STRENGTHENING THE CIVIL SOCIETY PERSPECTIVE

CHINA'S AFRICAN IMPACT

COMPILED AND EDITED
BY STEPHEN MARKS

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About Us

ESTABLISHED IN 2008, the Emerging Powers in Africa Programme initiated by Fahamu – networks for social justice, is the premium forum on the African continent that promotes debate and knowledge through a Civil Society Dialogue. Aimed at understanding the comparative impact and engagement of emerging powers in Africa on issues of social justice struggles, the principal objectives of the programme are:

- To nurture an African perspective on the emerging powers in Africa
- To enable research to be undertaken on the political, social, economic and cultural effects of emerging actorsí engagement with Africa
- To develop informed discussion and advocacy in Africa and the developing South on the emerging actors in Africa
- To develop long-term cooperation between researchers, academics, media and activists in Africa and emerging actors
- Assisting in developing collaborative partnerships between African and the emerging powersí CSO/social movement organisations
- Ensuring that south-south realtionships are developed to benefit all citizens
- Enabling civil society and social movement activists to critically assess the positive and negative impact of the emerging actors in Africa so that the rights of ordinary citizens around political, economic and social governance issues are protected

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Introduction

A CENTRAL THEME of FOCAC 2009 was the strengthening of civil society links between China and Africa, to parallel the governmental and business connections already made. Fahamu's Emerging Powers in Africa programme has made this its central focus ever since its origin as the Fahamu China in Africa programme three years ago. In particular, we have maintained that raising the awareness of African civil society about the Chinese engagement and increasing its capacity to respond is central to addressing the consequences, both positive and negative, and ensuring that Africa's interests in the engagement are defined by African societies as a whole, and not only by their elites.

It was as part of this process that in April 2009 we commissioned six research reports on different aspects of China's African impact. The reports were presented at a two-day workshop in Nairobi on 26th and 27th November 2009, attended by over 30 Chinese and African academics, researchers and activists.

The reports were revised in the light of the comments and suggestions made in the workshop discussions and are presented here pefaced by a report of the conference proceedings and discussions.

We would like to record our thanks first and foremost to the authors, and also to the discussants and participants at the workshop sessions for their constructive input. We also owe especial thanks to all the staff at Fahamu's Nairobi office, including Fahamu's deputy Director Hakima Abbas, and Yves Niyiragira, for their indispensable assistance with the workshop planning and organisation.

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Report on the violation of the rights of workers in the Chinese companies in Katanga and the imbalance in the DRC- China Consortium Agreement

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ACIDH (Action Against Impunity for Human Rights - Action Contre l'Impunité pour les Droits Humains) is an Congolese NGO founded in 2004 which works for the defense and promotion of human rights

Its objectives are:
- long term: to end impunity for human rights violations;
- mid-term : to influence the reform of judicial institutions;
- short-term: to influence public opinion in order to end human rights violations.

Its field of activity is the whole Democratic Republic of Congo; it can
- act in other countries through networks to which it belongs.
- It organises its activities around four themes: - Civil and Political
- Rights - Economic, social and cultural rights- rights of women, children
- and vulnerable people - rights to peace and sustainable development.

Introduction

This is the first research of its kind by a Congolese NGO. It is the result of research carried out in Katanga, Democratic Republic of Congo (DRC) from September 2008 to October 2009 in Lubumbashi, Kolwezi, Likasi and Luisha. It assesses China's private and public mining investments in Katanga in terms of good governance and human rights.

In the DRC in general and in the province of Katanga in particular, private Chinese investment in mining has greatly intensified since 2002 with the enactment of the Mining Law No. 007/2002 of July 11, 2002 amending the Mining Code called 'incentive for private capital'. This led to the liberalisation of the formerly exclusively public sector, and the proliferation of private mine operators. In Katanga alone, a mainly mining province, out of 75 operating treatment units, 60 are Chinese (RAID 2009).

Public investments occur when necessary to meet the economic and financial needs of both states. For DRC, there is an obvious need for basic infrastructure projects in the public interest and necessary for development; this requires substantial funding. As for China, the explosive growth of its industry increases demand for raw materials. So in April 2008 the Democratic Republic of Congo signed a cooperation agreement with a group of Chinese companies, China Railway Group Limited and Sinohydro Corporation, - sometimes called 'the contract of the century' - providing major funding of $9 billion.

The funding covers the mining investment, and also massive investment in infrastructure providing 'major projects of community interest' to the Congolese, to be financed two-thirds by Gecamines' dividends generated by the mining joint venture, SICOMINES, a trading company which will be created for this purpose.

This report will focus only on the 'mining contracts' aspect. At this stage, it is still too early to study the infrastructure component of the agreement given the delay in its implementation. These contracts came at a time when DRC was already involved in the revising existing mining contracts. Approximately 60 selected mining contracts were due to be renegotiated between the public and mixed companies (Ministerial Decree 2007) and private investors.

Against all odds, during this same period the government signed contracts with Chinese companies mentioned which were just as obscure and unbalanced as before. This attitude of the DRC government greatly concerned people and civil society organisations working in the resource sector and campaigning for the revision of mining contracts.

1.1. Purposes

In order to increase mining production and sustainable economic growth, to create jobs and to ensure the development of the whole country, the DRC government liberalised the mining sector by opening it to private capital. Seven years after this important reform and the rush of private capital from everywhere, these objectives have still not been achieved.

The weakness of the Congolese State is responsible for the management of this sector. Mining has been so far the main source of violations of human rights and especially the economic, social and cultural rights of the local communities. ACIDH researches specific cases of the social and environmental responsibility of mining companies in order to mobilise resources for the respect of human rights, especially those of the local communities. The results of this research show the need to provide information that can be verified firstly by the host government (DRC) and the government of China; and secondly by public opinion in order to call to account those responsible for the violation of human rights and thus get change.

This report contains specific information on the impact and the responsibility of the Chinese public and private mining sector. In particular it analyses the impact of these investments on child labour, social and environmental responsibility, and the treatment of the workers. It takes a critical look at the contract of the SICOMINES joint venture between DRC and the Chinese companies. It addresses key questions:

- does the conduct of the Chinese investments in the mining sector conform to the required norms and standards of transparency in social and environmental areas?
- do the investments contribute to the social and economic development of local communities in Katanga and to respect for human rights, including children's rights?
- why does the creation of SICOMINES not conform to the legislation applicable to mining companies in DRC, in particular to the tax and customs obligations?
- how can the investments help to carry out the plan of action adopted at the latest summit in Egypt, which promotes stability and economic development for the African countries?

The mining sector and the topics were chosen for several reasons:

- Katanga is an essentially mining province. So the condition of exploiting, marketing and conveying minerals have a positive and/or a negative direct impact on the economy of the province and the rights of the local communities:
- the types of violations of workers' rights in the Chinese companies have specific features
- none of the Chinese mining companies respect human rights and all take advantage of the fact that the DRC government is incapable of implementing its own legislation;
- the lack of a regulatory mechanism for the companies working abroad, in particular in poor governance countries such as DRC;
- the discrimination in the mining legislation in favour of the SICOMINES joint venture.

The facts in this report on 'the Chinese private and public investments in Katanga, DRC: Good government and human rights' will be used as a basis for discussion between the China and DRC governments and between the Chinese government and the African countries so as to create a framework that will make concrete the official commitments prescribed in the 2009 action plan adopted in Sharm El Sheikh, Egypt.

1.2. Structure of the report

Apart from the introduction, the analysis of the concepts, the legal framework and the conclusion, this work is presented in three sections. The first section presents the data from case studies of private investments in the mining sector in Katanga.

The first part analyses the responsibility of the Chinese companies in relation to the human rights and the rights of children employed in mines and craft quarries.

The second part addresses the treatment of workers in the Chinese mining companies. It presents three Chinese companies (Jiaxing Mining, CDM and Lida Mining) and examines how effective are the employment contracts, the relation between employees and employers, social security, and in particular the complaints of the workers.

The second section analyses collected data, notably the causes and the responsibility of the actors. The third section presents the data on SICOMINES public investments. It looks into the points related to transparency, deadlines for repayment of debt and the imbalance of obligations between China and Congo. Finally, the fourth and last section analyses the data.

1.3. Foundation and Research Method

1.3.1. Foundation

While tackling briefly the issues related to poor governance, this report focuses on the mining and joint venture agreement signed between the DRC government through Gecamines and the Chinese group. The foundations of this report are eight interviews; four with children employed in mines and craft quarries four with people living near the Chinese plants along the Lubumbashi-Luisha main road; and the complaints by workers who were victims of abuse by their Chinese employers.

This report analyses particularly the complaints of 13 workers of Jiaxing Mining, and Mr Ephrado Kabange and Ilunga Mutombo Franck, respectively former workers of CDM and Lida Mining. It also focuses on the working conditions noticed in the plants as well as on the declarations to the ACIDH researchers by the workers of these companies. The responses of the managers of these companies, the judicial investigation of the ad hoc records and the statements of the general counsels for the victims were also selected. Taken together, these cases represent a sample of other cases reported and unreported by the workers.

It is also based on interviews with heads of civil society organisations and associations, Congolese officials, the collection of official data and interviews given by former workers of these Chinese companies.

1.3.2 Research Methods

Data was collected by direct observation supplemented by documentary techniques and interviews Visits to facilities of companies under scrutiny, mines and craft quarries and interviews with Congolese officials and leaders of civil society organisations are the major source of data for accountability in the China-DRC agreements to corporate social responsibility, the responsibility of Chinese companies for child labour in mines and quarries, as well as those related to working conditions of workers employed in Chinese companies. Drawing on their expertise, ACIDH also monitored complaints, notably that of Mr. Ilunga Mutombo Franck.

1.4. Analysing the concepts

This study focuses on some key concepts. The author has shown how broad the main concepts are. The following section looks into them.

1.4.1 Good governance and transparency

With the framework of our study, we consider good governance - the manner in which public and private actors run the mining resources and attend to their social and environmental obligations in order to carry out sustainable development. Good governance implies that information related to commercial activities be published and the communities may have access to it so as to stimulate and facilitate the collective and careful management of the resources and contribute to combatting corruption. Transparency also means providing in a regular and timely manner, relevant and reliable information on the activities, structure, financial condition, results, locations and contact information of the parent company, major shareholders, board members, and other relevant actors.

1.4.2. Human Rights

Human rights are universal rights, inherent in human existence and its moral, intellectual, physical and social development. They have become an internationally accepted set of standards or values deriving from the 1945 Universal Declaration of Human Rights and subsequent international agreements. These standards are internalised in the regional and national legislation of states including DRC.

1.4.3. Social and environmental responsibility of the mining companies.

The social responsibility of mining companies stems from the direct negative impact of their activities on the local communities as a sort of compensation, however inadequate, for damage caused to them. It involves businesses in the social development of the communities directly affected such as health facilities, schools, water and electricity.

1.4.4. Corporate Environmental Responsibility

This stems from the 'polluter pays' principle for damage caused to the environment by operating activities. According to the French law of 2008 the environment is defined as 'all components (biotic or abiotic) that surround an individual or species, some of which contribute directly to meet their needs', or as 'all natural conditions (physical, chemical, biological) and cultural (sociological) that can act on living organisms and human activities'. It implies respect for legal and voluntary norms requiring prevention and redress for damage to water quality, the soil condition and species and protected natural inhabitants. They are binding and violations are subject to severe penalties, even in the absence of fault or negligence.

1. Context

SINCE 2007, MINING in the DRC has been facing internal and external constraints. Internally, the government began the process of review of 60 contracts signed with public companies. The absence of objective and transparent criteria and the slow process of the central government review has added to confusion and uncertainty in the mining sector. This led the banks to suspend granting loans to companies several of which depended on them.

Externally the global financial crisis of 2008 had a significant impact on mining companies in the DRC, most of which were financed by international banks and listed on foreign exchanges. Chinese companies were most affected. This is partly because exploitation and marketing of mineral resources requires huge capital investment.

However, most Chinese investors who were already active before the mining contract between China and the DRC had not yet made large investments in large mining concessions or simply came late while almost all large mining concessions were already in the hands of Western companies. Indeed, although they have built foundry or mineral processing units, supply for these units remains heavily dependent on production from the craft mining of minerals, a sector that employs large numbers of children and women who work in more precarious conditions. Some observers believe that the profitability of their operation is closely linked to metal prices on the world market. Thus the collapse in metal prices could severely affect their position as opposed to the Western companies that hold the most important concessions.

In the last half of 2008, there was a noticeable reduction in mining activity, in particular the closure and / or migration of mining companies, most of which are located in Katanga. According to sources in the Katanga Department of Mines, out of 75 mining companies identified in the province, only two remained open, 42 closed, while 32 have slowed down their activities. Chinese companies tended to close down their illegal activities causing enormous harm to the rights of workers.

Apart from private investment in mining in Katanga, China is active in several areas in DRC: telecommunication, infrastructure construction, development assistance (construction of three schools, the fight against malaria). All these activities fall under the China-Africa Forum. Moreover, China, through its Bank (Exim Bank) has agreed to finance the completion of major construction of public to the tune of $9 billion, revised down to $6 billion on a request from the International Monetary Fund (IMF). It should be noted that bilateral cooperation between these two countries goes back to the DRC's independence, specifically from 1960 to 1972, but it has experienced strong growth since the launch of the new China-Africa partnership summit in Beijing in 2000. This cooperation is now well under way and will continue over several decades.

2. Legal framework

THE LEGAL OBLIGATIONS to which Chinese and other mining companies are required to conform are set out in Article 2 of the Mining Code, Article 1 of the Labour Code, regulation of corporations in the DRC, and Law No. 09/001 of January 10, 2009 on child protection. According to RAID (op cit), the Chinese Ministry of Commerce has said that Chinese companies in DRC should observe local laws and working regulations and fulfil their obligations and social responsibilities. In addition, there are several other relevant international standards that Chinese mining companies must follow and implement, in particular the principles and criteria of the Extractive Industries Transparency Initiative (EITI) and the standards of the United Nations on the responsibilities of transnational corporations and other undertakings on human rights, adopted in 2003.

The two governments are involved in many international commitments that they have freely accepted such as the International Covenant on Economic, Social and Cultural Rights and the Convention on Children's Rights. All companies operating in Katanga must meet the obligations arising from these requirements.

The two governments have also ratified several key principles of the International Labour Organisation (ILO) Convention 138 on Elimination of Child Labour, and Convention 182 on elimination of worst forms of child labour. Regionally DRC ratified the African Charter on Human and Peoples' Rights adopted in 1981 and the African Charter on the Rights and Welfare of Children. Despite all this regulation, DRC presents great challenges for the protection of human rights in general and particularly economic, social and cultural rights.

3. Case I: Private investments in mining in Katanga

3.1 Data

3.1.1. Chinese companies and child labour in mines and quarries in Katanga

The Labour Code in force in DRC protects children under 18 and qualifies as illegal, work beyond their physical and mental abilities, and that of children in mines and quarries. The DRC has established a 'National Code on the Rights of Children' (mid 2009). Convention No. 102 of the ILO, ratified by DRC, considers child labour in mines and quarries as a 'heavy burden' if not one of the worst forms of work for them.

For the time being, children's rights are not protected in DRC despite the existence of this normative framework. Studies by NGOs suggest that of over 200,000 miners employed in this sector, 40% are children under the age of 15 (Forum nd). Awareness campaigns around the issue have prompted the government to tighten measures banning children's access to mines and craft quarries. However, these measures have not produced the expected results due to a failure to address the underlying causes and to propel or promote the commitment of all stakeholders (community, private companies, local authorities and local organisations),.

However, thousands of children continue to be exploited in mines and craft quarries in Katanga. In mines and quarries in Kabunji, Mumambe, Shamitumba, Kamatanda, Kolomoni, Kisakala, Kasonga, Kateketa, Hewa Bora, Mbula to name but a few, children, some formed into small groups, others associated with their biological families, are forced to work to survive.

In all these mines and quarries, children spend long hours crushing ore, carrying heavy loads, sifting and washing ore in water, and sometimes extracting minerals, while inhaling the dust and noxious fumes often in the presence of harmful and even radioactive minerals.

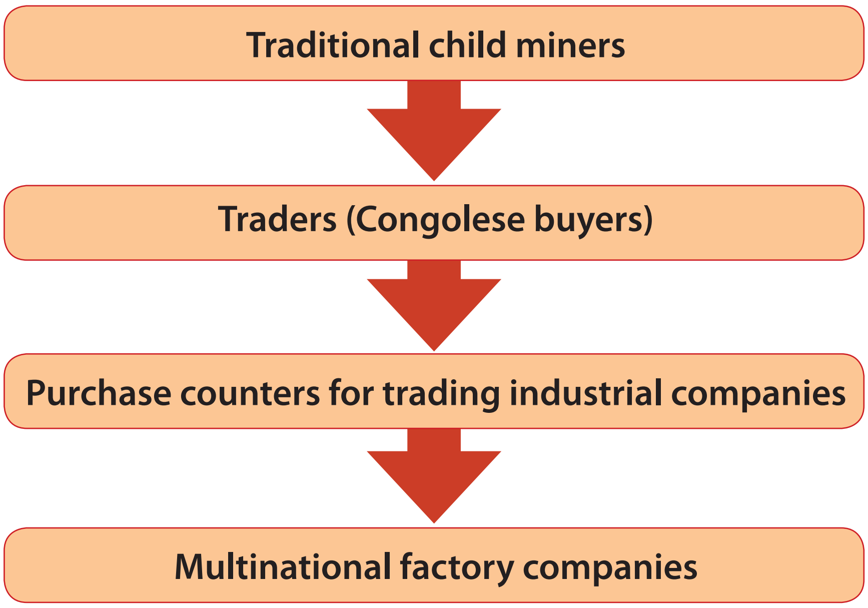
In Kamatanda quarry, a copper mining quarry located three kilometres from the town of Likasi, the ACIDH researchers interviewed four minors: Alain, Freddy, Michel, and Guelord, aged nine to 15 years. The first three operate in groups and the fourth works in a group of adults. The work consists in collecting, sorting, and screening ores and finally selling the traders the amount obtained at the end of the day. In what follows, they explain the conditions of work and what they earn (comments collected in Swahili and translated into English):

> Our names are Alain, Freddy, Michel and Guelord. We all live in Toyota, Likasi. We started this job long ago, from one career to another…Michel is the oldest of us…We have been working for about a yea…We all dropped out of primary school because our parents couldn't afford our education…We pick up minerals, sometimes we do the sorting for the benefit of traders. This varies from day to day, but usually we save between 2000 and 5000 Congolese Francs per day, or $2.80 or $6.80…We share this amount at the end of the work day. It is not enough…You know what they say; a bird in hand is worth two in the bush. Part of the money is used to buy food at home and another allows us to entertain our friends…Our friends go to school because their parents support them…Ours don't have jobs…They hardly get by…Yes; they know we are working in the quarry. Saescam officers do not want us, but we'll manage to convince them to let us work ...

The fourth child said the following:

> 'My name's Guelord. I am 15. I live in Toyota, Likasi. I am the first-born son in a family of five children. I dropped out of school when I was in grade four for lack of money. My father is a public servant, an usher. He can't afford my education. I work in a group of adults. My job is usually to carry the bags of minerals extraction site to the river, instead of washing. Sometimes I dig also I carry a bag of 50 Kg on my back…From the hole to the place of washing, I think it may be a distance of 1km…It depends on what task is assigned to me ... I learned to dig when I was 11 ... This job is very important, for the money I earn is used for the education of my younger brothers and sisters ... My father earns too little, and we all pay studies of our young brothers and sisters ... I earn more or less 5000 Congolese francs per day, or $6.80...The working conditions are currently difficult. With the financial crisis, buyers have become very picky ... I do not like this work. See what state I am in. I am tired; however, I have to work…I am part of a group, and if I want to earn more, I have to work more…We work from Monday to Saturday, sometimes we work on Sundays too ... It is the decision of the group leader who is the owner of the hole ...

These interviews show that child labour in the mines is due to the precarious economic situation of parents and the indifference of other actors: state, mining companies, family and local community. The real challenge is to understand who benefits from child labour in mines and craft quarries in Katanga. The operational chain of selling craft-exploited ore can identify actual and indirect beneficiaries of child labour in mines and quarries as the diagram below.



Nationally, the sales chain has two stages. In the first, the children-miners sell traders ore and in the second, the merchants sell to trading companies. The minors are trapped in this operation and to the benefit of trading companies. Here the Chinese mining companies play a particular role. Their craft-exploited ore is the true source of supply for the operation of smelters scattered throughout the province.. This is confirmed by the multiplicity of purchasing counters for Chinese minerals in all mining cities and towns of the province.

These companies, like all others operating in the region, are aware of the exploitation of children in mines and quarries. Yet they deliberately engage in the purchase of minerals produced by craftsmen without considering the abolition of child labour, which raises a fundamental question about the direct and indirect responsibility of Chinese companies in the abolition of child labour. It is direct because, despite internal and international standards and efforts to abolish the worst forms of child labour in mines and quarries in Katanga, these companies exploit children.

In Kolwezi, some buying offices owned by Chinese companies buy ore, regardless of age or quality of the seller. On the other side, others give children access to their facilities and perform several works, including, washing and sorting of ores. This responsibility is also indirect in that, by purchasing these minerals, companies promote child labour in mines, which nullifies the efforts of NGOs working for the abolition of child labour in mines and quarries.

3.1.2. Transparency of Chinese private mining companies and relations with local authorities

Transparency is an essential tool for tackling the consequences of the boom in mineral development for the environment and for economic justice for local communities in developing countries.

Several governments, major mining companies, oil, timber and international financial institutions have endorsed the Extractive Industries Transparency Initiative (EITI 2010). It emphasises the primary of governments, but also of private companies in supporting the efforts of governments involved in this process.

The DRC government has adhered to the EITI process since 2005 in order to achieve the publication of details of payments, management, earnings and expenditure of revenues derived from extractive industries. (The report of independent conciliators in 2007 was under discussion among stakeholders at the time of writing before publication planned for March 2010.)

According to the 11th principle of the initiative, the Congolese government's commitment implies the compliance of all extractive companies operating in its territory. So the EITI mechanism should be able to ensure transparency in all mining companies operating in DRC thus overcoming the 'mineral resources curse'. Unfortunately, Chinese companies, like many others, and the DRC government have not, until now, shown a genuine desire to include transparency in mining. So neither the government nor the mining companies are able to publish systematically the amount of mineral royalties paid to the treasury as taxes, customs fees, royalties, etc and the details of each company's compliance with its tax obligations remains unknown.

Nevertheless, the research has helped to highlight the observable practices of these companies, and the fact that they do not work in complete transparency. For example, the findings of the report of the economic, financial and good governance committee of the Senate led by Professor Mabi Mulumba suggest that mining companies are far from transparency. The report criticizes the massive fraud in the mining sector in Katanga and shows that of over 237 mining companies operating in Katanga, only six publish their production statistics, thus causing enormous harm to the state (Digitalcongo 2007). Obviously, these are practices of tax evasion under the mining code. On the other hand, the mystery or the inaccessibility of information on business activities of the Chinese mining companies in DRC as well as in their home country can only increase the doubts about their transparency and, consequently, how they fulfil their legal obligations.

However, these practices encourage corruption, tax evasion and recurring embezzlement although it is difficult to establish the physical evidence. Taking advantage of the weak governance that characterizes the post-conflict administration, the Chinese companies do not act in complete transparency, which does not allow civil society organisations concerned to identify the real actors and take action.

Moreover, according to research by ACIDH, some Chinese investors are posing as employees of the company, while the Congolese are used as interface for local authorities, as corporate executives or purchase counters for minerals. Sometimes they are trapped in the scam of Congolese accomplices and pay the price of their own illegality. Thus in one case an official of a Chinese company told ACIDH researchers that he regularly spent more than $5,000 per truck in the Lubumbashi-Kolwezi sector in fines imposed by the state.

These actions clearly show that the Chinese investments in the mining sector in Katanga significantly negate efforts to promote transparency and accountability of private and state actors, and thus the sustainable exploitation of mineral resources. Unfortunately, the government officials merely settle for counting the foreign investors to invoke the 'economic boom' rather than strengthen the control factor in maximising tax revenue likely to lay the foundation for growth that would benefit the entire population.

Indeed, even if provincial authorities were willing to limit the devastating effects of the Chinese investments, this willingness will be limited, due, in part, to the economic interests of state actors who are themselves involved in exploiting the mineral resources of the province.

3.1.3. The social responsibility of Chinese companies and its effectiveness in Katanga

The social responsibility of mining companies is rooted in domestic and international standards and in the mining code of DRC, which requires that any applicant for an operating permit may attach to their request, among others, 'the plan for the contribution in the project for the development of the surrounding communities'.

This plan makes it possible for the government, and the community, to assess the contribution of the mining project in the sustainable development of the local. The plan is part of the study of environmental and social impacts as required by Article 445 of the mining regulations, which provides that the community participates, through a discussion of the results set, in the social aspect of the project. These studies clearly establish the specifications of firms regarding their contribution in reducing poverty, notably job creation and construction of basic social infrastructure: schools, hospitals, potable water, electricity etc. The involvement and / or contribution of mining companies in these social needs are the responsibility or, better, the social obligations of companies.

Within this framework, the report analyses the social responsibility of the Chinese companies operating in Katanga. However, these provisions are widely ignored or subverted, by mining companies in general and in particular by the Chinese . Studies of environmental and social impacts mandated by the mining law are not made public. Sometimes they are not even carried out.

Socially, local communities frown upon the impact of mining activities of the Chinese companies. At Luisha, a township 75 km from the city of Lubumbashi, where two Chinese companies (Corporate Congo Mining International, CIMCO; the Mining Company of Lubumbashi, COMILU) are based, the general opinion on the social impact is very negative. This town lives in darkness and lacks drinking water. The establishment of Chinese companies in this country and the promises held by them raised new perspectives for improving the conditions of existence, namely, access to basic social needs: water, electricity, schools etc. But years after installation; no aspect of the town has experienced any improvement. Access to drinking water, electricity and schools for thousands of children remains a daily concern of the inhabitants.

According to local residents the two CMICO companies that have been open since 2004 have only drilled one fountain at the entrance of the plant for the use of workers, despite the legal requirement to contribute to local community development. Faced with lack of access to drinking water, some local families sneak onto the site to take water from the site fountain, even with the complicity of CMICO guards.

A resident interviewed by the ACIDH researchers on condition of anonymity says:

> I am married. I have two children ... I was living in Lubumbashi ... I have lived here for 5 years ... I left the city in search of means of survival, for first Kapolowe, then here in Luisha ... In Kapolowe I used to go fishing. Then fish went scarce. So I come here ... Digging as a craftsman is my main income generating activity ... But with the advent of the Chinese companies the authorities have transferred all the concessions ... I cannot do anything now. The company cannot hire the whole community. Thousands of people are unemployed over here. It is quite impossible for the companies that spoil our concessions not to do anything for us and our community ... You can see for yourself the quality of water we consume. Unbelievable! It's water that was artificially created after the abandonment of an open pit mine, used long ago by Gecamines ... Certainly, CMICO hired some workers in our community who are very poorly paid ... I do not know the number ... Their monthly salary is 30,000 DRC Francs, or $40 ... Sometimes they get flour, but not always steadily ... I cannot find important work in this business since those employees are suffering like us ... Now what I can ask the company for is to contribute to our development in exchange for our wealth ... To give us access to drinking water, electricity, hospital for childbirth for our wives and schools for our children. Moreover, these are the promises of our authorities.

Another person living in the same locality says:

> I am married and I have four children ... I am from this town, so I saw all these companies come one after the other ... We were informed that they are Chinese. That's all we know ... You can ask everyone here, no one will tell you that these companies, especially CMICO have helped our community ... First, our husbands who work there are underpaid ... Then, we have trouble having access to drinking water, but in 'the meantime, the company has drilled a single fountai just to the workers and not for the population ... But when they came here, we were told that our community would be supplied with drinking water, electricity, schools and hospitals ... It was our authorities and the Chinese who made promises. Alas, nothing has changed ... To have access to drinking water, I sometimes wake up my kids at four o'clock in the morning. So I did this morning. They left at four am. It is coming up to 16 hours, but they have not returned, not even with a 20 litre can ... They will wait until the guards who are at the entrance to the factory authorise people to have access to the hydrant, so that they can, in turn, collect drinking water ... It all depends on the willingness of guards who ensure the safety of the plant, but sometimes they sell 50 francs a 20 litre can of water, or $0.01 ... It was the company that prohibited ... I can not ask either the company or the Congolese authorities. They lie to us. Besides, I will not vote for anyone next time ...

Similarly in Likasi, the indifference of Chinese companies vis-à-vis their social responsibility meets the disapproval of local communities affected by their activities. In an interview on the involvement of Chinese mining companies in improving the social communities in particular, a human rights activist told the ACIDH researchers:

> Chinese companies are present in the town of Likasi ... They are engaged in the acquisition and processing of minerals ... They have set up factories along the Kankotwe-Kambove road and other suburbs ... In principle, the law requires each company to make public its specifications regarding its commitment to social development of the entity that undertakes its activities. Unfortunately, this is not the case for all companies operating here, including Chinese companies ... Therefore; it is difficult to assess corporate social responsibility. ... I know pretty generally that local authorities have announced the financial participation of mining companies operating in Likasi in the rehabilitation of the College of Likasi, but he had not had enough information that could allow people to check the names of companies that participated in this collection ... No, I do not know a single social work involving Chinese companies for communities. ... There are still some companies participating in the social development of our body, but they are not Chinese companies ... There is, for example, the company Bazano who rehabilitated the market now Congo Minerals dedicated to maintaining the pool of the city and its garden, etc. ... I think we should ask the issue at their head ...

3.1.4. The Chinese mining companies and the protection of the environment

The protection of the environment is a priority in the DRC mining law. The mining code and its regulations make obligatory approval of environmental impact assessments (EIA) prior to the granting of mining rights: an environmental management plan of the mining project (PGEP), and a Mitigation Plan and Rehabilitation (PAR) with relevant technical services. The relevance of these studies is, first, the implementation of preventive measures for the protection of the environment and, second, the implementation of mitigation and rehabilitation of risk of degradation of the environment following the closure of the mine site.

It is difficult to analyse environmental degradation by the Chinese companies in Katanga in a context where none of them has conducted the studies required by the DRC law. Neither have they published the results of those studies. The prior publication of these studies would have required that these companies take steps to limit the negative impacts of major activities on the environment and local communities.

The mining legislation in force in DRC make these studies a prerequisite, if not an obligation for the enjoyment of rights or mining rights as specified in the mining code: the Exploration License, the Operating License, the operating license for small mines, the exploration license for waste, which are recognised by the Certificate Research, Operating Certificate, the operating Certificate for Small Mines and the Operating Certificate for waste. These studies are generally not made or verified.

In Lubumbashi, Likasi, Kolwezi and their surroundings, the construction of industrial units of ore processing and the installation of counters and mineral deposits owned by the Chinese companies located in residential areas create real risks for residents of those neighbourhoods. The rules set out in the scientific field as well as the mining regulations concerning the storage, transportation and marketing of mineral products.

For example, Article 5, paragraph 1 and 3 of Annex IV of the Mining Regulations states that 'storage sites should be located not too close to mining operations or electrical installations, nor too near the limits of the mine site or homes. The corporate site should not be located near a slope or a water point.'

But these requirements are systematically neglected. The main streets in the cities mentioned above are used for counters and storage of ores. Thus, the absence of environmental studies and the illegal closure of the Chinese mining companies reflect a lack of assessment of damage to the environment, and of measures likely to repair the damage caused and to limit its effects.

3.2. The treatment of workers in the Chinese mining companies: the case of Jiaxing Mining, Congo Dong Fang International Mining (CDM) and Lida Mining

3.2.1 Brief introduction of these mining companies

Jiaxing Mining Companies, CDM and Lida Mining are all corporations with predominantly Chinese capital operating in the mining and processing mineral deposits in the southern province of Katanga, DRC. These three companies are constituted as limited liability companies.

According to information gathered by paid workers, Jiaxing Mining was created in 2007. It employs approximately 350 employees including 150 Chinese and 200 Congolese. Its capital consists primarily of shares owned by a single Chinese subject. It has a treatment plant located in the ore district Kimbembe about 10 km from the centre city of Lubumbashi where its head office and administrative support is located.

CDM uses both Chinese and Congolese employees. The results of the study showed a significant decrease in the number of day-labourers. As Jiaxing Mining has a treatment plant located in the ore district of Kimbembe about 10 km from the centre of the city of Lubumbashi, where its social and administrative headquarters are based.

Lida Mining is a commercial exploitation of copper ore and cobalt created in 2006. The majority of its shareholders are Chinese citizens. It is formed as a partnership with limited liability. It has a mineral processing factory at Lukutwe village 65 km from Lubumbashi along the road to Likasi where its headquarters administration is based.

3.2.2. Visits to Jiaxing Mining, Congo Dong Fang International Mining (CDM) and Lida Mining

3.2.2.1. Jiaxing Mining and Congo Dong Bang Mining

The ACIDH investigation team visited the head offices of these two companies on October 31, 2008. They wanted to investigate the working conditions and make contact with officials of both firms in connection with complaints to their office by 13 workers at Jiaxing Mining and by a Mr Ephrado, a worker with CDM.

During the visit, the ACIDH investigators were not received. The executives of both companies required that the investigators hand in requests to be received and wait until they were recalled later. The investigators conducted interviews with some employees and people employed on a daily basis on working conditions. These employees revealed that working conditions in their company are subhuman. The workers emphasised the unlawful lack of employment contracts and other entitlements embodied in the standards of DRC; poor hygiene in the workplace, and lack of a framework for discussion between workers and employer, that is a union representation likely to promote and protect their rights; and especially the inability of the Congolese authorities to compel their employer to meet the required standards.

3.2.2.2. LIDA Mining

The ACIDH investigation team visited the headquarters of Lida Mining on August 16 and October 6, 2008. The purpose of the visit was to investigate working conditions and get information on the on the case of Ilunga Mutombo Franck from officials of this company.

During the visit, the ACIDH investigators were not received, the main reason being that the company was sealed by the provincial government for non-compliance with regulations in the construction of an industrial plant, including permission to build.

Nevertheless, the investigators conducted interviews with employees and some people employed on a daily basis in the village where the company's headquarters are located. According to these employees, working conditions in their business are almost inhuman and require that the government authorities reduce the effects on pain of failure to assist a person in danger. When interviewed on the dreadful conditions, the employees referred to the increasing degradation of contractual relationships, including lack of regular contracts concluded with their employer, and de facto permanent social insecurity that characterised the work; low wages; the lack of family allowances, housing and other benefits; non-premium overtime; non-compliance with the assignment of employees, and disrespect of the human dignity of employees characterised by inappropriate insults and the lack of decent means of transportation. In all these issues, the employees have no opportunity to bargain with their employer.

3.2.3. Employment contract and relationship between employees and Chinese employers

Despite the actual practices in the various mining companies, the Chinese companies in the DRC in general and especially in Katanga, the contractual relationship between workers and employers is protected, even organized by the DRC labour laws and the international labour standards. The Labour Code recognizes the rights of workers such as the right to negotiate and conclude a written contract and fixed term or indefinite contract; to see this changed into permanent contracts in case of daily employment for at least 22 days over a period of two months; to join the trade union of his or her choice; to earn a decent wage to benefit from decent working conditions and adequate sanitation; to benefit from social protection (affiliation to the National Institute of Social Security, a decent housing, family medical management etc.)

Nonetheless many workers are routinely denied their rights. In many Chinese companies visited for this study, the bulk of the workforce is employed daily, not bound by an employment contract when entitled beyond 22 days. Similarly, those who are bound by a contract are denied related benefits (housing or housing allowance, transport, medical care family, school or allowances etc.).

The research indicates that most Chinese employers abuse the political and economic situation of poor countries to require their workers to enter relationships based on the law of the jungle, in total disregard of human and labour rights, as described above. These includes the right to negotiate and conclude a written contract, to join the union of choice, to earn a decent wage, to work safely in adequate hygienic conditions; benefit from social protection etc.

The last two conditions require the adoption of preventive measures by the employer to reduce the incidence of accidents and possible impacts on the environment. To do this, the employer should train employees on the risks of their activities, their health and safety, as compared to the degradation of the environment, for example: not to handle toxic materials without appropriate protection, or to pour acid into the river. However, such measures are far from mainstream social and environmental policies in most Chinese companies.

Obviously, Chinese enterprises do not care about these standards Moreover, the increasing incidence of accidents is very evident as demonstrated by case review of complaint in the following lines. While most Chinese mining companies are using much of the local workforce, it is nevertheless clear that the conditions required by law do not exist in most contracts. In the first half of 2008, the Programme on Economic, Social and Cultural Rights recorded 22 work-related disputes, including seven in one Western companies, and 15, or about 70% of cases mainly in Chinese companies.

These disputes focus on occupational accidents, employers' refusal to care for injured workers, and redundancy and abuse of workers who expressed the need to exercise the right to freedom of association and conclude a written contract after working as day labourers beyond the limit allowed.

3.2.4. Social security of workers in Chinese companies

The increase in cases of work accidents and occupational hazards demonstrate the relevance of the social security system. Congolese law, reflecting international standards, attaches great importance to social security and the protection of Congolese workers.

Thus an official decree on social security (Official Journal 1978) requires that 'every employer shall submit to each region where they employ workers, a membership application to the Regional Institute of National Social Security (INSS) that has territorial jurisdiction within eight days after the first hiring of one or more workers or early learning, education, custody or placement of one or more similar '. This protection is granted to all workers without distinction.

This provision obliges each employer in DRC to register its workers with the National Institute of Social Security (INSS). Chinese mining companies ignoring all these standards and regulations are guilty of violations of national standards and international standards on social security. Despite the increase in cases of accidents recorded in Chinese companies, their Congolese workers are victims of permanent social insecurity. Operating often anarchically, without the slightest respect for social and environmental standards in force, the Chinese companies challenge the authority of the state, which is to ensure security and social justice for workers.

Here the role of the Inspectorate of Labour in each province should be invoked. Although the Labour Inspectorate is responsible for ensuring compliance in the workplace, it is surprising that this sector is wholly the preserve of the employer who regulates things as he or she pleases. Instead of exercising the prerogatives that are recognised by law, labour inspectors justify their inaction by the low wages, political interference and other constraints that make their mission impossible. But some analysts argue that some labour inspectors just want to extort money from the companies. But as the balance of power between employees and employers is naturally disproportionate, government intervention is necessary to ensure balance and to enforce compliance. The inaction of the public services responsible for monitoring the work leaves workers at the mercy of their employers and often with no alternative. Indeed, the case below, among many others recorded by ACIDH perfectly illustrates not only the suffering of hundreds of Congolese workers employed in Chinese companies, but is also an eloquent indicator of the inability of the DRC to ensure social justice by implementing its own laws.

3.2.5. Review of complaints received from victims employed in Chinese companies

ACIDH provides legal and judicial assistance to the vulnerable who are victims of violations of their rights and who are seeking justice. A group of ACIDH volunteer lawyers examine complaints from victims on the basis of Congolese law, the regional and international instruments of human rights and guide them in the courts state offices. Within this framework it provides analysis of complaints and grievances of the workers received below.

Complaint 1:
The workers of the company Jiaxing Mining vs. their employer

Summary of facts:
On May 26, 2008, ACIDH received 1326 complaints of Jiaxing Mining workers against their employers. These 13 workers complain that their employer has wrongfully terminated the employment contract between them and the company, together with the internal standards, regional and international governing their relations. These workers were dismissed in two waves: the first with seven workers, and the second six workers in the same week of May 26, 2008. Most of these workers were detained or enclosed in a container for from seven to 17 hours, deprived of freedom of movement. These employees worked mostly as founders before signing permanent employment contracts with their employer two to four years ago. They served the company at significant risk to their health due to lack of appropriate clothing to protect against radioactive rays, emission of toxic gases and other occupational health risks. Safety and health in this industrial site is always at risk and many workers, especially those in the foundry, have scars on their skin to prove it.

Muyambo Shambuyi, another Congolese worker for the same company, was the victim of torture, degrading, and cruel and inhuman treatment, by a Chinese subject named Hu. This man burned the lower parts of the worker as a punishment. However, although this case reached in the local press and the Provincial Assembly of Katanga, the offender has never been the subject of judicial proceedings. Consequently, the victim did not benefit from social protection. While the judicial authorities seem to justify their inaction by the flight of the offender, the workers repeatedly denounced the inaction of political and administrative authorities of the province of Katanga. In a letter dated May 26, 2008, workers claimed to ACIDH and Katanga Provincial Assembly that that Hu quietly went about his duties within the company.

Legal reading of the facts and comments:
According to surveys, the employer based the termination of the contract on the late arrival of workers at the workplace, even though the transport vehicle made available to workers by employers, had broken broke down. In fact, ACIDH noted that the dismissal of these workers did not observe the legal provisions of the Labour Code in force in DRC, which sets the scale of disciplinary sanctions applicable to guilty workers. The obligation of transporting workers to the workplace lies with the employer, but we must also stress that no step in the hierarchy of sanctions was observed in this case Moreover, the employer verbally terminated the contract saying that his workers were responsible. The dismissal was therefore in breach of the prescribed legal provisions.

There was also a breach of the legal entitlement to a hearing of the workers complaint before the provincial labour inspector. Workers told ACIDH that there is no trade union representation within the company.

ACIDH actions to protect the rights of workers:

Following a referral by the workers, ACIDH endorsed the workers'requests. The first steps were to renew contact with the employer and secondly to take the grievances, especially those of direct victims, to the courts including the Inspectorate of Urban Labour and Social Welfare; especially as regards the allegations of illegal detention that the Chinese employer would have been guilty of. To separate the litigants the Urban Inspector actually summoned the employer for purposes of appearance. However, against all odds and despite the fact that the Urban Inspector recognised the illegality of the dismissal, the employer was not sentenced to pay damages. Some of the victims were therefore forced to settle for $500 and others $1000 as compensation.

However, victims are not entitled to compensation. The inspector is the only one who can clarify the reason for his own decision. But generally, this is due to the slowness of the judicial investigation on labour disputes submitted to the judge by the inspector, and the poverty of the workers who do not have the financial resources necessary to support legal actions against their employers.

Complaint 2:
Mr Ephrado Kabanga vs CDM

Summary of facts:

On 21, 2008, ACIDH received a complaint from Mr Ephrado Kabange, ex-worker of what is now Congo Dong Bang Mining, then known as CDM. He had been the victim of a serious assault and knife attack requiring hospitalisation and surgery, But while the victim was in search of adequate health care, the court in Lubumbashi, initially approached by the victim through the local magistrate decided to release the accused Lee, a Chinese subject held without the victim having received appropriate care, or guarantees to cover hospital bills. The victim states the facts for the ACIDH researchers as follows:

> ... I have worked in this business long before the construction of the factory as a labourer, all was well until one day I signed the contract of permanent employment with my employer ... However, one day when we left the facilities of the plant back to the city with other colleagues, we heard Alex tell us to stop on the ground that one of us would have stolen ... We actually stopped. He began to control one by one and then he found a bag of …the rest of the screws that were left after construction, ... When I just finished talking [I suffered blows] then suddenly I felt a stab in my belly and it is followed by bleeding … the Lulakumbira Magistrate who heard the case and has issued an arrest warrant and the Police arrested the one of the three accomplices, the others having taken flight ... I just wish that Chinese support for my medical care, the result of medical report from treating physician recommends surgery imminent ... '

Legal reading of the facts and comments

The fact that Mr. Lee and his team stabbed the victim in the testes is a flagrant violation of Congolese criminal law meriting imprisonment and fine. Unfortunately, the culprits quietly go about their business with the full knowledge of the magistrate who acquitted them for unstated reasons, without considering the interests of the victim. In addition to violations of criminal law, Mr. Lee should compensate the victim for the material and moral damage he suffered.

ACIDH actions to protect the rights of workers

The first steps were to provide legal assistance to the victim. ACIDH directed the victim to the courts including the public prosecutor at the Court of Appeal of Lubumbashi. This action helped the public prosecutor of Lubumbashi to relax the record. During the investigation on the file, CDM proposed to give the victim $1000. Consequently, the Chinese subject goes about his work quietly without his responsibility being established by the judiciary and the company taking disciplinary action against the employee.

Complaint 3:
Mr Ilunga Mutombo Frank vs Lida Mining Summary of facts

On September 23, 2008, ACIDH received the complaint of Mr. Ilunga Mutombo Frank, ex-employee of Lida Mining Company. His task was to melt the ore. He fell into the basin of the furnace. The accident occurred on 06 January 2008. Mr Frank stayed for over two hours without being taken to hospital where he might have received proper care. His employer refused to take him to the hospital, preferring to give him some sedative tablets even though the condition it was critical.

Noting the plight of their colleague, the workers pressured the employer who eventually took the victim to Panda hospital in Likasi, a city 120 km away from Lubumbashi, where he received health care. Out of five months spent in hospital, the employer agreed to cover only the payment for one month and 20 days. The rest of the stay was supported by the victim's family.

When he came out of hospital in May (five months later),he went to the workplace to make the report from the attending physician and claim his rights. According to the report, the victim was declared physically unfit after the accident. He was seeking social care by the company in accordance with labour legislation on the care of workers suffering a work accident. But instead of enjoying the entitlements recognised by law on the subject, Mr. Ilunga was forced to resume work. Thus he would be the victim of yet another accident including burns on his back before being handcuffed and locked in the container fed by the company safety officer. Then on the orders of the employer, he was taken to jail under the authority of the mine police in Lubumbashi.

When interviewed about the causes of the second burn, the victim told the ACIDH researcher:

> On my return from the hospital where I spent more than four months, I came back to report to my employer ... . When I entered the factory, I introduced myself to my employer in order to take my salary ... My employer told me that I was not entitled to anything … So he asked me if I could work ... I told him that the doctor declared that I was physically unfit .I was incapable of doing anything ... He proposed that I might receive $400 as my detailed account and hospital expenses, a sum that I felt insufficient for my age because I had worked for this company since April 2006

Legal reading of the facts and comments

With the legal reading of the facts gathered in the field, ACIDH has noticed several violations of the internal laws as well as regional legal instruments. Internally, the treatment of the victim violates the Congolese legislation on labour, which requires that every employer affiliate his or her workers. According to surveys, the employer had never done so. The employer's refusal to support the medical care of the victim violates Article 15 of the African Charter which states that 'the worker must receive fair working conditions and adequate, including compensation for work accidents...'

ACIDH actions to protect the rights of workers

The first steps were about supporting the efforts of counsel for the victim. On October 23 2008 the researchers met one of the counsels of the victim at the hospital, and later at the ACIDH office. He said he was surprised by the irresponsible and contemptuous attitude of the Chinese employers. He was shocked because despite the existing regulations on labour they did not fulfil their legal obligation to affiliate their workers to the INSS. The Counsel believes that the employer assumes full responsibility because he did not affiliate his client to the INSS. When this report was written, the folder that was being considered by the public prosecutor of Lubumbashi remained unresolved. The employer is reported to have bypassed the lawyers in offering the victim $1700 as damages.

3.2.6. Data analysis

Analysis of data collected on 'Chinese private investments in the mining sector in Katanga: good governance and human rights' suggests that, overall, the impact of these investments on the economic and social development of the local communities is negative.

.First, the mining industry in DRC has been facing deficits in administration and regulation.

The administrative deficit is due to the very limited role of the country sector at the time when reforms were initiated in the sector by the World Bank, leading to the non-ownership of reforms and lack of capacity for the government to undertake the restructuring of public administration.

This restructuring has become necessary to ensure that the various private actors involved in mining play their supposed role in promoting local development. Indeed, the changing attitude of the state towards its regulatory function now leaves it to companies to adhere on their own to standards of social development suggests that mining companies can freely determine their degree of social responsibility. In fact they sometimes even fill the frequent gaps in administration in poor countries such as DRC.

But if Western companies were sometimes able to establish their own standards of corporate governance, Chinese companies, by contrast, have no standards for either social development, protection of the environment or respect for human rights, especially those of local communities. Moreover, the Chinese legal perception of social and environmental responsibility in their own country is still very ambiguous. The current irresponsibility of the Chinese mining companies in Katanga is perhaps not surprising, especially since there is a profound misunderstanding on corporate governance, particularly on social responsibility (RAID op.cit.).

This misunderstanding probably comes from the inability of the Chinese government to establish standards on ethics of these investments abroad as well as a mechanism to ensure that they comply with policies related to the China-Africa cooperation objectives. The protection of the rights of children comes up against the impact of China's domestic policy. Although China is an upcoming economic world power, their government has not managed to set up its own policies on the abolition of child labour. The Chinese law prohibits the employment of teenagers under the age of 16 years and includes a special regime for workers under the age of 18. However many people under the age of 16 enter the labour market each year, and are sometimes treated like slaves, according to a China Labour Bulletin report (CLB 2007)

The same source says hundreds of thousands of children in China are without access to education. Lack of commitment of Chinese companies to the abolition of child labour in Katanga may be also related to Chinese culture, which does not promote rules prohibiting the exploitation of children. The Chinese government should tighten its laws on the abolition of child labour and ensure their implementation. Despite awareness of China and their companies working for the abolition of child labour in mines and quarries, the DRC government should take centre stage.

For example, lack of a policy to determine the actual extent of child labour and its contribution to mining can be only reinforce and further contribute to unregulated capitalism. This in its turn is further reinforced by the restriction of workers' rights, which contributes to low levels of capital investment and of course ignorance of the DRC labour law by the Chinese employers and their employees.

The data collected from the three companies mentioned show that the greater the level of capital investment, the better the treatment of workers. Workers employed in small companies undergo worse treatment. It is true that the working conditions in the mining industry require a greater improvement than in other companies, but the repeated attacks against the physical integrity of workers in Katanga are probably an import from China. In companies where trade union rights are exercised, the restrictions of the rights of workers are less marked as there is a space for dialogue between employers and workers, which is not the case in Chinese companies.

Some Chinese employers obstruct the local official inspectors who are responsible for ensuring that workers' rights are respected. All this is due to the failure in the system, poor administration of social justice and disregard of workers' rights by local officials in the grip of rampant corruption, given the precarious working conditions. The Chinese employers have a bad image of local officials' work as a result of their practice of extortion. These practices must cease if the work of state services is to be valued and workers' rights better protected. To do this, the Congolese state must provide proper expense allowances to their officials to prevent inspectors from constantly extracting 'ransom' from companies and, therefore, undermining their own work. A change in attitude by Chinese employers is certainly necessary for the overall promotion of the rights of workers.

