of China's foreign investment forms very insignificant part of total oil imports, the rest is being purchased on the open market at relatively high oil prices[44].

Nevertheless, it can be argued that the Chinese government gives priority for long-term perspectives rather than for immediate outcomes. Having at its disposal a

[42] Energy Information Administration "China Energy Data, Statistics and Analysis – Oil, Gas, Electricity, Coal", 2006.
[43] Bahgat G."China's Energy Policy: Strategic Implications", Middle East Economic Survey, No.3, 15 January 2007.
[44] Uanming.Y, A. Lvin A., Ao Y. "China's Oil Strategy and Its implications for U.S.- China Relationship", Issues&Studies, September 2006.p.185.

number of state owned enterprises, the Chinese government, in contrast with most foreign governments that rely on the invisible hand of the market, takes exceptionally active role meeting strategic requirement of securing mineral resources and energy assets.

Because China remains a relatively centralized, government-driven economy, Beijing has been able to adapt its foreign policy to its domestic energy needs[45] and currently there could be identified several aspects China's energy diplomacy, especially related to oil. These are strengthening political relations with the oil-exporting countries by means of bilateral and multilateral diplomacy, providing practical diplomatic assistance to ensure the safe transportation of overseas oil to China, obviating diplomatic efforts by any third state to disrupt bilateral energy cooperation, countering the diplomatic efforts to hostile states to implement an oil embargo against China and developing oil-based diplomacy through presidential diplomacy, regional diplomacy, great power diplomacy and multilateral diplomacy.[46]

As a consequence, Chinese state-owned enterprises investing abroad have solid political patronage, numerous credit lines from local financial institutions and increasing international business acumen.[47] Moreover, besides encouraging state-controlled enterprises to secure exploration and agreements with states producing oil, gas and other strategically important resources, the Chinese government simultaneously builds goodwill of representative of these states by the extensive promotion of bilateral trade relations, aid provision, forgiving national debts and building infrastructure.

[45] Zweig, David "China's Global Hunt for Energy", Foreign Affairs, Sep/Oct 2005, Vol.84 Issue 5, p.26.
[46] Uanming.Y, A. Lvin A., Ao Y. "China's Oil Strategy and Its implications for U.S. - China Relationship", Issues&Studies, September 2006.p.180.
[47] Hewitt, J."Changing the Rules of the Resource Game", The China Analyst for Africa, Vol. 5, No.2 February 2007, p.5.

It could be concluded that China has adopted a mercantilist approach to energy security based on the state-sponsored economic measures and political initiatives with the government playing a pivotal role in directing investment flows to the overseas energy industry. This has been sharply reflected in one of the recently introduced Five Key Points for China's economic structural reform in 2007, identifying that 'The government will ask central state-owned enterprises to focus their business on those industries and areas that are closely tied to national security and economic lifelines. It will support qualified enterprises to help them become more successful.'[48] Therefore China's government's push for the procurement overseas natural resources is part of the broader politically driven agenda of economic nationalism focused on issues of energy security, geopolitical positioning and national competitiveness.[49]

2.2 The strategy of Chinese resource-based foreign policy towards Africa.

Dynamically accelerating China's economic and strategic cooperation with the African continent over the last decade has been one of the major features of Beijing's foreign policy. While Sino-African relations during the Cold War era were primary determined by ideological considerations, the recently intensifying Chinese promotion of cooperation with African nations is substantially based on Beijing's economic interests,

[48] "Five key points for China's reform in 2007", People's Daily Online, http://english.people.com.cn/200704/05/eng20070405_364083.html

[49] Lunding A."Global Champions in Waiting :Perpectives on China's Overseas Direct Investment", Deutshe Bank Research, August, 2006.p.5.

especially on its quest for natural resources. In other words, China's economic strategy towards Africa strongly reflecting its internal development challenges constitutes a significant part of China's foreign policy towards the continent.

The confirmation of China's resource-based policy agenda towards Africa is founded in the text of the Beijing Action Plan, which was adopted for the year 2007-2009 on the basis of the third Forum on China-Africa Cooperation. Beijing Action Plan describes the cooperation in energy and resources as a 'highly complementary and pragmatic', serving the long-term interests of both sides and emphasizes China's willingness to set a 'high priority to helping African countries turn their advantages in energy and resources into development strengths, protecting the local environment and promoting the sustainable social and economic development in the local areas'. Furthermore, the document mentions the willingness of both sides to encourage and support their enterprises in conducting - under the principle of reciprocity, mutual benefit and common development- joint exploration and the rational exploitation of energy and other resources through diversified forms of cooperation.[50]

China's focus on natural resources in its economic relations with the African continent is also reflected in China's African import statistics. According to the data of China's trade, the nine out of ten main African trade partners with China were countries abundant with natural resources, particularly with oil.[51]

[50] Forum on China – Africa Cooperation Beijing Action Plan (2007 – 2009).
[51] Taylor I., "China's oil diplomacy in Africa", International Affairs, No.82, Volume 5, 2006.p.938.

Table 2. Top ten African trade partners of China, 2004 (by imports)

Exporting country	Value (US $ million)	Percent of Sino-African trade
Angola	3422.63	27.4
South Africa	2567.96	20.6
Sudan	1678.6	13.4
Congo – Brazzaville	1224.7	9.8
Equatorial Guines	787.96	6.3
Gabon	415.39	3.3
Nigeria	327.91	3
Algeria	215.11	1.7
Morocco	208.69	1.7
Chad	148.73	1.2
Total	**11043.72**	**88.4**

Source: Taylor I., "China's oil diplomacy in Africa", International Affairs, No.82, 2006.

The Chinese return to Africa after a long phase of a loose relationship during Mao Zedong's Cultural Revolution and Deng Xiaoping's preoccupation with the West was demonstrated by the Jiang Zemin's tour of Africa in 1996.[52]During the visit, the former President introduced the 'Five Points Proposal'; at least rhetorically described by him as based on mutually beneficial development, cooperation, sovereign equality, non-intervention and reliable friendship.[53] The document presenting the Sino-African relationship on equal bases was the outcome of Beijing's awareness of the importance to approach the continent which was for the centuries abused by 'European colonialism' and 'American imperialism' in a correct, sovereignty-sensitive manner. The main message

[52] Xuewu, Gu "China returns to Africa", Trends East Asia, Ruhr-University Bochum, February, 2005.p.10.
[53] Alden, Ch., "China in Africa", Survival, Volume 47, No.3, p.147.

included in the proposal was a signal that China is ready to develop with Africa an “all weather partnership” founded on mutual benefit.[54]

Jiang Zemin’s tour to Africa was followed by intensifying Sino-African relations, principally grounded on the bilateral economic basis that culminated in the first Forum on China-Africa Cooperation held in Beijing in 2000.

