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**CHINESE FOREIGN DIRECT INVESTMENT AND
OFFICIAL FINANCING IN SUB-SAHARAN AFRICA**

by

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March 2020

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**CHINESE FOREIGN DIRECT INVESTMENT AND OFFICIAL FINANCING IN
SUB-SAHARAN AFRICA**

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ABSTRACT

Chinese foreign investment and official financing significantly increased following the announcement of the *zouchuqu*, or “go global” policy, in 1999. China’s emergence as an international investor, lender, and benefactor—especially in the developing world—has led to concerns that its activities threaten the existing international order. This thesis seeks to determine the factors that drove Chinese foreign direct investment (FDI) and official financing in Sub-Saharan Africa by examining the region as a whole, as well as individual case studies of Angola and Senegal.

Overall, the research concludes that China’s activity in Sub-Saharan Africa was primarily driven by a desire to expand economic opportunities for Chinese firms. Across the region, Chinese funds went toward expanding export markets to ease Chinese excess capacity concerns and securing new sources of natural resources. A limited portion of Chinese FDI and official financing was driven by foreign policy goals, most notably persuading six African countries to switch diplomatic ties from Taipei to Beijing. The Angola case study demonstrates that African countries that offered substantial economic opportunity for Chinese firms attracted significant levels of Chinese investment and financing. The Senegal case study shows how African countries with limited economic prospects for Chinese firms received relatively little of either, even if they offered China a potential foreign policy win.

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LIST OF ACRONYMS AND ABBREVIATIONS

CDB	China Development Bank
CMEC	China Machinery Engineering Corporation
CNOOC	China National Offshore Oil Corporation
CNPC	China National Petroleum Company
DRC	Democratic Republic of the Congo
FDI	Foreign Direct Investment
FOCAC	Forum on China-Africa Cooperation
GDP	Gross Domestic Product
ICBC	Industrial and Commercial Bank of China
IMF	International Monetary Fund
MDB	multinational development bank
MFEZ	Multi-Facility Economic Zone
MOFCOM	Ministry of Commerce
ODA	official development assistance
OECD	Organization for Economic Co-operation and Development
OOF	other official flows
SAIS-CARI	School of Advanced International Studies-China Africa Research Institute
SOE	state-owned enterprise
UN	United Nations
UNGA	United Nations General Assembly
UNHRC	United Nations Human Rights Council
WTO	World Trade Organization

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I. INTRODUCTION

In 1999, the Chinese government announced the *zouchuqu*, or “go global” policy, which initiated the significant growth of Chinese foreign direct investment and official financing that continues to the present day.¹ Starting from a base of \$4.6 billion at the beginning of the century, Chinese outgoing foreign direct investment (FDI) ballooned to \$216.4 billion in 2016.² Meanwhile, since 2005, the combined value of China’s foreign investment and overseas construction projects is nearing \$2 trillion.³ China’s emergence as an international investor has had a significant impact across the globe. This is especially true in developing economies such as those in Sub-Saharan Africa, to whom China offers an attractive “‘complete package’ to African nations: money, technical assistance, and influence in international organizations to protect the host from international sanctions.”⁴ This increased Chinese presence, however, has led to concerns that Chinese activities threaten the existing liberal international order.

The influx of Chinese investment and official financing into previously underserved markets—combined with traditional international financial institutions’ struggles to raise additional capital and stringent lending requirements—has made China an attractive source of development funding for emerging economies. Chinese investment in emerging economies is now double that of the main Western-backed multinational development banks (MDB).⁵ According to some observers, this emergence of Chinese

¹ Peter J. Buckley, Adam R. Cross, Hui Tan, Liu Xin, and Hinrich Voss, “Historic and Emergent Trends in Chinese Outward Direct Investment,” *Management International Review* 48, no. 6 (2008), 725.

² “FDI Flows: China,” OECD, accessed 19 April 2019, <https://data.oecd.org/fdi/fdi-flows.htm>.