Study of case II

4.1. Public Investments- SICOMINES

4.1.1. Data

DRC and a group of Chinese companies, China Railway Group Limited and Sinohydro Corporation signed a $9 billion cooperation agreement on April 25 2008. Part of this funding guarantees the repayment of the commission contract for infrastructure for the mining investment, and also guarantees reimbursement of the contract for major public works infrastructure of collective interest and benefit for DRC. The reimbursement will be as high as two-thirds out of the dividends of Gécamines generated by the mining joint venture SICOMINES, a commercial company created for the purpose.

Our analysis here deals only with the mining aspect of the contract and not on the whole agreement on cooperation signed by the parties.

4.1.2. Contributions to the contract by the parties

Through Gécamines, DRC has brought in the mining rights and titles covering the copper-cobalt deposits evaluated as 10,616,070 tons of copper, 6,813,370 tons of which are in real resource, and 626,619 tons of cobalt. All other minerals recoverable are to be determined in tons (article 4 and appendices of the agreement).

China Railway Group Limited and Sinohydro Corporation have been mobilising the financial resources in order to carry out the joint venture. Meanwhile they are willing to provide Gécamines with necessary funds as loans to be repaid by 70% with an interest rate of 6.1%. Of the shares 68% are allocated to the group of Chinese companies, and 32% to Gécamines, a Congolese public company. (cf Article 3.1.4) Through the reading of the agreement and the practice of the DRC commercial law, we can see that the industrial aspect is the contribution of the Chinese consortium. Note that industrial contributions can lead to shares outside the capital known as founders' shares or beneficiaries' shares, as opposed to those shares outside the capital issued to pay for certain services rendered or procedures performed by the founders (Phaze Mazanza 1988).

This allocation of capital between the parties of the contract raises important concerns about the reciprocal obligations of the parties and, consequently, on their equity. On what basis did the parties divide the capital between them?

Notwithstanding the obligation of the group of Chinese companies to mobilise financial resources and loans to Gecamines, what does the Chinese group actually bring in the social capital of the SICOMINES joint venture? After obtaining the total refund of the amount, which was a priority and an obligation in terms of inputs, will the group of Chinese companies keep on taking advantage of their status as partners with the same capital allocation?

4.1.3. Transparency and imbalances in the contract

The contract between DRC and the group of Chinese companies was signed during the period when the DRC government was involved in reviewing the mining contracts (Ministerial Decree 2007) signed during the transition. It may be said that these contracts were signed during a period of political instability. So the elected government seeking financial means for their social programme had an excuse concerning the necessity to renegotiate the mentioned contract

It is clear that at the same time as the DRC State, was arguing that most contracts signed during the transition were subject to review through lack of transparency, it also signed a contract with Chinese companies in violation of Articles 32 and 33 that make the issuance of mining rights subject to a mandatory tender. The concern of the Congolese legislature is to ensure transparency in procurement or better in the signing of mining contracts. Moreover, there is still no mechanism for access to and disclosure of information on the performance of the work of the joint venture. For example, DRC and China signed additional agreements to amend certain clauses of the original agreement but the text itself remains secret.

Imbalances in the contract

Distribution of shares between the Congolese and the Chinese parties

In reading the contract, we can easily see that there are no criteria for the allocation of shares between partners. The contract allocates 68% to the group of Chinese companies and 32% to the Congolese government through Gecamines. Under the terms of the agreement, the lion's share attributed to the group of Chinese companies is the guarantee offered to them in order to recover their investment in mining projects and infrastructure works. Over $3 billion will be invested in creating the joint venture, and a further $3 billion will be spent on infrastructure such as roads, hospitals and universities.

This uneven distribution of shares leads one to ask questions about the nature of the money the Chinese consortium will mobilise for the creation of the joint venture (JV). Is it a contribution or a loan? The contract does not give a precise answer to this question. But from a careful reading, it is clear that it is indeed a loan. For article 12, 4th indent of the contract stipulates that all Chinese funds lent to both Gecamines and the JV will be repaid with interest, except for a special payment of $350 million due to Gecamines as a bonus – the management of which appears obscure.

Two substantive issues that are not answered in the contract are: Will the Chinese consortium continue to be associated with the contract after their loan to the JV has been repaid with interest? If so, what will their input be? If the Chinese loan as a contribution is $3 billion, it is unfortunate that the value of the assets transferred by Gecamines in natural resources, rights and securities has not been properly valued.

Excessive illegal exemptions

The mining legislation in force in DRC limits the role of the government in the mining sector in promotion and regulation. However, it gives the state the opportunity to engage alone or in combination with third parties in mining venture without the corporation established for this purpose having a discriminatory treatment compared to other companies operating in that sector. In this context, it is inconceivable that the JV, which is a corporation in which shareholders will get dividends, enjoys full tax exemption. We are aware that the contribution of the Chinese consortium will be repaid with interest at 6.1%. The extent of these unfair advantages, according to Article 14 of the Convention, is as follows:

- full exemption from all direct and indirect taxes, duties, customs charges for import and export payable in the DRC and those related to mining and infrastructure development;
- exemption from fees and payments relating to applications for the grant, transfer and assignment of rights and mining rights, exploration permits and exploitation;
- exemption from royalty fees associated with the operation.

Guarantee for the repayment of the Chinese loans

The repayment of the Chinese debt is the result of profits on investments in the mining sector. Three periods are scheduled for repayment of the debt: the first period of mining repayment, the second period of repayment of the first instalment of the infrastructures and the third commercial period (Article 12 of the Convention). For a good understanding of these three periods of repayment, it is necessary to clarify that, in addition to repayment with interest of their investment cost estimated at $3 billion, the JV will also refund with interest $6 billion that will be invested in basic infrastructure in the DRC by the Chinese companies.

The first and second period of debt repayment (during these two periods, the repayment with interest of 6.1% will be respectively 70% and 66%) will be done with the profits of the JV. ACIDH doubts that the JV, with profits only without payment of customs and tax, is able to return within a reasonable time the sum of $6 billion that will be spent on infrastructure construction and the cost of the mining investment, especially with the secrecy that surrounds the mine management in the DRC. On the other side, regarding the third period for repayment of the financing ($3 billion) for the second phase of infrastructure work and interests, the sum will be financed by tax and customs contributions, to which DRC will be entitled in the third period known as commercial period (Article 12). (The completion of infrastructure works of the second phase has already been suspended.) If the funding of the second phase of infrastructure construction and interest were repaid by the tax and customs contributions to which the DRC is entitled to the JV, why would the same principle not apply to the first and second period of repayment of the debt? Here is another glaring imbalance, because the contract does not tell us what the DRC gets in return for the excessive exemptions that it grants during these first two debt repayment periods.

Maturities of debt repayment

Article 14.3.4 of the original agreement as amended states that: 'If the JV has not repaid mining investments and interests of the mining project and infrastructure within 25 years after its creation, DRC undertakes to repay the remaining balance payable by any other means.' Information on the new amendment agreed between both parties has not been released. But as the Chinese ambassador, Wu Zexiam made clear in remarks on the sidelines of a recent investment conference held in Kinshasa, it has helped to trim the safeguards that used the mineral reserves in DRC, and the issue of the repayment has still not progressed.

Furthermore, it is clear from reading the agreement that there is no deadline envisaged in terms of likely duration for the repayment of Chinese loans and both parties are content to state the principles raised. However, after estimating the commercial production set to 200,000 TCu for the first year and 400,000 TCu from the third year the two parties may, on this basis, project likely hypotheses concerning the repayment of the Chinese loans.

In this context, the use of qualified experts would be the appropriate way for the DRC government to allay concerns that repayment of the Chinese loans and interests will run over several decades. The Chinese loans are not the first in the economic and financial history of the DRC. Indeed, many Congolese remember the devastating effects of loans under the Second Republic, which are still being repaid through natural resources. The DRC authorities of the time had greatly benefited from debt, pocketing commissions amounting up to 7% of the total project value (Willame 1986). These practices seem to be continuing although the government tries to reverse the trend.

A system of management of public companies and public procurement by agents acting on behalf of the state is being erected. It is the same safeguards that are granted to the group of Chinese companies through their 68% participation in the SICOMINES joint mining venture. The DRC government must guarantee the people the practical arrangements for repayment of the Chinese loans and their interests.

4.2. Data analysis

Chinese investment in Africa is governed by the 'no questions' approach, which differs from the approach of traditional partners. It is also characterised by several principles including 'win-win' which means that, in cooperation with China, the parties are equal. It is this principle that concerns us within this section We will look into the contract to see whether the parties (China and DRC) are equally treated by this golden principle praised by China in its relations with African countries, including DRC.

The Chinese loans offer an average interest rate of 3.1% a grace period of four years and a maturity of 13 years. However, these parameters vary considerably from one country to another. Interest rates range from 1% to 6%, the grace periods from two to ten years and maturities from 5 to 25 years (Foster et al 2008). The processing of data suggests that China's policy on investment in Africa is variable and is often a function of the economic, political, legal and social development of each country. The counterweight of the recipient, the level of stability and the reliability of political institutions seem to determine the rules of the game.

Discrimination in terms of interest rates and participation of the Chinese companies is obvious. For instance Angola, which neighbours DRC, benefited from a $2 billion funding from China with an initial interest rate, of 1.5% to 1.7%, later brought down to 0.25% whereas the interest rate for loans to DRC is 6.1%. Beyond the economic factors, these parameters of variation are the consequence of a fragmentation of the Chinese approach in Africa that is profitable to China. Although the China-Africa forum takes the multilateral form of cooperation, China favours bilateralism in dealing with the African States. For Beijing this choice was made on the grounds of lack of experience in multilateral cooperation. This argument is probably a diplomatic pretext, if not a business strategy in business.

Without a doubt, the bilateral approach adopted by China in its cooperation with African countries will prove costly to unstable countries and those with poor governance such as DRC. The contrast between the DRC government policy of consolidation of mining contracts initiated since April 2007, and the signing of this contract in 2008, involving as it did the creation of the SICOMINES mining joint venture without compliance in this area, marks a significant retreat from the process of rebalancing mining contracts initiated since 2007. In addition, the enormous benefits granted to the Chinese side serves to emphasise the fact that Chinese funds have created a sense of moral debt on the part of DRC.

Moreover, these benefits undermine the economic rights of Congolese communities, because they deprive the state of resources to ensure the redistribution of national wealth. Like international financial institutions, China's economic interests impinge on people's right to utilise their natural resources for their own development. The pre-feasibility and feasibility studies are already completed, the plant construction will start soon, but communities of Kolwezi are so far unaware of the environmental and social impacts of SICOMINES actions as required by legislation.

In this context, there is no guarantee that SICOMINES will apply the national norms and international standards that apply to other taxable miners. And yet, it should be a model company. The contract reveals that China makes these tax and other privileges one of the main conditions of grant funding. On the other hand, the new elected DRC government can hardly ignore the need for funding to achieve its vision. This type of reimbursement mechanism comes from the framework of agreements with Angola..

The provision for Chinese participation at 68% in social capital as a guarantee for the DRC suggests that the basis of the agreement is barter, that is to say, the provision of infrastructure for ores. Compared to the treatment received by other beneficiaries of Chinese finance, the inexperience of the Congolese negotiators seems to have played a negative Role.

Conclusion

CHINESE INVESTMENTS IN the mining sector are not being handled responsibly. As have stressed throughout the report, the Chinese companies do not respect social and environmental factors. Frequent violations of norms and standards are acknowledged as far as transparency, environment and society are concerned, so a dose of morality and responsibility is required in order to deal with the Chinese investments in Katanga in particular, and in DRC in general.

Information on Chinese commercial activities is mysterious and inaccessible in both DRC and their home country. This can only intensify the doubts as to their transparency and the manner in which they meet their legal obligations. These practices cause corruption; tax evasion and recurrent cases of embezzlement although it is difficult to provide evidence. Taking advantage of a post-war public administration characterised by poor governance, the Chinese companies do not act with transparency, which does not help the civil society organisations to define the real actors so as to act with full knowledge of the facts.

The responsibility of the Chinese companies for child labour is both active and passive. The Chinese companies purchase minerals directly from children and use others in their plants for several tasks, notably the washing and sorting out of minerals. When it comes to social development, there are large gaps between the amounts of investments and their impact on the economic growth and the development of the local communities. In Katanga the Chinese investments worsened rather than improved the survival chances of local communities. In Lubumbashi, Likasi, Kolwezi and their neighbourhoods plants are being built in residential areas and counters for purchase and depots of minerals belonging to the Chinese companies are being set up, which represents real risks to the inhabitants of those areas.

The rules set out in the scientific field, and in mining regulations concerning the storage, transportation and marketing of mineral products are systematically neglected. The main streets of the cities mentioned above are used to install counters for purchase and storage of ores without preventive measures. The local workforce is certainly used, but workers in Chinese factories are more abused than in other companies. The bare minimum of benefits granted to workers by the labour laws of DRC is no longer appropriate. There is a need for rights to housing, access to medical care, to pay the tuition of children, etc.

The repeated damage to the physical integrity of workers is a feature of the Chinese companies. The DRC government does not exercise its full sovereign powers to ensure that private investment actually plays the trigger role in growth and job creation and sustainable development rather than simply just counting the investors, which in reality does not benefit the country. The state should widely publicise the laws, and its commitments through national organisations for the benefit of investors, employers and workers, and ensure that its regulations are applied by all mine operators, without discrimination.

The current conditions of the administration officials of mines and employment cannot facilitate the exercise of their duties. The terms of the agreement on the creation of the SICOMINES joint venture are unbalanced and promote the Chinese side. Although it was concluded with the elected government, it departed from the standards of DRC internal norms.

Chinese capital is a great alternative for the development of African countries in general and the DRC in particular. But it must observe the standards and internal commitments in host countries in the field of human rights and natural resource management. To this end, access to public information about Chinese activities is a necessity. The Chinese government should not fall back on host governments to disclaim responsibility for this kind of unregulated capitalism.

ACIDH believes that the Chinese government must live up to its international responsibility and to the expectations of African peoples to reverse the situation. It must ensure that all Chinese companies have complete and adequate information needed for their responsibility in their activities abroad. It should produce a guide to their duties, and ensure that these companies are aware of their responsibility. The Chinese regulation is compelling and it will fill gaps or administrative regulations of the countries with poor governance, limit the free flow of these firms and therefore contribute significantly to the achievement of the China-Africa Cooperation.

Recommendations

The African Commission on Human and Peoples' Rights should take specific measures that guarantee

- the inclusion of respect for the African Charter on Human Rights and African Peoples among the principles of the China-Africa cooperation:
- observer status for African and Chinese civil society organisations at the China-Africa summit in order to ensure that development assistance to African countries actually benefits local populations:

The DRC government should

- identify and assess the real contributions of the parties in the joint venture in order to distribute the shares fairly:
- re-negotiate the mining project concluded with China in order to remedy apparent imbalances for Gécamines:
- consider the rights and mining securities a contribution in kind to the share capital by Gécamines on the concessions sold to the joint venture:
- end the discriminatory regime of tax and customs exemption for SICOMINES joint venture in accordance with the DRC legislation on tax and customs obligations to any mining company:
- publish the revenues of the mining sector to ensure an efficient and responsible management:
- make use of experts in order to produce an accurate estimate of the likely maturity of the loan redemption. This should be possible on the basis of the projected production in the mining agreement for the first and second year of operation of the joint venture:
- make operational the labour courts as established by law N°015/2002 on October 16, 2002 on the Labour Code and consequently promote the speedy settlement of disputes at work as recommended by Human Rights NGOs:
- end the anarchy that characterises this sector, and consider exemplary sanctions against the state services that fail in their tasks:

- require the holding of union elections in all Chinese companies in order to promote collective agreements between employers and employees.

The National Assembly should:
- ensure that the rights and mining securities sold by Gecamines under the constitution of the SICOMINES joint venture are assessed and are part of the contribution in kind to the share capital, contrary to the trend:
- require rebalancing of the shares between the parties, notably, the group of Chinese companies and Gécamines under the constitution of the share capital of the joint venture:
- question the Minister of Employment and Social Welfare to provide clear explanations on the causes of the upsurge in abuse of workers, in particular those employed by Chinese companies; and on the policy of the ministry regarding this subject.

The Chinese government should:
- ensure that the Chinese companies operate in accordance with the laws in host countries and act responsibly:
- establish legal standards that regulate the conduct of Chinese companies abroad:
- ensure that Chinese companies cooperate with the organisations of local communities in order to ensure respect for their rights.

The Provincial Labour and Welfare Inspection should:
- increase its control in this area according to article 187 in the new Labour Code and punish recalcitrant employers:
- initiate disciplinary action against the unfair labour inspectors who traffic human labour in exchange for personal pecuniary benefits:
- initiate prosecution against all Chinese companies that do not respect the procedure for dismissal of workers and, if necessary, bring them to court.

The Chinese mining companies should:
- end the abuse of Congolese workers and child labour:
- improve hygienic, security and social conditions of workers:
- willingly respect national and international laws on labour and investments.

The Prosecutor General at the Court of Appeal of Lubumbashi should:
- expedite investigations against Chinese employers enjoying impunity in connection with wrongdoing on their workers.

ACIDH, April 2010

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China and the Environment in Cameroon

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HONORE NDOUMBE NKOTTO is an agronomist/environmentalist, with a wide experience in the monitoring of corporate activities, timber, agro and extractive industries. He is presently the coordinator of FOCARFE, a Cameroonian NGO created in 1991 by a group of Cameroonian men and women to help the poor in urban and village areas.

FOCARFE'S MANDATE IS to contribute actively to the realisation of Action 21, which marks the beginning of a world partnership for sustainable development; and consider the urgent problems of today, while reflecting a world consensus and a political engagement at the highest level on cooperation concerning development and environment. Its areas of intervention are: extractive industries, urban development; sustainable land use in agriculture; support to family farming ; and community forest development.

I Introduction

THE RESEARCH PROJECT 'China and the Environment in Cameroon' breaks new ground in the approach of civil society in Cameroon to China's involvement in the country. FOCARFE decided to base the research on a detailed examination of a number of representative projects that had been implemented as the result of Cameroon- Chinese cooperation.

These projects are:

- the construction and renovation of the congress hall in Yaoundé,
- the gyno-obstetric and paediatric hospital in Yaoundé,
- the multipurpose sport complex in Yaoundé,
- the Mfoundi channel in Yaoundé,
- the construction of the Ndokotti / Nyalla road,
- the Yatto water extension project in Douala (economic capital, littoral region),
- the Lagdo dam,
- the protection of the Benue River banks in Garoua (in the Northern region of Cameroon) and - the construction of the Buea general hospital (South West region).

These projects fall into two categories; projects of the first generation and those of the second generation. The first generation projects are those projects that were realised during the era when environmental impact studies were not generally carried out. They date from the period 1980 to 2002 (though the law on the environment in Cameroon dates from 1996), such as the congress hall in Yaoundé, the gyno-obstetric and paediatric hospital in Yaoundé and the Lagdo dam in Garoua. . The second-generation projects are those projects implemented since serious environmental impacts studies have been required to be implemented for ecological and socio-economic reasons. These projects have mostly been implemented from 2004 to the present, such as the Mfoundi canal in Yaoundé, the multipurpose sport complex in Yaoundé, the Ndokotti-Nyalla road in Douala, the Yatto water extension in Douala, and the Buea general hospital.

2 OBJECTIVES

THE GENERAL OBJECTIVE of this research is to examine how Chinese enterprises and companies take into account environmental protection (ecological, social and economic) while implementing projects in Cameroon, and to evaluate the impact and effects of these projects carried out by Chinese cooperation in Cameroon.

The specific objectives are:

- Ecological mitigating measures implemented in the construction and exploitation phases of the projects (protection of water sources, protection of air quality, protection of land, and waste management etc)
- The social measures taken into consideration while implementing projects (employment, sanitation, working accommodations, demobilisation etc)
- Economic aspects or measures considering while implementing projects (good governance on project implementations etc)

3 METHODOLOGY

THE RESEARCH HAS been carried out by:

- documentary research
- field data collection by qualitative methods (key information, focus groups, household, and question), and complementary quantitative methods (questionnaires with statistical analysis)
- direct observation

4 ACTIVITIES CARRIED OUT

4.1. Documentary Research

The research project was carried out with an intensive documentary research on Cameroon /China corporation in the various domains in ministries, delegations and councils offices in regions where Chinese are operating in Cameroon. This was done through fact finding on project implementation reports, project convention reports, project documentation reports, trade union reports, neighbouring communities project reports, magazines newspapers, and the internet

4.2. Field Investigations

Field investigations were carried out in the various project zones at the level of the working staffs, the neighbouring population of the project zones, administrators and some members of civil society organisations to gather key field information, through questionnaires and participatory appraisal methods, taking into consideration ecological and socioeconomic aspects.

4.3. Direct Observations

Direct observations were carried out in the field in the project implementation zones. These observations were made with the help of information obtained from resourceful persons in the field and visits to project zones during working periods to view the realities on the ground. Field data collection was made by complementary quantitative methods (questionnaires with statistical analysis)

5 RESULTS OBTAINED

5.1. First generation Projects

5. 1.1 Generalities

Data were collected on population through questionnaires and discussions. Some discussions were also carried out with officials or project managers whenever possible.

From quick analysis, questionnaires were carried out on 60 persons in the projects zones of the first generation. 20 at the Lagdo Dam, 15 in the Congress Hall in Yaoundé and 25 in Ngosso Gyno-obstetric and paediatric hospital in Yaoundé (see table below).

Projects	Frequency	Percentage
Lagdo Dam	20	33,3 per cent
Congress Hall	15	25,00 per cent
Gyneco-obstetic and paediatric hospital	25	41,70 per cent
Total	60	100,00 per cent

The Lagdo Dam

The Lagdo Dam was constructed by the Chinese Company and the China International Water and Electric Corporation who managed the construction work which started in 1977 and which ended in 1982. Following the official signing of a contract between the Cameroon government and the Chinese company, the Lagdo dam was built between 1977 and 1982 by a combination of engineers and Chinese workers, along with Cameroonian labourers. The project consisted of building a dam at the Lagdo River as well as directing the river flow in order to protect the zone from droughts. The dam is located 50 km south of the city of Garoua on the Benue River. Its construction was intended to supply electricity to the northern part of the country and allow the irrigation of 15 000 hectares of crops downstream. The dam is 308 metres long, 40 metres in height and 9 metres thick. The dam is located within the Benue Division and of the Lagdo sub-Division in the North Region. Today the international company AES SONEL runs the hydroelectric power dam

The Congress Hall in Yaoundé

The hall was constructed by a Chinese architect in 1980, in accordance with an agreement signed between the Cameroon government and the Chinese company. The Chinese were asked to choose where the congress hall was to be built from among the three hills in the town. According to the chief of the present zone who was a young man at the time of construction, the Chinese choose the Nkoyetta hill because of their interest in some mines found in the zone. The construction period was officially launched through the national press and the Yaoundé city council was in charge of supervision. No environmental auditing was done since the congress hall was built in the era when environmental issues were not taken into consideration. The congress hall is currently used as a location for seminars and meetings both domestic and international. It is generally regarded as one of most attractive buildings in the capital city of Cameroon

The gyneco-obstetric and paediatric hospital in Yaoundé

The gyneco-obstetric and paediatric hospital of Yaoundé (HGOPY) is a notable product of Sino-Cameroonian cooperation, and is an administrative, medical and technical public facility. It was officially inaugurated on the 28th of March 2002, by the President of the Republic Paul Biya. The construction cost about CFAF5 billion.

The institution is open to men, women and children whose state of health requires a follow-up, medical treatment, childbirth and surgical intervention, or external consultations.

5 .1.2 General information

A total of 60 persons were interviewed in the three projects zones of the first generation, of whom 76 per cent were male and 23 per cent female: 56 per cent were between the ages of 40 and 60 and 72 per cent were married. By occupation business persons were 33.3 per cent, farmers 30 per cent and 15 per cent private employees. Of the people interviewed 98 per cent had been living in the project area before the project was initiated.

When asked if local residents were given preference in recruitment over those from outside the project area, 38.3 per cent replied that recruitment was open for anybody inside or outside the area; 11.7 per cent though those recruited were from outside, and 33.3 per cent replied that the labour was recruited locally. The remaining 16.7 per cent did not know. The one-third of respondents who though local labour was recruited, together with those who thought labour was recruited inside and outside the area, are taken together a good indication that local labour was recruited.

The next question asked if there were children below 18 years working in the project sites. To this 71.7 per cent answered no, while 28.3 per cent answered yes. Of those who answered 'yes', 37.7 per cent reported that the children were employed for non-qualified jobs, while 50 per cent of them reported that the children were recruited for temporary work, that is for both qualified and non qualified jobs.

5.1.3 Environmental Impact Assessment

The results of field interview through questionnaires from population affirm that there was no environmental impact assessment as these are projects which were carried out before the 1996 environmental law was seriously implemented .The population in the field affirms that these projects were carried out without any public notification of the environmental impacts.

5.1.4 Socio-economic issues

Immigration

Of the population interviewed in the field 95 per cent testified that there was a high immigration rate during the construction phase of the projects. This shows that measures were not taken to reduce immigration in the project sites A local employment strategy was not taken into consideration (for project neighbouring dwellers) as only 33.3 per cent of employment was given to the local population and priority in recruitment was given to persons with particular skills (38.3 per cent).

Employment

According to 28 per cent of respondents, children or very young men of below 18 years were employed during the project construction phase for non-qualified jobs. According to field research 32 per cent of those recruited heard of the vacancies by word of mouth, while information in villages was transmitted through the Chiefs and public posters (27 per cent). Employment formalities were not respected, as 73 per cent of the persons employed in the projects did not sign any contract during their recruitment.

According to 66.7 per cent of the persons interviewed, 33.3 per cent of them were responsible for monitoring the construction, on behalf of the urban council, which focused mostly on the technical aspects (92.3 per cent). Of all the persons interviewed, 86 per cent found there was discrimination in salaries, with locals paid less than the Chinese for the same type of work and the daily salaries were between CFAF 1000-1500. Of those interviewed 38.3 per cent recalled human right abuses, mainly injuries and illegal abusive dismissal from work. The main emphasis of internal workplace regulations appears to have been on punctuality at work.

Workers accommodation

Field interview reports show that the Chinese had a self-contained life style as 98.3 per cent of the respondents say that the Chinese had their own camp made of permanent materials and with employed cooks who cooked their food

Temporary Infrastructures

Of the persons interviewed 60 per cent affirm that temporary infrastructures have been built during the project (water points, roads, bridges), and in most cases they are still present in the field.

Compensation

Of those interviewed 82 per cent mentioned compensation paid to people, mostly food for communities, or settlements in cash as individual compensation, generally for land. It is unclear whether some community members were part of the commissions dealing with compensations, but it is rather clear to most persons (46.7 per cent) that some individuals were displaced without being compensated. They believe it was due to the ignorance of procedures to be compensated (62 per cent) and in some cases due to absence of land title (24 per cent). According to them there was no possibility for the community members to contest the value awarded to them as compensation, due to ignorance or intimidation. For the population, compensation and projects led to abusive displacement of people.

Social verification

Most of the people (76.7 per cent) say that there were no procedures provided to solve the social problems created by the projects.

Indigenous/disfavoured minorities plans (Pygmies, Bororos shepherds)

Indigenous people were mentioned by some persons (47.2 per cent) as existing in the project area and 58.3 per cent of the persons interviewed affirm that they were directly impacted by the project but 82.6 per cent claim there were no major measures put in place to solve these problems

Archaeology and cultural patrimony

The population did not mention any sacred or defensive sites in project zones.

Health

Of the population 85 per cent mentioned the existence of a sanitary unit in the work site . Cases of accidents to employees on the working sites were recalled by 65 per cent of respondents with some First Aid measures put in place (28 per cent). In cases of serious accidents, according to 80 per cent the victims were taken to the nearby health centres

Security

Workers security

There was always a security unit from various sources including government agents, essentially acting as guards of the construction site. Most people talk of abusive misuse of power on various occasions.

Road security

Of all respondents 84 per cent mention flagmen, and to a lesser extent, community awareness sensitisation as security road measures were implemented.

5.1.5 Biophysical environment and management

There was generally no specific staff in charge of environmental issues (according to 72 per cent of respondents). The population were not aware of measures being taken to protect underground waters, while they equally affirm that no special care was taken for waste, which were generally dumped by the road side, or transported elsewhere. No measures were taken for waste waters. Most respondents (87 per cent) affirm that no special measures were taken to mitigate the negative impact of the project on the environment.

5.2 Second generation projects

5.2.1 Generalities

Data were collected from the population and workers (for those projects for which former workers could still be found) through questionnaires and discussions. Some discussions were also carried out with officials or projects managers whenever possible.

Mfoundi canal

This project was official launched in 2008,by the Yaoundé urban council for the construction of a canal at the Mfoundi River. This river has always caused serious inundation in the town centre. The project is worth over FCAF350 million. Yaoundé urban council is in charge of the work, representing the Cameroon government, while the China International Water And Electric Corporation, which effectively started work in February 2009, carried out the project, which covers a length of about 0.308km.

The construction work is under the supervision of the purifying project of Yaoundé PADY. The construction consists of clearing the site of the canal, stripping and removing ground, refilling the foundation, digging, construction of a purification bridge, and construction of the canal.

The Multi-sport complex

The project was initiated in 2001. Construction of the multi-sports complex of Yaoundé started on August 6, 2004 with the laying of the first stone by Prime Minister Peter Mafany Musonge on behalf of the Head of State at the Crossroads of Warda.

The complex has 5 000 places, built on a surface area of about 12 000 m2, and is the fruit of Sino-Cameroonian cooperation. The multi-sports complex cost about CFAF 16 billion, of which CFAF11 billion was under a loan agreed by the People's Republic of China. The financial agreement funding the work was signed when President Paul Biya went to China.

The Njore cassava-farming project:

This project comprises 120-150 hectares of agricultural land conceded to the Chinese by the Ministry of Agriculture and Rural Development; there are four other similar projects in the area, at Batschenga, Nkoteng, Mbandjock and Nanga Eboko.

The project started in 2008, with the population being completely ignorant of its details, apart from the village chief which is also the mayor of the area. Some information mention it as a cassava production project, but our direct observation allowed us to see maize being harvested in a plot.

China road in Douala

The infrastructure project of Douala is a project adjustment of the Douala road department of the city council funded by the World Bank to the benefit of the Douala urban council The project was signed in August 2004 between the Douala urban council and the Chinese enterprise China Road and Bridge Corporation, and was aimed at maintaining roads in the town such as the road between Ndokotti and Nyalla market.

The project covered a distance of over 2,750 miles and had a budget of CFAF7.5 Milliard. The project is the responsibility of Douala urban council, which after the public announcement handed the project officially to the China Road and Bridge Cooperation (CRBC). The project consist of; activities of basic life and fixed installation, opening and exploitation of a stone quarry, opening exploitation from borrowed finished material, deposit of non-reutilized material , and circulation and work on the roads.

The general hospital annex in Buea

This is an administrative, medical and technical public establishment. The project took thirteen months; eight months for the construction phase and five months of equipping the hospital. The project implementation period was in 2003- 2004. The project kicked off after the layng of the foundation stone by the former Minister of Public Health, in the presence of the formal Delegate of the Buea general hospital Dr Ekeke Monono, the Governor, the Mayor, and the Paramount Chief and his subordinates. The project was implemented by the Chinese technicians with some home-based Cameroonian technicians who were recruited in the area. During the construction phase, the hospital workers were delivering services at some nearby health centres like the Biaka clinic in Buea.

The Yatto Drinking Water extension project

This project was announced in 1981 by the Cameroon water cooperation (SNEC), which has been privatised today as CAMWATER. The project finally commenced in 2009 with the official laying of the foundation stone by the former Prime Minister Chief Ephraim Inoni in Yatto-Douala. The total cost of some CFAF 13.4 billion, is being realised by the China International Water and Electric Corporation, under the control of the Douala urban council, representing the Cameroon government. The project consists of allocating the construction of a new water collection, pumping and processing plant on the Mongo River, at about 30 kilometres from Douala with a daily capacity of 50,000 cubic meters, to rehabilitate the current water supply system of the Massoumbou and Japoma plants, in the outskirts of Douala. Douala will have its drinking water potential increased to 250,000 cubic meters per day.

5.2.2 General information

A total of 80 persons were interviewed in six projects, Of the persons interviewed 14 were male and 66 female, mostly aged between 20 and 40 years, and 54 per cent of them were married. Principal occupations were business persons 28 per cent, farmers nine per cent and 31 per cent private employees. Of the people interviewed 86 per cent been living in the project area before the project was initiated.

When asked if local residents were given preference in recruitment over those from outside the project area, of those interviewed 32.7 per cent replied that recruitment was opened for anybody inside or outside the project area; 40.7 per cent reported that those recruited were from outside, and 19.8 per cent answered that the people recruited originated from the nearby population. The remaining 3.1 per cent answered that they didn't know.

That only 19.8 per cent of those interviewed answered that people living around the project sites were recruited, would appear to indicate that, in the second generation project, the people recruited came mostly from outside, particularly when considering also the numbers reporting recruitment inside and outside the project area.

The next question asked if there were children below 18 years working in the project sites: 64.4 per cent answered no, while 35.6 per cent answered yes. Of those who answered yes, 4.7 per cent answered that the children were recruited for semi-qualified jobs, 56.3 per cent, that the children were employed for non qualified jobs, while 37.5 per cent answered that the children were recruited for temporary work , that is for both qualified and non-qualified jobs.

5.2.3 Environmental Impact Assessment

According to 75 per cent of interviewees, the population had been informed of possible negative effects of the project to be carried out in their midst. The main means of information were meetings and radio (around 30 per cent of each), while posters were also significant (20 per cent).

The process of informing communities about the project appears to be carried out mostly by the government, whether or not in conjunction with the enterprise, and to a far lesser extent by the enterprise alone.

Only 25 per cent of interviewees recall that communities had been consulted before the project implementation phase about their own views of possible negative impacts of the projects, while only 3.7 per cent have reported that public compensation was made for the possible impacts identified. It is clearly stated that even where it is said that public compensation took place, the documents produced by the company and presented to the people could not be understood by them, due to either the language used, the highly technical nature of the documents, insufficient information, etc. Nor did the population have any opportunity to contest the information given during presentations or at consultation meetings.

5.2.4 Socio-Economic Issues

Immigration

Most people (97 per cent) think measures were taken to reduce migration in the project sites, these being the local employment strategy for those living in the project's immediate neighbourhood, and the refusal to recruit on-site. However, only some 20 per cent felt able to confirm that priority in recruitment was given to the local people.

Employment

Child labour appears to have been prevalent in some at least of the 'second generation' projects, with 25 per cent of respondents recalling that children or very young men were employed in the works as unskilled labour.

Word of mouth seems to have been the most widespread means of obtaining information about job vacancies, with information from the village or area chief also playing a significant role. Posters do not appear to have been very effective though given their 'permanent presence' they could have contributed to the 'word of mouth' channel.

Temporary Infrastructures

According to 63 per cent of the persons interviewed, temporary infrastructures were built during the project (water points, roads, bridges), and in most cases they are still in place and in use.

Compensation
More than half of the persons interviewed (81 per cent) mentioned compensation paid, mostly in the form of food for communities, or settlements in cash as individual compensation, usually for land. It is unclear whether some community members were part of the commissions dealing with compensation, but it was clear to most persons ((56 per cent) that there were individuals displaced without being compensated. They believe it was due to the absence of land title (94 per cent), or ignorance of procedures to access compensation. According to them there was no possibility for the communities or their members to contest the value attributed to them as compensation, due to ignorance, intimidation etc. For the population, compensation and projects led to abusive displacement of people.

Social verification
Most of the people (57 per cent) do not think that there were procedures provided to solve the social problems created by the projects.

Indigenous/disfavoured minorities plans (Pygmies, Bororos shepherds)
Indigenous people were mentioned by some persons (26 per cent) as being present in the project area, but they did not appear to have been affected directly by the projects.

Archaeology and cultural patrimony
Sacred or defensive sites in project zones were mentioned by 34 per cent of those interviewed, but with little or no specific measures to protect them.

Health
According to 94 per cent of interviewees, no health sensitisation campaigns were organised by the enterprise for the local population. Indeed, they point out that they and their co-workers were given little or no health sensitisation campaigns, much less the neighbouring population.

Security

Workers security
There was always a security unit from various sources including government agents, essentially playing the role of guards on the construction site. Most people reported cases of abuse of power on various occasions.

Road security
Flag men were mentioned by 84 per cent of interviewees, and to a lesser extent, so were community awareness measures as security road measures were implemented.

5.2.5 Biophysical environment and management

There were generally no specific staffs in charge of environmental issues. According to 70 per cent of respondents the population did not recognize measures being taken to protect underground waters, while they equally affirm that no special care was taken for waste, which was generally dumped by the roadside, or transported to various places. No measures were taken for waste waters either. Half of the persons interviewed (51 per cent) affirm that they had no idea if any special measure was taken to mitigate the negative impact of the infrastructure project on the environment.

Waste Management:
According to 49 per cent of respondents the wastes were transported and deposited at the road side. Most of the people recalled that, the wastes were all put in the same place with no separation of waste. The persons interviewed had no idea if the wastes were recycled in the sites or in a warehouse.

5.3. Workers

5.3.1 General information

These are analyses of workers' questionnaires on first and second generation projects.

Project	Frequency	Percent
Lagdo Dam	14	20,30 per cent
Mfoundi Channel	12	17,40 per cent
Njoré Plantations	15	21,70 per cent
Sport Complex	8	11,60 per cent
Yato drinking water extension	20	29,00 per cent
Total	69	100,00 per cent

Data was collected on workers for those projects for which workers could still be found through questionnaires and discussions. Some discussions were also carried out with officials or projects managers whenever possible. A total of 69 workers were interviewed in five projects for which activities are still continuing for one reason or another, 80 per cent of them being from the second generation projects. All of them were male, mostly aged between 20 and 40 years, but also with some 30 per cent aged above 40; these originating mostly from the Lagdo project which is a rather an old project for which the then young men employed as workers have since aged. At the time of recruitment, Chinese were recruiting people between 25 to 30 years. Of the workers employed, two thirds were married and 72 per cent appear to have been living in the project area before the project was initiated, which is a good indication of local recruitment at least for non-qualified employment. But the total of 28 per cent of newcomers also indicates a non-negligible rate of migration to the project sites.

5.3.2. Environmental Impact Assessment

Following the results from the field, 75 per cent of the workers interviewed reported that they had been informed of possible negative effects of the project to be carried out in their midst, and the main means of information transmission was through meetings and radio (around 30 per cent each), while posters played also a significant role (25 per cent).

The process of informing communities about the project appears to be carried out mostly by the government, whether or not in association with the enterprise, and to a far lesser extent by the enterprise alone.

The results indicate that only 25 per cent of the workers interviewed report that communities have been consulted before the project implementation phase about their own points of view on possible negative impacts of the projects, while only seven per cent have affirmed that public compensation was made for the possible impacts identified. It is clearly stated that public restitution took place, but the documents produced by the company and presented to the people could not be understood by them, due to either, the language used, highly technical nature of the documents, insufficient information, etc.

Also during those presentation or consultation meetings, the population did not have the possibility to contest the information given to them.

5.3.3. Socio-economic issues

Immigration

Most workers (65 per cent) think measures were taken to reduce migration into the project areas , these being the local employment strategy (for project neighbouring residents), and the refusal to recruit at the construction sites gates. However, not even half of them (45 per cent) confirm that priority in recruitment was given to local people.

Employment

According to 25 per cent of the workers interviewed, children below 18 years of age or very young men were employed in the works for unqualified jobs .The person to person transmission or 'word of mouth' mode of information appears to be the main one (57 per cent), while information through the village or area chief was also significant (27 per cent); the poster mode of information did not seem to have had much direct effect, but again, one cannot estimate its effect through 'word of mouth' transmission of information.

No contract was signed in general for recruitment of workers, according to 98 per cent of those interviewed. According to 67 per cent of the workers, there was a body in charge of monitoring the construction, belonging to the state or to the company itself, but its focus was mostly the technical aspects (71 per cent). For all the workers interviewed, there was a clear discrimination in salaries, the local man being less paid than the Chinese for the same type of work, while 88 per cent of the workers interviewed report an amount of daily salary which is not different from what is paid by other foreign country enterprises, or national ones ($3-$4 per day). Also 91 per cent of the workers can recall human right abuses, mainly illegal and abusive dismissal from work. The most widely recalled workplace directive was one regarding punctuality in reporting for work. Equipment was adequate for the tasks, according to 62 per cent of respondents, but most of them (78 per cent) were not instructed on the dangers of their activity.

Workers Accommodation

Field interview reports show that Chinese had a self-contained life style as 98.3 per cent of the workers say that the Chinese had their own camp made of permanent materials and cooks who cooked their food

Temporary Infrastructures

Temporary infrastructures have been built during the project (water points, roads, bridges, shelter) according to 43 per cent of interviewees, and in most cases they are still present and in use.

Compensation

Half of the workers interviewed mentioned compensation paid to people, mostly food for communities, or settlements in cash, usually as individual compensation, usually for land. It is unclear whether some community members were part of the commissions dealing with compensation, but it was clear to most workers (86 per cent) that there were individuals displaced without being compensated. They believe it was due to the absence of land title (69 per cent), or ignorance of procedures for compensation. According to them there was no possibility for the communities or their members to contest the value allocated to them in compensation, due to ignorance, intimidations etc. For the workers, compensations and projects led to abusive displacement of people.

Social verification

Most of the workers (84 per cent) do on think that there were procedures provided to solve the social problems created by the projects.

Indigenous/disfavoured minorities plans (Pygmies, Bororos shepherds)

Indigenous people were mentioned by some workers (15 per cent) as existing in the project area, but they did not appear to have been directly impacted by the projects.

Archaeology and cultural patrimony

About 15 per cent of the workers mentioned sacred or defensive sites in projects zones, but with no specific measure to protect them.

Health

Accidents which occurred in construction sites were mentioned by 80 per cent of the workers, and 62 per cent of the workers reported that there were no qualified individuals on sites for first aid care;. 75 per cent of them affirm that there were no medical care units in the construction sites. Even those who affirm the contrary recognize for half of them a simple pharmacy box was the only medical equipment in the construction site. Most of workers (75 per cent) recall that the company did not take charge of the workers affected; rather they were sent on unpaid leave, which is equivalent to sacking.

The company did not have a disease prevention programme according to 97 per cent of respondents; and no sanitary awareness programme was implemented among the workers.

Drinking water treatment was regular enough and effective according to more than half of the workers interviewed.

Security

Workers security

There was always a security unit from various sources including government agents, essentially playing the role of guards on the construction site. Most workers talk of their abusive misuse of power on various occasions.

Road security

Flag men were mentioned by 60 per cent of those interviewed, and so to a lesser extent, were community awareness measures as road security measures were implemented.

5.3.4 Biophysical Environment and management

There was generally no specific staff in charge of environmental issues (72 per cent). Workers do not recognize measures being taken to protect underground waters. No measures were taken for waste waters. Most of them (87 per cent) affirm that no special measures were taken to mitigate the negative impact of the infrastructure projects on the environment.

Waste Management:

According to 45 per cent of workers interviewed, the wastes were transported and deposited at the roadside: 70 per cent of the workers recalled that the wastes were all put in the same place with no distinction. The workers (70 per cent) also recalled that there was no warehouse for the recycling of the waste from the sites.

6 DIFFICULTIES ENCOUNTERED

SOME DIFFICULTIES WERE encountered during the data and information collection process. A study from Dr Reinhold Plate (Cameroon/Cameroon 2005), made it very clear that, communication difficulties are real for the Chinese in Cameroon (that is about 56 per cent of Chinese) and that there were also issues concerning their sociability. It appears that the Chinese in Cameroon have a collective way of life with groups exclusively of other Chinese; their relation with Cameroonians is reportedly superficial and almost exclusively professional or on business relations.

7 CONCLUSIONS

THE RESEARCH PROJECT 'China and the Environment in Cameroon' is a very innovative process as far as Chinese operations are concerned in Cameroon coming as it does from a civil society perspective. FOCARFE chose to base the research project on an examination of a number of representative infrastructure projects, implemented as results of Cameroon-China cooperation.

The Chinese in the realisation of these projects in Cameroon gave the impression of being completely different in their social and economic life-style than the Cameroonian population. Looking at the implementation phase of projects especially those of the first generation, the results of the field interview make clear that there was no environmental impact assessment carried out as these are projects which were carried out before the 1996 environmental law was seriously implemented .The Chinese did not take into account the ecological aspect of the environment or consider the socio-economic aspects, whereas in those of the second generation the Chinese in some of the projects took into account the ecological and socio-economic aspects of the environment following the 1996 environmental law in Cameroon and that of the Timeline of Environmental Development in China.

Nevertheless the population interviewed testified that communities were consulted before the project implementation phase about their own view of the negative impacts of the projects or more or less public restitution of the possible impacts identified. However there was little use made of the EIA document with its highly technical language and insufficient information.

The working conditions implemented by the Chinese were not acceptable to the local workers as they exercised a lot of discrimination in their working condition in areas such as disregard of labour codes and social norms. From interviews in the field they appeared to the workers as self-contained in their way of doing things and very secretive in their skills and technical knowledge, not sharing their technical know-how with outsiders, as they try to monopolise their technology.

An example quoted was the congress hall in Yaoundé where they have monopolised the contract on renovation. In most of the project zones they often work at night when the local workers have gone home, who then only realise the next morning that some technical aspects of the job has been done.

The Chinese in a nutshell are doing great work as far as the implementation of their projects is concerned. Notwithstanding, they seems to have one object; to be able to make money fast!

It should be noticed that Chinese did not appear worse than the other countries' entrepreneurs, complying to the laws in force when due monitoring is in place, and playing with laws whenever possible, pursuing economic self-interest in the way structures tend to interpret it, that is obtaining profits as much as they can, even if this would mean going astray from established rules. In that field, they are far from being alone or first!

The Implementation of the 'Nine Principles' by Chinese Companies in Ethiopia

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Research Design

THIS RESEARCH AIMS at analysing the implementation of the 'Nine Principles' in selected Chinese companies operating in Ethiopia. It is based on findings from a survey of 34 Chinese-owned companies in Ethiopia including five restaurants, four hospitals, one college, seven construction companies, eight from the manufacturing sector, one in real estate, three consultancy firms, three service providers, and one company engaged in tourism. Thirty four companies were selected from the 158 operational Chinese companies in Addis Ababa and the outskirts. The companies were selected deliberately to include big and small Chinese companies.

A total of 180 individuals were approached to fill in the questionnaire and for interviews from both state-owned and private Chinese companies, from sectors including manufacturing, construction, hotel, tourism, health, education and real estate. Both local and Chinese staff working at different levels, from managemnt downwards, were approached.

The researchers also engaged local customers of the Chinese companies and the general public as well as individuals from selected government agencies.

China-Africa Relations: The Case of Ethiopia

Sino-Ethiopian Relations

The relationship between China and Ethiopia dates back to ancient times as the two states are the oldest in the world. Ancient trade relations were, however conducted by individual merchants, rather than at state level as the Chinese and Africans were not predominantly seafaring nations and their harbours and ports were too small or not built to accommodate ships particularly on the African coast.

Sino-Ethiopian economic cooperation officially began in the early 1970's and remained low until 1995. During the former military regime in Ethiopia relations with China had fluctuated. Although Ethiopia and China had comparatively good relations for a brief period after the

1974 Ethiopian popular revolution, their relations had considerably deteriorated from1977 to 1982 because of the military government's close relations with the USSR. At that time, Chinese diplomatic activities were the result of competition with the superpowers, particularly with the Soviet Union. China gave priority to power rivalry mainly against the Soviet Union in Ethiopia and Somalia. Accordingly, China had resolutely supported and advocated Somalia's invasion of Ethiopia. (Venkataraman and Gamora 2009) After 1983, however, Sino-Ethiopian relations developed significantly as China's attitude to the USSR shifted.

Economic relations were restored when the Ethiopian People's Revolutionary Democratic Front (EPRDF), the current ruling party, came to power in 1991. Especially since 1995, bilateral economic cooperation has progressed and developed rapidly. During Prime Minister Meles Zenawi's visit to China in 1995, the two countries signed economic and technical cooperation agreements. Meles also reached a good understanding with prominent Chinese enterprises and corporations.

When the Chinese President, Jiang Zemin, made an official visit to Ethiopia in 1997, the two countries signed further agreements on trade, investment and joint commercial ventures, and science and technology.

Sino-Ethiopian bilateral ties have progressed further in the context of the China-African Cooperation Forum. The economy has been the strongest part of the forum since its founding. In the last nine years, Chinese cooperation has become widely visible in Ethiopia, particularly in trade, aid flows and investment.

Trade

During the 2003 China-Africa Forum held in Addis Ababa, the PRC delegates announced the special preferential tariff treatment program, implemented in January 2005, which removed import tariffs on 190 different items from 29 African countries, including Ethiopia. The number of export items that enjoyed preferential treatment increased from 190 to 440 during the 2006 China-Africa Forum in Beijing. As a result, China's bilateral trade with Ethiopia has risen dramatically from $32 million in 1995 to $ 563.5 million in 2006. From January to September 2007, the figure shot up to some $ 660 million.

China's exports to Ethiopia are low-priced clothing, textiles and clothes, tyres, batteries, excavation equipment, motor vehicles, steel products, telecommunications equipment, machinery and electrical appliances. The Ethiopian government has encouraged imports, purchasing Chinese equipment and supplying it to local construction and manufacturing firms on a lease-to-buy basis.

Meanwhile, exports from Ethiopia to China have grown from negligible levels before 2000 to around $130 million in 2006, primarily in raw materials such as partially processed leather, oil seeds, sesame, cotton, and small amounts of gum and coffee. Trade continues to grow rapidly. By 2009 bilateral trade had grown to $1.3 billion, with Ethiopian exports encouraged through special quota and tariff arrangements on many goods. Both countries benefited from the bilateral cooperation, though the balance of trade is slanted towards China. Critics note that in the short term, cheap Chinese imports may have harmed local producers. However, the longer-term benefit may stimulate improvements in efficiency and quality. Chinese investment in local infrastructure may assist in achieving this outcome.