Besides establishing a mechanism for promoting diplomatic relations, the forum set off a new era of trade and investment that presently generates visible outcomes. As a result China’s trade with Africa increased from $10.6 billion in 2000 to $50 billion in 2006, becoming the second largest partner to Africa after France.[55] According to the Economist magazine, current trade volume between Africa and China is expected to double until 2010.[56]

The cooperation between China and African businesses is first of all grounded on building goodwill and the political support of the African leaders. One of the strongest Chinese instruments for cultivating political cooperation prosperous for business deals and assurance of access to African markets and natural resources is the provision of unconditional development aid and national debt cancellations. In 2005, Chinese aid towards Africa accounted for more than half of total development assistance in the continent. However, contrary to Western donors, China’s development assistance does not insist on human rights, democratic governance and economic reforms. The single

[54] Xuewu, Gu “China returns to Africa”, Trends East Asia, Ruhr-University Bochum, February 2005.p.10.
[55] Never too late to scramble” , The Economist, October 29, 2006.
[56] Ibid.

condition attached to the Chinese development aid to Africa is the recognition of 'one China policy', promoting Beijing reunification with Taiwan.[57]

The unconditioned development assistance is truly appealing for the numerous autocratic African leaders. For example, when during the second China-Africa Cooperation Forum in 2003 Chinese Prime Minister Wen Jiabao presented China's foreign assistance based on "deepest sincerity and without any political conditionalities", his position was strongly supported by Zimbabwe's President Robert Mugabe, who responded by criticizing 'Anglo-Saxon unholy alliance against Zimbabwe' and claiming that China provides 'a better new alternative direction, which in fact could be the foundation of a new global paradigm'.[58]

While enthusiastically viewed by the African elites, Chinese unconditional development assistance has caused concerns among the Western countries that during the last few decades tried to establish democratic rule in the continent using the aid instrument. Particularly, the critics pointed to China's support and cooperation with the Sudanese government that is internationally blamed for the violation of human rights in the Darfur region.[59] However, it should be not omitted the possibility that unconditioned Chinese development aid is strongly criticized by Western countries because it endangers the obedience of developing countries to global aid and foreign assistance institutions such as the World Bank or IMF.

China seems to ignore the critical remarks regarding its development assistance nature and during the most recent China-Africa Summit which took place in Beijing in

[57] Wemping , He "Moving Forward with the Time: the Evolution of China's African Policy", Hong Kong University of Science and Technology, center on China's Transnational Relations, November 2006.
[58] Alden, Ch., "China in Africa", Survival, Volume 47, No.3, p.155.
[59] Romann A." Go East my son", New African, December 2006.

November 2006, Chinese President Hun Jintao pledged to double his country's assistance to the African continent by 2009.He also proposed a raft of new loans, development projects in health and agriculture, and cancellations of debt that came due to 2005.[60]By offering a debt cancellation China presented itself in step with the leading foreign powers operating in Africa, thus implicitly suggesting that it is on similar footing as the West. In this spirit, China has also introduced a series of trade concessions good for the 25 poorest African Countries.[61] Besides Beijing's plans to set up five trade and economic zones in Africa, Chinese President announced the establishment of a China-Africa development fund with $5 billion capital whose main goal would be to encourage private firms with a capacity to invest in Africa, especially into the projects related to natural resources and energy[62].

The next instrument used by China for gaining the goodwill of African nations is its emphasis on so-called Five Principles of Peaceful Co-existence, which enshrines the non-interference in internal affairs, non-aggression and territorial respect. In contrast to Western governments, that while making business decisions as a rule take into account the nature of political regime, the situation of human rights and other the various external, non-business-related aspects, China promotes a contrasting approach with establishing close relations with such leaders as Zimbabwe's President Robert Mugabe.[63] Moreover, with the aim to gain a sympathy of the African leaders and population, China presents itself as a developing nation despite being an emerging economic superpower. The way China posits itself and the fact that China has experienced the common enemies

[60] Integrated Regional Information Networks "China to double aid to Africa", United Nations, November 6, 2006
[61] Alden Ch. "China in Africa" Survival vol.47.no.3 Autumn 2005.p.151.
[62] Chinese private firms encouraged to invest in Africa, Peoples daily, April 12, 2007.
[63] McGivering J., China's growing focus on Africa, BBC News, 2nd January 2007.

of imperialism and 'neo-imperialism'[64] could be interpreted as its intention to appear as a better alternative partner to the West.[65]

The next Chinese device in order to obtain the entrée to the African natural resources and markets is arms sale. For example, China's active exploration of oil sources in Africa has often been assisted by the provision of arms that help to cement Beijing's relationship with African leaders and obtain better oil prices. Between 1996 and 2003, China's arms sale to Africa accounted for 10 percent of all conventional arms transfers to the continent, with a significant part going to Sudan, Equatorial Guinea, Ethiopia and Eritrea, Burundi, Tanzania and Zimbabwe.

For conclusion it could be added that the described Chinese recent initiatives aimed to establish intensive economic and politic relations with Africa are conditioned by the fact that during the recent few decades the African continent has experienced the diminishing political and economic interest of Western countries. Consequently, such situation provided an opportunity for an emerging hegemonic power to reformulate its policy towards Africa the way that it would strengthen its global role in the world and serve for the internal development purposes.[66]

Finally, one of the possible explanations regarding the African acceptance of an aggressive "going global"' Chinese involvement in the continent is the fact that Chinese investors, besides exploring resources, additionally actively develop African infrastructure industries. For example, Chinese enterprises build up entire oil industry chain, including local refinering facilities and a petrochemical industry. That is in

[64] Taylor I., "China's oil diplomacy in Africa", International Affairs, No.82, Vol.5, 2006.p.939.
[65]Tull M. Denis "China's engagement in Africa: scope, significance and consequences", Journal of Modern African Studies, 44, 3, 2006.p.466.
[66] Xuewu, Gu "China returns to Africa", Trends East Asia, Ruhr-University Bochum, February 2005.p.9.

contrast to the Western oil companies that rather focus on extracting crude oil and reselling oil products to the countries of resource origin.[67]

[67] Jakonson L., Daojiong Z."China and the Worldwide Search for Oil Security", Asia-Pacific Review, Vol.13, No.2, 2006.p.67.

IV China's current trade and investment characteristics with Africa

While the previous chapter was intended to establish the link between China's energy dependency and the country's relations with the African region, the main goal of this chapter is to analyze the character of China's economic expansion to the continent in the context of China's previously described foreign policy towards the continent. The chapters will primary put emphasis on the analysis of Sino-African trade and investment patterns with the aim to identify China's main economic interest in Africa and the way they reflect China's challenge to sustain its heavy industry based economic growth.

