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Analyzing Recent Economic Relations between China and Sub-Saharan Africa: Trick or Treat?

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Abstract:
Chinese economic transformation into a market economy has influenced world-wide economic relations and trade. This paper examines the economic developments and challenges between China and Sub-Saharan Africa (SSA) by providing data on different economic activities, as well as recent information on foreign direct investment (FDI). The study analyzed recent evolution of Sino-SSA trade relationship, as well as explored the current Chinese direct investment (FDI) in SSA. Cameroon, Kenya and Ethiopia were used as case-studies. This research found that the current economic ties despite its promising appearance is ill-fated because China is heavily investing in manufacturing and exploitation of resources, while investment in education and electricity which are critical to long-term economic growth is SSA are almost none-existent. Also, China is decreasing amount of imported good from SSA, due to slowing growth while exporting more goods and services to the region. This work is important because Chinese massive economic growth in recent times had affected the world wide economy, and developing countries are impacted more. Recent trends and noticeable changes are examined and recommendations are made based on methods of strengthening healthy trade relationships for long-term benefits.

Keywords: *transformation, market economy, economic relations Sub-Saharan Africa (SSA), foreign direct investment (FDI), economic development, evolution, trade relationship, mutual benefits, implications, trends, exploitation*

1. Chapter 1

1.1. Introduction

Economic trade between China and Sub-Saharan Africa (SSA) has increase massively within the years 1990s and 2016. China is now SSA's major export and development partner. Recently, economic trade has expanded opportunities for countries in SSA to actively participate in global markets. In addition, the relationship has contributed towards improving standards of living as well as shaping the human development all over Africa. Almost one-third of China's energy imports are from SSA- an important dimension since the rate of energy consumption in China has doubled more than global average. Also, rapid urbanization and heavy industrialization has spur robust Chinese demand for coal, oil and natural gas, (African Development Bank Group, 2014).
In terms of investment, Chinese banks especially People's Bank of China, China Development Bank and Exim Bank have financed infrastructural development in Africa. There exist more than 2,200 Chinese Enterprises in SSA of which most of them are private (UNCTAD, 2014; Shen 2014). All these forms of trade have expanded diplomatic ties and cooperative initiatives. The forum on China-Africa which was formed in 2000 and convenes every 3 years is the major hub for advancing China strategic partnership with SSA.

1.2. Research Problem

Despite the emergence of China as the second largest economy in the world, and closer economic ties to Africa, the nature of the relationship is still not clear to the world. In addition, many western economic analysts raise an eyebrow. While China's concentration in Africa is hardly new, the scope and scale of current Chinese immersion on the continent is unparalleled. Given this setting, is the China-Africa relationship a reciprocal one? Or, has Africa struck a dangerous bargain with China, taking easy money for its natural resource treasure and endangering its long term economic health? (David Haroz, 2011). For this reason, this paper will use recent data to examine the scope of involvement between China and SSA, current implications, and provide recommendations for the future.

1.3. Research Objectives

This work seeks to examine Chinese economic activities with SSA countries by answering the following questions:

a. How is this trade relationship symbiotic of parasitic?
b. What is the scope and range of involvement in trade relations?
c. Are the two parties involved in long-term beneficial partnership?
d. What aspects and or areas should both parties focus on to enhance and upgrade trade partnership?

In addition, following case-studies will be highlighted:

a. Trade relations between China and Cameroon
b. Chinese FDI in Kenya
c. Chinese FDI in Ethiopia

2. Chapter 2

2.1. Recent Background of China-Africa Trade Relations

48 African countries participated in a high-level trade summit in November 2006, in Beijing which indicated strengthening economic relationships between China and African nations. The summit was a message to the world that China is comfortably committed and optimistic about expanding trade, foreign direct investment and aid in African countries. It should be mentioned that the summit was the biggest assembly of African leaders in China since the inception of Communist leadership in 1949. This followed after Africa tripled the size of its exports to Asia, while on the other hand halved exports to the European Union. 27% of African exports go to Asian countries, an increase of 14% from 2000. This change is particularly important to Africa. The over 1 billion Chinese population presents a lucrative market for African producers, considering that their exports have been falling in the past decades. Now, more African firms can export extractive resources, non-traditional goods, food items and tourism to China, with the rapidly increasing trade relations. The eventual result of this change will be integration of Chinese firms into African markets.

Over the past decade, engagement between China and SSA has greatly enhanced in terms of all areas of development. This resulted in the acceleration of growth. Stronger local policies are helping SSA countries improve benefits from the developing partnership. In 1990, export from SSA to China was less than 1%, from the total of exports to developing countries. However, by 2006, the amount has risen to 11%. Similarly, China was able to only export less 1% of its products to SSA from total exports to developed countries; however, the amount has drastically changed to 8% by 2006. However, it should be mentioned that China imports more than it exports to SSA, which slowly but gradually balances trade relations between the country, and the region. Using its own “Trade Complementarity Index”, the World Bank made it clear that future bilateral trade growth forecast is weak on the basis of existing economic specialization, however, it could be enhanced if China’s growing demand for commodities are sustained (World Bank 2004). With respect to direct trade links, the previous evidence suggests that China provides capital goods and cheap consumer products, while it satisfies it needs for commodities. This shows that there is little trade of intermediate products between China and SSA, with also weak connection with global value chains.

Most of the imports of Chinese products to SSA have replaced imports from outside of SSA, Jenkins and Edwards (2006) argue. Nigeria and Ethiopia are exception, because the two countries have minimum displacement of domestic production which barely affects domestic production, employment and local economies. Therefore, it is safe to say that the optimism of the relationship between China and SSA exists from the future possibilities of more lucrative and beneficial trade relationships, which will be only be attained by continued trade expansion and economic integration.

2.2. Development of China and SSA Trade

There are four major groups of SSA exports to China namely agriculture goods, oil, non-oil natural resources and manufacturing goods. SSA has shown comparative advantage in the first three groups and a comparative disadvantage in the fourth. SSA’s largest comparative advantage is in oil production, although that has declined since the early 2000s. By contrast, SSA’s competitiveness in non-oil natural resources, which include non-oil energy products and minerals, has increased over time. Manufactures have the lowest comparative advantage, and the competitiveness of agricultural exports has decreased significantly since the early 2000s.

Group of goods	Share of total exports to China%		SSA comparative advantage		Compound annual growth rate 2003-2013 (%)
	2003	2013	2003	2013	
Agriculture goods	12.25	5.53	2.18	1.3	5.82
Oil	62.64	55.62	3.58	2.93	15.25
Non-oil natural resources	10.44	25.04	1.6	1.73	15.04
Manufactures	14.67	13.81	0.54	0.39	6.28

Table 1: Major groups of SSA exports to China
Source: World Integrated Data Solution, World Bank, 2013

SSA's agricultural exports to China have the lowest compound annual growth rate of any trade category. Although production volumes and logistical constraints in SSA are driving this trend, significant trade protections in the Chinese market also play an important role. China's average most-favored-nation tariffs on agricultural goods are relatively high; they increased from 15.9 percent in the mid-2000s to 22.5 percent in 2014.

In general, SSA is still benefiting from Chinese increasing need for minerals, crude oil and metals (Broadman 2007; Roache 2012). Exporting nations in SSA are not challenged by other exporters, because of their unique products. But it should be mentioned that China has its drawbacks on SSA economies, with regards exportation to other regional markets. Local producers are facing competition from Chinese imports, which are much cheaper and preferred by consumers. From 2000 to 2011, significant amount of African countries witnessed rise in exchange rate because of attaching their rates to European currencies, and also financial aids and increase exports of natural resources and raw materials.

Guillaumont Jeanneney and Hua (2014) recently published a paper that argues that there is improvement of economic growth of SSA due to exporting to China, however, significant import penetration is crippling the manufacturing system and stunting economic growth.