Aid

There has been a remarkable improvement in direct aid. Since 1971, the Chinese government has extended a total of YUAN 590 million interest free loans to the Government of Ethiopia. Out of this money YUAN 350 million was allocated for the implementation of different projects. Since 1995 the total committed grant is YUAN 276 million of which 53.09 per cent is allocated (see table I below)

Table I. Grants from China

Year	Amount in (100 Million YUANY)
1995	20,000,000
1996	30,000,000
1998	5,000,000
1999	10,000,000
2001	15,000,000
2002	20,000,000
2003	50,000,000
2004	10,000,000
2005	2,000,000
2006	20,000,000
2007	123, 000,000
Total	276,000,000

Sources: MOFED, Ministry of Finance and Economic Development, Ethiopia and MOFTEC (China)

Data from the Ministry of Trade and Development indicate that as compared to western countries and institutions aid flow from China is negligible. In 2006, Chinese aid to Ethiopia constituted about 0.14 per cent of Ethiopia's total aid. The presence of the Chinese government in financial assistance is nonetheless felt. In particular, the Chinese government is making its presence felt in the capital city, Addis Ababa by supporting projects like the construction of model vocational education and the Gotera Interchange Road Project supported with YUAN 110 million..

The second type of aid provided by China is technical cooperation, which involves dispatching of medical teams and teachers, and offering educational scholarships for Ethiopian students to study in China. In June 2009, the Chinese ambassador laid the foundation stone for the Tirunesh Dibaba Beijing Hospital, planned as a modern 6,000 square metre hospital with 100 beds. The Chinese government is funding the construction and will provide medical instruments and equipment. It has provided medical experts for some hospitals in Ethiopia for the last 20 years and also offers short-term training.

As a poor, landlocked nation, Ethiopia lacks the vast natural resources that have drawn China's interest to other countries. However, Ethiopia plays an important role in African politics as the seat of the African Union and other specialized organs of the UN. Ethiopia is the source of the Blue Nile; it is the meeting ground between largely Muslim north Africa and the Christian south. Hence, Ethiopia has become a reflection of China's wider ambitions in Africa and the changes it signify for the region (Gamora 2009).

Infrastructure Loans

China has also provided large concessionary loans (loans with a grant element of over 25 per cent) to Ethiopia, although these are often tied to construction projects, such as the Addis Ababa ring road opened in 2003, to be undertaken by Chinese state-owned or state-controlled enterprises.

In 2002, the Sino Hydro Corporation started work on the estimated $224 million Tekeze hydroelectric project with a 607-foot dam on the Tekeze River which was scheduled to be completed in 2007. After delays due in part to problems with massive landslides, the project was completed for a final cost of $365 million in July 2009 and should deliver 300 megawatts of power. In July 2009, Ethiopia signed further agreements with China for the Sino Hydro Corporation to build 2,150 megawatts of hydroelectric capacity with the Gibe IV (Omo River) and Halele Werabesa dams, in a deal worth $2.67 billion. China will cover 85 per cent of the project costs through preferential buyer's credit and concessionary loans.

In summary, the economic relationship is one-sided, with China providing large amounts of aid (often tied to infrastructure projects undertaken by Chinese firms), and growing investment in the Ethiopian economy. Imports of cheap consumer goods from China greatly exceed exports from Ethiopia to China. Chinese firms are underbidding and outbidding local companies, especially in the construction sector among others. The Chinese appear to be interested in Ethiopia primarily as a market for Chinese exports that will expand as Ethiopia's economy continues to grow rapidly and also as a potential source of materials, including oil in the future.

For Ethiopia, Chinese involvement is stimulating economic growth and helping promote exports to other countries. China's 'business is business' approach is welcome in comparison to western aid providers who often link their contributions to changes in the Ethiopian legal and political structure, and adherence to human rights and good governance norms. The activities and areas of operation of Chinese companies in Ethiopia are discussed in the next section.

General Overview of Chinese Investment in Ethiopia

Chinese companies first moved into Ethiopia during the 1980s with construction companies predominating and it took almost a decade before investments reached significant levels. In the last nine years relations has grown strongly, in particular in important areas of road construction, import of Chinese manufactures, and in telecommunications and installation of big electric power stations by Chinese companies. Up to the end of 2002, the undertakings contracted by the two parties came to a total value of $ 710.67 million. In 2009, 944 Chinese companies were registered in Ethiopia with investments of approximately $ 1.9 billion. However, compared to other countries Chinese total investment in Ethiopia in 2009 constituted only 15 per cent of the total FDI flows. Even out of this only a few of the companies had actually started their activitie (see Table II below).

Table II: List of Chinese Companies in Ethiopia by Sector (2009)

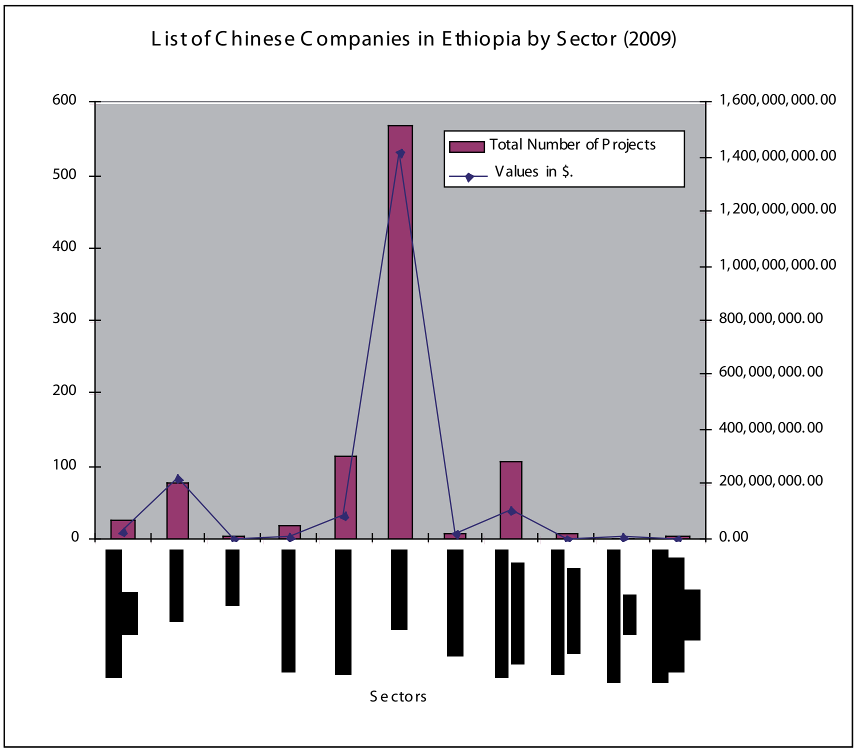
Sectors	Total Number of Projects	Values in $.
Agriculture, hunting and forestry	27	25,473,000.5
Construction	78	221,673,000.6
Education	6	576,000.5
Health and social work	20	2,828,000.4
Hotels and restaurants	113	82,657,000.8
Manufacturing	570	1,417,831,000.8
Mining and quarrying	8	17,258,000.2
Real estate, renting and business activities	107	100,561,000.7
Transport, storage and communication	10	1,388,000.4
Wholesale, retail & repair service	2	4,820,000.9
Other community, social and personal service activities	3	376,000.6
Total number of projects and total capital	944	1, 875, 381, 000.79
Total perm.emp.	65820	
Total temp.emp.	77662	

Source: Ethiopian Investment Authority, April 2009

While the construction industry clearly paved the way for China's entry into Ethiopia's economy, invesrment in manufacturing accounts for more than 65 per cent of Chinese investment in the country. During 2009 it was valued at $ 1,417.8 million through the operations of 570 businesses.

Chinese companies are engaged in the manufacture of a broad range of products including cement, textiles, sugar and ethanol, leather products, construction materials, steel, chemicals, pharmaceuticals, textiles, machinery, paper, glass, blankets and bicycles. Other Chinese companies carrying out businesses in Ethiopia include China Imports and Exports (Group) Corporation for Complete Sets of Equipment, China Highway Bridge Engineering (Group) Corporation, and China Water Conservancy & Hydropower Engineering Corporation. Taking advantage of Ethiopia's preferential access to US markets under the African Growth and Opportunity Act (AGOA) scheme some Chinese companies are investing in the clothing sector. The two largest Chinese investments in Ethiopia are cement factories. The largest company is Sino-Saudi Joint Investment Cements PLC (manufacturing), which is valued in excess of $ 358 million. The second largest Chinese company in Ethiopia is C.H Clinker Manufacturer PLC, engaged in the production of cement and valued at more than $ 268 million. There are also several other large-scale steel manufacturing and construction companies (See figure I below).

Figure I: List of Chinese Companies in Ethiopia by Sector



Source: Ethiopian Investment Authority

The Ethiopian government has stringent investment laws preventing all foreign companies from engaging in retail business activity. These laws are strictly enforced and no Chinese companies were found to be involved in the retail sector (table III below) .

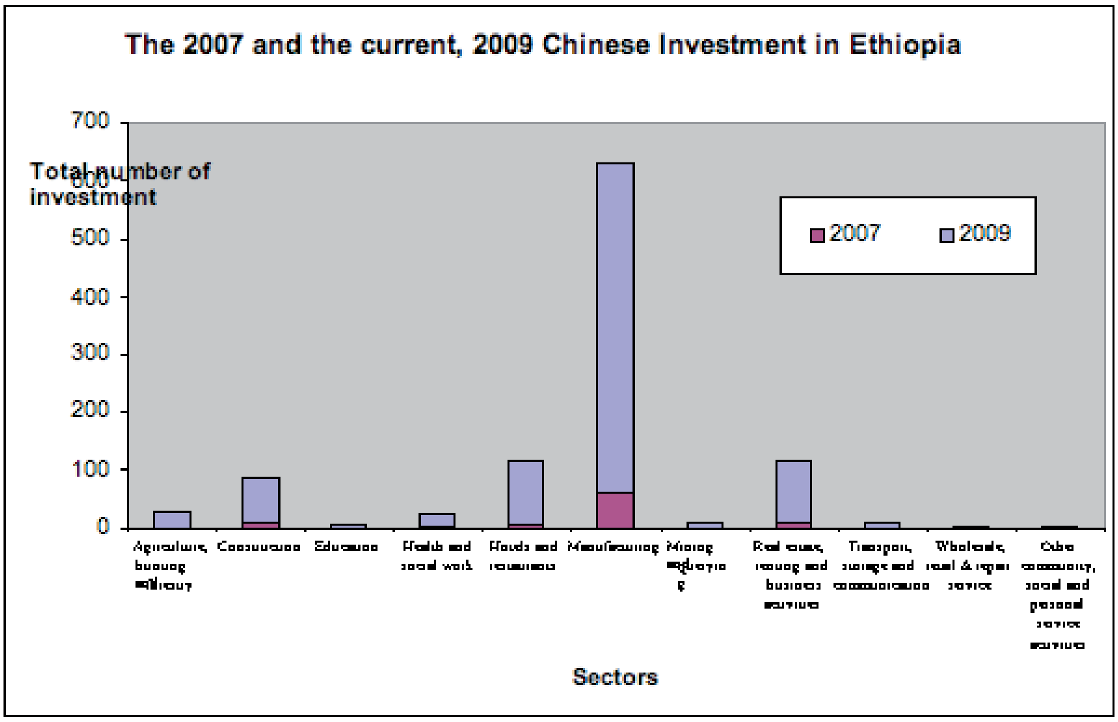
Table III: The 2007 and the current, 2009, Chinese Investment in Ethiopia

Sectors	Total No. of projects		Values in $.	
	2007	2009	2007	2009
Agriculture, hunting and forestry	1	27	-	25,473,000.5
Construction	10	78	498, 000	221,673,000.6
Education	1	6	-	576,000.5
Health and social work	3	20	-	2,828,000.4
Hotels and restaurants	7	113	-	82,657,000.8
Manufacturing	60	570	592, 000	1,417,831,000.8
Mining and quarrying		8		17,258,000.2
Real estate, renting and business activities	13	107	72, 000	100,561,000.7
Transport, storage and communication	-	10	-	1,388,000.4
Wholesale, retail & repair service	-	2	-	4,820,000.9
Other community, social and personal service activities	-	3	17	376,000.6
Total number of projects and total capital.	95	944	117, 000, 000	1, 875, 381, 000.79
Total perm.emp.	4,982	65820		
Total temp.emp.	4,127	77662		

Source: Ethiopian Investment Authority, July 2007 and April 2009

The trend in the past two years alone reveals that the value of Chinese investment inEthiopia has increased by 1,000 per cent compared to 2007 (see Figure II below)

Figure II: Chinese Companies' Investment in Ethiopia in 2007 and 2009.



Source: Ethiopian Investment Authority

Nonetheless in 2009, only 226 or 21.4 per cent of the projects were operational with 13 projects or 1.3 per cent under implementation, and the remaining 888 or 77.3 per cent were at a pre implementation stage.

Sino-Ethiopian Joint Ventures

Currently, there are 120 joint venture initiatives between Chinese and Ethiopian firms, both public and private, valued at over $455.5 million. They are expected to create permanent and temporary employment for some 196,000 people, not accounting for the related jobs and employment opportunities. These ventures are involved in the manufacturing sector in producing steel, shoes, furniture, pharmaceuticals and chemicals. Other ventures are involved in the services sector, renting construction equipment, which is currently in high demand in Ethiopia. Most of these joint ventures are approximately 50 per cent Chinese-owned. However, not all the joint ventures are operational. Only 18 or 15 per cent are actually operating, 1 or 0.9 per cent are under implementation and the remaining 101 projects or 84.1 per cent are under pre-implementation

Chinese Investment by Sector

Telecommunications Sector

In Ethiopia, where China's engagement amounts to $1.6 billion, activities began in 2002 with projects in the power and road sectors. But the main focus of China's infrastructure finance in the country has been the telecommunications sector. Zhong Xing Telecommunication Equipment Company (ZTE) has already started to upgrade Ethiopia's telephone system with a capital of $ 1.5 billion for four years since 2007. Further, the company is working on the delivery and installation of mobile-phone network equipment using code division multiple access (CDMA) technology, a high volume fibre-optic transmission line and the installation of 1.2 million mobile telephone lines in Ethiopia's capital Addis Ababa and eight other towns.

It is not clear how this deal is being financed. But a senior Chinese diplomatic representative in Ethiopia claimed that the Chinese government was not involved and that the finance was a commercial arrangement between ZTE and Ethiopian Telecommunication Corporation (Ethiopian Herald 2007). In 2006-07 China agreed to provide financing for the Ethiopia Millennium Project to create a fibre-optic transmission backbone across the country and roll out the expansion of the cellular GSM network, with an estimated 8.5 million new connections. The project is being financed under export seller's credit arrangements with the Chinese telecommunications operator ZTE for the supply of equipment to the Ethiopian national telecommunications system.

Energy Sector

The Chinese Company Shogun Petroleum Exploration Bureau (ZPEB) started drilling the first exploration well in the Gambella basin in the west of Ethiopia under contract by the Malaysian company Petronas in March 2006. The second exploration well was drilled by ZPEB in the Gambella basin in South West Ethiopia in May 2007, but it turned out dry (Oduu 2007).

ZPEB was also exploring oil wells in the Ogaden area of the Somali Regional State. The company is a subsidiary of the government-owned China Petroleum and Chemical Corporation (Sinopec). Nonetheless, the company was forced to cease its operation due to the attack directed on the site by the Ogaden National Liberation Front (ONLF) rebels; killing 65 Ethiopians and nine Chinese workers in April 2007. According to a statement released by the ONLF on their website, the operation targeted three government military units that were guarding the oil exploration and the Chinese were not the primary target.

Additional six Chinese workers were abducted. According to the ONLF report they were removed from the battlefield for their own safety and treated well, before being released later. A Sinopec spokesperson said that the incident would not discourage the firm from further exploration (Reporter 2007).

Agricultural Sector

Agriculture is the backbone of Ethiopia's economy and currently 27 Chinese companies are operating in agriculture, hunting and forestry with a capital of $25.473 million They are engaged in activities ranging from livestock and poultry to the production of vegetables, oil seeds, and charcoal. Despite the importance of the agricultural sector to Ethiopia, and its trade with China, only 2.8 per cent of the Chinese companies are operating in the agricultural sector.

Construction Sector

In 2007, Chinese contracted projects in Ethiopia only amounted to around $ 498,000. Now the figure has grown to $ 221.7 million. The infrastructure in Ethiopia is poor so it offers Chinese companies good opportunities. The main projects cover the construction of roads, houses, power stations and the water supply system. A large per centage of wood, concrete and some steel building materials are obtained locally. Other inputs, which are not locally available, are imported. While most of these materials are brought from Europe and Saudi Arabia, the volumes originating in China are rapidly increasing.

China Geo-Engineering Corporation and Jiangxi International were the first two Chinese companies to enter Ethiopia in 1992, and among the first foreign companies to operate. It was not until the late 1990s that Chinese companies began to feature prominently in Ethiopia's construction industry. There are currently around 78 Chinese companies operating in Ethiopia with a capital of over $22 million and controlling approximately 50-60 per cent of the road construction sector.

The Enforcement of Nine Principles in the Chinese Companies Operating in Ethiopia

THIS SECTION ANALYZES the implementation of the nine principles by the Chinese companies operating in Ethiopia. The research analysis is based on the findings from 34 Chinese companies and five government agencies. As indicated in the introduction the researchers used purposive sampling technique to select the interviewees from different sectors including manufacturing, construction, hotel, tourism, health, education and real estate sectors. The analysis also provides an overview of the challenges encountered by both Chinese companies and Ethiopians.

The Nine Principles and its development (Announcement No.5, 2009 of Ministry of Commerce)

In order to achieve economic globalisation and regional cooperation opportunities, and encourage qualified enterprises to actively and steadily participate in international economic and technological cooperation, and to further enhance the level of opening up, the state council in 2006 proposed 'Nine Principles on Encouraging and Standardising Foreign Investment' namely:

1. Insistence on mutual respect, equality, and mutual benefit, complementarity and win-win cooperation
2. Strengthening of policy guidance, coordinating and standardising orderly and rational distribution, preventing disorderly competition, and safeguarding national interests
3. Improving the policy-making mechanism, the implementation of overseas investment enterprises, the autonomy of scientific studies and careful decision-making, and prevention of investment and operational risks
4. Strengthening supervision of state-owned assets overseas, and supervision of sound evaluation and examination systems, establishment of security risk assessment and project cost accounting systems, and preserving and increasing the value of assets
5. Complying with local laws and regulations, and adhering to fair, transparent public works project contracts, making a commitment to and fulfilling the necessary social responsibility to protect the legitimate rights and interests of local employees, paying attention to envi-

ronmental resource protection, caring for and supporting the local community and people's livelihood

6. Increasing the level of offshore project building contracts, improving product quality and efficiency, and constantly enhancing overall competitiveness
7. Strengthening safety training, improving safe production responsibility systems, increasing protection of foreign-funded enterprises, institutions and property safety
8. Accelerating personnel training, paying attention to the cultivation of operating in the international talents, and enhancing their transnational operations and management capabilities.
9. Creating a friendly environment for public opinion, propaganda, walking the road of peaceful development policy, and preserving our good image and a good corporate reputation.

The Chinese firm in Ethiopia - how are the 'Nine Principles' enforced?

The sectoral distribution of Chinese investment in Ethiopia is highly concentrated in manufacturing sectors both in terms of capital and in the number of projects. Of the total Chinese investment of $ 1.9 billion, about $1.4 billion of capital is invested in this sector. The number of projects under this sector amounts to 60 per cent of the total Chinese investment. Currently, there are over 600 projects licensed under the manufacturing sector, of which 23 per cent are operational and under implementation.

Construction, which paved the way for the Chinese companies to enter the Ethiopian market, is the second major sector, amounting to $200 million of Chinese total investment. Of the 100 projects registered under this sector, 32 per cent are operational, Other sectors such as real estate, renting and business activities are the third major Chinese sector. The aggregate capital invested in this sector is over $100 million, with over 115 Chinese investment projects of which 39 per cent are currently operational.

Hotels and restaurants is the fourth major Chinese investment sector with total investments of $82 million. This sector is one of the fastest growing Chinese investments especially, Addis Ababa. Over 120 projects were registered in Ethiopia, of which 14 per cent are operational.

Chinese are also involved in agriculture, hunting and forestry; education; health, mining and quarrying transport, storage and communication; wholesale and retail trade sectors. The combined capital invested by the Chinese in agriculture, hunting and forestry sector amounts to over $25 million, and $500,000 is invested in education. Apart from the formally registered Chinese investment projects, there are also a number of business outlets providing services in many corners of the city.

Chinese investment is highly concentrated in Addis Ababa (70 per cent) and the Oromia Regional State (15 per cent). The remaining 15 per cent is shared among the eight other regional states.

1) Insistence on Mutual Respect, Equality, and Mutual Benefit, Complementarity and Win-win Cooperation

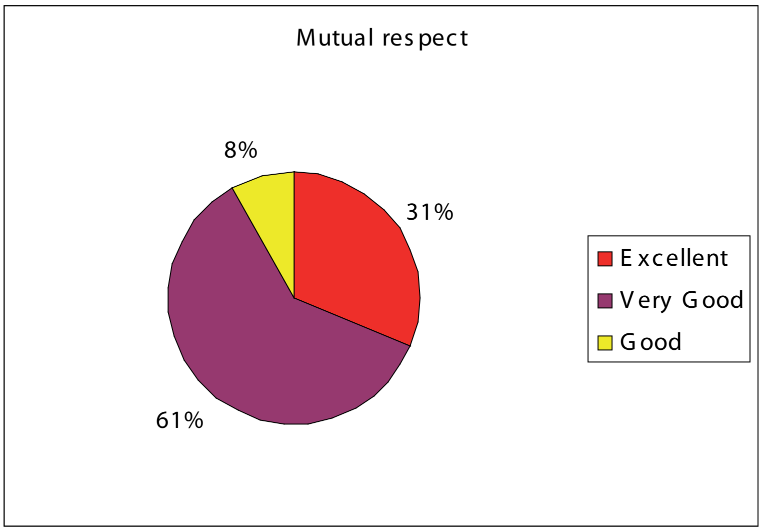
A 61 per cent majority of respondents view relationships between Ethiopia and China as very good, especially in view of the need for development in Ethiopia and for cooperation between the two governments. Some respondents identified the increasing number of Chinese investors in Ethiopia and the significant number of projects they have won in the past ten years as evidence of good relations . Some also pointed to the special attention given to Foreign Direct Investment by the Ethiopian government. However some respondents complained that the Ethiopian government gives more attention to big companies than to smaller ones like their own. There was also an awareness that African countries including Ethiopia choose to work with Chinese companies because China does not interfere with internal politics unlike western governments.

About 31 per cent of the respondents viewed the relationship as excellent. The majority of these respondents are working in those Chinese companies that came to Ethiopia through an agreement between the two countries at the official level.

Few respondents, about 8 per cent, regard the relationships as merely 'good'. They saw some problems faced by the companies in dealing with the Ethiopian government. For instance, some of the Chinese companies are allowed to import materials duty free, but some of the government agencies are very suspicious of the Chinese companies fearing that they would import other materials that are not related to the agreed works duty free , which had strained relationships.

All in all, the majority of the respondents view the bilateral relationship between China and Ethiopia as very good. Accordingly, the Chinese investments have shown remarkable growth (see figure III below):

Figure III: Chinese Relations with Ethiopia



About 91 per cent of respondents regarded the cooperation between the two countries as 'win-win' and' mutually beneficial'.

Benefit to Ethiopia

Ethiopia is a poor country with a per capita income of just $203 (IMF estimate for 2007) and ranks 169 out of 177 countries on the 2007 UNDP Human Development Index (less than one-fourth of the sub-Saharan average). More than 77.8 per cent of its population live on $2 per day or less. Despite such challenges, the country has had a respectable growth performance in the past decade. The IMF puts average economic growth at 5.4 per cent per year between 1998 and 2007. In the fiscal year 2006/2007, Ethiopia's manufacturing industry grew at 12.5 per cent, and revenue from exports was over $ 1.2 billion, up 17.2 per cent on a yearly basis. Such growth is partly driven by increasing foreign direct investment since the liberalisation of the economy in early 1990's.

According to the Ethiopian Investment Authority, the FDI inflows in Ethiopia from 1992 to the present amount to over $59 billion. The Chinese share of the total FDI over the past two decades, amounts to 3 per cent. The Middle East accounted for the largest share of the post 1992 FDI. This was followed by European Union as the second largest source of FDI in Ethiopia over this period (Getinet and Hirut 2005).

The Chinese FDI in Ethiopia is, however, growing very fast. According to Ethiopian Investment Authority data of 2008 and 2009 alone Chinese FDI flows constitute about 15 per cent of the total foreign owned projects in Ethiopia that are under implementation and in operation. This share had reached as high as 22 per cent in the year 2004. In the last five years Chinese FDI in Ethiopia constituted about 11 per cent of the total foreign owned projects under implementation and in operation in Ethiopia (Geda 2008).

Chinese investment has been extremely positive for Ethiopia, especially in assisting development in infrastructure and manufacturing, creating employment, bringing in capital, widening local tax bases, increasing domestic investments, and improving local skills. According to one high-ranking Ethiopian government official, such endeavours especially in infrastructure would not be possible without Chinese involvement, especially given the weak local capacity to take over big projects within a reasonable time and cost.

Infrastructure Development

Ethiopia's infrastructure record is very poor and underdeveloped, which is often mentioned as an obstacle to the country's development and economic growth. The country has the lowest road density in Africa; the total network is 33,297 km. Telephone and internet services are also very low by sub-Saharan standards, with only 8.6 landlines and 5.8 mobile phones per 1,000 people respectively. The development of infrastructure requires capital, skilled manpower, technology and efficient and fast delivery of services. The pace of local capacity is, however, very slow.

In this regard the Chinese role is indispensable. The Chinese have been active in road construction, electricity and telecommunication sectors according to informants from the Ethiopian Road Authority, the Ethiopian Electric Power Corporation and the Ethiopian Telecommunication Corporation. In the transportation sector, currently over 70 per cent road construction projects are carried out by Chinese construction companies.

In the power sector, the Chinese are playing a crucial role. The Tekezee dam, which was constructed by the Chinese giant Sino Hydro Corporation at a cost of $365 million, is one of the biggest in Africa and it is set to generate 300 mw of power.

The Chinese telecom company ZTE is enhancing the country's communication capacity by providing telecom equipment. The role of Chinese investment in infrastructural development is indispensable for Ethiopia, bridging the local capacity gap with greater financial capacity and experience, good quality, better technology and efficiency and at a lower price. This in turn facilitates investment and contributes to the country's development.

Capital

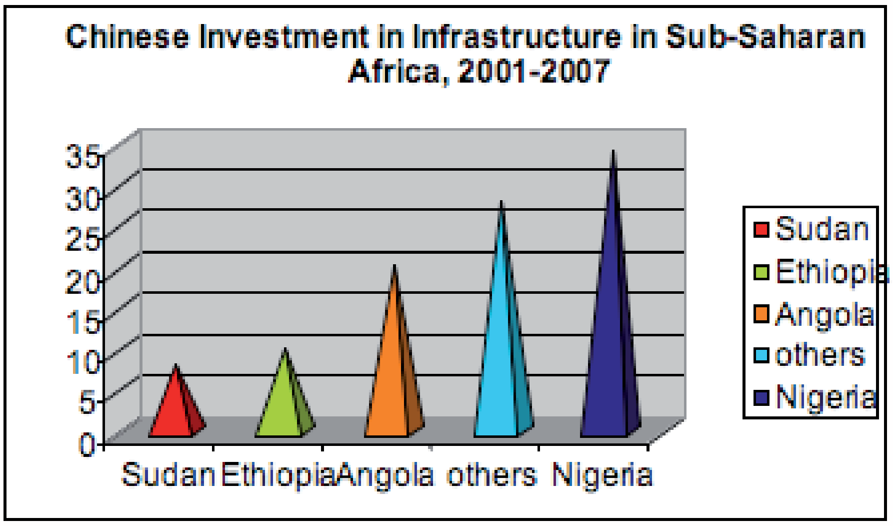
In Ethiopia domestic investment constitutes the main component of capital formation, accounting for 64 per cent. Nonetheless the country's gross domestic saving is very low which makes it difficult to finance investment projects needed for growth and development. Foreign Direct Investment as a source of income is therefore essential to bridge the gap. From 1992 to February 2009, a total of 1,057 Chinese investment projects were registered with aggregate capital of over $1.9 billion. In financial terms, the Chinese companies also compete on low cost labour and aggressive pricing, which is benefiting Ethiopia. The Chinese companies' profit margin is very thin; it is sometimes below 5 per cent, especially as compared with the European which is between 15 and 20 per cent. This in turn helps Ethiopia to save foreign currency (IBM 2006: Getinet and Assefa 2005).

Ethiopia also benefits from Chinese loans. Though most are concessionary loans often tied to projects to be undertaken by Chinese state-owned or state-controlled enterprises, it is advantageous for Ethiopia to get finance with a lower interest rate, long-term arrangement, and no political preconditions. It is also an alternative to the western model with its political preconditions. Up to 2008 loan agreements had been signed for 11 projects.

According to a study by the World Bank on China's role as the new financier in Africa's infrastructure (World Bank 2008), China's commitments in Ethiopia amount to $1.6 billion. Of the total loan secured, projects on infrastructure have been attracting the largest share. About 95 per cent of Chinese financial commitments go to the telecommunications sector. For instance, Ethiopia secured a $1.5 billion loan from China to upgrade Ethiopia's telecom system by creating a fibre optic transmission across the country and expanding GSM network, with estimated 8.5 million new connections. The project is currently undertaken by ZTE and the low-interest loan will be repaid in 13 years.

Some of the Chinese companies also offer credit in the form of vendor financing during the bidding process, which is beneficial for Ethiopia. In most cases, the Chinese companies themselves facilitate loans from China Exim Bank and China Development Bank to win new projects. For instance, in 2009 CRBC and the Ethiopian Roads Authority signed a soft loan agreement of Br(Ethiopian Birr) 8billion ($701 million) for constructing the 80-kilometre highway and CRBC offered the credit to finance the project (see figure IV).

Figure IV: Chinese Investment in Infrastructure in Sub-Saharan Africa



Source: *Building Bridges: China's Growing Role as Infrastructure Financier for Sub-Saharan Africa, World Bank, July 2008*

Ethiopia also benefits from projects executed with full Chinese financial aid. The only project of such type in the construction sector are the Gottera interchange road, where Br160 million spent on the project was fully covered by the Chinese government and the construction of model TVET in Addis Ababa constructed with Br80.29 million (Tegegne 2006).

3) Employment Opportunity and Human Resource Development

According to the Ethiopian Investment Authority, the total number of jobs created by Chinese investment projects under operation since 1992 is about 35,649, of which 16,200 are permanent and the rest 19,449 are temporary jobs. When and if all the licensed projects go operational, they are expected to create over 152,277 temporary and permanent jobs. Chinese investment in the manufacturing sector alone is projected to create over 85,000 jobs. In the year 2008 alone, active Chinese companies created 15,264 jobs. Chinese investment, therefore, contributes to minimizing Ethiopia's youth unemployment, which is estimated to be over 50 per cent.

Chinese investment also provided considerable opportunity for skill transfer to local technical staff. Local employees have been receiving on job and official training from their Chinese counterparts, which in turn enabled them to access better know-how and advanced technical skills. Domestic investors are also developing managerial skills and increasing their capacity through joint ventures. Chinese investment with domestic partners averaged $427 million, which in turn enhanced the capacities of local companies. Ethiopian Investment Authority data in the last five years shows a growing number of Chinese-Ethiopian joint ventures.

Chinese Industriousness

Ethiopia also benefits from Chinese industriousness. Many local people are highly impressed by the Chinese hard working culture, which could have a positive effect in the long run. Their work ethics seems to influence some Ethiopian firms and local employees. The Chinese work culture has also provided an example of what hard work and strict discipline can achieve.

Spillover Effects

Chinese investment is assisting in increasing domestic investments as local companies gain access to distribution channels or become suppliers. The Chinese created business opportunity for local transportation companies, transporters, service providers, and local subcontractors. ZTE alone imported over 3,000 cargos in the year 2009, benefiting local shipping and transportation companies. Chinese manufacturing firms are also using local commodities and services as inputs. For instance, the raw materials for the Chinese glass factory - dolomite, feldspar, silka sand and limestone - are all locally purchased except for sodium carbonate which is imported from China. The local companies also get an opportunity to explore newer markets and thereby generate more profits.

Chinese productivity has also forced local companies to enhance their competitiveness so as to maintain their market shares. Thus, the Chinese investments have contributed to positive productivity spillovers to the Ethiopian economy and have also assisted in increasing the income of the Ethiopian government by widening local tax bases and contributing to government revenues.

Benefit to China:

Market

Chinese companies benefit from the large untapped market potential in Ethiopia as elsewhere in Africa. Ethiopia is the second most populous country in Africa, with over 80 million people. It is also endowed with vast arable land and natural resources, good climate, reasonable business environment and a relatively cheap labour force that can be trained. Ethiopia has access to 20 countries and 340 million people in eastern and southern Africa through the Common Market for Eastern and Southern Africa (COMESA) and to the US through Africa Growth Opportunity Act (AGOA). The EU has also given preferential trade terms to Ethiopia.

The Chinese also perceive Ethiopia as the safest place to invest. According to the Chinese respondents, 'Ethiopia is even safer than their home country China'. Thus, the issue of security is to the benefit of the Chinese companies. The culture of tolerance among religious and ethnic groups in Ethiopia is also an added advantage. The basic facilities such as schools, housing and health are not bad. The cost of living is also relatively cheap and the weather is very good. The people are friendly and the government is very supportive of Chinese investors. All these opportunities give a broader market for Chinese investors and for their products and thereby generate profit.

Profit

The Chinese are also making profits by investing in Ethiopia. Firstly, the Chinese companies do not face intense competition in Ethiopia as they do in China. Chinese local companies are struggling with low profit margins due to the fierce competition in their home country. Accordingly, Chinese companies especially engaged in the manufacturing and construction sectors are strongly encouraged to invest abroad. Indeed, the market in western countries is highly competitive and difficult for Chinese companies to penetrate, mainly because the Chinese companies are competing with branded items like Nokia and Philips and because they lack overseas experience. In comparison, Ethiopia, as a third world country, provides new markets with less competition and higher profit potential. In other words, Ethiopia gives the Chinese companies better chances to grow.

Chinese companies have a comparative advantage over both local and western companies for a number of reasons. First, unlike the local and western private companies, the Chinese companies put in low bids. For example, CRBC cut the price by 40 per cent while bidding for the Ring Road construction in Addis Ababa. Though the Chinese companies' profit margin is very thin - about 3 to 5 per cent - the western businesses, by contrast, bid with projected profits of 15 per cent and more.

Unlike local and western private companies, Chinese companies are not afraid of risks. They invest in highly remote, insecure and harsh environments. The Chinese companies are also pressurized by the Government of China through its Embassy to discharge their obligations properly and promptly.

Unlike western companies, the local companies are constrained by factors including capacity, financial resources, efficiency, experience, high-tech equipment and skilled human resource to compete on equal footing with the Chinese. This gives the Chinese companies a chance to make profit by monopolizing the market and winning many projects. For example, ZTE, a Chinese telecom giant, controls 100 per cent of telecom investment in Ethiopia. It is the sole provider of telecom equipment, which gives ample opportunity for the company to make profits especially given an insignificant mobile coverage of 6 per cent in Ethiopia. Moreover, Chinese companies undertake over 70 per cent of the country's road construction. Apart from Chinese companies there is only one foreign company that operates in the road construction sector.

3) Winning diplomatic support

China's influence in Ethiopia is overwhelming. As noted earlier, the Chinese companies have become a dominant force, building highways and bridges, power stations, mobile-phone networks, and pharmaceutical plants. Some of the respondents argued that Chinese investments in Ethiopia are politically motivated. According to these respondents, the financial gains are not that significant for Chinese state owned companies and Ethiopia is not resource rich. Instead China is more interested in using Ethiopia as an entry point to penetrate the African market and get access to resources.

Ethiopia is the seat of the African Union, the political body that represents the continent. China is constructing a new conference centre for the African Union, which comprises a 99.9 metre-high office building and a 30 metre-high conference hall with a vault covering 11.3 hectares, and the cost is fully covered by the Chinese Government. China also wants to win Ethiopia's diplomatic support in the United Nations and other international and regional forums, since Ethiopia has geopolitical clout in the region. Accordingly, the Chinese Embassy is among the largest in the Ethiopia and hosts more high-level visits than any western mission.

Employment opportunity and spillover effects

In return for the services the Chinese companies provide in Ethiopia, they are getting hard currency, have been exposed to a different culture and are creating job opportunities for their own citizens. Most of the Chinese companies bring their own employees from China. The Chinese staff benefit immensely, as they are allowed to take home 85 per cent of their salary in hard currency. The Chinese companies also benefit from the overall economic activities as materials and goods including both consumable and non-consumable used for construction or other projects are imported from China. They also pass information to other companies in China to come and compete in different sectors of the economy in Ethiopia.

Nonetheless a few respondents, about 9 per cent, view the cooperation as win-lose. Some say that the services provided by the Chinese companies are of inferior quality, and there are few job opportunities for local professionals. Some are also concerned about Chinese monopoly over different projects. For instance, one Ethiopian respondent working in a Chinese restaurant said that the restaurant hires an unnecessary number of Chinese staff (chefs) that could have been given to Ethiopians, who are only given the job of waiters. Furthermore, the restaurant does not charge Chinese customers VAT and service charges but does to Ethiopians. The waiters are finally not given the service charges as the owner takes it.

Some of the Chinese respondents, on the contrary, said that China was losing by investing in Ethiopia. They said that the Chinese Companies were not making profits. Respondents from state-owned Chinese companies mostly reflect such views. These respondents claim they only continue to do business in Ethiopia to assist the country's development.

In short, the perception is that the Chinese are benefiting from the market availability and they are making profit by investing in Ethiopia. The Chinese gain in terms of creating employment opportunity and winning diplomatic support is also not negligible.

2) Strengthening of policy guidance, coordinating and standardising orderly and rational distribution, preventing disorderly competition, and safe guarding national interests

Policy guidance

In the opinion of respondents, state-owned Chinese Companies are instructed by policy directives, conditionality and requirements set by the Chinese authority. This is true for ZTE, CRBC, and other big Chinese Construction Companies. Hence, such companies followed policy guidance from China one way or the other.

Most of the state-owned Chinese Companies had signed an agreement that would govern their relations with the Ethiopian government before their respective companies came to operate in Ethiopia. Hence, since these companies operate in accordance with these agreements that were made by the two governments, it follows that their operation follows policy guidance and preferences from China and the laws of Ethiopia as well. For example, some of the respondents working in the Chinese Polytechnic College stated that the college conducted its academic programme in accordance with Chinese educational policies and curricula while the college's administration and finances were handled in accordance with Ethiopian laws.

Whenever policies guiding the companies are in contradiction to Ethiopian laws, some compromise on the part of the Chinese to implement the laws of the land and on the part of the local officials on rules and laws as in China are accepted as Chinese laws have proven to be effective at home and Ethiopia can benefit from them. There is, however, a general lack of awareness among the locals working in state-owned companies about the policy guidance. According to some respondents, 'let alone the local employees, even the Chinese staff, except for those in managerial posts, have little information about companies' guiding policies'.

On the other hand, all respondents working in privately owned Chinese Companies stated that they did not follow policy guidance from China. As private Chinese Companies they are simply guided by the principle of low price, reasonable quality and fast delivery of services and not by policy guidance from China. And, they undertake their day-to-day functions on instructions and directives from the company's managers, who in most cases have full autonomy and power. According to these respondents, the companies have the right to determine their business freely.

Promotion of fair competition and safeguarding China's national interest

About 56 per cent of the respondents are of the view that the Chinese companies promote orderly and fair competition. They see Chinese companies as competitive, employing strategies such as low prices, fast delivery, fair quality and efficiency to win business. However about 39 per cent argue that the Chinese companies prefer to use indirect means such as bribing local officials to win projects and get business. Insider dealings are seen as rampant in Chinese companies. Some of the Chinese companies are also accused of dealing among themselves before bidding for a particular project; this allegedly happens when three to eight tenders are announced simultaneously. About 5 per cent, however, say that since most of the Chinese companies do not have a system of accountability and transparency, it is difficult to determine whether they promote orderly competition or not (see table IV below).

Table IV: Promotion of Orderly Competition

Response	Number	Per centage
Yes	101	56
No	70	39
Uncertain	9	5

Though all Chinese respondents seem to be committed to safeguarding their national interest, it is respondents from state-owned Chinese companies that mostly reflected the ideas or the political beliefs of the Chinese Government.

Improving the policy-making mechanism, the implementation of overseas investment enterprises, the autonomy of scientific studies and careful decision-making, and prevention of investment and operational risks

Scientific studies and research

Some 52 per cent reported that they conduct research, base their decisions on it and have autonomy in doing so. For instance, respondents from the Ethio-Chinese Polytechnic College explained that since it is a college it does conduct research particularly along the lines of mechanics, automotive and electronic research.

The respondent from Anhui Foreign Economic and Construction Group also explained that the company conducts research on issues related to concrete tubes, solid tubes, steel reinforcement and on purchased materials from both local sources or those imported from China. He stated that the company does not have a laboratory of its own and it uses an Ethiopian state-owned company's laboratory for its studies since it came to Ethiopia for a small project of three to four years.

The Eastern Industrial Zone respondents explained that the company conducts in-depth research as it manages many projects and does business in many sectors. It studies resources, markets, government policies and security, the environment, etc. The company conducted studies even before coming to Ethiopia. The respondents from the New Trading Company explained that they did research especially on the market. But decisions are basically made by the owner alone who is very experienced and knowledgeable on international market trends, and hence the decisions so far taken are good. The Chinese Water Drilling Company also explained that they do research and laboratory studies and that all their projects are based on research.

About 48 per cent of the respondents surveyed, on the contrary, do not conduct scientific studies and research in Ethiopia. This is especially true for small and weak companies; they practice neither scientific studies nor careful decision-making, their business operation is simply based on the principle of trial and error. This is basically because of the nature of the business and lack of financial capacity. Though the bigger Chinese Companies like ZTE have their own research centres and universities in China, they are not, however, engaged in research in Ethiopia. Ethopia

Autonomy to make decisions

Two trends have been observed by the respondents with regard to autonomy to make decisions within the Chinese companies. Those companies that compete through normal contracts give enough autonomy, responsibility and benefits to the company managers. According to some respondents, the bosses are even regarded as 'God'; they are very much feared and respected by the subordinates. Hence, some label the administrative style of the Chinese companies as militaristic, since decisions are highly centralized, less transparent and less participatory. Some respondents believe that such a trend is making Chinese companies successful, as decisions are fast and timely, while others regard it as pure dictatorship criticizing the bosses' unlimited powers over both local and Chinese staff.

By contrast, the decision-making power of the management staff of the Chinese companies working on projects fully funded by the Chinese government is very limited. This is true especially if there are major changes while the project is operational; fgor example if there is change of design. In such cases, the company managers have to consult with high-ranking Chinese government officials such as ministers for a decision. The autonomy of the manager is, therefore, only limited to contractual agreements, major changes take more time. The Gottera Interchange is mentioned as an example. The project was fully funded by the Chinese government, and due to disagreements over the quality and standard between the Chinese company working on the project and the local authorities in Addis Ababa, the project was suspended for months. Such delay is highly unlikely in the Chinese companies that win projects through normal bids.

4) Strengthening supervision of state-owned assets overseas, and supervision of sound evaluation and examination systems, establishment of security risk assessment and project cost accounting systems, and preserving and increasing the value of assets

Supervising state -owned assets

The change from the old planned economic system to a new market oriented economic system in China forced the Chinese state-owned companies to employ management of staff based on competition and merit. This in turn, contributed to the proper management of state-owned assets. The companies also have insurance and other security arrangements, sometimes with the government of Ethiopia for protection. The Chinese companies' activity is also closely supervised by the head office in China. Some of the companies have material supervisor personnel that oversee assets. In all companies included in the survey a Chinese occupies the supervisory position and most of them are hired for short-term contracts.

Preventing operational risk and security risk assessment mechanisms

To prevent operational risk Chinese companies sometimes use a special responsibility system, and give the job to experienced people. The cases in point are telecom and the road construction companies where they do have a lot of sub contractors. The big companies also buy insurance, give training to the staff and use tools with good quality to prevent operational risks.

Most Chinese companies have security risk assessment mechanisms. All the Chinese companies incorporated in the survey conducted feasibility studies before starting business in Ethiopia.

Project cost accounting system

Most of the Chinese companies, about 88 per cent, included in the survey have a project cost accounting system. Internal and external auditors from the head office in China audit the companies' project costs. In most of the cases the companies have a local accountant accounting for the costs and benefits of the companies' once a month. Audit reports are, however, not available for public scrutiny. The companies are not transparent on project cost accounting systems. An Ethiopian respondent working in different companies explained that the accounting system was not open to Ethiopians but there is an accounting system in place.

However a few of the respondents - about 12 per cent - explained that there was no accounting system in their companies. The respondents from small Chinese companies explained that since theirs were very small businesses, there was no need for an elaborate accounting system; but that there is a financial rule that the companies follow. All the respondents from the health sector and all the respondents from small Chinese companies explained that no accounting system existed in their respective companies. For instance, the respondents from the New Time Trading Company explained that since it was a very small business, there was no need for an elaborate accounting system, but there is a financial rule that the company follows.

Complying with local laws and regulations, and adhering to fair, transparent public works project contracts, making a commitment to and fulfilling the necessary social responsibility to protect the legitimate rights and interests of local employees, paying attention to environmental resource protection, caring for and supporting the local community and people's livelihood

Respect for local laws and culture

About 55 per cent of the respondents argued that the Chinese respect local laws and culture. Accordingly, before coming to Ethiopia, Chinese employees are given training about the working environment in Ethiopia and to comply with local laws and respect local culture. For instance, they are told not to eat donkey and dog meat in Ethiopia. Those companies specially engaged in construction also encourage the Chinese staff to learn local languages in a rainy season so as to be able to overcome possible difficulties when working with local people.

About 45 per cent of the respondents on the contrary believe that the local laws and culture are not well respected by the Chinese. As a result, many Chinese are constantly in conflict or are involved in court cases (lawsuits) with the locals. Some justify the Chinese acts as they arise from lack of awareness of local laws, while others believe that they do it out of neglect.

Respect for the rights and interests of local employees

Big companies seem to have a commitment to protect the legitimate rights and interests of local employees. This is mainly because the Ethiopian labour law is very stringent. It favours employees unlike the law in China, which protects the employer. Some of the Chinese interviewed criticized the labour law in Ethiopia as an obstacle to development. In any case, the companies are obliged to abide by the local labour law especially with regard to local employees' rights and firing local employees. As a result, 55 per cent of the Chinese respondents indicated that they abide by local labour laws to avoid inconveniences and additional cost that could be incurred if taken to court. Most of the companies, therefore, pay monthly salaries, do not ask for overtime and if they do, they do so with pay, and they do not terminate employees without prior notification.

Despite the legal obligations, some 45 per cent believe the Chinese companies disrespect local employees' rights and employ different tactics to avoid court cases. For instance, some of the companies bribe or remove labour union officials to prevent them from taking cases to courts. According to these respondents, the treatment of local employees in practice depends on each employee's closeness to the Chinese managerial staff. Accordingly, those local employees who do not get along with the Chinese might be fired without prior notification or might be forced to leave on their own, as the Chinese employ different tactics to discourage them.

Some of the local employees interviewed also revealed that they do not enjoy equal privileges and rights in comparison to Chinese staff. There is salary discrepancy and lack of transparency in salary packages and perks. In some of the companies, the Chinese alone enjoy free access to car service, housing and food. The Chinese companies are in general regarded as very supportive to the Chinese community.

The record of the smaller Chinese companies is even worse as compared with the bigger ones. They have in general a bad reputation with regard for respect for local employees' rights. First, the smaller companies do not feel the pressure of Ethiopia's labour law. Second, the local employees themselves are not organized and aware of their rights like those in bigger companies.

According to Ethiopian informants working in smaller companies like restaurants, they do not have a day off on Ethiopian holidays or are not compensated monetarily or otherwise for coming in on holidays. Ethiopian respondents also added that the owner cuts the salary of workers if they are absent even on health grounds. For example the salary of a female employee was cut for not coming to work because of her father's death, even though the owner was present at the funeral. Sometimes the salary cuts are even for more days than the workers took off. The record for the smaller Chinese companies is in general very bad.

Environmental protection

Some 54 per cent argued that the Chinese companies pay attention to the environment. They say that the companies have a contractual obligation to protect the environment. Accordingly, they pay a good amount of money for environmental protection. Some other Chinese respondents engaged in construction and service sectors argued that their projects in Ethiopia are not pollutant and are not directly related with environment. But still, their companies discharge their responsibilities well; for instance, those in construction sector dump soil in places approved for such purpose. Those respondents from the health sector also stated that the environment is protected since there is good and timely disposal of waste. The Chinese restaurants also give priority to sanitation.

A significant number of respondents, about 46 per cent, however, are pessimistic about Chinese companies' role in environmental protection. They argue that the issue is not given priority by the Chinese companies. The respondents, however, blamed the local authorities for lack of effective enforcement mechanisms, which are allegedly done to attract more Chinese investors. For example, most of the local client companies such as Ethiopian Roads Authority do not incorporate strong clauses on environmental protection in the contracts signed with the Chinese companies. Ethiopian environmental protection officers also do not seem to fine Chinese investors when they transgress environmental laws. This, however, does not justify Chinese companies' negligence as they also share the responsibility in this respect. For instance, some of the local people are concerned about the dust from the Chinese road constructions, as the companies fail to water the ground during construction. Some of the Chinese companies are undertaking projects in ecologically sensitive places.

3.2.5.4. Community Service

The research indicates that most of the Chinese companies in Ethiopia, about 80 per cent, are not involved in community service. Only 20 per cent acknowledge the Chinese companies' involvement in community service and people's livelihood. CRBC financial support for the construction of school at the countryside and sponsoring of the ring road rally, ZTE's donation of equipment which costs over Br4 million to ETC training centre are mentioned as examples.

Some of the smaller companies also benefit the local community by creating employment opportunities as they give priority to the people in their neighbourhoods who seek work. The

Chinese companies, however, are not involved in community services in a sustainable manner. The Chinese respondents argue that it is due to language barriers.