1 China's trade patterns with Africa

It is widely recognized that trade plays an indisputably significant role in the economic development of each economy. In general, trade improves the domestic economic efficiency of resources allocation in sectors containing comparative advantage and contributes to the collection of foreign reserves that serve the external debt of the country. Moreover, besides the fact that in most situations trade is an important incentive for the promotion of technological innovation domestically, it also captures benefits from economies of scale, it creates new workplaces and ultimately reduces poverty.[68]

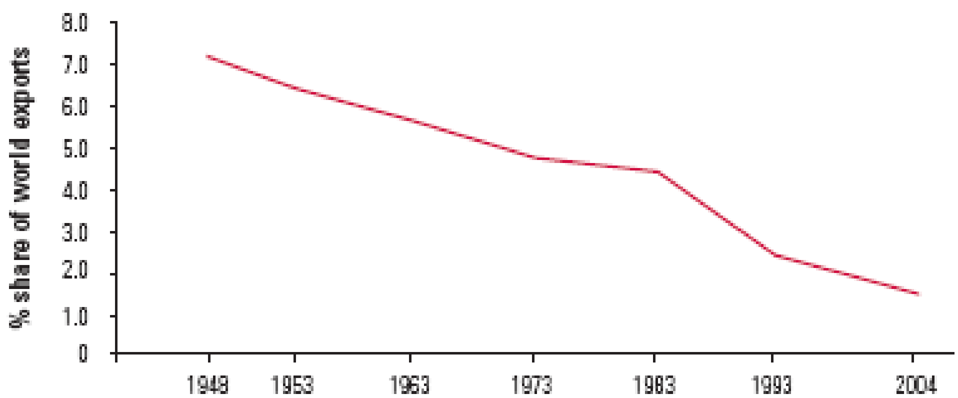
Realizing the benefits of the integration into the world trading system, during the last decade China has substantially altered its principle of the physical planning of foreign trade. The system that dominated the period until 1980 and resulted in an

[68] "Patterns of Africa-Asia Trade and Investment", World Bank, November 2004.p.4.

irrational pattern of exports, has been successfully replaced by a decentralized and market-determined trading principle, making China a more open economy.

At the same time moment, in contrast to China, the African continent was becoming gradually economically marginalized. While world trade was dramatically expanding in the 1990's, Africa's export market shares declined from approximately 3.5 percent in 1970 to about 1.5 percent by the end of the 1990's[69].Stagnating trade made the continent isolated in the context of integrating world economy and reduced its possibility to generate economic growth and thus to reduce poverty. Even though recently African countries have relatively progressed in economic development, the continent's general trade performance in the global market is rather poor, with African trade flows constantly falling (See Graph 6).[70]

Graph 6.Africa's share of World Exports, 1948 - 2004



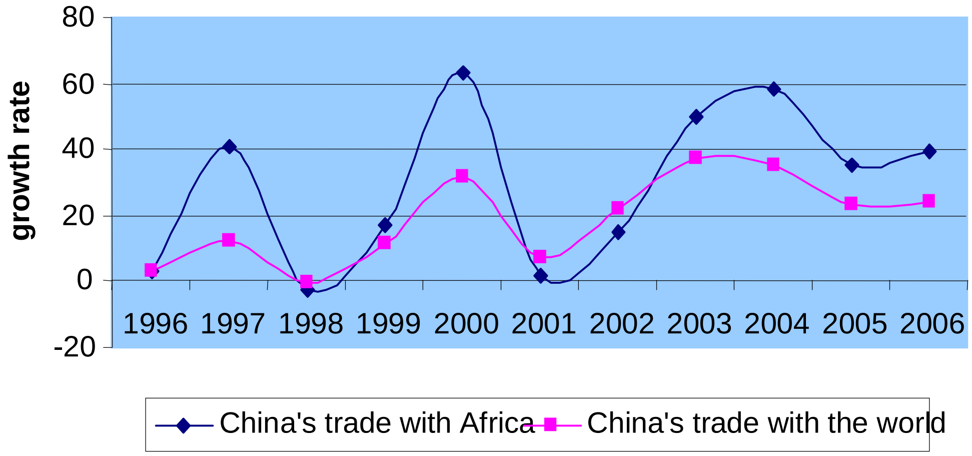
Source: Broadman "Africa's Silk Road: China and India's New Economic Frontier", p.64.

While African countries have been experiencing their exports' decline on the global level, the new phase of the continent's economic cooperation with China

[69]"Patterns of Africa-Asia Trade and Investment", World Bank, November 2004.p.3.
[70] Broadman H. "Africa's Silk Road: China and India's New Economic Frontier", p.64.

manifested different trade patterns. The dynamic of Chinese trade with the continent has been substantially more vigorous than with the world in general. (See Graph 7[71])

Graph 7.China's trade growth dynamic with Africa and the world, 1996 -2006

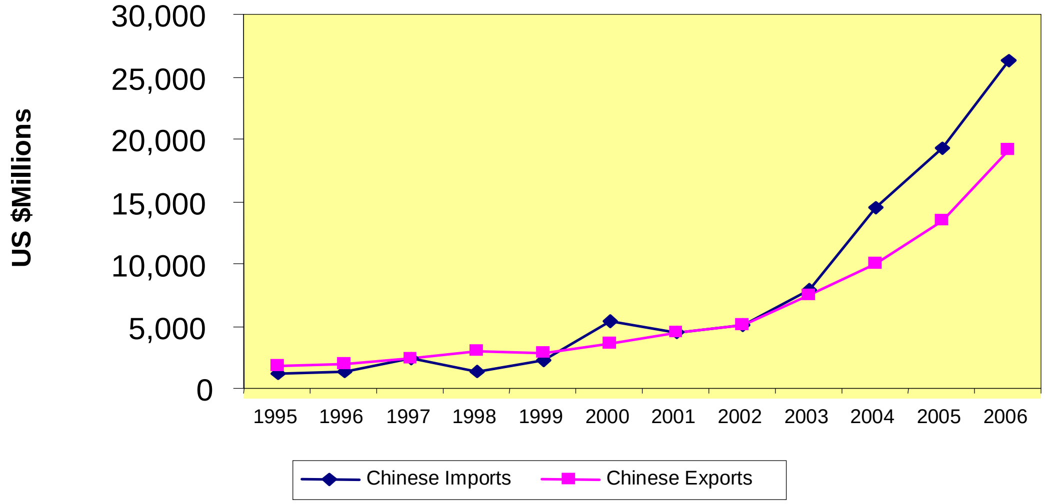


There has been a dramatic increase in direct trade between China and Africa especially since 2002, reaching more than $50 billion in 2006, with the trade relationship evolving towards a growing Chinese trade deficit with the continent. (See Graph 7[72]) Also it could be noted from the figure that the growth of China's trade with Africa is volatile and tend to more fluctuate than the China's trade with the rest of the world. However since 2001 that pattern of growth seems to have been stabilized.

[71] Based on World Trade Atlas statistics.

[72] Ibid.

