

**UNIVERSITY OF ECONOMICS IN BRATISLAVA
INTERNATIONAL PROGRAMMES INSTITUTE**

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**ANALYSIS OF DRIVERS OF CHINESE
BUSINESS LEADER'S STRATEGY FOR
EXPANSION INTO AFRICA. THE RESOURCE-
SEEKING AND MARKET-SEEKING
PERSPECTIVE.**

Diploma Thesis

2014

Bc. Lenka Hohošová

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Declaration

I hereby declare that this diploma thesis was composed by me and that I listed all used sources of references.

Date: 2.5. 2014

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Bc. Lenka Hohošová

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In this way, I would like to thank Ing. Peter Verček, PhD. for his help, professional guidance, valuable advices, suggestions and guidelines for processing the diploma thesis.

ABSTRACT

HOHOŠOVÁ, Lenka: *Analysis of drivers of Chinese business leader's strategy for expansion into Africa. The resource-seeking and market-seeking perspective.* – University of Economics in Bratislava. Institute of International Programs; International Management. – Ing. Peter Verček, PhD. – Bratislava: UMP EU, 2014, number of pages (95p.)

The goal of the diploma thesis is the analysis of Chinese outward direct investment in Africa and clarification of motivation and strategies of Chinese investors to invest in the continent. The final work focuses on Chinese economic strategy, her embrace of globalization, clarification of the driving forces and relevant determinants of Chinese ODI, analysis of the investment in countries rich in oil and assessment of its influence on economic development of African countries. The work is divided into six chapters. It includes 20 charts, 7 tables and 4 attachments. The first chapter is devoted to the determination of Chinese biggest achievements in economic development and important factors behind them. It also focuses on Chinese international trade and investment, especially the development of outward direct investment and its geographical and sectorial distribution. The second part defines aim of the thesis, and the third one methodology and research methods. The fourth chapter deals with the analysis of the development of China-African cooperation and with a very criticized issue of neo-colonialism in Africa. We also evaluate which determinants are the driving forces of Chinese investment into Africa. The subject of the fifth chapter is the analysis of the African countries with authoritarian regimes, the Chinese investment in states rich in oil and the identification of the relationship between these types of countries. The final chapter is devoted to the identification of the African countries, where China has a great influence on their economies and the quantification of this influence of her investment based on chosen macroeconomic indicators.

Key words: ODI, China-African cooperation, relevant determinants, raw materials, oil

ABSTRAKT

HOHOŠOVÁ, Lenka: *Analýza hnacích síl stratégie čínskych business lídrov pre expanziu do Afriky. Perspektíva zdrojov a trhu.* – Ekonomická univerzita v Bratislave. Ústav medzinárodných programov; Medzinárodný Manažment v AJ. – Ing. Peter Verček, PhD. – Bratislava: UMP EU, 2014, počet strán (95s.)

Cieľom diplomovej práce je analýza čínskych priamych investícií v Afrike a objasnenie motivácie a stratégií čínskych investorov pôsobiť na tomto kontinente. Záverečná práca sa zameriava na čínsku hospodársku stratégiu, jej prijatie globalizácie, objasnenie hnacích síl a relevantných determinantov čínskych priamych investícií v zahraničí, analýzu investícií v krajinách bohatých na ropu a posúdenie ich vplyvu na ekonomický rozvoj afrických krajín. Práca je rozdelená do šiestich kapitol. Obsahuje 20 grafov, 7 tabuliek a 2 prílohy. Prvá kapitola je venovaná stanoveniu čínskych najväčších úspechov v hospodárskom vývoji a dôležitých faktorov v ich pozadí. Zameriava sa tiež na čínsky medzinárodný obchod a investície, najmä na vývoj priamych investícií v zahraničí a ich geografickú a sektorovú distribúciu. Druhá časť definuje cieľ práce, tretia metodológiu a výskumné metódy. Štvrtá kapitola sa zaoberá analýzou vývoja čínsko-africkej spolupráce a veľmi kritizovaným problémom neokolonializmu v Afrike. Takisto sme zhodnotili, ktoré faktory sú hnacími silami čínskych investícií do Afriky. Predmetom piatej kapitoly je analýza afrických krajín s autoritárskymi režimami, čínskych investícií do krajín bohatých na ropu a identifikácia vzťahu medzi týmito typmi krajín. Záverečná kapitola je venovaná stanoveniu afrických krajín, kde má Čína veľký vplyv na ich hospodárstvo a kvantifikácií tohto vplyvu jej investícií na základe vybraných makroekonomických ukazovateľov

Kľúčové slová: PIZ, čínsko-africká spolupráca, relevantné determinanty, nerastné suroviny, ropa

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Introduction

After more than 30 years of sustained rapid development and the implementation of the reform and open-door policy in 1978, China has achieved significant and remarkable economic growth. The country is now second world's largest economy, biggest exporter, major manufacturer and is holding the biggest amount of exchange reserves.

China has also opened her economy for inward and outward foreign direct investment. The fact is that foreign direct investment flowing into China is one of the most publicized topics, but recently, not enough attention has been paid to investments flowing in opposite direction from China. Although most of the Chinese investments flow into Asia, particularly in Hong Kong, China is also investing heavily into other regions of the world, including Africa.

Living standards in China have grown rapidly over years; consequently, the demand for raw materials has increased too, mainly for energy resources. The country possesses limited amount of these resources and for example is a net oil importer since the year 1993. That's why; the satisfaction of such a demand is possible only by external resources and specifically in two ways: by the purchase at international commodity markets or by means of investment abroad, which ensures full or partial ownership of companies extracting raw materials. Countries rich in mineral resources are mostly developing countries or even belong to the group of least developed countries (LDC). They are characterized by high indebtedness, low standard of living, and many of them are ruled by authoritarian regimes. In case of Africa, the majority of the countries are LDC. China believes that her engagement in these economically undeveloped and politically fragile countries can bring advantages for both sides. On one side, there is China with huge growth requiring access and import of natural resources, which are abundant in Africa. On the side of Africa, China improves the infrastructure, offers aid, invests in health and education system and can help to reach sustainable growth in these countries.

Transnational corporations in economically developed countries usually avoid investing in these regions because of political and economic instability, corruption, wars or unenforceability of rights. They prefer to invest in more easily accessible and uncontroversial countries, where they expect fewer complications. These markets are therefore more or less saturated by the developed countries.

However, Chinese investments in Africa are often perceived in negative way, mainly by Western countries, which see in China a new colonizer of black continent. Chinese engagement in African oil countries and the search for raw materials are most criticized issues by the West.

Chinese investments are definitely not selfless and cause a lot of damage too. Especially in the field of environmental protection, China has little experience, since this aspect was perhaps the last that Chinese firms take into account. The improvement of macroeconomic indicators in individual countries in recent years, since China is engaged in Africa, may mean that Chinese investments help to solve African problems.

1. China's economic strategy and embrace of globalization

China's economy went through different phases during her existence and has experienced many years of ups and downs. It was the world's largest economy from the early 1500s until the early 1800s. By 1820, China accounted for one third of the world GDP. However, this reality changed in the next two centuries, when there was a huge drop of the economy between 1820 and 1950 and afterwards, since 1978, meteoric rise again.¹

1.1. Key economic achievements

Modern China's economic development can be categorized into three stages:

1. The heavy capitalization and prioritized development of heavy industries (1949–1978)
2. Reform and opening up of China's economy(1978–2002)
3. Coordinated development based on the scientific outlook on development (2003–2014)

Concerning Chinese huge growth (since 1978), the country has experienced two important transformations over the past three decades. Specifically, China has changed from a rural, agricultural society to an industrial one and from a planned economy to a market-oriented one. Moreover, the poverty rate decreased very significantly and China has reached all the Millennium Development Goals. Even though the growth rates were different across regions of China, we have to state that growth was remarkable everywhere. There are also other successful results which accompany such a huge growth; for example, four of the top ten banks of the world are Chinese², 89 Chinese companies made it to the list of Fortune Global 500 in the year 2013³, up from 73 in 2012, 61 in 2011, and 34 in 2008⁴. Three of the companies are among the top ten list, beating the US and Japan.

¹ Maddison, A. 2001. *The World Economy: A Millennial Perspective*. Paris: OECD Publishing, 2001. ISBN 92-64-18608-5

² *Bank Rankings – Top Bank in the World*. [quo.2014-02-20]. Available online: <<http://www.accuity.com/useful-links/bank-rankings/>>

Fortune: Global 500. [quo.2014-02-20]. Available online: <http://money.cnn.com/magazines/fortune/global500/2013/full_list/>

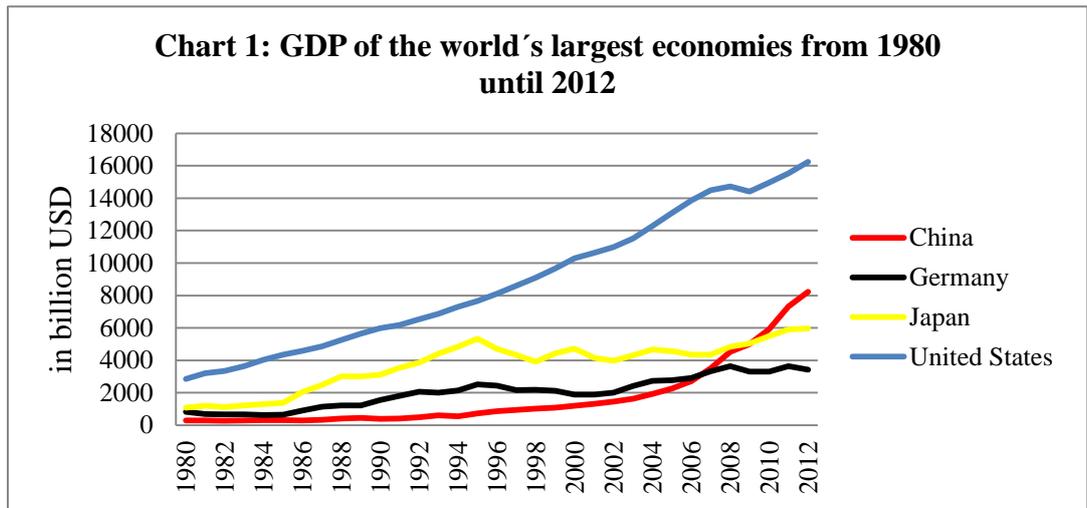
³ *Fortune: Global 500*. [quo.2014-02-20]. Available online: <http://money.cnn.com/magazines/fortune/global500/2013/full_list/>

⁴ Mourdoukoutas, P: *World's 500 Largest Corporations In 2013: The Chinese Are Rising*. [quo. 2012-02-20]. Available online: <<http://www.forbes.com/sites/panosmourdoukoutas/2013/07/17/worlds-500-largest-corporations-in-2013-the-chinese-are-rising/#>>

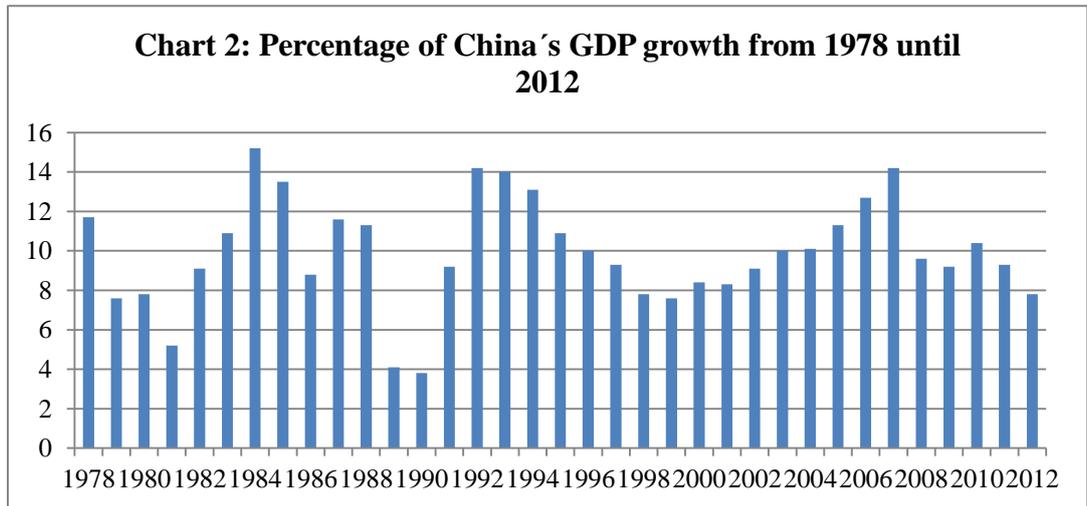
Moreover, China is also the country with second largest highway network, three longest sea bridges and six of the ten largest container ports in the world.⁵

We would like to point out her biggest achievements in economic development:

- **Rapid growth of the national economy:** Nowadays, China is a second world's largest economy right after US (third, if the European Union is counted as one economy). It has overtaken Germany in the year 2007 and Japan in 2010 which is visible in the chart 1. China is also the largest manufacturer and exporter in the world.⁶



Source: Author's processing based on IMF: World Economic Outlook Database



Source: Author's processing based on World Bank: World Development Indicators

⁵ World Bank: *China 2030: Building a Modern, Harmonious, and Creative High-Income Society*. [quo. 2012-02-22]. Available online: <<http://www.worldbank.org/content/dam/Worldbank/document/China-2030-complete.pdf>>, p.4

⁶ World Bank: *China 2030: Building a Modern, Harmonious, and Creative High-Income Society*. [quo. 2012-02-22]. Available online: <<http://www.worldbank.org/content/dam/Worldbank/document/China-2030-complete.pdf>>, p.3

After the reform and opening up period, China's economy became more stable and less volatile, despite the existence of economic cycles. There was slight decline of China's GDP growth in the year 1997 because of the Asian financial crisis, but the growth rate gradually climbed up again, and in 2008 because of the global financial crisis. The average growth rate of China from 1978 until 2012 was 9,86% which is significant and remarkable, and contributed to the steady and rapid increase in China's total GDP and GDP per capita. The three major forces which drove the Chinese economic growth are investment, consumption and net export.⁷

- **Macroeconomic stability:** This mainly reflects the tendency to low inflation and the sustainable level of public debt.

China's general gross government debt is quite low. The IMF estimates that the government debt was 22,9% in the year 2013 and it is expected to be less in the following years, for example 13,5% in 2018. China possesses a good position when we compare this to the world's largest economy US with the debt of 106% in 2013.⁸

China's consumer price index (CPI) as well as her economic growth is changing over time. „Before the reform and opening up—with the exception of the period of national economic difficulties from 1959 to 1961 when there were substantial fluctuations—prices of goods were stable and the CPI did not fluctuate too much in the planned economy.“⁹ It is obvious as the prices in the planned economy were determined rather by the government instead of market supply and demand.

This has changed after the opening up period. There were four rounds when significant inflation has occurred. In the early 1980s, the first wave started and was caused mainly by excessive investment growth and a large increase in fiscal spending. It was a consequence of the beginning of the reform and opening up period. “The second round occurred between 1984 and 1985 when overinvestment in fixed assets led to excessive total social demand, increase in wage income at a rate faster than the increase in labour productivity, and increase in production costs, which finally resulted in costs pressure. As the scale of infrastructure construction,

⁷ Li, W. - Fumin, S. 2010. *China's Economy*. Singapore: Cengage Learning Asia Pte Ltd, 2010. p. 89. ISBN-13: 978-981-4319-74-4

⁸ Data from IMF: World Economic Outlook Database

⁹ Li, W. - Fumin, S. 2010. *China's Economy*. Singapore: Cengage Learning Asia Pte Ltd, 2010. p. 89. ISBN-13: 978-981-4319-74-4

consumer demand, money supply and credit expanded rapidly, the economy overheated and intensified inflation.”¹⁰ The third wave happened in 1986 due to the mitigation of the central government’s deflation policy (1984–1985), consequence of which was serious demand inflation. The fourth round occurred during 1993–1995 when the economy of China started to grow rapidly after the tour of South China made by Deng Xiaoping. “This was largely caused by excessive expansion of FAI and continuing financial chaos. After three years of governance, China achieved an economic “soft landing” in 1996.”¹¹

Concerning the development trends, we can assume that China shows a relatively stable rate of inflation, despite its fixed exchange rate, which has threatened the independence of monetary policy.¹²

Table 1: Development of China’s CPI inflation in the years 1970-2010 (in %)

	1970 - 2010	1980 - 2010	1990 - 2010	2000 - 2010
China	n/a	7,8	6,6	2,1

Source: Author’s calculation based on IMF: World Economic Outlook Database

- **An evolving industrial structure:** „Development is typically associated with a decline in agriculture’s relative importance in the economy, the rise of industry initially and then expansion of the service sector.”¹³

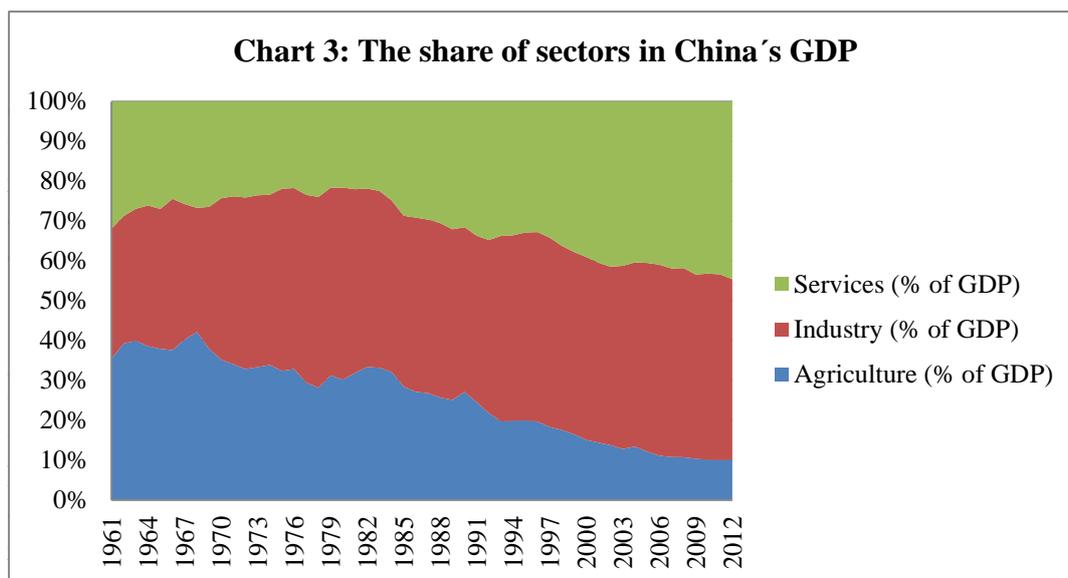
¹⁰ Li, W. - Fumin, S. 2010. *China’s Economy*. Singapore: Cengage Learning Asia Pte Ltd, 2010. p. 90. ISBN-13: 978-981-4319-74-4

¹¹ Li, W. - Fumin, S. 2010. *China’s Economy*. Singapore: Cengage Learning Asia Pte Ltd, 2010. p. 90. ISBN-13: 978-981-4319-74-4

¹² Prasad, E. - Le, Y.: *The Renminbi’s Role in the Global Monetary System*. [quo. 2014-02-25]. Available online:

<http://www.brookings.edu/~media/Files/rc/reports/2012/02_renminbi_monetary_system_prasad/02_renminbi_monetary_system_prasad.pdf> p.33

¹³ Brandt, L. - Rawski, T. 2008. *China’s Great Economic Transformation*. New York: Cambridge University Press, 2008. p. 39. ISBN-13 978-0-511-39680-9



Source: Author's processing based on World Bank: World Development Indicators

China's industrial structure has shown a positive development. The primary industry has played less important role over years and its proportion as the percentage of GDP decreased from 50% in 1952 to a little more than 10% in 2012.¹⁴ Opposite trend is visible in the China's industrial sector which proportion increased from a little more than 20% in 1952 to 45,3% in 2012.¹⁵ The overheating and adjustment of China's economy have caused fluctuations of the proportion. Concerning the tertiary sector, its GDP share has also fluctuated over years. Before the reform and opening up, the proportion of the tertiary industry as GDP share declined on annual basis as a consequence of China's huge investments in industrial sector. Since 1978, the GDP proportion of services started to rise annually and increased from around 20% in the early 1980s to almost 45% in 2012.

"China's industrial structure has undergone tremendous changes over the past 60 years; it has completed the first stage of transformation (from agriculture to industry) and will enter the second stage of transformation (from industry to services)."¹⁶ Presently, the secondary sector keeps being considered as the most important driving force, especially the industrial sector within it. China has become a major manufacturing country with the nickname of the "world's factory." That's why there is a huge need to seek for import of raw materials nowadays.¹⁷ China

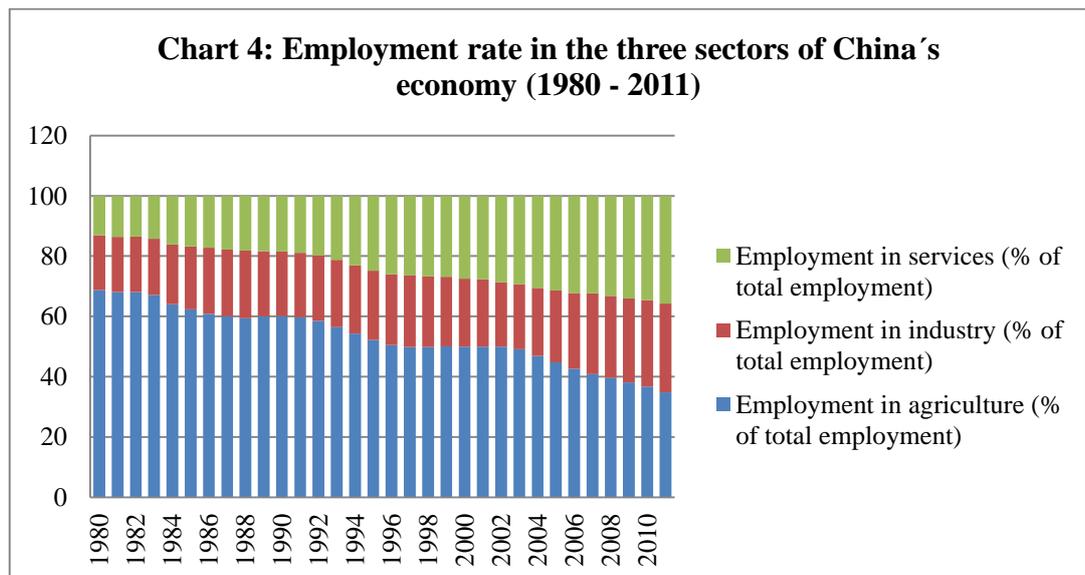
¹⁴ Data from World Bank: World Development Indicators

¹⁵ Data from World Bank: World Development Indicators

¹⁶ Li, W. - Fumin, S. 2010. *China's Economy*. Singapore: Cengage Learning Asia Pte Ltd, 2010. p. 91. ISBN-13: 978-981-4319-74-4

needs them to feed her massive industrial surge and maintain her rapid economic growth. The cooperation with Africa is one of the ways how to keep this growth, about which we will talk later in this thesis.

- Gradual improvements of the employment structure and standards:** Since 1978, China's employment structure has undergone some significant changes. There was a decreasing trend concerning the employment rate in the primary sector. We can demonstrate this fact on an example that 70,5% of employed people worked in agriculture in 1978 which has dropped to 34,8% in 2011. On the other hand, the employment rate in the secondary industry has been growing on annual basis and increased from 17,3% in 1978 to 29,5% in 2011. Concerning the employment rate in the tertiary sector, it has also showed an increasing trend even at a faster pace than secondary industry. Only 12,2% of employed people worked in the services sector in 1978 which has grew to 35,7% in 2011¹⁸, which means that presently, the majority of Chinese people is already employed in the tertiary industry.



Source: Author's processing based on World Bank: World Development Indicators

As China is a populous country, growing employment has always been the government's priority. Currently, the Chinese unemployment rate was 4,1% in 2012¹⁹. This shows the Chinese government's efforts to solve the unemployment issue.