In general, compliance to local laws and rules, respect for rights and interests of local employees, environmental protection and supporting the local community are some of the areas where Chinese companies in Ethiopia need to show some improvement.

6) Increasing the level of offshore project building contracts, improving product quality and efficiency, and constantly enhancing overall competitiveness

All respondents, about 92 per cent, believe Chinese companies use different strategies to enhance their overall competitiveness. The companies incorporated in the survey mainly employed three basic strategies: low price, reasonable quality and fast delivery of services. The pricing of the Chinese companies is very aggressive and low, which gives them important competitive advantage over local and western companies. In due course, the Chinese companies may not benefit monetarily from such projects but they would win a good name and an increased number of contracts and profit in the long run.

According to most respondents, the Chinese companies also try to increase their product quality and efficiency by such measures as improving technology, giving training, and by enhancing transparency in management and administration. Moreover, some companies make careful preparations, negotiate, assemble data, make studies and present them to their employers to win more contracts. They study the market prices of volatile products like cement weekly and provide reasonable prices.

Some of the Chinese companies even went to the extent of securing local licenses to win projects that are only paid in local currency. For instance, as the Addis Ababa City Administration Roads Authority announced that it no longer accepts bids in foreign currency, CRBC processed and registered as a local company and won projects, and it is now paying local currency.

Though some of the Chinese companies do not face fierce competition in Ethiopia, in general, the Chinese companies make efforts to shine in terms of time, cost and quality. And, they employ different strategies to enhance their competitiveness and win over more projects.

7) Strengthening safety training, improving safe production responsibility systems, increasing protection of foreign-funded enterprises, institutions and property safety.

Strengthening safety training and improving safe production responsibility systems

Most of the big companies included in the survey have rules and regulations that are directly related to ensuring safety. To ensure safety they provide on job safety training, buy insurance, and improve safe production responsibility systems. For instance, telecom companies provide on job training and send local employees to be trained in China and the employees have medical facility, compensation, and are insured.

Informants working in the construction sector also say that they take safety seriously. There are strict regulations for safe production and supervisors in the field to implement them.. As for safety training, the respondents stated that since most employees are from China, they are given three months of extensive training, which also includes issues of safety before they leave China. If they fail the final test, they retake the training until they pass. And, they train the local staff that operate the machinery.

The locals are also given on-job training and usually give sophisticated mechanized machines to skilled labourers. Furthermore, the companies use professional tools with good quality-tracks, forklift and import consignments such as helmets and fire extinguishers from China to prevent operational risks. At complicated and dangerous sites, they make the more experienced Chinese staff work on them.

The issue of safety is not, however, a priority in the smaller Chinese companies. For instance, respondents working in Chinese restaurants stated that there were no safety or risk assessment mechanisms and there was no safety training and they only had first aid facilities for injuries at the work place. Though the respondents in the health sector felt the same, they were, however, given training especially whenever new equipment was being introduced.

Overall, about 64 per cent of the respondents reported that different mechanisms are in place to ensure and improve safe production responsibility systems.

Safety for property

The Chinese companies employ different strategies to ensure the safety of company property. Some companies hire guards and have warehouses that are preserved in good condition and are waterproofed, and have their own management. The companies also buy insurance for the warehouse and the cargoes. Some others prefer to make arrangements with the client companies and local police for protection. There are also companies that choose to establish close ties with the local people.

8) Accelerating personnel training, paying attention to developing international talents, and thereby enhance their transnational operations management capabilities

About 57 per cent of respondents say that although training is given occasionally, developing international talents and skills of employees are weak areas of Chinese companies. All respondents from the hotel and health sector have stated that there is almost no capacity building program for staff.

The remaining 43 per cent indicated that the Chinese companies make efforts to develop international talents and skills of employees. For instance, ZTE provides formal training to local professional employees of three to six months in China and gives on-the-job training to other technical staff depending on their expertise. Senior employees in the construction companies also give on-job training for the least experience at the site. And, in some of the Chinese companies seminars are conducted by senior Chinese staff for local staff. Furthermore, local staffs are given the position of managers and are taught of the Chinese language to build their potential.

Most of the companies have a plan to give extensive long and short-term training to their staff. To this end some of the companies are now trying to take local workers along with some Ethiopian government officials to China for some basic training and capacity building. Some of the companies are also engaging experts to come and give training to both local and Chinese staff.

Creating a friendly environment for public opinion, propaganda, paving the way for peaceful development policy, and to preserve our good image and a good corporate reputation

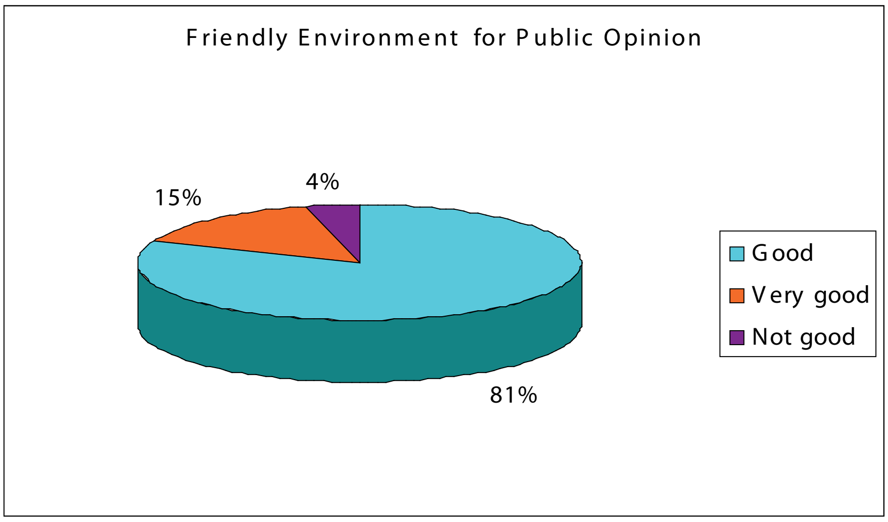
Chinese companies in general have a positive image in Ethiopia. The local people are very impressed by the Chinese work culture. All respondents agreed that the Chinese are hard-working people who do not even spare weekends and holidays. This is observed in all sectors included in the survey. The work culture in Ethiopia is very different to the Chinese. In Ethiopia, people like to enjoy the two-day weekend, which is granted by law. The locals are, therefore, highly impressed by the industriousness of the Chinese.

Chinese companies are also appreciated for their fast delivery of services. The Sino-Ethiopian Friendship Road constructed by CRBC in Addis Ababa, for example, has taken only about two months, while it was originally scheduled to be completed in a year and ahalf. They are also regarded as responsible and very committed. In the eyes of the public the Chinese are not also afraid of taking risks especially compared to the western companies. According to one respondent 'the Chinese are everywhere,' he says, 'they work in very dangerous places, in small towns, remote areas and environmentally harsh places'.

Rebels killed nine Chinese in April 2007 while exploring for oil in the southeastern part of Ethiopia. Some of the companies work in remote areas where there is no basic infrastructure and the Chinese spend the night in the back of the car. And, there are Chinese who lost their eyes, legs and hands and even their lives, while working in harsh environments. The locals in such areas are grateful for the services rendered by the companies. The Chinese are also friendly to local people. There are Chinese who lost their lives and their limbs during the construction of the Tekezé dam due to massive landslides.

There is a significant number of Chinese who speak local languages and share local life style. They easily adjust to the existing situation. The majority of the respondents, about 81 per cent, consider the Chinese companies as friendly development partner (see figure V).

Figure V: Chinese Companies Public Image in Ethiopia



The Chinese companies' image and reputation in the client organizations such as ERA, and EEPCO is also very positive. As customers these institutions are very satisfied with the services rendered by the Chinese companies and are impressed by their commitment to projects in terms of quality and time. The respondents also admire their decisiveness. The respondents also testified that there was no big disagreement until now with the Chinese companies which were taken to court. If there are disagreements they are resolved through negotiation based on contractual agreements and agreed procedures and on a reasonable basis.

The respondents from the client organizations also added that unlike the western companies, claims by the Chinese companies are reasonable and resolved through negotiation. They have also witnessed that the Chinese companies easily adjust to the existing situations, and that they do not complain much like the local and western companies. In general, the client institutions in Ethiopia are very positive about Chinese investment, and regard them as development partners and they want more Chinese investors to come and invest in Ethiopia. About 15 per cent of the respondents believe that Chinese companies have very good relations with customers.

There is, however, a general lack of trust about the quality of Chinese products and services. For instance, the public image of companies like ZTE is not good in Ethiopia. ZTE is currently the sole telecom provider in Ethiopia. It is working on a project that involves over $1.8 billion. Though the project is not yet completed, the respondents are complaining about the quality of the mobile network that has been installed by the company. According to one government official the people are complaining due to lack of awareness about the project and how the process works. He added that both the client organization ETC and ZTE should have created public awareness about what has been done, the problems encountered, and the way forward to preserve the company's image and reputation.

None of the companies surveyed except New Time Trading, CRBC, Eastern Industrial Zone and the Higher Clinic have so far tried to deliberately increase its public image by way of advertisements. New Time Trading gave stationery materials to students in a school in the neighbourhood, by which it has enhanced its public image and it did so deliberately. Furthermore, they give a variety of choices to customers with high quality products and this has generally increased its image. CRBC sponsors Ring Road Rally. And, the Eastern Industrial Zone and the Higher Clinic have both used the mass media for advertisements.

There are also complaints among the locals that the Chinese people do not pay enough attention to their personal image. For example, the offices of most of the companies, especially those engaged in the construction sector, are poorly furnished, simple and shabby. The Chinese staffs are also criticized for not respecting office ethics, since they smoke and fight in the office. This as a result might give a negative impression about the Chinese people.

Some respondents are also sceptical about technology transfer from China since most Chinese companies failed to hire local professional staff. The Chinese are also criticized for depending more on their products than on the local market.

Even though there is no great anger from the general public, local employees and the general public do have complaints about Chinese companies. Whatever the case, the local people are deeply impressed by the Chinese industriousness. As a result, their image and reputation in Ethiopia in general is very positive.

Challenges Encountered by Chinese Companies

Cultural difference and language barrier

The Chinese respondents often mention cultural difference as a challenge. Cultural disparities in language, tradition, religion, food and work have led to disagreements. The Chinese for instance, consider the local employees as lazy, who would rather talk than work. The local employees are sometimes reluctant to work on different religious holidays. There is a well-known story about some local employees working on road construction who loved to lean on their shovels in the middle of work. This angered the Chinese staff working at the site and the Chinese decided to cut the shovels in half .The next day they found these local staff sitting on their shovels. Such cultural differences at work sometimes lead to conflicts.

Corruption and local bureaucracy

Dealing with the local bureaucracy is one of the challenges faced by the Chinese companies. The hassle faced at customs offices and the bureaucratic hurdles in local governments are frustrating for the Chinese companies. According to one respondent in order to import a fax machine they had to go through 20 procedures in the year 2002. The respondent, however, did not fail to mention that the situation was improving. According to the respondents, corruption is also becoming serious in Ethiopia. For instance, some of the theft cases were never tried as those involved in the act cooperated with local policemen.

Lack of developed local market

The quality, cost and availability of input are very important for foreign direct investors. There is a general lack of inputs in Ethiopia. There is a general lack of construction materials like cement, equipment and spare parts especially for bigger machines within the local market. And, when the items are available, local businessmen sometimes make extra profit in the dealings with the companies. The companies are, therefore, forced to import from outside, which is costly in terms of time and money.

Poor infrastructure facility, service delivery and inadequate level of human capital

Lack of adequate infrastructure increases the cost of doing business. In Ethiopia, the access and availability of water, electricity supply and transportation facility is poor. This, in turn, incurs extra cost on the Chinese companies and causes lack of seriousness. For instance, due to power shortages, the companies are forced to install generators, which is costly for them. Those companies investing in the health sector are also challenged by shortages of electricity. The Chinese companies also argue that the local service providers are not efficient. For instance, those Ethiopian companies involved in car renting and logistics services such as transistors are not well developed and efficient.

There is lack of sufficient skilled manpower in Ethiopia. The combined enrolment ratio for primary, secondary and tertiary education is 42.1 per cent. According to the Chinese respondents let alone professionals, there is a scarcity of technical experts to operate machines. This in turn is a challenge for the Chinese companies.

Challenge to reverse people's perception

The general public in Ethiopia has a positive impression about Chinese companies in Ethiopia. There is a general lack of trust among the public about the quality of Chinese equipment, which is putting pressure on the companies to make extra effort to change this perception. According to one of the respondents from Chinese companies, though his company is providing good quality service like other western companies, the 'distorted public view' is challenging their reputation.

Inflation and shortage of foreign currency

Increasing inflation, which has risen to double-digit levels, devaluation of local currency and foreign currency shortage in Ethiopia is becoming a huge challenge for Chinese companies adding to fuel and salary costs. It also leads to high input costs and lower profits. Due to foreign currency shortages the government will not let foreigners undertake transactions in foreign currency; foreigners are only allowed to take not more than $1,000 out of Ethiopia. Many Chinese have been jailed while trying to take out excess amount of money and their money confiscated. According to one respondent, this is discouraging Chinese employees working in Ethiopia.

Security and harsh environmental conditions

Though the issue of security is not much of a threat in Ethiopia, the Chinese companies encountered a problem in some places such as the eastern part of Ethiopia, Somali Region, where nine Chinese where killed by rebels in April 2007 while exploring for oil. In some of the remote areas, there are also cases where the locals physically assaulted the Chinese, blaming them for the loss of rain. There are also places that are environmentally unviable for work, like Afar, eastern part of Ethiopia where the temperatures are said to be the hottest on earth. As noted earlier, there are Chinese employees who have lost their legs, eyes, hands and lives while working in very dangerous places. Some Chinese have died from diseases like malaria while working in remote areas, where there are no basic medical services.

Legal predicaments

The respondents from most Chinese companies explained that poor policies and faulty labour laws in Ethiopia are creating problems for their companies. The Ethiopian labour law is criticized by the Chinese respondents for excessively protecting the employees. They say such a trend affects efficiency and development. The Chinese informants are also not satisfied by the incentives for investment given by the Ethiopian government.

Challenges encountered by the locals

Some of the concerns emerging about Chinese investments in Ethiopia relate to labour practices, accountability, quality standards, cultural disparity and developmental impacts.

Cultural disparity and language barrier

The local informants stated that since most Chinese speak neither English nor Amharic, this comes as a huge disadvantage while doing dealings since crucial information could not be acquired. The issue of culture is also a problem for the locals. According to the local informants, the Chinese make a big deal when the locals drink coffee during the coffee break. The locals also seem to encounter a problem in meeting social and personal commitments like getting permission for funerals, weddings, and sick leave as such demands are suspiciously regarded by the Chinese and the locals are blamed for lacking commitment. The locals also complain that the Chinese lack office ethics, they smoke, fight with each other, take off their shoes, yawn, and fart in the office.

Poor quality

Many local respondents raised concerns over quality. Some even assume that some of the Chinese companies are using Ethiopia as 'Guinea Pigs', and they are trying their technology and expertise in Ethiopia without being properly controlled and administered by local institutions or officials. ZTE is often criticized for providing poor quality services and telecom equipment in Ethiopia. According to local respondents the Chinese themselves do not use ZTE's products like mobile phones. The respondents from ETC added that the local experts are unable to have a say on the project since ZTE is politically backed by top government officials.

Some of the local respondents suspect that the quality of the service and products and equipment used by some of the Chinese companies is below standard and questionable. Accordingly, in order to make a profit out of the low bid price, some Chinese companies compromise on quality by lowering construction standards, and using substandard materials. Some respondents, however, argue that it is up to the client organization or the Ethiopian government to check on the quality of services and products delivered by Chinese companies. Accordingly, with strong supervision it is possible to ensure quality. In general, there is lack of trust as regards products and services delivered by the Chinese and some are concerned about the Chinese companies winning more bids in view of quality problems.

Insufficient technological transfer

The Chinese companies are criticized for excessively employing Chinese professionals. With few exceptions, the Chinese companies do not also place locals in key managerial posts; they employ locals for the administrative and low paid jobs like clerks, secretaries, guards etc. Some even say these positions are left for the locals because the companies are not allowed to bring their own unskilled employees. This in turn, hampers the local employees from acquiring new technologies and managerial skills. Moreover, almost all of the Chinese companies engaged in big projects conduct research in their headquarters rather than basing it in Ethiopia, which in turn discourages technology transfer. Most of the materials used by Chinese companies are imported from China, which excludes and discourages possible local suppliers.

Monopoly and fear of over-dependency

Currently, the road and telecommunication sectors in Ethiopia are dominated by the Chinese. Over 70 per cent of road construction in Ethiopia is delivered by the Chinese investors. In our interviews, fear of Chinese monopoly was stressed by informants from ETC. ZTE is providing 100 per cent of the telecom equipment for ETC, which is the only telecommunication operator in Ethiopia. Such a trend feared as leading to dependency; as once the existing telecommunications equipment is replaced by Chinese new equipment and become operational it would be very difficult to use other spare parts and technology like Nokia, since the Chinese technology is not easily compatible with others. This in turn will sustain Chinese monopoly in this sector.

According to some of the respondents, the Chinese monopoly could endanger Ethiopia's interest in the long run, since it could enable China to gain political influence, which often opens the doors for commercially or strategically more attractive business in other sectors too. It could also become very difficult to measure their efficiency and quality. Moreover, this development discourages the competitiveness and efficiency of developing infant local companies. Hence, they say that the Ethiopian government needs to be cautious about such a dangerous trend.

Chinese monopoly seems to be sustained by a number of factors in the near future. Firstly, the Chinese will continue to dominate since they offer low bid prices. Secondly, some of the Chinese companies benefit from tied aid associated with Chinese development assistance for wining big projects without bidding. The close diplomatic and political relations between the two states could also benefit Chinese investors. The local respondents explain that the Chinese are using their connections with top government officials to crowd out domestic firms. Accordingly, the Chinese are winning projects that could be handled by local companies and local capacity. Some, for instance, criticize the engagement of Chinese investors in the real estate sector, as the sector does not need high tech equipment and expertise, and is not as such an urgent development issue for Ethiopia. According to these respondents the trend of overdependence would create problems in the long run.

Lack of transparency and corruption

According to the local respondents, the Chinese companies are highly secretive in their business operations. The locals are not aware of company policies, rules and regulations, and salary packages. According to locals things are done on departmental instruction. All interviewed local employees were dissatisfied with the salaries and privileges they get for working in the Chinese companies. They say that the remuneration to the local staff is far below the standard for the work they deliver and the salary paid to the local employees is not different from the local market and the range of salaries is not transparent. In some instances, two individuals with the same qualification and experience might get different salaries showing a considerable gap. Salary packages are not fixed and depend on personal negotiating power. This seems to demotivate the local employees. The boss's unlimited power over the employees is also criticized.

The local employees also accuse the Chinese companies of being corrupt. For instance, if they want assistance from local public institutions they first invite local officials for lunch or dinner or give them gifts. The 'Chinese always prefer to do things indirectly' says one respondent. The locals also argue that the Chinese do not involve them in the bidding of new projects or hiring local transportation companies and their accounting system lacks transparency. These factors give the locals the impression that Chinese are involved in corruption. The Chinese companies are also allegedly suspected of complicity in bidding for projects. Some allege that the Chinese make arrangements among themselves before bidding for projects which are made public simultaneously. The Chinese embassy is suspected of organizing and coordinating such arrangements.

The locals added that there was no mechanism to hold the Chinese accountable for corruption. If locals try to expose cases of corruption, they themselves end up being marginalized or losing their jobs. In addition, those suspected of corruption will soon be transferred to other states. More importantly, some of the Chinese companies hire local staff for a very brief period of time like a year or two, to avoid the risk of being caught or exposed.

Lack of qualified human resources

Some local employees have doubts about the professional capacities of those Chinese employees sent to Ethiopia. Accordingly, some local employees suspect that the Chinese companies are using Ethiopia as a training ground. According to these respondents, the Chinese employees who come to Ethiopia are fresh graduates, who do not have experience and good professional expertise in the area.

The respondents also added that after these Chinese staff gained some on-job experience, they are transferred to other countries and a second round of fresh graduates join the project. The local employees are, therefore, experiencing difficulty in training and dealing with every fresh lot of Chinese staff and have to make extra efforts to make fresh Chinese staff fit into the system on continuous basis. According to these respondents, the problem is partly related to the reluctance of experienced Chinese to come and work in developing countries and in Ethiopia in particular and the need to create job opportunities for new graduates, which would be rather difficult in competitive China.

There is also lack of meritocracy. In some instances individuals of Chinese origin are posted in places like procurement and logistics without possessing appropriate professional expertise. In any case, such incidents of inexperienced staff and high turnover rate are believed to have an impact on the quality of the services and products delivered by the Chinese companies. The locals are also offended by the new comers' lack of respect for ideas generated by them. 'The Chinese think that they are always right and are not open to others' suggestions and recommendations'. The local employees also feel that the services provided by them are not acknowledged. The Chinese always put blame on the locals when things go wrong.

In general, both the Chinese companies and locals face challenges. The Chinese respondents often put forward the issue of cultural difference and language barrier, bureaucracy, corruption, biased popular perception, foreign currency shortage and lack of skilled manpower as challenges. On the part of the locals the issue of poor quality, cultural and language barrier, lack of transparency and accountability and insufficient technological transfer are mentioned as big challenges. These challenges, however, can be mitigated if both parties make concerted efforts.

Conclusion and recommendations

Ethiopia-China relations are growing fast. Chinese companies are involved in different sectors, especially in manufacturing and construction. They are contributing to infrastructure development, providing capital and creating employment. The roads, bridges, and dams built by

Chinese firms are low cost, of good quality, and completed fairly quickly, from which Ethiopia benefits. And, unlike the western investors, Chinese companies provide financial assistance to Ethiopia without politically motivated conditionality. The Chinese are also making profits given the untapped market potential in Ethiopia. Hence, both Ethiopia and China are benefiting from Chinese investment.

The surveyed data also reveals that the Chinese are highly competitive. Most of the companies included in the survey employ a number of strategies to enhance their competitiveness and win contracts. Low price, fair quality and fast delivery of services are commonly used strategies to enhance competitiveness. The general perception of the local people and local client organizations such as ETC, EPPCO, and ERA is also very positive. Most respondents consider the Chinese as development partners. The Ethiopian informants especially appreciate the Chinese hard working nature (see table V below).

Table V: Summary of the Implementations of the Nine Principles by Chinese companies in Ethiopia

Nine Principles	Responses in %	
	Yes	No
Work Based on Policy Guidance from China Private Companies	0	100
State Owned Companies	100	0
Orderly and fair competition	56	39
Conduct Research in Ethiopia	52	48
Project Cost Accounting System	88	12
Respect for Local Laws and Culture	55	45
Respect for the Rights and Interests of Local Employees	55	45
Environmental Protection	54	46
Community Service	20	80
Chinese Companies Competitiveness	92	8
Safe Production Responsibility Systems	64	36
Personnel Training	43	57
Good Corporate Reputation	81	19

The survey indicates that there is a mixed feeling about respect for local laws, and rights of local employees; cost accounting system; and promotion of fair competition. According to the survey, local laws and local employee's right are better respected by the bigger Chinese companies. Since the companies want to preserve their reputation and promote good relations with the government, especially to win more projects, they give due respect to the local laws. Obligation to uphold local labour laws and fear of costly court procedures also make most companies respect local employee's rights. Nonetheless, the bigger companies still manipulate local labour unions and violate local laws out of negligence. The record of the smaller companies in this regard is much worse. The salary of local employees is very low and they are not properly paid for overtime.

Similarly, the issue of cost accounting systems is controversial. Despite the existence of a cost accounting system in the majority of the companies interviewed, most respondents raised the issue of transparency. Promotion of fair competition is also contentious. It is somehow believed that the Chinese are winning projects by employing strategies of low price, fast delivery of services and good quality. Local companies' poor capacity helped the Chinese companies win more projects and monopolize some sectors. However not all the Chinese companies follow the same methods. Some are accused of bribing local officials to win projects and get licenses, while others benefit from Ethiopia's good relations with China. Others again benefit from tied development aid to win projects without bidding. This in turn could affect the quality of the services provided by the Chinese companies and might lead to over-dependence.

Scientific research, community service, personnel training, and environmental protection are in general weak areas for Chinese companies. Though some of the big Chinese companies conduct scientific research and base their decisions on it, the studies are not conducted in Ethiopia. This, coupled with excessive use of Chinese professionals, hampers technology transfer. The decision making process in all the Chinese companies is also highly centralized and lacks transparency, since the bosses are granted excessive power. This kind of administrative style is seen as a success for Chinese companies, as it prevents complex bureaucratic hurdles and hastens decisions. But it is criticized by the locals and seen as abuse of power.

The issues of environment and community service are not given priority by most Chinese companies. Though the government of Ethiopia shares the blame for lacking effective enforcement mechanisms, the Chinese companies are also to be blamed for negligence in this respect. Community service is also among the lowest priorities of most Chinese companies. Though the big companies train some local employees in different fields, they still prefer to use their own professional labour force for executing projects.

From the survey we can conclude that the Chinese companies investing in Ethiopia by and large respect the nine principles. The companies' engagement in Ethiopia is perceived as mutually beneficial, the general local people's perception is positive, and they are regarded as highly competitive. The companies' performance with respect to local laws and local employees' rights; project cost accounting system; and promotion of fair competition is not satisfactory. But it is still encouraging and could change for the better if all stakeholders exert extra effort. Nonetheless, the Chinese companies should give attention to the environment, the local community and personnel training, and to research and scientific studies.

Recommendations

THE RELATIONSHIP BETWEEN China and Ethiopia should continue to be strengthened. Both sides should benefit from the investment. Both countries should strengthen cultural cooperation and bridge the cultural gap by teaching each other's language, by organizing cultural festivals and implementing the Cultural Cooperation programme signed by China and Ethiopia, which set a good framework for cultural interaction.

Those projects funded by Chinese companies lack transparency and do not allow local authorities to check on quality. The quality of the projects fully funded by the Chinese government should be evaluated by independent experts. An open cost accounting system should also be introduced in all Chinese companies.

The Chinese companies' management teams need to possess the right management capabilities through training and development to manage businesses in Ethiopia efficiently. The companies should also bring well-trained personnel to Ethiopia and minimize the turnover rate. Respect for local rules and laws and culture should also be given special emphasis by the companies to make the relationship stronger and more mutually beneficial.

Chinese companies should also carry out corporate social responsibilities by actively engaging in community services and non profit sectors such as NGOs, and should help local communities.

Chinese companies should not only get licenses, they should start operation in Ethiopia as well. The government should ensure that such implementation has taken place.

Ethiopia should monitor and follow up the quality of the services and products provided by Chinese companies. For those high-tech equipments and services provided by Chinese companies, Ethiopia needs to hire competent professionals and consultants to check on the quality. There is also a need to enhance competitiveness; Ethiopia should look for equally competent companies both from China and the West, which is important in raising quality levels and delivery reliability. Ethiopia should also encourage and support local companies to enhance their capacity.

Ethiopia does not have room to manoeuvre while negotiating for quotas for local professional employees, technological transfer, and subcontracting to local suppliers. Such a trend has to be changed to make the relations mutually beneficial. Joint ventures should also be encouraged to hasten technology transfer. The government has also to encourage Chinese companies to use locally made inputs rather than depending entirely on their own products.

Ethiopia needs to improve service provision and ensure the quality of human capital especially in those areas where FDI is very low. The government should also reduce taxes and improve investment policies to attract more investors. The issue of local bureaucracy and corruption should also be dealt with by the Ethiopian government through strengthening the ongoing civil service reforms and anti-corruption institutions.

The Ethiopian government should create good work ethics and culture in Ethiopia. The local people also should make efforts to learn from the industriousness of the Chinese.

Ethiopia should strengthen the enforcement of environmental laws. Currently, Ethiopia seems to prioritize short tem economic achievement over long-term environmentally sustainable economic growth. Such trends have to be reversed to make Chinese investment more beneficial.

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China's comparative trade, aid and investment behaviour in Kenya vis-à-vis India and the European Union (EU)

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THE INSTITUTE FOR DEVELOPMENT STUDIES (IDS) was founded in 1965, IDS is a multipurpose and multi-disciplinary institute within the University of Nairobi 's College of Humanities and Social Sciences. It focuses on social and economic issues of development in Kenya , the rest of Africa and the world

Abstract

THE EMERGING PATTERNS of China-Africa economic relations have attracted a flurry of sceptical comment across the world, much of it aimed at dismissing the economic opportunities offered by China to Africa. In particular, criticism has targeted the nature of China's aid, FDI and trade as central to China's African relations.

In this paper, we re-examine the misgivings by providing a comparative analysis of economic relations between Africa, China and the other economic partners, in particular India and the EU. We interrogate the nature of these economic relations and examine the extent to which China's economic behaviour in Africa might differ from that of India and the EU. Our analysis suggests that China's development pursuits in Africa may be strongly influenced by underlying strategic interests. Nevertheless, in exploiting Africa to pursue its long-term geo-political and economic interests China is not worse than countries such as India and the EU.

In section one, we discuss the stylised facts and misgivings about China-Africa economic relations. In section two, we provide case studies, analysing China's aid behaviour, foreign investment, and trade in Kenya. This is done in comparison with other development partners. Finally, the lessons from the study are drawn in section three.

1. Misgivings and Stylised Facts in China-Africa Economic Relations

CHINA AND INDIA each have rapidly modernising industries and burgeoning middle classes with rising incomes and purchasing power. These societies are demanding not only natural resource-extractive commodities, agricultural goods such as cotton, and other traditional African exports, but also diversified, non-traditional exports such as processed commodities, light manufactured products, household consumer goods, food and tourism. Although the 'explosion' of African-Asian economic relations could present a real opportunity for Africa's growth and its integration into the world economy, few African countries have proved able to exploit these opportunities. Several questions can be posed on the future of Afro-Asian relations:

- Could the revival of the Afro-Asian relations create a lasting positive dynamic for Africa's take-off, and help it draw lessons from the failure of western development models?

- How can Afro-Asian economic relations avoid the pitfalls of Western development?
- How can Africa ensure genuine and mutually beneficial economic relations without reproducing the past?

Recent literature abounds with analyses of the possible impacts and potential implications of China-Africa economic relations. Such literature has focused almost exclusively on the developmental implications and consequences of aid, foreign direct investments and trade between Africa and China. Such analyses are also loaded with implied misgivings on China's economic relations, thus inducing scepticism rather than optimism among African partners. The objective of this paper is not to justify China's approach to development in Africa, but rather to illuminate aspects of development by Africa's partners that require a broader scrutiny. In the sections that follow, we examine misgivings on Chinese aid, FDI and trade with Africa.

1.1 Aid

Before the mid-1990s, much of Chinese aid to Africa went to liberation movements. Since then, the situation has changed, with aid increasingly used to achieve broader strategic objectives, including strengthening links with resource-rich African economies (Kaplinsky et al. 2007; Muekalia 2004; Brookes and Shin 2006; Pan 2006). In the last two decades, China has moved to increase its assistance to African countries 'to the best of its ability'. By 2006, this amounted to about US$ 19 billion (Ajakaiye et al., 2008). In October 2000, the China-Africa Cooperation Forum, held in Beijing, emphasized the need to enhance co-operation between China and financial institutions in Africa. During the Forum, China also expressed willingness to reduce Africa's debt burden, promote investment, and assist in the development of human resources in Africa (Muekalia 2004). China typically comes to African countries with a complete package that includes money, technical expertise, and political influence in international fora (Lyman 2005). China's quest for natural resources, especially oil, has been seen as the primary motivation for all its economic pursuits in Africa.

Nearly all studies mention China's support for infrastructure as a major gain for Africa. The Chinese foreign aid comes in the form of grants, loans, debt relief, technical assistance and training, which has obviously benefited SSA countries. A substantial amount of Chinese aid flows to a broad range of sectors such as infrastructure, manufacturing, agriculture, and community services (water supply, playing grounds etc.) (Katumanga, 2007).

Misgivings:

- Beyond the infrastructural benefits of Chinese aid to Africa, there has been a coupling of Chinese strategic objectives with Africa. China's grand strategy is seen as being to become a global power, which implies a restructuring of the present world order. Africa, rich in resources and markets, is a convenient partner to this process.
- Chinese aid is viewed as having a revealed preference for grandiose and prestigious projects without much welfare impact on poor populations in Africa. China's aid therefore does not contribute significantly to the reduction of poverty along the lines set out in the national government Strategy for Growth and Reduction of Poverty (Ajakaiye et al, 2008).
- Grandiose or prestigious projects which are not embedded in the national strategic development programme will tend to be projects that traditional donors have refused to support on the argument that, they are 'unproductive' investments. The projects bear the risks of developing into white elephants that do not add value to the local economy if such projects are not an integral part of a strategic development programme. This risk is increased if the interventions are limited to the execution of these grandiose projects without any transfer of technology and capacity building as part of the aid deal.
- China mainly provides project aid - although some of the aid is utilised for technical assistance and training, there is little programme aid except for debt relief through China's contribution to international organizations. China through its single political conditionality (the One China Policy) does offer opportunities to take advantage of China's financial flows through aid, to African countries that respect that policy. However the lack of political

strings provides a risk that the Chinese policy will strengthen repressive regimes/elites that are not working in the interest of poor people or development at large. It may also weaken social and environmental standards and not benefit poor people and the environment, as well as weakening efforts to combat corruption and promote good governance in Kenya. Furthermore, according to Kaplinsky, R. et al (2007), the reality of aid conditionalities appears to be different as the aid appears to be very closely linked to strategic and political objectives, perhaps even more so than the aid offered by some European countries and the US.

- The lack of conditionality has often been criticized on the grounds that it could delay reforms in the recipient African countries. Furthermore, there are concerns that China would worsen the debt situation in Africa. China's aid initiatives bear the risk of driving African policymakers to contract loans far beyond what can be sustained. It is therefore necessary to ensure (given that the volume of Chinese aid is typically small compared to that of traditional donors) that China does not, for small amounts of aid, extract more concessions than are needed or justified'.

1.2 Foreign Direct Investments

In many respects, China is still seen as a developing country. Nevertheless, it has begun to emerge in the international global scene as a FDI alternative for other developing countries especially in Africa. Indeed, from a low of $830 million in 1990, post 2000 FDI inflows have been rising, reaching $17.8 billion in 2006. The flows are expected to continue to increase, and to reach $72 billion by 2011 (EIU 2007). Chinese FDI to SSA has been increasing in the last decade.

Chinese investment in manufacturing has involved agro-food processing (Nigeria, Mali, Kenya, Uganda and Zambia) assembly plants (Kenya, Mali and South Africa), and electronic goods (Kenya, South Africa and Mali). There is also a spread of investments in small scale manufacturing enterprises, which are not significant in terms of official statistics but may have a more substantial socio-economic impact. This includes manufacture of wax candles, intravenous fluids, cigarettes, mosquito nets, optical lenses, TVs, DVDs, VCDs, glass, aluminium, and electric machines in Kenya and electric bulbs and farm equipment in Mali. In Uganda for instance, Chinese investment in manufacturing represented 63% of total investment in that sector over the period 1991-2007 and was worth $98 million (McCormick, 2008).

Misgivings

- The secrecy around Chinese official data makes it difficult to capture the real importance of Chinese FDI. Indeed some figures on China's FDI flows into Africa are contradictory and confusing and almost certainly understate their true significance. For example, UNCTAD estimates that China's FDI in Africa rose from just $1.5 million in 1991 to $60.8 million by 2003. Besada et al (2008) using various sources estimated Chinese FDI flows into Africa to be just above $500 million in 2006, rising from $400 million in 2005.
- Inaccurate as the data may, there are serious misgivings about FDI:
    - The FDI could introduce inappropriate technology and delay the development of indigenous capital goods industry;
    - The brand power and the competences of incoming investors, which are a source of their competitive advantage, may exclude nascent domestic producers. This can also cause the recipient countries to lose aspects of their national sovereignty and control over economic policy. Indeed, the incoming investors can avoid tax by shifting profits abroad;
    - They often have few linkages with the local economy and when these do exist, they are often linkages with subsidiaries of other foreign investors or with large firms;
    - They may utilise Africa's scarce resources poorly, exploiting resources more quickly than is desirable, shipping out unprocessed minerals and agricultural products, rather than processing them locally and adding value, and exploiting consumers and workers through exercise of monopoly and monopsony power;
- In the manufacturing sector, even when foreign investors do export, they have very low

levels of domestic value added, focusing on simple assembly rather than complex products and importing most of their key inputs;

- The lifestyles that they promote and which are embodied in their operations contribute to growing inequality on the continent. Indeed, they tend to manipulate consumption by catering for the taste of the already well-to-do and often encourage forms of consumption among the mass of people that could be inappropriate and often nutritionally damaging. These tendencies encourage acquisitiveness, reduce domestic savings and can worsen balance of payments difficulties;
- Thirlwall (2003) showed that if profits are repatriated, the impact of continuous FDI on balance of payments must be negative unless the gross inflow of FDI grows substantially from year to year with all the implications that this may have for the pattern of development in the future.

1.3 Trade

Trade flows between Africa and China have been growing rapidly, with a significant acceleration in the rate of growth starting in 2000. In aggregate terms, Africa's merchandise exports to China increased four-fold from $4.5 billion in 2000 to $28.8 billion in 2006. Over this period, African exports to China increased faster than to the rest of the world. As a result, Africa's share in China's total imports rose from 2.5 percent in 2005 to 3.6 percent in 2006. China is now Africa's third largest export market destination, after the US and EU; and its share of Africa's annual export growth has increased almost two-fold between 2000 and 2006 (Ajakaiye et al, 2008).

African countries that import Chinese products may gain to the extent that expanding Chinese exports are associated with falling prices. The potential trade-related gain takes the form of increasing welfare derived from the consumption of cheaper imported products. Nevertheless, serious concerns are being expressed in the literature about how and to what extent the rapidly growing China-Africa trade might affect the development of African countries (Ajakaiye, 2006; Kaplinsky et al, 2006; Wang, 2007; and Oyejide, 2007).

Misgivings:

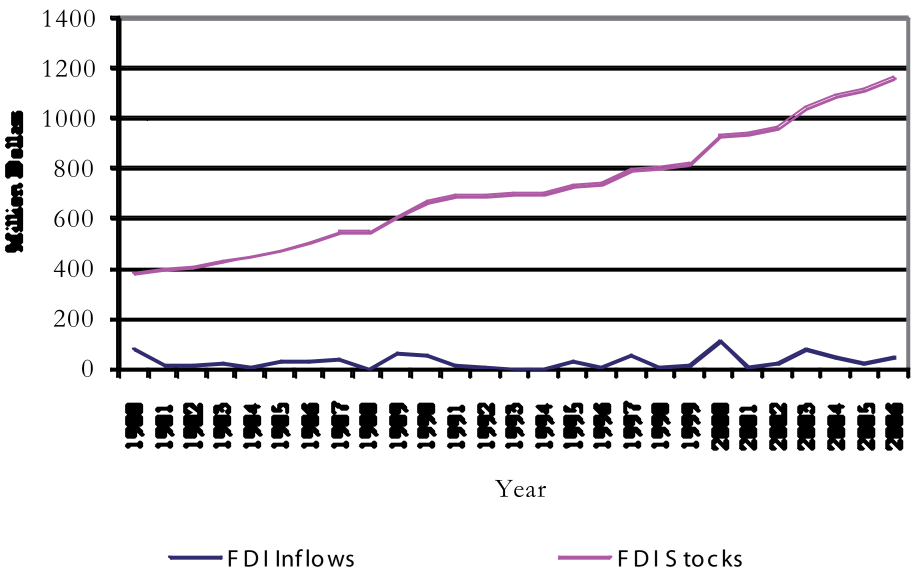
- The cheap imports could put at risk local entrepreneurs who will be unable to compete thereby undermining any prospect for the development of local industries. The invasion of Chinese products will therefore destroy the potential for industrialisation of partner African countries.
- To the extent that African countries also export products that are the same or similar to those exported by China, they are also likely to suffer a trade-related loss because of stiff export competition in third-country markets.
- Potential export-related losses are particularly likely to be incurred by African exporters of most labour-intensive manufactured products that are also exported by China. The most prominent among these include textiles and clothing, furniture, footwear and other household goods.

2 A Case Study of Kenya: A Comparative View of Economic Relations with China, India, and the EU

2.1 Foreign Direct Investments

Kenya's FDI inflows and stocks are shown in figure 1. These stocks have been increasing gradually over the years. However, the FDI inflows have been subject of fluctuations particularly in the last decade. Various analyses over the last decade show that Kenya has lost its competitiveness in attracting investments. Kenya has also lost in terms of retaining the stock of investment. The loss in Kenya's investment competitiveness is the result of many inter-connected factors including negative perception by investors about political instability, poor governance, corruption, inadequate infrastructure, insecurity, crime, theft, and policy stability. Private investment,

Figure 1: FDI Inflows and Stocks in Kenya, 1980-2006



which was growing at an average of 10% between 1985 and 1989, only grew by 0.4% between 1997 and 2001 (Central Bank of Kenya 2007).

Chinese investment projects in Kenya currently number about 96 with a workforce of about 6,700 Kenyans and an investment capital of $52.6 million The total value of FDI from China between 2000 and 2005, according to data from the Kenya Investment Authority (KIA), is presented in Table 1 below. Between 2000 and 2005, total FDI was $446 million, of which $32 million originated from China, representing 7.2 per cent of the total. China had a total of 57 projects in this period. Using this information, we compute the average size of Chinese projects in Kenya. Although this measure is crude given the incompleteness of data, on average, on this basis an FDI project from China would be worth US$ 0.56 million (Onjala, 2008).

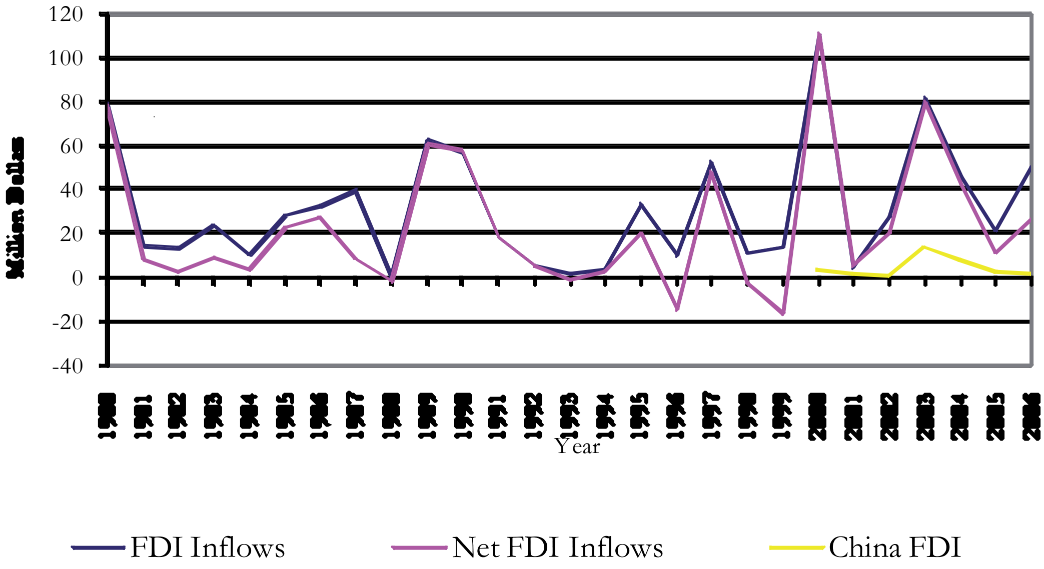
Table 1: FDI from China in Kenya 2000-2006

Year	Total FDI US$m	China		
		No. of projects	Capital US$m	Employment
2000	110.9	9	4.08	787
2001	5.3	12	2.79	1313
2002	27.6	6	1.67	170
2003	81.7	11	13.95	493
2004	46.1	12	9.03	1414
2005	21.2	12	3.74	239
2006	51	8	2.51	681

Source: Own Calculations based on the Investment Promotion Centre, and Kenya Investment Authority Data Sets

Most FDI from China is by companies that are either wholly or partially state-owned in China even though in Kenya they operate as private companies. Until the year 2000, the FDI from China remained very low. The flows from China became remarkable in the last three years (see Figure 2).

Figure 2: Kenya: FDI Flows, China FDI, 1980-2006

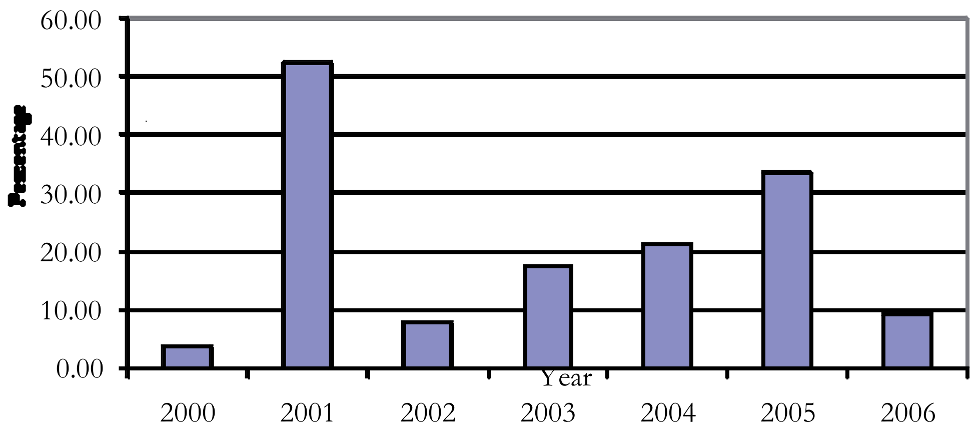


Source: own calculations from Central Bank of Kenya data

Since the year 2000 most of the investments established were in manufacturing (90%) and services (10%). The capital investment was entirely foreign, ranging from \$46,000 to \$95,000. Most of the capital was invested in manufacturing. Employment in these firms was mainly local, constituting 96%, while foreign employment was only 4%. The average number of employees per firm was 87 i.e. the average for local employees was 83 while that for foreign employees was four. Most of the Chinese FDI in Kenya is in the manufacturing and service sector. Recently however there has been a shift to mining and minerals exploration.

Chinese companies operating in Kenya are mostly not joint ventures. The firms established so far are most fully owned by the Chinese companies. The companies are mostly privately owned by Chinese companies that are dominant in Kenya. There is very limited joint ownership or local capital. Furthermore, the employment level in such firms is very low for both Kenya and China. Even though the initial interest of Chinese investors was in manufacturing, there has been a rapid shift in recent years towards the services sub-sector. Most of the capital investment also appears to be placed in the services sub-sector. Increasingly also, the structure of employment is gradually changing, with an increasing proportion of Chinese employees.

Figure 3: China's FDI as % of Net FDI flows in Kenya, 2000-2006



China has also recently launched a series of new industrial ventures in Kenya including the Chinese Auto Assembly in Nairobi, and a Chinese Television Assembly plant in AUCMA, which will produce 8,000 TV sets a day in addition to other electrical products including refrigerators.

The importance of China's FDI flows to Kenya lies much more in terms of capital investment rather than in the quality of activities. This is because most of the firms established have tended to engage in services such as trade with very few firms participating in manufacturing. The FDI flows from China have assumed significant proportions even though they remain low, ranging from $1 million to $3 million in the last six years when the number of Chinese companies operating in Kenya has grown dramatically.

In addition to the above investments China, like the EU and India, is also involved in financial sector investments but more heavily in the construction industry.

Comparative Foreign Direct Investment (FDI) Behaviour:

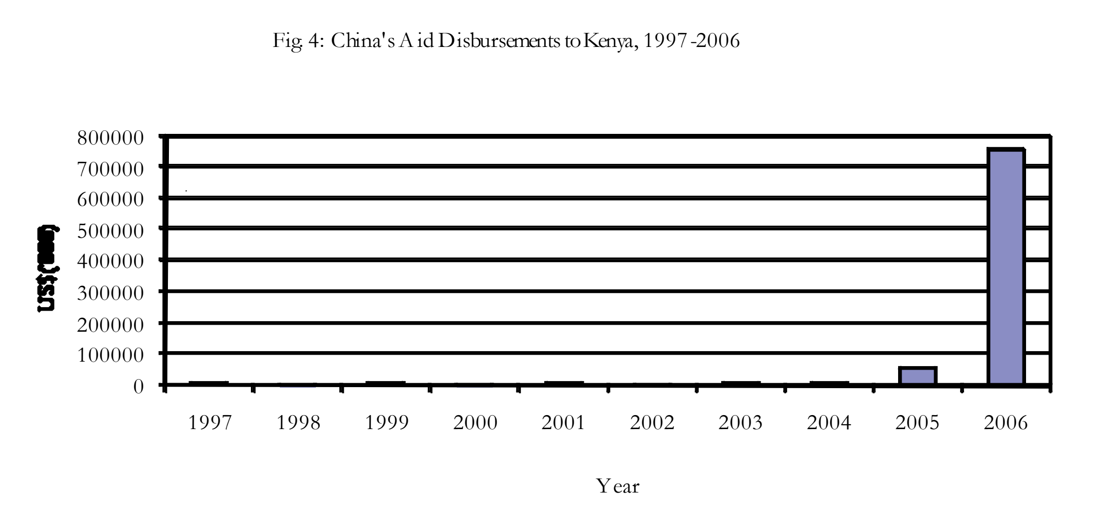
1. In Kenya, there appears to be a growth of small-scale entrepreneurial investment from China and India. Often the Chinese themselves are preceded by the construction of specialised shopping malls retailing Chinese goods.
2. Unlike EU, prospects of technology transfer are real from both India and China, but along with these emerging trends, there is displacement of existing and potential local producers, and thus less spin-off to the local economy (Kaplinsky et al, 2007).
3. China labour conditions have generated intense interest among international policymakers, labour movement activists, and development agencies (Winters Alan and Shahid Yusuf ed., 2007). Local Indian firms also display similar working conditions. Unlike EU firms, the Chinese and Indian firms employ unskilled persons who are mostly employed on poor terms and poor conditions of work.
4. Greater diversification in FDI has been occurring, increasingly diversifying into several investment sectors. Recently significant Chinese investments in Kenya have been made in retail ventures, tourism, transport, construction, power plants, and telecommunications, among others, thereby overtaking the Indian or EU firms in these sectors.
5. Chinese firms in Kenya have increasingly been accused of undercutting locals in the construction industry. It is estimated that more than 50% of construction activities in Nairobi both private and state have been captured by Chinese construction firms, winning contracts for projects ranging from roads, water systems, and power generation to hospitals. There have also been complaints that the Chinese investors do not usually offer job opportunities to local construction professionals (Katumanga, 2009).
6. Both Indian and Chinese activities in Kenya rely on networks, often family-based usually engaged in small-scale retail activities or import-export operations. European firms do not rely on family networks. There is a significant, but minor, tendency for Indian and Chinese retail entrepreneurs in Kenya to spread their retailing activities into neighbouring countries once they have established themselves in Kenya.
7. So far, Chinese investments in Kenya are generally concentrated in sectors previously disregarded and neglected as unprofitable or too risky by western companies.