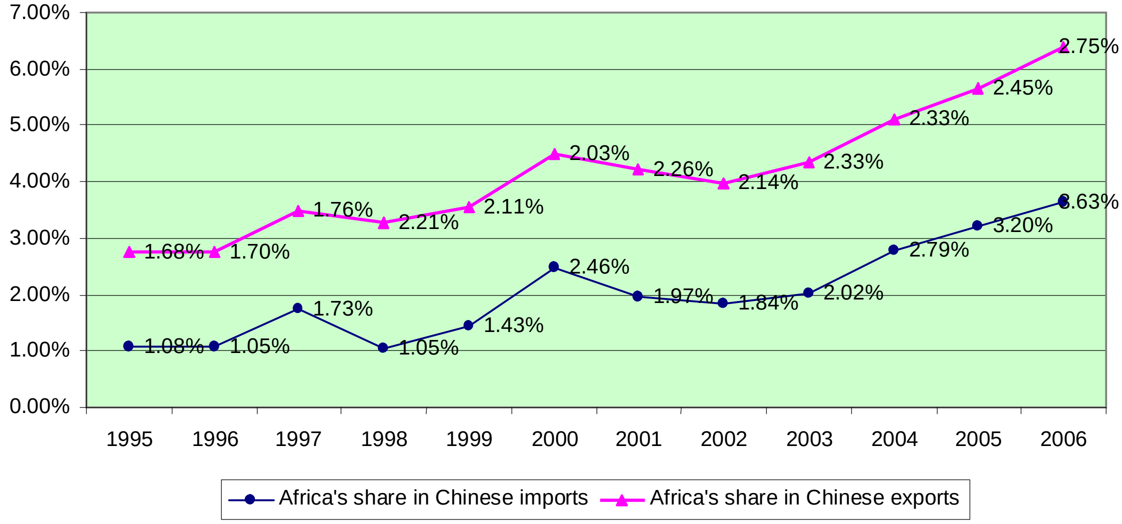
Graph 7.Chinese Trade with Africa, 1995-2006



Despite of the fact that Africa still occupies a very modest part of the general Chinese exports and imports at the present moment, its significance as a trading partner has increased during the last decade. While Africa's share in Chinese imports accounted for approximately 1 percent in 1995, by 2006 this number has increased substantially and reached 3.8 percent (See Graph 8[73]).

[73] Based on World Trade Atlas statistics.

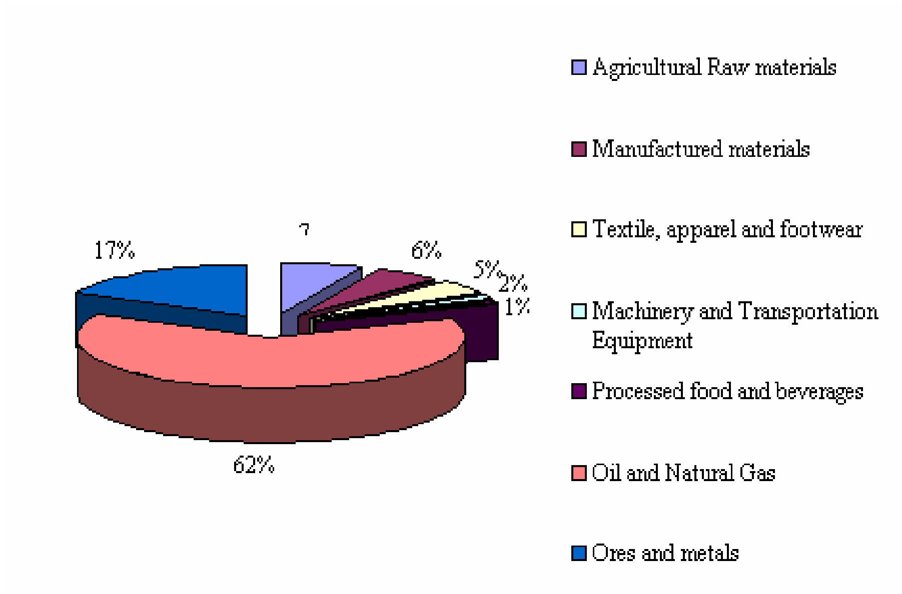
Graph 8.Africa's share in Chinese exports and imports, 1996 - 2006



As could be noted on the figure 1, China's primary trade interest in Africa is predominantly concentrated on the oil and natural gas, accounting for 62 percent in Africa's total imports to China in 2004. In addition to oil and natural gas, ores, metals and agricultural raw materials are also significant product groups, representing together another 24 percent of China's imports from Africa. More manufactured products, such as machinery and transportation equipment, textiles apparel and footwear, manufactured materials, together with processed food and beverages, occupy a very modest share of China's imports from Africa, manifesting the general tendency of stagnant African exports in non-oil goods - only 20 percent of total continent's exports to the world are from manufactured products.[74]

[74] Broadman "Africa's Silk Road: China and India's New Economic Frontier", p.73.

Figure 1.China's merchandise imports from Africa, 2004

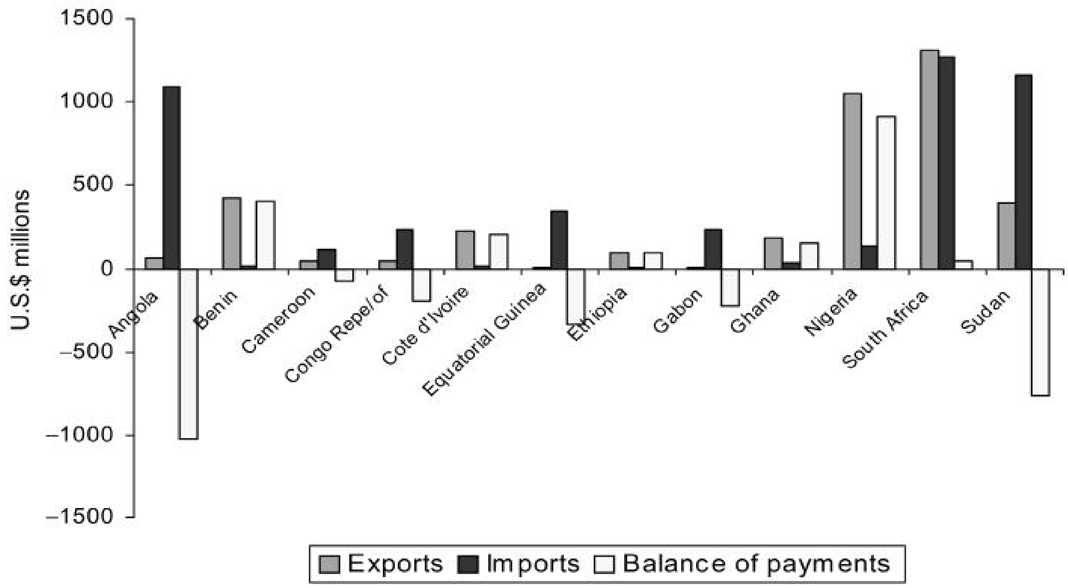


Source: Broadman" The Growing Africa-Asian Trade and Investment Connection", World Bank, May 2006.

Furthermore, China's current imports from Africa are originating from a small number of economies that are natural resources endowed and substantially lack diversification in their export structures. South Africa, Sudan, Angola and Nigeria account for more than 75 percent of China's trade[75] (See Graph 9) and this makes them strongly dependant on China as a trading partner.

[75] Zafar A." The Growing Relationship Between China and Sub-Saharan Africa: Macroeconomic, Trade, Investment, and Aid Links", The World Bank, April 2007.p.13.

Graph 9. China's Trade with the Top 12 Sub-Saharan African Countries in 2004.



Source: Zafar A." The Growing Relationship Between China and Sub-Saharan Africa: Macroeconomic, Trade, Investment , and Aid Links", The World Bank, April 2007.p.14.