In a study of 44 South African manufacturing industries during 1992–2010, Edwards and Jenkins (2014) show that labor‐intensive industries were particularly badly affected by Chinese imports, and the negative impact on employment was more than proportional to the output displacement. Moreover, exports of manufactures to China did not add significantly to industrial growth in South Africa. But Edwards and Jenkins also found evidence that Chinese imports contributed towards lower producer price inflation in South Africa, which in turn contributed to a moderation in consumer price increases.

2.3. SSA and China Trade Volumes and Major Imports and Exports

For the past years, China and SSA have experienced vast growth in their trade flows without signs of any setback. Available data from the world integrated solution data from the World Bank shows that trade between these two continents had increased remarkable by 26% since 1985 approaching a total of $170M in 2013. However, recent data shows that share of exports to China from SSA has started to decrease, while growth of Chinese imports has been accelerating (Financial Times, 2015). This information will be discussed in details later. Earlier before 2015, exports of goods by SSA countries have risen faster than their imports creating a positive trade balance. With regards to exports, goods such as oil, uranium, aluminum, zinc, phosphate, copper and agricultural goods such as timber, rubber, coffee, cotton, cocoa, fish and cashew nuts are the major exportable commodities. However, consumer goods occupied the largest portion especially textiles and clothing, footwear and consumer electronics. In addition, machinery, commercial electronics and transportation equipment are also represented. China is the top most destinations for importation of goods by African countries because the goods are less expensive as compared to similar goods in Europe (World Bank, 2013). Also, Chinese capital goods imported are boosted in the presence of large Chinese financed infrastructure projects, which usually include country of origin procurement rules.

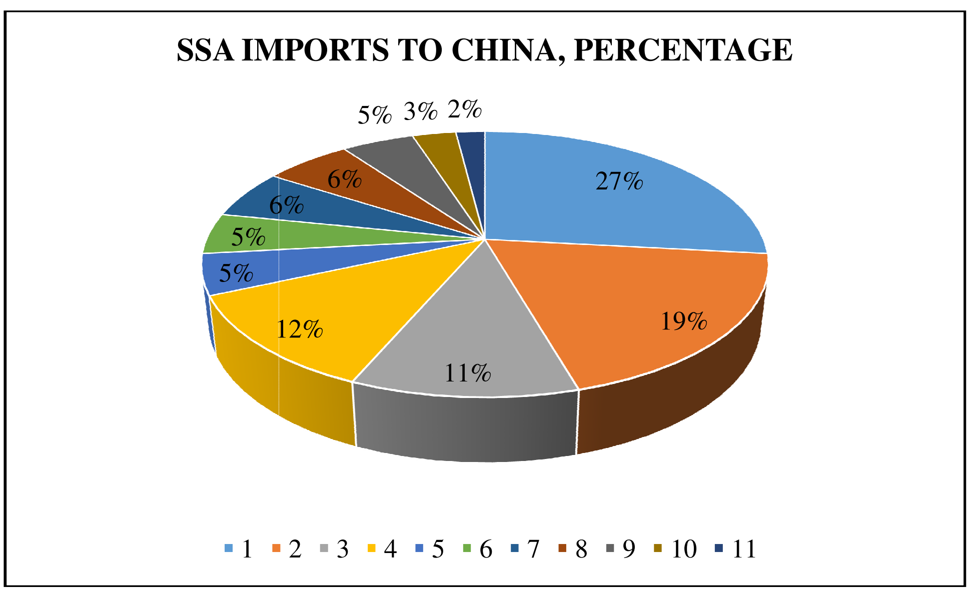

Figure 1: The pie chart above shows a summary of SSA major imports from China
Source: World Integrated Data Solution, World Bank, 2013

KEYS:
1. Machinery & electronic
2. Textiles & clothing
3. Metals
4. Transport
5. Chemicals
6. Footwear
7. Miscellaneous
8. Other
9. Plastics
10. Stones& glass
11. Wood

Previously, western markets were predominantly served by SSA exports but the trend saw a shift. Data from World Bank 2013, reports that China is now SSA most vital export partner. China accounts for 27% of SSA exports as compared to 23% from the European Union and 21% for the United States of America. India accounts for only 9%.

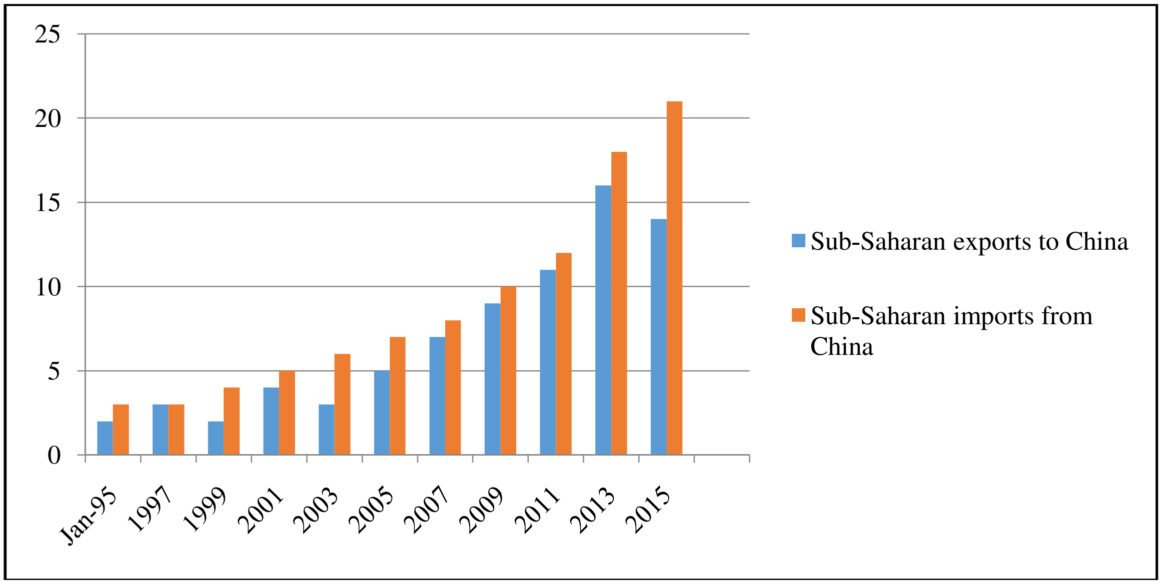

Figure 2: This graph above shows the trend of trade evolution between SSA and China from 1995 to 2015
Source: Financial Times, 2015

It is obvious from the graph that China has decreased importation of goods from SSA during the last years, while the imports from China to SSA have dramatically increased. The decrease of raw materials demand and lower commodity price caused a 13 percent contraction in Chinese imports in the 12 months before October 2015. By comparison, the value of imports from Africa over the period fell by 32 percent. The combination of rising imports and falling exports caused the trade balance of Sub-Saharan Africa to plummet. Most SSA countries had a trade balance of payment deficit mainly because they import more than what they export. (Financial Times, 2015) Based on these, SSA nations are recommended to start transforming their raw materials into finished goods so that they can be exported to other countries.
SSA is a region with immense diversity and potential. It is abundant in natural resources and a diversified commodity-based economy. These diversities present potential opportunities for the region to attract more traders or investors who are interested in the exportof natural resources or setting up companies in the region.

2.4. The Impact of Trade between SSA and China

2.4.1. On Consumers of Imported Chinese Goods
For consumers of Chinese imported goods, they enjoy them because of the cheap price even when the quality is not certified. The price of Chinese goods matches the income of most SSA people. The economic crisis that SSA is facing has an effect on the final consumers' goods with a lower income.