Table 2: Summary of Comparative FDI Engagements

	China	India	EU
Technology Transfer	Very low	Modest	Very low
Local Employment	Low employment levels Poor working conditions Mostly unskilled	High employment levels Poor working conditions	High levels Modest working conditions Skilled workers emphasized
FDI Diversification	Seemingly unprofitable or risky sectors, Integrate FDI, Trade and Aid	Mostly manufacturing Trade	Knowledge intensive activities Mostly in highly profitable activities where entry is also difficult Agriculture and manufacturing
Type of Ventures	Capital costs entirely foreign	Capital costs foreign and local	Capital costs foreign and local
Business Networks in Kenya	Family networks	Family networks	Other Multinationals

2.2 Bilateral Aid to Kenya

Kenya is one of the beneficiaries of Chinese aid, but the sources of information do not indicate whether the companies are state owned corporations or private sector firms. China's assistance to Kenya is exclusively project based. Since the establishment of diplomatic relations, the projects of aid and assistance provided by China to Kenya have been diverse. Projects are mostly part of bigger package deals, which include other types of cooperation with Kenya. Aid disbursement trends are shown in Figure 4 below, indicating that until recently, the levels were quite low and stable.

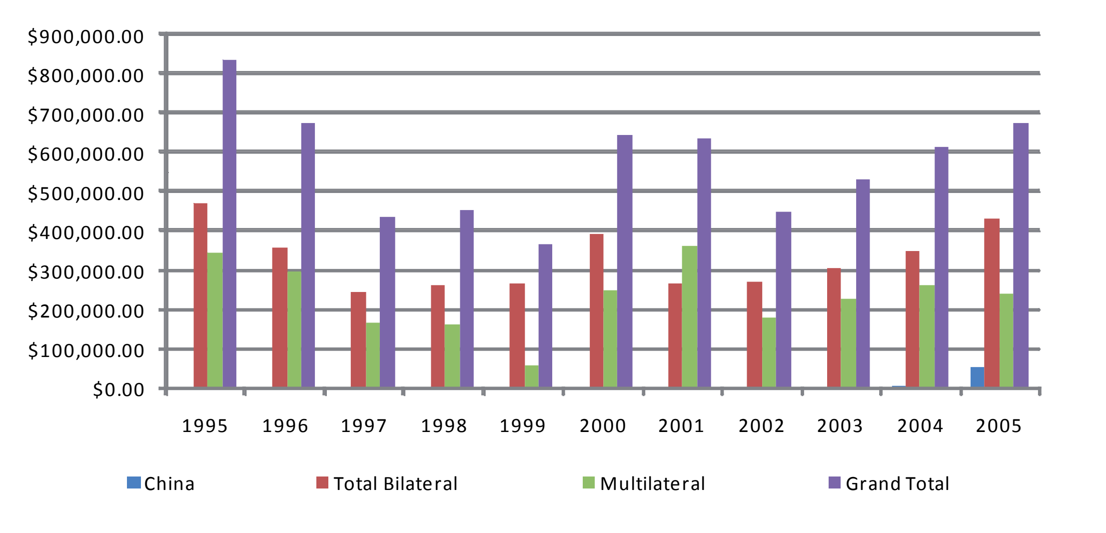


Based on data from Kenya Development Cooperation Report 2005; Ministry of Finance, Development Estimates 2005/2006; 2007/2008.

China currently gives both monetary and non-monetary aid to Kenya. Development aid from China supports investment in infrastructure, equipment and plant; academic training; technical training; human relief; and tariff exemptions. Over the last five years China has given Kenya grants and loans for infrastructure, plant and equipment. These were mainly in road construction projects, modernisation of power distribution, rural electrification, water, renovation of an international sports centre, medicine and drugs for fighting malaria, and construction of a malaria research centre. China has for a long time awarded scholarships to Kenyan students wishing to undertake their studies in China.

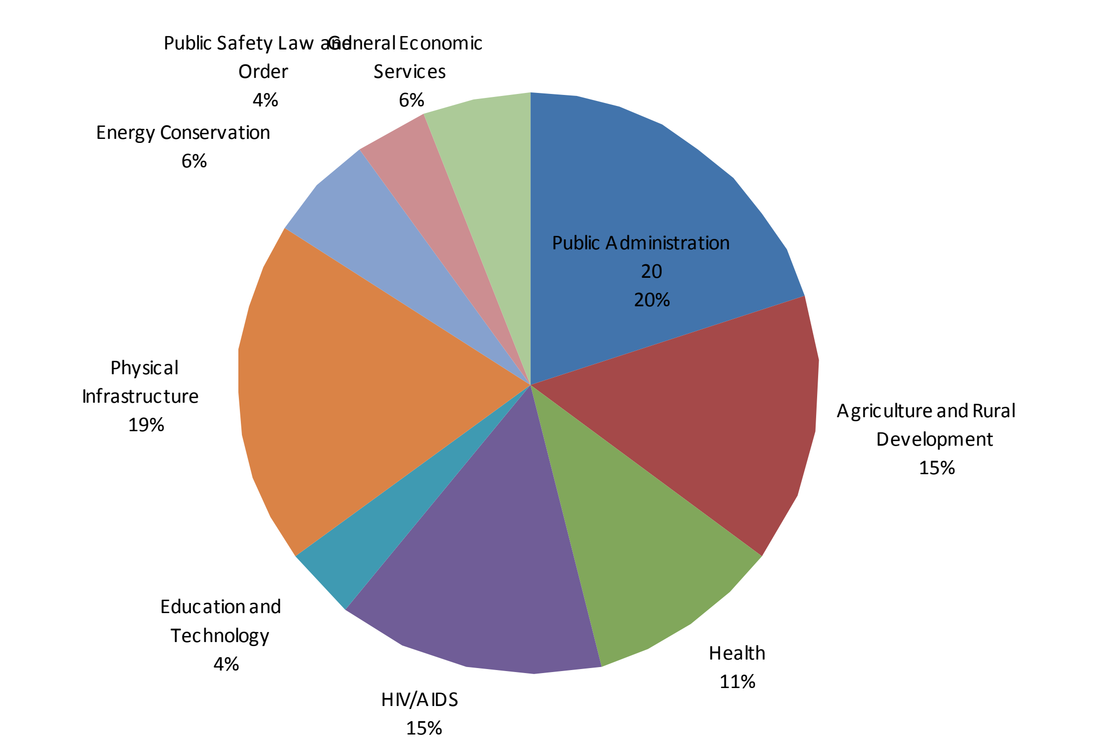
Even though China's Aid to Kenya has increased substantially in recent years, it still constitutes a very small proportion of the aid received from bilateral, multilateral and the total aid received in Kenya. As shown in Figure 5 below, aid from China was negligible before the year 2005.

Figure 5: Aid Received from Various Sources in Kenya.



While a large part of the infrastructural developments seek to facilitate internal integration, support for rehabilitation of the major roads such as Mombasa road have a strategic value given that fact that they provide land locked Great Lake states with an outlet to the sea. Not only have they enhanced Kenya's geo-strategic salience in the region but they will also eventually play a critical role in reinforcing the stabilisation process in the Great Lakes region. The Mombasa road network has the potential of enhancing Chinese business penetration towards the Great Lakes. The decision to expand the road sections between JKIA and Gigiri is crucial to Kenya given the man-hours lost to traffic jams and the salience of the diplomatic Gigiri space (Katumanga, 2009).

Figure 6: The Distribution of Chinese Development Assistance by Sector in Kenya



Source: UNDP, Kenya Development Cooperation Report, 2005.

As shown in Figure 6 above, a substantial proportion of the development assistance to Kenya goes to public administration (20%) and physical infrastructure such as roads, water and sanitation (19%). This is followed by agriculture and rural development (15%), HIV/AIDS (15%), and health (11%). In the table below, we examine the importance of China's aid to different sectors. In physical infrastructure which covers road construction, the aid increased from about 8% in 2003 to 20% of the development assistance in the subsector. In general economic services, China's aid increased from 0% in 2003 to 70% of the development assistance in the subsector. Overall, China's aid increased from 1.21% in 2003 to 8.25% of the total development assistance received in Kenya. These trends suggest that aid from China has become a very strong component of the foreign development assistance received in Kenya.

In Kenya, a large number of infrastructures undertaken by the Chinese are in the transport and housing sectors. These include companies engaged both by the government and individual Kenyans.

Comparative Aid Behaviour

1. While Chinese aid finances diverse projects, there is a predominance of relatively grandiose and prestigious buildings (presidential palaces, police headquarters, political party offices, and football stadiums) which few traditional donors would be willing to finance.
2. The Chinese assistance is also usually 'tied' to the purchase of Chinese goods and services, generally by Chinese companies, utilizing Chinese inputs and labour, thus undermining the effectiveness of the foreign aid.
3. The only conditionality is on the issue of Taiwan, with China's desire to be seen as the only legitimate representative of China under the 'One China Policy'. China stubbornly sticks to the dogma of national sovereignty, leading to the accusation that its assistance might undermine transparency, accountability and good governance in the recipient countries. African governments for whom distribution of patronage resources remains an exigency of political survival gratefully appreciate this lack of stringent conditionality.
4. China mainly provides project aid although some of the aid is utilised for technical assistance and training. China does not give assistance in the form of programme or budget support as prescribed in the Paris Declaration on Aid Effectiveness (Paris High-Level Forum, 2005). Consequently, Chinese aid is irregular, varying considerably over time and across projects.
5. Chinese aid takes a short time to negotiate compared to other donors. A contract that would take five years to negotiate with the World Bank takes about three months when dealing with the Chinese authorities. Bureaucracy and senseless red tape impede ability to act and when poverty persists, when international functionaries drag their feet, African leaders have an obligation to opt for swift solutions (Katumanga, 2009).

Chinese development assistance processes are complicated with many actors involved. China has no development cooperation agency to coordinate the policies. *The State Council* is the highest executive organ as well as the highest organ of state administration, above the government ministries. *The Ministry of Commerce (MOFCOM)* is the main government body in charge of Chinese aid and coordinates aid policies, principally with the Ministry of Foreign Affairs, but also with other government ministries and bodies involved. *The Ministry of Foreign Affairs* has an advisory role on aid and economic cooperation and is in charge of diplomatic contacts and of coordinating concrete policies in the bilateral undertakings. *The Finance Ministry* is in charge of the budget as well as multilateral aid. *The Chinese Embassies* monitor the implementation of projects and report on their progress to the Chinese government. *The Export-Import Bank of China (China Exim Bank)* is in charge of Chinese government concessional loans.

There are also other government ministries involved in channelling aid and banks which play a role in the Chinese government's 'going out strategy'. Three forms of assistance are discernible from China. These include, grants in kind disbursed by the Ministry of Commerce (MOFCOM); interest free loans, disbursed by MOFCOM and often converted into debt cancellations; and concessional loans introduced in 1995 and disbursed through China Exim Bank.

India, EU and China's Aid Policy to Kenya

Development aid from China in Kenya differs substantially from that originating from Western donors; Both with regard to 'terms and conditions' imposed, and also on the aspect of 'tying'. Unlike Western donors, China is not so much concerned about the issues of internal governance, human rights and democracy in Kenya. Indeed, by offering aid without preconditions, China has presented an attractive alternative to conditional Western aid, and gained valuable diplomatic support to defend its international interests (Tull, 2006).

Besides subscribing to the *'One China Policy'*, China imposes no other conditionality on recipient countries. China 'ties' its aid to using Chinese companies and procurement of materials in China, but nonetheless, most government officials believe that China is perhaps one of the most price-competitive sources whether its development aid is 'tied' or not. On scholarships and technical training, the relevant ministry in Kenya makes decisions. China does not take part in the donor coordination initiatives and instead prefers to operate independently (Kamau, 2006). China is considered to be much more flexible than the Western donors in accommodating domestic constraints. China does not alter its reporting and accounting procedures like the Western donors once aid has been disbursed (McCormick, 2008)).

According to King and King (2009), China is not at ease with the discourse of aid, or of being seen as a member of the donor club. It much prefers to present itself as the largest developing country helping the continent with the largest number of developing countries, to the best of its ability. It is therefore hesitant about being drawn into donor coordination and harmonisation activities.

Despite the Pan-African umbrella of the Forum for China-Africa Cooperation (FOCAC), China's cooperation falls clearly into a series of bilateral commitments to individual African countries, including Kenya. There are few examples of China's multilateralism in Kenya, though this is growing elsewhere. Like Japan, China prefers to view its cooperation commitments as demand-driven, rather than as a set of Chinese development priorities. China does not therefore have an aid agenda driven by the MDGs or by poverty reduction, good governance, and other conditionalities, as do a number of traditional donors. There is a strong emphasis on its strategic friendship with Kenya, and on the importance of cultural exchange as well as on exchanges in the political, economic, social and human resource areas. This is captured in the well-worn phrase of 'win-win' cooperation. For many of these reasons, China does not produce a Kenya Assistance Strategy like other donors, or a glossy *China in Kenya 2008* report.

Similar to the EU, China provides its aid in collaboration or through a large number of African institutions such as African Development Bank (AFDB); in May 2007 China confirmed having given AFDB $314million to fund 14 projects in eight African countries (Katumanga, 2009).

Table 3: Summary of Comparative Aid Engagements

	China	India	EU
Sectors	Kenya priorities Demand driven	No policy Ad hoc	Donor priority
Speed of Contracts	Very high speeds as convenient to host Short term negotiations Secrecy in spelling out the scope of aid		Low speeds Lengthy negotiations Often there are open and detailed specifications of the nature of aid
Conditionalities	Minimal - One China Policy No aid agenda No development cooperation agency to coordinate the policies No interest in Governance issues		A host of donor conditionalities Aid agenda Purport to understand the needs of the host country Interest in governance issues Development cooperation agency to coordinate the policies
Efficiency	Price-competitive		Uncompetitive sourcing leading to cost escalation and less benefits
Tying	China 'ties' its aid to using Chinese companies and procurement of materials in China		Aid tied i.e. in technical assistance with questionable experts
Quality of Aid	Good quality of completed infrastructure		Unscrupulous contractors leading to low life of completed projects; limited technology transfer
Type of Projects	Grandiose: stadium, roads, health, education, agriculture		Multipurpose; agriculture, health, water, energy Some white elephants

2.3 Trade between Kenya, China, EU and India

Kenya has had long-standing trading relations with India, EU and China. Kenya is ranked third among the 24 southern and eastern African countries that trade with China. Trade between Kenya and China has been rising steadily since the two countries established diplomatic ties in 1963. In the last ten years, Kenya has appeared to maintain some of its major export trading partners (i.e. India, EU) compared to China. Trade with the European Union and within the East African Union has been dominant. Kenya's export trade with the East African countries surpassed all the other partners between 2003 and 2008. Export trade between Kenya and China or India has not been important over the years. This pattern can be seen in figure 7.

Figure 7 Kenya's Export Trade Partners

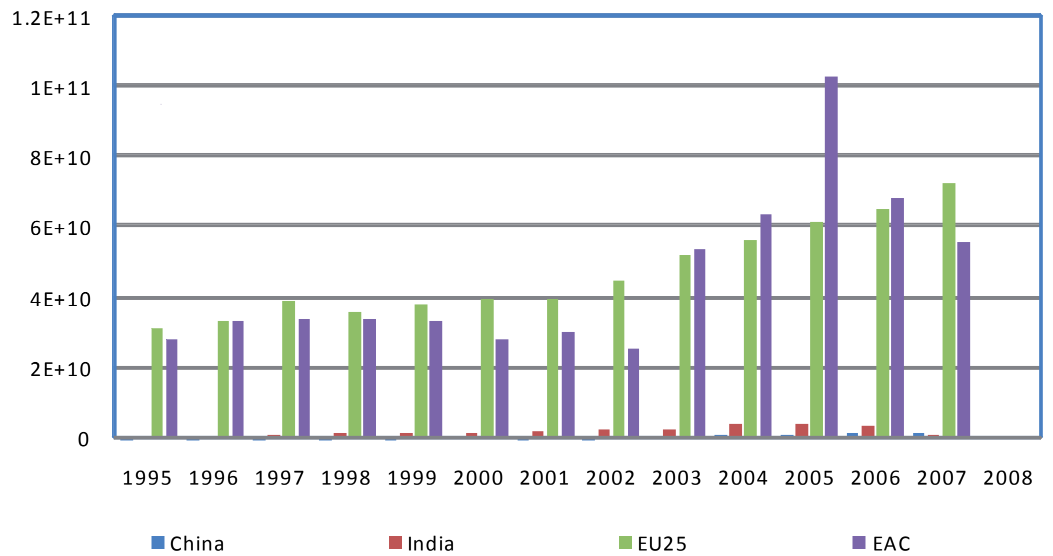


Figure 8: Kenya's Trading Partners as a Proportion (%) of Total Exports

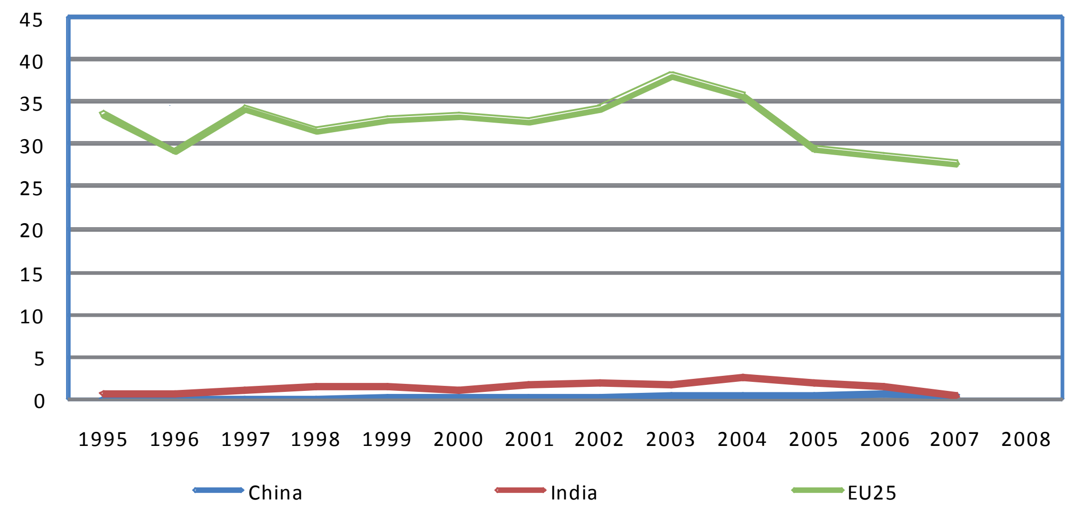


Figure 9: Kenya's Major Import Trading Partners

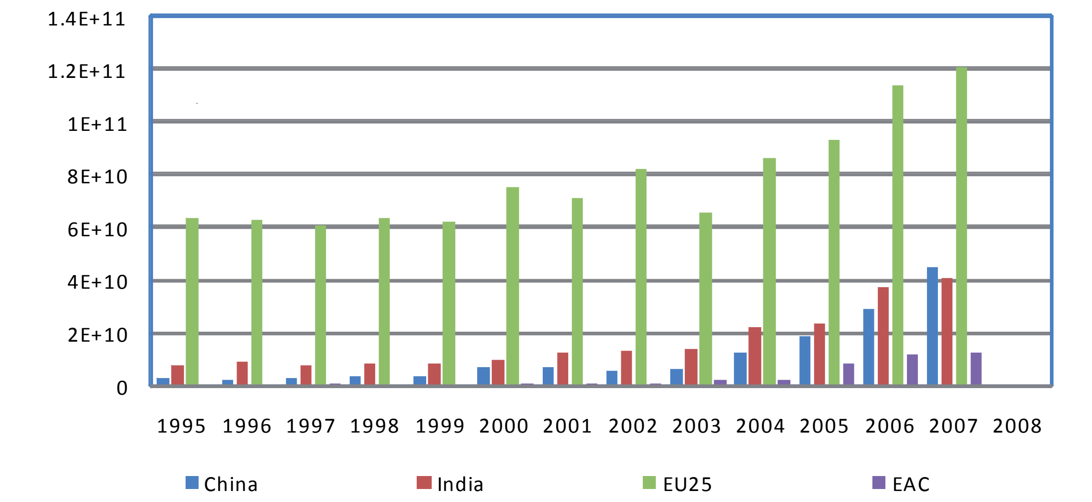
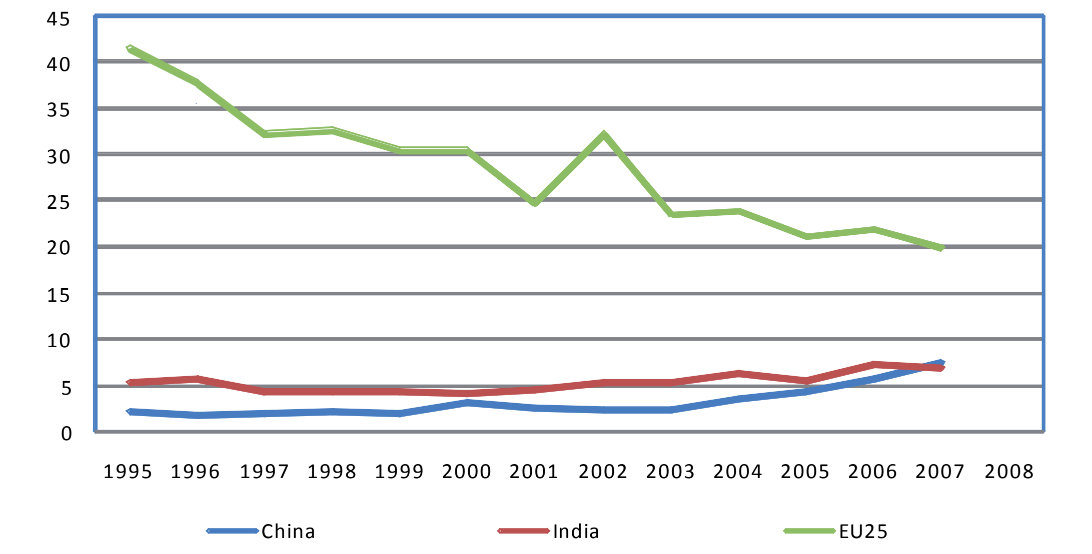


Figure 10: Kenya Trading Partners as % of total Imports



In the years 1995-2008, Kenya's export trade with China has remained less than 1 percent of the total export trade (see Figure 8).

The export trade with the EU has fluctuated between 27-40 percent, and was highest in 2007 with about 40 percent. Export trade with India has also fluctuated between 0.5-2.6 percent of the total export trade. The view about Kenya's major trading partners changes dramatically when we examine import trading as seen in Figure 9.

In the last ten years, import trading between Kenya and China has been rising quite rapidly, with China now becoming a major import partner. The EU and India have maintained their dominance as Kenya's major import partners. The import trading between Kenya and other East African countries have remained depressed over time. However, figures for country imports as a proportion of Kenya's total import bill show that the dominance of the EU as Kenya's import partner has been declining in the last ten years while those of India and China have been rising gradually. This pattern can be seen in figure 10 below.

As a proportion of total imports, Kenya's trade with the EU has declined from 40 percent in 1995 to only about 20 percent in 2007. The growth of imports from East African countries and India has also remained stable but that with China has risen dramatically from about two percent in 1995 to nearly eight percent in 2007. Growth in the value of Kenya's export to China has been gradual. Changes in the patterns of exports to China by value are analysed in Figure 11 below. Coupled with rapid growth in import values, Kenya trade with China shows a rapidly growing deficit.

A summary of export trends shows that Kenya's exports to the major partners have been increasing with time – with exports values to China, India and EU having risen steadily over the last ten years. Exports value to the regional countries has however stagnated over the last few years (see figure 12 below). This situation might also be explained by the fact that regional

Table 11: Kenya's Trade Balance with China (1995 -2008)

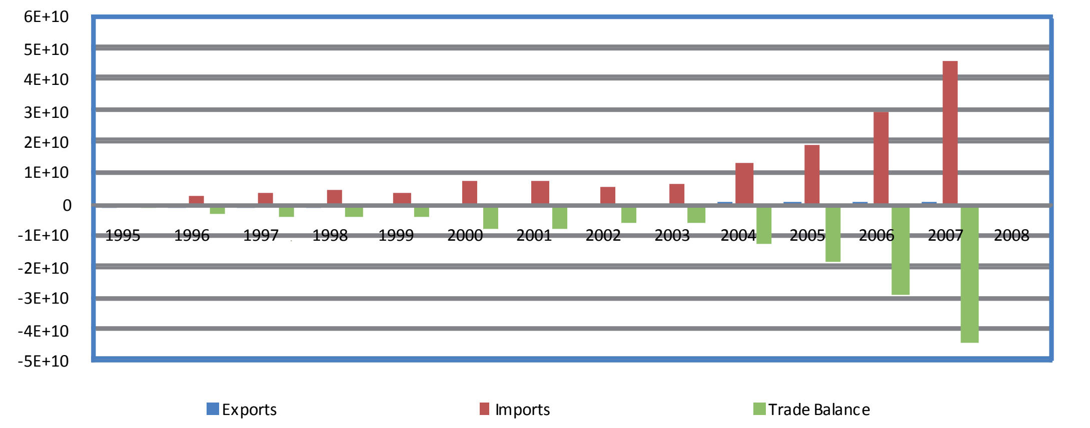
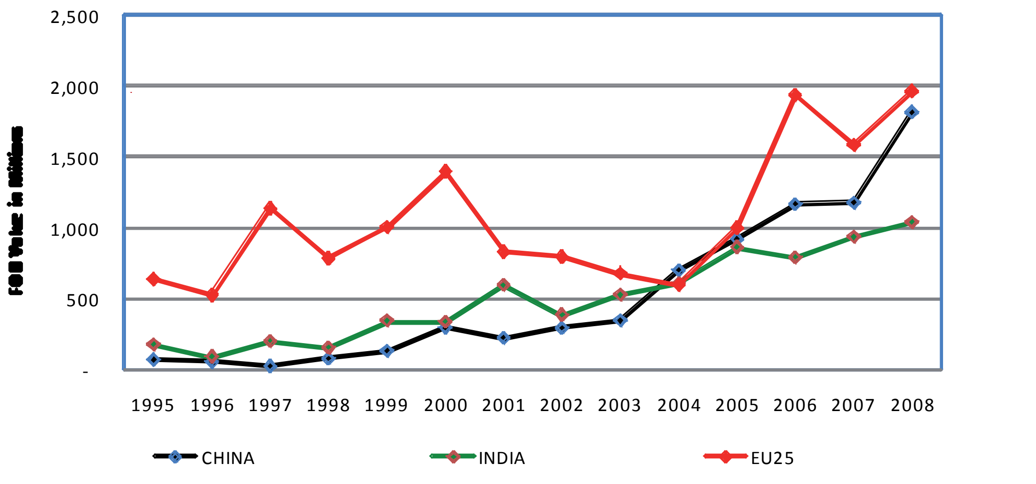


Figure 12: Kenya Summary of Exports 1995-2008



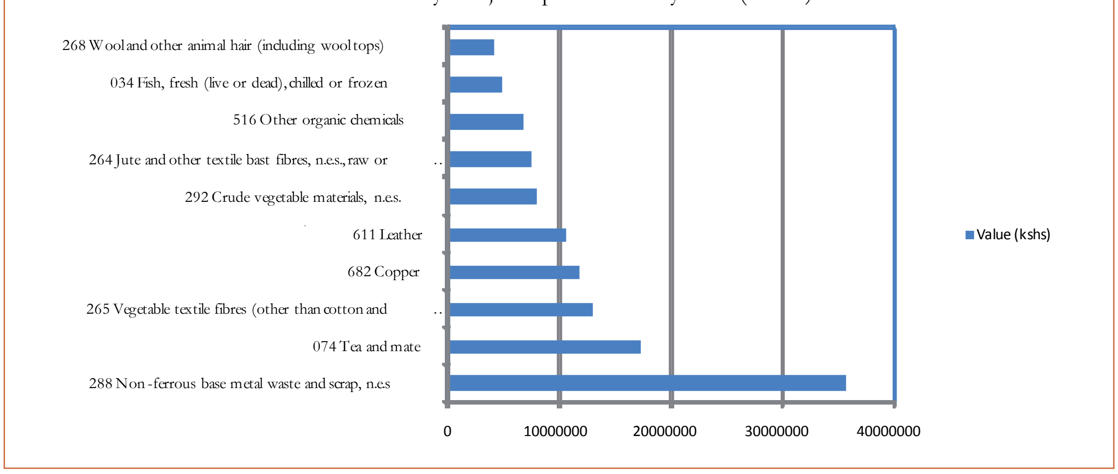


Table 13: Kenya Major Exports to China by Value (kshs)

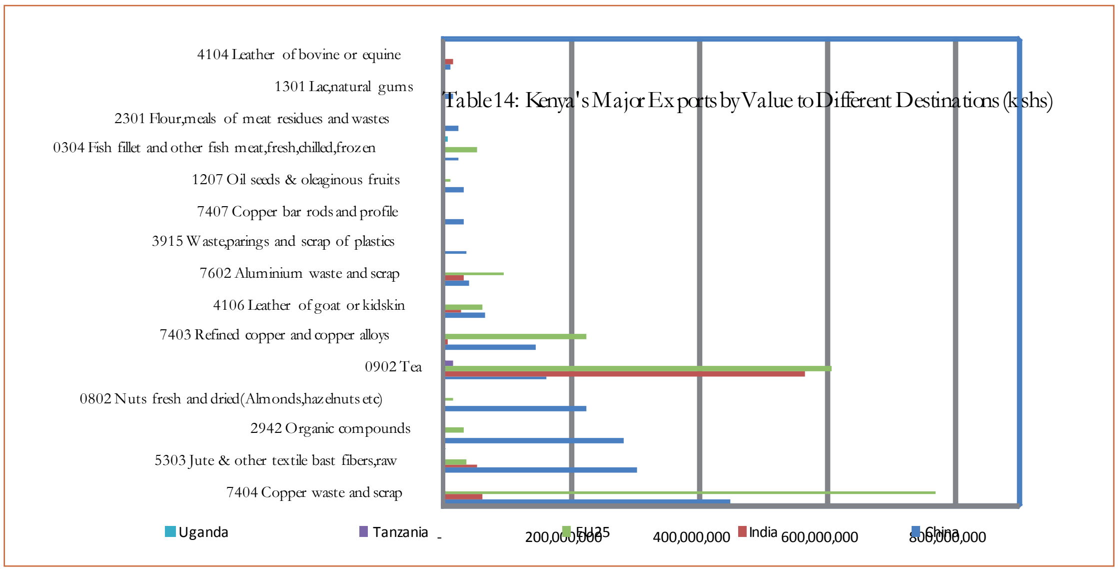
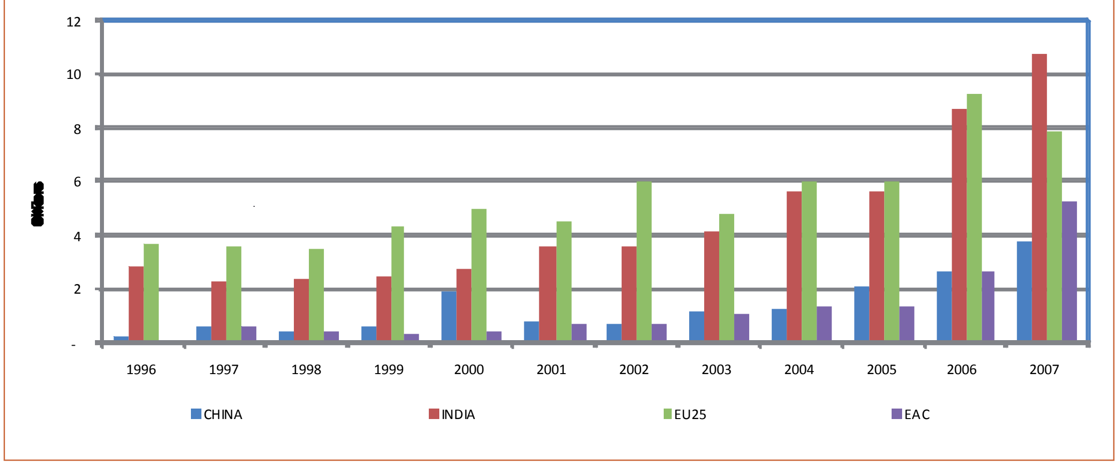


Table 14: Kenya's Major Exports by Value to Different Destinations (kshs)

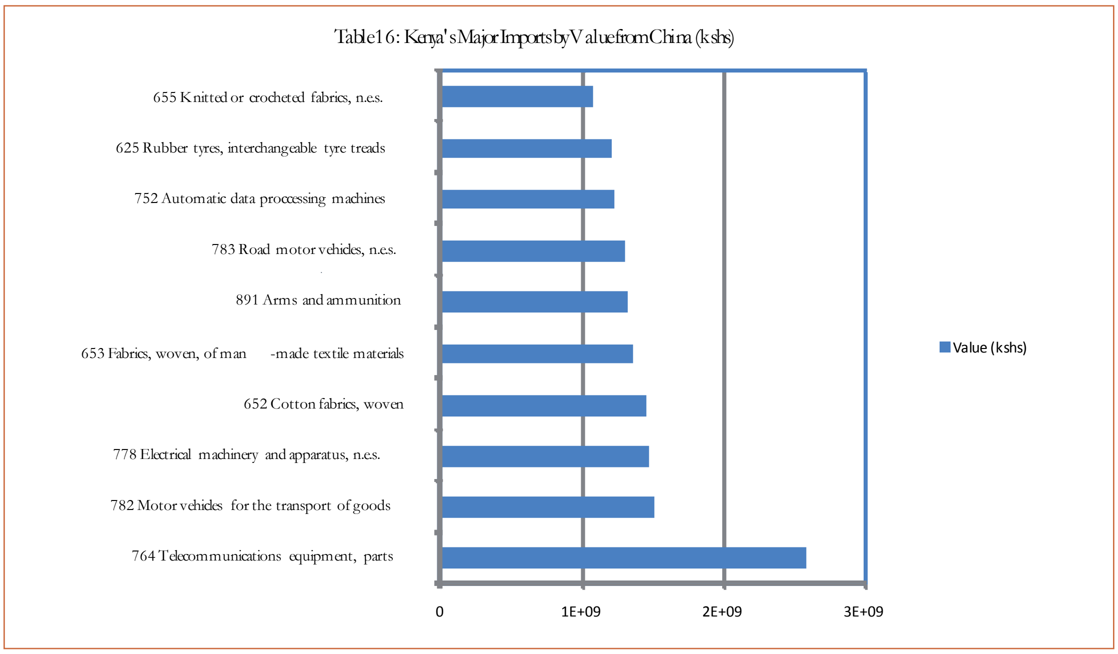
Figure 15: Summary of Kenya's Imports between 1996 and 2007

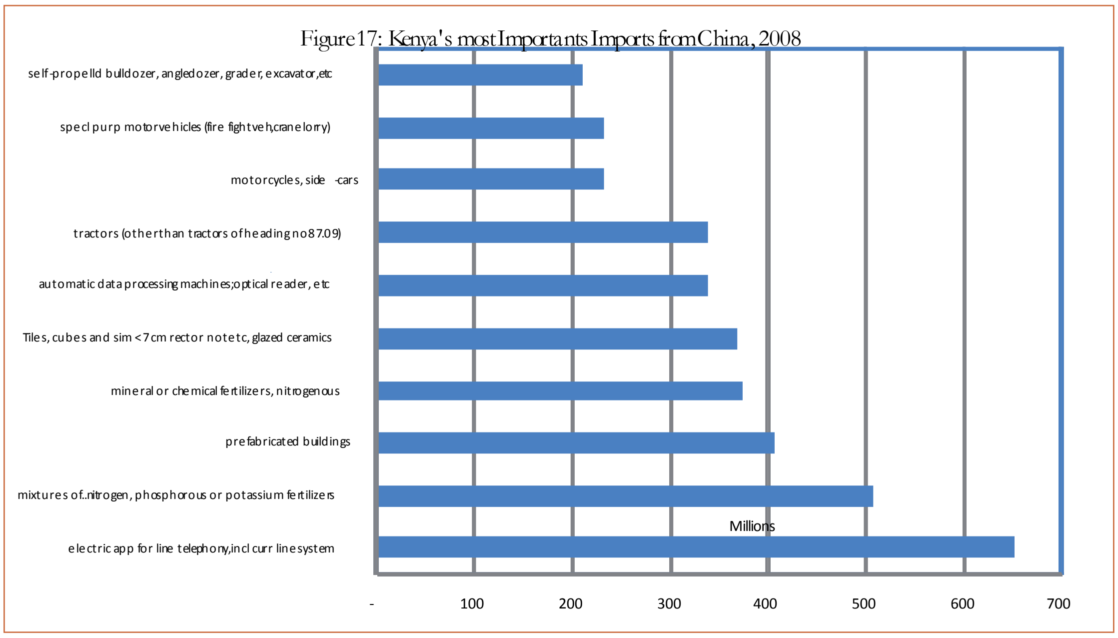


countries are likely to be producing similar export products and hence are unlikely to be importing from the same region.

The main exports to china are shown in figure 13 (3 digit level) and figure 14 (4 digit level). The main exports are: non ferrous base metal, scrap, tea, textile fabrics, copper, vegetable materials, and fish, (fresh, chilled or frozen).

Copper waste and scrap is still the leading export to China. However exports to the EU surpass those to China in terms of value. This would suggest that the EU is the most important





export destination for scrap and copper waste. The other export products of importance are: textile fibres, organic compounds, nuts, tea, refined copper, and leather.

At the three-digit level, the most important imports in 2008 are: telecommunication equipment, motor vehicles, electrical apparatus, and cotton fabrics (see Figure 16).

At the four- digit level, the main imports from China are: electrical appliances, Fertilizers, prefabricated buildings, and ceramics/ tiles (see Figure 17).

Comparative Trading Behaviour

1) To actively implement already-signed bilateral cooperation agreements, China encourages its businesses to import Kenyan goods, expand investment in Kenya, participate in its infrastructure construction and energy and resources exploitation and expand cooperation with Kenya in processing industries and agriculture.

2) The government of the People's Republic of China has set up a special fund to encourage Chinese companies to import some Kenyan products, including coffee beans, rose seeds, black tea and sisal all of which are exported in raw form. Efforts being made at bridging bilateral trade should focus on value addition before export. The Third Economic and Trade Committee meeting between Kenya and China took place on 25th April 2006. The meeting

addressed various issues of interest to both countries, including ways of bridging the balance of trade, which remains heavily in favour of China (Kenya, 2006).

3) Indeed import of products from China are anchoring trading activities in many Kenyan urban areas such as Nairobi, Mombasa, Kisumu and Eldoret. The Chinese entry is increasing being preferred, firstly due to the low prices.

4) Within bilateral trade between Kenya and China, there are issues of counterfeits compared to the EU and India, whose goods tend to be genuine and of better quality. Manufacturers and some traders point to low levels of adherence to standards by Chinese investors. This is due to the loopholes in the Kenya government structure such as Kenya Bureau of Standards (KEBS) and professional bodies that are supposed to enforce such standards.

5) In support and encouragement of trade, China increased from 190 to 440 the number of export items to China receiving zero-tariffs treatment. China promised, and is in the process of setting up, free trade and economic cooperation zones in Africa within three years starting in 2006 (Katumanga, 2009). Kenya has similar preferential trading arrangements with the EU.

3 Summary and Conclusions

THE TRADE, INVESTMENT and aid figures between Kenya and China are not that big when compared to other trading partners of Kenya such as India, the European Union (EU) and the rest of Africa. Nevertheless, the recent patterns of trade, foreign aid, and diplomatic ties highlight important lessons for policy:

- There is an increased proliferation of Chinese FDI through the manufacturing and service sectors in Kenya. Chinese interest in Kenya has also extended to mining and minerals (oil) exploration. These efforts provide a platform for renewed economic development in Kenya.
- There are important lessons on the employment levels and working conditions for both Indian and Chinese firms. Their treatment of workers tends to be similar.
- Currently China offers favourable loans to Kenya, builds hospitals and schools for less-developed areas, sets up malaria prevention and control centres as well as sending volunteers to train the locals. These new arrangements provide a contrast with traditional western donors who have traditionally maintained a strong technical assistance with little visible physical/project results to show. The EU loans are considered favourable due stringent procedures.
- The overall impact of China's trade, FDI, and AID to Kenya is mixed. There are both gains and losses. Arising from the low price of imports of both consumer and producer goods, there are gains from the cheap products, quality not withstanding. On the same scale, local producers are the losers due to competitive pressure although they may get cheaper supply or producer goods. Employees of collapsing firms, which fail to withstand competition, may also lose. These experiences could be similar for Indian and Western economic interest in Kenya.
- Finally, China's development pursuits in Kenya may follow underlying strategic interests. Nevertheless, China is not worse than countries such as India and the EU in terms of exploiting Africa to pursue their long-term geo-political and economic interests. Although the 'explosion' of Kenya-China economic relations could present a real opportunity for growth and its integration into the world economy, Kenya needs to devise a strategy to exploit these opportunities.

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China's Manufacturing Exports and Africa's Deindustrialisation

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SAIIA IS AN independent, non-government think-tank whose key strategic objectives are to make effective input into public policy, and to encourage wider and more informed debate on international affairs with particular emphasis on African issues and concerns. It is both a centre for research excellence and a home for stimulating public engagement.

1 INTRODUCTION

THE STRUCTURE OF China-Africa trade has raised concerns about the long-term prospects of Africa's industrialisation. Chinese exports to Africa comprise mainly capital and manufactured goods, while Africa's exports to China comprise mainly mineral and agricultural commodities. Analysts have argued that this structure of China-Africa trade is not different from that which has been in place between the developed world and Africa. It is further argued that it is unlikely that industrialisation in Africa will take off in the face of competition from China. Chinese imports may actually discourage diversification of the productive base of the African economies away from crude agricultural and mineral products towards manufacturing and eventually service or knowledge-intensive activities. There is already evidence that Chinese exports to Africa are resulting in job losses in Africa's domestic markets.

Nonetheless, China-Africa trade has had complementary impacts that have benefited Africa. This was the case in the development of Africa's clothing and textiles sector under preferences offered by the US African Growth and Opportunity Act (AGOA)[1] when China's companies invested in some African countries and before the end of the Multi-Fibre Agreement (MFA)[2]. Moreover, cheap consumer goods benefit the poor and contain inflationary pressures which is important for the continent's macroeconomic stability.

It is against this background that this paper attempts to analyse the impact of China's growth on Africa's industrialisation. The rest of the brief is structured as follows. Section Two gives context to industrialisation in Africa while Section Three provides a snapshot of Africa's economic structure and manufacturing performance over the years. Section Four looks at the factors shaping Africa's deindustrialisation. This paves a way for a detailed discussion on China-Africa trade and investment relations in Section Five. The direct and indirect sectoral impacts of Chinese exports are discussed in section Six. Section Seven looks into South Africa's clothing and textiles industry challenges amidst China's imports surge. We then look at China's engagements at the WTO and its impact on bilateral relations in Section Eight. The conclusions are presented in section Nine.

2 INDUSTRIALISATION AND ITS STRATEGIC IMPORTANCE TO SUB-SAHARAN AFRICA

ECONOMIC THEORY ASSERTS that there are three stages of a country's economic development. These include a primary sector-driven economy based on commodity production (farming, livestock breeding, exploitation of mineral resources), a secondary sector-driven economy of manufacturing and processing, and a tertiary sector economy driven by services industries. Industrialisation is therefore defined as the expansion of the secondary sector in an economy that was dominated by primary activities. Manufacturing is thus central to industrialisation and it is considered important for countries that are embarking on industrialisation.

There are also various definitions of deindustrialisation. Some include a decline in manufactured goods production and/or employment in the manufacturing sector. This is however misleading as short-run or cyclical downturns may be misinterpreted as deindustrialisation. Others view deindustrialisation as a shift from manufacturing to the service sectors, so that manufacturing has a lower share of total output or employment. This is also misleading as such a shift may occur even if manufacturing is growing in absolute terms (Palma 2007)

For the purpose of this study, deindustrialisation is defined as the structural shrinkage of the manufacturing sector (in terms of employment, output and the terms of trade, among other factors) over time relative to the rest of the economy. This could be because of a process of structural change brought about either by endogenous forces (e.g. lack of technological adaptation), or by exogenous ones (e.g. the dominance of certain countries in world trade) (Palma op.cit.).

In Africa the lack of an industrial sector is widely seen as a major handicap in improving a country's economy, pushing many governments to encourage or enforce industrialisation (Creamer 2009). Therefore advocates of industrialisation in Africa use propositions that give more weight to industrial development than to primary or services sector development. In this light industrialisation is considered to have several advantages, including, *inter alia*:

- Reduction of risks associated with commodity demand and price fluctuations, by diversifying away from the primary sector towards manufacturing;
- The perceived multiplier linkages (backward, forward, vertical and horizontal) of the manufacturing sector with other sectors in the economy; and
- The possibility of technological transfer from manufacturing.

After independence came in the 1960's and 1970's, most newly independent African states identified industrialisation as the means to foster structural change from the primary sector (predominantly agriculture) to manufacturing. Industrialisation was seen as an integral part of the developmental agenda and was expected to generate employment opportunities, and raise levels of productivity, incomes, and the standard of living for the majority of the population. In the external sector it was expected that industrialisation would diversify exports away from commodities.

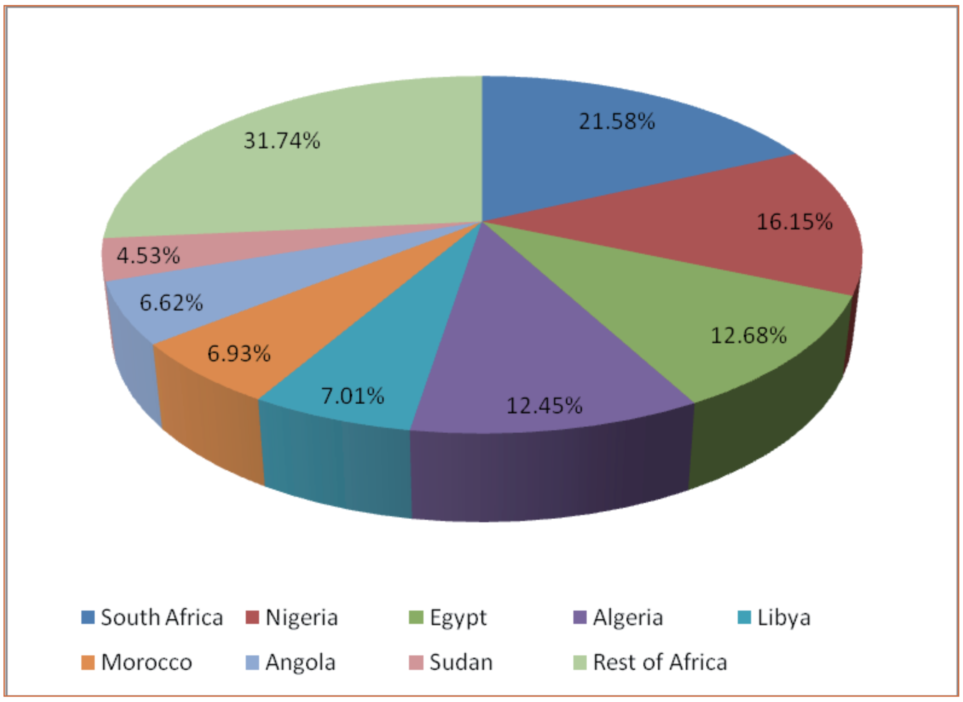
The structure of Africa's economy, including the status quo of the manufacturing sector is discussed in Section Three below.

3 THE STRUCTURE OF AFRICA'S ECONOMY

3.1 An Overview

Measured in GDP, Africa's economy is dominated by four economies; South Africa, Nigeria, Egypt and Algeria. As illustrated in Figure 1 below, the four countries account for more than 60 per cent of the continent's GDP. South Africa's and Egypt's economies are largely dominated by the services sector, which account for two thirds and half of the countries' GDP, respectively. In contrast, Nigeria's and Algeria's economies are overly dependent on the oil and gas sectors.

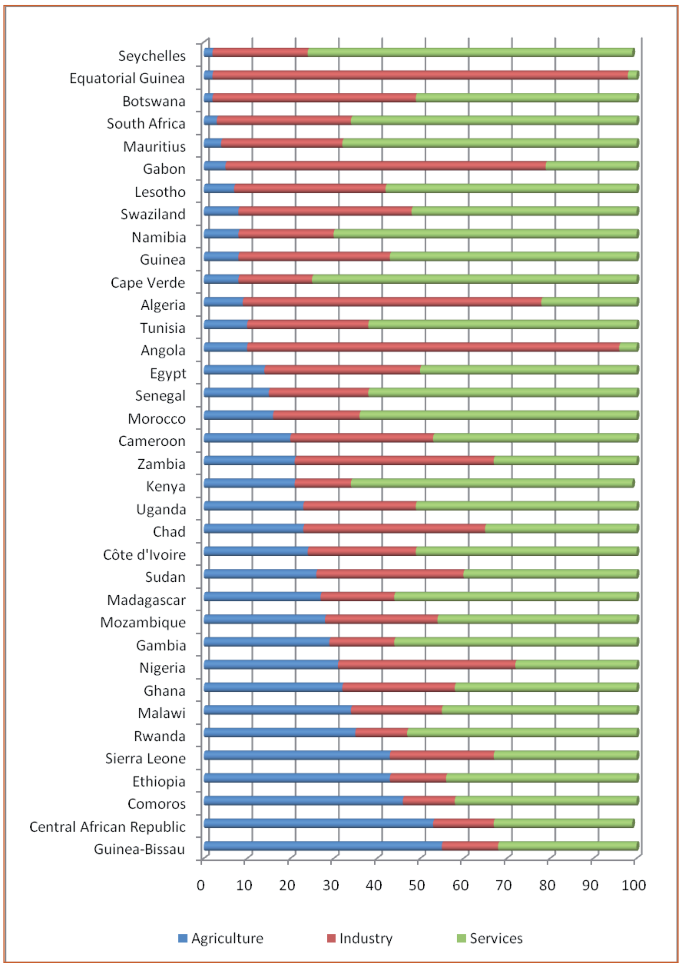
Figure 1: Main contributors to Africa's GDP in 2008



Source: World Economic Outlook, 2009.