Besides, it could be stated that the dispersion of China's trade with Africa shows that resource endowments trump geographic proximity as an explanatory variable for the trade flows.[76]

Although generally China has a current account deficit with Africa, the situation differs from case to case. The most significant bilateral deficits could be found in the cases of oil producing countries, such as Angola or Sudan, whereas flows to the most

[76] Source: Zafar A." The Growing Relationship Between China and Sub-Saharan Africa: Macroeconomic, Trade, Investment, and Aid Links", The World Bank, April 2007.p.14.

developed continent's economy, South Africa, tend to be more balanced. On the other hand China has considerable trade surpluses with Nigeria and Benin.[77]

The above described recent characteristic of trade flows between China and Africa seems to fit the model of the Ricardo, where countries are expected to specialize in the field where they have a comparative advantage. When Africa supplies China with raw materials and mineral fuels, China provides the continent with relatively advanced technology exports, such as electronics or machinery, that create almost 50 percent of China's exports.

However, there is one exception to the above-mentioned principles of Ricardo model in this case, the absence of substantial agricultural exports from Africa to China, except raw cotton. The explanation for this phenomenon could be the fact that China is supplied agricultural goods from other regions or countries that do have a comparative advantage in agriculture to Africa. These are Argentina, Canada and Chile.[78]

2 Recent patters of China's outward investment to Africa

2.1 China's FDI priorities in Africa

During the recent decade the Chinese FDI towards Africa has manifested a similar pattern of astonishing intensification to trade flows, shifting from $20 million a year in the 1990's level to more than $1 billion in 2006.Such a development has constituted the

[77]Source: Zafar A." The Growing Relationship Between China and Sub-Saharan Africa: Macroeconomic, Trade, Investment, and Aid Links", The World Bank, April 2007.p.15.
[78] Ibid.

biggest growth rate among the Chinese FDI flows to any country of the world during the time period.[79]

One of the core reasons of the described development could be named the fact that the Chinese industry-based and export oriented economy has generated a large amount of 'Chinese dollars' which consequently made the promotion of outward FDI an imperative for the Chinese Government. The 'go global' policy formulated by the political leaders with the aim to serve the domestic development needs, has had significant implications for the general Chinese FDI outward policies, but on the Sino-African trade and economic cooperation in particular.[80]Recognizing the large potential in the economic cooperation with the resource-abundant continent lacking the attention of aggressive Western investors, the Chinese government has identified priority industries and types of projects for outward investment in African continent. These are:

- **Industrial processing –** if compared to Africa, China possesses comparatively advanced technology in the area of electronics and machinery building, textiles and garments.

- **Agriculture –** because of the large population and urbanization, China must deal with a food supply problem. Thus by investment into agriculture of African countries, which supplying mostly unprocessed agricultural exports, could both solve the problem on the Chinese side and increase the efficiency and productivity of African agricultural goods.

[79] Zafar A."The Growing Relationship Between China and Sub-Saharan Africa :Macroeconomic, Trade, Investment, and Aid Links",World Bank, April 20, 2007.p.21.
[80] "Asian Foreign Direct Investment in Africa", United Nations, March 2007.p.57.

- **Natural resources –** the investment in the natural resource-rich African continent is an important factor of supporting the future economic growth of China.

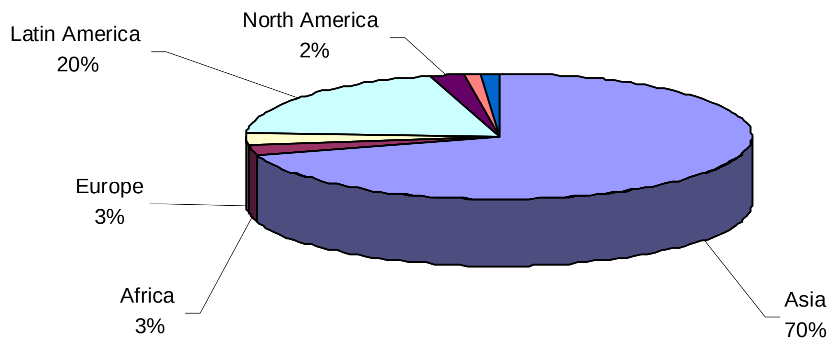
- **Infrastructure and real estate –** this is another important potential field for Chinese investment in Africa. Taking into account the fact that Chinese enterprises have already substantial experience in building railways, roads and houses on the continent and also that Africa's infrastructure development projects are top priorities for a number of multilateral financial institutions, which are ready to provide long-term assistance and financial support, Chinese investors have a strong potential for cooperation in these projects with their counterparts in Africa.[81]

2.2 Recent tendencies of Chinese FDI outflows to Africa

If we analyze the absolute amount of Chinese investment into Africa, it could be assumed that the continent represents a small proportion of China's total FDI portfolio (See Graph 10[82].). In the year 2005, Africa accounted for 3 percent of Chinese FDI outflows, while Asia received 70 percent of the total, followed by Latin America with 20 percent.

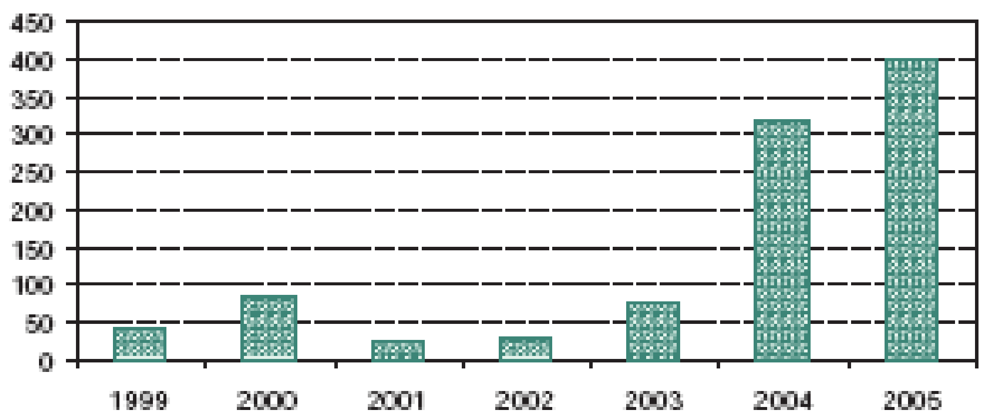
[81] "Asian Foreign Direct Investment in Africa", United Nations, March 2007.p.57.
[82] Based on World Trade Atlas statistics.

Graph 10.Chinese FDI Stock by Region at the End of 2005



However it should not be underestimated the fact that Africa is a the region that is experiencing fastest growth of Chinese FDI flows.[83]Africa has become a significant region of Chinese enterprises especially since 2002, and in 2005 China's FDI stock reached $ 1.6 billion.

China's FDI outflows to Africa, 1999 – 2005.



Source: "Asian Foreign Direct Investment in Africa: Towards a New Era of Cooperation among Developing Countries", United Nations, 2007.p.52.

[83] Broadman H. "Africa's Silk Road :China and India's New Economic Frontier", The World Bank, 2007.p.73.