2.4.2. On Firms Facing Competition from Imported Chinese Goods
Local industries in SSA are under competitive pressure with Chinese imported goods. They are producing and selling the same goods as those imported from China. Nigeria has the most manufacturing sector within the West Africa sub-region, and exports a reasonable quantity such as tires, shoes and cosmetics products into its neighboring countries like Cameroon, Chad, Ghana, Congo, etc. But with the competition based on the imports of the same goods from China that has lower price, Nigeria local industries are facing difficulties under this immense competition and their market share have fallen down. (All Africa, 2015)

3. Chapter 3

3.1. Foreign Direct Investment (FDI)
A foreign direct investment (FDI) is an investment made by a company or entity based in one country, into a company or entity based in another country. It occurs when a frim invests directly in facilities to produce or market a product in a foreign country. However, FDI has its benefits and costs for both countries: host countries (SSA) and home country (CHINA).

3.2. Foreign Direct Investments and Emerging Economies
Emerging economies, mostly concentrated in SSA benefit immensely from FDI by improving their balance of payments, and increasing exportation. As a result, more investors gain confidence of investing in the host country which increases more income and

capital. Raw materials and source production are the main reasons why firms go overseas to invest (Kogut, 1984), which increases exporting activity and standards of living of the host. For FDI to benefit a host country, its comparative advantages have been used for production to be sold in other countries (Porter, 1990). FDI plays an important role for enhancing the ability of a country to adapt and respond to opportunities worldwide, due to economic diversification, and this has become one of the objectives of any economy aspiring to develop in a sustainable way. However, it must be mentioned that governments of developing countries are frequently worried on depending heavily on incoming foreign investment, which may lead to evasion of the country's sovereignty (Dunning, 1998). Thus, an emerging economy can leverage advantages with foreign companies through direct investment, by making the company enhance the benefits it offers, until the advantages outweigh the disadvantages.

Yes, the role of FDI is still controversial, because it is viewed as a stimulus for economic growth. Many writers in this field contest that foreign investors have the ability to provide technical expertise, marketing strategy and knowledge for economic growth, on one hand. On the other hand, FDI is seen as not helpful, but challenging the process of development. Economist argue that FDI can have bad effects on income distribution, employment, autonomy and national sovereignty. It is also argued that FDI melts down foreign reserves, and challenges balance-of-payments during importation.

To understand if FDI may or may not help the development of a country, three types have been acknowledged. They are export-oriented, market seeking and extractive. Many governments, in particularly, African countries, are more comfortable with export-oriented FDI. This is because the social benefits to the country are believed to be beneficial, and less likely to create conflicts. However, this has led to heavy competition among developing economies on attracting investment and converging policy and promotional environment for purpose of winning FDI (Wint and Williams, 2002). Marketing seeking FDI on the other hand, international trade literature has analyzed as a form of market integration with focus on regional trade agreements. Intermediate goods get integrated into a market with FDI. Natural resources can be used as an example. The Chinese government has been controlling the exportation of some rare metals, in order to increase their value and price in foreign markets. This strategy attracted high-tech companies that need the rare materials to move to China for production. Let's take Hitachi Materials as an example. The high-performance magnet company recently moved to China, which it never did in the past. In fact, the company has never produced its products outside of Japan, to protect its technology. As a result, the Chinese move leads to technological skill gain which is beneficial to China (Ishikawa and Horiuchi, 2012). Export directed FDI are known for securing export zones, such as the Export Processing Zones in Kenya. The investing partner usually promises increased employment, capital and foreign exchange for the host countries. For this reason, African countries have attracted a lot of FDI due to rich natural resources and local markets. Finally, when it comes to extractive FDI, this refers to the investments opportunities faced by a mineral rich country. But to ensure the benefits, correct legal and institutional framework is required, in addition to balance of interest of the host country, local community and the private sector (UNCTAD, 2007).

3.3. SSA Environment

The population of Sub- Sahara Africa was 950 million in 2015 and The UN predicts for the region a population between 1.5 and 2 billion by 2050. Here are some brief characteristics of most SSA countries.

3.3.1. Abundance of Natural Resources

SSA is a region with the abundance of natural resources such as diamond, aluminum, uranium, gold and crude oil.

3.3.2. Education

There are more than 1000 native languages used in SSA but mostly English and French remain the official languages in this region. Also, students in SSA are becoming more and more interested in Chinese language. Most young people in SSA have graduated from college which makes the environment for foreign investors fertile.

3.3.3. Cheap Labor

Also the labor cost in SSA is very cheap due to high unemployment and poverty: this cheap labor cost helps investors to produce more at minimum costs which in turn increases their profitability.

3.3.4. Corruption

Corruption is one factor that makes SSA environment not so good. But most of countries in SSA are establishing institutions for anti-corruption. Cameroon and Nigeria are examples.

3.4. Chinese Foreign Direct Investment in SSA

Data from the Ministry of Commerce, China (2014) shows that a total of $3.1 billion direct investment which represent 7% of global investment exist in the SSA. This share is fast approaching the percentage of USA (7.3%). With regards to stocks, a total of $24 billion representing 5% of SSA total FDI stock. For example, the ratio of Chinese FDI to SSA's aggregate GDP was just 1.5 percent in 2012, albeit up sharply from 0.1 percent in 2003. Meanwhile, the share of Chinese FDI in SSA's aggregate gross fixed capital stock would appear to have grown quite modestly, from 0.37 percent in 2003 to 0.78 percent in 2012. Furthermore, FDI within SSA saw a dramatic increase largely due to the purchase of South African standard bank by the industrial and commercial bank of China in 2008 at a cost of %5.6 billion representing a 20% share, the New York Times, 2007. This acquisition reflects a relatively new strategy for Chinese investment in Africa in which Chinese investors purchase shares in reputable and experienced firms (although without holding a controlling interest) and then work in partnership to explore new business opportunities. Through its alliance with Standard Bank, ICBC now has access to an extensive financial network in SSA that will greatly facilitate the provision of financial services to Chinese investors in the region. If this deal is excluded, the data would show Chinese FDI in Africa remaining constant during 2008–09 and then gradually increasing from 2010 onward.

3.5. Benefits and Costs

3.5.1. Benefits of Chinese FDI in SSA

There are several prominent benefits of Chinese foreign direct investment in SSA. First are employment effects. Chinese investment in SSA had bring jobs for so many SSA young students and families. Another benefits are tax effects. Chinese investment adds value to economic growth of SSA countries when they pay taxes. There is also the improvement of balance of payment. In SSA countries, improvement of investments accelerates growth and the current account balance of payment will becomes surplus. A significant benefit of FDI is Resource transfer. This is in the form of knowledge and skill transfer. Many young people are benefiting from transfer of technology from Chinese companies located in SSA; the imported technology stimulates economic development and industrialization of those countries.

3.5.2. Cost of FDI in SSA

Despite the immense benefits, the negative effects are numerous. Firstly, FDI has adverse effects on competition. Most Chinese investors in SSA have a greater economic power than indigenous competitors; some of them monopolize the market with cheap prices of goods. Some of the local products made in SSA are more expensive than the same goods from China. Advance technology in the fields gives Chinese competitive advantage over the local producers which leads to difficulties to survive in the market. Another set-back is pollution. Most noticeable are water pollution and air pollution. The rise of Chinese investment in SSA has its cost to local communities mainly in the form of reducing the quality of life by harming the environment. Most of investors do not care about the effects of their work on the environment and the locals.

Another adverse cost is low wages. SSA populations are complaining that Chinese companies do not consider the locals as their employees towards the government of those countries, therefore do not pay them normal wage. In addition, the firms sometimes prefer to hire Chinese laborers. This constitutes a significant cost for SSA countries because foreign investors sometimes arrive with their employees and there is no gain of technology transfer to local people.