Figure 2 below shows that the services sector contributes more than 50 per cent to most African countries' GDP.

Figure 2: Share of sectors in total value added, 2008



Source: World Development Indicators, 2009.

With the exception of South Africa, heavy reliance on primary commodities remains a common feature of exports in most of countries, constituting more than 60 per cent of Africa's exports (UN 2008). This lack of diversification exposes countries to external shocks, especially in commodities trade (ibid).

3.2 Manufacturing

Africa is the least industrialised continent; only South Africa, Egypt and Tunisia in general have substantial manufacturing sectors. In some countries (e.g. Equatorial Guinea, Algeria, Nigeria, Gabon, Angola, Zambia and Botswana) where manufacturing seems important this is largely attributed to the mining and oil industries. Despite readily available cheap labour, nearly all of the continent's natural resources are exported for secondary refining and manufacturing.

Africa has experienced unprecedented economic growth over the past years. This has largely been attributed to commodity demand and a prices boom closely linked to China's demand for commodities. Manufactured exports, including uncut diamonds, railway equipment, methanol, uranium, clothing and textiles, corkwood, iron and steel and leather manufactures doubled from $5.7 billion to $12.5 billion between 1990 and 2005 (Kaplinsky 2008).

Yet, despite the rapid economic growth with associated commodities and manufactured exports, industrialisation in Africa has not been able to take off as linkages between local industries remain minimal and superficial. As illustrated in Table 1 the share of manufacturing in Africa's GDP decreased from 28 per cent in 1970 to only 11 per cent in 2008. Table 1 Below also shows that Africa's share of global manufacturing is still very low (1.5 per cent). More than half of it is accounted for by South Africa.

Table 1: Share of Africa in world manufacturing, 2008

Region	2008
Asia	39.6%
Europe	31.4%
Northern America	19.4%
Latin America and the Caribbean	7.0%
Africa	1.5%
Australia and New Zealand	1.1%
World	100.0%

Source: UN Statistics Division, 2009

Countries such as South Africa, Kenya and Zimbabwe, which had reached a considerable level of industrialisation, have also experienced a relative decline in manufacturing. South Africa's manufacturing declined from 25 per cent of GDP in 1990 to 16 per cent of GDP in 2007 (Mbeki 2007). In Kenya, the contribution of manufacturing to GDP has not changed much since the colonial times; the sector accounted for 11.5 per cent in 2007 (OECD 2008). Sectors which are showing a reversal of gains include clothing and textiles, leather footwear, timber and furniture and to some extent steel. This is discussed in Section 6 below.

The structural shrinkage of sub-Saharan Africa's manufacturing sector over time confirms the deindustrialisation thesis. However, this shrinkage has been countered by the ever-growing services sector (particularly tourism and mobile telephony services) in the continent. We now turn to a discussion on factors that might have contributed to manufacturing contraction in Africa.

4 FORCES THAT SHAPE THE PROCESS OF 'DEINDUSTRIALISATION' IN AFRICA

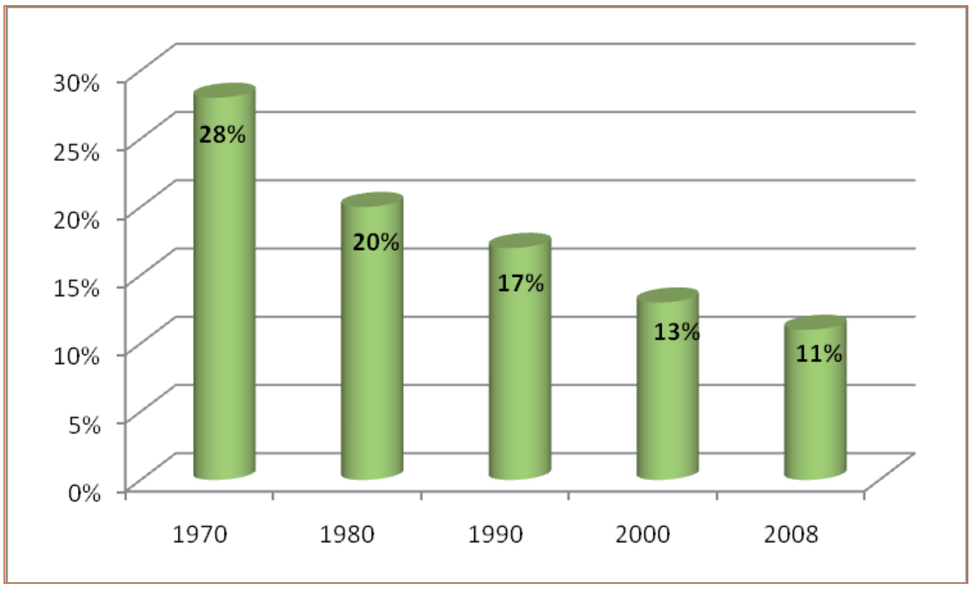
4.1 Import Substitution and Structural Adjustment Policies

African countries have made two major efforts at promoting industrial growth, both with disappointing results. The first was during the post-independence era, when most countries adopted an inward oriented import substitution industrialisation (ISI) model (Wangwe & al 2002). Industrial development measures such as tax holidays, waiver of customs and import duties, provision of cheap credit by government industrial development agencies, subsidies for state-owned enterprises and high tariffs were used. To maintain a desired level of capacity utilisation, imports of capital and intermediate goods were allowed.

The ineffectiveness of the ISI in the 1960s was not obvious for a number of reasons. Firstly, many African countries achieved impressive economic growth rates in the 1960s (from two per cent in 1961 to eight per cent in 1970) leading some observers to believe that industrialisation was responsible for that growth. Second, the proliferation of gigantic industrial projects such as steel mills, aluminium smelters, cement and soap factories, and flour mills created false impression that African economies were modernising.

It was not until the late 1970s that the ineffectiveness of ISI began to be manifested in the form of stagnating manufacturing value added, continuous reliance on imported goods and services, slow economic growth and the debt crisis. Figure 3 below illustrates this trend. Furthermore, exports of manufactured goods as a percentage of total merchandise exports plummeted from 18 per cent in 1977 to 10 per cent in 1983, while the annual percentage growth of exports of goods and services was mostly negative during 1975-1983.

Figure 3: Share of manufacturing in Africa's GDP



Source: World Development Indicators 2009 and UN Statistics Division 2009

Structural adjustment policies (SAP)[3] adopted by African countries in the 1980s tried to reverse the ISI model through trade liberalisation, deregulation and privatisation, among other reforms. However, after nearly three decades of these economic reforms, the industrial performance of African countries has been no better than it was during the 1960-1980 period. Tight fiscal and monetary policies as one of the reforms succeeded in reducing the level of indebtedness from 63 per cent of GDP in 1990 to 25 per cent of GDP in 2007. Foreign direct investment also grew from little over zero per cent in 1990 to three per cent in 2007.

However, industrial indicators showed no improvements whatsoever. For example, manufacturing value added fell from 17 per cent of GDP in 1990 to 11 per cent in 2008, while manufacturing exports as a percentage of GDP plummeted from 34 per cent in 1985 to 30 per cent in 2006 (WDI 2009). An UNCTAD report further points out that only eight countries out of a sample of 35 had manufacturing exports representing 10 per cent or more of GDP between 2000 and 2006. At the continental level, this represented manufacturing export shares averaging 26 per cent of total merchandise exports (UNCTAD 2008). Moreover, SAP policies were not accompanied by industrial policy designs and most African countries did not formulate industrial policies. This still remains the case for most African countries today.

4.2 The Structural Weakness of Manufacturing in Africa

Africa is weakly integrated in low and high value manufacturing markets. This is constrained by poorly funded research and development, relatively weak links to global supply chains and poor logistics infrastructure (including consistent power shortages, weak transportation links, weak financial and communication systems, etc.) to be able to deliver products at the price and in the volumes, quality and timing required by international buyers (UNCTAD op. cit.). For example, efficient transport infrastructure and services are a prerequisite for development and integration – both regionally and into the global economy. In the 21st Century just-in-time world characterized by production fragmentation, sound transport infrastructure networks and services will considerably facilitate the continent's full participation in global trade and investment networks. Yet the unreliability and high cost of transport and logistics have consistently been identified as a major constraint, amongst many, in attracting investment into the manufacturing sector in Africa.

Africa's poor science and technology infrastructure seems to lend credence to the notion that lack of technological capability may be partly responsible for the region's poor industrial performance. Africa spends less than other region on research and development (0.5 per cent as compared to 27.9 per cent in Asia or 3.9 per cent in China alone) and has the lowest number of researchers (one per cent of the world total as compared to 34.5 per cent for Asia or 10.6 per cent for China alone) (UNESCO 2001). The continent also lags behind other developing regions in its output of scientific publications. The extent to which weak technological capability has affected Africa's industrial performance is unclear, and requires empirical investigation.

4.3 Perceived Impact of the Presence of China in Africa

According to the World Trade Organisation (WTO), the manufacturing sector and related exports, have been the main driving force behind China's industrialisation and rapid economic growth in recent years (WTO 2008). Over the period 2000 to 2005, manufacturing accounted for 32 per cent of China's GDP and 89 per cent of its merchandise exports, making it more specialized in the sector than any other large developing economy. In consumer goods and other labour-intensive manufactures, China has become the largest exporter, commonly associated with lower manufacturing prices (Hanson & al 2008).

A range of incentives and other forms of assistance including tax incentives, non-tax subsidies and price controls, accorded to the manufacturing sector are perceived to give a competitive advantage to Chinese manufactured goods exporters vis-à-vis global manufacturers of similar goods (WTO op.cit.)

However, there is limited research on the direct impact of Chinese-sourced imports on the manufacturing sector in Africa. The following sections provide some research fragments which suggest an impact rather than providing detailed insights into the extent and nature of these perceived impacts. We first look at the broader China-Africa relations. In the last few years China-Africa trade and Chinese Foreign Direct Investment (FDI) in Africa have increased dramatically. Trade and investment relations therefore serve as the impact transmission channels.

5 CHINA-AFRICA RELATIONS

5.1 China FDI Flows and Stocks to Africa

China's renewed interest in Africa has been driven by the Chinese government's 'going out' strategy launched in 2001 (LDEN 2007). In Africa, the 'going out' strategy was initially motivated by China's pursuit of resource security to support China's domestic growth. Up to date data on China FDI flows and stocks to Africa is very scarce. But it is important to note that China's stock of FDI in Africa reached $7.8 billion at the end of 2005 and China had a presence in 48 African countries (UNDP 2007, Klein 2009) In 2006, China's total FDI flows to Africa increased to $2.6 billion (Besada & al 2008). Nonetheless, China's total FDI flows are still small relative to total FDI inflows to the continent; in 2007 China accounted for only 1.4 per cent of Africa's total FDI inflows (op. cit.). Moreover, Chinese FDI in Africa whilst present across the continent is highly concentrated in a few countries, with five accounting for 56 per cent of China's African FDI stock in 2005: Sudan, Algeria, Zambia, South Africa, and Nigeria (Finger 2007). (See Table 2 below)

Table 2: China's FDI stock in selected African countries ($ millions)

Country	2005
Algeria	171.2
Botswana	18.1
Congo, Dem. Rep.	25.1
Congo, Rep.	13.3
Cote d'Ivoire	29.1
Equatorial Guinea	16.6
Egypt	39.8
Ethiopia	29.8
Gabon	35.4
Guinea	44.2
Kenya	58.3
Liberia	15.9
Libya	33.1
Madagascar	49.9
Mali	13.3
Mauritius	26.8
Mozambique	14.7
Morocco	20.6
Niger	20.4
Nigeria	94.1
Sierra Leone	18.4
South Africa	112.3
Sudan	351.5
Tanzania	62.0
Zambia	160.3
Zimbabwe	41.6

Source: UNCTAD, 2006 World Investment Report

Some of China's largest investment packages include: Sudan oil industry ($3 billion) between 1996 and 1999; Angola oil and infrastructure ($7-9 billion) between 2004 and 2006; Democratic Republic of Congo mining and infrastructure ($9 billion) in 2008; and Industrial & Commercial Bank of China's purchase of 20 per cent of Standard Bank ($5.6 billion) 2007, among other investments (UNCTAD 2006). Table 3 below shows the sectoral distribution of Chinese FDI flows to Africa between 1979 and 2000. Overall, there are about 450 Chinese-owned investment projects in Africa: 46 per cent in manufacturing, 40 per cent in services and nine per cent in resource-related industries. The latter accounts for 28 per cent of total Chinese investment value to the continent. Since 2000, China has established trade and investment promotion centres in Africa and also signed investment promotion agreements with over 20 countries. By 2008, the number of sizeable Chinese enterprises in Africa had reached about 800, with South Africa attracting the largest share of Chinese investments. South Africa is also the only African country with significant investments in China, mainly in mining, brewing and the financial sector (Baah and Jauch . 2009)

Table 3: Sectoral distribution of Chinese FDI flows to Africa, 1979-2000.

Sector/Industry	Number of projects	Investment value ($ millions)
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	5
Total	499	681

Source: UNCTAD, 2007

As the preceding analysis illustrates China's FDI has a strong bias towards resource- rich countries in line with China's resource security ambitions. However, market-seeking considerations are increasingly driving China's motivations for investing in Africa. China's search for markets for manufactured goods and services (mainly construction) is an increasingly significant motive. The Chinese government encourages enterprises to invest in certain industries and projects in Africa. These include: industrial processing, agriculture, natural resources and infrastructure and real estate development (UNCTAD 2007). Moreover, Chinese investments in Africa are increasingly driven by small and medium enterprises (ibid p2), a clear indication that market seeking considerations are becoming important.

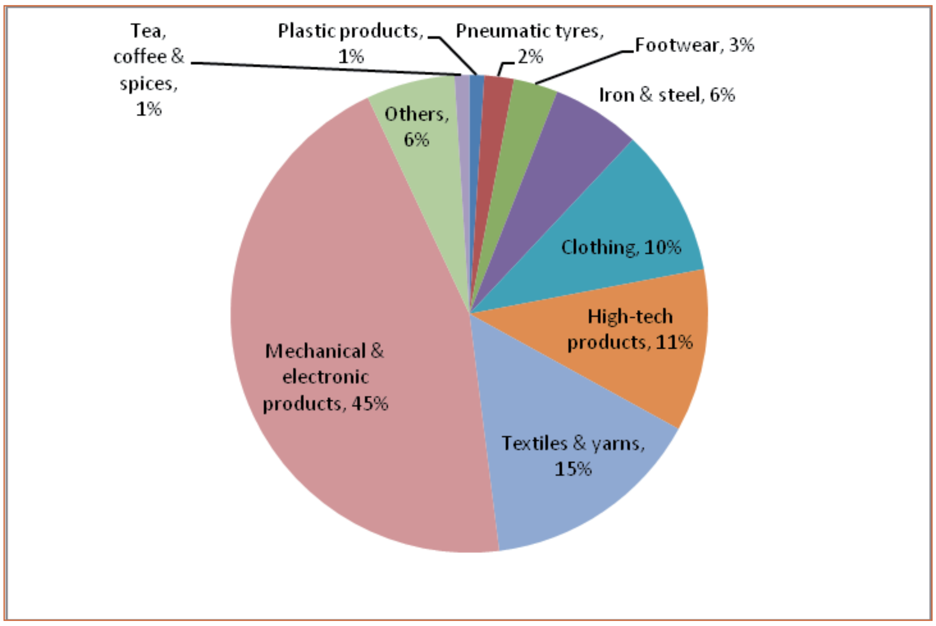
Notwithstanding the growth of China's FDI flows and stocks to Africa, some analysts argue that China's FDI in the continent is seldom associated with skills transfer, local job creation or linkages to local businesses. Le Roux argues that Chinese companies tend to bring their own engineers, technicians and experts and that most construction materials and capital equipment are sourced in China rather than in local economies. The analysts recommend that African countries should attach conditions that would leverage investment benefits for local manufacturing and involvement of local labour (Le Roux 2008).

5.2 China-Africa Trade

Trade between Africa and China has grown in the last few years; increasing from $5.5 billion in 1998 to over $106 billion in 2008 (Asche and Schuller 2008) (Klein op.cit.). China is now Africa's third largest trade partner behind the US and the EU.

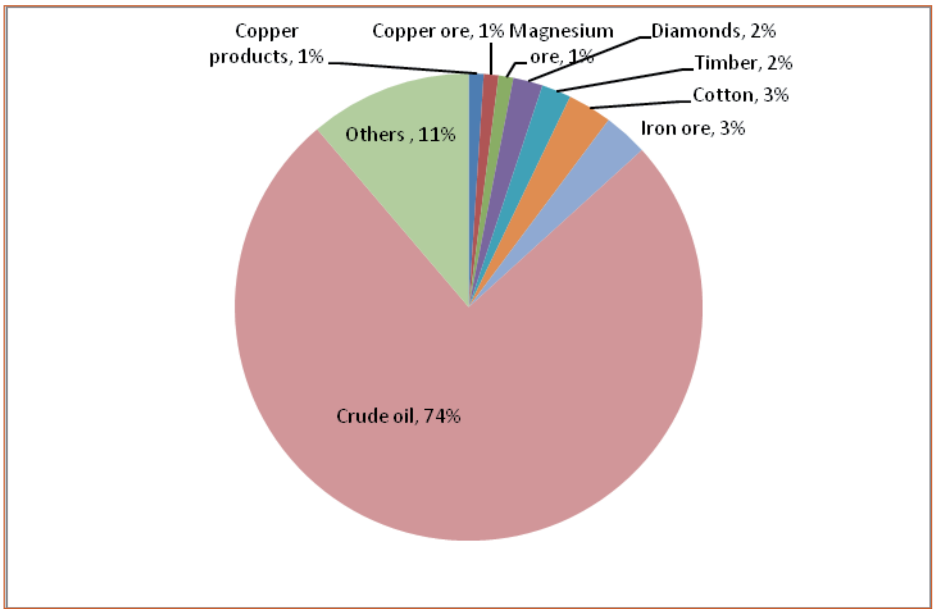
Despite this growth, the composition of China-Africa trade has been one sided. China exclusively exports manufactured goods to Africa (see Figure 4 below), while Africa's exports to China consist mostly of mineral products and agricultural commodities (see Figure 5 below) Moreover, China's trade with Africa is also concentrated in a few countries. As illustrated in Figure 6 below, South Africa, North Africa, and the biggest oil producing countries are the most important African markets for China's exports.

Figure 4: Top ten imports to Africa from China, 2006



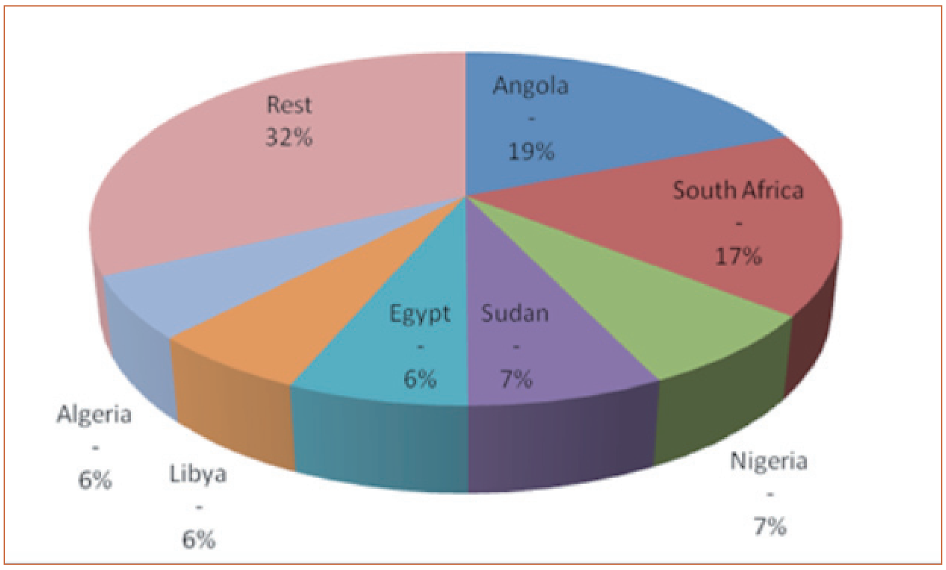
Source: Asche & Schuller, 2008

Figure 5: Structure of Africa's exports to China, 2007



Source: Asche & Schuller, 2008

Figure 6: Most important African markets for Chinese exports, 2006



Source: Trade Law Centre for Southern Africa at www.tralac.org (accessed 20 May 2010)

As a result of Chinese competitiveness countries such as South Africa are experiencing significant trade imbalances. The Chinese are well aware of this problem, as the South African textile case suggests, and have begun to introduce measures such as zero tariff ratings on selected goods from Africa's poorest countries though there is undoubtedly more that can be done (see Minson 2007)..

6. CHINA'S IMPACT ON INDUSTRIALISATION IN SUB-SAHARAN AFRICA

THERE IS LITTLE detailed research into the impact of Chinese imports on Africa's manufacturing sector. This analysis attempts to assess both competitive and complementary impacts. Chinese imports are competitive to the extent that they compete with Africa's industries in domestic and third country markets. Chinese exports can also be complementary to the extent that they are a source of inputs (including capital goods) for Africa's manufacturing.

The analysis further distinguishes between direct and indirect impacts of Chinese imports. Direct impacts are easy to identify; imports from China may displace local producers in sectors such as clothing and textiles, for example. Indirect impacts come from competitive pressures from Chinese exports in third markets. Indirect impacts are particularly important for countries with outward-looking manufacturing sectors. For a country such as Lesotho with an export-oriented clothing and textiles sector, indirect impacts can have the same effects as direct impacts in deindustrialisation and job losses.

The discussion draws on the experience of clothing and textiles, furniture, and footwear sub-sectors in a number of SSA countries. These are sectors where African states have made progress in recent years and are seen as a stepping-stone towards industrialisation in most countries.

6.1 Clothing and Textiles

In most African countries the clothing and textiles industry developed under import substitution policies and was highly protected. (Kaplinsky 2008 p18). The sector is considered important in most economies due to its high labour absorption capacity in countries that have a relative abundance of labour. The sector also serves as one of the largest sectors in terms of value added in manufacturing, and for both of these reasons protectionist measures are thought necessary.

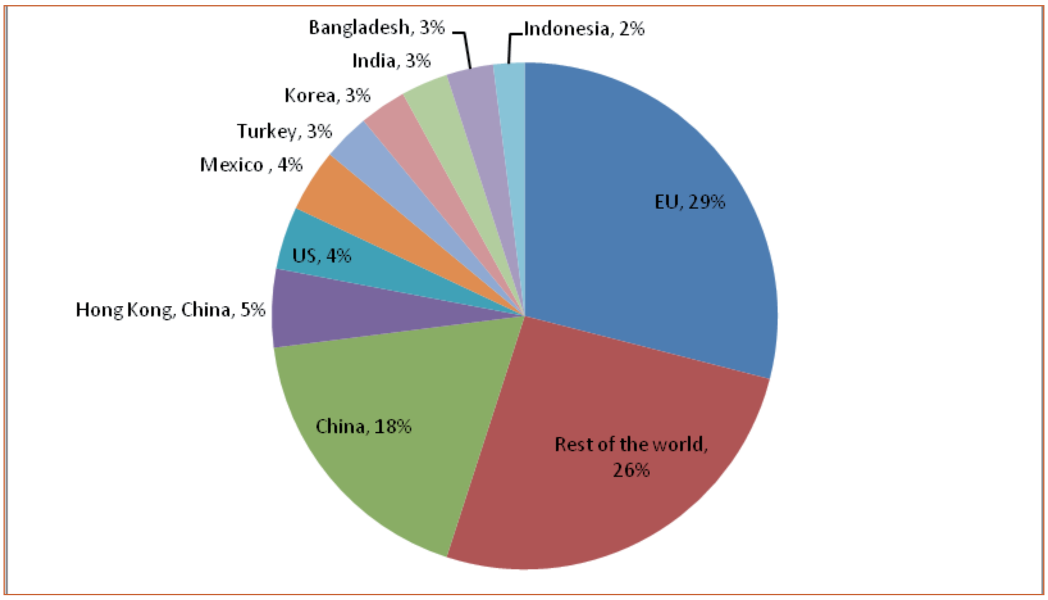
The Multi-Fibre Agreement (MFA) and the US African Growth and Opportunity Act (AGOA) both played a fundamental role in shaping the clothing and textiles sector in Africa. These are discussed below:

6.1.1 Multi-fibre agreement

The MFA also known as the Agreement on Textiles and Clothing governed the textiles and clothing trades from 1974 to 2004. The MFA imposed quotas on the amount of clothing and textiles products developing countries could export to developed countries. In a phenomenon called 'quota hopping', countries such as Taiwan and China took advantage of unused quota allocations in Africa and located some of their production facilities in major African clothing and textiles exporting countries such as Mauritius, Lesotho, Swaziland, South Africa, among others.

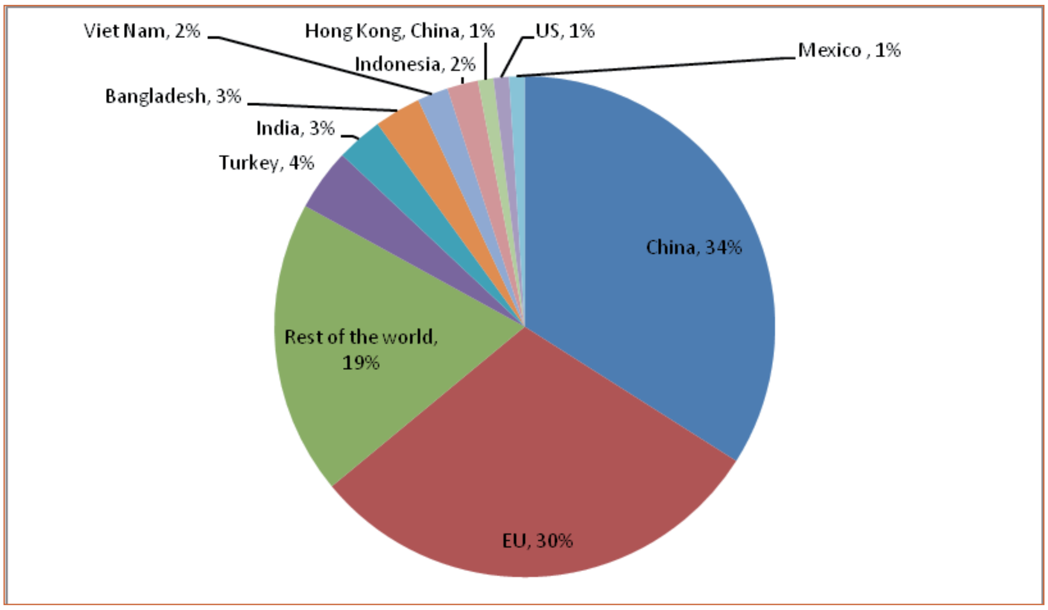
However, with the end of the MFA in 2005 the clothing and textiles sector in Africa came under tremendous competitive pressures as Asian countries, particularly China, could export directly to the US and other lucrative markets in developed countries. This has had greater competitive pressures for Africa in developed export markets. As illustrated in Figures 7 and 8 below, China's clothing and textiles exports as a share of world clothing exports increased from 18 per cent in 2000 to 34 per cent in 2006 and the country is currently the world's leading exporter of clothing and textiles.

Figure 7: Shares in world clothing exports, 2000



Source: WTO

Figure 8: Shares of world clothing exports, 2007



Source: WTO http://www.wto.org/english/res_e/statis_e/its2007_e/its07_merch_trade_product_e.htm (accessed August 2009)

As a result of increased competition from China, the value of Africa's textiles and clothing exports to the US dropped by 25 per cent between 2004 and 2006. (Kaplinsky et al 2007 p22). However, there were major differences across countries. In Lesotho, the value of exports to the US dropped by about 15 per cent in 2005; while in Madagascar and Swaziland value of exports to the US decreased by 24 per cent and 22 per cent respectively. The biggest casualties were South Africa and Mauritius whose value of exports to the US declined by 54 per cent and 62 per cent respectively. This was in part because these two countries did not qualify for the key derogation in AGOA's rules of origin that allowed African countries to import textiles from third countries. In the same period, Kenya's value of clothing and textiles exports to the US decreased by about three per cent. By contrast, in the same period, the value of Chinese exports of clothing and textiles to the US increased by 82 per cent.

Both direct and indirect impacts resulted in loss of employment in most African economies. In almost all countries with substantial clothing and textiles industries firms have been closing. In 2005 the overall employment in Swaziland's clothing and textiles sector was almost halved and four factories closed. In Lesotho eight exporting firms closed and employment fell by 26 per cent. In Kenya, where exports had fallen by about three per cent, employment declined by 10 per cent and eight factories closed (all above figures, Kaplinsky et al 2007). In South Africa estimates indicate that in the last six years 69 000 jobs (39 per cent of the industry's workforce) were lost (DTI 2009). Ironically, a large textile mill in Zambia, which was built by the Chinese and was under Chinese management, closed in 2007 (Asche and Schuller, op. cit. p53).

Though the above analysis shows China's impact on Africa's clothing and textile exports has been negative in one particular respect it might be argued that the impact has also been positive. As a consequence of the rules of origin derogation for low-income African exporters under AGOA, clothing exporters in Kenya, Lesotho and Swaziland have been able to utilise fabrics sourced from China on a duty-free basis. It can also be argued that when the MFA quota system was still in place China played a major role in Africa's industrialisation through investments in the clothing and textiles industry. Investments further increased to take advantage of market access offered by the US AGOA. For example, in Lesotho there was a $100 million denim mill investment by the Chinese (ibid p52).

Furthermore, the negative impact on Africa's clothing and textile industry cannot entirely be attributed to the presence of China. Africa's clothing and textiles sector suffers from lack of competitiveness as a result of poor business environment, lack of skills and obsolete technology, among other factors. China was one of the few countries that upgraded technology and production capacity in anticipation of the end of the MFA. Hence, when the MFA ended China had the capacity to compete, unlike most African countries whose production capacity was constrained by ageing equipment, machinery and old technology. It should be noted that labour costs in China's clothing and textiles sector are among the lowest in the world. Moreover, Chinese firms have a better understanding and control of the global value chain of clothing and textiles. The control of value chains gives China a distinct competitive advantage compared to African manufacturers.

In an effort to counter the negative impact of its manufactured exports on Africa's industrial sector China planned a series of programmes including, for example, building a $50 million textile park in Nigeria. Furthermore, Morris notes that between 2000 and 2005 China's clothing imports contributed to a deflation in most African countries. This was reflected in lower consumer and retail prices. He further asserts that Chinese competition forced Ethiopian leather footwear producers to adapt and become competitive (Morris 2007).

6.1.2 USA Africa Growth and Opportunity Act

Africa's clothing and textile exports have grown very rapidly since the mid-1990s, when it began to export overseas. The growth of these exports speeded up after the turn of the millennium, mostly as a result of the US AGOA introduced in 2001. This gave significant incentives for African exporters of manufactured goods, providing not just tariff preferences, but also allowing low-income clothing exporters to side-step rules-of-origin regulations and to utilise duty-free textiles sourced from China and other low-cost producers. The consequence of AGOA was a very rapid growth in clothing exports from low-income countries such as Kenya, Lesotho and Swaziland, complementing clothing exports from established producers in Madagascar, Mauritius and South Africa. In Lesotho clothing and textiles exports comprised 100 per cent of manufactured exports and contributed approximately 50 per cent to the country's GDP. In Kenya, the sector contributed approximately 20 per cent to total manufacturing sector formal sector manufacturing employment (ibid)

6.2 Furniture

Between 2002 and 2006, the global furniture industry has grown by an average of 13 per cent, with exports from the top 10 producing countries accounting for over 66 per cent of total global exports. In the process China has eclipsed the traditional major export countries including Germany, Italy and the US. In 2006 China was the largest furniture exporter, accounting for approximately 20 per cent share of global exports (DTI 2008)

Yet Africa's share of global furniture trade has fallen since the mid-1990s from more than one per cent to less than one per cent in 2008 with South Africa accounting for approximately 97 per cent of the continent's total exports (Kaplinsky et al op.cit.). Imports of furniture from China and other Asian countries such as Vietnam and Indonesia are displacing manufacturers particularly in Ghana, Ivory Coast and South Africa – the only major furniture producers and exporters in the continent. Ghana and South Africa used to be the major source for the EU's wooden garden furniture. However, EU imports are currently coming from China and Vietnam. As illustrated in Table 4 below, the single major reason for this is price competitiveness.

Table 4: Comparative costs of same item of garden furniture from Africa and Asia

Country	Average Price (£)	Price Index (%)
Ghana	50	100
South Africa	60	120
China	30	60

Source: Kaplinsky, 2007 op.cit.

As a result, Africa's furniture manufacturers are moving backwards up the value chain into exporting logs, chips for paper industry and sawn timber. This clearly undermines manufacturing and employment in the furniture sector. In South Africa, the surge in China's imports has contributed to job losses and to reversing the position of the industry from a net exporter to a net importer of furniture products. A report by the Industrial Development Corporation (IDC) shows that production, employment and exports respectively declined by 14.1 per cent, 11.9 per cent and 30.6 per cent in the first half of 2009 as compared to the same period in 2008 (IDC 2009). The impact has been further exacerbated by the declining investment in skills development and technological innovation, and by the absence of research and development funding over the past years (DTI op.cit.p1).

A move backwards along the value chain clearly shows that African furniture manufacturers are unable to add value to their timber as efficiently as their Chinese competitors. This does not bode well for the industry in the long run.

6.3 Footwear

Up-to-date data on the footwear industry is very scarce.

Total global exports of footwear products quadrupled in the past three decades. Taiwan and South Korea were the two dominating export countries three decades ago but this is no longer the case. China is now the leading producer and dominant exporter, accounting for approximately 63 per cent of total exports in 2006 (DTI 2007). According to the US International Trade Commission, African footwear exports have shown a declining trend (approximately 18 per cent) between 2001 and 2005 (USITC 2007)

In Africa, China's emergence in the footwear sector has been felt in two major producers, Ethiopia and South Africa. Kaplinsky *et al* report that as a consequence of Chinese competition 28 per cent of micro, small and medium enterprises in Ethiopia's footwear sector were forced into bankruptcy and 32 per cent downsized activity. This also had adverse impacts on the sector's employment. The average size of microenterprises fell from 7 to 4.8 employees, and of small and medium enterprises, from 41 to 17 (Kaplinsky et al p18). On a happier note competition from Chinese shoe imports led to an upgrade of processes and design by many Ethiopian domestic firms.

China is the largest exporter of footwear to South Africa, accounting for approximately 70 per cent of exported pairs in the first half of 2009. As compared to China's average price of ZAR40 per pair, locally produced leather footwear cost ZAR100 per pair, thus rendering domestic products non-competitive. There has also been a surge in niche imports where South Africa used to enjoy a competitive advantage. For example in leather safety footwear with steel toecaps, imports increased from 24,000 pairs in 2003 to 1.1 million pairs in 2006, with China accounting for 990,000 pairs of the total imports under that tariff heading. As a result of the import surge, footwear production declined by an average of 10 per cent per annum, more than a hundred factories closed, and 8,000 workers, a third of the workforce, lost their jobs in 2007 (DTI 2007). This situation continued into the first half of 2009 when production and employment declined by 4.1 per cent and 5.6 per cent, respectively. On a positive note exports increased by 13.4 per cent in the same period as compared to the first half of 2008 (IDC p26).

6.4 Steel Sector

South Africa is currently the only major steel products producer and exporter in the continent.

The sector accounts for 7.7 per cent and 15.5 per cent of overall manufacturing production and exports, respectively, in South Africa. In the first half of 2009 China accounted for over 30 per cent of the country's imports share. Though employment rose in the sector in the first half of 2009 as compared to the same period in 2008, production and exports declined by 42.4 per cent and 47.1 per cent, respectively (IDC p37).

Local steel manufacturers have accused China of dumping heavily subsidised products on the South African market. An example is the alleged dumping of steel kitchen sinks. It is argued that despite the 20 per cent import duty on stainless steel, prices of imported steel products mainly from China were still lower than the cost of raw material in the local market. A South African company, *Franke Kitchen Systems*, asserts that the kitchen sinks from China were being subsidised by nearly 48 per cent of the value of the product (Baah and Jauch 2009 p46). This has the potential to flood the local market with cheap imports and render the local industry non-competitive. The International Trade Administration Commission Report No 261 also shows that steel chain imported from China caused material injury in the local industry and as a result recommended that anti-dumping duties be imposed on Chinese imports.

South African ferrochrome producers have also argued that Chinese competition has seen local mining and smelting production declining from 86 per cent in 2004 to 75 per cent in 2008. Over the same period South Africa's global market share has reduced from 51 per cent to 44 per cent, whilst that of China grew from nine per cent to 18 per cent. The impact was surplus capacity of approximately 28 per cent, which meant a $2.5 billion loss of sales to China in 2008 (Ensor 2009). The resultant impact on, among other variables, employment and trade in this subsector has not yet been documented.

7 CASE STUDY: SOUTH AFRICAN CLOTHING AND TEXTILES SECTOR

7.1 Overview of the Sector

The South African clothing and textiles sector is among the most labour intensive sectors domestically and remains a very significant source of employment, accounting for approximately 11 per cent (100 000 people) of total manufacturing employment, contributing approximately 0.6 per cent to the country's total output in 2008 (WTO 2009).

Production in the sector occurs across the value chain, although the majority is still in the lower end of the market. There is, however, specialisation in high value-added products including men's tailored garments. This capacity is being eroded as the surge in imports gathers momentum.

Historically the sector has developed under high levels of protection and shielded from international competition. This is still the case (e.g. the maximum applied tariff on clothing and worn articles is approximately 1000 per cent (Biancuna and Draper 2009). This creates inefficiencies and results in the sector failing to become internationally competitive. The country's accession to the WTO in 1994 and trade liberalisation exposed these inefficiencies as the local industry could not contain a sustained surge in imports.

7.2 SA-China Trade in Clothing & Textiles

The Chinese market share of South African global clothing imports has risen steadily from around 17 per cent ten years ago to the 2006 level of approximately 80 per cent. This level is similar to the Chinese market share in rich OECD countries such as Australia, New Zealand and Japan that have not applied restrictions on Chinese imports (Kaplinsky op cit).

Table 5 below shows that approximately 80 per cent of SA's total clothing imports (as represented by HS61 and HS62) in 2006, originated from China. Historically imports originated from a wide range of countries including Hong Kong and Malawi. However, China has entirely displaced these countries. In the case of Malawi this is ironic since the country enjoys favourable rules of origin and duty-free access into South Africa.

Table 5: Sources of SA clothing imports as share of total imports.

HS 61	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
China	18.7%	27.8%	33.6%	38.8%	50.4%	53.7%	58.3%	68.8%	74.5%	75.8%	77.1%
India	2.1%	3.4%	3.4%	4.3%	4.0%	3.3%	2.9%	4.1%	3.8%	4.6%	3.8%
Mauritius	0.2%	0.1%	0.1%	0.8%	1.3%	0.4%	1.9%	1.9%	1.4%	2.0%	3.3%
Hong Kong	10.6%	6.6%	6.8%	6.0%	6.9%	7.9%	7.5%	5.5%	5.1%	3.9%	2.8%
Malawi	32.2%	28.3%	25.8%	24.7%	11.7%	11.3%	9.7%	3.8%	3.0%	3.1%	2.3%
HS62											
China	14.3%	17.2%	15.3%	22.2%	48.9%	48.5%	52.0%	64.9%	74.3%	73.1%	79.5%
India	23.4%	25.5%	21.2%	16.5%	14.6%	10.5%	8.4%	7.9%	6.4%	8.6%	4.2%
Mauritius	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.5%	0.3%	0.3%	0.5%	1.2%
Hong Kong	9.7%	5.3%	5.8%	7.2%	7.5%	7.9%	5.9%	4.5%	4.2%	3.8%	2.7%
Malawi	14.6%	19.7%	26.3%	24.3%	7.6%	11.4%	14.9%	6.6%	3.6%	3.2%	2.0%

Source: World Trade Atlas; South African Revenue Services www.sars.gov.za and http://www.gtis.com/gta/ (both accessed July 2009)

There is a broad consensus that official data seriously underestimates the level of imports, as a result of widespread under-invoicing and other forms of illegal imports.

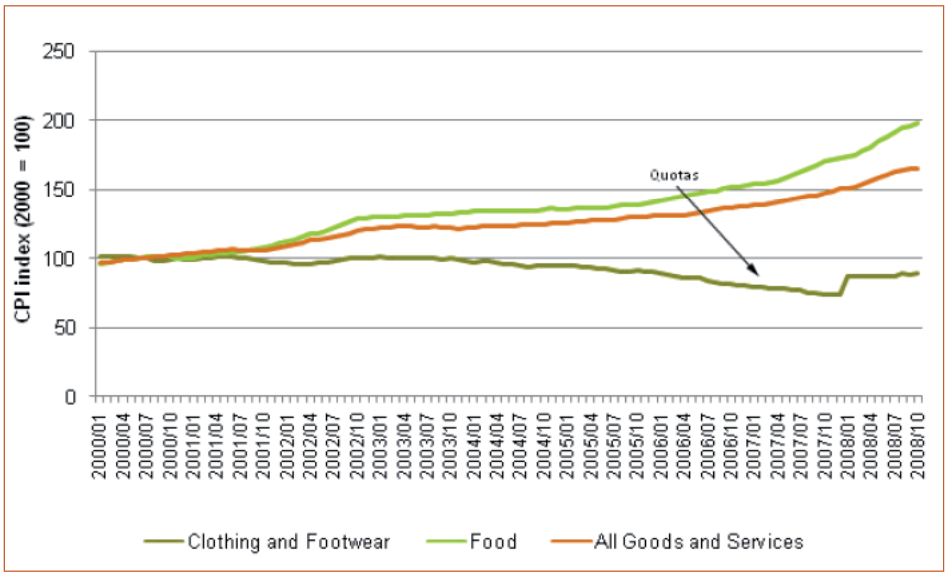
7.3 The Impact on SA's Clothing & Textiles

According to the South African Textile Federation, cheap imports from China have rendered the domestic industry uncompetitive. As a result employment in clothing declined from approximately 98 000 in 2004 to 77 000 in 2006, and in textiles from 70 500 in 2003 to below 50 500 in 2006, leading to closure of factories and mills and a decline in export performance (SATF 2007)..

But China's impact, aside, structural issues and periods of protection have been major factors in the South African clothing and textiles industry's decline; the results include lack of export prowess, obsolete technological innovation and high unit labour costs as compared to its Asian competitors (Alves and Draper 2006). China's imports have thus exposed these industrial weaknesses.

Despite trade union claims that retailers are only increasing their profits and not passing on gains to consumers, a report by Econex shows that South African consumers benefited from falling prices of clothing and footwear between 2002 and 2007 (see Figure 9 below). Given that low-cost imports of clothing and textiles from China came to dominate the local market over the same period at the expense of domestic clothing and textile manufacturers, it is reasonable to conclude that consumers benefited from low-cost Chinese clothing and textile imports (Van Eeden 2009).

Figure 9: South African Consumer Price Index (2000-2008)



Source: van Eeden. op. cit.

The strength of the local currency is also of concern as it has the effect of reducing the cost of imported products, thereby rendering the local industry uncompetitive. The anticipated increases in electricity charges will also affect the viability of the local industry, as the import threat will ensure that these cost increases will not be passed on to the consumer.

7.4 Government Response

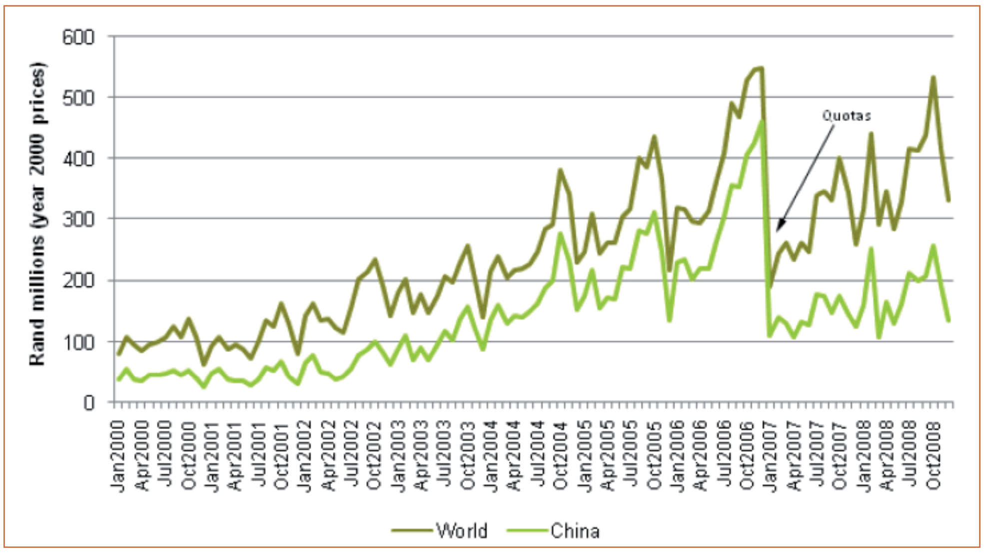
7.4.1 Voluntary export restraint/Import quotas

To counteract the sustained surge of imports, China, in a Memorandum of Understanding (MOU), with the South African government imposed voluntary export restraint/import quotas in 2007 on 31 selected tariff lines from China. The stated aim of the restraint was to give South Africa's industry enough time to adjust to competitive conditions.

Individual lines accounting for around 70 per cent of clothing imports by value were targeted, in a sector already protected by relatively high average tariffs.

Imports from China rose substantially in the period up to the official imposition of the quotas in 2006 as importers placed huge orders from China in anticipation of the quotas (see Figure 10 below). A drop in imports followed this period at the beginning of 2007 as a result of the quota restrictions. However, from July onwards imports of quota tariff lines recovered as other countries took China's place. According to van Eeden (op cit) countries such as Bangladesh, Mauritius, Malaysia and Vietnam increased their imports up to 20-fold on a monthly basis, compared with the period preceding the quotas.

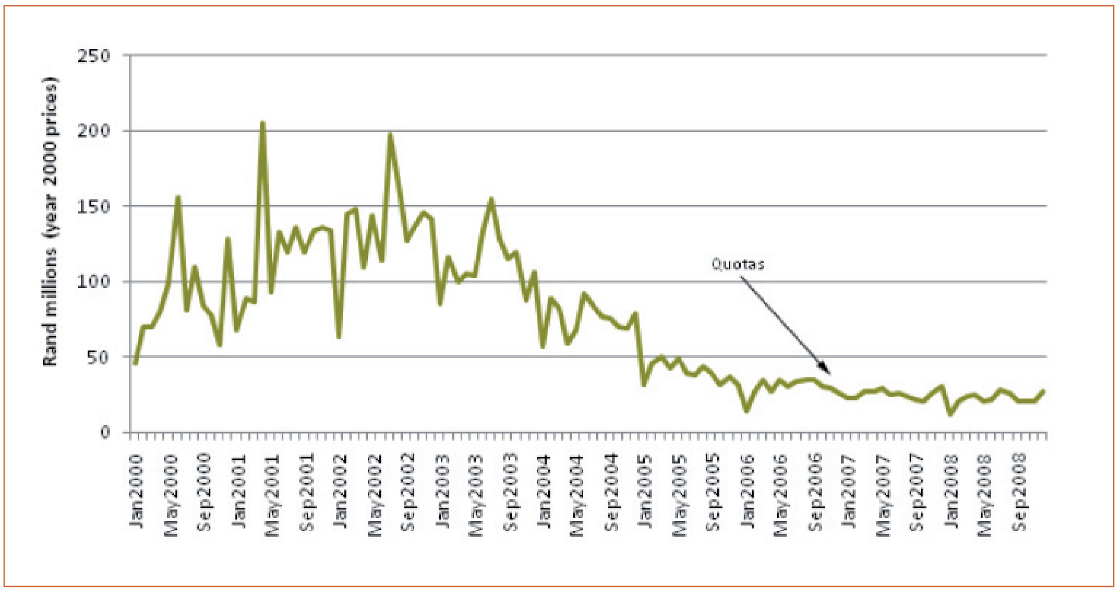
Figure 10: South African quota line imports – China vs. World (2000-2008)



Source: van Eeden. op. cit.

The intended aims of the quantitative restrictions were to increase local production capacity, reduce joblessness and to increase exports of the selected tariff lines. So it is important to examine if some of these objectives were attained. Figure 11 below shows that exports increased modestly in the second quarter of 2007, but fell early in 2008. This situation has not shown any significant signs of improvement until the quota regime ended in December 2008. According to recent Industrial Development Corporation (IDC op cit) report clothing and textiles exports fell by 15 per cent and 5.9 per cent, respectively, in the first quarter of 2009 as compared to the same period in 2008.

Figure 11: South African quota line exports – China vs. World (2000-2008)



Source: van Eeden. op. cit.

Van Edeen also shows that domestic output of clothing and textiles increased by 2.68 per cent in 2007, but fell again by 1.47 per cent in real terms in 2008. Output further fell in the first half of 2009with clothing output falling by 8.9 per cent and that of textiles by 19.6 per cent. Employment data showed similarly poor results over the two-year period: a decrease in manufacturing employment in 2008 of 35 000 jobs in addition to the 22 000 jobs lost in 2007, to which losses in clothing and textiles were listed as a major contributor. Furthermore, in the first half of 2009 a

15 per cent and 6.9 per cent reduction in employment for clothing and textiles, respectively, was recorded (van Eeden op cit pp 23&24).

The restraints therefore do not seem to have achieved their intended purpose to reduce clothing and textiles imports in those categories in order to afford domestic producers the breathing space to restructure.

Bilateral agreements between China and other countries including South Africa on quantitative restrictions are further discussed in Section 8 below.