³ “China Global Investment Tracker,” American Enterprise Institute, accessed June 3, 2019, <http://www.aei.org/china-global-investment-tracker/>.

⁴ Evan S. Medeiros, *China’s International Behavior: Activism, Opportunism, and Diversification* (Santa Monica, CA: RAND, 2009), 152.

⁵ Kevin P. Gallagher, Rohini Kamal, Junda Jin, Yanning Cheng, and Xinyue Ma, “Energizing Development Finance? The Benefits and Risks of China’s Development Finance in the Global Energy Sector,” *Energy Policy* 122 (November 2018): 313

investment funds in oft-overlooked regions has considerably changed the political economy of developing regions.⁶

Sub-Saharan Africa is one of those developing regions that offers enormous potential for both Chinese investment and influence. The United Nations expects Africa to contribute more than half of the worldwide population growth between now and the middle of the 21st century.⁷ Meanwhile, the World Bank predicts significant growth given the substantial untapped potential for further economic development.⁸ Investment on the African continent, however, has been scarce, with foreign direct investment totaling \$41.8 billion in 2017—only 2.9% of total global FDI.⁹ In recognition of Africa’s potential, China announced the Forum on China-Africa Cooperation (FOCAC) in 2000 and has since pledged a total of \$155 billion in financing to Africa.¹⁰ At the most recent FOCAC Summit in 2018, African and Chinese leaders “applaud [ed] the role FOCAC has played over the past 18 years to promote China-Africa relations,” especially with regard to the “high-quality and sustainable development for all” made possible by the substantial Chinese financing.¹¹

Given the growing sum of China’s economic commitments in developing countries since the introduction of the *zouchuqu* policy, it is worth exploring the nature of its investment and official financing. The research question is: what factors have driven China’s foreign direct investment and official financing to emerging economies? This

⁶ Deborah Bräutigam and Kevin P. Gallagher, “Bartering Globalization: China’s Commodity-backed Finance in Africa and Latin America,” *Global Policy* 5, no. 3 (September 2014): 346–352.

⁷ “Population,” United Nations, accessed April 22, 2019, <https://www.un.org/en/sections/issues-depth/population/>.

⁸ Gerard Kambou and Rudi Steinbach, “Sub-Saharan Africa,” in *Global Economic Prospects: Darkening Skies* (Washington, DC: World Bank Group, January 2019), 107–126.

⁹ United Nations Conference on Trade and Development, *Developing Economies: Africa*, https://unctad.org/Sections/dite_dir/docs/WIR2018/WIR2018_FDI_Africa_en.pdf.

¹⁰ Yun Sun, “China’s 2018 Financial Commitments to Africa: Adjustment and Recalibration,” The Brookings Institute, September 5, 2018, <https://www.brookings.edu/blog/africa-in-focus/2018/09/05/chinas-2018-financial-commitments-to-africa-adjustment-and-recalibration/>.

¹¹ “Beijing Declaration-Toward an Even Stronger China-Africa Community with a Shared Future,” Ministry of Foreign Affairs of the People’s Republic of China, September 12, 2018, https://focacsummit.mfa.gov.cn/eng/hyqk_1/t1594324.htm.

thesis approaches the question by examining Chinese investment and official financing in Sub-Saharan Africa since the implementation of the *zuochuqu* policy and attempts to determine what drove these activities.

The main finding of this thesis is that China's activity in Sub-Saharan Africa was primarily driven by a desire to expand economic opportunities for Chinese firms. Large sums of both FDI and official financing flowed to African countries that allowed Chinese companies, especially large state-owned enterprises, to relieve their excess capacity concerns and secure new supplies of natural resources. Circumstantial evidence suggests that some Chinese funds were used to entice six African nations to switch their official recognition from Taiwan to China, but these sums accounted for only a small fraction of China's total commitments in Sub-Saharan Africa. Instead, the evidence compellingly reveals that economics were the main driving force, as the Chinese government looked to ensure the continued economic growth that underpins the stability of the Chinese regime. African countries with resources and markets for Chinese goods and services that could help China continue that growth received sizeable sums of Chinese FDI and official financing. African countries that could not received relatively little of either.