3.5.3. Benefits Chinese Earns by Investing in SSA

The investing party, in this case China is motivated to do so because of the benefits. The first are raw materials and cheap labor. Chinese investors significantly gain in SSA due to the abundance of raw materials. For companies established in SSA with the primary purpose of mining, the benefits are immense due to the value of those needed resources back in the home country China, and other lucrative markets around the world. Cheap labor due to high unemployment is also an advantage because many people from the local communities are willing to work for minimum wages due to ravaging poverty. Another important benefit is improved balance of payment. There is no doubt that almost all foreign investors gain when they invest in a foreign country. So the balance of payment that China gains has increased drastically in recent times due to the success of FDI in other countries. And lastly, Chinese companies in SSA gain profits by increasing their market share of products or services, accompanied by economic ties and diplomatic negotiations.

3.5.4. Cost of Investment in SSA

While there can be many costs for China to invest directly in SSA, the benefits overshadow the drawbacks. Sometimes, governments in SSA make policies and regulations which do not favor foreign investors. For instance, an unclear tax policymight affect the financial situation and margin profit of an investing company. Another case is inefficient customs and clearance procedure which can delay importations of materials by the investing party into the host country. More of these drawbacks will be discussed later in the Ethiopian case-study.

3.6. Diversification of Chinese FDI in SSA

Chinese direct investment has reached almost every country in African even with those it does not have formal diplomatic ties such as Sao Tome and Principe. Most of Chinese investment is focused on resource rich countries in Africa. South Africa is the topmost destination followed by Zambia, Nigeria, Angola, and Zimbabwe, Figure 3. Within sectoral levels, extractive industries receive much share of FDI from China followed by finance, construction and manufacturing sectors (MOFCOM, 2014).

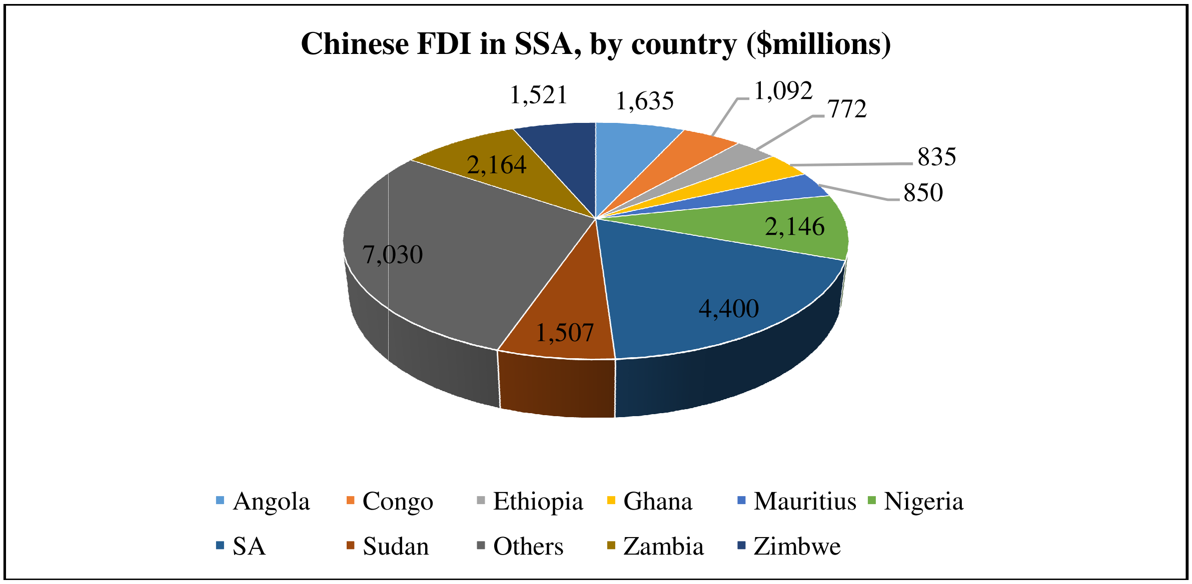

Figure 3: The pie chart above illustrates Chinese direct investment in SSA by country in 2014
Source: MOFCOM, 2014

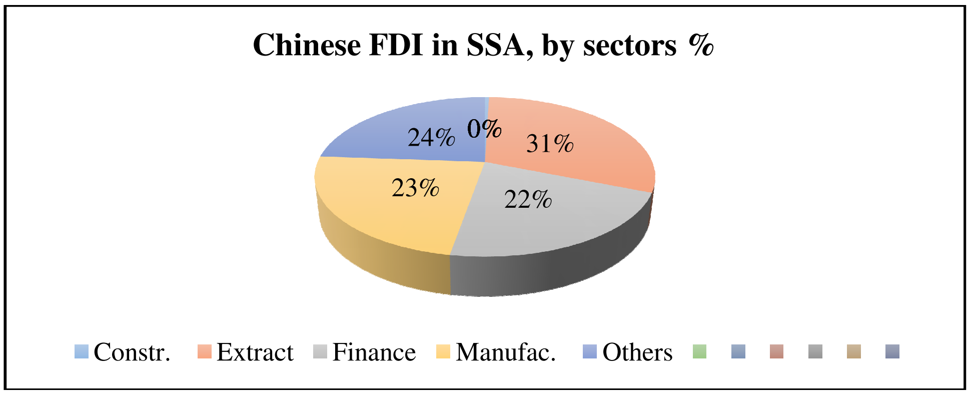

Figure 4: The pie chart above illustrates Chinese direct investment in SSA by sectors in 2014
Source: State Council of China, 2014

3.7. Chinese Direct Investment and Job Creation

Between January 2003 and June 2014, a total of 156 projects were recorded, a small sample even compared with the MOFCOM statistics, but one that provides important information on the relationship between investment and job creation. Let's examine the table below.

No. of projects	Jobs created Total	Average	No. of projects	Capital investment Total($M)	Average
Manufacturing	39343	510	77	13283.90	17250
Sales, marketing and support	350	15	23	148.70	6.50
Extraction	14897	1064	14	8725.10	623.30
Education and Training Jobs created	606	75	8	73.00	9.10
Business service	142	17	8	84.00	10.50
Construction	5661	1415	4	4649.70	1162.40
Electricity	264	66	4	1351	337.80
Retail	154	38	4	32.10	8.00
ICT and internet infrastructure	1290	322	4	1850	462.50
Logistics, distribution and transportation	400	133	3	146.80	48.90
Other business activities	1094	156	7	149.60	195.50
TOTAL	64,201	411	156	30,494.90	195.50

Table 2: The table above depicts job created by Chinese direct investment and capital invested between 2003 to 2014
Source: FDi intelligence, Financial times LTD

Of the 156 projects, manufacturing projects have generated the highest number of total jobs at about 39,000. Manufacturing projects represent more than half of all jobs created by the entire sample, although their average capital investment is smaller than that of projects in other sectors. This suggests that the relocation of Chinese manufacturing firms to SSA could have a substantial impact on employment. Extractive industries and the construction sector averaged the largest project size in investment and job creation. Government-led projects tended to be much larger than private projects and created more jobs.

3.8. The Top Ten Chinese Companies Creating Jobs in SSA

The 10 Chinese companies with the highest-value investment projects in the sample account for 38 percent of total job creation, and 39 percent of total capital investment. Among these firms, Beiqi Foton Motor, a state-owned automotive manufacturing company, created the most jobs on average.