7.4.2 Rescue Plan

Anticipating huge job losses, government, labour and industry have crafted a ZAR5 billion rescue plan to be implemented over the next five years. The plan notes that there has been a resurgence in imports since the lifting of Chinese clothing and fabric quotas at the end of 2008. According to the IDC report apparel and textile imports rose 18.7 per cent and 1.7 per cent, respectively in the first half of 2009 as compared to the same period in 2008 (IDC 20.

The rescue package proposes:

- A production incentive which would allow companies to receive a cash subsidy based on their local production - adjusted for the number of workers employed.
- A Competitiveness Improvement Programme to enhance companies' productivity - ZAR300 million a year a will be channelled to this programme
- The Skills Development Plan to upgrade 20 per cent of the workforce over five years - ZAR255 million a year to fund learnerships including apprenticeships, technologists and master's students.
- Local government procurement of clothing and textiles products
- Dealing with customs fraud including under-invoicing

The rescue package has drawn conflicting reactions from stakeholders in the industry. Business has criticised the consultation processes for being largely driven by trade unions without adequately addressing the needs of the business constituencies. Business viewed this as putting the needs of labour ahead of those of investors. On the other hand, trade unions viewed the rescue package as a bailout to current job losses (online interviews).

7.4.3 Duty Credit Certificate Scheme

This scheme was introduced to ensure that local clothing and textile producers are able to compete internationally. Companies could earn duty credits certificates based on exports of certain textile and clothing products (including yarn, fabrics, etc.) during a given year. The scheme covered 107 product categories. The duty credit is set at a percentage of the value of exports, and is dependent on the export product of the manufacturer: 25 per cent for clothing and accessories; eight per cent for yarns; 17.5 per cent for household textiles; and 15 per cent for fabrics and other textiles. The incentive is subject to participation in the Performance Measurement Programme and the achievement of certain performance, training, and export targets (WTO 2009).

Restrictions were placed on the duty credit certificate scheme in December 2008, partly over concerns that it was being abused. The certificates are issued in each Southern African Customs Union (SACU) member country and are tradable. (SACU member countries include Botswana, Lesotho, Namibia, South Africa and Swaziland) Thus, the certificates were prone to abuse as companies that were purely importers were using them. The scheme was also not compliant with WTO rules. The scheme was therefore allowed to lapse in March 2009.

Instead, in a revised version of the scheme, a list of only 10 clothing and textile product categories eligible for duty credit certificates would be gazetted. The products would include all input items such as fabrics and yarn and exclude any finished items. Through the gazetting, certificates can be redeemed in the fiscal year running between 1 April 2009 and 31 March 2010. The South African government is also aiming to introduce a production incentive in the form of a cash subsidy based on local production and the number of workers employed. It is meant to apply only within South Africa (Matthews 2010).

7.4.3 Other

Support measures such as the Textile and Clothing Industry Development Programme and duty rebates under the Customs and Excise Act No. 91 of 1964 have also been introduced. The former operates similarly to the duty credit certificate, but applies only to producers of clothing, whilst the latter is earmarked for imported inputs if used in other sub-sectors. Duty rebates can amount to close to 100 per cent in most cases. Other schemes include a capital upgrading programme via the Enterprise Investment Programme. The programme works through an investment grant of between 15 per cent and 30 per cent towards qualifying investment in plant, machinery and equipment and customised vehicles required for establishing new or expanding existing production facilities or upgrading production capability in existing clothing and textiles operations (WTO 2009).

8 CHINA'S STATUS IN THE WTO AND ITS EFFECTS ON BILATERAL TRADE RELATIONS

WHEN TEXTILES AND clothing imports from China surged, in particular in the US, EU and South Africa at the end of the MFA, regime bilateral export restraint agreements were negotiated with China. These took the form of quantitative restrictions, and the Report of the Working Party on the Accession of China, which is annexed to China's Protocol of Accession to the WTO, is generally regarded as providing the legal basis for the negotiation of these bilateral agreements with China.

8.1 Key Legal Provisions Informing China's Bilateral Deals on Textile and Clothing Exports

As part of China's accession to the WTO and as a result of concerns from certain WTO members, China agreed to certain specific conditions that appear to fly in the face of the WTO principle on non-discrimination but which seemed necessary in order to facilitate its accession. These provisions include paragraph 242 of the Report of the Working Party on the Accession of China; and Article 16 of China's Protocol of Accession to the WTO. We briefly examine these provisions below.

8.1.1 Paragraph 242 of the Report of the Working Party on the Accession of China

The provisions of this paragraph were applicable from the date of China's accession to the WTO until 31 December 2008. In terms of paragraph 242:

- A WTO Member can request consultations with China if it believes that imports of Chinese origin of textiles and apparel products are causing market disruption or threatening to impede the orderly development of trade in such products.
- China is required to hold its shipments in textile or textile products in the category or categories subject to such consultation to a cap no higher than 7.5 per cent above the amount entered during the first 12 months of the most recent 14 months preceding the month on which the request for consultations was made.
- If no mutually satisfactory solution is reached within 90 days after the request was lodged the requesting member can continue restraining Chinese imports in the affected categories but such restraint would be effective for the period beginning on the date of the request for consultations and ending on 31 December of the year in which consultations were requested, or where three or fewer months remained in the year at the time of the request for consultations, for the period ending 12 months after the request for consultations.
- More importantly, paragraph 242 (f) provides that 'no action taken under this provision would remain in effect beyond one year, without reapplication, unless otherwise agreed between the member concerned and China'.
- The measures applied under this provision could not be applied to the same product at the same time in terms of the provisions of Section 16 of the Draft Protocol.

8.1.2 Transitional Product-Specific Safeguard Mechanism

Article 16 of China's Protocol of Accession to the WTO provides a safeguard mechanism that covers many other imports of Chinese origin not just textiles as provided by the paragraph 242 of the Working Party Report. The transitional product-specific safeguard mechanism will remain in force for 12 years from the date of accession and any WTO member can apply it to any product imported from China as long such imported product causes or threatens to cause market disruption.

In applying safeguard measures under article 16, a WTO member must first seek to resolve the problem through consultation with China and if such talks yield no desirable result the importing country is then allowed to withdraw concessions made in respect of the product in question or limit imports to the extent necessary to prevent or remedy such market disruption.

This 'special' safeguard mechanism provides better protection to an importing country affected by a surge of Chinese imports than that available under the WTO Agreement on Safeguards. For instance it allows an importing country to single out China and deal with its imports specifically which is much easier that dealing with imports of a particular product from all over the world. In other words a country can impose unilateral safeguard measures based on more flexible standards than those in the WTO Safeguards agreement.

8.2 Provisions Relating to Anti-dumping Investigations

The Protocol of Accession also allows a WTO member country to deal with China as a non-market economy in anti-dumping investigations unless Chinese exporters can prove that products under investigation are produced according to market economy considerations. In terms of this provision, if an importing country believes that the price of a product exported by China is 'less than its normal value', the importing country has the option of using the price level of a like product from a third country as a 'normal value'. This clause can lead to increased anti-dumping allegations and measures against China since it is 'almost the lowest cost country for any labour intensive products, its export price could be lower than 'normal value' (Shafaeddin 2002).

This provision will be in place for 15 years after the date of accession.

8.3 Impact of the Provisions

Taken together the above terms of accession have informed the content of bilateral agreements China has entered into with major importers like the EU, US and even South Africa where it agrees to limit exports of certain categories of textiles and clothing products to those markets.

The impact of paragraph 242 is very clear in that none of the agreements provide for restrictions beyond 31 December 2008, which is the expiry date of the paragraph 242 provisions.

This paragraph specifically calls for a 'mutually satisfactory solution' as the first prize and these bilateral agreements can be seen to reflect its spirit. The advantages of bilateral agreements for importing countries are that the restraints are for a longer period than 12 months – which is the allowable duration in the event that no satisfactory solution is found. They also save the parties from pursuing the cases through the WTO dispute settlement system.

With specific reference to South Africa, the provisions of the Memorandum of Understanding (MOU) with China do not in our view represent a win-win. On the face of it China seems to be giving SA a reprieve by agreeing to a voluntary export restraint. However the issue of textiles and clothing quota becomes relatively minor compared to what SA actually gives to China. This is because:

- The quota only covered a limited range of textile and clothing imports and expired on the same day that China's paragraph 242 provisions expired – 31 December 2008. If it had not been for the paragraph 242 provisions it is doubtful China would have agreed to this quota. The fact that they did not agree to its extension strengthens our view that their objective was to find a better mechanism of closing this loophole.
- Through this MOU SA has signed away its rights to use the provisions of article 16 of the Protocol of Accession on Chinese imports and even the use of the WTO Agreement on Safeguards upon the expiry of the article 16. In other words SA would no longer apply any

safeguard measures against China; all it can do is have government-to-government dialogue aimed at finding a satisfactory solution, which inevitably would favour China due to the imbalance in negotiating clout.

- China effectively pre-empts any potential anti-dumping action against it from SA. Article 3 (1) of the MOU stipulates that the parties ' agree to enhance dialogue on anti-dumping investigations, grant equal treatment to enterprises from both sides, and address differences through consultation'. As Brink (2006) correctly observes 'Anti-dumping should be an objective, technical investigation to determine whether unfair trade is taking place…no dialogue is required at intergovernmental level and this appears to be an attempt to reduce the number of anti-dumping investigations conducted against China.
- Replicating this type of bilateral agreement in other industrial sectors would not provide African manufacturers any protection as the South African example has demonstrated. However, countries could consider countervailing measures against China where domestic industries experience unfair trading experience – especially when this is to the detriment of local manufacturing.

9 CONCLUSION

THIS PAPER AIMS to analyse the impact of Chinese exports on Africa's industrialisation. Although there is a lack of research and data on the subject, it is possible to draw a number of conclusions. Chinese exports have had direct and indirect impacts on Africa's manufacturing, particularly in the clothing and textiles and leather footwear sectors. However, the decline in Africa's industrialisation cannot be entirely blamed on China. Africa has a host of structural issues, which are having negative impacts on competitiveness. It should also be noted that the Washington Consensus agenda of trade liberalisation was not accompanied by investments to deal with supply side constraints. Moreover SAP policies did not include industrial policy designs. If Africa is to compete with Asian exporters these issues have to be addressed. Nonetheless, Chinese infrastructural projects in the continent can be expected to deal with supply side constraints thus reducing the cost of doing business and fostering industrialisation.

China's emergence has been a great boon for countries fighting inflation and by extension for poor consumers, since the prices of almost everything China exports in quantity have declined steadily over the years. It is therefore important that policymakers appreciate the welfare gains to poor consumers from lower prices, and production gains from cheaper inputs, both of which help to offset losses in manufacturing output and employment.

As the South African clothing and textiles case study pointed out, constructing a Chinese 'Great Wall' around manufacturing would not provide these industries with the opportunity to develop strong, sustained, job-creating growth (Alves and Draper op.cit.). However, caution should always be exercised against unfair trade practices by China. Though still unresolved, the US complaint to the WTO on Chinese use of grants, loans and other incentives to its local enterprises for them to meet export performance criteria provide an insight into other routes African manufacturers can undertake to stem the tide of deindustrialisation.

It is also important to note that the Chinese government has shown some sensitivity to the negative impacts of its manufactured exports on African industries by initiating programmes to promote industries in some African countries. Amongst other programmes, this includes a $100 million economic zone for the manufacture of electrical and electronic appliances and mobile phones in Zambia, a $ 50 million textile park in Nigeria and joint ventures with the Sierra Leone government to manufacture consumables and other light industrial products (Baah and Jauch op.cit.).

One notable programme is the non-reciprocal trade concessions granted by China to a number of least developed African countries. Currently, the 25 least developed African countries enjoy zero tariff and special preferential tariff rate for exports of 190 products (or over 90 percent of exports) to China, including food, textiles, minerals and machinery) Kaplinsky et al 2007). If successful, these initiatives may go a long way in supporting the development of local industries.

In 2006 China also announced a $5 billion equity fund spanning 50 years earmarked for investment in agriculture, manufacturing, industrial parks, mining and infrastructure development. By end of 2008, the fund had invested in 20 projects including a glass factory and leather processing factories in Ethiopia, a cotton outgrower and processing project in Malawi, assembly plants in South Africa and three of the seven special economic zones being set up by Chinese companies in Africa. These special economic zones show the possibility that Chinese firms will begin to use some African countries as a manufacturing base. It is anticipated these zones will create a supportive environment for small and medium Chinese companies to venture overseas by moving closer to their markets.

Local firms and other foreign companies will also be able to invest in the zones, subject to approval by African governments. The zones will be located in Zambia, Nigeria, Egypt, Ethiopia, Mauritius and Algeria (Brautigam 2009).. These zones will doubtless also serve as a 'risk diversification' strategy against the risk of countervailing and safeguard measures, which are and might be directed against China.

In determining the trajectory of industrialisation in Africa, serious questions need to be addressed regarding the continent's future comparative advantage and how this can be harnessed. For example, should Africa begin small with industries that have lower productivity and lower returns or should the countries seek to go high tech and be competitive? Although diversification into manufactures is vital for the continent, the challenge is whether such an option is viable and whether the chosen sectors have the potential to be globally competitive.. Currently, this does not seem to be the case in most African countries.

Moreover, manufacturing can no longer be the almost exclusive focus for industrialisation. Africa should seek to include the services sector as part of an industrialisation strategy. As pointed out elsewhere in the report, the services sector contributes between 40 per cent and 70 per cent of GDP in most countries. Increasingly, this sector also appears to generate more employment. Research has shown that reducing transaction costs in sectors such as financial services, telecommunications and transport, would also deliver obvious benefits to transaction-intensive activities, such as manufacturing (Alves and Draper op.cit.).

Africa cannot forever blame China for its structural challenges in manufacturing. In engaging with China and any other external party, African governments will have to set their own agenda based on satisfying their development challenges. In the absence of a strategic approach by African governments, Chinese trade and investments in Africa will remain of limited benefit for the continent's development and for that matter industrialisation.

FOOTNOTES

1 AGOA WAS signed into law by the United States government in 2000 and it offers duty free access to the US market for selected Sun-Saharan countries. Eligibility is based on set criteria such as good governance and democracy. AGOA was initially intended to last for 8 years between 2000 and 2008, however, the programme has been extended until 2015.

2 THE MFA also known as the Agreement on Textiles and Clothing governed the trade in textiles and clothing from 1974 to 2004. The MFA imposed quotas on the amount developing countries could export to developed countries. The MFA expired on 1 January 2005.

3 STRUCTURAL ADJUSTMENT programmes initiated as part of IMF and World Bank conditional lending requiring governments to undertake policy reforms intended to stimulate the supply side and improve the public and national finances.

4 QUOTAS GENERALLY refer to a quantitative restriction on the number of goods (within a specific category) imported into the quota imposing country.

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Chinese enclave communities and their impact on South African society

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Introduction

IN SOUTH AFRICA imported Chinese goods are criticised for being too cheap (and putting South African industries out of business) and of inferior quality. The term 'fong kong' has become synonymous with fake or copy and cheap or inferior, its use now so commonplace that it is being used by advertising and marketing campaigns determined to point out that *their* products are *not fong kong*. Cosatu, the national trade union federation, periodically calls for banning all Chinese imports while large South African retail chains scream that this would put them out of business.

Small and medium-sized Chinese businesses that operate in the country are accused of out-competing local enterprises; periodically there are also complaints that they are not abiding by the country's environmental, tax, or labour regulations. Chinese employers are accused of under-paying their staff, of hiring (cheaper) illegal immigrants, of poor working conditions, and of flouting labour regulations.

Chinese migrants are sometimes accused of being racist and living in isolation from the majority of South Africans. Chinese South Africans, now included as disadvantaged in the nation's affirmative action legislation after the 18 June 2008 Pretoria High Court decision, are criticised for not being 'black' enough and for not having participated (publicly enough) in the struggle against apartheid.

In this confused and contested national terrain, this research project has examined several different Chinese enclave communities in two of South Africa's nine provinces. South Africa is home to well over 350,000 Chinese from three different Chinas: local or South African-born Chinese (SABC), Taiwanese, and Chinese from the PRC. These three communities, often conflated into one group, make up close to half of all the Chinese on the African continent.

This report examines areas with high concentrations of Chinese: Johannesburg's two Chinatowns and Chinese wholesale/distribution centres scattered around Johannesburg in Gauteng Province; and the Welkom Chinese community and the Bloemfontein/Bostshabelo corridor, in the Free State Province. We examine relations between and amongst the different groups of Chinese and we delve into relations between the Chinese and various other South African and migrant groups. In particular, we explore race, ethnicity and class divides; the place and positioning of various groups of Chinese; and the extent of integration and/or isolation of these ethnic Chinese 'enclaves'.

The goal is to provide a deeper understanding of the social, cultural, and economic impact of Chinese communities on South African society through an examination of various important enclaves of Chinese *and* a preliminary assessment of South African attitudes about and perspectives on these communities.

Background: Chinese migration to South Africa

THE EARLY HISTORY of Chinese in South Africa, including the convicts and company slaves of the Dutch East India Company in the mid- to late 17th century, is significant in order to understand the context in which free Chinese migrants entered South Africa; however, their numbers were small and most were eventually repatriated to China or gradually mixed into South Africa's mixed race population.[1]

The Chinese contract miners, over 63,000 of them, formed the largest single group of Chinese ever brought to colonial Africa. They were imported to and later exported from South Africa between 1904-1910. They also form the single most studied group of Chinese in Africa until recent times. While their impact on South Africa's politics, economics and racial formations of the period (Richardson 1982, Harris 1995 and 1999) and their impact on the treatment of independent, free Chinese (Yap and Man 1996, Harris 1998 and 1999, and Park 2005, 2006 and 2008) remain significant, these matters have been addressed elsewhere.

Instead, we begin with the ancestors of the Chinese South Africans. The ancestors of the 'local' Chinese or SABCs began arriving in South Africa in small numbers from the late 1870s. From their first arrival in the late-1800s and for nearly a century, discrimination and racist legislation kept their numbers low, restricted further immigration, and placed controls on the existing Chinese community (Yap and Man 1996:62, 76-84; LN Smedley 1980:20-21; Harris 1998, 1999). While the numbers were tiny, both in real and relative terms, the reaction was unduly harsh: Chinese throughout the various colonies and states of early South Africa encountered fear and hatred based primarily on race. Today, according to the Chinese Association of South Africa, this segment of the Chinese in South Africa numbers approximately 10,000.

Until the apartheid years, their numbers grew slowly but steadily. In the post World War II period, however, after an initial increase between 1949 and 1953 comprised mostly of new brides brought from China, the door to South Africa was virtually shut by the Immigrants Regulation Amendment Act 43 of 1953. There were only a few isolated cases of Chinese entering South Africa between 1953 and the mid-1970s; these included a few qualified Chinese chefs who were permitted entry on temporary permits and a small number of illegal immigrants who persisted in their attempts to join family members in South Africa (Yap and Man 1996:350-351)_.

Then, during the late 1970s, due to increasingly close ties between the apartheid government in South Africa and the Republic of China/Taiwan, small numbers of Taiwanese industrialists were enticed to make investments in remote areas of South Africa, as part of a larger plan to staunch the flow of black Africans from the 'homelands' into urban areas.

A small but steady influx of Taiwanese industrialists into South Africa during this period formed the first wave of new Chinese immigration to South Africa. Generous South African government incentives (including relocation costs, subsidised wages for seven years and subsidised rent for ten years, cheap transport of goods to urban areas, and housing loans) as well as favourable exchange rates encouraged the immigration of investors and their families from Taiwan and Hong Kong[1].

Throughout the late 1980s and into the 1990s, the number of industrialists continued to grow. At first, these early Taiwanese experienced difficulties with housing and schooling for their children as they settled in conservative towns surrounding the former homelands. Initially these Taiwanese immigrants were accommodated by permit-based exemptions to existing apartheid laws. Eventually however, South Africa's long-standing prohibition of non-white immigration was waived in order to accommodate them and in the Free State laws were overturned to permit Chinese residence in the province.

In the 1990s, on the heels of the industrialists, many other immigrants from Taiwan and Hong Kong entered South Africa. They came in as entrepreneurs opening import/export firms, restaurants, other small businesses, and as students. While the industrialists were based primarily in or near the former homelands, these newer arrivals settled in South Africa's larger cities. By the end of 1994, there were approximately 300 such businesses and hundreds of Chinese students in South Africa (Yap and Man 1996:423).

1

However, it should be noted that this was not a permanent uni-directional migration. As with many transnational migrations, some of these new migrants were opportunistic capitalists; they took advantage of incentive schemes and moved on when conditions for business worsened (See Park 2005, chapter 7 for discussion). Still, for about a decade the number of Taiwanese migrants grew steadily. Then, in the late 1990s and into the early 2000s, many of these Taiwanese left South Africa, their departure hastened by South Africa's official recognition of the People's Republic of China (PRC), difficulties with South Africa's labour regulations, and stiff competition from the entry of cheap imports from China. Crime and security as well as concerns about political and economic stability were also major concerns during this period, when the interest rate increased and the South African Rand depreciated to a record low of R13: US$1. From a high of approximately 30,000 in the mid-1990s, there are now approximately 6,000 Taiwanese in South Africa.

The Taiwanese were followed, with some overlap, by yet another wave of new Chinese migration, this time from the PRC. Starting in the late 1980s and picking up pace in the period leading up to South Africa's recognition of the PRC in January 1998, significant numbers of both legal and illegal immigrants have entered South Africa from mainland China, dwarfing the existing South African-born Chinese community and the Taiwanese. These numbers have increased even more dramatically in the past five to seven years. The earliest of these new Chinese immigrants from mainland China came via Lesotho. They were hired as managers in Taiwanese factories, or as employees of Chinese state-owned enterprises, Chinese trade or cultural officers attached to the state, and staff of private Chinese enterprises. Many of these individuals arrived in the country with relatively high qualifications, business networks, other overseas experience, and some capital. Many of these, on two- and three-year contracts, chose to stay in South Africa and go into business at the conclusion of their contracts.

The last and ongoing wave of Chinese immigrants began arriving in South Africa in the new millennium. They are made up of small traders and peasants[4] primarily from Fujian province and they currently outnumber all other groups at least ten-fold. Many entered illegally via neighbouring countries. Due to their limited English, limited education, and less extensive business networks, they tend to run small shops in the remote towns all across South Africa.

Unfortunately there are no accurate statistics regarding the total population of Chinese in South Africa. As mentioned, there are currently fewer than 10,000 Chinese South Africans (South African-born or local Chinese) and approximately 6,000 Taiwanese in the country, but overall numbers of Chinese are difficult to ascertain. The Chinese embassy reports that while they do not have any official figures, they estimate that there are about 200,000 Chinese in South Africa. In news broadcasting by CCTV and other news agencies, the figure rises to 300,000; we estimate that there are between 300,000 - 350,000 (Pak 2005).

Most recently, one of our informants claimed that there were well over 400,000 and possibly even more than 500,000 due to the high levels of continued illegal migration into South Africa from Fujian. Due to large numbers of illegal migrants, poor record-keeping and corruption in the Department of Home Affairs, as well as continued in- and out-flows of migrants and workers, it is impossible to confirm these figures or come to any exact accounting of the total number of people of Chinese descent in South Africa.

This paper examines and describes the Chinese ethnic enclaves in two of South Africa's provinces and makes some preliminary comments on the social impact of these communities on South Africa. We start with one of the oldest Chinese enclaves in the country: Johannesburg's (First) Chinatown.

Johannesburg's First Chinatown

JOHANNESBURG'S ORIGINAL CHINATOWN (now referred to as First Chinatown, to distinguish it from its newer, larger, louder Cyrildene Chinatown) was founded just a few hundred metres away from the original Malay Camp (or Malaikum) of Johannesburg's heady gold-rush days. Occasional armed battles, opium dens, gambling, prostitution and police raids were par for the course in the early days of Johannesburg's Chinatown, established in the midst of 'a motley assortment of tents, wagons, (and) iron shacks' (Yap & Man 1996:84).

Prevented from obtaining digging licenses, which were reserved for Europeans, the free Chinese migrants set up businesses to serve the needs of those early miners: general stores, eating houses, bars, butcheries, laundries; and, for their own members, tea houses, social clubs, and gambling dens. The majority of the Chinese settled in the western edge of town, where they lived and worked and socialised and established their first Chinese community organizations in the late 1890s. In its heyday, Chinatown hosted '180 grocery stores, tea houses, market garden shops and a vital network of social clubs' (Gaigher 2009:32).

Throughout most of the 20th century Johannesburg's Chinatown served as the social hub of community activity for the increasingly dispersed population. Over the years it has served as home to most of the Chinese social clubs, the community's two schools, and the only Chinese language press in Africa. There were also small shops and restaurants, which catered mainly for the Chinese, selling groceries and specialties (roast pork, roast duck, steamed buns), as well as Chinese medicines and herbs. Natural disasters (floods, droughts, and earthquakes) and wars prompted the local Chinese community to raise funds for affected groups in China; all these activities were based in Chinatown. Several Chinese opera groups, and later local jazz musicians and actors, as well as visiting troupes of entertainers performed in Chinatown. Weekends were busy, and most of the small clubs provided venues for gambling: poker, fan tan, dice, and mahjong were all on offer. Chinatown was also host to annual festivities to observe the Chinese New Year, Double Ten, as well as the twice-yearly 'tomb-sweeping' festivities, all followed by lavish meals as well as most weddings and funerals.

While Chinatown was the hub of the early Chinese community, Chinese had also scattered to live around the city, and nearly 1000 were estimated to live in Sophiatown and Martindale in the mid-1950s. As early as 1950, the Chinese had formed the Western Areas Chinese Association to protect the interests of the Chinese shopkeepers from the potential repercussions of the Group Areas Act. Chinese students got involved when the Defiance Campaign, a national civil disobedience drive to defy apartheid laws began in early 1952. The Chinese community also made donations to local branches of the ANC.

Various proposals for a Chinese group area in Johannesburg were tabled throughout the decade; each time, the Chinese protested that they wanted trading and residential rights to be separated. Refusing to move to designated areas, sending petitions to government agencies, and arguing that the community was too small to be self-sufficient, they eventually came to a quiet understanding with the Group Areas Board: they would be allowed, under permit, to move into parts of Denver, Jeppe, City & Suburban, Doornfontein, Ophirton and Fordsburg. Many Chinese families were still forced to move out of Sophiatown and other areas that had been designated as 'whites only', but the Chinese community managed to avoid the establishment of a Chinese group area. The Group Areas Act is also one of the main reasons why Johannesburg's First Chinatown remained relatively small and underdeveloped.

Chinatown's dwindling fortunes plummeted in the 1990s decline of Johannesburg's inner city, due to white flight to the northern suburbs and increased crime, when even the lure of good cooking and large, boisterous gatherings of family and friends were not enough to entice any but the most intrepid Chinese into the central business district (CBD) or downtown area. Today, First Chinatown is little more than a strip of shops that runs along the Western end of Commissioner Street, a mere shadow of its former self, prompting one keen observer to dub it 'China Two-block'.

However, it remains alive and plans for its revival have been on the city council's docket for a decade or more. Approximately R8 million has been set aside for the revitalisation of First Chinatown, part of the city council's plan to continue improvements in the CBD. Plans for erecting a formal gateway to the Chinatown (no longer an issue for the SABC since the ending of apartheid) are in place, and optimists like Walter Pon continue to believe that the turnaround is just around the corner.

Walter Pon is one of the stalwarts of First Chinatown. A businessman, a community leader, a bridge-builder, and the unofficial mayor of Chinatown, he still operates Sui Hing Hong, a Chinese gift shop and grocery store established by his parents in 1943. Chinese ceramics, fireworks, specialty medicinal Chinese teas that promise improved blood circulation and enhanced sexual performance, dried mushrooms, frozen dumplings and fresh produce are all on offer at Sui Hing Hong. Today, with many upscale grocery stores offering shitake mushrooms, tofu, and sushi rice, and with Cyrildene on the other side of town, Uncle Pon says he has much more competition. Still, Chinese out-of-towners from as far afield as Kimberley continue to make the trek to Sui Hing Hong to obtain their Chinese delicacies and have a meal at one of the few remaining Chinese restaurants.

First Chinatown has a long history and continues to serve as the hub of the community for many local Chinese (or SABCs), as well as home for between 200-300 Chinese, both 'local' and foreign-born; however, over the past 15 years or so, Johannesburg has witnessed the development of a new ethnic Chinese enclave in Cyrildene and this new Chinatown (new both in terms of its later development but also because most of its residents, shopkeepers, restaurateurs, and shoppers are new Chinese migrants to South Africa) has overtaken the former Chinatown in the imagination of Johannesburg's residents and visitors. According to Darryl Accone, a visionary proprietor of a Chinese noodle-bar owner decided to go east from his premises in Rockey Street in Yeoville towards Bruma Lake, to his new quarters, in the early 1990s. And the rest, as they say, is (new) history.

Cyrildene Chinatown

THE 1990S SAW numerous headlines in local papers filled with stories of a Chinese mafia running amok in South Africa: illegal street traders; credit card fraud schemes; the labour abuses of factory owners; the culling of rhinos for their horns and elephants for their tusks; gill-net fishing; smuggling of abalone, guns, drugs, and even women. Chinese triad activities were said to be taking place around South Africa, and a great many of the activities were ostensibly based in this new Chinatown. Rampant rumours of a protection racket in Cyrildene, stories of Chinese-on-Chinese violence (including several kidnappings and gruesome murders), and even problems between official Chinese and a branch of the Falun Gong (which ended in a shoot-out on a major highway running through Johannesburg) circulated freely.

The SABCs were aghast. Having worked tirelessly during the past two generations to distance themselves from the 'shoot 'em up' wild days of early Chinatown and become respectable, educated South Africans, they were dismayed by the large numbers of new Chinese entering South Africa and their behaviour. With the advent of new Chinese migration to South Africa, starting with the Taiwanese and later with the mainland Chinese, a distinct 'us' and 'them' division arose.

Said one interviewee in 1999:

> When they first came in the mid-1980s, they all lived in the homelands. Now, since many have moved to cities, there is more contact and interaction. Most of it is negative… There is so much negative publicity. *These guys* murder each other or shoot each other. There are triads that are here now, gangsterism. I hear also in Cyrildene, for instance, this protection racket is very rife there…and those Chinese pay protection money. *Us* South African Chinese (sic), we don't do these things to each other. We are not mean to each other. These overseas Chinese are mean to each other…There is also gill netting, hawkers…it is all negative…(I am) embarrassed by the trawlers, street hawkers, illegal immigrants.

Another source stated her feelings even more clearly:

> The new immigrants? Well, I don't like them because they are involved in all these illegal activities here and then people think it is all the Chinese people in South Africa who are doing it…when they came out we never identified with the Taiwanese people anyway. *They were Taiwanese and we are Chinese*. We never identified with them…They came here and had these factories and they didn't pay their people properly…So, you see, these Taiwanese people gave us a very bad name…and that's why we didn't want to identify with them…And now when the (mainland) Chinese come, it is even worse. Now you have all this abalone and the smuggling and things illegal…and no, I don't want to be identified with them either. We are just different.

The loud, colourful, take-over-the-streets, in-your-face version of Chinatown in Cyrildene has its detractors and its fans. Many SABCs refuse to go to the Cyrildene Chinatown, claiming that it is dirty and unhygienic and far too loud for their now middle-class sensibilities. More adventurous eaters and foreign tourists love the vibes, saying that, for the few hours that you are there, you can imagine that you are actually in China.

Johannesburg's new Chinatown has, in fact, taken over much of Cyrildene, a small, quiet suburb in the Eastern part of the city. Historically dominated by a Jewish community, new Chinese migrants began to converge on Cyrildene's Derrick Avenue in the 1990s. Today this new Chinatown continues to expand from its base, along Derrick Avenue between Friedland and Marcia Streets, up and down the side streets of Hettie and Lionel, with new developments and renovations underway to further expand and improve the offerings of this new Chinatown.

The new Chinatown is home to over 25 Chinese restaurants offering delicacies from various regions. The area also boasts at least 15 Chinese grocery stores and market garden stalls, and a half dozen specialty food shops including butcheries, seafood shops, a liquor store, and several rice wholesalers. There are also service providers; these include a half dozen beauty and hair salons, four to five Chinese medicine practitioners (acupuncturists, doctors and herbalists), and three massage parlours. Several Chinese community organisations are also based in Cyrildene, including the Southern Africans Zhejiang Association, the Fujian Regional Association, the South Africa Chinese Community and Police Co-operation Centre, the All Africa Association for Peaceful Reunification of China, and the Chinese language newspaper *African Times*.

An interview with a local Chinese restaurateur revealed that 2005 was a turning point for Cyrildene's Chinatown. He confirmed stories of kidnappings, robberies, and protection payments to local Chinese 'mafiosos' in the early years of its development; in 2005, however, residents, tenants and local business people formed the Cyrildene Chinatown Community Committee. They contracted an armed response security company to provide protection to businesses, residents and customers. They encourage regular clean-up activities. They also help newcomers to understand the laws and regulations of their newly adopted home. And they meet regularly to discuss and resolve issues that arise. Since its formation, our informant reports that they had had few problems with crime.

Cyrildene's Chinatown is probably 85-90 per cent Chinese, according to our informant; the vast majority of the residents and tenants are from Fujian province. There are also a few remaining older white South African residents in a few of the apartment blocks above the restaurants and shops, as well as some Thai, Indian and Pakistani residents. The various Chinese businesses typically employ several other Chinese (often relatives or people from the same village/town), but there are also a large number of Africans employed here, mostly Zimbabwean, as well as South African, Malawian, Congolese, Nigerian, Mozambican, and Angolan. Chinese migrant businesses have been accused of favouring non-South African employees.

Recent interviews with Chinese and Pakistani shop owners revealed a definite bias against local hires. Interviewees complained that South Africans demand higher wages and respect for labour laws and will threaten legal action. In contract, Zimbabweans or Malawians, perhaps because they are in South Africa illegally or simply because they are more desperate, are willing to work for lower wages, for longer hours, and with fewer complaints. This has created tensions between migrant communities and locals. Typically, if these tensions bubble over into violence, the African migrants, seen to be directly competing for the limited jobs (or other resources) bear the brunt, and Chinese and Pakistani migrants develop a reputation for being poor employers.

Today, while a small proportion of Chinese reside in one or the other of the two Chinatowns, the vast majority are spread out over the city. Many of the local Chinese moved to the city's eastern suburbs, spreading from the city centre to Bez Valley, Bedfordview, and Kensington and further into Ekhuruleni, in the areas near OR Tambo international airport. Taiwanese and Chinese migrants who have established themselves as successful entrepreneurs and business people have spread across the city, often searching for the security of closed communities of townhouse complexes in the far northern suburbs; however, you can now find Chinese, both local and migrant, all over the city and surrounding areas. Other concentrations of Chinese can be found, however, at the wholesale/distribution centres around town, which serve as hubs for the distribution of inexpensive China-made consumer products to the country and the entire region.

Johannesburg's Chinese Wholesale/Distribution Centres

IN MANY AFRICAN countries one might notice that 'China shops' are almost identical. They tend to sell a wide range of low-cost (and one might argue, low quality) China-made textiles, often to the lowest end of the consumer market. Items available at the typical 'China shop' include leather and imitation leather goods (shoes, belts, handbags); clothing (men's, women's, and children's under and outerwear); scarves, shawls, hats and wigs; sports bags and luggage; bicycles, toys and other items for babies and small children (strollers, playpens, etc.); costume jewellery; mattresses, blankets, towels, rugs and linoleum flooring; and small household appliances and electronic goods.

Most of the Chinese products are sourced directly from manufacturers in China, thus reducing the number of intermediaries, the cost, and ultimately the selling price of the goods. Sometimes these 'China shops' also sell locally made products. For example, in South Africa, in response to an on-going campaign to buy locally, many 'China shops' also sell 'Proudly South African' products, including children's school shoes and blankets.

In addition to these retail China shops and businesses, several larger African cities have become home to Chinese wholesale traders. Chinese distribution centres can be found in Casablanca, Accra, Yaoundé, and Douala; however, Johannesburg has the largest number and the widest variety. Johannesburg is home to almost a dozen of these large wholesale centres, each of which has several hundred wholesale shops or stalls. These include China City, China Mart, Asia City, Hong Kong City, Crowne Square, Gold Reef Emporia, Dragon City, African Trade Centre, and Orient City. These form a regional shopping hub which provides goods not just for South Africans but also to retailers and consumers neighbouring countries (Botswana, Lesotho, Zimbabwe, and Angola) and from across Africa.

Visits to Dragon City and China Mart revealed that the customer base of these distribution centres is extremely mixed, with retail as well as wholesale customers from all race groups, from various countries, and of different classes. Most of the wholesale/distribution centres are owned by an individual or a company, which then rents out space to the wholesalers. But China Mart is strikingly different. Defectors from the original Chinese distribution centre, China City in Ellis Park, left China City and built China Mart from scratch. Each of the now 120 Chinese investors owns his/her own 'shop' within the centre; most then sell directly from these, although some now rent their shop to other wholesalers. In addition to Chinese traders, we also found a handful of Pakistanis, a few white South Africans, one Malian, one Nigerian, and a Malagasy woman.

The vast majority of goods sold at China Mart and all of the distribution centres are consumer goods made in China. However a number of shops sell 'Proudly South African' goods. Each of the shops had at least two or three staff; upon asking, we were told that most were from Malawi or Zimbabwe, as in many of the shops and restaurants of Cyrildene [5].

In addition to exploring the Chinese in the greater Johannesburg area, we also conducted research on the Chinese in the Free State; the following section discusses the Chinese enclave in Welkom and the greater Bloemfontein area.

Chinese in the Free State

OF ALL THE early colonies, the Orange Free State was the most exclusionary: as early an 1854 OFS law prohibited the settlement of 'Asiatics'. Indians and Chinese were prevented from owning property or becoming citizens; these were 'rights' reserved for whites only. In 1891 another OFS law further prohibited any 'Asiatic' from living within the province. Transiting 'Asiatics' were permitted within the borders for only 72 hours. During the apartheid years, these laws were retained on the books: Chinese and Indians were prohibited from settling – or even overnighting – in the Free State until the mid-1980s.

The Free State finally overturned the 1891 law in 1986 and Chinese were permitted, for the first time in its history, to settle and live in the province. Why did the laws change at that time? As mentioned earlier, in the late 1970s and into the 1980s the apartheid government strengthened its ties to Taiwan. There were exchanges of ministers and a significant increase in trade. The South African government provided tremendous incentives to Taiwanese investors and industrialists to build labour-intensive factories, mostly in the textile industry, in and near former homeland areas, primarily as a strategy to prevent further black Africans from migrating to the major urban areas. The Free State provincial government and local municipalities, too, made efforts to attract investments and played host to several such factories.

Reports indicate that there are Chinese shops in almost every small town across the Free State. Chinese officials estimate that between 5,000 and 6,000 people of Chinese descent now reside in the province, down from a high of approximately 10,000. Most of those who have left were Taiwanese businessmen and their families. While our research was unable to confirm exact population figures for the Chinese, it would appear that indeed virtually every city and town in the province had at least two or three Chinese running a small Chinese shop or grocery store.

The following table lists the Free State towns we visited, the general population statistics, and the numbers of Chinese shops and individuals in each.

Table 1 Chinese in Free State 'dorpies'

Town	General Population [6]	Number of Chinese shops	Types of Chinese shops	Number of Chinese individuals
Welkom (inc. Thabong township)	192,966[7] (+400,000 in greater municipality)[8]	+ 20	Various	+/- 200
Theunissen	1,669	6	Various	15-20
Brandfort	1,513	3	2 grocery shops 1 'China shop'	15
Trompsburg	929	2	1 grocery shop 1 'China shop'	3
Phillipolis	1,166[9]	1	1 'China shop'	4
Springfontein	1,754	1	1 grocery shop	3-4
Smithfield	501[10]	2	1 general dealers 1 'China shop'	7 (1 Taiwanese family, 1 mainland Chinese family
Hobhouse	2,591[11]	1	1 shop - groceries and textiles	2
Ladybrand	4,211	15-20	Various	50 Taiwanese families, 30-40 mainland Chinese
Ficksburg	8,309	10	Various	+/- 20
Clarens	4,085[12]	None found	n/a	None found
Bethlehem	11,819	+ 10	1 restaurant/take-away + 10 grocery and 'China shops'	20-30
Steynsrus	1,192	1	'China shop'	2-4
Kroonstad	23,994	+ 10	Various	20-30

Based on the 2001 Census data, the total Asian population of these 14 towns was 1,302. We estimate that these numbers have more than doubled in the past seven years. Our preliminary research indicates that there are close to 500 new Chinese immigrants and at least 50 Taiwanese families based in these 14 towns alone. In addition to these numbers, there appeared to be two to three times as many new Pakistani and Bangladeshi immigrants based in these towns or, more typically, in the adjacent townships. The overall numbers, however, did not increase as dramatically due to the ongoing out-migration of Taiwanese business owners.

Chinese in Bloemfontein and Botshabelo

BLOEMFONTEIN IS THE capital of the Free State and the judicial capital of South Africa. Botshabelo, meaning a place of refugee, is a large black settlement 45km east of Bloemfontein and the second largest township in South Africa second only to Soweto. It was established in 1979 as a settlement for non-Tswana speaking people and has a population of about 1,000,000 inhabitants.

In the Bloemfontein area we interviewed Chinese from South Africa, Taiwan and mainland China. A Chinese South African, now in his 80s, was born in South Africa, lived in China until he was about 18, and then moved back to South Africa. A Taiwan-born informant has lived in South Africa since 1991, became a citizen in 1998, and has three South African-born children. A third informant was an engineer from Shanghai who has been in South Africa since 1994. All three are involved in manufacturing.

The Chinese population in the Bloemfontein area has shifted dramatically over the past two decades. At the height of the Taiwanese industrial boom in the area, our Taiwan-born respondent reported that there were close to 6,000 Taiwanese in the area; today he says there are fewer than 1,000. Reports on the total number of Chinese in the area today varied, from 3,000 to 4,000. One respondent reported that approximately 70 per cent of the Chinese were from the mainland, while the remaining 30 per cent were from Taiwan. However, another of the respondents reported that according to the local Fujian Association leader there were well over 5,000 new migrants from Fuqing in Fujian province, all operating small shops in the townships and all arrived within the past five years.

One of our informants also reported that at one stage, there were between 140 and 150 Taiwanese or Chinese-owned factories in Botshabelo; as subsidies for the Taiwanese factories expired in 1997, many closed their factories. Some returned to Taiwan, while others moved into the wholesale business. Today, they report, there are approximately 10 Chinese- or Taiwanese-owned factories. Most of these are involved in the apparel industry, while several manufacture small household appliances (electric hotplates, heaters, and gas cookers). Between the two factory owners we interviewed, they employed over 1,500 local South Africans.

All three had children who were born and/or raised in South Africa; the children, some now grown, all viewed themselves as South African. Amongst this second generation, one of the daughters was being groomed to take over the family business together with her husband and a brother; all the other grown children had become professionals. Several of the children of the Chinese South African informant had emigrated and were now living in Canada or the US. According to the informant, because of apartheid there were few opportunities for Chinese South Africans; therefore, those who were educated often went overseas. Finally, we noted that while most of the Chinese seemed to prefer to socialise within their group of origin, they all seemed to know one another and cooperate on issues of shared importance. We also noted that one of the children of the Chinese South African informant had married someone from Taiwan.

Perhaps most interesting however, was the common way in which all three of our informants, from three difference Chinese communities, spoke of the newcomers from Fujian. All agreed that the Fujianese migrants were not well educated or cultured, had difficulties with the English language, and did not behave according to their own higher standards. One of the informants said that many of the newest migrants from Fujian came to South Africa illegally and were only concerned about money and gambling. They claimed that these new migrants had moved into the black locations because they could not rent premises in town. They also complained that these newcomers give (all) Chinese a bad reputation.

Welkom's Chinese community

WELKOM WAS FOUNDED in 1947 following a major gold discovery in 1946. Located 160 kilometres northeast of Bloemfontein, it is now the second largest city in the Free State. In the Lejweleputswa District Municipality, Welkom's population in 2001 was 408,173. The city is the hub of the Free State gold fields, serving several gold and uranium mines. In addition to mineral ore, Welkom also produces such goods as steel, lumber, and beef.

Welkom received municipal status in 1961 and was declared a city in 1968. Limited desegregation has occurred since the repeal of apartheid laws in South Africa in the early 1990s, but the vast majority of blacks continue to live in the adjacent township of Thabong. Currently the whole of Welkom is dominated by residents from all over Africa because of the job opportunities in the mining industry.

Based on our research, it would appear that Welkom is host to approximately 200 – 300 Chinese. An additional 100 live nearby in the neighbouring town of Virginia. Outside of Bloemfontein, these are the largest populations of Chinese in the province. Most of the Chinese shops can be found along one of the main roads in the city centre. We found 14-15 Chinese-run businesses in Welkom; these include several factories (engaged in brick-making and PVC pipes and pipe fittings), over a dozen China shops, a liquor/bottle store, and a couple of large grocery stores.

Virtually all of the Chinese in Welkom are from the same village in Fujian province, and many are related by blood or marriage to one clan/family grouping. Most of them belong to the South Africa Fujian Association. Many were also Christian. According to the owner of the grocery store, the Chinese people in Welkom sometimes gather together during weekends or Chinese holidays. While a few had been in South Africa for well over a decade, most of Welkom's Chinese were relatively new to the country, having been in Welkom for just a few years. Many, it would appear, had also entered South Africa illegally. Most did not speak much English.

While the newcomers were reluctant to speak with us, the two informants who had been in South Africa longest spoke good English and carried themselves with confidence. One of our informants even reported that he was a permanent resident of South Africa, a card-carrying member of the ANC, and a founding member of the local community policing forum. This last is significant given the problem of crime and corruption targeting Chinese in South Africa.

Chinese community concerns

MANY OF THE recent Chinese migrants have entered South Africa illegally and their insecure legal status is known to many government officials. Chinese migrants are therefore extremely vulnerable to corruption. Chinese friends and colleagues complained that local police fishing for bribes stopped them regularly. The Chinese Consul-General reported that he received a dozen calls daily from Chinese nationals complaining about traffic police, SAPS officers, and immigration officers all attempting to extort bribes from them. He also reported receiving several reports of Chinese nationals being robbed by people carrying police badges. In response, the Consul-General has lodged complaints with the Gauteng Police Commissioner and other station managers. He reported that corruption and crime were his biggest worries and this has resulted in many wealthy Chinese people leaving South Africa.

Crime is the other principal problem for Chinese migrants in South Africa, particularly for shopkeepers. Most of the newest Chinese migrants are engaged in small retail businesses. Many people are aware that they do not use the formal banking system, have significant quantities of cash, and often have insufficient security systems, and are therefore vulnerable to break-ins and lootings. They are, in the words of one of the informants, 'soft targets'. There were also several reports of car hijackings which took place along the road after weekly or monthly stock purchases had been made in Johannesburg; in other words, criminals were targeting shopkeepers after they stocked up at large warehouse/distribution centres. While conducting interviews in Welkom and Bloemfontein we were told of two recent murders of Chinese business people, one just outside of Welkom and another involving a factory owner in the Botshabelo area. While we have been unable to confirm them, news reports of such attacks are common.

The majority of extortion and crime incidents seem to be carried out by black South Africans, but there is also ample evidence of migrant-on-migrant crime, mostly in the large cities and often involving organised gangs (Chinese triads). While the Chinese Consul-General and others claim that there are no well-organised Chinese triads operating in Cyrildene, the new Chinatown has suffered a high level of crime since its formation, including hijacking, extortion, and pirating of copyrighted materials. Finally, business competition between Asian migrant groups is also starting to manifest itself, in some instances, in violence and intimidation. For example, in one small Free State town, a Chinese informant reported that she and her mother had been harassed and intimidated by local thugs, hired by an 'Indian' (probably Bangladeshi) competitor in the adjacent township.

South African perceptions of the Chinese

THE UNDERCURRENT OF disquiet in China/Africa relations comes not from African heads of state or business leaders but from the grassroots. Some deeply resent China's growing influence in their countries and on their lives. Anti-Chinese sentiment in Africa varies from country to country, from region to region, and across time. In an effort to understand local perceptions of the Chinese we implemented approximately 300 questionnaires, with 100 implemented within the University of Johannesburg (UJ) community and another 200 across Johannesburg and Soweto. While we have not yet fully analysed all the data, preliminary review of the first 100 surveys indicate that (educated) South Africans generally have a well-rounded view of the Chinese.

For example, close to half of the UJ respondents agreed that Chinese small business helps South Africa generally, but with some costs. For example, some stated that Chinese help to create jobs but that employees must often endure long hours and low pay; others explained that the Chinese assist in bringing in consumer goods but 'kill' some local businesses. The vast majority of survey respondents indicated that they saw Chinese as hardworking (64 per cent), disciplined (49 per cent), and friendly (57 per cent). A smaller number stated that Chinese were business-minded (10 per cent), and smart, wise, or intelligent (eight per cent). An even smaller proportion of the respondents described Chinese as unfriendly (four per cent), shady, 'crooks & capitalists', and snakes (three per cent), and arrogant (one per cent).

We also administered a few questionnaires in the Free State. Below we provide a brief summary of some of these findings. Levels of interaction with Chinese people varied depending primarily on the interviewees' occupations and the demographic composition of their individual communities. All of the interviewees noted that there were Chinese people living in their towns. Almost all of the interviewees described Chinese people as 'keeping to themselves' and characterised their interaction with Chinese people as limited, mostly taking place as part of their jobs. A couple of the respondents were employed by Chinese owners at a local supermarket, and therefore had much more interaction with Chinese people. Another two respondents reported that they see Chinese customers as part of the hospitality/food industry, and one was landlord to a Chinese shopkeeper.

Interviewees' knowledge of the history of China and Chinese people appeared to be correlated with their level of education. The only university graduate made references to the first waves of migration, admitting only scant knowledge about South African-born Chinese. He pointed out that third and fourth generation SABCs were no longer 'here', but identified a new wave of traders, and guessed at a total population of 60,000 Chinese people in South Africa – a large underestimate of the actual figures. At the other end of the spectrum, the two employees at the supermarket said they had no knowledge of Chinese history in South Africa whatsoever.