¹⁸ Data from World Bank: World Development Indicators

¹⁹ Data from IMF: World Economic Outlook Database

- **Decline in population growth rate:** China's total population has been growing continuously and fast over last 60 years. It increased from 540 million in 1949 to 1,35 billion in 2012²⁰. Since the reform in 1978, China has imposed the policy of one child. As a result of this birth-control policy, the population growth rate started to drop since the mid- to late- 1980s. The growth rate declined to 0,48%²¹ in the year 2012, which is only one-sixth compared to the peak of 2,9%²² in 1957.
- **Improvements in the standards of education and health care:** The educational level was at very low level when China was founded in 1949. „Approximately 80% of the population was illiterate and the percentage of children who enrolled for school was only 20%.“²³ Right after her founding, China gave high priority to improving the educational system. The state created the Ministry of Education and an educational system that included primary, secondary, and tertiary institutions. At the same time, they also started to provide vocational and adult education. It got worse during the Cultural Revolution (1966–1976), when the tertiary educational system stopped working for a certain time and universities did not enrol students. After the reform and opening up, there were visible some efforts from China's side to improve her educational system, for example the country restored the college entrance examination system. These improvements have been developing rapidly. First of all, there were created more opportunities for the Chinese people to receive higher education and the level of education received has been increasing annually. This fact can be seen in the following chart.²⁴

²⁰ Data from IMF: World Economic Outlook Database

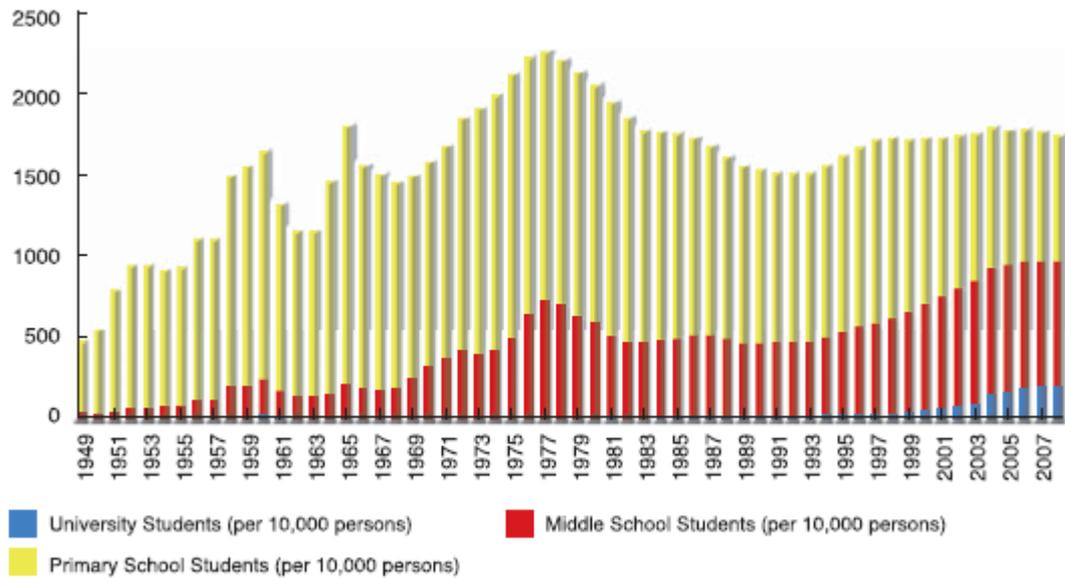
²¹ *Population growth rate (%) 2013 Country Ranks*. [quo. 2014-03-08]. Available online: <http://www.photius.com/rankings/population/population_growth_rate_2013_1.html>

²² Li, W. - Fumin, S. 2010. *China's Economy*. Singapore: Cengage Learning Asia Pte Ltd, 2010. p. 93. ISBN-13: 978-981-4319-74-4

²³ Li, W. - Fumin, S. 2010. *China's Economy*. Singapore: Cengage Learning Asia Pte Ltd, 2010. p. 95. ISBN-13: 978-981-4319-74-4

²⁴ Yueh, L. 2010. *Economy of China*. Cheltenham: Edward Elgar Publishing Ltd, 2010. p. 193. ISBN 978 1 84542 194 6

Chart 5: China's educational system (1949-2008)



Source: Li, W. - Fumin, S. 2010. *China's Economy*. Singapore: Cengage Learning Asia Pte Ltd, 2010. p. 96. ISBN-13: 978-981-4319-74-4

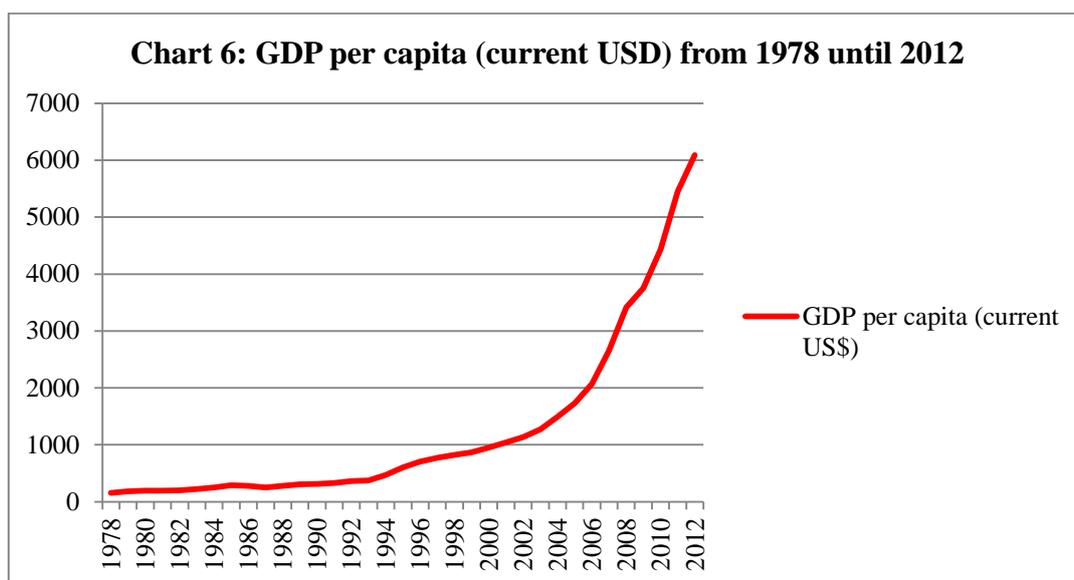
It is visible that the number of university students increased at the beginning of the twenty-first century, but the number of primary school students declined at the same time, which is the consequence of the aging society.

Medical and health care conditions have also improved over time, which helped to improve the quality of life of the population. Some important indicators changed significantly for the better, for instance the average life expectancy rate has grown and infant and child mortality has declined. „China was hailed by the World Health Organization (WHO), World Bank, and other organizations as a model for developing countries and praised her efforts at using only 1% of the world's health resources to address the health care problems for 22% of the world's population.“²⁵ Moreover, the number of health care resources increased and became more abundant and available in recent years, as a result of higher public expenditure on medical and health care. The number of practicing physicians, health care institutions and beds in hospitals has increased too, as well as their performance through the process of market competition and integration. By 2011, there were 21

²⁵ Li, W. - Fumin, S. 2010. *China's Economy*. Singapore: Cengage Learning Asia Pte Ltd, 2010. p. 97. ISBN-13: 978-981-4319-74-4

135 medical care facilities with more than 250 258 health personnel and 160 472 beds²⁶.

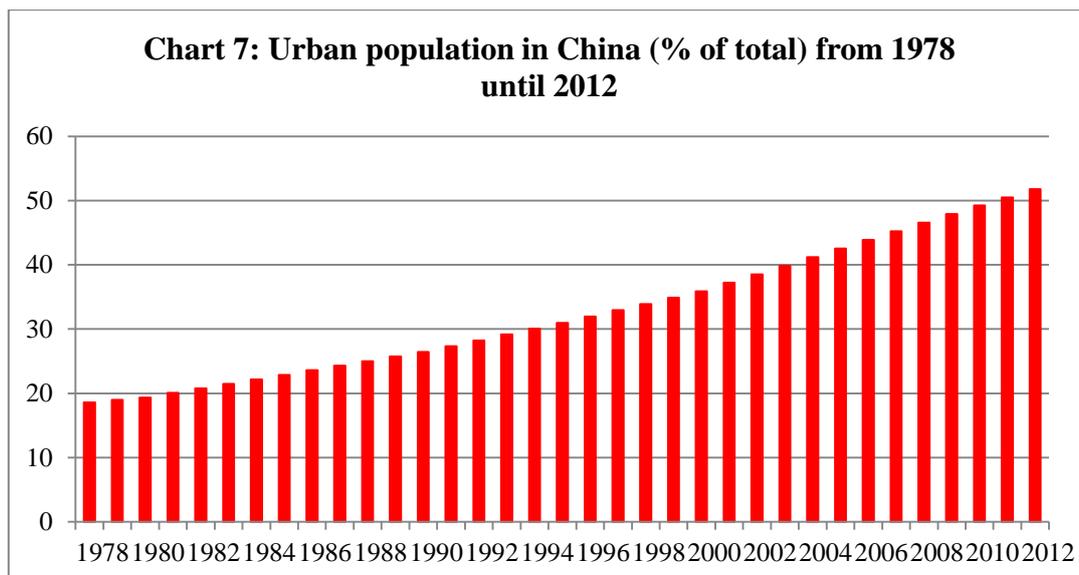
- **A higher standard of living:** Since 1978, GDP per capita increased significantly, as it can be seen in the chart 6. It rose from almost USD 155 in 1978 to USD 6091 in 2012. Great improvement in output per capita has moved hundreds of millions people from absolute poverty.



Source: Author's processing based on World Bank: World Development Indicators

Concerning the urbanization of China, it has improved in parallel with the growth of the economy and urban construction since her founding. This process has accelerated since the “open door” policy, mainly the construction of small towns and development of the countryside. The number of population living in urban areas increased from 18,57% in 1978 to 51,78% of total population in 2012, which can be seen in the chart 7.

²⁶ *Statistical Yearbook of the Republic of China 2011*. [quo. 2014-03-10]. Available online: <<http://ebook.dgbas.gov.tw/public/Data/33716344453.pdf>> p. 106-107



Source: Author's processing based on World Bank: World Development Indicators

“The coverage of China’s social security system has also increased in recent years. The number of people participating in old-age insurance, medical insurance, unemployment insurance, work-related injury insurance, and maternity insurance has grown considerably.”²⁷

1.2. Key factors behind the achievements

There were following factors behind mentioned achievements:

- **Pragmatic and effective market-oriented reforms:** China used a unique strategy called “crossing the river by feeling stones,” which was based on encouragement of local governments to undertake pilot experiments. Different localities used to adopt their own unique techniques suited to their specific situations. One of the main features of these market-oriented reforms was the dual-track nature - supporting state-owned enterprises in old priority sectors while liberalizing and encouraging the development of private companies²⁸.
- **Balancing growth with social and macroeconomic stability:** At the start of reforms and opening up, the economic growth was assigned to China’s urgent priority, which all parts of the society - individuals and firms as well as local

²⁷ Li, W. - Fumin, S. 2010. *China’s Economy*. Singapore: Cengage Learning Asia Pte Ltd, 2010. p. 100. ISBN-13: 978-981-4319-74-4

²⁸ Lin, J. 2012. *Demystifying the Chinese Economy*. New York: Cambridge University Press, 2010. 100. ISBN-13: 978-0521181747

governments - should be focused on. The rapid growth and changes are often associated with macroeconomic challenges. As it was already mentioned above, China experienced few waves of high inflation, but the macroeconomic stability was restored by using of a suitable combination of monetary and fiscal policies, as well as administration means. It means that the authorities were successfully protecting the economy from rapid price increases. In order to maintain the social stability during this growing period, the government employed a mix of fiscal, administrative, and employment policies.

- **Interregional competition:** “China built on its strong local governments at various levels by allowing them to compete in attracting investment, developing infrastructure, and improving the local business environment.”²⁹ The interregional competition between local governments became a strong driving force of economic growth, which was even beyond the central government expectations.
- **Domestic market integration:** One of the key objectives of the reforms was the dissolution of regional barriers in order to create the movements of goods, labour and capital and the establishment of a single national market. As a result, an integrated domestic market allowed companies to achieve economies of scale, and the significant differences in income and consumption levels across the country contributed to a longer life cycle of products.
- **Steady integration with the global economy:** The most important milestones in this step are the establishment of special economic zones, Deng Xiaoping’s tour across the South China and the accession into the World Trade Organization (WTO). This helped China to open the international market for her goods and services, to boost rapidly the internal economic reforms. It also brought investments, advanced technologies, managerial expertise and deepened the economic integration with the rest of the world.

1.3. Adverse factors and challenges

There are also some challenges China faces, which act as adverse factors that could threaten her future economic development. First of all, the most critical factors are the raw

²⁹ World Bank: *China 2030: Building a Modern, Harmonious, and Creative High-Income Society*. [quo. 2012-03-15]. Available online: <<http://www.worldbank.org/content/dam/Worldbank/document/China-2030-complete.pdf>>, p.5

materials shortages, mainly energy resources. Even with China's rich resource base, her large population causes relatively low level of energy resources per capita. "China's per capita share of coal and water resources is only 50% of the world's average, while her per capita share of oil and natural gas is only about one-fifteenth of the world's average"³⁰ China became a net oil importer in the year 1993 and since this time, her oil imports have rose from 9,88 million tons to 271 million tons in 2012.³¹ Chinese high dependence on oil imports and her scarcity of strategic oil reserves cause the vulnerability to changes in crude oil prices. China also doesn't put much effort in the development of new and renewable energy sources such as solar energy, wind energy, geothermal energy, tidal energy and nuclear power.

The second challenge for China is related to the environmental issue. It is obvious that there are higher emissions of major pollutants because of increasing energy demand. The level of environmental pollution is critical in some areas.

A third adverse factor that could impede China's economic development is her low level of urbanization, although there were some significant improvements over many years, as it was mentioned above. The level of urbanization reached 51,78% in 2012³². According to current standards, a country is considered modern if at least 60% of her total population lives in urban areas. To meet this criterion, China must relocate more than 111 million people to the cities.

A fourth challenge is the serious imbalance of economic development between different regions which continues to deepen. There is also relatively unequal distribution of income, what we can prove by using the Gini index. It is "a measurement of the income distribution of a country's residents. This number, which ranges between 0 and 1 and is based on resident' net income, helps define the gap between the rich and the poor, with 0 representing perfect equality and 1 representing perfect inequality."³³ Even though there are many disagreements on how to calculate the Gini coefficient for Chinese residents, it is clear that this index has an increasing trend. The inequality in 1980 was estimated to be

³⁰ Li, W. - Fumin, S. 2010. *China's Economy*. Singapore: Cengage Learning Asia Pte Ltd, 2010. p. 104. ISBN-13: 978-981-4319-74-4

³¹ Xinhua: *Chinese crude oil imports rise 6.8% in 2012*. [quo. 2014-03-15]. Available online: <http://www.chinadaily.com.cn/bizchina/2013-01/14/content_16111693.htm>

³² Data from World Bank: World Development Indicators

³³ *Gini Index*. [quo. 2014-03-15]. Available online: <<http://www.investopedia.com/terms/g/gini-index.asp>>

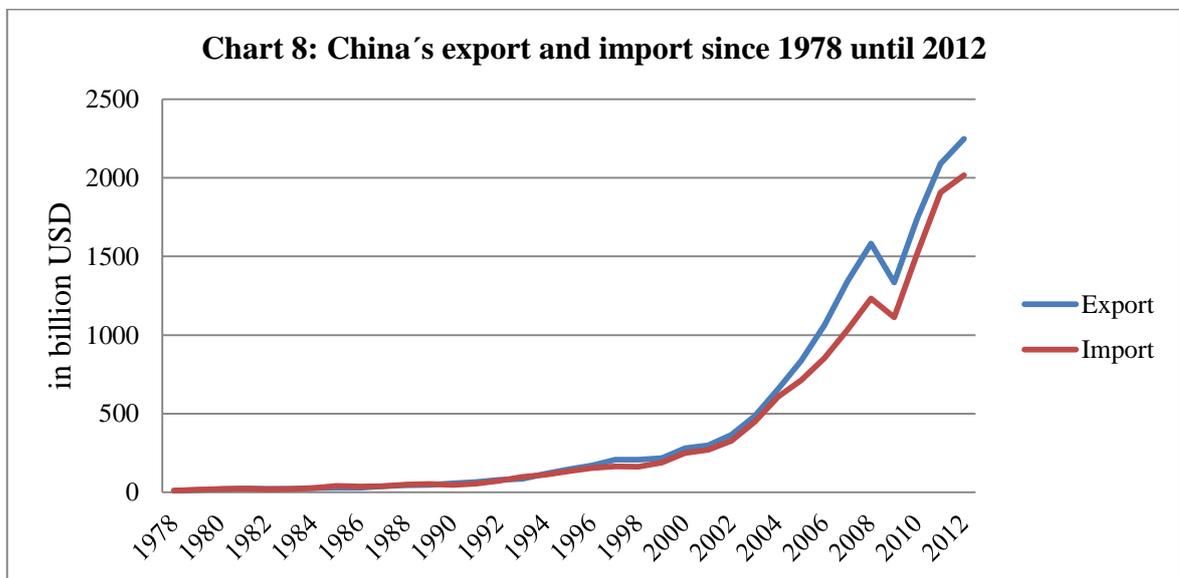
0,33³⁴ and in the year 2012, China scored 0,474, having peaked at 0,491 in 2008.³⁵ We can assume that inequality is a burning issue in China.

1.4. International trade and foreign direct investment of China

In 1978, when the reform period began, China imposed the open door policy designed to encourage foreign trade and investment. China's approach to economic reforms is gradual and tends to adopt policies slowly. This approach has also been referred to as „crossing the river while feeling the stones“, as we have already mentioned above. „China has been tremendously successful in attracting FDI, developing her infrastructure and utilising foreign investment, particularly with respect to her manufacturing capacity and exports.“³⁶

1.4.1. Development of international trade

As it is visible in the chart 8, Chinese exports and imports have grown rapidly since the opening up period, except the decline in 2009 and 2010 because of the global economic crisis. Nowadays, China is the biggest exporter in the world.



Source: Author's processing based on World Bank: World Development Indicators

³⁴ Fan, C. - Sun, M.: *Regional Inequality in China, 1978–2006*. [quo. 2014-03-15]. Available online: <<http://www.sscnet.ucla.edu/geog/downloads/597/319.pdf>> p.1

³⁵ *Gini out of the bottle*. [quo. 2014-03-15]. Available online: <<http://www.economist.com/news/china/21570749-gini-out-bottle>>

³⁶ Yueh, L. 2010. *Economy of China*. Cheltenham: Edward Elgar Publishing Ltd, 2010. p. 208. ISBN 978 1 84542 194 6

China's trade regime has been continuously reformed over 1980s and 1990s. In the past, they used to rely heavily on different conventional tools such as tariffs and quotas, as well as less conventional instruments like limiting trading rights and tougher commodity inspection requirements. The import tariffs were relatively high on most commodities in the early years of the reform period. For example by 1982, the average tariff rate was 56 percent. This level was reduced by the government to 43 percent in 1985 which didn't change the next seven years. Afterwards, there were some series of adjustments which reduced the level of tariff rates significantly and on the eve of WTO accession, the average import tariff decreased to 15 percent.³⁷

In addition to tariffs, trade was restricted also by quotas and import licenses. They were imposed on almost half of Chinese imports, but these regulations were also significantly cut in the 1990s. The share of imports, which were restricted by the government, declined to about 18 percent by 1992, and further to about 8,45 percent by 2001.³⁸

Moreover, the government also regulated the right for firms to engage in international trade. Since the year 1978, there was significant and rapid expansion of the number of firms, to which the trading rights were delivered. The initial 12 trading firms have expanded to about 35000 by 2001 (the year of WTO accession).³⁹

Concerning the export, the government has imposed the export-processing regime in 1979, which ensured that China's openness to imports has grown even faster. "Initially, this legal framework provided various incentives for the processing of raw materials for export and the assembly of imported goods to produce finished goods for export."⁴⁰ Later, these incentives were extended and the government started to provide them for duty-free import of capital goods, like raw materials, parts, and components used for the production of goods for export. Moreover, the government started to exempt certain categories of

³⁷ Lardy, N. 2002. *Integrating China into the Global Economy*. Washington: Brookings Institution Press, 2002. p. 34. ISBN 0-8157-5136-2

³⁸ Lardy, N. 2002. *Integrating China into the Global Economy*. Washington: Brookings Institution Press, 2002. p. 39. ISBN 0-8157-5136-2

³⁹ Lardy, N. 2002. *Integrating China into the Global Economy*. Washington: Brookings Institution Press, 2002. p. 40-42. ISBN 0-8157-5136-2

⁴⁰ Brandt, L. - Rawski, T. 2008. *China's Great Economic Transformation*. New York: Cambridge University Press, 2008. p. 636. ISBN-13 978-0-511-39680-9

domestic firms and other organizations from import duties since the second half of the 1990s.⁴¹

1.4.2. Foreign exchange rate policy

The expansion of international trade was also affected by changes in exchange rate policy. „Prior to 1994, China maintained a dual exchange rate system. This consisted of an official fixed exchange rate system (which was used by the government), and a relatively market-based exchange rate system that was used by importers and exporters in “swap markets,” although access to foreign exchange was highly restricted in order to limit imports, resulting in a large black market for foreign exchange. The two exchange rates differed significantly. The official exchange rate with the dollar in 1993 was 5,77 RMB versus 8,7 RMB in the swap markets. China’s dual exchange rate system was criticized by the United States because of the restrictions it (and other policies) placed on foreign imports.”⁴²

The Chinese government unified these two exchange rate systems at a rate of 8,7 RMB to the USD, which rose then to 8,28 by 1997 and was not changed until the year 2005.⁴³ It means that from 1994 to 2005, China has pegged the RMB to the USD. The intention of this policy of pegging was to promote a relatively stable environment for international trade and investment in China, as such a policy will prevent large fluctuations in exchange rates.

The China’s government changed its currency policy in July, 2005. It announced that the RMB’s exchange rate should become “adjustable, based on market supply and demand with reference to exchange rate movements of currencies in a basket.”⁴⁴ Since then, the exchange rate appreciated from 8,28 to 6,83 in 2008. In July this year, China halted its currency appreciation policy because of declining global demand for Chinese products that resulted from the effects of the global financial crisis. The RMB/dollar exchange rate was held relatively constant at 6.83 through around mid-June 2010. On June 19, 2010, the People’s Bank of China (PBC) had decided to “proceed further with reform

⁴¹ Lardy, N. 2002. *Integrating China into the Global Economy*. Washington: Brookings Institution Press, 2002. p. 36. ISBN 0-8157-5136-2

⁴² Morrison, W. - Labonte, M.: *China's Currency Policy: An Analysis of the Economic Issues*. [quo. 2014-03-17]. Available online: < <http://www.fas.org/sgp/crs/row/RS21625.pdf> > p.2

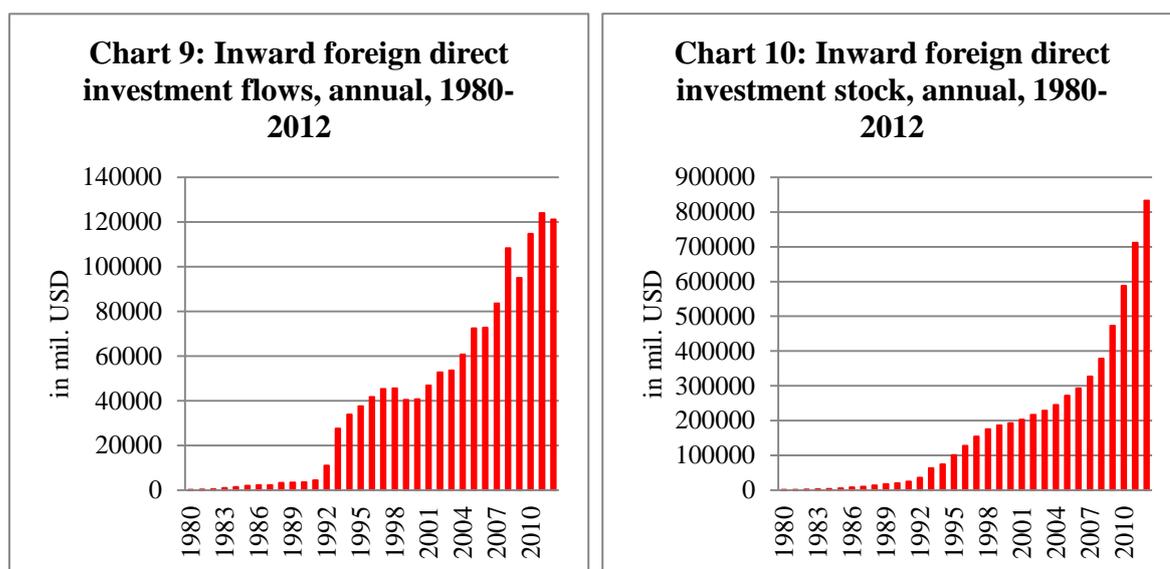
⁴³ Brandt, L. - Rawski, T. 2008. *China's Great Economic Transformation*. New York: Cambridge University Press, 2008. p. 639. ISBN-13 978-0-511-39680-9

⁴⁴ Morrison, W. - Labonte, M.: *China's Currency Policy: An Analysis of the Economic Issues*. [quo. 2014-03-17]. Available online: < <http://www.fas.org/sgp/crs/row/RS21625.pdf> > p.3

of the RMB exchange rate regime and to enhance the RMB exchange rate flexibility. It ruled out any large one-time revaluations, stating that it is important to avoid any sharp and massive fluctuations of the RMB exchange rate.”⁴⁵ We can state that since this year, the RMB/USD exchange rate has experienced some ups and downs, but overall, it has appreciated. From June 19, 2010, to March 19, 2014, the exchange rate changed from 6,83 to 6,19⁴⁶, which means an appreciation of 9,66 percent.