Company name	**Jobs created**	
	Total	**Average**
Huawei Technologies	2188	198
China Nonferrous Metals mining	6064	606
ZTE	2404	240
China National Petroleum	1071	153
China National Television	241	30
Power way Renewable Energy	1347	269
Beiqi Foton Motor	9407	2351
The China-Africa Development Fund	76	19
ZTS International Industries	656	218
GAIG Stock- Guangzhou Automobile	1008	336

Table 3: The table above represents information on top ten Chinese firms that created jobs in SSA between 2003 to 2014
Source: FDI Intelligence from the Financial Times Ltd, 2014
Note: ZTE = Zhongxing Telecommunication Equipment Corporation; ZTS = Zhong Trading Solutions

3.9. Expansion of Private Chinese Investment in SSA

Most of the government led investment in Africa focus mainly on Africa natural resources and related resources. A lot Chinese companies are building power stations, roads, railways and seaports mainly for the extraction and exportation of oil, minerals and other natural resources from Africa. While the natural resource sector remains an important focus of Chinese FDI, manufacturing investment in SSA has increased significantly in recent years, reaching 15.3 percent of total Chinese FDI in SSA in 2012, (Wenzhou Daily, 2009)

Due to the high labor cost in China, most of the Chinese companies are relocating to Africa countries with abundant labor to hire workers with small wage demand. Faced with increasing labor costs, many Chinese manufacturing firms have begun relocating to countries with lower wage rates, including several in SSA. Many firms have signed memoranda of understanding but have not yet begun to invest. However, those companies that have started operating in the approved economic zones and typically employ a large number of African workers: Zambia Chambishi currently employs 7,973 workers, Nigeria Ogun employs 1,619, and Ethiopia Eastern employs 1,600 (Bräutigam and Tang 2011).

Notwithstanding, the springing of Chinese private investment has been amazing. Data from the ministry of commerce recorded that in 2002 only four of the 21 Chinese FDI projects in Africa were privately owned; by 2013, 1,217 of 2,282 projects were private, or 53 percent of the total (Shen 2014). With regard to value, private investment makes up about 45 percent of total Chinese FDI in SSA. This remarkable increase in private investment is largely due to a set of measures adopted since 2004 aimed at promoting Chinese investment overseas. In addition, a number of funds were set up to support investment in overseas processing activities, for example the Central Foreign Trade Development Fund of 2.3 billion RMB (around US$375 million). In 2006, the MOFCOM and the All-China Federation of Industry and Commerce published a draft document calling on the government to recognize the international significance of Chinese private enterprises and establish policies to support Chinese firms in “going global” (Cheng and Ma 2007; MOFCOM and All-China Federation of Industry and Commerce 2006). Finally, China began offering tariff-free entry to more than 400 products (mostly manufactured goods) produced in Africa’s low-income countries, further incentivizing Chinese firms to relocate to SSA. The number of Chinese manufacturing projects in SSA rose from just seven in 2004 to 75 in 2013. During 2009, at the height of the global financial crisis, some 70 Chinese manufacturing projects were underway in Africa and 66 of these projects were privately owned (Shen 2014).

4. Chapter 4

4.1. Impact of Chinese Investment in SSA: Case-Studies

There is limited research on how the operations and existence of Chinese firms would affect Africa development. According to Fu and Buckley (2014), within 2004 and 2010, Chinese FDI had a positive and significant impact on the long-run economic growth of recipient economies. In sum, foreign direct investment of China in Africa has contributed immensely to economic growth and development in Africa with instant creation of jobs through their investment activities. Weisbrod and Whalley (2011) focused their analysis on the period from 2005 to 2007, just before the global financial crisis. During this period, GDP growth in SSA averaged 6 percent and Chinese FDI flows accounted for up to 10 percent of total inbound FDI in several African countries. Weisbrod and Whalley used growth accounting to determine how much of this growth can be attributed to Chinese FDI. In addition, they run counterfactual growth accounting experiments for 13 countries in SSA, excluding Chinese FDI, for 2005–07 and 2003–09. Overall, they find that Chinese FDI contributed an additional 0.5 percentage points or more to GDP growth, confirming the economic importance of Chinese investment.

4.1.1. Cameroon and China Trade

- Introduction

Cameroon and China have been very good trading partners since the establishment of diplomatic ties with China on March 26, 1971.Since that time, China has played a major role in Cameroon trade economics and has become a major trade partner of Cameroon. The graph below shows the major trade partners of Cameroon for the year 2014.

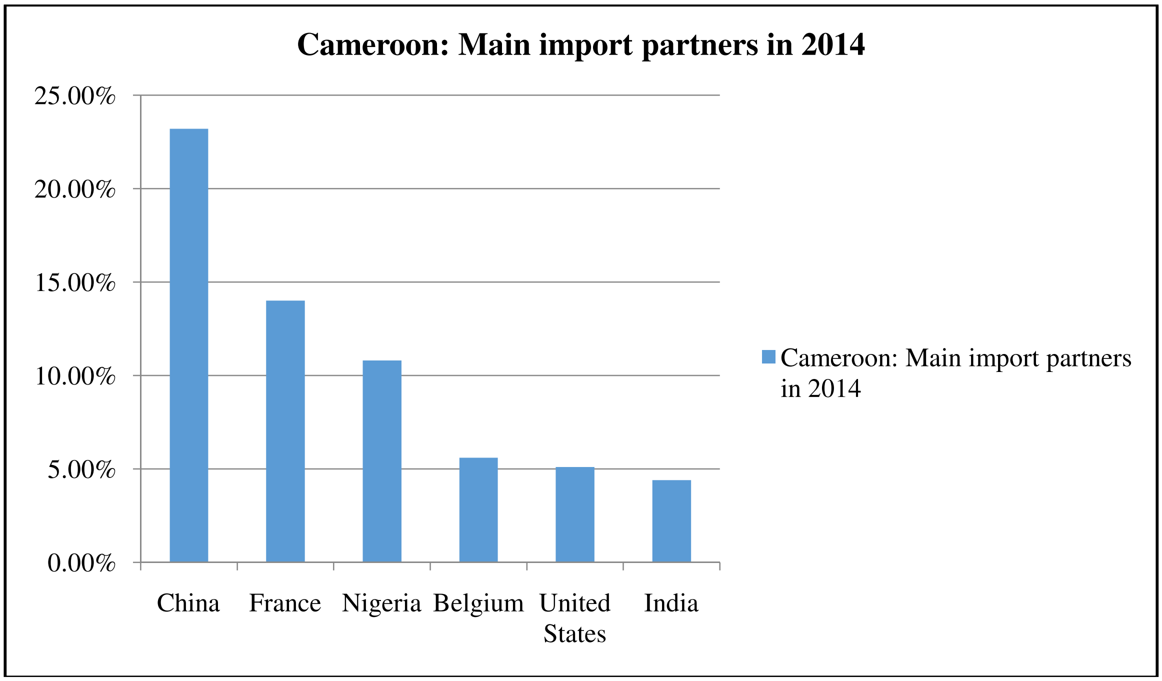

Figure 5: The bar chart above shows major importing countries into Cameroon in 2014
Source: Statista, 2014

- Benefits and Costs

Imported goods from China to Cameroon have a positive effect on Cameroonian economic growth and population. Imported renewable energy sources from China to Cameroon are found to be a substitute for the shortage electricity in the country. Today in Cameroon, the population living in the country side are benefitting from the import of solar panels from China into the country with cheap price compared to the same energy appliances imported from Western countries. This has contributed a lot in solving the problem of electricity shortage that the country is encountering.

In addition, machinery imported from China for raw material exploitation and processing, and also agriculture contributes to developing local economies, and enhancing trade between both parties. Cheap Chinese goods have also increased the purchasing power of some Cameroonians, especially those at the lower strata in the distribution of income.

In contrast, the drawbacks are obvious. The negative effect of this trade is that, some Chinese are traders are direct competitors of Cameroonian traders doing business between China and their home country. In addition, there is noticeable decrease of the export of raw materials to China from many African countries, including Cameroon. According to Financial Times (2015), China has reduced its exports of raw material from most African countries. This declining of the exports goods have influenced a lot on the balance of payment of those countries especially on trade's deficit because they import more than what they export.