All interviewees, when asked about motives for Chinese people to come to South Africa cited business as the primary reason – to start businesses, trade, and find jobs. One respondent went as far as to comment that Chinese people 'go everywhere they can trade legally'. Another mentioned that Chinese people must enjoy South Africa because of the (political) freedom it offered them.

When asked to respond to the statement: 'some people say increased migration of Chinese will benefit the country', none of the interviewees disagreed. One respondent said she felt neutral about the statement, another agreed, and three strongly agreed. One respondent suggested that white Afrikaner businessmen might feel threatened by the influx of Chinese people – and behave territorially in terms of their business interests. He noted the high level of crime in his town, which, he claimed, is sometimes used to 'threaten' new shop owners and make a point.

Interviewees were also asked to comment on the impact of the Chinese presence. Two of the respondents said that it helps with local economic development through job creation; another stated that their presence assisted with local economic development through providing goods at cheaper prices. He also mentioned the industry and factories that the Chinese presence brought with it – especially large Taiwanese factories, and those in Lesotho. Still another responded that their presence 'helps, but is also a source of problems for local people' – but asked to have 'problems' changed to 'tension'. When asked why he thought the Chinese presence helps, he quipped that, 'the Chinese work as hard as I do!' and that they are polite, good with money, and provide good service. Our final respondent said she did not know, but that it was good that Chinese people give jobs to local people and make cheaper products available.

When asked to select adjectives to describe their impression of Chinese people, all interviewees chose 'hardworking'. Three out of four also chose 'disciplined'. Three out of four chose 'friendly'. The one who demurred cited language barriers as the problem, which made Chinese and locals suspicious of each other. This respondent also added 'business-minded' and 'intelligent' to his list. Finally, the two respondents who worked in the Chinese supermarket, also chose 'racist', but were not comfortable talking about it in front of their employer. On the whole, three out of four interviewees said that they were happy overall that Chinese people were in South Africa. One stated that he would like to get to know them better.

Conclusion

OUR MAPPING OF Chinese enclave communities in Johannesburg and in the Free State, based mainly on in-depth and short interviews, shows that Chinese in South Africa are a diverse and complex group that defies simple generalization. Chinese South Africans, Taiwanese South Africans, and the new Chinese migrants vary in terms of generation/length of stay in South Africa, age and gender, and English-language skills. While most Chinese South Africans have moved into the professions, migrant communities from both Taiwan and China come from mixed educational and occupational backgrounds. While some have immigrated to South Africa as investors or workers, others have come to join families and friends. Many of those who lack English skills or greater resources have ended up running/owning restaurants or small 'China shops' selling 'cheap' goods produced in China, or, where possible, have become grocers[13]. We should note that the increasing number of small-scale 'China shops' (whether owned by Chinese or Africans selling China-made goods) parallels and facilitates the rising circulation of commodities produced in China, and responds to the increasing desire for cheap affordable consumer products, mainly by poorer black South Africans. Furthermore, among our interviewees, many of them or their children are (passport-carrying) South African citizens. Needless to say, this complicates questions of citizenship, political allegiances and the nation-state, but also of identity, belonging, and home. The timing of their migration, in terms of what is occurring in China, in South Africa, and globally, together with their individual differences have an impact on their ability to adapt to their adopted homes and succeed in business.

Tensions and divisions between and amongst communities have shifted over time as new migrants become settled and newer migrants arrive; the fault lines of difference move over time. With large numbers of new migrants entering into the country illegally and entering into the retail trades, there has also been an increase in levels of crime and corruption targeting Chinese.

Thus far, while there are some tensions with different groupings of South Africans, most of those we have interviewed or surveyed seem to maintain fairly open-minded views of the Chinese. The vast majority mentioned that Chinese were hard-working and disciplined. Most also said that Chinese were generally friendly.

In terms of the economic impact of Chinese in South Africa, notwithstanding some complaints about the low quality of China-made consumer goods, many South Africans are pleased at the greater availability of affordable products. At the same time, there was an increasing awareness of the challenges presented by Chinese merchandise and Chinese traders to local industries and local businesses. It should also be noted, however, that amongst the several dozen Chinese we have interviewed over the past 18-24 months, they provide jobs for probably close to 2,000 South Africans or other African migrants, with 900 and 600 employed in two Chinese factories alone. Finally we noted a number of complaints about poor labour practices and low wages.

Social impacts are, of course, much more difficult to gauge. There are some clearly visible changes to Johannesburg's physical/spatial geography: the organic development of the Cyrildene Chinatown, the development of numerous Chinese distribution centres around the city, and increasing Chinese signage and/or architectural adornments. The impacts of Chinese migrations and Chinese businesses in small towns in the Free State were different but no less evident. There is now a plethora of Chinese restaurants serving a much wider range of regional delicacies, and increasing numbers of Chinese market stalls and grocery stores. Other impacts are more subtle, some positive and some less so. We noted that many Chinese did not speak English well, thus leading to periodic misunderstandings.

Despite language barriers, we would argue that the new Chinese migrants in particular, through their ability to move back-and-forth – and the fact that they do –, are playing a part in integration. They also give more substance to the idea of a 'global south,' thus contributing towards creating the identity and culture of this space, at the same time that this hemispheric space is shaping and providing possibilities for Chinese migrants to develop new networks as well as define the meaning of 'the Chinese.' Africa is very much a part of this southern hemisphere, which is also constantly being constructed and reconstructed by the materiality of the continent. In this context, China and South Africa, but also the Chinese whom we interviewed, are inextricably historically connected and always mutually constituting.

Footnotes

[1] Hart explains that at the same time, large numbers of small-scale industrialists in Taiwan came under enormous pressure to leave the country due to rising wages, escalating exchange rates, and high rents. Ironically, these conditions, she says, were created by the stunning pace of their industrial investment and export drive (2002:2).

[2] At the University of the Witwatersrand the number of first-year foreign students from ROC/Taiwan, mainland China, and Hong Kong, rose steadily from the mid-1980s through the 1990s, from 17 in 1986 to a high of 141 in 1997, then declining slowly to 53 in 2004. It is also worth noting that between the mid-1980s until the late 1990s there were also some South African students who reported that they spoke Chinese as a first language. For example, in 1986 there were 45 of these students and in 1997 there were 83. Findings of Park's research on Chinese South African identities indicated limited Chinese language abilities second- and third-generation Chinese South Africans; it is therefore quite likely that these numbers are inclusive of foreign-born Chinese who had become naturalized South African citizens. If this is the case, then numbers of (likely) foreign-born Chinese students at Wits exceeded 200 in 1997 and has remained between 215 and 230 ever since (YJ Park 2005.)

[3] These numbers were originally based on an 'off the record' comment by a former staff member of the Taipei Liaison Office; however, the figure seems to be regularly quoted by the Chinese language press in South Africa

[4] In the early 1980s part of economic reforms in China allowed families to occupy and farm a piece of land; however the land is still owned by the government. Each village has rights to some portion of land; this land is then divided equally amongst the families that live in the village. The individual families farm the land and then sell some portion of their produce back to the government, after taking a small share for themselves. These are not farmers in the commercial sense; rather the Chinese 'peasants' are similar to sharecroppers, with the Chinese state as the landowners.

[5]Recent research with Pakistani and Bangladeshi migrants in the Mayfair and Fordsburg areas of Johannesburg revealed similar preferences for Malawian and Zimbabwean staff. Several of the Pakistani informants were quite forthright with their opinions; Malawians and Zimbabweans were much better and harder workers than South Africans

[6]Unless otherwise specified, figures are from Census 2001, generated by Space-Time Research www.str.com.au. Most of the figures appear to include only the residents of the town proper; our research indicates that figures of adjacent townships/black locations would increase population figures by a multiple of 4 or 5

[7]From the Matjhabeng – IDP 2001 Spatial Analysis downloaded from www.matjhabeng.co.za/pdf-documents/Municipality/annexureA/socio-economic analysis.pdf.

[8]Downloaded from www.matjhabeng.co.za/towns.htm.

[9]One of our informants, however, reported the following figures: 600 whites in town, 100 whites in surrounding area, 4500 blacks in Poding-tse rolo township + 1500 Coloureds & Griquas

[10]One of our informants reported +/- 300 in town.

[11]One of our interviewees reported 4,000 – 5,000 in the local townships.

[12]One of our informants reported approximately 500-550 in town; +/- 4,000 in adjacent townships of Kgubetswana, Pameng, & Kanana

[13]New migrants from Pakistan mainly dominate the grocery/food business in small towns and townships.

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Conference Proceedings

Introduction

HOW SHOULD CHINESE and African civil society respond to the challenge of FOCAC 2009? That was the question addressed by some 30 activists, researchers and academics at Fahamu's two-day CSO FOCAC workshop in Nairobi from 26th- 27th November.

Africa's non-state actors have long played a vital role as a shadow 'peer review agency' in relation to the continent's old development partners. But they still have a long way to go to develop the same capacity and awareness where China-Africa relations are concerned. Fahamu's Emerging Powers in Africa programme believes that to achieve this African civil society activists and organisations will need to build alliances and establish a dialogue with their Chinese civil society and social movement partners.

The two-day workshop was intended to aid that process by providing a crucial platform for African, Chinese and Northern CSO actors, researchers and scholars to debate and discuss the outcomes from the 4th FOCAC Summit hosted in Egypt from 8th -9th November 2009.

It was also the occasion for Fahamu's China in Africa Programme to launch its policy research reports, originally commissioned in April.

Welcome Address

Ms Sanusha Naidu (Research Director, China in Africa Programme, Fahamu) welcomed the participants.

THE FOCAC MEETING showed that Beijing is aware of the importance of the civil society dimension to the China-Africa engagement, and realises that a truly 'win-win' relationship must be people-centred. This meshes with the emphasis of Fahamu's China-Africa project and AU Monitor project.

Fahamu had commissioned the research papers to be presented at the workshop in order to capture the civil society voice.

Session 1: Plenary

In the first session **Professor Horace Campbell (Professor of Political Science, Syracuse University)** set the scene with a Pan African perspective on China-Africa partnership. Relations between peoples, he argued, should be based on three pillars; struggles, common interests, and transformation

In the 21st century the humanity of Africans requires reparative justice. This should not be confused with the demand for cash reparations, but rather a fundamental repair of relations between people and the planet.

There were lessons to learn from the transformation of China in the past 40 years. This should be compared and contrasted with the approach of the World Bank, which aimed at the reconstruction of capital, not of human beings.

After 40 years the condition of African peoples has deteriorated. People are struggling for life itself. They can be inspired by Chinese investment in infrastructure -which demonstrates that transformation is possible.

The concept of *repair* starts with the reparation of what has been broken. What ideas have been set in motion for reconstruction of lives and environment? There is a need, he insisted, to break with the linear view of human progress, and to interrogate the traditional enlightenment thinking.

Professor Campbell argued for what he called 'a new fractal thinking', rejecting the idea that humanity must pass through the same stages as Europe. The traditional concept of 'development of productive forces' reproduces hierarchy.

China shares with Africa a common history of struggles of Africans and Chinese, against

French and British destruction - a tradition represented in Kenya by Dedan Kimathi. China wants a reorganised international community - this can only come about with reparative justice

We are living, he stressed, through a crisis of the international capitalist system - white supremacy is on the defensive. Brzezinski's proposal for a 'G2 partnership' is an invitation to China to be co-imperialists with the US. But African people have outstanding issues with the US.

Citizenship requires belonging to a society, as a precondition for enjoying the basic rights of citizens. This differs from the World Bank concept of civil society, which attempts to erode the concerns that arose in the course of anticolonial struggle.

The World Bank is on the defensive intellectually over its Structural Adjustment programmes, that conflict fundamentally with the aspiration of African societies to reproduce themselves as human beings.

Nyerere's concept of civil society, framed in the context of independence for Africa, acquires added relevance now that the World Bank is discredited.

The response to the current crisis amounts to 'socialism for the rich' - 'socialise the losses, privatise the gain'. So we are concerned when we see the Chinese talking of 'aid' and 'development'

The issue of climate change has to do with an identical model of domination of nature.

This needs to be interrogated, especially with regard to issues such as resource extraction and petroleum. Recent trends in the convergence of bio- and nano- info technology offers the possibility of a rapid transformation in the 21st century. The Sahara could provide energy for all Africa - but it could be destined for Europe

There are two models for education in civil society. It can be based on the reservoir of African knowledge systems; or it can be education for subordination, inherited from the old colonial system. Which will China support?

Africa like China wants textbooks rewritten to reflect the history of past oppression. If China has Confucius Centres - why should Africa not have Nyerere Centres for China (or Kenyatta, or Neto). Africa's message should be: "we don't want development, we want solidarity".

The issue of Africom is key. All African civil society opposes it - the transformation the continent needs, requires peace.

South-south relations require breaking the domination of former imperial powers. The reproduction of life itself is threatened. Humanity cannot go forward on the basis of the existing global order, which cannot provide secure access to such necessities as health, food, water, or electricity.

China should not repeat its past mistake in supporting Savimbi in Angola. It should realise that existing leaders will not be there in 10 years - Africa will be united.

Dr. Enyu Ma, (Researcher, Institute of African Studies, Zhejiang Normal University) followed with 'the Chinese perspective'.

She began by pointing out that there is little history of Chinese people having contact with foreigners. But civil cooperation is the new highlight of Sino-African relations in a range of areas including poverty relief, environmental protection, climate change, healthcare, and education.

Organisations such as the Chinese Peoples Association for Friendship with Foreign Countries, the All-China Women's Federation, and the All-China Youth Federation have sent technical training teams and organised exchange visits by volunteers' specialists and scholars.

Current features of civil society cooperation include:

- the promotion of trade through bodies such as the China-Africa Business Council,
- science and technology exchanges and cooperation, especially in agriculture,
- human resource training, including Red Cross personnel, medical training, and HIV training,
- education and culture, including Confucius Institutes (now totalling 21).

Zhejiang Normal University and the China Educational Association created the Institute for African Studies jointly for International Exchange. It actively explores academic exchanges, educational training and also cultural exchanges.

Environmental protection cooperation was also a strong theme at the Sharm el Sheikh FOCAC meeting. There was also a reference in the declaration to youth and women exchanges.

The Chinese African Friendship Association set up the China Africa Friendship Award in 2006. It has so far been awarded to 20 Chinese and 5 Africans.

African NGOs are also developing fast. Dr Ma argued that they should face the issues of their relationship with country and government.

Responsible African NGOs, she argued, should actively contribute to promoting the political integration and national unity of contemporary African countries and to safeguarding national and ethical unity. They should not be destructive forces to overturn states and overthrow governments, which is a different issue from overcoming governmental defects and preventing national power abuse. Meanwhile they should effectively supervise the power of the state and government and fill up the vacancy, maintaining the wellbeing and basic human rights of ordinary people. These complex missions make contemporary African NGOs a possible active force in balancing state and governmental power.

A number of points were raised in the subsequent **plenary discussion**. In particular,

- current cultural relations were largely a one-way exchange from China to Africa: how could this be corrected?
- the different concepts of civil society in Africa and China: the claim that 'They should not be destructive forces to overturn states and overthrow governments' was one that was hard to reconcile with, for instance, the role of civil society organisations in the overthrow of apartheid.
- China was traditionally centralised but more space was becoming available to civil society, which was new to China: its scope had grown recently, especially since the 2008 earthquake.
- civil society was a new concept to the Chinese government, but it was beginning to learn how to deal with it at home and abroad: how could Chinese embassies improve their skills in this?
- there was no necessary linkage between the development of capitalism and greater democracy. "state-directed capitalism' could still be very capitalist with little room for democracy, even despite a growing civil society space; but capitalism had an immense transformative capacity, and the question was not its abolition, but its reconstitution to a new stage.

In response, **Enyu Ma** emphasised that mutual civil society exchanges were developing.

Professor Campbell stressed that China cannot transform Africa. China can only deal with Africa as equals when Africans regain their dignity - and to do that ' 90 per cent of African governments must go'. He concluded that 'what is required is to live in dignity as human beings, and differentiate the intellectual constructs that denigrate Africans as human beings'.

He also saw the Middle East as central to the transformation of Africa. US Centcom in the Middle East was a base of US power in the region, and Israel as an occupying force could only continue with US support. There were forces pushing for war in the Sudan, which would plunge the continent into chaos and religious war. A continental campaign for demilitarisation was the answer.

Session 2

Research Presentation 1: *'China's Impact on African Society and Social Development'*

Anna Chen (Standard Bank, South Africa): *'Chinese Enclave Communities in Africa'*

Ms Chen explained that South Africa's Chinese community was chosen for the study as Africa's only fully mature Chinese community. It totals about 350,000 including the South African-born; Taiwanese; and those from the PRC - totalling in all over half the number of Chinese on the continent.

The oldest-established section of the community, the so-called SABC (South African-born Chinese) began arriving from the 1870s. They currently total some 10k, and are the only section of the community qualified for affirmative action as a group disadvantaged under apartheid.

The Taiwanese began arriving in the 1970s when the Taipei regime was closely aligned to apartheid South Africa. There are now estimated to be only some 6,000 Taiwanese remaining in South Africa.

The first Chinese from the PRC began to arrive in the late 80s to the mid-90s, as economic migrants. Originally hired by Taiwanese or by Chinese state-owned companies, many stayed on as immigrants, and their numbers grew after the establishment of diplomatic relations in 1998 and when private entrepreneurs started to arrive.

The research examines two communities in detail - Johannesburg, Welkom and Bloemfontein. It examined a number of points of friction, including such familiar charges as the poor quality of Chinese goods, poor labour practices, and the effect of Chinese competition on local employment. It also examined the intermediate position of 'SABC' Chinese, regarded as 'not white enough' under apartheid, and now as 'not black enough'.

Discussant: Dr. Liu Haifang (Institute of West Asian & Africa Studies), commended the research paper as enriching the racial history of all South Africa. It would also help the Chinese enrich their understanding of the Chinese diaspora.

Dr Liu was herself researching the mutual presences of Africans in China and Chinese in Africa. But she did question the characterisation of the South African community as the 'most mature' in Africa. Other countries also had mature communities, with a developed structure of voluntary associations, Uganda being one example.

She concluded that future research needed two 'legs'; the social and the economic, and the interaction between them. More attention should also be given to South African perceptions of the Chinese, including anti-Chinese attitudes.

She questioned the extent of the relevance of continuities with older attitudes. The role of state policies, and the isolation of Chinese communities, might be a more significant cause of anti-Chinese attitudes.

General Discussion:

- 'Compound communities' do not exist in South Africa, unlike in Botswana, or Lesotho, due largely to the lack of Chinese infrastructure contracts.
- 'collective living' has real economic advantages for Chinese migrants, as well as making up for the real language and culture barriers, and also offering greater security.
- Chinese communities in Cape Town had originally opposed the creation of a 'Chinatown'.
- what were the reasons for applying for Black Economic Empowerment (BEE) status for the Chinese?
- what were the economic forces pushing or pulling the Chinese to South Africa?

Research Presentation 2: Joseph Onjala (University of Nairobi, Institute of Development Studies) 'China's comparative trade, aid and investment behaviour in Kenya vis-à-vis India and the European Union'.

The research had found many repeating the stock complaints against the Chinese; they were seen as only using Chinese workers; as not concerned with social responsibility, tolerating poor work conditions, and exploiting natural resources too rapidly.

Chinese aid gave the impression that China prefers prestigious projects, and appears to be unconditional, supporting repressive regimes, and weakening the West's push for good governance. Its loans were seen as worsening the recipients' debt situation, as well as undermining industrialisation through cheap products.

The research had looked at specific sectors in Kenya, and asked how China's role differed in trade and aid, from others.

China's modest investments, it argued, created opportunity by going into sectors not seen as viable by existing investors. Employment levels were very low, and the firms' secrecy combined with their wide range of activities, made comparisons difficult.

But little difference could be found between the role of Chinese and of Indian firms.

Discussant: Brian Kagoro (ActionAid, Kenya) suggested that the study raised the question whether 'south-south' cooperation was any different to 'north-south'.

There had been major objections to what was seen as the self-interestedness of the North, and whether the 'north-south' relationship allows the protection of developing local markets, or would undermine the prospects of industrialisation.

There was also the broader question of whether the model of cooperation would affect or stall regional integration.

There was a 'Northern' form of 'conditionality' in the expectation by external investors, of a predictable legal framework, and for an anti-inflationary economic environment to establish creditworthiness, and a tax regime to attract FDI. Progressive tax regimes were frowned on.

Chinese investments were diverse, not just confined to one sector. There were points of resemblance with the US, which had colonised the rest of the world by presenting itself as 'ex-colonial'. Kenya had escaped the most 'vulgar' type of Chinese company bringing own labour.

How then could Kenya exploit the 'good difference' between China and the rest - its non-interference with national sovereignty? While EU investments were as diverse, China was swifter in implementation.

But did the Chinese approach leave an accountability gap? Accountability should be left to local sovereign institutions. But there was 'a big gap between what we know will happen to resources and to the proceeds from the resources. If that gap is not plugged, we could be laying the foundations of revolutions in 15 years time'.

Beyond national investment, there was a need for regional value chains. The paper needed to expand its treatment of regional integration.

Though China was less intrusive than the EU, they were still capitalists. 'The bottom line matters'.

General Discussion

- what was the role of Chinese agricultural investment in Kenya?
- does China support continental policies such as the regional economic communities and the New Partnership for Africa's Development (NEPAD)? A Chinese embassy was said to have given a grant to NEPAD for research into regional economic integration.
- we can't pass the buck to the Chinese'. Africa should have no illusions in China. In the short term it should aim for a relationship of 'unequal equals', based on cooperation with China to weaken the US and EU military power. In the medium term it should aim at multilateral relations with all powers. And in the long term, a United Africa able to stand up to China and any imperial powers.
- the new FOCAC action plan now addresses regional peace and security issues as well as cooperation with the AU and regional organisations. This was an example of China's own learning process from critics.

Panelist Responses:

Joseph Onjala said that as someone from an economics background he appreciated the political input. He pointed out that Kenya had importance as a regional entry point, and not only for its own resources. Arab buyers had expressed interest in Kenyan land.

Brian Kagoro saw bilateralism as the European method to destroy a strong AU and promote a race to the bottom. The Paris Declaration included a provision for regional integration and aid.

On the alleged difference in work culture between Chinese and Africans, he referred to the Africans who are working 19 hours a day in Europe.

The relationship with China required 'honesty and frankness'. China was better than 'the Euro-American mafia'. But it must not be allowed to go the same route.

Session 3: 'Economic perspectives and Competitive Behaviour'

Research Presentation 1: Tisidiso Disenyana (South African Institute of International Affairs): 'China's Manufacturing Exports and Africa's De-industrialisation'.

The sectors he examined were principally clothing and textiles; furniture; iron and steel; and leather and footwear.

Industrialisation had been seen as the way out of colonial dependence on raw material exports, and the import of manufactured products.

The economies of sub-Saharan Africa (SSA) were dominated by South Africa and Nigeria - between them they accounted for 50% of SSA's Gross Domestic Product (GDP) followed by the oil producers. Agriculture and services still dominate GDP though. Manufacturing is still significant in Nigeria Angola, etc, due to mining. Even in South Africa the services sector dominates the structure of the economy.

Between 1970 and 2007 manufacturing had declined as a percentage of GDP from 28% to 17%, largely under the impact of Structural Adjustment Programmes. Levels of indebtedness did fall, while FDI reached nearly 4% of GDP in the late 90s. Investment in research and development (R&D) was also low.

China's investment was concentrated in extractive industries in a few countries. South Africa was the only African country with investments in China.

The end of the Multifibre Agreement in 2005 led to a 25% drop in SSA exports to the OECD countries, while Chinese exports to the same countries grew by 85%. South Africa and Mauritius were the hardest hit.

However the paper argued that China was not to blame for the fate of the industry. This was rather due to structural weaknesses; low R&D, low skills investment, and low wages. China agreed to measures to offset the impact on South Africa, including temporary quotas and finance for up-skilling, but output fell when the quotas were removed, as the weaknesses had not been addressed.

Similar conclusions could be applied to footwear and textiles.

Discussant: Paul Kamau (Institute of Development Studies), found a number of positive features in the paper including:

- stress on the impact of Chinese investment on the manufacturing sector,
- definition of industrialisation,
- emphasis on the need for strategic engagement of African countries with China,
- direct and indirect impacts on African economies,
- need not to blame China for structural weaknesses in the domestic economy,
- emphasis on the creation of productivity, and appropriate industrial policies,

- need to make proper use of Chinese concessions on tariffs,
- need to promote use of Special Economic Zones (SEZs).

Issues that needed further clarification and insight included:

- difficulty in defining industrialisation,
- competitive and complementary trajectories were both addressed in the paper; but more emphasis was needed on the complementary,
- the analysis was over-concentrated on Southern Africa, especially with regard to clothing.

The South African clothing industry differs from others which are younger, so the impact on them was more severe. The data also needed updating.

General Discussion:

Several participants questioned whether industrialisation was still the way forward, and still an area where Africa could have a competitive advantage. Might services be a better bet? Could Africa not have its own model?

Service industries were also said to be held back by the lack of services integration in the process of regional integration, and by the lack of effective trade organizations for service providers. However, while taking several of the specific points on board, Paul Kamau still insisted that industry had an important part to play.

Session 4: 'Politics, Investment and Good Governance'

Research Presentation 1: Prof. KK Matthews (University of Addis Ababa, Ethiopia): 'An Assessment of Chinese companies in Ethiopia'

This was an empirical study. Over 50 companies had been approached at all levels. Ethiopia was a good case to study as the 'unofficial capital' of Africa and a regional power, enjoying special trade relations with the EU.

Africa was entering the 'Obama era'. Its future lay in its own hands, and it must decide its own agenda for peace and development. Africa had to decide how to use the interest off the new 'rising powers' for its own benefit.

A questionnaire had been distributed to companies and they were asked for their opinion. The responses from Ethiopians were very positive. Problems were identified. But 61% saw the relationship as very good, and 31% even described it as' excellent'.

Relations were growing fast, and low-cost good quality infrastructure was being completed on time. Chinese firms were highly competitive. Nevertheless there were mixed feeling on issues including respect for laws, rights of local employees, and cost accounting systems.

The issue was how to change challenges into opportunities.

Discussant: Professor Alemayehu Geda found that while the paper included useful information, his aim was to seek to improve it. The paper was long, yet the methodology had no theoretical basis, and no benchmark of evaluation.

The paper focused on FDI. He had hoped to see a theoretical framework for the motivation and nature and composition of FDI - this would have helped to shape the mass of information. He hoped there would be a theoretical section in the final version. As regards the survey method, the sample was not specified, nor was it possible to judge how representative it was, making it difficult to draw conclusions.

The database was drawn from the Ethiopian Investment Authority. But it was Professor Geda's understanding that of 900 firms only 192 were operating. The 'preinvestment' stage merely consisted of getting a license. The whole analysis could be based on 192 firms and therefore be much shorter.

There was also a problem with accuracy of data. The Investment Authority data was unreliable, and not matched by data on the ground. Some firms report to the Authority that they are in manufacturing, and then turn out to be operating in the service sector.

More specifically: some sources were not acknowledged. Terms need to be defined (eg Dergue, the name of the former ruling party in Ethiopia) and data needed updating.

Major points included:

- confusion on the definition of investment,
- all power sector investments were taken as investments when these are undertaken by government but financed by China. FDI is usually defined as undertaken by foreign owned companies as against 'quasi investment' such as Chinese funding of government investment.
- The 'concessionality of aid' was not defined or compared with others. Potential good points were sometimes missed. For example it appears that Chinese aid is less than that of other donors but the impact is greater - why?

It was necessary to:

- clarify the method, including the definition of investment finance,
- reduce reliance on investment authority data,
- summarise data and base conclusions on that.

Research Presentation 2: Jean Pierre Okenda (Association Contre l'Impunite pour les Droits Humains): 'Public and Private Investments in Katanga Province, DRC: Good Governance and Human Rights'.

He had adjusted the theme as restricted to the mining sector - the motor of Katanga's economy. Katanga province, the size of France, is the heart of the mining industry, and thus the sector has a direct impact on the human rights situation in the province.

Chinese investment started after a new law in 2002 opened up the sector for private investment. It intensified in 2004, and there was a visible growth in the trading houses that buy from miners.

In the public sector 2008 saw the DRC's $9bn deal with China. This will be matched by infrastructure investment. The mining sector will pay back the $9bn.

With regard to private investment, the study recaps the legal framework, socioeconomic rights, and international conventions, which the DRC and China have ratified, especially with regard to child labour.

There is a high prevalence of child labour in the mines and opencast workings in Katanga. Most Chinese processing plants get their minerals from these opencast mines. Of those working in artisanal mining an estimated 40%, totalling 40 thousand, are children. The paper argues therefore that the Chinese companies involved have an active and passive responsibility in this.

The DRC government has tried to tighten up - now no children are found working in Chinese factories themselves. But in trading houses, their suppliers still employ children.

There is a collective responsibility here, including the NGO sector. But the companies do nothing about this. The companies have a responsibility in terms of good governance.

In Katanga we can see a 'low governance situation'. Chinese companies are doing nothing to promote good governance. The Provincial Government launched an Extractive Industries Initiative and the 11th principle of the Initiative requires all companies to publish what they pay.

According to a DRC Senate report, of 237 companies operating in Katanga only 6 declare their earnings. There is a high level of fraudulent activity. Of all minerals extracted 90% go to China. Based on this the framework report tries to evaluate how companies discharge their obligations.

Environmental impact analyses are required. No companies have done this. It is difficult to argue that Chinese companies meet their responsibilities. Labour rights in Chinese companies employing Congolese are also far from being guaranteed. Other companies also have these problems but they are particularly notable in Chinese companies.

The project has also done a critical analysis, focused specifically on the formation of the joint venture. The main case examined was 68% Chinese and 32% Congolese. The problems centred on restructuring of the reimbursement of loans. The company was exempt from mining taxes. It was hard to see what the Chinese party was bringing to this deal. The exemptions from taxes and royalties were too high.

Discussant: Johanna Jansson (independent consultant) noted that fieldwork research in this area is rare and welcomed the paper as a crucial contribution to the literature. But it would benefit from improved structure and an analytical section. Acronyms and technical terms would need to be explained. The analysis needed to be conceptualised, contextualised and analysed.

It was difficult to present the provincial and national deals in one paper. Discussion of the barter deal was too short. It could be expanded or alternatively the paper could just focus on Katanga.

The barter deal section raised more problems than answers. The interpretation of the contract is contested, and needs to be separated from discussion of the private sector.

There was a need for more information on how investments are financed. By Eximbank? By private capital? What was the pattern of ownership? Who owns local small Chinese firms? What is the aim of their activity - national Chinese goals or short-term profit? How is the legal framework implemented on the ground?

On the issue of collusion by local corrupt officials with Chinese operators, how 'Chinese' is this issue? Is it simply a lawless situation which the Chinese take advantage of? This is a crucial conceptual component. Explanations in terms of 'Chineseness' should be avoided.

There was little on the role of the Chinese embassy in Kinshasa. When it was called, the Embassy didn't want to know. What are the power relations between the DRC politicians in Katanga and Lubumbashi?

General Discussion

Reference was made to the difficulty of identifying Chinese owners in the two preentations. Their relation to the state was often unclear, and private and state ownership were often difficult to distinguish. This confusion over ownership made it hard to hold Chinese companies to account.

Doubt was also expressed as to whether one single kilometre of road or rail had yet been built as part of the DRC barter deal. There was also some discussion of whether Chinese investments had distinctive features.

Panelist Response:

Jean Pierre Okenda said that the IMF rather than China was seen as the culprit for the state of the mining industry in Katanga. The barter deal had not yet entered into effect.

Professor Matthews pointed to the construction industry as a particular feature of Chinese investment in Ethiopia – Chinese firms had 70% of the road construction industry.

Professor Geda referred to the uncommunicative attitude of many Chinese firms. Of 70 firms approached as part of his own survey, only 32 had responded.

DAY TWO: PANEL DISCUSSIONS

1. International Development Cooperation and Strategies for Poverty Reduction outcomes from FOCAC 2009.

Guiding Questions:

- What is on offer?
- Does it fit the African expectation/agenda? Or is it more of the same?
- What are the implications for the EU, US and other Northern Partners?

Dr. Alex Vines, (Head of Africa Programme, Chatham House, UK) recalled that previous FOCAC meetings had been met with near-hysteria in the West. This time the fashion seems to have passed. On reading the Action Plan he felt the heart was in paragraphs 4.32 and 4.33, with a commitment to infrastructure spending totalling $10bn over the next 3 years. Also significant was the emphasis on 'peoples wellbeing' as a major theme.

In the past grants had been distributed fairly but Eximbank loans had only been available to creditworthy countries, against payment in resources. So although Premier Wen Jiabao claims that natural resources are not an issue, they are certainly an important ingredient for Eximbank.

Chinese infrastructural development aid was distributed fairly, and to every country - China gives aid to every country (except those with relations with Taiwan), not only to those with natural resources.

Loans however go to those judged creditworthy - such as Angola, DRC, Equatorial Guinea, and Guinea Bissau. By western standards, China is secretive on aid and export credits, which raises suspicions. These could easily be addressed by accepting standards compatible with those set by the Organisation for Economic Co-operation and Development (OECD). Accountability and transparency matter.

China is changing on this; it used to hint that it was hypocrisy of the West to accuse China, but now its attitude is more nuanced. China has begun to address OECD guidelines. The Commerce Ministry began talking to OECD in 2005. In 2007 the Chair of the National People's Congress criticised 'irresponsible companies'. And the 'nine principles' have been issued to guide the conduct of Chinese companies overseas.

Premier Hu Jintao has called on companies to be more responsible, and Corporate Social Responsibility (CSR) guidelines from the Commerce Ministry have been issued for 20 African countries. In November 2008 193 Chinese companies signed up to the UN global compact, including the major national oil companies.

But concerns remain in relation to infrastructure projects and loan terms. These centre on continuing allegations of preference for Chinese labour and materials; poor employment practices; bribery, and lack of transparency.

However Eximbank's Director has stated his view that 'transparency and good governance are the consequence of development not a cause' - in other words, that corruption is acceptable as long as you have a long-term trajectory of growth and development.

Other issues on which concern continues to be expressed include poor quality workmanship; fakes, and lack of environmental due diligence. There is also the continuing issue of unfair competition through state support to Chinese companies, resulting in lower profit margins that local and western competitors cannot match - though it can also be said that Chinese firms take greater risks.

There is a growing sense of competition with the West, but it is increasingly managed. And China does deserve credit for forcing the EU to unite to hold an EU-Africa summit; we have also seen an India-Africa forum, a Korea-Africa forum, and Turkey opening 20 embassies in Africa. China 'puts a spine into Western policy towards Africa'. This has been reflected in official discourse from the west - in this sense, Obama's July speech was only a development of existing discussion.

But competition for natural resources is intensifying. China currently gets 33% of its imported crude from Africa. Most African oil goes to the EU and US. But China aims to increase the percentage of its oil imports sourced from Africa to 40%. The US plans to increase the African share of its oil imports from 15% to 25%.

China has been offering some amazing deals. In Nigeria China National Offshore Oil Corporation [CNOOC] offers to take 1/6 of all Nigeria's oil. In Guinea, a Chinese firm has offered $6-9bn for bauxite, with a $3m down payment. There is the infrastructure for resources deal in the DRC, and the recently announced $8m Zimbabwe package. This does give rise to fears of mortgaging future revenues.

Dr. Li Pengtao (Institute of African Studies, Zhejiang Normal University) argued that in analysing the Premier's speech it was difficult to distinguish the new measures from the old. Measures relating to science and technology, medicine, and education were there previously but new measures included partnership on climate change; financing capacity, and opening up China's markets to African products, as well as proposals for a joint research and exchange programme.

It was difficult to tell what was totally new as many of the measures announced were already being carried out in practice. However the Chinese Government will give continued attention to capacity building. The detailed measures announced will be easy for the international community to measure.

Not all the measures were directly related to poverty reduction. The references to think-tanks and to scholar exchanges were important.

The importance given to capacity building for African countries reflects China's understanding of the importance of national independence. China's Premier Wen Jiabao has stressed the need to strengthen the self-development capacity of African countries. But China would caution African countries against seeking any single external model.

Dr Li accepted that China does not add good governance and human rights into its criteria. But he argued that Chinese society is increasingly open to the outside world, and more open to democracy, and that this also shows in China's African policy.

Western policy focuses on aid. But this approach, he pointed out, has been challenged, most notably in Dambisa Moyo's recent book 'Dead Aid'. As Rwanda's President Paul Kagame recently put it 'I would prefer the west to trade with Africa rather than hand out aid'.

There are many problems with Chinese companies, Dr Li agreed. But how long have these companies been in Africa? Many are not familiar with these issues even at home. These companies should be allowed a learning process.

Plenary discussion points raised included:

- China's increasing orientation to international reference points where these have been multilaterally negotiated - though it was pointed out that the reference to the Millennium Development Goals had been in the earlier Beijing declaration. There was agreement on the need for greater African representation in world bodies especially the G20 - the existing arrangement by which only South Africa was represented and the AU could be seated at the Chair's discretion, was unacceptable.
- The trend to combine loans with infrastructure deals was agreed to be significant. This was a more sustainable process than aid but to ensure mutual benefit, loans should be linked, and be seen to be linked, to repayment capacity. The mechanism should be properly assessed and be seen to be viable and sustainable.

There were indications that Chinese loans were not only forthcoming against future flows of raw materials, but might also be available against sovereign guarantees - particularly for loans to small and medium enterprises (SMEs).

However great concern was expressed, especially by Alex Vines, at the implications of the Guinea deal, and the involvement of a nexus of quasi-state and private interests linked with Sonangol and Angolan elite interests. This could prejudice peace efforts in West Africa as a whole and jeopardise post-conflict work in Liberia and Sierra Leone, where ethnic militias were being reformed. Chinese corporate interests were undermining Chinese diplomatic efforts, and the constructive engagements for example in Sudan which is now widely recognised.

On the other hand, with regard to the issue of corruption, the point was made that perceptions may be skewed by the greater experience of Western interests in this area, that had developed 'respectable' methods, such as the use of 'facilitation agents', that had whitewashed the activity to a certain extent.

2. 'The Chinese firm in Africa: What impact on the ground?'

Guiding questions included:

- Distinguishing between Chinese State Owned Enterprises and Private Firms in the African market.
- How companies are responding to corporate social responsibility in African markets and societies?
- Whether there is evidence of the Chinese environmental guidelines that monitor the behaviour of Chinese companies?
- What type of strategies that exist for African CSOs to engage Chinese companies on social justice issues?

Professor Alemayehu Geda (Addis Ababa University) drew on the research in which he had participated on the economic impact of Chinese firms conducted by the African Economic Research Consortium (AERC) and a consortium of economics departments at Anglophone universities. It had just finished 26 country case studies covering trade, aid, and investment as well as governance aspects, and a specific case study of Ethiopia.

The major findings included:

1] the direct impact of Chinese firms; this was both competitive and complementary, displacing local firms in some cases - the Ethiopian shoe and leather industries being one example.

2] indirect impacts - African exporters thrown out of third markets. The research had covered 70% of imports from Africa in 13 countries. The conclusion from the evidence was that many African firms had been displaced from the US market by Chinese competition.

He added however that this need not be a bad thing if African firms and countries were taking the place vacated by Chinese firms moving up the ladder. But the evidence shows that except for South Africa and Kenya, they were not doing so. These two seem to be the only African countries among 30 examined, which appeared to have the capacity to follow the so-called 'flying geese' model.

The positive impacts from Chinese involvement appeared to be the benefit to African firms from lower cost machinery imported from China; and improved competitiveness resulting from China's infrastructure provision. Consumers also received benefit from lower cost purchases - even though they complain about quality.

In his own Ethiopia case study Professor Geda had found no evidence of a serious CSR strategy by Chinese firms, beyond a little charitable donation. Nor did the firms examined seem much concerned about their environmental impact - but this was primarily the responsibility of government.

The main CSO role in relation to Chinese investment was for investigative journalists, and in organising unions.

Wang Donying, (Global Environment Institute (GEI), Beijing) outlined the work of the Institute. She drew up a balance sheet of China's African involvement. On the upside were:

- local recognition,
- provision of infrastructure,
- business partnerships,
- leverage to western investors,
- a poverty relief model.
- On the downside:

- consumers were devouring natural resources,
- the shift in China's reputation: 'from comrades to capitalists',
- negligence of labour laws,
- poor environmental record,
- deficiencies in community relations.

Africa must have its own development agenda. China's model of GDP growth coming first should not be repeated. China had paid a high price for development. But there was a potential Chinese role in African sustainability.

A GEI research survey on the environmental behaviour of Chinese overseas businesses to be released early in 2010 had identified a number of issues:

- Chinese businesses were often located in environmentally fragile areas, with no environmental regulations. Transparency was often poor, as was community communication. Few projects undertook Environmental Impact Assessments, and there was little awareness of conservation mechanisms.
- there were usually no measures in place to reward good environmental behaviour and punish polluters. There was little stakeholder engagement and no 'green loan' standards.

GEI, founded in 2004, saw its mission as being to design and implement market-based models for solving environmental problems. Its strategy was to enhance conservation and livelihood security in China and the developing world. Its projects operated through three stages; research, pilot projects, and policy advocacy. Its programmes currently covered climate change, biodiversity, and rural development.

It worked to draw up suggestions for draft legislation. It had also been working on environmental guidelines for Chinese companies abroad, to be released by the Ministry of Environmental Protection and the Ministry of Commerce. Guidelines for forestry had already been released.

It was also interested in rural energy and biogas as a solution for climate change and biodiversity and was conducting a research project on this in Sri Lanka. It was open for African applications in this area. GEI was also seeking other African sustainability projects. GEI would also be organising a side event at Copenhagen on technology diffusion.

Anthony Yaw Baah (Labour Research Resource Institute [LARRI] Namibia, affiliated to African Labour Research Network [ALRN]) explained that his organisation had recently published the pamphlet 'Chinese Investment in Africa' with a target audience of trade union leaders in Africa. The ALRN network was formed in 2001 by activists in five African countries – Ghana, Nigeria, Namibia, South Africa, and Botswana. This has now risen to 12. Angola and Benin are the only non-Anglophone countries involved.

In the Chinese companies investigated, the report consistently found:

- tense labour relations with African employees,
- a hostile attitude by Chinese employers to trade unions. When they came to countries where trade unions are accepted such as South Africa, Ghana or Zambia, they were unaccustomed to dealing with them,
- no benefits,
- no social security paid.

Africa sees China as better than the traditional partners, due to bitter experience. But, he argued, it must engage the Chinese more effectively as a collective.

How can this best be done? ALRN would advise trade union leaders, as it has in Ghana, to:

- encourage Chinese companies to join local employers associations. This is not part of their business culture,
- train industrial relations officers in the Chinese language,

- get governments to translate labour laws into Chinese,
- engage Chinese embassies.

The Chinese Embassy in Ghana gave the report a positive reception, and came to the launch.

Plenary discussion points raised included:

- similar problems had been faced in reaching out to workers in Katanga - some had to fill in questionnaires in secret,
- grass roots action would solve these problems, not governments,
- a code of conduct on workers' rights was needed for companies in Africa,
- the forestry guidelines were a pointer to the future but guidelines were not as effective as government regulation,
- many private companies never register with the embassy or MOFCOM,
- at least one Chinese ambassador had been 'heartbroken' at the conduct of Chinese forestry companies but had no leverage over them,
- cheap products and poor quality are a problem in China too,
- how legitimate is the argument that criticism should be directed primarily at African government for failure to regulate when we do not hesitate to criticise western MNCs?
- how Chinese are some Chinese multi-national companies (MNCs)?
- the same attitude should be taken to all MNCs, whether Chinese or not,
- China has an Africa strategy, but the reverse is not the case. To remedy this needs human capital. Corporations have this but Africa currently does not.

3. 'The role of the media in reporting on China-African engagements'

Guiding Questions included:

- Is there an accurate reflection of the China-Africa engagement?
- What informs this bias, if any, on China-African relations?
- To what extent is African media biased by Western media reports on Africa's China engagement and how much of this influences domestic public opinion in African societies?

Reg Rumney (Director, Centre for Economic Journalism in Africa, School of Journalism and Media Studies, Rhodes University) began by emphasising the fact that the media may not be a genuine source of information due to the fact that the media is too vast and not every journalist is a professional journalist. Depending on their motives and funders, media houses may present the same piece of information differently. However there are many efforts in many media houses of searching for the truth and presenting an objective picture.

Karambu Ringera, (School of Journalism, Nairobi University) said that her students at the University of Nairobi wonder what the motives of Chinese involvement in Africa are, especially in Kenya. She said the cultural exchange programmes between China and Africa should go both ways, with Chinese coming to Africa and Africans going to China to learn more about both cultures. She also added that common people in rural areas should be informed about the role of Chinese in Africa and in the villages so that they can know how to treat them.

Robert Watkinson, (Portland, Nairobi, Kenya) explained that Portland has been funding research work on China in Africa. During the last few months of research and media coverage, he noticed two important points:

- There are many Chinese stories/or more Chinese cover Africa than there are Africans who write about China or Africa-China relations,

- Even among those Africans who report on Africa-China relations, almost all of them are from the North of Africa. He mentioned the need of increasing sub-Saharan voices in the world media about China-Africa relations.

4. 'Economic Cooperation and Social Development Exchanges'

Guiding Questions included:

- Do agriculture demonstration centres assist in technology transfer?
- What implications does this have for small scale farming practices?
- What type of impact is needed on the ground for social development?

George Marechere (African Agricultural Technology Foundation, Nairobi) spoke on *Agricultural Demonstration Centres and Technology Transfer.* He asked if we were getting our priorities right. China can feed its population of 3 billion, while Africa cannot feed its population of less than 1billion. In both cases the agricultural sector is largely made up of small farmers.

The African Agricultural Technology Foundation (AATF) has as its main objective to help food security. If we look at the comparative productivity of Chinese and African agriculture, we should ask why the discussion is dominated by the question of whether China is taking resources out of Africa, instead of asking why Africa is not learning from China.

Agricultural Demonstration Centres have a key role to play here as points of excellence to disseminate technology. However, examination of the progress of the demonstration centres promised under FOCAC 2006 shows that between 2006-2009 not much happened apart from signings.

Is the message being taken to Africa's farmers? There are great opportunities here for Africa. African farming is characterised by unsuitable varieties. There are problems with diseases, pests, weeds, lack of fertiliser, drought, floods and lack of transport to market. Wrong prices are also a disincentive. There is need for action on water saving.

It would be an advance if 10% of national budgets could be earmarked for agriculture. Africa needs to do its homework. China has a strategy for Africa but not vice-versa. There was a need for monitoring of the FOCAC commitments. Chinese loans do come through quicker than Western support. Was this good, or did it lead to corruption and lack of accountability? And if Chinese loans are resource-based, are we mortgaging our children?

Brian Kagoro (Action Aid) addressed the topic *What type of impact is needed on the ground?* He started by quoting the late Tajudeen Ahmed; 'we eat what we do not produce and we produce what we do not eat'. Outside some pockets of success - Mozambique, parts of Ethiopia - that is still true today.

After the stage of state-driven capitalism, Africa entered a period of 'Structural Adjustment'. So the ambitious post-independence structure of research centres was dismantled before they could have delivered.

Zimbabwe used to feed the whole of the Southern African Development Community (SADC). How did they do it without China? China does not have a violent unsolved agrarian question. The same problem exists in different forms in Kenya, Cameroon and Zambia. It is linked to the national question. In some ways the problem of integration can be performed better through authoritarianism in respect of the ability of the central state authority to lead policy formation and rollout.

In these countries the unresolved national and agrarian question is part of the crisis, which cannot be examined outside the reality of conflict. There is also the technology issue. Here the IMF and World Bank policies enabled us to go backwards not forwards.

Till the late 80s peasant farmers produced most of Zimbabwe's food. There is a dishonest production of knowledge on this matter. The food production problem should be disconnected from western racist views on the white farmers - though it is true that the takeover of white farms did lose Zimbabwe foreign currency. This diversion is linked to a wrong policy choice - not just by the regime but also by the IMF which made Mugabe withdraw support services from poor black farmers. The problem was not the seizure of white farms but the failure of the state to give title or secure tenure to the new owners - so banks would not give loans to new farmers.

Last season Zimbabwe produced almost enough to feed itself - the new regime has given a little finance to farming. It was important not to 'hide racism under the guise of efficiency'.

It sometimes seems as if there is a conspiracy between God (desertification, locusts, floods) and man-made globally induced crisis. There is a turn towards export-led growth - then food prices collapse. States are required to liberalise to attract foreign capital; then the millennium boom creates a new artificial crisis when the boom collapses.

On top of this there is an institutional inability to meet development needs, and the consequent problem of 'assistance drunkenness'. Given this, we require greater accountability to various sources. We need to be able to assess how well-aligned or well-intentioned support is, to a national development framework.

Are agricultural research centres beneficial? Yes, but the peasant farmer keeps learning new technologies. We must ask how knowledge can be disseminated in culturally sensitive forms - respecting indigenous knowledge of such matters as seed varieties. Africa needs to bridge the resource gap between the requirement to feed the population, and the drudgery of women through outdated technology.

The cost of production is very high and is linked to the cost of energy. Water, as a finite resource, has to supply a growing population. All these factors must be integrated into national development strategy including all aid, assistance, and investment from whatever source. The watchwords, he concluded, must be: diversify; indigenise; and above all, 'adapt adapt, adapt'.

Concluding Remarks

Stephen Marks (Co-ordinator and Research Associate, China in Africa Programme, Fahamu) highlighted that the discussion had marked a step forward from the previous China-Africa civil society dialogue workshop in Nairobi in April 2008. Instead of the presentation of opposed and entrenched positions, there had been a genuine exchange of experience and opinion, and there was real enthusiasm for continued cooperation and exchange.

In particular, there was active interest in the next steps envisaged for the programme, including journalist exchanges, and further seminars, exchanges and workshops, including programmes for activists on environmental and labour issues.

Emerging Powers in Africa Programme
Fahamu- Cape Town

Established in 2008, the Emerging Powers in Africa Programme initiated by Fahamu – networks for social justice, is one of the few forums that promotes a Pan-African CSO perspective on the increasing footprint of China, India, Brazil, South Africa and other southern actors engagements across the continent. Through the promotion of debate and advocacy as well as serving as a knowledge hub, the programme is aimed at understanding the comparative impact and engagement of the emerging Southern powers in Africa on issues of social justice struggles.

www.pambazuka.org/en/category/emplayersnews/