1.4.3. Development of foreign direct investment

Chinese inward and outward foreign direct investments have grown significantly since the opening up period. This part will be focused on the inward FDI and the next larger subchapter will be devoted to the Chinese ODI, as it is one of the key words of the diploma thesis.



Source: Author’s processing based on UNCTAD: Handbook of statistics

China has done some important steps which liberalized the inward FDI to a certain level and helped them to grow since 1978. For example, the Chinese government imposed a new law on joint ventures, which allowed international companies to operate in the country. Moreover, restrictions on external debt and equity finance were reduced, as well as on international trade. Local governments became more independent in regulating the

⁴⁵ Morrison, W. - Labonte, M.: *China's Currency Policy: An Analysis of the Economic Issues*. [quo. 2014-03-17]. Available online: < <http://www.fas.org/sgp/crs/row/RS21625.pdf> > p.4

⁴⁶ *USD-CNY*. [quo. 2014-03-19]. Available online: < <http://www.bloomberg.com/quote/USDCNY:CUR> >

joint ventures established within their jurisdictions.⁴⁷ „Establishment of Special Economic Zones (SEZ) has also played a major role in drawing FDI into China.“⁴⁸ They offered preferential tax and administrative treatment to foreign companies and gave them an unusually free hand in the operations.

The main motives and driving forces for investing in China are first of all the low production costs, especially labour costs, openness of the country for FDI, economies of scale, huge market size of China, as it is the second largest economy in the world and institutional factors are also very important. The Chinese government reduced controls and state intervention on FDI, clarified the legal environment of FDI and started to provide practical assistance.⁴⁹

1.5. Outward foreign direct investment of China

1.5.1. Development and driving forces of Chinese ODI

The economy of China is growing very fast. Moreover, China owns nearly a quarter of the total U.S. government bonds in foreign ownership, what is more than any other country. Thanks to these reserves and extremely dynamic development of economy, China has a better position in competition for influence over the African continent.

According to data from UNCTAD, investments coming from developing countries amounted to 426,08 billion USD in 2012, which is 30,6% out of global investments.⁵⁰ After Hong Kong, China became the second biggest investor in the world from developing countries. In the year 2012, China invested 84,2 billion USD globally, which is 6,05% out of global investments, what brings China to the third position in the world. It is a historical

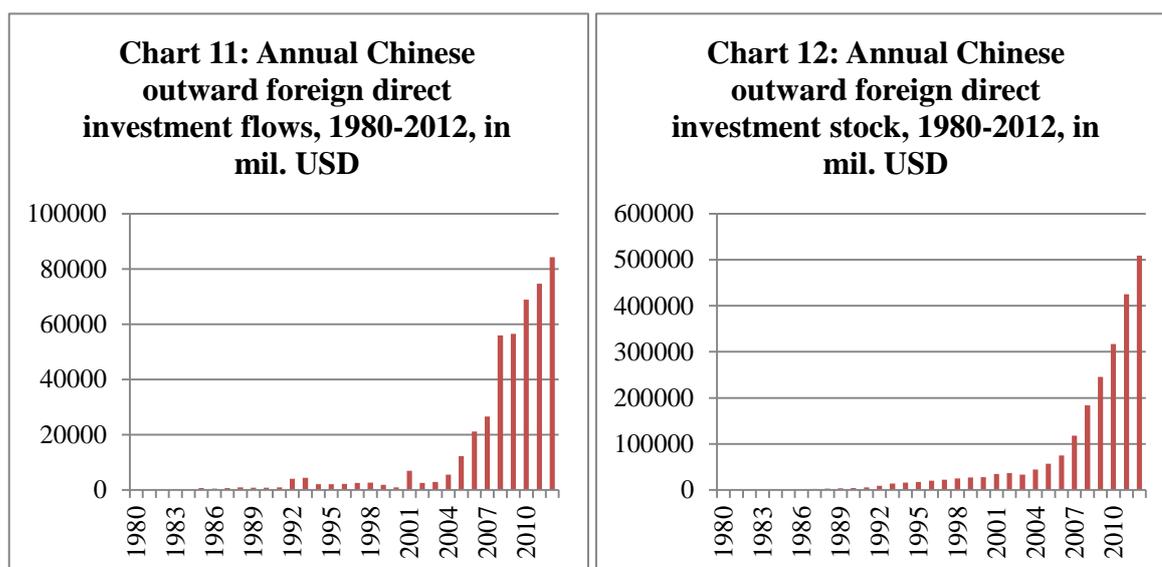
⁴⁷ Brandt, L. - Rawski, T. 2008. *China's Great Economic Transformation*. New York: Cambridge University Press, 2008. p. 640. ISBN-13 978-0-511-39680-9

⁴⁸ Singh, T.: *China: Reasons for being a Top FDI Destination*. [quo. 2014-03-17]. Available online: <<http://www.ipcs.org/article/china/china-reasons-for-being-a-top-fdi-destination-3767.html>>

⁴⁹ Fu, J.: *Explaining FDI in China's Transitional Economy*. [quo. 2014-03-17]. Available online:<<http://civicrm.wcfia.harvard.edu/node/376>>

⁵⁰ Data from UNCTAD: Handbook of statistics

biggest growth, what illustrate also the charts 11 and 12.



Source: Author's calculation based on UNCTAD: Handbook of statistics

Chinese interest in investing abroad has started in the beginning of 80's. In the period from 1982 to 1991, the volume of annual investment flows was less than USD 1 billion. From 1992 to 2004, the flow of investments increased to an average annual level of USD 3 billion. The turning point came in 2005 when Chinese investments climbed to over USD 12 billion.

The driving forces of Chinese FDI outflows are:

- **Economic conditions:** China is a dynamic, rapidly growing nation and the second largest economy in the world after U.S. It surpassed Germany in the year 2007 and Japan in 2010. Since the beginning of its economic reforms and opening-up three decades ago, China's GDP growth is 9,86%⁵¹ in average and has surpassed the three significant developing countries Brazil, Russia and India. China is also the top exporter in the world. Moreover, China's foreign exchange reserves, the world's largest, reached USD 3.82 trillion at the end of 2013.⁵²
- **Regulatory framework:** The policy framework in China is focused on maximizing the convenience of domestic firms and the value of the most important renewable resources. The Chinese government has imposed many directives and regulations to incite the outward FDI. „The more concrete ones are the Legislation of SME

⁵¹ Author's calculation based on World Bank: World Development Indicators

⁵² *China Foreign Exchange Reserves.* [quo. 2014-02-10]. Available online: <<http://www.tradingeconomics.com/china/foreign-exchange-reserves>>

Development at the beginning of 2003, which stipulates explicitly the small-and-medium enterprises are the core targets of domestic financing in overseas investment and operation. In 2005, as requested by the commitments in the Protocol of China into WTO, China further opened up its financial market to foreign entities.”⁵³ In the year 2008, government has sanctioned two important commercial regulations trying to facilitate the domestic firms to pool up funds for business conducts. All these regulations were very important for the huge expansion of Chinese companies.

“From global perspective, related international organs are highly contributory to espouse a new multinational economic order, such as APEC, WTO as in its TRIMS agreement, OECD Multinational Agreement on Investment. UNCTAD, established in 1964 to promote the development-friendly trade integration of the first and third world, may become China’ allies on the issue of monitoring and verifying corporate compliance with codes of conduct in the world markets. Furthermore, Foreign Investment Protection and Promotion Agreements (FIPAs) provide a framework for bilateral investments and permit greater predictability with regards to investments through advance negotiations or bilateral talks under the skeleton of such organs.”⁵⁴

- **Investment promotion:** For the last 30 years, the Chinese government has gradually liberalized its attitude to invest abroad and has changed from political to economic interests. Approval process of ODI is greatly simplified. The motive is not only access to raw materials, but also to new markets, technologies and brands. It is important to mention that trade costs and restrictions in the global markets had a positive impact on China’s ODI. There are technical barriers of trade in the developed countries, which seem to increase the worldwide requirements for quality, specifications, sanitation and quarantine range, and that decreases Chinese exports to a certain level. It means that when the trade costs are too high, companies might substitute their exports by FDI and strategically locate their production activity in the source country or practice offshoring of some activities

⁵³ Lian, L.: *Overview of Outward FDI Flows of China*. [quo. 2014-02-10]. Available online: <<http://ccsenet.org/journal/index.php/ibr/article/view/11085/7851>> p. 106

⁵⁴ Lian, L.: *Overview of Outward FDI Flows of China*. [quo. 2014-02-10]. Available online: <<http://ccsenet.org/journal/index.php/ibr/article/view/11085/7851>> p. 105

there. “Consequently, outward FDI was used as export platforms and namely a quest for efficiency through global cost reduction.”⁵⁵

Many Asian multinational corporations have created some comparative advantages which they have sustained for many years. This advantageous position is covered by competencies like proprietary expertise and technology, but also by comparatively low labour cost, technology expertise in the oil and mining industry etc. Thanks to these advantages, they are allowed to operate in overseas countries and to compete with foreign companies.

Concerning the goals for ODI, the Chinese Government has released number of them for the period of the 12th Five-Year Plan (2011-2015):

- “ODI will increase at an annual rate of 17% and will total USD 150 billion in 2015;
- By the end of 2015, China’s ODI stock will reach USD 500 billion;
- The amount of China’s overseas contracted projects will reach USD 180 billion and turnover will be USD 120 billion by 2015, with an annual growth rate of 6%; 550000 Chinese nationals will go to work overseas during 2012, with the total number being over one million by the end of 2015.”⁵⁶

On purpose to focus outbound investment in a manner that drives the growth and development of strategic Chinese industries, however, the support of the government is highly selective. According to the 12th Five-Year Plan, priority should be given to the following industry sectors:

- Energy
- Energy conservation
- Raw materials
- Biotechnology
- Agriculture
- Services
- High-end manufacturing

⁵⁵ Lian, L.: *Overview of Outward FDI Flows of China*. [quo. 2014-02-10]. Available online: <<http://ccsenet.org/journal/index.php/ibr/article/view/11085/7851>> p. 106

⁵⁶ China Business Insight: *China Outbound Direct Investment*. [quo. 2014-02-10]. Available online: <http://www.tusiad.org/__rsc/shared/file/ChinaBusinessInsight-February-2013.pdf> p. 20

- Innovative technologies⁵⁷

1.5.2. Institutional framework for Chinese ODI

In comparison with other countries, China regulates her ODI to a large extent. Until the year 2002, companies have been actually discouraged from investing abroad and it has been invested only in accordance with the government. The fourth generation of the Communist Party of China started to encourage ODI.⁵⁸ Currently, political and administrative framework for foreign investment provides a number of institutions. Main actors are: State Council (government), State Administration for Foreign Exchange (SAFE), Ministry of Commerce (MOFCOM), People's Bank of China (PBC), State Asset Supervision and Administration Commission (SASAC).

State Council submits draft laws and regulations, coordinates national economic growth, and supervises the implementation of laws and regulations in accordance with the strategic objectives of the country. Moreover, it signs bilateral agreements, maintains trade and diplomatic relations. It is the main authority in China, which decides about economic issues and liberalization measures on the basis of recommendations from the MOFCOM and the SAFE.

SAFE reports information about Chinese balance of payments to the State Council and the IMF, prevents the balance of payments risks and also promotes its equilibrium. Moreover, SAFE makes recommendations to the foreign exchange policy to the Central Bank of the PRC and participates in the drafting of relevant laws, regulations, and departmental rules on foreign exchange administration, monitors the status of foreign currencies in the capital account of balance of payments and manages foreign exchange reserves. Its task is also to manage gold reserves, and other foreign exchange assets of the state.⁵⁹ By being responsible for the management and monitoring of foreign exchange, it is necessary for every Chinese company, to apply for a permit and registration of investing abroad. Statistical data, which SAFE prepares, are used in UNCTAD databases.

⁵⁷ China Business Insight: *China Outbound Direct Investment*. [quo. 2014-02-10]. Available online: <http://www.tusiad.org/__rsc/shared/file/ChinaBusinessInsight-February-2013.pdf> p. 21

⁵⁸ Szikorová, N. 2012. *Vplyv čínskych priamych investícií na ekonomický rozvoj Afriky*. Bratislava: EUBA, 2012. p. 44

⁵⁹ SAFE: *Major functions*. [quo. 2014-02-12]. Available online: <<http://www.safe.gov.cn/wps/portal/english/AboutSAFE/Major>>

The role of the Ministry of Commerce in the context of Chinese ODI is the design and implementation of regulations on non-financial investing projects abroad, representation of China in the World Trade Organization, as well as in the bilateral and multilateral negotiations, ensuring legislative framework in the country in accordance with international agreements, security of loans and coordination of China's development aid. His role is therefore crucial by making decisions about the direction of Chinese investment.⁶⁰

People's Bank of China – Central bank of China - is responsible for financial policy and negotiations with international financial organizations such as the World Bank Group and the IMF. It also manages the country's foreign exchange reserves, which are used for international investment projects, while helping to reduce the level of inflation.

SASAC is authorized by the State Council and „performs investor's responsibilities, supervises and manages the state-owned assets of the enterprises under the supervision of the Central Government (excluding financial enterprises), and enhances the management of the state-owned assets.“⁶¹ Its main task is to ensure the competitiveness of state-owned enterprises. Fulfilling of this task is debatable, since its senior management is elected by the Communist Party of China. All investments of Chinese state-owned enterprises abroad are subject to approval by SASAC. To the largest state-owned enterprises belong for example, China National Offshore Oil Corporation (CNOOC), China National Petroleum Corporation (CNPC), Sinochem Corporation, China National Nuclear Corporation (CNNC) etc.⁶² It has also established some offices in Africa.

China's Exim Bank also has an important role in engaging China abroad. It provides concessional loans to foreign governments and encourages Chinese companies to invest in Africa through export credits on international projects and international interest.

Each investment project has to be registered and approved by several institutions. If a company is interested in investing abroad, it is necessary to apply for registration to the SAFE and then turn to the MOFCOM or the National Development and Reform Commission for approval of the investment plan. Competences of individual institutions changed over time and are changing also nowadays. Initially, their consent was necessary

⁶⁰ MOFCOM: *Mission*. [quo. 2014-02-12]. Available online: <<http://english.mofcom.gov.cn/column/mission2010.shtml>>

⁶¹ SASAC: *Main Functions and Responsibilities of SASAC*. [quo. 2014-02-12]. Available online: <<http://www.sasac.gov.cn/n2963340/n2963393/2965120.html>>

⁶² Chen, D.: *China's state-owned enterprises: How much do we know? From CNOOC to its siblings*. [quo. 2014-02-12]. Available online: <<http://www.eisourcebook.org/cms/July%202013/China,%20CNOOC%20&%20other%20State-owned%20Firms,%20How%20Much%20Do%20We%20Know.pdf>>

to make the investments outside of China; later (except approval), they became the supporting institutions for these investments. Amount of bureaucracy still discourages smaller public and private companies that haven't built up contacts in the government, MOFCOM or the National Development and Reform Commission.

The government intervenes in ODI in several areas. It provides cheap loans to companies wishing to invest abroad. On the basis of the reports issued by MOFCOM and SAFE, the government makes a decision about the support of future ODI. It publishes a list of preferred sectors and countries, where it provides simplified access to loans and tax breaks.

Since 2000, the Forum for Sino - Africa Cooperation (FOCAC) works, where attitudes of the Chinese government and different African governments are consulted. Meetings are held every three years, alternately in Beijing and Africa. Several agreements on economic cooperation were signed in this forum. These contracts are also important by the selection of preferential countries and sectors for Chinese investment.⁶³

1.5.3. Distribution of Chinese ODI

Geographic distribution

Information and statistical data are investigated and published by the Chinese Ministry of Commerce, which is the only institution providing an overview about distribution of Chinese outward foreign direct investment. Based on them we will analyse, where the Chinese firms invest.

From the regional point of view, the chart 13 explains Chinese ODI outflows by regions in the year 2012 and the Chart 14 Chinese ODI stocks.

⁶³ Szikorová, N. 2012. *Vplyv čínskych priamych investícií na ekonomický rozvoj Afriky*. Bratislava: EUBA, 2012. p. 46

Chart 13: Distribution of 2012 ODI flows by region

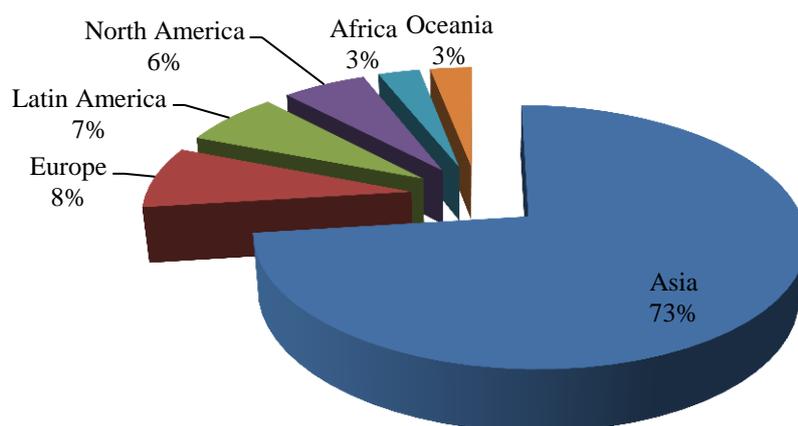
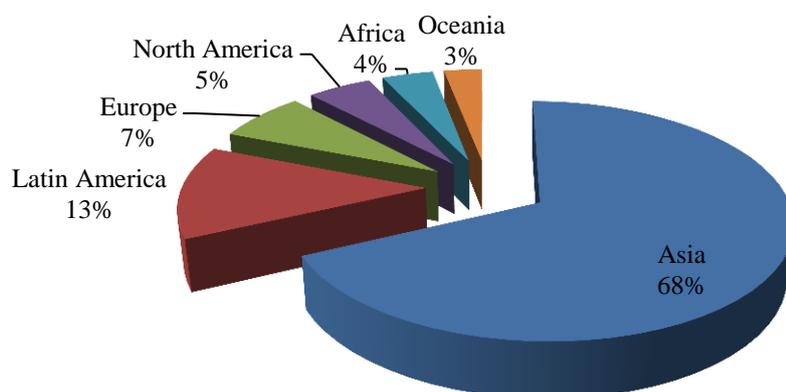


Chart 14: Distribution of ODI stock by region (end-2012)



Source: Xu, G. – Xia, L. – Schwartz, S.: *Economic Watch China*. [quo. 2014-02-14]. Available online: <http://www.bbvaresearch.com/KETD/fbin/mult/131217_ChinaWatch_ODI_EN_tcm348-415847.pdf?ts=1032014> p. 5-6

The majority of Chinese investments flowed to Asia accounting for nearly three-quarters of total FDI outflows in 2012 (73%), and hitting the record of USD 64,8 billion⁶⁴, where it takes the leading position for many years.

Europe and Latin America are at second and third position with USD 7 billion and USD 6,2 billion respectively. ODI to North America has almost doubled in 2012 and increased rapidly from USD 2,5 billion to USD 4.9 billion y/y. Africa and Oceania

⁶⁴ Xu, G. – Xia, L. – Schwartz, S.: *Economic Watch China*. [quo. 2014-02-14]. Available online: <http://www.bbvaresearch.com/KETD/fbin/mult/131217_ChinaWatch_ODI_EN_tcm348-415847.pdf?ts=1032014> p. 7

accounted for USD 2,5 billion and USD 2,4 billion respectively.⁶⁵ Concerning the stock of China's ODI, Asia also took the leading position (68%), leaving other regions far behind.

When we analyse these data further, we find out that regional distribution of Chinese ODI is still changing. North America was their main goal until the nineties; in the year 1991, even 86% of whole Chinese investments flowed there. That year flowed more than 88% of ODI to the economically developed countries, while only 6% to developing countries and the rest to transition economies.⁶⁶ This is the exact opposite of the various theories about outward foreign direct investment coming from developing countries, according to which at the beginning of the investment activities, developing countries should invest primarily to neighbouring developing countries and only after obtaining sufficient experience, to economically developed countries. Since the year 1992, Chinese firms started to invest more to the developing countries and the value of these investments gradually increased over the years. There are two main reasons for that. Firstly, developing countries accept China's investment warmly, but developed country always set obstacles and restrictions to China owing to protectionism and political suspicion. Secondly, it is much easier for Chinese firms to invest in countries that have similar national situations.

There is possible to see top 10 destinations of China's ODI stock in 2012. We can see that the majority of investments flowed to Honk Kong and tax heavens (Virgin Islands and Cayman Island), which traditionally absorb most investment due to offshoring of financial services and low, respectively zero taxes. Significant role plays also countries like United States, Australia, Singapore, Luxemburg, United Kingdom, Kazakhstan and Canada, and this fact shows again that geographical and cultural proximity is not so important in case of Chinese ODI. That's why we assume that a lot of theories about geographical orientation of ODI are not universally applicable to all developing countries.