As mentioned above, the cost of FDI from the perspective of host country, Chinese goods have monopolized the Cameroonian market, because they are competing with local goods made in Cameroon, which has good quality, but the price is much expensive than Chinese goods. An example has is the textile industry. In Cameroon, textile goods are produced by local industries. Now, they are under immense competitive pressure with other firms producing similar goods from China and import them. These competitions sets up local industries into competition, and are now facing difficulties to survive. With the import of the same low cost textile from China with low cost, the textile industries have facing some difficulties to survive.

4.1.2. Chinese FDI in Kenya

- Introduction

Kenya is one of the SSA countries that has benefited from bilateral support and assistance from China. They are usually in the form of infrastructure projects, like hospitals, schools and sports facilities. Most the assistance offered by China are in the form approved Chinese government loans given to firms for FDI use.

- History of Relationship

Official diplomatic relations were started on December 15, 1963, which were accompanied with little ties. It was then relegated to charge d'affaires level and around the beginning of 1970's, it normalized. President Daniel Arapmoi developed the relationship even further after assuming office in 1978, which was accomplished by frequent visitations, high-level co-operation and the relationship continued under President Mwai Kibaki who formed government at the end of 2002. Kibaki expanded co-operation between China and Kenya, and aid and assistance flowed such as Confucius Institute at Nairobi University, Moi International Sports Centre and Thika to Nairobi highway.

Recently, bilateral trade increased greatly. China exports industrial tools, household electrical items, textile, industrial appliances, building materials and medical supplies. Kenya in return, exports coffee, leather and black tea to China.

- Benefits and Costs

In 2006, President Hu Jintao of China and President Kibaki of Kenya at the Great Hall of the People, Beijing, signed six agreements that express closer economic cooperation between China and Kenya. The agreements are in the forms of loans by China to Kenya, and technical cooperation that allows Kenya Airways to land in several Chinese airports. Included in the agreements were Ministry of Information and Communications of Kenya, State Radio Administration, and a bilateral agreement between Kenya's Bureau of Standards and China's General Administration of Quality Supervision and Quarantine. China currently encourages its firms to buy Kenyan products and invest more in Kenya. It also promotes investment in infrastructure construction and energy and resources exploitation. To enhance this effort, Chinese government has created a special fund for importation of rose seeds, black tea, coffee beans and sisal.

Despite the closeness of the relationship, it is not perfect. On the 25th of April, 2006, Kenya and China delegated economic teams who discussed various issues of interest to both nations, including rebalancing trade because it tips towards China (Onjala, 2008).

Kenya currently benefits from human capital development; transfer of knowledge and skills, and also employment from Chinese presence. Also, capital supply is a key benefit because it develops the economy.

4.1.3. Chinese FDI in Ethiopia

- Introduction

Ethiopia and China have a strong bilateral relationship in economic, political and socio cultural aspects. The number of Chinese investors in Ethiopia is dramatically increasing over time. According to the Ethiopian Ministry of Industry, 572 Chinese investors those are officially registered 2015. The investors ownership types of are different based on a kind of business they plan to do. Nine companies are private joint ventures with an Ethiopian partner. Among these joint venture companies, Chinese owners usually have a larger share, ranging from 60 to 80 percent of the company ownership. FDI as percentage of GDP in Ethiopia has been at a relatively low level of 2.0 percent between 2004 and 2010, somewhat contrasted by 3.9 percent of GDP in China (1991–2010) and 5.7 percent in Vietnam (2000–2010).According to China's Ministry of Commerce, FDI from China to Ethiopia increased from virtually zero in 2004 to an annual amount of US$58.5 million in 2010 (US$74 million in 2009).

- Import and export relationship of Ethiopia and China

Access capital's report maintains that the emergence of China as one among the top destination of Ethiopian produces is part of the larger dynamics of "South-South" trade linkages by arguing that only four out of the top ten markets for Ethiopia's exports were located in the conventional 'West' (Switzerland, Germany, Netherlands, and U.S.) while the other six countries are in what might be termed as the 'South' (China, Somalia, Saudi Arabia, Sudan, UAE, South Africa).

China is the one of the major import-export partner of Ethiopia. Nowadays Ethiopia export to China is next to German, but in 2011 China was both the largest import and export trading partner of Ethiopia. In 2014-15 Ethiopian exports recorded 456 million dollars in revenue earnings for the performance in exports to China. Below are some major export commodities of Ethiopia to China.

- Coffee: Being the origin of coffee Arabica, Ethiopia has immense potential to offer to the world varieties of flavors of organically produced, washed and sun dried coffee. This sector accounts for about 60% of the country's export earnings. More than 90% of the nation's coffee harvested is organically produced. Ethiopia produces several types of coffee whose water-soluble extracts can be used for hot beverages, iced drinks, and ice creams in the confectionery industry.
- Leather and Leather Products: Ethiopia also offers a wide range of processed and semi-processed hides & skins to the world market. This sector accounts for about 14% of the total exports. Ethiopia's high quality exportable hides & skins include pickled, wet blue and crust sheep skins, wet blue & crust goat skins, crust cow hides, finished garment leather, lining/upper leather, suede leather, full grain leather, embossed leather, patent leather, and so on.

- Live Animals & Meat: Ethiopia has the largest cattle population in Africa. Livestock husbandry is mostly carried out under natural grazing, making the meat and products very tasty & nutritionally healthy.
- Oil Seeds & Pulses: The oilseeds and pulses of Ethiopia are also known for their flavor and nutritional value as they are mostly produced organically. The major oilseeds & pulses for export include; sesame seed, nigger seed, linseeds, sunflower seeds, ground nuts, rape seeds, castor oil seeds, pumpkin seeds, haricot beans, pea beans, horse beans & chick peas.
- Natural Gum: The east African country is endowed with distinct climatic conditions which enables growing diverse plant species used for industrial and pharmaceutical purposes. Among them are some famous plants for the production of natural gum. Gum Olibanum derived from Boswellia, Gum Myrrh and Oppiponex from Commiphora and Gum Arabic from Acacia species are the major gum products produced mainly for export market. Apart from their pharmaceutical applications, these products have wide-range industrial uses in areas such as beverages, candies, chewing gums, confectioneries, dairy products etc.

Other major quality export commodities of Ethiopia are tea, mineral products, different kinds of fruits & vegetables, flowers, varieties of spices, beverages, civet, bees wax, cotton etc.
Some of the products which Ethiopia exports to other Asian countries are coffee, spices, natural gum, meat, leather & leather products, garments& clothing, and mineral products other than gold & tantalum. Sesame and other oil seeds were the major products exported at USD 381.9 million.
China is the top importer into Ethiopia. The imports are industrial machinery, oil &mineral fuels, motor vehicles &parts, electrical appliances, machinery, plastics, iron &steel, cereal pharmaceuticals, iron &steel article and fats &oils. The major commodity categories are machinery and mechanical appliances, electrical equipment and parts, textiles, base metals, plastics, footwear, umbrellas and, vehicles, aircraft, vessels and transport equipment registering 2002-08 period with an average share of 35 percent, 25 percent, 10 percent, 6 percent, 5 percent and 3.5 percent, respectively.