Furthermore, a recent Chinese firm-level survey indicates that Africa is currently the second most attractive region for Chinese investors, surpassed only by Asia. As described in the previous chapter, one of the main triggers of the drastically intensifying Chinese FDI flows to Africa could the recent 'going global policy', which encourages Chinese firms to invest abroad in order to seek inputs in the support of the country's fast-paced economic development, and to exploit its rapidly developing comparative advantage.[84]

2.3 Sectoral distribution of Chinese FDI outflows to Africa

The closer economic and political cooperation between China and the African region is not new phenomenon, however, if we consider the China's motivation to invest into the region before and after the Cold War, it has changed drastically. During its early involvement into Africa, China primary participated in various major infrastructure projects through the continent. Infrastructure has remained an important industry of Chinese investment destination in Africa; however it has been overridden by manufacturing, especially by the light industry and textiles, and the natural resources extraction sectors.

[84] Broadmann B.Harry "Africa's Silk Road: China and India's New Economic Frontier", The World Bank, 2007.p.98.

Table 3. Sectoral distribution of China's FDI flows to Africa, 1979 - 2000

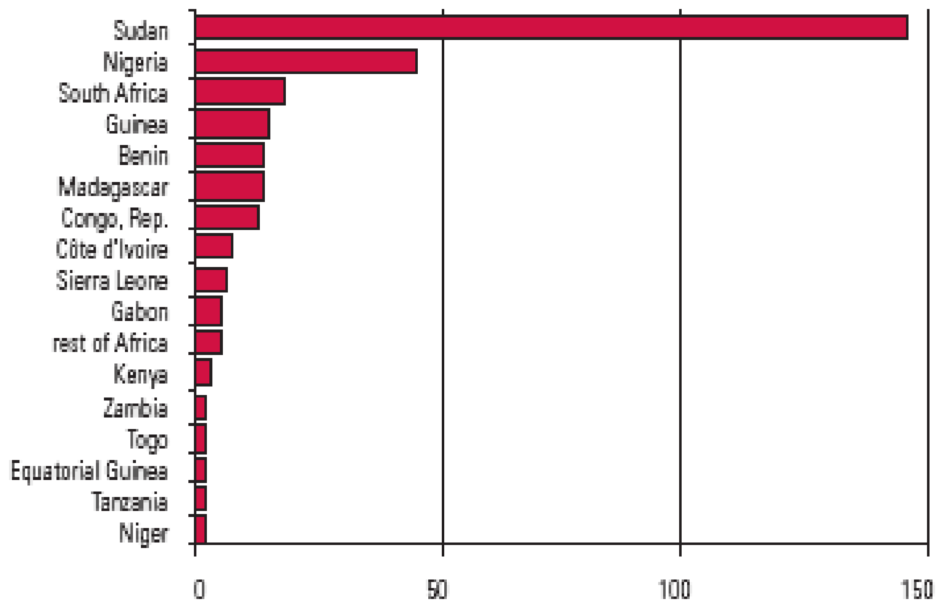
	Number of projects	Investment value (Millions of dollars)
Sector/Industry		
Agriculture	22	48
Resource Extraction	44	188
Manufacturing	230	315
Machinery	20	16
Home appliances	36	25
Light industry	82	87
Textiles	58	102
Other manufacturing	34	86
Services	200	125
Others	3	6
Total	**499**	**681**

Source: Asian Foreign Direct Investment in Africa, United Nations, 2007.

While the statistics shows that China's FDI on the continent is primary focused on the manufacturing sector, it should be taken into consideration that the volume of Chinese FDI in resource extraction, especially in the mining and petroleum sectors, has grown significantly in the last few years corresponding to the country's increased resource needs. [85]In 2004 the main recipients of Chinese FDI, except South Africa, were petroleum-specialized African economies (See Graph 11).

[85] Zafar A."The Growing Relationship Between China and Sub-Saharan Africa :Macroeconomic, Trade, Investment, and Aid Links",World Bank, April 20, 2007.p.22.

Graph 11. Chinese FDI outflows in African countries, 2004.



Source: Broadman H. "Africa's Silk Road :China and India's New Economic Frontier", The World Bank, 2007.p.100.

China's FDI flows into African countries mainly take the form of equity joint ventures with local enterprises. At first sight it seems puzzling that, according to China's Ministry of Commerce , the returns on the investment of Chinese enterprises operating in Africa were low if compared to other regions, and more than half of the companies receiving Chinese FDI were operating at least broke or recoding losses. Nevertheless, this signals the overall strategic purpose of China to secure long-term supply of energy resources with the strong support of government.[86]

It can be predicted that China's FDI flows to Africa will sustain the tendency of growth because of the complementary nature of the economic specialization between

[86] Broadmann B.Harry "Africa's Silk Road: China and India's New Economic Frontier", The World Bank, 2007.p.59.

China and the African countries, as well as the likely continued economic restructures of China and its ascending demand for natural resource, especially oil.[87]

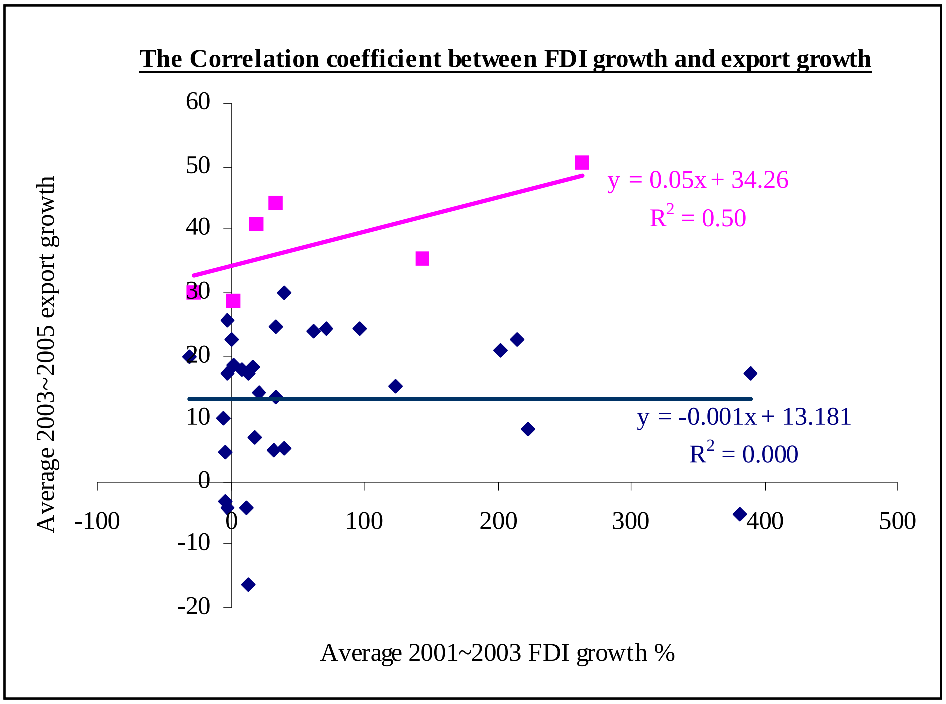
3 Chinese FDI outflows and imports linkages in Africa

Despite tradition economic theories often suggest that enterprises choose either option of supplying a foreign market through exports or either through the establishment production facilities in a host country, in majority of cases most of the empirical studies have proven that there is a direct positive correlation between FDI growth and intensification of exports. As it could be seen from the previous two sections the case of Sino-African business relations is not exception to this trend.[88]

Recently the World Bank economic advisor to African region Harry Broadman has conducted the empirical analysis between the Chinese FDI-Trade linkages between China and Africa. His main discovery was that when the growth of merchandise exports to the growth of FDI is considered, there appears to be a positive association for the countries producing oil, but none for the countries specializing in other economic activities. As oil countries Broadman has pick up Angola, Chad, Congo, Equatorial Guinea, Nigeria and Sudan, which could be definitely ranked as the main oil suppliers to Beijing.