⁶⁵ Xu, G. – Xia, L. – Schwartz, S.: *Economic Watch China*. [quo. 2014-02-14]. Available online: <http://www.bbvaresearch.com/KETD/fbin/mult/131217_ChinaWatch_ODI_EN_tcm348-415847.pdf?ts=1032014> p. 7

⁶⁶ MOFTEC: Almanac of China's Foreign Economic Relations and Trade, 1993, 1994, 1995

Table 2: Top ten destinations of China's ODI stock (at end-2012)

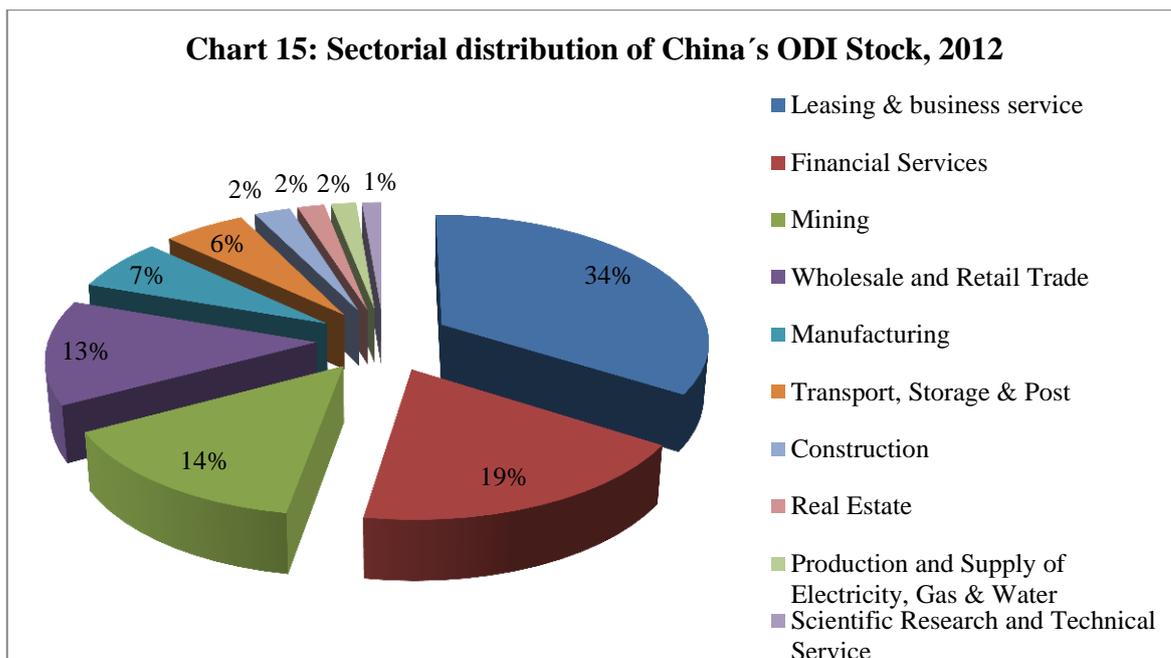
Rank	Country	China's ODI by countries in 2012 (USD billion)
1.	Honk Kong, China	306
2.	British Virgin Islands	30,9
3.	Cayman Islands	30,1
4.	United States	17,1
5.	Australia	13,9
6.	Singapore	12,4
7.	Luxemburg	9,0
8.	United Kingdom	8,9
9.	Kazakhstan	6,3
10.	Canada	5,1

Source: Xu, G. – Xia, L. – Schwartz, S.: *Economic Watch China*. [quo. 2014-02-14]. Available online: <http://www.bbvaresearch.com/KETD/fbin/mult/131217_ChinaWatch_ODI_EN_tcm348-415847.pdf?ts=1032014> p. 6

Distribution by sectors

With Chinese open door policy and more enterprises going abroad year by year, the amount of Chinese ODI is increasing and the scope of field is expanding. “China’s ODI flows are becoming more diversified over time. The top seven sectors are business services, financial, mining, wholesale and retail, manufacturing, transport and construction, accounting for 89.2% of total ODI outflows in 2012... ODI in the financial and construction sectors rebounded in 2012, contributing most to the overall pick up in outflows. The business services sector, which accounts for the largest share of China’s ODI stock, also improved after a contraction in the previous year. Meanwhile, the growth pace in the wholesale and retail trade and manufacturing sector eased but remained reasonably resilient. ODI in the mining sector (including oil and gas) dropped by 6.2% after a boom in the previous year (153%).”⁶⁷

⁶⁷ Xu, G. – Xia, L. – Schwartz, S.: *Economic Watch China*. [quo. 2014-02-15]. Available online: <http://www.bbvaresearch.com/KETD/fbin/mult/131217_ChinaWatch_ODI_EN_tcm348-415847.pdf?ts=1032014> p. 3



Source: Xu, G. – Xia, L. – Schwartz, S.: *Economic Watch China*. [quo. 2014-02-14]. Available online: <http://www.bbvaresearch.com/KETD/fbin/mult/131217_ChinaWatch_ODI_EN_tcm348-415847.pdf?ts=1032014> p. 7

1.6. Conclusion of the chapter

China's economy went through different phases during its existence and has experienced many years of ups and downs. In our thesis, we focused on the meteoric rise since the year 1978, when Deng Xiaoping came to power and the reform and opening up period has started. In order to summarize her biggest achievements regarding the economic development, we begin with rapid growth of the national economy. Currently, China is the second world's largest economy and is expected to surpass U.S. economy some time. China is also maintaining her macroeconomic stability with the tendency to low inflation and the sustainable level of public debt. Another achievement is the fact that her industrial structure has evolved rapidly from 20% of GDP in 1952 to 45,3% in 2012 and China has become the "world's factory". Moreover, since the 1978's reform and opening up, the GDP proportion of services started to rise annually and increased from around 20% in the early 1980s to almost 45% in 2012. Other achievements represent gradual improvements of the employment structure and standards, decline in population growth rate, improvements in the standards of education and health care and the last, but not least, a higher standard of living thanks to which hundreds of millions people has moved from absolute poverty.

China has achieved this success thanks to key factors, such as pragmatic and effective market-oriented reforms through a unique strategy called “crossing the river by feeling stones”. The country has balanced growth with social and macroeconomic stability through suitable combination of monetary and fiscal policies, employment policies, as well as administration means. China also built the success on interregional competition and allowed the local governments to compete in attracting investment. This has become a strong driving force of economic growth even beyond the central government expectations. Other factors were domestic market integration which allowed companies to achieve economies of scale and steady integration with the global economy mainly through the establishment of special economic zones, Deng Xiaoping’s tour across the South China and the accession into the WTO.

There are also some critical factors and challenges which China faces. The most important of them is the shortage of raw materials, mainly energy resources. The country became dependent on oil imports and this fact together with her scarcity of strategic oil cause the vulnerability to changes in crude oil prices. Other challenges are high level of environmental pollution, still low level of urbanization even after significant improvements over years and a serious imbalance of economic development between different regions which can be proved by Gini coefficient with the score of 0,474.

Concerning the embrace of globalization, both international trade and foreign direct investment has grown rapidly since 1978. Nowadays, China is the world’s largest exporter. The country has done some important steps which liberalized the inward and outward FDI flows to a certain level. The biggest driving forces for investing in China are low production costs, especially labour costs, openness of the country for FDI, economies of scale, huge market size of China, and liberalized institutional factors. The main motives for Chinese investors to invest abroad are reducing costs and expanding to new markets and with it related improving the position in the market.

The majority of Chinese investments, more than 70%, flowed to Asia in 2012. 3% of ODI flowed to Africa. Concerning the stocks of China’s ODI, Asia also took the leading position, leaving other regions far behind.

China’s ODI flows are becoming more diversified over time. The top seven sectors are business services, financial, mining, wholesale and retail, manufacturing, transport and construction, accounting for 89.2% of total ODI outflows in 2012.

2. Aim of the thesis

The main objective is the analysis of Chinese outward direct investment in Africa and clarification of motivation and strategies of Chinese investors to invest in the continent.

Partial goals or objectives that develop the main goal are following:

- To characterize China's economic strategy, the opening up of the Chinese economy to foreign trade and investment and to clarify the development of Chinese outward direct investment;
- To analyse the development of China-African cooperation and to assess the problem of potential Chinese neo-colonialism in Africa;
- To clarify main motivating factors for Chinese investors to invest in the African countries and to identify relevant determinants of these investments;
- To identify the relationship between the African countries with authoritarian regimes and Chinese investment there;
- To analyse the investment in countries rich in raw material oil;
- To identify the African countries, where China has a great influence on their economies and to quantify this influence of investment based on chosen macroeconomic indicators.

We set following hypotheses that are linked to the objectives and that we want to test:

- *Hypothesis 1:* Raw materials have the greatest impact on Chinese investment in Africa, but simultaneously they are not the only determinant.
- *Hypothesis 2:* Chinese investment in countries rich in raw material "oil" is flowing mainly into autocratic countries in Africa.
- *Hypothesis 3:* Chinese investment influences the African economies more positively than negatively.

3. Methodology and research methods

We used empirical, theoretical and special research methods. From the empirical methods, we used a method of observation, which mainly consisted of a systematic gathering of the necessary material. We primarily used data from databases and reports of the WB, UNCTAD and MOFCOM.

Within the theoretical methods we used the method of abstraction, analysis, synthesis, and deduction and from the special methods we used the method of comparison. Method of abstraction we used throughout the whole work when it was necessary to choose from a large amount of data and information only the most essential.

We applied the theoretical method of analysis, for example, in the fourth part of the thesis, where we identified and spread the potential determinants of Chinese ODI in Africa: nominal GDP, nominal GNI, nominal GDP per capita, rule of law, amount of export, doing business, import of raw materials, amount of arable land and gross secondary school enrolment ratio. We identified and analysed the values for each indicator for 50 African countries. Based on the analysis of individual values of indicators, we then created a synthesis that enabled us to evaluate the relevant determinants.

We proceeded from general to specific conclusions by the method of deduction and we used it by analysing the different types of motives for international expansion. Firstly, we generally described the types and we applied them to identification of specific drivers of Chinese investment in Africa.

Specific method of comparison we used quite often and for example in sixth chapter, it served to compare different macroeconomic indicators and components of Human Development Index of some chosen African countries, in which the influence of Chinese ODI is most visible, from 2004 to 2012.

The methodology of this thesis consisted of collecting data and information, which were further analysed, evaluated and processed into the final hypothesis. We gained data and information from books and internet sources. The fact is that foreign direct investment flowing into China is one of the most publicized topics, but recently, there are not so many sources about investments flowing in opposite direction from China. We think that it is because of the lack of statistical data about it. From the book sources, we used mainly publications like *China's Economy* written by Li and Fumin, *China into Africa* from

Rotberg and *The Dragon's Gift* written by Brautigam. We also drew from articles of journal sources, for example *ChinaDaily* or *Reuters*.

We used a large amount of statistical data. We drew them from the WB, *World Development Indicators* and *World Governance Indicators*, where we searched for some macroeconomic indicators. We also used data from UNCTAD, *Handbook of Statistics*, where we found mainly the information about the trade between different countries. Another source of statistical data was Chinese Ministry of Commerce, MOFCOM, and its *Statistical Bulletin of China's Outward Foreign Direct Investment*, which is published every year in the autumn. In the time of writing, we use the data from the year 2010, because the data for years 2011 and 2012 are not publicly available. Moreover, we also used the data from databases of FAO, UNESCO Data Centre, British Petrol and UNDP.

4. Motivation and strategic approach of China in Africa

As it was mentioned in the previous chapter, Chinese main interest is the access security to raw materials and agricultural products in order to maintain her GDP growth, which is in the average 9,86% since the reform period. One of the examples, how to reach this objective, is the cooperation with Africa.

4.1. Interests and strategies of China in Africa

China and Africa have cooperated with each other, enriched each other for centuries and not only culturally, but also economically. One of the important steps in order to deepen their mutual relations was the establishment of the Forum on China-Africa Cooperation (FOCAC) at the Ministerial Conference in Beijing in 2000. Forum has become the main mechanism at the state level for formal cooperation between China and 49 African countries that recognize her. There were five conferences held (2000 in Beijing, 2003 in Addis Ababa, 2006 in Beijing, 2009 in Sharm-el-Sheikh and 2012 in Beijing), where several topics were discussed such as foreign aid and trade agreements.⁶⁸

The development of Chinese and African cooperation is complementary and these countries need each other. First of all, there is China with huge growth requiring access and import of natural resources such as energy, minerals, food and other resource commodities, which are abundant in Africa. On the other side, there is Africa with low level of infrastructure and China can offer an expertise in the construction and manufacturing sector and financial means. This symbiotic dependency has resulted in a significant scale and pace of investment flows and trade between them.

It means that “the Chinese not only purchase Africa’s unprocessed returns of the subsoil, the land, and offshore drilling, but the Chinese also invest for the long term, thus expanding Africa’s permanent capacity in the mining and petroleum sectors. To service these extractive industries and manufacturing capabilities more generally, China also constructs or refurbishes roads and railways, creates export processing zones, supplies equipment, and builds up national industrial bases.”⁶⁹ China is interested also in sub-Saharan African countries, which are relatively fragile or questionably ruled, China

⁶⁸ FOCAC: *Sino-African Relations*. [quo. 2014-03-19]. Available online: <<http://www.focac.org/eng/zfgx/>>

⁶⁹ Rotberg, R. 2008. *China into Africa*. Washington, D.C.: Brookings Institution Press, 2008. p. 1. ISBN 978-0-8157-7561-4

provides several types of technical assistance for them, supplies arms and military firepower, builds barracks and offers uniforms. (see Appendix 1)

The fact is that the sub-Saharan African countries never have grown so fast. Many strategists think that the Chinese history, development and lifting millions of people out of poverty provide a powerful and valuable example for Africa, as China has reached remarkable achievements in terms of political stability and international prominence.⁷⁰

China's objectives are not just material or economical; they are watching their ideological or political interests as well. One of them is to obtain diplomatic monopoly on the continent in terms of its recognition. In addition, China wants to minimize engagement of Taiwan in Africa. Currently, there are only four countries which have established diplomatic relations with Taiwan and not Beijing. We are talking about Gambia, Sao Tome and Principe, Swaziland and Burkina Faso.⁷¹ It is important to state that the primary aim is not to humble the United States or Europe, but China prefers to acquire loyal friends in Africa which supported her application for a permanent seat in the Security Council or her accession into the WTO. China wanted to ensure their political and economic support in international fora. We can state that "China has displaced European, American, and Japanese diplomatic and capitalistic soft power in many sub-Saharan African countries, winning influence in countries where Western governments were conspicuous by their absence."⁷²

The trade between China and Africa has grown rapidly, as it is visible in the following chart 16. China is currently Africa's largest trading partner; the volume of trade was almost USD 200 billion in the year 2012 and forecast to exceed USD 380 billion by 2015.⁷³ About 15 percent of Africa's total exports are to China; and on the other hand only about 4 percent of China's total exports are to Africa.⁷⁴ Despite such a small proportion is this market with a population of over one billion and high population growth attractive for Chinese companies. It is expected that African markets, which will become developed and richer over time, represent the future outlet for Chinese products.

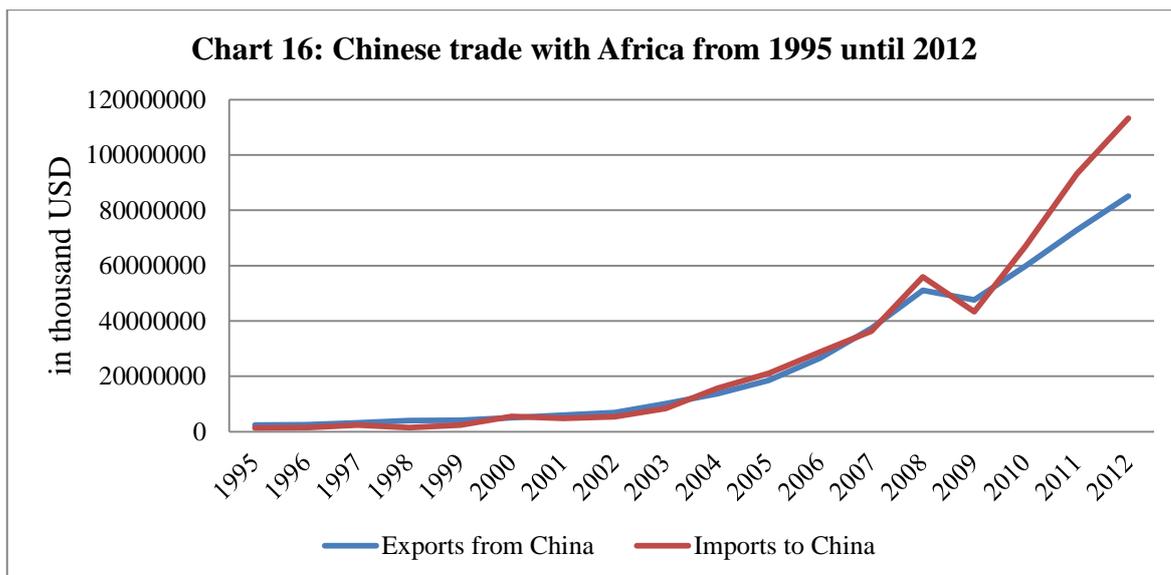
⁷⁰ Rotberg, R. 2008. *China into Africa*. Washington, D.C.: Brookings Institution Press, 2008. p. 2. ISBN 978-0-8157-7561-4

⁷¹ Szikorová, N. 2012. *Vplyv čínskych priamych investícií na ekonomický rozvoj Afriky*. Bratislava: EUBA, 2012. p. 55

⁷² Rotberg, R. 2008. *China into Africa*. Washington, D.C.: Brookings Institution Press, 2008. p. 3. ISBN 978-0-8157-7561-4

⁷³ Mailafia, O.: *China, Africa and the West*. [quo. 2014-03-19]. Available online: <<http://www.sinoafrica.org/en/node/2599>>

⁷⁴ Author's calculations based on UNCTAD, Handbook of Statistics



Source: Author's processing based on UNCTAD: Handbook of Statistics

Economic cooperation is visible also in the field of investment. „Over 2,000 Chinese firms have invested in 45 African countries.”⁷⁵ By 2012, USD 2,5 billion of investments flow to African countries, mainly in the infrastructure, mining sector, transport and agriculture. The main recipients of ODI flows were Angola, DRC and Nigeria. Concerning the ODI stocks, the amount was calculated for USD 21,7 billion in this year and the greatest interest from Chinese side belongs to South Africa, Zambia, Nigeria, Algeria and Angola.⁷⁶

The part of Chinese strategy is also helping the Africa to increase their living standards. China is engaged in the establishment of Special Economic Zones throughout sub-Saharan Africa which are planned to be the growth forces. It is important that each zone should be linked to transport corridors or attached to thriving harbours. The Chinese assistance is anticipated to be necessary in both cases.

China also offers some types of foreign aid towards Africa. Some of them “include joint manufacturing ventures, but the Chinese also make zero-interest loans, offer low-interest concessional loans, and provide outright grants for ministerial office buildings, cultural centres, stadia, schools, hospitals, roads, bridges, and agricultural projects

⁷⁵ Mailafia, O.: *China, Africa and the West*. [quo. 2014-03-19]. Available online: <<http://www.sinoafrica.org/en/node/2599>>

⁷⁶ Xu, G. – Xia, L. – Schwartz, S.: *Economic Watch China*. [quo. 2014-02-14]. Available online: <http://www.bbvaresearch.com/KETD/fbin/mult/131217_ChinaWatch_ODI_EN_tcm348-415847.pdf?ts=1032014> p. 7

(especially for rice cultivation and vegetable growing).⁷⁷ They also provide agricultural and fisheries endeavours, medical aid and limited amount of humanitarian aid. Moreover, China is involved in the field of education and supplies scholarships to African students who want to study in China and sends volunteer teachers to African countries.

There is also some Chinese engagement in the security area to a certain level. They follow a clear strategy which encourages higher stability in countries that import or can potentially import raw materials to China. Actually, this strategy has two meanings. China encourages the political status quo and offers military assistance and hardware to support African governments, however autocratic or questionable.

4.2. China's neo-colonialism

Neo-colonialism means that a strong country controls political systems and economic resources of weaker countries and exploits their wealth under the name of liberal capitalism. There are some fears of Chinese ruthless exploitation of Africa mainly from Western side of the world. „Some Western scholars and politicians maintain that China is a new colonizing power, exploiting Africa's natural resources and harming its quest for democracy and human rights.⁷⁸ They claim that the Chinese state-owned enterprises own and control a significant part of the mines, area, fisheries and forests. Moreover, Chinese activities in Africa support undemocratic regimes, as well as environmental degradation by illegal buying of wood from African forests. China permanently faces accusations from promoting corruption in Africa and from managing businesses in such way which distorts African efforts to fight against poverty.⁷⁹

There are some conflicts between Chinese migrants supported by government and indigenous people. Africans often express opposition to the employment of Chinese workers by Chinese companies in their own countries. From the pragmatic point of view, for China it is more effective and advantageous to hire Chinese employees for many reasons. They are trained, have necessary skills, know the used technologies, have no problems with work overtime, work during holidays and weekends, they can easily

⁷⁷ Rotberg, R. 2008. *China into Africa*. Washington, D.C.: Brookings Institution Press, 2008. p. 7. ISBN 978-0-8157-7561-4

⁷⁸ Junbo, J.: *China in Africa: From capitalism to colonialism ?*. [quo. 2014-03-19]. Available online: <<http://www.cesfd.org.cn/magzine/ch/China%20in%20Africa.pdf>>

⁷⁹ Szikorová, N. 2012. *Vplyv čínskych priamych investícií na ekonomický rozvoj Afriky*. Bratislava: EUBA, 2012. p. 50

communicate with management because of language and cultural proximity, and this approach also helps to reduce the number of unemployed in China.

They also exercise some military activities in Africa. Russia and China cooperated and provided more weapons to sub-Saharan Africa than the United States did. „China constructed arms factories in the Sudan and Uganda. Its equipment fuelled both sides of the Ethiopian-Eritrean war, assisted the air force of Zimbabwe, and helped the armies of another dozen sub-Saharan African countries. China will do whatever it can, despite criticism from the West about propping up despots and strengthening antidemocratic tendencies, in and for those prospective African partners who want assistance and possess the resources of value.“⁸⁰

There were also some controversial activities and we mention few of them. China has become a major investor in Sudan's oil industry and related infrastructure projects after the U.S. and Canadian companies withdrew from the country because of the civil war. Subsequently, it became its largest customer and prohibited the imposition of sanctions on Sudan from UN Security Council for the execution of genocide and committing of crimes against humanity in Darfur. Similarly, there were negative opinions on a soft loan USD 2 billion for Angola, thanks to which the Chinese government ensured its right of exploration and slowed the adoption of measures for making the oil industry more transparent, what was required from the IMF. The fact that Angola has received a loan from China made her more independent from the need for help from the IMF and consequently does not urge reforms that the IMF calls. Similarly, China has received four licenses for oil drilling in the Niger Delta and 45 % of the Kaduna refinery in exchange for the building of hydroelectric power. As the largest consumer of copper in the world, China has invested in the mining sector in Zambia, in cobalt and copper mines in the DR Congo suffered under civil strife, in the building of a luxury resort in politically unstable Sierra Leone and in the development of anti-malarial drugs for Uganda. China invests in countries where the private sector of the Western states does not have the courage for that and their governments are not interested.⁸¹

Chinese activity on the African continent will still undoubtedly cause a lot of damage. However, we cannot forget on the democratic West, which presence, either nowadays or in the past, direct or indirect, cannot be called clearly beneficial. Pro-Western

⁸⁰ Rotberg, R. 2008. *China into Africa*. Washington, D.C.: Brookings Institution Press, 2008. p. 7. ISBN 978-0-8157-7561-4

⁸¹ Szikorová, N. 2012. *Vplyv čínskych priamych investícií na ekonomický rozvoj Afriky*. Bratislava: EUBA, 2012. p. 52

Taiwan support four African countries: Burkina Faso, Gambia, Sao Tome and Principe and Swaziland, as we have already mentioned above. US support authoritarian regimes such as Gabon, Cameroon, Angola, Chad and Equatorial Guinea.⁸²

4.3. Determinants of Chinese ODI in Africa

4.3.1. General background and assumptions

Dunning introduced a model of motives for international expansion. There are included four different categories of motives: market seeking, resource seeking, efficiency seeking and strategic resource seeking motives. Later, there was added a fifth category: network seeking motives for recognizing networks as a significant part of internationalization.⁸³

Dunning explains that the market and resource seeking motives have been the two most important and recognized categories, especially in the past. “Overall, efficiency seeking and strategic asset seeking motives increase in significance and are more common as motives for companies already engaged in multinational activity. He also shows that closer relations with customers and durable relations with suppliers were important motives. Furthermore, he suggests that internationalization was more driven by opportunities rather than threats.”⁸⁴

Natural resource seekers

This category is justified by the fact that resources, such as agricultural products, raw materials and minerals, tend to be location specific. That’s why the companies with natural resource seeking motives are those investing abroad in order to obtain these required resources which do not exist in the home country or can be acquired at a lower comparative cost. These resources are usually an important part of the production and the company needs them for its survival.