A. SIGNIFICANCE OF THE RESEARCH QUESTION

1. Policy Significance

Chinese development banks and funds have doubled the amount of funding available to developing economies. In emerging economics, these Chinese institutions now boast balance sheets twice the size of the traditional MDBs, who have struggled to raise additional funds and are increasingly considered less desirable lenders due to their more stringent requirements.¹² As a result, developing countries now have a viable alternative source of funding in the form of China, but the opinions on the intentions behind this new source of funding are divided. Understanding the driving factors behind China's foreign investment and official financing will help clarify how to better interpret its actions abroad

¹² Gallagher et al., "Energizing Development Finance?"

and provide the proper foundation for crafting effective policy in response to China's rise in power and influence.

On one side are those who warn of the dangers created by Chinese investment and lending.¹³ China, they argue, deliberately creates unsustainable liabilities for recipient countries and then uses that leverage to extract strategic assets for Beijing. These challenges include an erosion of national sovereignty, unsustainable debt burdens, increased corruption, and geopolitical risks. This group points to the Hambantota Port Development Project in Sri Lanka as an example. When the Sri Lankan government was unable to repay the hefty Chinese loans that funded the project, China received a 99-year lease on the port and 15,000 acres of surrounding land as part of the debt restructuring.¹⁴ To this group, the Sri Lanka project was just one example of a premeditated Chinese strategy meant to use economic coercion for strategic gain.

Beijing, meanwhile, rejects such accusations and instead characterizes its foreign investment initiatives as “a great opportunity for shared development” in countries currently ignored or underserved by the existing economic development system.¹⁵ Efforts to work with recipients to reassess and adjust investment projects lend some support to this argument. In Malaysia, for example, Prime Minister Mahathir Mohamad stopped the Chinese-backed East Coast Rail Link project due to concerns about its high costs and links to corruption.¹⁶ The deal was then restructured to reduce the cost from \$16 billion to \$11 billion. Bräutigam and Gallagher note that this type of debt restructuring is common practice in developing countries and have disputed popular claims regarding Chinese

¹³ Daniel Kliman, Rush Doshi, Kristine Lee, and Zack Cooper, *Grading China's Belt and Road* (Washington, DC: Center for a New American Security, 2019).

¹⁴ Maria Abi-Habib, “How China Got Sri Lanka to Cough Up a Port,” *New York Times*, June 25, 2018, <https://www.nytimes.com/2018/06/25/world/asia/china-sri-lanka-port.html>.

¹⁵ Danson Cheong, “Belt and Road Initiative Not Debt-Trap Diplomacy, Says China,” *New Strait Times*, March 9, 2019, <https://www.straitstimes.com/asia/east-asia/belt-and-road-initiative-not-debt-trap-diplomacy-says-china>.

¹⁶ “China Yields on Malaysia's ECRL, as ‘Debt Trap Diplomacy’ Re-examined,” *New Strait Times*, April 13, 2019, <https://www.nst.com.my/world/2019/04/478985/china-yields-malaysias-ecrl-debt-trap-diplomacy-re-examined>.

financing as predatory.¹⁷ With these competing perspectives, determining what really drives China's foreign investment and official financing is crucial to understanding Chinese motives and crafting effective policy responses.

2. Theoretical Significance

Buckley et al. note that there are differences in the standard model between developing and developed countries when it comes to foreign direct investment.¹⁸ In China's case, they argue, the differences are significant enough to delineate a clear departure from even the traditional model of a developing economy. This suggests that it is worth further exploring how developing countries have traditionally structured their outgoing foreign direct investments and official financing and how China's approach may be unique. Such research will help to uncover whether China's model is an impossible-to-replicate outlier, a new framework for a transformed international economy, or simply an updated version of the existing model.