- Benefits and Costs

Ethiopia benefits from Chinese direct investment activities. FDI creates job opportunities for many job seekers and unemployed. In Africa unemployment is the one of the main reasons of poor economic conditions. By the end of 2011, Chinese companies have employed 18,368 permanent, full-time employees from both China and Ethiopia. The employment size has increased by 19 percent since the end of 2008. Among the full-time permanent employees, 15,910 are Ethiopians. In addition, Chinese firms also hired 7,813 seasonal or temporary workers in 2011. The majority of companies are of medium or large size, i.e. they employ at least 20 workers. Twenty-four companies out of 69 employ even more than 100 employees, with eight of them employing more than 500 workers. Of these largest companies, not surprisingly, five of eight are in the construction and transportation business; two of eight are manufacturing companies and one is in the information technology industry.
Despite the attractiveness of Ethiopia as a fertile ground for foreign businesses, there are challenges Chinese investors' faces. According to a World Bank Survey in 2015, trade regulation and customs clearance efficiency is top drawback. Due to poor domestic supply networks, Chinese companies in Ethiopia depend largely on supplies and materials imported from other countries. Unfortunately, the current regulations are not efficient to facilitate quick customs clearance of imported materials. Secondly, exchange rates risk scare investors. Perceived uncertainty over foreign exchange rates and regulations on foreign currency transaction and conversation pose threatening challenges to Chinese businesses in Ethiopia, because light manufacturing companies heavily rely on important intermediate inputs and raw materials. Another impediment is tax system inefficiency and inconsistency. A lot of Chinese companies protest frequent law changes, and inconsistency of tax laws. This prevents the firms from having a clear prediction of future cash earnings from new projects. Other challenges include access to finance, labor regulations, electricity, access to land and corruption. (World Bank, 2015)

5. Chapter 5

5.1. Key Findings

From the above data and presentation, there is evidence that China has taken over Europe's place as SSA major export partner. This ties have strengthened Africa regional economies that were weak due to changes in international goods prices. In addition, the total trade volumes between these two partners is often not symmetric because SSA major imports from China entails a lot consumer and capital goods and overwhelmingly export most of the primary goods such as oil, minerals and other natural resources. This trend is stronger in the past five years; agricultural goods now represent just 5 percent of SSA's total exports to China.
The fast industrialization of China has pushed growth in many nations in SSA, especially those with natural resources. However, no evidence exist that China has traded these resources exported from SSA to any third country such as the European Union or USA. Chinese exports to SSA have benefitted consumers, but they have also put significant pressure on domestic producers. Firms in SSA have faced significant competition from Chinese imports during the 2000s, partly because of the appreciation of the real exchange rate. The appreciation of the real exchange rate in SSA countries was the result of the peg of the exchange rate to other currencies (in particular to the euro), the surge in exports of natural resources and raw materials, and the amount of financial assistance from international donors, including China.

5.2. Conclusion and Recommendations

For long-term, sustainable and beneficial partnership between China and Sub-Saharan Africa, China must win the hearts and minds of the people in this region. This will not only generate local support to enhance and expand economic relations between China and SSA, but it will also lay the foundation for an achievement that Western countries have never reached in the region. According to Harvard Business Review (2015), the art of persuasion by winning hearts is about connecting people emotionally to an idea or position. The best method of persuasion is to connect with people a very personal level. Also, the persuader has to show people what's in it for them if they want them to support your cause or buy your product (Huffington Post, 2011). For China to win the support of locals and leaders of SSA, to softly penetrate into competitive and weak economies, and integrate activities, beating other competitions like U.S.A and European countries, it must invest in areas that address people's problems on day-to-day bases.

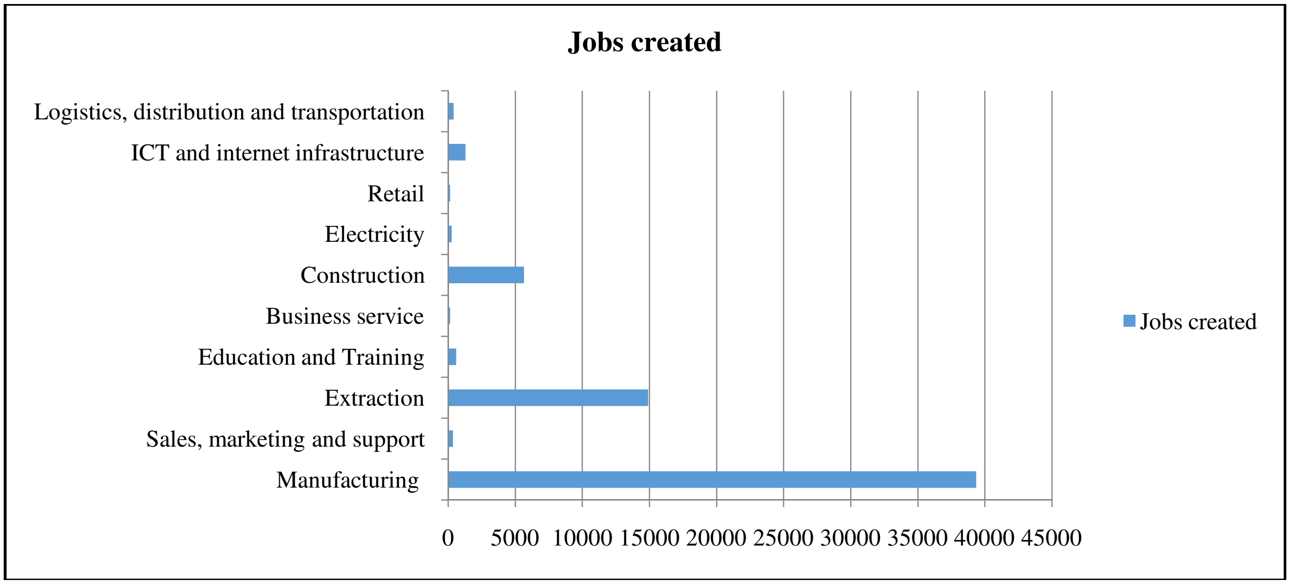

Figure 6: Above is a bar chart that represents jobs created by China in SSA from 2003 to 2014
Source: Adopted from FDi Intelligence, Financial Times Limited, 2014

Looking at the graph above, Manufacturing dominates job creation and Chinese investment in SSA while extraction follows far behind. Electricity and education are almost none-existent. To defend itself against the allegation that it is not exploiting SSA for cheap labor and natural resources, China must heavily invest in electricity and education. Firstly, an estimated 1.2 billion people world-wide do not have access to electricity, and 95% of them are in sub-Saharan Africa and developing Asia (World Energy Outlook, 2016). Today, some 25 countries in sub-Saharan Africa are facing a crisis evidenced by rolling blackouts, despite being well endowed with both fossil fuels and renewable resources (World Bank, 2016). According to International Energy Agency, much of sub-Saharan Africa has experienced rapid economic growth, the region's economy has more than doubled to $2.7 trillion in 2013, however the present state of the energy system is a major challenge the region's economic growth. Also, Energy demand in sub-Saharan Africa has skyrocketed by more than 45% from 2000 to 2014, but only produces 4% of world-wide demand, while the region is home to 13% of global population (International Energy Agency, 2014). It should also be known that more than 620 million people have no access to electricity in SSA, while on-grid power generation capacity is less than 100 GW, mostly being in South Africa. But Sub-Saharan Africa is rich in energy resources, such as excellent solar across all Africa, hydro in a lot of nations, wind in coastal areas and in the last 8 years, 30% of world oil and gas discoveries were made in the region. In order to win the hearts and minds of more than half a billion people living in SSA without electricity, China must create thousands of jobs in electricity production. The labor force is available. According to World Bank (2015), youth make up 36.9% of the working-age population in SSA, but 59.5% of the total are unemployed, which is much higher than the world's average (43.7%). Therefore, the environment is ripe for Chinese investment in electricity. The demand is available, resources are abundant and labor force as well is in excess. China, in form of FDI should finance hundreds of projects on renewable energy, and also harness the untapped sources of energy, providing training and expertise to residents of SSA. If China invests in production of electricity and employing Sub-Saharan Africans, it will solve two major problems at once; lack of electricity and unemployment, and at the same time winning the hearts and minds of the people, making China a savior and ethical leader amongst the world's top economies. Secondly, there is no doubt that heavy Chinese investment in education in SSA is a long-term source of cooperation, economic enhancement and peace. According To UNESCO's regional overview of education in SSA, predictions show that among the 31 SSA countries with available data on education, only 7 would achieve universal primary enrolment by 2015, and 8 countries will be far away from achieving the goal. Amongst them are Eritrea, Equatorial Guinea, Cote d'Ivore and Nigeria. In 2012, about 30 million children were not enrolled in school, which makes SSA home to more than half of global out of school children (UNESCO, 2015). This means education is a major impediment to development in SSA. There is strong evidence that the cognitive skills of the population are powerfully related to long-run economic growth (Hanushek & Woessmann, 2010), therefore, if China intends to show its full commitment to economic development in SSA, it is imperative that it invests massively in education. This should be done by investing in programs that train teachers, improve education infrastructure, researches and development of science and technology fields. China as an emerging giant in science and technology should share the knowledge and expertise with SSA to show its loyalty. While sales, business service, logistics, distribution and transportation are key areas in economic development that China hasn't invested much in SSA, it is recommended that it should focus on electricity and education now, as they are key areas that will improve economic activities and reduce biting poverty. Availability of electricity will blow life into many struggling and non-existent local economies, which in turn will increase productivity, and standard of living. Improvement in standards of living is directly related to economic growth. When a region produces more, per capita production or output increases, which increases consumption of goods and services (Bostonfed, 2014). In addition, economic growth improves public services, reduces unemployment and poverty and provides more taxable income to the government. This all increases happiness, prosperity, freedom and security (ECONOMICSHELP, 2014). In summary, China can solidify its loyalty and economic alliance to SSA by massively investing in electricity and education. As a result, people in the region will forever associate China with solving their critical issues, softening the way for Chinese companies to reap economic benefits.