⁸² Peel, M.: *Trade Union*. [quo. 2014-03-21]. Available online: <<http://www.newrepublic.com/article/trade-union>>

⁸³ Dunning, J. 1998. *Globalization, Trade and Foreign Direct Investment*. London: Elsevier, 1998. ISBN 0080433693

⁸⁴ Hansson, A. - Hedin, K.: *Motives for Internationalization*. [quo. 2014-03-21]. Available online: <<http://www.diva-portal.org/smash/get/diva2:131423/FULLTEXT01.pdf>> p.5

The seeking for unskilled or semi-skilled labour force is also a part of this category for companies trying to reduce costs and maximize profits. According to Dunning, knowledge type resources, such as skills and capabilities, also belong to this category.⁸⁵

Market seekers

This category is focused mainly on demand aspects. We are speaking about market seeking motives, when the leaders of companies think that it is important to access specific target markets abroad and believe that a direct presence internationally is essential for this access. “Companies that invest in a particular country or region with the intention to supply goods and services are called market seekers.”⁸⁶ According to Dunning, there are several reasons why companies invest in particular markets:

- Following suppliers or customers in order to retain business,
- Adapting to local conditions,
- Economising on transportation costs,
- Following competitors.⁸⁷

Efficiency seekers

This category focuses on the benefits coming from efficiency, usually from economies of scale and scope, but also risk diversification, differences of factor endowments, cultures, institutional arrangements and economic systems. Efficiency seeking firms are often large, experienced and diversified multinational companies.

Strategic resource seekers

“Strategic resources are intangible resources dealing with the technology and core competence of the company”⁸⁸. Examples of strategic resources are patents, knowledge, skills and capabilities of employees, and strategic supplies which are necessary for developing comparative advantages. By focusing on acquisition of strategic assets, the company supports its long-term competitiveness and strategic objectives. Consequently, the main motive behind this is either to sustain or strengthen the competitive position, or weaken the competitors.

⁸⁵ Pananond, P.: *Revisiting Dunning's four-way classification of motives for FDI activity*. [quo. 2014-03-21]. Available online: <http://www.henley.ac.uk/web/FILES/international-business-and-strategy/Pavida_motives.pdf>

⁸⁶ Hansson, A. - Hedin, K.: *Motives for Internationalization*. [quo. 2014-03-21]. Available online: <<http://www.diva-portal.org/smash/get/diva2:131423/FULLTEXT01.pdf>> p.6

⁸⁷ Pananond, P.: *Revisiting Dunning's four-way classification of motives for FDI activity*. [quo. 2014-03-21]. Available online: <http://www.henley.ac.uk/web/FILES/international-business-and-strategy/Pavida_motives.pdf>

⁸⁸ Hansson, A. - Hedin, K.: *Motives for Internationalization*. [quo. 2014-03-21]. Available online: <<http://www.diva-portal.org/smash/get/diva2:131423/FULLTEXT01.pdf>> p.8

In order to find out determinants of Chinese ODI in Africa, we focus on resource and market seeking motives. Firstly, many major theories state that geographically, developing countries are focused mainly on surrounding less developed countries, which can be attributed to their economic proximity. The geographic and economic proximity motivate companies to invest primarily in countries that are close to home country by both these issues.⁸⁹ It is important to state that by examining the determinants of Chinese investments in Africa, this factor is irrelevant, since the geographic, cultural or economic proximity between the African countries and Chinese economy doesn't exist.

Concerning the market seeking motives, we research the determinants based on the market features of the recipient country. It can be assumed that the larger market of the recipient country, the more opportunities for investors. Big markets are also associated with bigger demands and refer to the possibility to gain more economies of scale and more sources for investments. That's why we assume that *Chinese ODI is positively dependent on the size of the market of the recipient country*. Based on this assumption, we are coming to the first two indicators that we have to research:

1. Nominal GDP
2. Nominal GNI

Next assumption is that *Chinese ODI is positively dependent on amount of the average income* (standard of living):

3. Nominal GDP per capita

Many theories and experts claim that countries with a high risk of political instability are not very attractive for FDI and companies will be engaged in those primarily in the form of exports or licenses. Therefore, it can be assumed that the worse political stability and quality of legal structures, the less investment will flow into the state. Consequently, we should state that *Chinese ODI is positively dependent on the quality of rule of law in the recipient country*. The fourth indicator is:

4. Rule of Law

Openness of the economy and good business environment are considered as factors that also positively affect Chinese investment in Africa. That's why we assume that *Chinese ODI is positively dependent on the trade (export) relations with the recipient country*. Moreover, *Chinese ODI is positively dependent on the quality of business environment in the recipient country*. We are coming to other two indicators:

⁸⁹ Szikorová, N. 2012. *Vplyv čínskych priamych investícií na ekonomický rozvoj Afriky*. Bratislava: EUBA, 2012. p. 60

5. Amount of export
6. Doing business

Concerning the resource seeking motives, China constantly increases her demand and consumption of raw materials. We can state that *Chinese ODI is positively dependent on the amount of raw materials in the recipient country*. This assumption leads us to following indicator:

7. Import of raw materials⁹⁰

We also assume that because of satisfaction of growing demand of the Chinese population, there is a problem of subsistence possible. Currently, China is trying to build positive business relations with countries that have the potential to mitigate future food crises. Therefore, *Chinese ODI is positively dependent on amount of arable land in the recipient country* and obviously, the next indicator is:

8. Amount of arable land

We didn't choose the size of individual states, because many of them are covered by large barren desert. With the amount of arable land, we can better assess agricultural predispositions of African countries.

Given the cheap labour force in China, we cannot assume that the country invests in Africa in order to minimize the labour costs. Investors searching for benefits of internationalization will invest in countries where the educational level is relatively higher. That's why we expect that *Chinese ODI is positively dependent on the educational level in the recipient country* what brings us to the last indicator:

9. Gross secondary school enrolment ratio

4.3.2. Methodology and data

There is a lack of information and data about Chinese outward foreign direct investment. This is probably one of the reasons why there is relatively small amount of working papers researching ODI coming from China in comparison with those researching the investment flowing to China.

The country started to publish data about its investment abroad since the year 2003. These data are published by Chinese Ministry of Commerce under *The Statistical Bulletin of China's Outward Foreign Direct Investment* every year in the autumn. In the time of

⁹⁰ We also included the total Chinese import to the determinants in order to find out and show what portion of total import attributes to the import of raw materials.

writing, we use the data from the year 2010, because the data for years 2011 and 2012 are not publicly available. The research includes all African countries where China is investing. Moreover, some data of African economic indicators were also missing, so we didn't take them into account.

The individual data used in the research were drawn from sources which are visible in the table 3. Given the difference in methodology for calculating data between individual international organizations, we tried to reduce the variability of sources to a minimum.

Table 3: Sources of statistical data

GDP	WB: World Development Indicators Missing data for Djibouti and Libya: UNCTAD statistics: Economic trends
GNI	WB: World Development Indicators Missing data for Djibouti and Libya: UNCTAD statistics: Economic trends
GDP per capita	WB: World Development Indicators Missing data for Djibouti and Libya: UNCTAD statistics: Economic trends
Rule of Law	WB: World Governance Indicators
Doing business, 2012	WB: World Governance Indicators
Export	UNCTAD statistics
Import	UNCTAD statistics
Import of raw materials	UNCTAD statistics
Amount of arable land	FAO
Gross secondary school enrolment ratio	UNESCO Data Centre

The purpose of this part of the diploma thesis is to determine the suitability of individual indicators and to find out the answer to the first hypothesis we stated, i.e. *raw materials have the greatest impact on Chinese investment in Africa, but simultaneously they are not the only determinant*. In the research, we include all African countries, where China invests. It means that we take 50 states into account, so all besides Somalia, Burkina Faso and Swaziland.

We will do a statistical analysis of the TOP 10 and worst 10 indicators (or the analysis of the first and last quintiles), where we classify downwardly African states according to the volume of adopted stocks of Chinese ODI by 2010. Since we research data for 50 African countries, we divide them into five equal parts, so we get ten countries in each part. We find out the values for specified individual indicators, by which we assumed that they positively influence the amount of stocks of Chinese ODI. The values of these indicators are stated for the year 2010. We also examine whether the best values of the potential determinants are for the countries where most Chinese investment flows, meaning whether they are situated in the first quintile, and vice versa, whether the worst values of those indicators are for the states which are the smallest recipients of Chinese ODI. It means that we want to find out which of the indicators are developed proportional with the amount of stocks of Chinese ODI in the individual African countries.

4.3.3. Evaluation of determinants

After the analysis and research, we came to results, which can be visible in the tables 4 and 5 on the following page:

Table 4: First quintile (TOP 10) of African countries based on Chinese ODI stock

Country	ODI stock	GDP (in USD million)	GDP p.c.	GNI (in USD million)	Rule of Law	Doing Business	Export (in USD million)	Import of raw materials (in USD million)	Import (in USD million)	Amount of arable land (1000 HA)	Gross secondary school enrolment ratio (%)
South Africa	4152,98	363240,7	7266,1	356012,9	0,13	41	10799,86	9192,99	14896,42	12533	na
Nigeria	1210,85	229507,9	1437	209807,9	-1,50	147	6696,84	1019,28	1071,62	36000	43,83
Zambia	943,73	16190,2	1225	14827,2	-0,63	83	301,68	2577,20	2578,41	3700	na
Algeria	937,26	161207,3	4349,6	161125,3	-0,88	153	4000,00	1173,97	1177,32	7502	95,39
Congo DR	630,92	13138,8	211,3	12229	-2,00	183	473,41	2495,86	2505,72	500	na
Sudan	613,36	64849,9	1422,4	59711,4	-1,63	149	1950,77	6667,21	6671,91	18858	na
Niger	379,36	5718,6	359,8	5674,4	-0,63	176	272,15	0,14	0,17	14940	13,83
Ethiopia	368,06	26311,3	302,1	26214,5	-1,00	125	1209,62	257,20	273,97	690	28,57
Angola	351,77	82470,9	4218,6	74299,1	-1,63	179	2003,87	22806,32	22815,05	4100	31,31
Egypt	336,72	218887,8	2803,5	217726,8	-0,13	128	6040,98	826,59	917,93	2	na
$N_H > N_L?$		yes	no	yes	no	no	yes	yes	yes	yes	no

Table 5: Last quintile (worst 10) of African countries based on Chinese ODI stock

Country	ODI stock	GDP (in USD million)	GDP p.c.	GNI (in USD million)	Rule of Law	Doing Business	Export (in USD million)	Import of raw materials (in USD million)	Import (in USD million)	Amount of arable land (1000 HA)	Gross secondary school enrolment ratio (%)
Seychelles	19,36	970	10805,1	922,7	0,00	80	14,86	na	0,01	1	101,71
Eritrea	12,54	2117	368,7	2097,4	-1,63	184	38,80	0,36	1,05	130	na
Djibouti	12,47	1129	1271	1206	-0,88	160	444,06	0,51	0,69	2900	na
Lesotho	8,88	2203,8	1097	2622,2	-0,38	136	59,36	0,87	4,53	322	49,40
Burundi	6,51	2026,9	219,5	2014,8	-1,50	140	33,36	3,31	3,46	920	23,15
Cape Verde	4,58	22493,3	1090,6	22229,3	0,40	121	34,34	na	0,01	47	87,76
Comoros	4,04	543,4	795,5	541,1	-1,38	158	13,35	na	0,02	4500	22,91
Tunisia	2,53	44377,7	4206,8	42121,3	0,13	51	994,89	25,85	124,90	2823	89,01
Gambia	1,19	951,8	566,3	922,3	-0,63	150	186,78	14,96	15,00	325	na
Sao Tome and Principe	0,31	201	1128	200,7	-0,88	169	2,05	na	0,01	9	52,08
N _L <N _H ?		yes	yes	yes	no	no	yes	yes	yes	yes	no

In order to find out whether the mentioned indicators can be classified as relevant determinants of Chinese ODI in Africa, we categorized the states and classified them downwardly based on the volume of stocks of China's investment. We examined data for 50 African countries to which Chinese investment has flowed by 2010. In order to make it more clear and transparent, we divided the countries into five equal groups (quintiles) with 10 members in each. We marked the cells containing 10 countries with best value of the particular indicator among the 50 surveyed states with pink colour. Their number for every indicator is classified as N_H . On the other hand, we marked the cells containing 10 states with the worst value of the particular indicator with grey colour. Their number for every indicator is classified as N_L .

In order to identify the examined indicator as relevant determinant of Chinese ODI, the N_H should be higher than N_L in the first quintile. It means that following inequality should be valid:

$$N_H > N_L$$

At the same time, this inequality should be valid for the last quintile of African countries according to the stocks of Chinese ODI:

$$N_H < N_L$$

For example, we would consider nominal GDP for relevant determinant, if 10 African countries with the biggest amount of Chinese ODI stock would belong preferentially to 10 countries with the highest GDP, and vice versa there should be fewer countries from the last quintile than from the first quintile.

As for the results of this analysis, indicators nominal GDP, nominal GNI, Chinese export, Chinese import and including him import of raw materials have been confirmed to be relevant determinants of Chinese ODI in Africa. On the other hand, indicators Rule of Law, Doing Business and Gross secondary school enrolment ratio haven't showed any relationship with positive influence of Chinese ODI.

According to these results we can confirm following assumptions:

- *Chinese ODI is positively dependent on size of the market of the recipient country.*
- *Chinese ODI is positively dependent on the trade (export) relations with the recipient country.*
- *Chinese ODI is positively dependent on the amount of raw materials in the recipient country.*

- *Chinese ODI is positively dependent on amount of arable land in the recipient country.*

The most important determinant according to this research is the amount of import of raw materials. There are seven best values of this indicator highlighted with pink colour in the first quintile in the table. Other indicators have either six best values or less. In the last quintile, data for three countries (Cape Verde, Comoros and Sao Tome and Principe) are missing, but according to the data of total import for these countries, which are almost zero, we can state that they are also the lowest for the import of raw materials. It means that there are nine lowest values of this indicator out of ten in the last quintile. In the case of other determinants, there are either seven lowest values or less. Consequently, we confirmed our first hypothesis in this chapter saying that *raw materials have the greatest impact on Chinese investment in Africa, but simultaneously they are not the only determinant.*

4.4. Conclusion of the chapter

China and Africa desperately need each other. They have cooperated with each other, enriched each other for centuries and not only culturally, but also economically. Currently, Chinese important interest is the access to raw materials and agricultural products in order to maintain her huge GDP growth. As for the exchange, China offers an expertise and help in the construction of infrastructure, manufacturing sector and financial means to Africa.

China follows not only material goals, but political as well. The country wants to obtain diplomatic monopoly on the African continent in terms of its recognition. Currently, there are only four countries which don't have established diplomatic relations with Beijing, i.e. Gambia, Sao Tome and Principe, Swaziland and Burkina Faso.

Concerning the trade between China and Africa, it has grown rapidly and China is currently Africa's largest trading partner; with the volume of trade almost USD 200 billion in the year 2012 and forecast to exceed USD 380 billion by 2015. The level of Chinese ODI in Africa has also increased over time. By 2012, USD 2,5 billion of investments flowed to African countries, mainly in the infrastructure, mining sector, transport and agriculture.

Some politicians and economists claim that China is becoming a new colonizing power, which exploits Africa's natural resources and harms its democracy and human rights. We have to state that it is possible that China becomes a colonizing power someday, when African countries would become so dependent on Chinese investments and exports that Beijing would start to decide about their domestic and foreign policies. However, this assumption shouldn't be taken so seriously, as China also depends and will depend on Africa's resources and economic growth.

Regarding the determinants of Chinese ODI, we confirmed the importance of size of the market of the recipient country, trade (export) relations with the recipient country, amount of raw materials in the recipient country and amount of arable land in the recipient country by decision making of Chinese investors about the allocation of ODI in African countries through analysis of the TOP 10 and worst 10 indicators. However, we cannot argue that all determinants are universally applicable to all African countries. There are some exceptions, for example Libya achieves one of the highest GDP and has exported quite a large amount of raw materials to China, but still there is only small amount of ODI flowed from China. We see the reason in disorders which have discouraged the investors. Moreover, we proved that the import of raw materials has the greatest influence on Chinese outward direct investment in Africa among all relevant determinants.

5. Chinese investment in African oil countries

As we have mentioned above, China needs global energy supplies, especially oil, because it is critical to feed and service the country's economic growth. Currently, China suffers under local energy shortages. "A dramatic increase in motor vehicle sales and modal shifts in the movement of freight from railroads to trucks have increased oil demand beyond China's limited domestic supply, forcing China to rely on an ever-growing volume of imported oil."⁹¹

5.1. General background of China's oil strategies in Africa

Between 2002 and 2012, China's oil consumption increased from 5,26 million bbl/d to around 10,22 million bbl/d, 40,65 percent of which was derived from imports. In 2012, China's annual growth in oil consumption was 5% and as for the share of total consumption in the world, China accounted for 11,7%, what placed her to the second position right after the United States with 19,8% of the world's consumption.⁹² China is expected to surpass the United States as the largest oil importer in the world. "China imports about 5,7 million barrels per day (bpd) - nearly 6 percent of global supply - and this is expected to rise toward 9 million bpd by 2020, according to industry estimates."⁹³

Despite its size, China has never discovered any large oil reserves. Her traditional fields around Daqing and Shengli are old with flat or declining production. They have discovered some reserves in the Junggar and Tarim, but they are modest on a global scale and are far away from China's population centres on the coast. There is no evidence to assume that Chinese oil reserves will double or triple in the next years, so that's why a significant proportion of its consumption will have to be satisfied by imports.⁹⁴

China's global oil strategy has three basic elements:

- To leverage China's comparative advantages while downplaying its disadvantages.

⁹¹ Rotberg, R. 2008. *China into Africa*. Washington, D.C.: Brookings Institution Press, 2008. p. 110. ISBN 978-0-8157-7561-4

⁹² BP: *BP Statistical Review of World Energy*. June 2013. [quo. 2014-04-04]. Available online: <http://www.bp.com/content/dam/bp/pdf/statistical-review/statistical_review_of_world_energy_2013.pdf>

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⁹³ Aizhu, Ch. - Hua, J.: *China looks to further open crude oil import market*. [quo. 2014-04-04]. Available online: <<http://www.reuters.com/article/2013/08/13/china-crude-reform-idUSL4N0GE0TD20130813>>

⁹⁴ Rotberg, R. 2008. *China into Africa*. Washington, D.C.: Brookings Institution Press, 2008. p. 110. ISBN 978-0-8157-7561-4

- To focus on countries with high probability of growing oil reserves and where China could negotiate arrangements for long-term cooperation.
- To differentiate Chinese strategies from those offered by the Western countries.

The African countries producing oil think that Western governments ignore their long-term economic and social interests and focus only on their own interests meaning oil. On the other hand, there is China, which realized that if it could offer some benefits which are not related to the oil, it would be able to develop partnerships and not only some commercial relationships based on one commodity. That's why China is not focused only on purchase of oil supplies and investment in oil production, but also invests in the infrastructure and helps African governments to meet their commercial needs.

There are two major oil and gas enterprises: the China National Petroleum Corporation (CNPC) and the Chinese National Petrochemical Corporation (Sinopec), which produce, import, trade and process oil. CNPC is more visible in the North and the West of China, and Sinopec has a presence in the South and the East. Sinopec is major buyer of foreign oil because of larger refining capacity, “while CNPC is more likely to enter into exploration and production contracts, both within and outside of China. The China National Offshore Oil Corporation (CNOOC), a smaller company, as its name suggests, focuses on offshore investments.”⁹⁵ Furthermore, the competitiveness of Chinese oil companies is increasing and they try to gain commercial advantages.

Decisions of the oil companies are influenced by government. We can see the reason behind the fact that the boards of directors consist of senior officials, majority of whom hope to be promoted to higher governments' posts. Because of this ambition, they cannot ignore “requests” from the central government.

It is important to state that the Chinese engagement in African oil countries is a team effort, involving Chinese National Oil Corporations (NOCs), export-import bank, key trading companies, economic and trade agencies, many of which are still state run. This combination offers China access to low-cost financing and to investing in a variety of complementary economic ventures, for example from infrastructural projects to textile plants to department stores.

⁹⁵ Rotberg, R. 2008. *China into Africa*. Washington, D.C.: Brookings Institution Press, 2008. p. 113. ISBN 978-0-8157-7561-4

5.2. Methodology and data

The aim of this chapter is to analyse the Chinese investment in the African oil countries and how it is related to the level of democracy in those countries. Moreover, we test the validity of the second stated hypothesis saying: *Chinese investment in countries rich in raw material “oil” is flowing mainly into autocratic countries in Africa*. Firstly, we categorize the African autocratic countries according to the Index of Democracy. We identify the major oil countries according to data about oil reserves and production, and we evaluate whether they have authoritarian regimes or not. Consequently, we do the analysis of Chinese investment in chosen African oil countries.

Data about oil production and reserves are sourced from the statistical database British Petrol (*Statistical Review of World Energy*). Data about the trade volume with the commodity oil are used from the statistical database UNCTAD. Data about Chinese ODI in the individual African autocratic countries rich in oil come from MOFCOM (*The Statistical Bulletin of China’s Outward Foreign Direct Investment* from the year 2010), as well as in the previous chapter. Given that there is no comprehensive database of individual investment projects of China in African countries, data are drawn from press reports from the renowned Centre for Chinese Studies at the University Stellenbosh in South Africa and from some other press reports, for example from ChinaDaily, Reuters, etc.

5.3. Autocratic countries in Africa

First of all, we have to identify the African countries with authoritarian regimes in order to confirm the second hypothesis. The *Economist Intelligence Unit* is publishing the Democracy Index since 2007. “The index provides a snapshot of the state of democracy worldwide for 165 independent states and two territories—this covers almost the entire population of the world and the vast majority of the world’s states (micro states are excluded). The Democracy index is based on five categories: electoral process and pluralism; civil liberties; the functioning of government; political participation; and

political culture. Countries are placed within one of four types of regimes: full democracies; flawed democracies; hybrid regimes; and authoritarian regimes.”⁹⁶

We researched the data for the year 2010 and 2012. We included the year 2010, because we have the information about Chinese ODI in Africa only from this year, as it was mentioned above. In 2012 compared to 2010, the re-categorization of five countries from the authoritarian to hybrid regimes took place in Africa, specifically in Mauritania, Morocco, Niger, Egypt and Libya. African countries, which have been categorized as the autocratic states in 2010 and 2012 are ranked according to the values of democracy index in the table 6. The better ranking of a given state, the closer it is to the category of hybrid states.

Corruption Perceptions Index (CPI) published by *Transparency International* measures the perceived levels of public sector corruption in 176 countries worldwide. We also used data for both years (2010 and 2012), but the score conditions differ. In 2010, countries are scored from 10 (very clean) to 0 (highly corrupt). On the other hand in 2012, the countries are scored on a scale from 0 (highly corrupt) to 100 (very clean).

⁹⁶ EIU: *Democracy Index 2012. Democracy at a standstill*. [quo. 2014-04-06]. Available online: <https://portoncv.gov.cv/dhub/porton.por_global.open_file?p_doc_id=1034> p.1

Table 6: Authoritarian countries in Africa

Rank	Countries with authoritarian regimes	ID 2010	CPI 2010	Rank	Countries with authoritarian regimes	ID 2012	CPI 2012
1.	Madagascar	3,94	2,6	1.	Madagascar	3,93	32
2.	Mauritania	3,86	2,3	2.	Algeria	3,83	34
3.	Morocco	3,79	3,4	3.	Nigeria	3,77	27
4.	Ethiopia	3,68	2,7	4.	Ethiopia	3,72	33
5.	Burkina Faso	3,59	3,1	5.	Burundi	3,60	19
6.	Nigeria	3,47	2,4	6.	Gabon	3,56	35
7.	Togo	3,45	2,4	7.	Burkina Faso	3,52	38
8.	Algeria	3,44	2,9	7.	Comoros	3,52	28
9.	Cameroon	3,41	2,2	9.	Togo	3,45	30
9.	Comoros	3,41	2,1	10.	Cameroon	3,44	26
11.	Niger	3,38	2,6	11.	Rwanda	3,36	53
11.	Gambia	3,38	3,2	12.	Angola	3,35	22
13.	Angola	3,32	1,9	13.	Gambia	3,31	34
14.	Gabon	3,29	2,8	14.	Cote D'Ivoire	3,25	29
15.	Rwanda	3,25	4,0	15.	Swaziland	3,20	37
16.	Egypt	3,07	3,1	16.	Congo	2,89	26
17.	Cote D'Ivoire	3,02	2,2	17.	Guinea	2,79	24
18.	Swaziland	2,90	3,2	18.	Djibouti	2,74	36
19.	Congo	2,89	2,1	19.	Zimbabwe	2,67	20
20.	Guinea	2,79	2,0	20.	Eritrea	2,40	25
20.	Tunisia	2,79	4,3	21.	Sudan	2,38	13
22.	Zimbabwe	2,64	2,4	22.	Central African	1,99	26
23.	Sudan	2,42	1,6	23.	Congo DR	1,92	21
24.	Eritrea	2,31	2,6	24.	Eq. Guinea	1,83	20
25.	Djibouti	2,20	3,2	25.	Chad	1,62	19
26.	Congo DR	2,15	2,0	26.	Guinea-Bissau	1,43	25
27.	Guinea-Bissau	1,99	2,1				
28.	Libya	1,94	2,2				
29.	Eq. Guinea	1,84	1,9				
30.	Central African	1,82	2,1				
31.	Chad	1,52	1,7				

Source: *EIU: Democracy Index 2012*; *EIU: Democracy Index 2010*, *Transparency International: Corruption Perceptions Index 2012*; *Transparency International: Corruption Perceptions Index 2010*

We also examine the Chinese engagement in these countries and we chose following way: We assume that if China sought primarily African undemocratic partners, these autocratic 31 states in 2010 would be among the 31 largest recipients of ODI, meaning that 100% of priority Chinese investment locations would be also dictatorial. The result is that 19 from 31 largest recipients of Chinese ODI stock is dictatorial at the same time.