[87] Broadmann B.Harry "Africa's Silk Road: China and India's New Economic Frontier", The World Bank, 2007.p.61.
[88] Ibid.,.p.300.

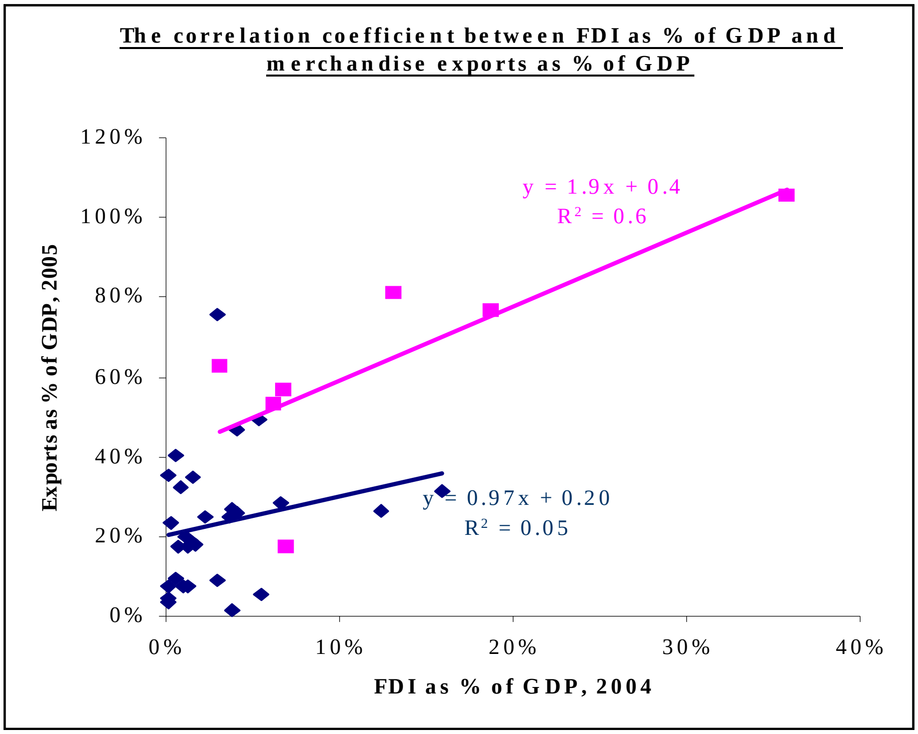
Broadman found that there is a little or weak correlation between FDI and exports among the non – oil African countries, whereas among the African oil based economies such correlation was visible.[89]



Source: Broadman H.”The Growing Africa- Asian Trade and Investment Connections”ABCDE Tokyo, May 2006.

Moreover Broadman also checks such relationship between the merchandise exports as a percentage of GDP and FDI as a percentage of GDP and also concluded that there is much stronger positive associations for the oil-producing countries than for the non-oil producing countries.

[89] Broadman H.”The Growing Africa- Asian Trade and Investment Connections”ABCDE Tokyo, May 2006.



Source: Broadman H. "The Growing Africa- Asian Trade and Investment Connections" ABCDE Tokyo, May 2006.

Finally it should not be omitted that rapid increase of Chinese FDI and trade flows into Africa countries beside due the energy dependency, are also driven by the market-access incentive, namely Chinese investors regard the region as a platform for exporting to Western countries. For instance in the wake of Multifibre Arrangement in 2005 Chinese got a particular incentive to invest in the African textile and apparel sector because of the unleashed global competition. Thus investment into African countries that have obtained the trade preferences from certain industrial countries, such as the United States AGOA program, the EU's everything but Arms initiative and Generalized System of Preferences schemes is effective way to overcome the Western countries protectionism and aggressive competition from other developing countries such as India. [90]

[90] Broadmann B.Harry "Africa's Silk Road: China and India's New Economic Frontier", The World Bank, 2007.p.300.

V China’s economic cooperation with Sudan

China’s economic relationship with Sudan is one of the most obvious contemporary manifestations of commercial dominance regarding Beijing’s foreign policy.

As described in the previous chapters, China’s transformation from an inward-looking agrarian society into a heavy-industry based open economy has triggered an enormous appetite for raw materials, sending its companies to countries that tend to be described as rogue states. In contrast to Western enterprises, China’s offshore companies do not hesitate to invest into countries under dictatorial regimes, which tend to be ripe with internal conflicts and a lack of human rights. Chinese enterprises often benefit from the unstable situation of their investment destination countries. The fragile political situation of rogue states definitely discourages and impedes the expansion of Western companies, not exclusively because of commercial considerations and business-related risks, but also due to the social and political pressure from their countries of origin. This is not the case for Chinese companies as majority of them, especially those making overseas investment in extractive industry, is state owned and thus has political shelter from their domestic government.

Sudan is one of the poorest countries in the world and has long-strived to extract its bountiful oil resources. However, it was in shortage of the necessary capital, and was reliant upon foreign investors. Due to the civil war in the beginning of 1990’s the western oil companies were forced to withdraw their operations from Sudan due to various human rights violations and the civil war itself. In contrast, China found this moment an opportune time to enter the Sudanese oil industry. Also, Sudan is particularly appropriate country of investment for China, because it possesses relatively light and low-sulfur oil that suits well to China's refining capabilities, which favor this type of crude oil.[91]

As result since 1996 China became a major investor in Sudan when the state-owned China National Petroleum Corporation (CNPC) constructed country's biggest oil refinery in collaboration with Sudan's Ministry of Energy and acquired a 40 percent stake in the country's largest oil venture, Greater Nile Petroleum Operating Company.[92] CNPC owns the largest single share of the consortium in partnership with national energy company and companies from Malaysia and India.[93] Currently it is the largest overseas project China has undertaken, with an estimated $10 billion investment since the 1990s and with $4billion in active investment today.[94] In 2004, China invested an additional $300 million that almost doubled the oil production and currently Sudan is China's second major African oil supplier accounting for the 5% of total China's imported oil.