SSA also has a lot to do, to compliment Chinese effort in economic cooperation and development. To start with, investing in learning Chinese language and culture is essential to broadening economic ties. According to Chinese-culture.net, China will always possess a unique business culture and etiquette, given their unique history and background. A simple cultural difference can threaten a perfectly good working relationship. Therefore, for SSA to show its commitment for a long-term economic relationship with China, it must invest in learning Chinese language and understanding the culture. Currently, it is China that is offering scholarships to Africans, to enroll in tertiary institutions in China. It should be mentioned that China had also set up Confucius Institutes in countries like Cameroon, Ethiopia and Zambia, in order to strengthen relations and make the people in those countries understand China better. SSA nations must double their effort of learning and understanding the psychology of Chinese people, in order to foster better economic and social ties. In addition, like Confucius Institutes, SSA countries must establish African cultural and educational centers in China, to reciprocate Chinese gifts, and open doors to local Chinese to learn more about SSA and Africa in general. As of now, the non-African languages that are widely used as lingua franca are English and French, however diplomatic and economic corporation ties are weakening between SSA and Western Countries. This paper does not recommend any SSA to change its lingua franca to Chinese which can be very helpful, but learning the language and a deep understanding of the culture will solidify the economic ties in the future, which is beneficial to all parties. Another important step that SSA nations should embark on, is developing and marketing goods that China is in demand of, to rebalance trade deficiencies. While exports to European Union has decreased and increased to China, oil dominates with more than 61% in 2013 (Pagato & Tang, 2015). Long-lasting and beneficial trade relationship does not develop in a short period, and long term commitment is absolutely needed. In addition, governments in SSA must enact policies that enforce corporate social responsibility (CSR) on foreign countries. Richard, Daniel and Yaw (2014) drew out 9 key promoting and hindering factors of CSR in SSA. They are leadership, policy framework, monitoring, project management, stakeholder engagement, evaluation and reporting, government, staff engagement, funding and beneficiation. Therefore, a systemic and context-sensitive approach that relieve on the potential of organizations and communities to design and implement global frameworks in order to develop CSR in the region. (Richard, Daniel & Yaw, 2014). As a result, better pay, environmental protection and connection to the problems of the local communities will increase between China and SSA.

From another angle, there exist now a lot of competition between companies in Europe and Asia to invest in Africa. The emergence of Chinese competitiveness was due to significant factors such as low unit-labor costs, an abundance of subsidized credit, and an undervalued exchange rate. Also, the acceptance of China to join the World Trade Organization in 2001 strengthened Chinese competitiveness to invest in Africa, (Pigato, M, and Jullien G, 2014).

Africa now has all it takes to attract foreign investors from Europe, North America and Asia. However, this can really happen if countries in SSA compose a policy framework that will reduce transport cost, eliminate or minimize both formal and informal trade barriers that seriously hamper investment opportunities, increase labor markets flexibility and develop effective competition prices that are efficient.

Almost all African countries are developing strategic partnership with China. For instance, Huajian Group Shoe Factory in Ethiopia. The success of this investment was strongly due to the Ethiopian government commitment to help reduce transaction costs for investors, the development of an industrial park, and a vision that combined Ethiopia's comparative advantages which is high-quality leather and low-cost labor with China's financial investment and knowledge transfer. China's activities in Africa should be compatible with Africa's needs, particularly for transformation and diversification. For example, it may be time to move away from the traditional model of infrastructural investment through resource-backed loans and tied aid, to ensuring that investment in infrastructure (from China and elsewhere) closely reflects Africa's development needs. Reciprocal agreements to lower tariffs on imports of specific products (e.g., in agriculture) and the establishment of joint ventures in sectors of mutual interest, including services, may contribute to strengthening the economic links between China and Africa, (Anberbir, 2014)

The rise of Chinese private investment may contribute to Africa's transformation and job creation. Private investment is likely to grow exponentially, in line with the Chinese government's efforts to encourage local companies to go global and explore international markets. African counterparties should make the most of these new developments. Local governments have a chance to attract a large share of this investment and should learn to interact productively with private investors, ensuring joint benefits in growth, local employment, technology transfer, and training.

All in all, Chinese impact and relationship with SSA is much more complex than presented in this paper. The data presented in the previous chapters and analysis clearly shows that a wider and more comprehensive study is needed in order to comprehend the future trend and possible results. However, both parties are more and more cozy with each other, but what must be mentioned is the importance of understanding how the current and future relationship will affect the environment, economy, socio-political and educational atmosphere now and in the future.

5.3. Limitations and Suggestions for Future Research

There pose challenges in information gathering while working on this paper. Despite the availability of large volumes of literature materials, the quick nature of change in global trade relations have consequences in making analysis and conclusions. However, as both Chinese and SSA nations' economies change drastically, more questions will energy, and more data will be available. Also, information about China were all retrieved from English sources, which can be different from Chinese sources. The mentioned points are the current limitations of this study.

However, the writers of this paper suggest that researchers working on this field in the future should pay attention to the following:

1. The recent decline of exports from SSA and Africa to China. According to Financial times, from ending 2015 to date, there is a decrease in the amounts of export from Africa to China. Considering the recent fall in oil prices, many SSA nations such as Nigeria are facing lower incomes due to reliance on crude exports. If this aforementioned trend continues, it will lead to hardship with economic and social consequences. Therefore, researchers in the future, can pay attention to this trend, and explore the likely reasons and also make recommendations.
2. The future trend of development in SSA's comparative advantage, and it can further enhance trade relations with China. Policies, political atmosphere and global demand trends are going to be essential for these analyses.
3. A studies on the direct impact of Chinese FDi on the environment. From the above analysis, Chinese investment heavily focuses on manufacturing, which have negative consequences to the environment. A cost-benefit analysis is essential, and recommendations on improving Corporate Social Responsibility (CSR).
4. A research on effect of Chinese economic relations with SSA, and how it affects local economies, poverty and change in standard of living. This will highlight the benefits and or disadvantages of the bilateral relationship on the middle and lower class income families.

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