5.4. Oil countries in Africa and Chinese investment there

In Africa, there is 7,8% of world's proved reserves, from which 7,1% is allocated in the following states: Libya (2,9%), Nigeria (2,2%), Angola (0,8%), Algeria (0,7%), Egypt (0,3%), South Sudan (0,2%) and Sudan (0,1%). The smaller portion of oil reserves is located in Chad (0,1%), Congo (0,1%), Eq. Guinea (0,1%) and Gabon (0,1%)⁹⁷ Besides Libya and Egypt, the countries belong to autocratic states for the year 2012 according to the democracy index. However, in 2010, all of these countries were dictatorial. According to MOFCOM, all these countries, except Libya, belong to the TOP ten recipients of Chinese ODI stocks. That's why, we can claim that we have confirmed our second hypothesis.

Many oil countries suffer under "Dutch disease" discovered by Corden and Neary (1982). Dutch disease is a situation when an increase in exploitation and utilization of mineral resources in the economy leads to a decrease in exports of other industries, i.e. to deindustrialisation.⁹⁸ The essence is the same even if it is not about minerals, but any other sector, which becomes highly profitable. According to Corden, there are three options of the Dutch disease creation:

1. Exogenous technological progress in one sector. i.e. not because of purposeful investment in R&D,
2. The sudden discovery of large reserves of minerals,
3. A significant increase in world prices of exported raw materials.⁹⁹

⁹⁷ BP: *BP Statistical Review of World Energy. June 2013.* [quo. 2014-04-04]. Available online: <http://www.bp.com/content/dam/bp/pdf/statistical-review/statistical_review_of_world_energy_2013.pdf>

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⁹⁸ Grančay, M.: *Holandská choroba.* [quo. 2014-04-08]. Available online: <<http://fmv.euba.sk/gotonode.php?id=917>>

⁹⁹ Corden, M. 1984. *Booming sector and Dutch disease economics.* Oxford: Oxford Economic Papers, 1984. p. 360.

To explain the principle of this disease, let us have a country, where there is highly profitable export sector (raw materials), traditional export sector (industrial products), and sector with production for domestic consumption (construction services). The Dutch disease basically happens, when a country discovers a significant source of mineral resources. As for the effect, the export of this source starts to grow, what causes the increase of the country's revenues. Conversion of part of capital inflows into domestic currency follows. Subsequently, there is an appreciation of the currency and the transfer of workforce into the highly profitable export sector. As for the consequence, the competitiveness of traditional export sector decreases, as well as its production and there is possible increase of unemployment.¹⁰⁰

Dutch disease has two possible effects. The first one is direct deindustrialization so called "*Resource Movement Effect*". It means that profitable export sector increases the demand for workforce, which causes the shift from traditional export sector. The second effect is indirect deindustrialisation or "Spending Effect". The boom in the profit causes extra revenue for the country. Subsequently, there is an increase in demand for the goods from domestic sector and movement of workforce from the traditional export sector to the domestic one.¹⁰¹

We will mention a negative example of Dutch disease in the case of Nigeria. There was a boom during the oil shocks in the 70s, what caused an increase in export revenues, as well as in government spending. Exchange rates were fixed, so it didn't come to the currency appreciation, but inflation. The competitiveness of other export industries has decreased and the agricultural sector was damaged and a lot of population moved to cities. The consequences after the oil shocks were: the countryside in a dilapidated condition, high unemployment in cities and high external debt because of easy access to foreign loans.

There is a special relationship between oil and countries with authoritarian regimes, which are maintained by revenues from the raw materials. We are talking about political Dutch disease. There are three factors that retard democratization and explain the maintenance of the authoritarian regimes:

1. "Rentier effect" valid for states with high dependency on external rents, where there are:

¹⁰⁰ Grančay, M.: *Holandská choroba*. [quo. 2014-04-08]. Available online: <<http://fmv.euba.sk/gotonode.php?id=917>>

¹⁰¹ Corden, M. 1984. *Booming sector and Dutch disease economics*. Oxford: Oxford Economic Papers, 1984. p. 360-361.

- a. Low taxes which mean low government accountability to citizens,
 - b. High government revenues which mean possibility of payments to citizens,
 - c. Existence of “independent” civic associations supported by state which are pushing away the real ones.¹⁰²
2. “Repression effect” which enables governments to boost their funding for internal security.
 3. “Modernization effect” which argues that growth caused by the export of oil and minerals distorts social and cultural development of the society that tend to produce democratic government.¹⁰³

Ross (2001) came to following results in his research:

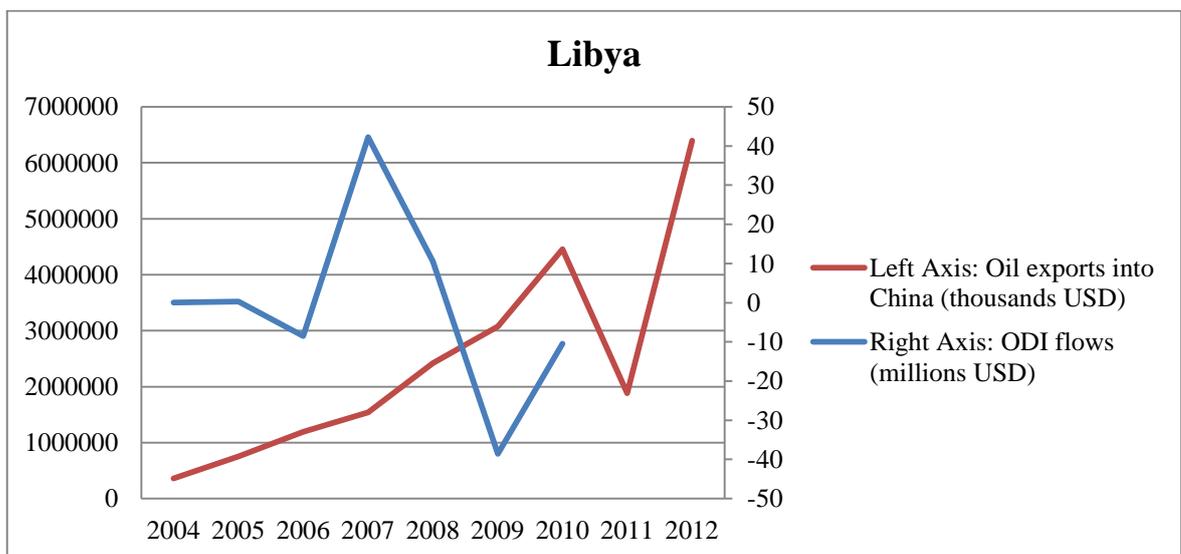
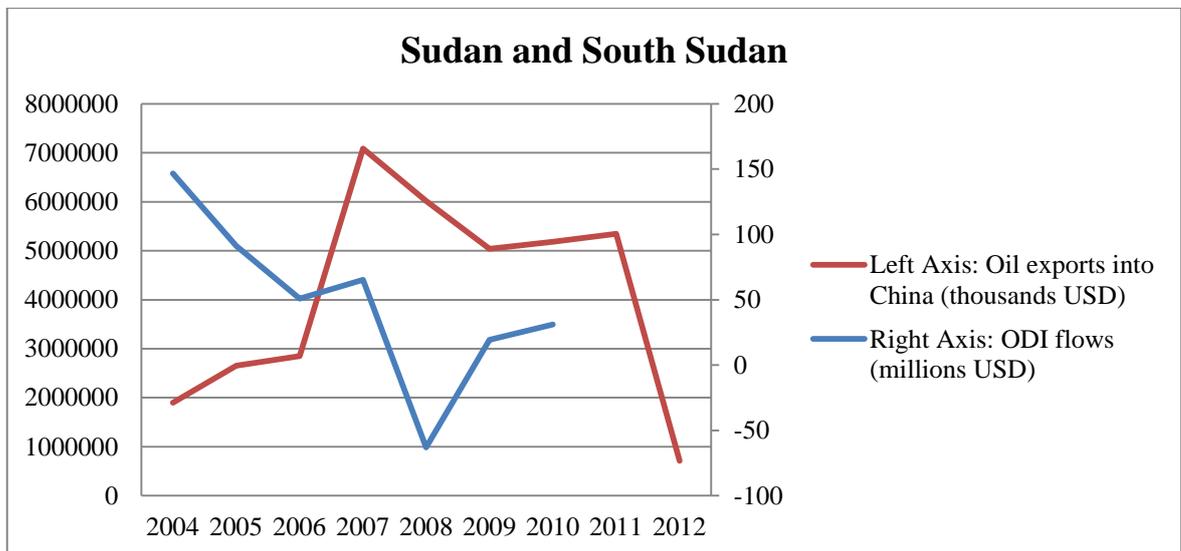
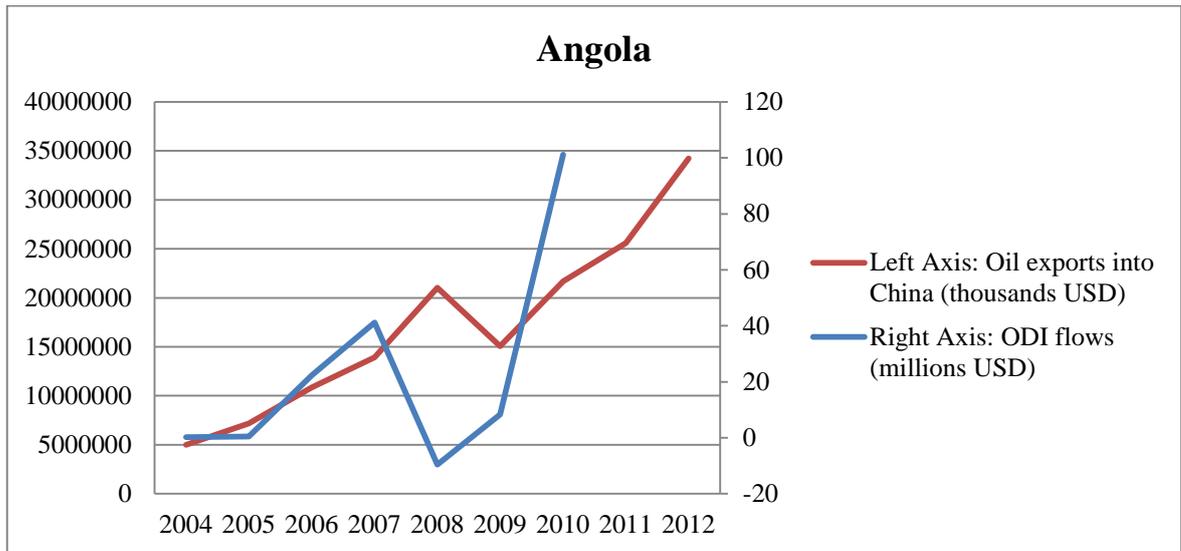
- I. The relationship between oil dependency and democracy: There is a strong relationship between the dependence on export of raw materials and authoritarian regimes, but it is not valid for the dependence on export of other primary commodities. This detection is not geographically limited.
- II. The relationship between rentier state and democracy: There is a significant relationship between the amount of taxes in the country and democracy.
- III. The relationship between raw materials and repression: There was confirmed a link with higher military expenditures in the oil countries, by others not.

We will describe more deeply the Chinese investment in those countries, where China belongs among top three oil importers, i.e. Angola, Sudan and South Sudan and Libya. Series of charts 17 show the development of Chinese outward foreign direct investment in those countries and trade with oil.

¹⁰² Ross, L. 2001. *Does oil hinder democracy?* Oxford: Oxford University Press, 2001. p. 327. ISBN 9780691145457

¹⁰³ Ross, L. 2001. *Does oil hinder democracy?* Oxford: Oxford University Press, 2001. p. 327-328. ISBN 9780691145457

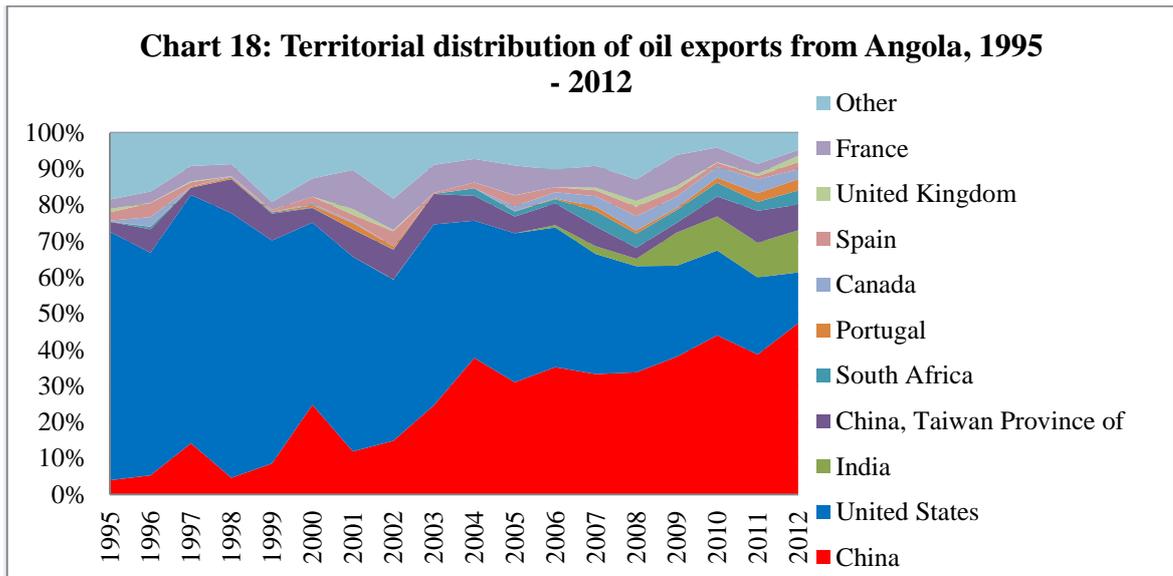
Chart 17: Development of Chinese ODI flows and oil export into China in chosen African countries



Source: Author's processing based on data from MOFCOM and UNCTAD

Angola

By 2012, Angola was the second largest oil producer in Africa behind Nigeria¹⁰⁴, and in January 2007, it became the twelfth member of OPEC.¹⁰⁵ The oil is a key commodity for Angolan economy and constitutes 98% of export revenues. Angola is China's largest oil supplier, and would lose 46% of export revenues without Chinese import.¹⁰⁶ China's share of oil exports from Angola continues to grow, as it is visible in the chart 18.



Source: Author's processing based on UNCTAD: Handbook of Statistics

The country has attracted a lot of largest international corporations, such as Exxon Mobil, BP, ENI, Agip, Total and Chevron. Between 1990 and 2004, the Chinese involvement in Angola was very low and consisted only of some technical assistance projects primarily focused on agriculture, but then the situation turned around rapidly.

In 2004, China's Eximbank provided to Angola a USD 2 billion line of credit for the land reconstruction after the civil war, which should be repaid over twelve years. This loan was used for completion of infrastructural projects, for example roads, railroad and low-income housing, which have been awarded to Chinese companies. As a consequence, Angola broke off negotiations with the IMF, which should provide a loan for the country, but only in exchange of some conditions (reforms). There were also some discussions

¹⁰⁴ BP: *BP Statistical Review of World Energy. June 2013.* [quo. 2014-04-12]. Available online: <http://www.bp.com/content/dam/bp/pdf/statistical-review/statistical_review_of_world_energy_2013.pdf> p.8

¹⁰⁵ OPEC: *Member Countries.* [quo. 2014-04-12]. Available online: <http://www.opec.org/opec_web/en/about_us/25.htm>

¹⁰⁶ Author's calculation based on UNCTAD: Handbook of Statistics

about the sale of Shell's oil share (50 percent) of Block 18 in 2007, which should have been originally bought by an Indian company ONCC Videsh. However, the Angolan government exercised its preferential rights and sold it to a consortium of Chinese Sinopec (75 percent) and Angolan Sonangol (25 percent) and the name Sinopec-Sonangol International (SSI) was created.¹⁰⁷

In 2008, 2009, 2010 both sides agreed on the terms of granting a further two loans with amounts of USD 1.5 billion, USD 6 billion and USD 500 million for the construction of infrastructure linked to crude oil supply to China.¹⁰⁸

Regarding the current information, in June 2013, the CNPC signed a contract with the U.S. Marathon Oil Corp. to purchase its 10% share in an Angolan oil field. The site will be managed by SSI.¹⁰⁹ Sonangol wants to open a fourth international trading office in China and the CEO Francisco Jose Maria said that Angola is targeting to increase oil production to 2 million barrels per day and to sustain this level for the next 10 years.¹¹⁰

Moreover, a construction company, China International Trust and Investment Company, plans to construct 6000 homes on the outskirts of the Angolan city of Malanje. "The project comprises the construction of roads systems, water and telecommunications networks, electricity systems, petrol stations, police stations, fire stations, health centres and public lighting systems."¹¹¹

Sudan and South Sudan

South Sudan seceded from Sudan in 2011 and became the newest nation in the world.¹¹² We have to mention that we use the data from UNCTAD until the year 2011, when the two countries were unique in order to keep the chart of oil exports transparent. Sudanese economy is dependent on oil, which constituted 81% of export revenues in 2011. Sudan was China's second largest oil supplier in this year and would lose 73% of oil

¹⁰⁷ Rotberg, R. 2008. *China into Africa*. Washington, D.C.: Brookings Institution Press, 2008. p. 120. ISBN 978-0-8157-7561-4

¹⁰⁸ Alves, A.: *The Oil Factor in Sino-Angolan Relations at the Start of the 21st Century*. [quo. 2014-04-15]. Available online: <http://www.voltairenet.org/IMG/pdf/Sino-Angolan_Relations.pdf> p.13

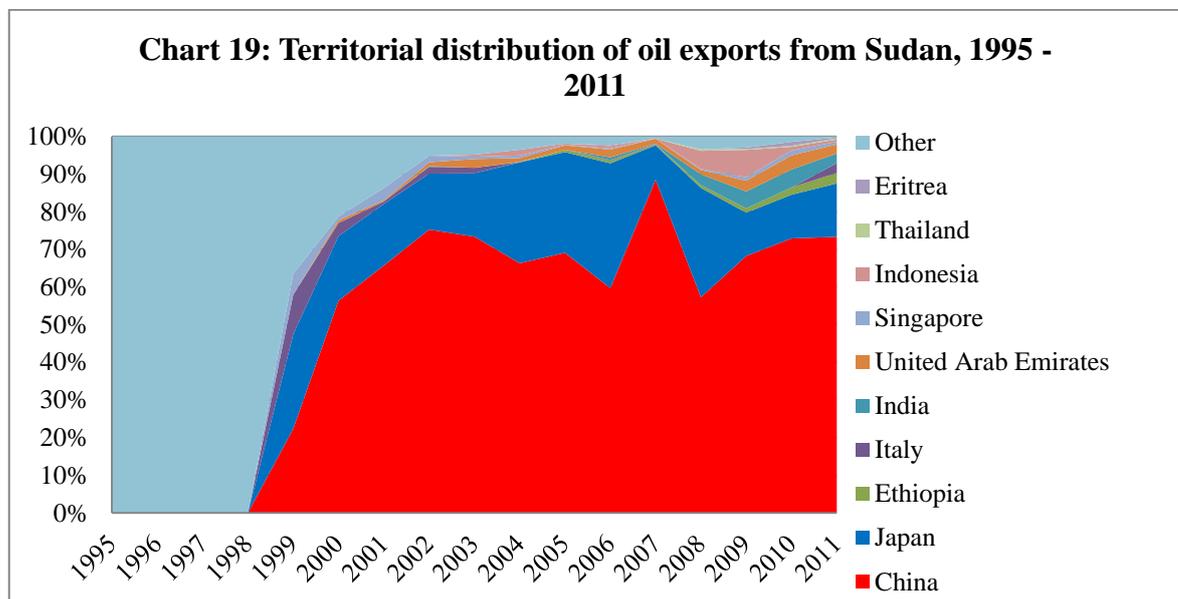
¹⁰⁹ Xinhua: *Sinopec buys Angola oil field stake for \$1.52b*. [quo. 2014-04-15]. Available online: <http://www.chinadaily.com.cn/business/2013-06/25/content_16654553.htm>

¹¹⁰ *Angolan state oil firm Sonangol to open trading office in China*. [quo. 2014-04-15]. Available online: <<http://www.reuters.com/article/2013/10/21/angola-sonangol-idUSL5N0IB3KA20131021?type=companyNews&feedType=RSS&feedName=companyNews>>

¹¹¹ Information about Chinese investment are collected from the media reports on CSS: Weekly Briefing. Archive. [quo. 2014-04-15]. Available online: <<http://www.ccs.org.za/?cat=9&paged=2>>

¹¹² EIA: *Sudan and South Sudan*. [quo. 2014-04-17]. Available online: <<http://www.eia.gov/countries/cab.cfm?fips=SU>>

export revenues without Chinese import.¹¹³ In the year 2012, Sudan took the sixth place and South Sudan tenth place regarding the Chinese oil imports from Africa. China is the biggest importer of Sudanese oil, what the following chart shows.