China's dominant position in Sudan's oil industry is noticeably supported by the Beijing strategy to attain amicable relations with the Khartoum government. Besides provisions for generous loans and aid packages to Sudan, Chinese companies also cooperate with Sudan's government in the development of infrastructural projects. Despite the fact that a number of these investments generate poor profits, they increase Chinese investors' leverage over Sudan's political leaders.[95] One such project is the construction of a hydropower plants by Harbin Power Company that receives substantial

[91] China's overseas Investment", Eurasia Group, 2006.p.21.
[92] Taylor I." Unpacking China's Resource Diplomacy in Africa", The Hong Kong University of Science and Technology, Working paper no.19.p.20.
[93] "China's overseas investments in oil and gas production", Eurasia Group report, October 2006 .p.21
[94] Ibid
[95] "China's overseas Investment", Eurasia Group, 2006.p.22.

funding from China's central bank. The company set the goal to triple Sudan's electrification and irrigation levels in the next few years. Moreover, the company is also working on building a 1700 km power transmission line, with additional help from China's central bank. These kinds of projects are particularly welcomed by Khartoum as they help the government to deliver basic services for the people and thus increase its population support.

However, it is worth mentioning that China's investment in Sudan is rather negatively perceived by the local population, because of China's strategy to import nearly all its workers and not to employ local labour.[96] Currently there are between 5000 and 10,000 Chinese workers in Sudan and some of them are decommissioned People's Liberation Army soldiers charged with safeguarding China's investment.[97]

In addition to being a major investor in Sudan, China is also internationally notorious as the main weapons supplier to the country. It is worth mentioning that China is the only major arms-exporting power that is not a party member of any multilateral agreement concerning the main principles that guide arms export licensing decisions.[98]

The civil war in Sudan began a long time before the arrival of the Chinese investors, however the revenue from Beijing's investment into the oil exploitation has extended the government's ability to extend the battle. While before 1999, the government had lacked a sufficient number of arms in order to suppress the rebels in the south of the country, with additional revenues originating from Chinese investment, it was able to double its military budget. According to Sudan's former transportation

[96] "China's overseas Investment", Eurasia Group, 2006.p.22.
[97] Ibid.
[98] Taylor I. "China's oil diplomacy in Africa", International Affairs, Vo.82, 2006.p.949.

minister, Lam Akol, about 80 percent of total state budget was used to purchase additional arms.[99]

By supplying munitions, helicopters, fighter aircraft and other weapons, China, besides generating large profits from the sale of arms, also aims to protect its shares in the exploitation of Sudan's oil reserves.[100] Thus it does not seem surprising that Beijing vetoed the series of UN Security Council resolutions aimed at pressuring Sudan's government to stop supporting militias that conduct ethic cleansing of non-Muslim insurgents in Darfur.[101] The most often cited explanation offered by the Chinese officials, namely Chinese Deputy Foreign Minister Zhou Wenzhong was:'Business is business. We try to separate politics from business…I think the internal situation in the Sudan is an internal affair".[102]

China's reaction to the recent proposal of the United States plans to announce hard new economic sanctions on Sudan followed a similar line. Namely, Chinese political leaders discouraged the undertaking of sanctions and claim that Beijing's investment in Sudan is a more effective way to stop the crisis in Darfur as instability in the region is primarily the outcome of poor economic conditions. China's new troubleshooter on Africa Liu Guijin during a media briefing proclaimed that the Darfur issue and issues in eastern Sudan and southern Sudan are due to widespread poverty and underdevelopment; and only when these issues are addressed will the be peace be in Sudan.[103] According to Liu, China provided $30 million in development assistance to Sudan and that investment

[99] Goodman P."China invests heavily in Sudan's oil industry", Washington Post Foreign Service Thursday, December 23, 2004; Page A01.
[100] Taylor I. "China's oil diplomacy in Africa", International Affairs, Vo.82, 2006.p.949.
[101] Ibid.
[102] Ibid.
[103] Chang A."China Defends Sudan Investment", Associated Press, May 29th, 2007.

by its oil companies has helped Sudan to develop modern techniques in oil exploration and refinery industry. Therefore, China regards economic cooperation between itself and Sudan as being useful for Sudan's economy and thus will fundamentally help the country to resolve the conflicts and wars. Liu has criticized the hard economic sanction proposed by the United States as an inefficient solution to the problem that can cause further deterioration of Sudan's internal situation.

Conclusion

China’s foreign policy towards Africa is extensively driven by the economic considerations of Beijing. Namely, China’s trade and investment links with the African countries are largely shaped by Chinese government through enactment of a “going global” strategy for the purpose of solving the problem of energy security and thus enabling the future sustenance of economic growth. China’s energy dependency mainly evolved due to traditional heavy industry-oriented economic development of China. Despite of the fact that this kind of development model has substantially contributed to China’s rapid economic growth, the lack of economic modernization resulted in the severe consequences such as environmental pollution and dependency on imported energy. If one takes into consideration the former issue, it does not seem surprising that China’s interests of trade with African countries are largely focused on the oil and natural gas supply assurance. More manufactured products such as machinery and transportation equipment, textiles apparel and footwear, manufactures materials, together with processed food and beverages, occupy a very modest share of China’s imports from Africa. The goal to assure the new petroleum reserves access also could be found when analyzing China’s FDI statistics. At first glance it seems that China’s FDI on the continent is primary focused on the manufacturing sector. However, one should notice that the volume of Chinese FDI in resource extraction, especially in the mining and petroleum sectors, has grown significantly in the last few years with the main recipients of Chinese FDI being petroleum-specialized African economies. Therefore it could be stated that China's economic policy towards Africa serves for the sustenance of its internal growth and thus materialistic ends. Such situation seems to point to the occurrence of conflict between the classical Stalinist – Maoist approach of socialism that interprets the enrichment as a mortal sin and the nature of China's current foreign policy towards Africa. In other words Beijing's economic relations with Africa do not correspond to the main principles of socialist ideology that is supposed to guide entire policy agenda of China.

Theses finding seem to prove the validity of hypothesis about the linkage between the lack of economic modernization and the China's foreign policy towards Africa as diverging from the principles of socialism.

The second hypothesis claimed that the actual nature of China, in terms of its government pivotal role played in the economy, and at the same time prevalence of capitalism elements, creates friendly conditions for economic expansion into the African continent rapid and efficient. The validity of statement was tested by the analysis of China's government involvement into the pursuing the goals of internal development through the foreign policy tools shaped to serve as overseas investment support. As we could see from the case of Sudan, Chinese investors have strong political shelter provided by their domestic government in forms of availability of low-interest government loans. On the other hand the poor under-developing country like Sudan has been inclined towards Chinese investments due to China's generous aid packages to the country and even its diplomatic protection of Khartoum government against the international pressures.

Finally, in reference to the application of The World System approach to the China's contemporary economic links with Africa. According to the model, China should behave as a core state with regard to Africa and thus Beijing's trade and investment linkages with Africa should carry exploitative character. The present study illustrated the potential unequal distribution of gains from the cooperation between China and Africa. China is primary focused on the exploitation of Africa's natural resources without significantly developing other economic sectors that would enhance Africa's position in the global commodity chain. This can arguably further enhance the so-called 'resource curse' and limit the prospects of the African countries to develop a diversified economy. However, at the same time if we take into consideration the fact that during the recent decade African countries suffered from the substantial disinvestment and marginalization in the world trade system, the intensifying economic linkages with China does not appear in such a negative light. They do generate income and it largely depends on internal economic and political characteristics of the African partners whether they will take it as an opportunity to change their status of the poorest countries on the globe.

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