Source: Author's processing based on UNCTAD: Handbook of Statistics

China is very criticized for its activities in Sudan and provoked a great controversy. From the historical point of view, Sudan was seeking for investors to its oil sector for a long time. In the 70s, Chevron USA was interested in exploring the oil fields, but abolished with its activities when the second civil war broke out in the mid-1980s. Chevron "sold its interests to a Canadian firm, which formed the Greater Nile Petroleum Operating Company (GNPOC). In 1997, GNPOC sold a 40 percent share to China's largest oil company, CNPC. The goal of the newly formed company was to develop the Sudan's oilfields in the south-central part of the country and build a 1,500-kilometer (about 930-mile) pipeline to a coastal port facility at Marsa al-Bashair, near Port Sudan."¹¹⁴

The fact is that Sudan didn't export a barrel of oil until 1990. That's why, when the negotiations between China and Sudan have started, the oil resources were undeveloped and most of them unexplored. At this time, by 1998, Sudan was in very desperate financial situation with the debt 173,5% of GDP¹¹⁵, devastated rural areas and GDP was in a free fall. The only escape from this unfavourable situation was to increase oil revenues. China was the only country which stayed, Western companies had left. The Sudan arranged to

¹¹³ Author's calculation based on UNCTAD: Handbook of Statistics

¹¹⁴ Rotberg, R. 2008. *China into Africa*. Washington, D.C.: Brookings Institution Press, 2008. p. 125. ISBN 978-0-8157-7561-4

¹¹⁵ Data from IMF: World Economic Outlook

sell oil concessions to China on generous terms, such as no restrictions on profit repatriations and exemption for CNPC from all domestic taxes on exported oil.¹¹⁶

Most of the Sudan's oil reserves are located near or extend across the de facto border between Sudan and South Sudan. After the secession in 2011, South Sudan gained control over most of the oil production. However, South Sudan is landlocked and maintains dependent on Sudan because it has to use export pipelines and refinery built in Sudan. "In January 2012, South Sudan voluntarily shut in all of its oil production because of a dispute with Sudan over oil transit fees. After nearly 15 months of intermittent negotiations, South Sudan restarted oil production in April 2013. Despite the progress that has been made to reconcile differences, several unresolved issues remain and production may be curtailed again in the future."¹¹⁷

Moreover, this issue contributed to lower oil production in Sudan and South Sudan together with natural declines at maturing fields. This fact brings China into vulnerable and challenging position and the country realizes that it is important to take more proactive role in trying to end the fighting and suggests strengthening direct political engagement with African nations.¹¹⁸

International oil companies, primarily from Asia, play a dominant role in the oil sector in both countries. They are led mainly by China National Petroleum Corporation (CNPC), India's Oil and Natural Gas Corporation (ONGC) and Malaysia's Petronas. The CNPC holds the largest portion of shares in most of the international oil companies (see Appendix 2).¹¹⁹

Regarding Chinese non-oil investments, they are significant and consist of a major hydroelectric facility, a new airport in Khartoum, and several textile plants. Currently, there is an agreement signed by Sudan and China for joint cooperation in the fields of mining and geological research. Under the agreement, Sudan promised to hand over six mining blocks to the Chinese government. For the exchange, Chinese government will provide scholarships in the field of geology, minerals and the use of satellites and remote

¹¹⁶ Rotberg, R. 2008. *China into Africa*. Washington, D.C.: Brookings Institution Press, 2008. p. 125-126. ISBN 978-0-8157-7561-4

¹¹⁷ EIA: *Sudan and South Sudan*. [quo. 2014-04-17]. Available online: <<http://www.eia.gov/countries/cab.cfm?fips=SU>>

¹¹⁸ Information about Chinese investment are collected from the media reports on CSS: Weekly Briefing. Archive. [quo. 2014-04-15]. Available online: <<http://www.ccs.org.za/?cat=9&paged=2>>

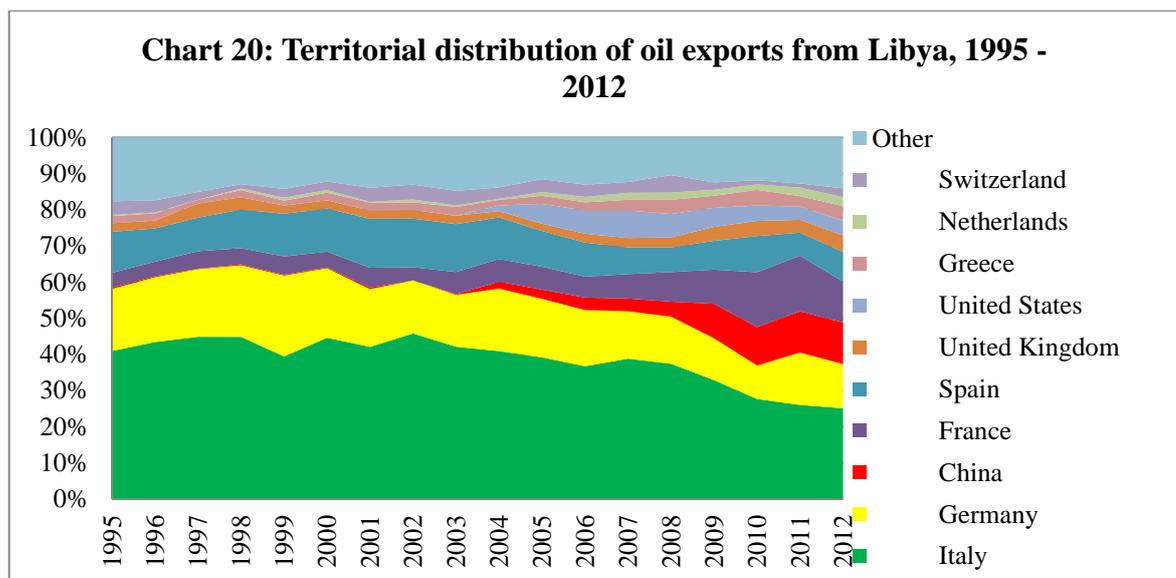
¹¹⁹ EIA: *Sudan and South Sudan*. [quo. 2014-04-17]. Available online: <<http://www.eia.gov/countries/cab.cfm?fips=SU>>

sensing technology for exploration.¹²⁰ Moreover, China gave a donation to the Sudanese government, as part of humanitarian assistance to Darfur region. The donation consists of agricultural machinery and maintenance equipment.¹²¹

Concerning the activities in South Sudan, China expressed an interest to help develop its mining sector and is negotiating granting a loan to the country between USD 1 billion and USD 2 billion for road, power and agriculture projects.¹²² “China has also provided an additional US\$ 43 million for a geological study to assist South Sudan in mapping its underground resources such as gold.”¹²³

Libya

The country is the fourth largest oil producer and is sitting on biggest amount of proved reserves among African countries. By 2012, oil represents 89% of Libya’s export revenues. China imports 12% of Libya’s oil¹²⁴, as it is visible in the chart 20, and the share is continuously increasing.



Source: Author’s processing based on UNCTAD: Handbook of Statistics

¹²⁰ Awadallah, A.: *Sudan Hands over Six Mining Blocks to Chinese Government*. [quo. 2014-04-19]. Available online: <<http://www.alnilin.com/en/index.php/business/2595-sudan-hands-over-six-mining-blocks-to-chinese-government>>

¹²¹ Xinhua: *Sudan receives Chinese humanitarian assistance to Darfur*. [quo. 2014-04-19]. Available online: <<http://www.globaltimes.cn/content/765686.shtml>>

¹²² Green, A.: *China to help South Sudan develop mining sector and infrastructure*. [quo. 2014-04-19]. Available online: <<http://www.bdlive.co.za/africa/africanbusiness/2013/09/10/china-to-help-south-sudan-develop-mining-sector-and-infrastructure>>

¹²³ Information about Chinese investment are collected from the media reports on CSS: Weekly Briefing. Archive. [quo. 2014-04-19]. Available online: <<http://www.ccs.org.za/?cat=9&paged=2>>

¹²⁴ Author’s calculation based on UNCTAD: Handbook of Statistics

Efforts for greater infiltration into the oil sector of the country were abolished by the Libyan national oil company, which has blocked the sale of the Canadian branch Venerexu by Chinese CNPC in 2009, after it was discovered oil field in the Ghadames, West of Libya. A leading Chinese company in mining in coastal waters China State Engineering Corporation withdrew from the oil fields and cancelled the projects in March 2011 due to political unrest. Many Chinese companies involved in Libya did the same, for example construction company China Gezhouba Group that won the tender for the construction of residential buildings in Libya.¹²⁵

5.5. Conclusion of the chapter

Oil is a key commodity for China and the country needs it to satisfy her growing demand and economic growth. China has never discovered any large oil reserves and that's why has become dependent on import of this commodity. The country is currently world's second largest importer of oil and is expected to be placed to the first position and surpass United States by 2020. Main goals of her oil strategy are to focus on countries with high probability of growing oil reserves and where China could negotiate arrangements for long-term cooperation. Another goal is to differentiate its strategies from the Western countries, which means for Africa that China is not focused only on purchase and investment in oil, but also invests in the infrastructure and provides some aid.

Concerning the analysis of African oil countries, we can state that almost all of them except Libya and Egypt are authoritarian. However, these two countries moved to the group of countries with hybrid regimes only in 2011. Three features – Dutch disease, corruption and rentier state – characterize the oil sector in these countries, often collectively called political Dutch disease. It is important to mention that we cannot talk about democracy in Arabic oil countries and in Russia. Besides Norway and US, no oil country is evaluated as fully democratic.

Regarding the Chinese engagement in these African oil countries, we can conclude that the oil is still the biggest import commodity for China, but it is not a key determinant of Chinese investment in Africa. This statement is based on the diversity of Chinese ODI in these states and the decreasing share of this commodity on total import. China is the

¹²⁵ Szikorová, N. 2012. *Vplyv čínskych priamych investícií na ekonomický rozvoj Afriky*. Bratislava: EUBA, 2012. p. 101

biggest trade partner and oil purchaser only in the case of Angola and Sudan and second largest oil importer after US in Chad, Gabon and Congo. In case of all other countries, the share of Chinese oil imports is very low compared to the Western countries or India. Chinese investment destinations are diversified and the share of African oil countries on Chinese ODI flows has decreased significantly since 2007. Moreover, the oil sector is not the only one, where China is engaged, for example the country is also interested in natural gas, coal, uranium etc.

6. Discussion

Chinese engagement in Africa has grown significantly over time. What some economists are questioning is the fact whether this engagement helps African countries and contributes to their economic development or China is a “rogue donor” which exploits these countries and her aid and engagement is destabilizing and unlikely to help Africa to end poverty. It is important to state that many of the fears and rumours are misinformed. First of all, there are more China’s export credits than her aid to Africa. They have learned this approach from Japan: “using very large credits, at competitive market rates, tied to Chinese machinery, equipment, and construction services, with repayment in oil or other resources. This is the essence of the “win-win” approach.”¹²⁶

The Chinese believe that their industrialization, open door policy to foreign investment and trade and access to technology are responsible for their remarkable reduction in poverty. They have built roads, ports, rural power plants; modernized agriculture; and experimented with different approaches, for example special economic zones. They are applying the same tools in their African engagement. In order to link foreign investment to an industrial transformation, there is a need to foster “backward and forward linkages.” It means that contacts with foreign companies can create these linkages and accelerate local industrialization through many channels.¹²⁷

China is now a powerful force in Africa. Her embrace of the continent is strategic, planned, long-term, and unfolding. We decided to determine whether the influence of Chinese engagement on economic development of African countries is more positive or negative. We will examine it in those countries, where China is engaging long-term and is the biggest investor there. The reason is to reduce the risk that the improvement or deterioration of the economic situation in these countries was caused by the activity of other actors. We choose the countries Botswana, Congo DR and Niger, because the cumulative amount of Chinese ODI in these countries reached the greatest value of the total volume of their ODI stock, which have been accumulated by 2010 (Botswana: 13,8%; Congo DR: 15,8%; Niger: 16,4%).¹²⁸ At the same time, at least in half of the cases (years

¹²⁶ Brautigam, D. 2009. *The Dragon’s Gift. The Real Story of China in Africa.* Oxford: Oxford University Press, 2009. p. 308. ISBN 978-0-19-955022-7

¹²⁷ Brautigam, D. 2009. *The Dragon’s Gift. The Real Story of China in Africa.* Oxford: Oxford University Press, 2009. p. 193. ISBN 978-0-19-955022-7

¹²⁸ Author’s calculations based on UNCTAD: Handbook of Statistics and MOFCOM: 2010 Statistical Bulletin of China’s Outward Foreign Direct Investment

2004-2010), the flows or stocks of Chinese ODI rose faster than total ODI in the countries, what demonstrates China's growing engagement in the country.¹²⁹ We will compare the development of individual indicators in these countries. By examination of indicators of economic development, we came across limited data, so we adapted the selection of these indicators to the availability of statistical data. The series of tables 7 show following indicators for the three chosen countries in the years 2004, 2010 and 2012.

Table 7: Indicators for the chosen countries in the years 2004, 2010 and 2012

Botswana	2004	2010	2012
ODI stock (in USD million)	3,8	178,52	na
ODI flows (in USD million)	0,27	43,85	na
Nominal GDP (in USD million)	8957,5	13746,7	14504,3
Nominal GDP p.c.	4829,5	6980,4	7238
Unemployment rate (in % of total population)	22,9	17,9	17,7
People living belong the Poverty line (in % of total population)	30,6	20,7	na
Health Index	0,487	0,523	0,523
Income Index	0,663	0,704	0,716
Human Development Index	0,587	0,629	0,634

Congo DR	2004	2010	2012
ODI stock (in USD million)	15,69	630,92	na
ODI flows (in USD million)	11,91	236,19	na
Nominal GDP (in USD million)	6511	13138,8	17204
Nominal GDP p.c.	124	211,3	261,8
Unemployment rate (in % of total population)	7,2	7,2	7,2
Health Index	0,405	0,439	0,448
Income Index	0,127	0,153	0,166
Human Development Index	0,234	0,289	0,299

¹²⁹ Author's calculations based on UNCTAD: Handbook of Statistics and MOFCOM: 2010 Statistical Bulletin of China's Outward Foreign Direct Investment

Niger	2004	2010	2012
ODI stock (in USD million)	14,03	379,36	na
ODI flows (in USD million)	1,53	196,25	na
Nominal GDP (in USD million)	3052,9	5718,6	6773,2
Nominal GDP p.c.	240,2	359,8	394,8
Unemployment rate (in % of total population)	5	5,1	5,1
Health Index	0,446	0,533	0,547
Income Index	0,261	0,269	0,272
Human Development Index	0,234	0,289	0,297

Source: MOFCOM, WB: World Development Indicators, UNDP: Human Development Reports

It is visible in the tables that the indicators prove that the economies of selected three African countries have grown from 2004 to 2010 and continued to grow also to the year 2012. We confirmed the third hypothesis with this fact. The qualitative indicators of human development confirm the same. However, we cannot claim with 100% certainty that the economic development of these countries was determined only by Chinese investments.

We would like to conclude this part with the statement that China plays many roles in Africa. They are “touring presidents delivering grand promises for partnership, provincial companies with very long names, huge global corporations, resource-hungry and profit motivated. They are factory managers demanding long hours of work, tough businesswomen, scrap metal buyers, traders. They offer frank deals that they expect to work well for China, but also for Africa: roads, broadband, land lines, high-tech seeds. They bring aid workers: vocational teachers, agricultural specialists, water engineers, youth volunteers, and others who have come, as so many from the West have done, out of curiosity, a sense of adventure, or a desire to help the poor.”¹³⁰

¹³⁰ Brautigam, D. 2009. *The Dragon’s Gift. The Real Story of China in Africa*. Oxford: Oxford University Press, 2009. p. 310. ISBN 978-0-19-955022-7

Conclusion

The main goal of our diploma thesis was the analysis of Chinese outward direct investment in Africa and clarification of motivation and driving forces of Chinese investors to invest in the continent. We defined some partial objectives that were needed in order to develop the main goal.

In the first part, the objectives were to characterize Chinese economic strategy and growth and her embrace of globalization. China's economy went through different ups and downs phases during her existence. We focused on the meteoric rise since the year 1978, when the reform and opening up period has started. The main achievements of this development are, first of all, the rapid growth of the national economy. Currently, China is the second world's largest economy and is expected to surpass U.S. economy some time. China is also maintaining her macroeconomic stability with the tendency to low inflation and the sustainable level of public debt. Another achievement is the fact that her industrial structure has evolved rapidly and China has become the "world's factory". Other achievements represent gradual improvements of the employment structure and standards, decline in population growth rate, improvements in the standards of education and health care and a higher standard of living thanks to which hundreds of millions people has moved from absolute poverty.

Regarding to the embrace of globalization, China is nowadays the biggest exporter in the world. Chinese inward as well as outward foreign direct investment has grown rapidly since 1978, thanks to some important steps which liberalized the FDI flows to a certain level. Concerning the ODI stocks and flows, Asia is taking the leading position for many years, leaving other regions far behind. China's ODI flows are becoming more diversified over time. The top seven sectors are business services, financial, mining, wholesale and retail, manufacturing, transport and construction.

In the next part, it was important to analyse the development and strategies of China-African cooperation and to assess the problem of Chinese neo-colonialism in Africa, what were other partial goals. Chinese important interest is the access to raw materials and agricultural products in order to maintain her huge GDP growth. As for the exchange, China offers an expertise and help in the construction of infrastructure, manufacturing sector and financial means to Africa. China follows not only material goals, but political as well. The country wants to obtain diplomatic monopoly on the African continent in terms

of its recognition. Because of this strategy, China is criticized mainly by Western countries that she is becoming a new colonizing power, which exploits Africa's raw materials and destroys their democracy and human rights. It would be possible only when African countries would become so dependent on Chinese investments and exports that Beijing would start to decide about their domestic and foreign policies. However, we conclude that this assumption shouldn't be taken so seriously, as China also depends and will depend on Africa's resources and economic growth.

Another partial goal in this part was to identify main motivating factors and relevant determinants of Chinese investments. By means of the statistical analysis, we identified following determinants of Chinese ODI in Africa:

- size of the market of the recipient country,
- trade (export) relations with the recipient country,
- amount of raw materials in the recipient country,
- amount of arable land in the recipient country.

Moreover, we proved that the import of raw materials has the greatest influence on Chinese outward direct investment in Africa among all relevant determinants, so it means that we **confirmed the first hypothesis**: *Raw materials have the greatest impact on Chinese investment in Africa, but simultaneously they are not the only determinant.*

In the next chapter, we focused on following partial goals. We wanted to analyse the African countries with authoritarian regimes, the Chinese investment in states rich in oil and to identify the relationship between these types of countries. We found out that, by 2010, 19 from 31 largest recipients of Chinese ODI stock are dictatorial at the same time. Another fact is that the majority of world's proved reserves is allocated in Libya, Nigeria, Angola, Algeria, Egypt, South Sudan, Sudan, Chad, Congo, Eq. Guinea and Gabon. Almost all of them, except Libya and Egypt, are authoritarian. However, these two countries moved to the group of countries with hybrid regimes only in 2011. Three features – Dutch disease, corruption and rentier state – characterize the oil sector in these countries, often collectively called political Dutch disease.

Since China is investing in all these countries and the majority of them (nine out of eleven) is autocratic, we **confirmed our second hypothesis**: *Chinese investment in countries rich in raw material "oil" is flowing mainly into autocratic countries in Africa.*

After the analysis of Chinese engagement in African oil countries, we can conclude that the oil is still the biggest import commodity for China, but it is not a key determinant

of Chinese investment in Africa. This statement is based on the diversity of Chinese ODI in these states and the decreasing share of this commodity on total import. China is the biggest trade partner only in the case of Angola and Sudan and second largest oil purchaser in Chad, Gabon and Congo after US. In all other countries, the share of Chinese oil imports is very low compared to the Western countries or India.

In the last chapter of the diploma thesis, we wanted to identify the African countries, where China has a great influence on their economies and to quantify this influence of investment based on chosen macroeconomic indicators. Chinese ODI represented 2,4% of total ODI stocks in Africa by 2010 and 3,9% of the flows. That's why we cannot talk about a significant influence of Chinese ODI on Africa as a whole. In the period from 2004 to 2010, Chinese ODI has the greatest influence on Botswana, Congo DR and Niger.

The comparison of macroeconomic indicators and individual components of Human Development Index showed a positive trend in economic development in described economies. With this fact, we **confirmed our third and last hypothesis**: *Chinese investment influences the African economies more positively than negatively.*

As for the future trends, we see a new trend in the development of China-African relations first of all in the orientation on the arable land. The reasons for investment drive into this sector are for example a scarcity of arable land, increasing soil degradation, urbanization and excessive water pollution in China. We also expect the orientation on uranium, phosphates and critical raw materials. The reason is their exhaustibility, small recyclability and almost no substitutes. Since they are the elements necessary for sophisticated technology, which is one of the seven strategic sectors of 12th Chinese five-year plan, the demand for them will increase with high probability.

Resume

Hlavným cieľom diplomovej práce je analýza čínskych priamych investícií v Afrike a objasnenie motivácie a stratégií čínskych investorov pôsobiť na tomto kontinente. Stanovili sme si aj následovné čiastkové ciele, ktoré majú za úlohu dopĺňať a rozvíjať hlavný cieľ:

- Charakteristika hospodárskej stratégie Číny, jej hlavných úspechov a otvorenia ekonomiky zahraničnému obchodu a investíciám;
- Objasnenie vývoja čínskych priamych investícií v zahraničí a ich geografické a sektorové rozdelenie;
- Analýza vývoja čínsko-africkej spolupráce a posúdenie potenciálneho čínskeho neokolonializmu v Afrike;
- Objasnenie hlavných motivačných faktorov pre čínskych investorov za účelom pôsobenia v afrických krajinách a určenie relevantných determinantov týchto investícií;
- Definícia vzťahu medzi africkými krajinami s autoritárskymi režimami a čínskymi investíciami v týchto krajinách;
- Analýza investícií v krajinách bohatých na nerastnú surovinu „ropa“;
- Určenie afrických krajín, v ktorých má Čína veľký vplyv na ich ekonomiku a kvantifikácia tohto vplyvu čínskych investícií na vybrané makroekonomické ukazovatele a komponenty indexu ľudského rozvoja.

Stanovili sme si nasledovné **hypotézy**, ktoré sme v práci testovali a snažili sa ich potvrdiť alebo zamietnuť:

- *Hypotéza 1:* Nerastné suroviny majú najväčší vplyv na čínske investície v Afrike, ale súčasne nie sú jediným determinantom.
- *Hypotéza 2:* Čínske investície v ropných krajinách prúdia hlavne do autokratických krajín Afriky.
- *Hypotéza 3:* Čínske investície ovplyvňujú vývoj afrických ekonomík viac pozitívne ako negatívne.

Prvá kapitola sa zameriava na charakteristiku čínskej hospodárskej stratégie, jej prijatie globalizácie a vstúpenie ekonomiky do medzinárodného obchodu a investovania. Čínska ekonomika prechádzala rôznymi fázami počas svojej existencie a zažila mnoho

vzostupov a pádov. V našej práci sme sa zamerali na raketový vzostup od roku 1978, kedy sa Deng Xiaoping dostal k moci a začala politika otvorených dverí a obdobie reform. Pri zhrnutí čínskych najväčších úspechov, čo sa týka jej ekonomického rastu, začneme s rýchlym rastom národného hospodárstva. V súčasnosti je Čína druhou najväčšou ekonomikou sveta a očakáva sa, že prekoná americkú ekonomiku v nie tak ďalekom časovom horizonte. Čína si taktiež udržuje svoju makroekonomickú stabilitu s tendenciou k nízkej inflácii a udržateľnou úrovňou verejného dlhu. Ďalším úspechom je skutočnosť, že jej priemyselná štruktúra sa rýchlo vyvinula z 20 % z HDP v roku 1952 na 45,3 % v roku 2012 a krajina dostala prezývku "svetová továreň". Je veľmi dôležité poznamenať, že ani podiel služieb na HDP nie je zanedbateľný a od roku 1978 začal stúpať z približne 20% na takmer 45% z HDP v roku 2012. Ďalšie úspechy sú postupné zlepšovanie úrovne zamestnanosti a štandardov, pokles miery populačného rastu, zlepšenie úrovne vzdelávania a zdravotnej starostlivosti a v neposlednom rade vyššia životná úroveň, vďaka ktorej stovky miliónov ľudí utieklo z absolútnej chudoby.

Čína dosiahla tieto úspechy vďaka určitým kľúčovým faktorom, ako sú pragmatické a efektívne trhovo orientované reformy, ktoré boli organizované prostredníctvom unikátnej stratégie s názvom „crossing the river by feeling stones“, ktorej cieľom bola podpora miestnych vlád, aby skúšali a vykonávali pilotné experimenty. Čína udržala ekonomický rast súčasne so sociálnou a makroekonomickou stabilitou vďaka vhodnej kombinácii menovej a fiškálnej politiky, politiky zamestnanosti, ako aj administratívnych nástrojov. Ďalším dôvodom úspechu bola podpora medziregionálnej konkurencie a povolenie miestnym vládam súťažiť v tom, kto pritiahne viac investícií. To sa stalo hnacou silou ekonomického rastu, ktorý siahal až za očakávania ústrednej štátnej správy. Ďalšími faktormi boli integrácia domáceho trhu, čo umožnilo spoločnostiam dosiahnuť úspory z rozsahu a integráciu s globálnou ekonomikou najmä prostredníctvom vytvorenia špeciálnych ekonomických zón a vstupu do WTO.

Na druhej strane, existujú aj určité kritické faktory a problémy, ktorým Čína čelí. Najdôležitejší z nich je nedostatok nerastných surovín, najmä energetických zdrojov. Krajina sa stala závislá na dovoze ropy a táto skutočnosť spolu s nedostatkom strategických ropných zásob spôsobuje zraniteľnosť voči zmenám cien ropy. Ďalšie problémy sú vysoká úroveň znečistenia životného prostredia, stále nízka miera urbanizácie aj po významnom zlepšení v porovnaní s minulosťou a vážne nerovnováhy ekonomického rozvoja medzi rôznymi regiónmi krajiny, čo môžeme dokázať pomocou Giniho koeficientu s hodnotou 0,474.

Pokiaľ ide o globalizovanie čínskej ekonomiky, medzinárodný obchod tak ako aj priame zahraničné investície výrazne rástli od roku 1978. V súčasnosti je Čína najväčším svetovým exportérom. Krajina urobila určité dôležité kroky, ktoré viedli k liberalizácii tokov priamych zahraničných investícií dovnútra aj von z krajiny. Najväčšími hnacími silami pre investovanie v Číne sú nízke výrobné náklady, najmä náklady na pracovnú silu, otvorenosť krajiny pre priame zahraničné investície, úspory z rozsahu, obrovská veľkosť čínskeho trhu a liberalizované inštitucionálne faktory. Hlavnými motívmi pre čínskych investorov pôsobiť v zahraničí sú expandovanie na nové trhy a s tým súvisiace zlepšenie postavenia na trhu a znižovanie nákladov.

Zameriavame sa hlavne na priame investície prúdiace z Číny do zahraničia, keďže tie sú kľúčovým predmetom celej práce. Problémom je, že v slovenskej terminológii neexistuje exaktný výraz pre tieto investície. Rozhodli sme sa ich preto volať „priame investície v zahraničí“ (PIZ). Väčšina čínskych investícií, viac ako 70 %, prúdila do Ázie v roku 2012. Do Afriky pritom tiekli 3 % týchto investícií. Pokiaľ ide o zásoby čínskych PIZ, Ázia znova prevzala vedúcu pozíciu, pričom zanechala ostatné regióny sveta ďaleko za sebou.

Čínske toky PIZ sú stále rozmanitejšie v priebehu času. Pre Čínu najatraktívnejšími odvetviami sú podnikateľské služby, finančné služby, ťažba, veľkoobchod a maloobchod, výroba, doprava a stavebníctvo. Tieto odvetvia predstavujú 89,2 % z celkového počtu odlevu PIZ v roku 2012.

Druhá kapitola práce definuje hlavný cieľ a čiastkové ciele, ktoré sme už uviedli na začiatku tejto časti. **V tretej časti** objasňujeme výskumné metódy práce, konkrétne ako a kde sme použili empirickú metódu pozorovania, teoretické metódy abstrakcie, analýzy, syntézy, dedukcie a špeciálnu metódu komparácie. Metodika tejto záverečnej práce spočívala v zbere údajov a informácií, ktoré boli ďalej analyzované, posudzované a spracovávané do výslednej hypotézy. Údaje a informácie sme získavali najmä z knižných a internetových zdrojov. Faktom je, že priame zahraničné investície prúdiacie do Číny sú jednou z najviac medializovaných tém, ale investíciami prúdiacimi opačným smerom sa zaoberá značne menej zdrojov.

Takisto sme využili veľké množstvo štatistických údajov. Čerpali sme ich najmä z databáz Svetovej banky, UNCTAD-u a čínskeho Ministerstva obchodu (MOFCOM) a taktiež sme využili údaje publikované inštitúciami, ako FAO, UNESCO Data Centre, British Petrol a UNDP. Narazili sme však na nedostatok štatistických údajov o čínskych

priamych investíciach v zahraničí. Tieto údaje sú zverejňované Ministerstvom obchodu v rámci štatistickej správy o čínskych PIZ každý rok na jeseň. V čase písania tejto práce sme používali údaje z roku 2010, pretože údaje za roky 2011 a 2012 nie sú verejne dostupné.

Štvrtá kapitola sa zaoberá analýzou vývoja čínsko-africkej spolupráce a veľmi kritizovaným problémom čínskeho neokolonializmu v Afrike. Čína a Afrika sa navzájom potrebujú. Spolupracujú spolu a obohacujú sa navzájom už po celé stáročia a to nielen kultúrne, ale aj ekonomicky. V súčasnosti, čínsky záujem sa sústreďuje najmä na prístup k nerastným surovinám a poľnohospodárskym produktom s cieľom zachovať svoj obrovský rast HDP. Ako výmenu, Čína ponúka odborné znalosti a pomoc pri výstavbe infraštruktúry, výrobného sektora a finančné prostriedky do Afriky .

Čína však nesleduje len materiálne alebo ekonomické ciele, ale rovnako aj politické. Krajina sa snaží získať diplomatický monopol na africkom kontinente v zmysle jej uznania. V súčasnej dobe existujú len štyri krajiny, ktoré nemajú vytvorené diplomatické vzťahy s Pekingom. Sú to Gambia, Svätý Tomáš a Princov ostrov, Svazijsko a Burkina Faso.

Obchod medzi Čínou a Afrikou sa rozrystal veľmi rýchlo a Čína je v súčasnosti najväčším obchodným partnerom Afriky; s objemom obchodu takmer 200 miliárd dolárov v roku 2012 a predpokladá sa, že do roku 2015 prerastie 380 miliárd dolárov. Úroveň čínskych PIZ v Afrike sa tiež zvýšila od roku 2003, kedy Čína začala investovať na kontinente. Do roku 2012, investície v hodnote 2,5 miliardy dolárov prúdili do afrických krajín, a to najmä do infraštruktúry, ťažobného sektoru, dopravy a poľnohospodárstva.

Niektorí politici a ekonómovia tvrdia, že Čína sa stáva novým kolonizátorom, ktorý vykorisťuje prírodné zdroje v Afrike a poškodzuje jej demokraciu a ľudské práva. Musíme konštatovať, že Čína by sa mohla stať africkým kolonizátorom jedného dňa, keby sa africké krajiny stali tak závislé na čínskych investíciach a vývoze, že by Peking začal rozhodovať o ich domácej a zahraničnej politike. Avšak, tento predpoklad by sa nemal brať tak vážne, keďže aj Čína je a bude závislá na afrických zdrojoch a ekonomickom raste.

V ďalšej časti tejto kapitoly sme skúmali a vyhodnocovali relevantné determinanty čínskych investícií v Afrike. Najprv sme si určili ukazovatele, ktoré by podľa nás mohli ovplyvňovať čínskych investorov pôsobiť v Afrike a teda mohli byť klasifikované ako determinanty, vychádzajúc zo strategickej perspektívy zdrojov a trhu. Údaje pre dané ukazovatele sme skúmali pre 50 afrických krajín, do ktorých prúdili čínske investície do

roku 2010. Pomocou analýzy horných a dolných kvintilov sme potvrdili nasledovné relevantné čínske determinanty:

- veľkosť trhu prijímajúcej krajiny,
- obchodné (exportné) vzťahy s prijímajúcou krajinou,
- množstvo nerastných surovín v prijímajúcej krajine,
- množstvo ornej pôdy v krajine príjemcu.

Avšak, nemôžeme tvrdiť, že všetky determinanty sú univerzálne aplikovateľné na všetky africké krajiny. Sú tam nejaké výnimky, napríklad Líbya dosahuje jednu z najvyšších hodnôt HDP a vyváža pomerne veľké množstvo surovín do Číny, ale stále je tu len malé množstvo čínskych zásob PIZ. Dôvod vidíme v nepokojoch, ktoré odrádzajú čínskych investorov z krajiny.

Navyše sme dokázali, že dovoz surovín má najväčší vplyv na čínske priame investície v Afrike spomedzi všetkých príslušných determinantov. To znamená, že sme **potvrdili našu prvú hypotézu**, ktorá znela: *Nerastné suroviny majú najväčší vplyv na čínske investície v Afrike, ale súčasne nie sú jediným determinantom.*

Piata kapitola sa zaoberá čínskymi investíciami do afrických ropných krajín. Ropa je kľúčovou komoditou pre Čínu, pretože ňou potrebuje uspokojiť svoj rastúci dopyt a hospodársky rast. Čína nikdy neobjavila veľké zásoby ropy na svojom území, a to je hlavný dôvod, prečo sa stala závislá na dovoze tejto komodity. V súčasnosti je druhým najväčším svetovým importérom ropy a očakáva sa, že sa dostane na prvú pozíciu a predbehne USA okolo roku 2020. Medzi jej hlavné ropné stratégie patrí sústredenie sa na krajiny s vysokou pravdepodobnosťou rastúcich zásob ropy a kde by Čína mohla vyjednať pravidlá pre dlhodobú spoluprácu. Ďalším cieľom je odlišiť svoje stratégie v porovnaní so západnými krajinami, čo pre Afriku znamená, že Čína nie je zameraná iba na nákup a investície do ropy, ale tiež investuje do infraštruktúry a poskytuje finančnú pomoc.

Cieľom tejto kapitoly bolo analyzovať čínske investície v afrických krajinách produkujúcich ropu a ako to súvisí s úrovňou demokracie v týchto krajinách. Následne sme testovali správnosť druhej uvedenej hypotézy, ktorá znela: *Čínske investície v ropných krajinách prúdia hlavne do autokratických krajín Afriky.* Najskôr sme kategorizovali autokratické krajiny Afriky podľa indexu demokracie. Zistili sme, že v roku 2010, 19 z 31 najväčších príjemcov zásob čínskych PIZ je súčasne diktátorských. Ďalším faktom je, že väčšina svetových overených zásob ropy sa nachádza v Líbyi, Nigérii, Angole, Alžírsku,

Egypte, Južnom Sudáne, Sudáne, Čade, Kongu, Rovníkovej Guinei a Gabone. Takmer všetky z nich, okrem Líbye a Egypta, sú autoritatívne. Avšak tieto dve krajiny sa presunuli do skupiny krajín s hybridným režimom až v roku 2011. Tri črty - holandská choroba, korupcia a rentiersky štát - charakterizujú ropný sektor v týchto krajinách, často súhrnne nazvané ako politická holandská choroba. Vzhľadom k tomu, že Čína investuje vo všetkých týchto krajinách, a väčšina z nich (deväť z jedenástich) je autokratických, sme **potvrdili našu druhú hypotézu**.

Charakterizovali sme podrobnejšie čínske investície v Angole, Sudáne a Južnom Sudáne a v Líbyi. Tieto krajiny patria medzi najväčších exportérov ropy do Číny. V prípade Angoly ide o druhého najväčšieho producenta ropy v Afrike po Nigérii, a v januári 2007, sa stala dvanástym členom OPEC-u. Olej je kľúčovou komoditou pre angolskú ekonomiku a predstavuje 98% príjmov z jej exportu. Čína predstavuje pre Angolu najväčšieho prijímateľa jej ropy. Táto krajina by stratila 46% príjmov z vývozu bez čínskeho importu. Pokiaľ ide o Sudán, Južný Sudán sa odtrhol Sudánu v roku 2011 a stal sa najnovším národom na svete. Musíme podotknúť, že sme používali dáta z UNCTAD-u do roku 2011, keď krajiny boli jednotné, aby sme zachovali transparentnosť výskumu týkajúceho sa exportu ropy. Sudánska ekonomika je závislá na rope a predstavovala 81% príjmov z exportu v roku 2011. Sudán bol čínskym druhým najväčším dodávateľom ropy spomedzi afrických krajín v tomto roku a stratil by 73% príjmov z vývozu ropy bez čínskeho importu. V roku 2012, Sudán obsadil šieste miesto a Južnému Sudánu bolo priradené desiate miesto, čo sa týka čínskeho dovozu ropy z Afriky. Čína je veľmi kritizovaná za svoje aktivity v Sudáne a vyvolala veľkú kontroverziu. Z historického hľadiska, Sudán hľadal investorov pre svoj ropný sektor po dlhú dobu. V sededesiatych rokoch mala americká spoločnosť Chevron záujem o skúmanie ropných polí, no neskôr zrušila svoje aktivity kvôli prepuknutiu občianskej vojny a politickej krehkosti krajiny. To prinieslo šancu pre Čínu, ktorá ako jediná krajina ostala v Sudáne. V súčasnosti, China National Petroleum Corporation (CNPC) drží najväčší počet akcií vo väčšine medzinárodných ropných spoločnostiach pôsobiacich v Sudáne a Južnom Sudáne. Líbya je štvrtým najväčším producentom ropy a vlastní najväčšie množstvo dokázaných rezerv z afrických krajín. V roku 2012, ropa predstavovala 89% príjmov z vývozu. Čína dováža 12% z líbyjskej ropy a podiel sa neustále zväčšuje. Pokiaľ ide o investície, snahy o väčšie preniknutie do ropného sektora krajiny boli zrušené líbyjskou národnou ropnou spoločnosťou, ktorá zablokovala predaj kanadskej pobočky Venerex čínskou CNPC v roku 2009, po tom, čo sa objavilo ropné pole v Ghadames, na západe Líbye.

Po analýze čínskeho pôsobenia v afrických ropných krajinách môžeme konštatovať, že ropa je stále najväčšou čínskou dovoznou komoditou z Afriky, ale nie je kľúčovým determinantom čínskych investícií. Toto tvrdenie je založené na rozmanitosti čínskych PIZ v týchto štátoch a na poklese podielu tejto komodity na celkovom importe. Čína je najväčším obchodným partnerom len v prípade Angoly a Sudánu a druhým najväčším odberateľom ropy v Čade, Gabone a Kongu po Spojených štátoch. Vo všetkých ostatných krajinách je podiel čínskeho dovozu ropy veľmi nízky v porovnaní so západnými krajinami alebo s Indiou.

V poslednej kapitole diplomovej práce sme chceli zistiť, v ktorých krajinách Afriky má Čína veľký vplyv na ich hospodárstvo a kvantifikovať tento vplyv investícií na základe vybraných makroekonomických ukazovateľov. Čínske priame investície v zahraničí predstavovali 2,4 % z celkového počtu zásob PIZ v Afrike do roku 2010 a 3,9 % tokov. To je dôvod, prečo nemôžeme hovoriť o významnom vplyve čínskych PIZ na Afriku ako celok. V období 2004 až 2010, čínske PIZ mali najväčší vplyv na Botswana, Demokratickú republiku Kongo a Niger.

Porovnanie makroekonomických ukazovateľov a jednotlivých zložiek indexu ľudského rozvoja ukazuje pozitívny trend ekonomického vývoja vo vybraných krajinách. Vďaka tejto skutočnosti sme **potvrdili našu tretiu a zároveň poslednú hypotézu: Čínske investície ovplyvňujú vývoj afrických ekonomík viac pozitívne ako negatívne.**

Pokiaľ ide o budúci vývoj prílevu čínskych investícií, nový trend vo vývoji čínsko-afrických vzťahov vidíme predovšetkým v orientácii na ornú pôdu. Dôvodmi pre investovanie do tohto sektora sú napríklad nedostatok ornej pôdy, rastúca degradácia pôdy, urbanizácia a nadmerné znečistenie vody v Číne. Očakávame tiež sústredenie sa na urán, fosfáty a kritické nerastné suroviny. Dôvodom je ich vyčerpatelnosť, nízka recyklovateľnosť a takmer neexistujúce substitúty. Vzhľadom na to, že sú to prvky nevyhnutné pre sofistikované technológie patriace do siedmych strategických odvetví 12. čínskeho päťročného plánu, vzrastie po nich dopyt s vysokou pravdepodobnosťou.

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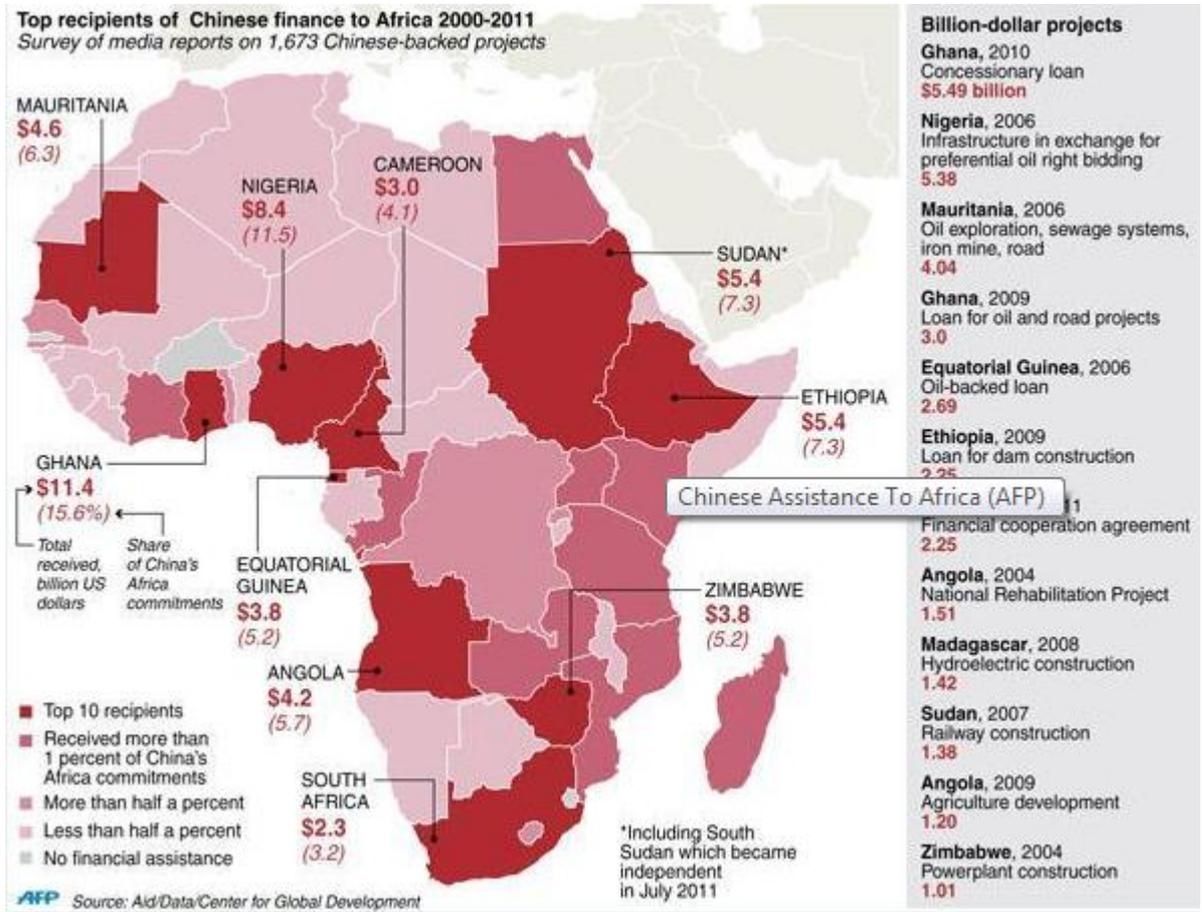
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Appendix

Appendix 1: China's assistance to Africa

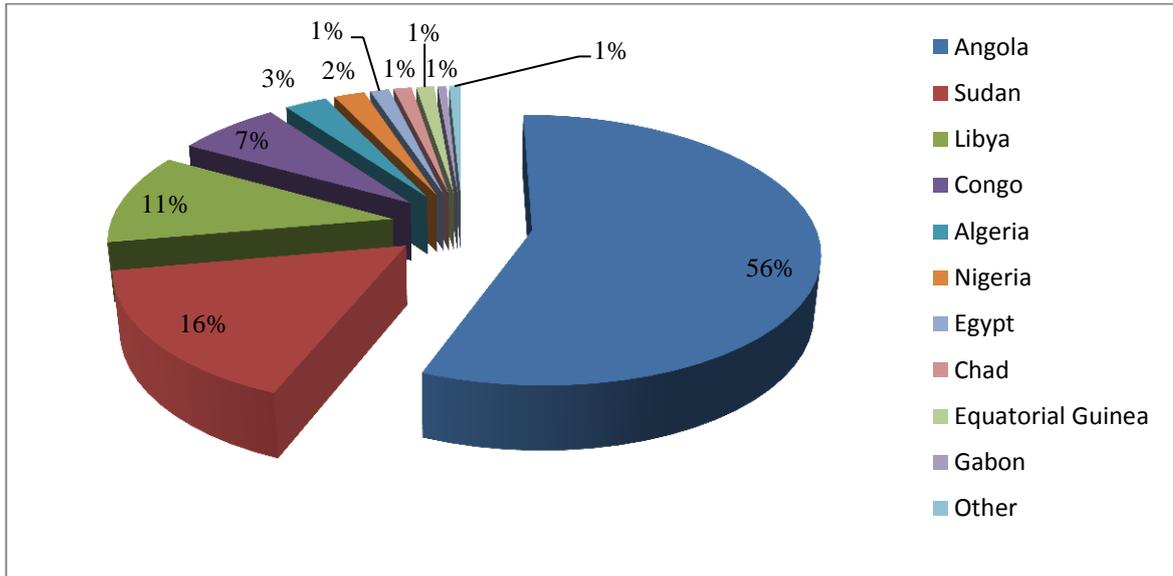


Appendix 2: Table: Main oil companies in Sudan and South Sudan

Consortium/subsidiary	Company	Country of origin	Share (percent)
Greater Nile Petroleum Operating Company (GNPOC)	CNPC	China	40
	Petronas	Malaysia	30
	ONGC	India	25
	Sudapet*	Sudan	5
	Nilepet*	South Sudan	5
Dar Petroleum Operating Company (DPOC)	CNPC	China	41
	Petronas	Malaysia	40
	Nilepet	South Sudan	8
	Sinopec	China	6
	Egypt Kuwait Holding	Egypt	3.6
	Other partner(s)	--	1.4
Sudd Petroleum Operating Company (SPOC)	Nilepet	South Sudan	41.9375
	Petronas	Malaysia	33.9375
	ONGC	India	24.125
Petro Energy E&P	CNPC	China	95
	Sudapet	Sudan	5
Star Oil	Ansan Wikfs	Yemen	66
	Sudapet	Sudan	34

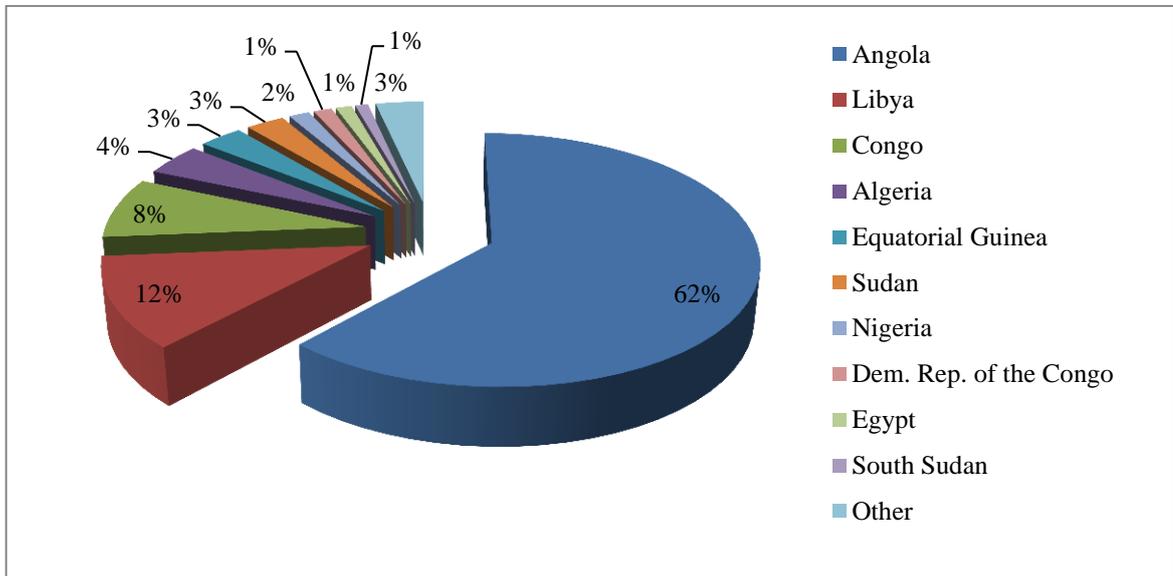
Source: EIA: *Sudan and South Sudan*. [quo. 2014-04-17]. Available online: <<http://www.eia.gov/countries/cab.cfm?fips=SU>>

Appendix 3: Chinese share of oil imports from Africa by countries, 2010



Source: Author's processing based on UNCTAD: Handbook of Statistics

Appendix 4: Chinese share of oil imports from Africa by countries, 2012



Source: Author's processing based on UNCTAD: Handbook of Statistics