Responses to this question may help to explain or predict how other developing countries might utilize foreign investment as their economies mature. In Asia, India appears to be next in line for a China-like rise, with a similarly sized and growing population and incredible economic growth potential. Could China's model be more attractive to its neighbor than the Washington Consensus? Given its investments and presence in Africa—and the expected population and economic growth expected on that continent during the 21st century—could China serve as a model for future African governments, in lieu of the traditional Western-influenced models? Could the same apply to Latin America, where China has also invested and lent heavily? The ultimate successes and failures of China's foreign investment and official financing program could introduce a new international development model that significantly disrupts the existing international development system.

¹⁷ Bräutigam and Gallagher, "Bartering Globalization."

¹⁸ Buckley et al., "Historic and Emergent Trends."

B. LITERATURE REVIEW

The literature review examines three debates concerning the role of Chinese foreign direct investment and official financing in emerging economies: economic drivers, foreign policy drivers, and China's activities in Sub-Saharan Africa. First, the review examines what economic factors typically drive a country's FDI and official financing and identifies which of these factors are particularly important to China. The second part of the review addresses potential foreign policy goals that may drive Chinese actions. Third, the review surveys the competing views of the factors driving Chinese's increased FDI and official financing in Sub-Saharan Africa.

1. Economic Drivers of Foreign Investment

Countries invest and lend abroad for a variety of reasons. Traditionally, FDI and official financing is driven by a desire to create and expand export markets; secure required resources and advanced technology; and capture a larger portion of the value chain. For developing countries such as China, additional influences include the desire to invest surplus foreign exchange reserves and gain access to foreign capital markets. While the nature of Chinese state-owned enterprises means that the Chinese government plays a significant role in foreign investment, many scholars contend that economic motivations are the principal drivers of China's foreign investment today. Rosen and Hanemann, for example, observe that foreign investment "helped to establish the infrastructure needed to integrate China into the global trading system."¹⁹ There are several potential economic drivers of China's overseas investment.

a. Create and Expand Export Markets

The most basic desire to expand abroad is to secure new markets and grow existing markets for a country's exports.²⁰ China's incredible economic growth around the turn of

¹⁹ Daniel H. Rosen and Thilo Hanemann, *China's Changing Outbound Foreign Direct Investment Profile: Drivers and Policy Implications* (Washington, DC: Peterson Institute for International Economics, June 2009), 7.

²⁰ Hal Hill and Juthathip Jongwanich, "Outward Foreign Direct Investment and the Financial Crisis in Developing East Asia," *Asian Development Review* 26, no. 2 (September 2009): 4.

the 21st century spurred an explosion in production capability that saturated the domestic market.²¹ The fruits of those labors, however, must find a market in which they can be sold. Li notes that senior Chinese leadership has been concerned since at least 2007 with a potential overcapacity issue.²² Disturbances in being able to sell Chinese exports in foreign markets would place a heavy strain on employment in China and threaten continued economic growth.

Going abroad also allows domestic firms to maximize their comparative advantages by tapping into a much larger global market. For example, the Chinese construction sector has become a major player world-wide, growing revenue from \$11 billion in 2002 to over \$185 billion in 2018.²³ As China has risen in economic prominence, it has encountered an increasing number of trade barriers and protectionism from other countries. Establishing factories overseas is a means of circumventing these obstacles and ensuring that Chinese firms' goods can reach foreign markets.²⁴ Expanding export markets also allows China to reduce its reliance on Western markets, where future growth prospects are dim and protectionist sentiments pose an increasing threat to Chinese trade.²⁵ While China's largest trading partners have historically been developed countries such as the United States, Japan, South Korea, and the members of the European Union, the slowing global economy means that China can no longer rely on these markets to fuel continued growth.²⁶ The

²¹ John Wong and Sarah Chan, "China's Outward Direct Investment: Expanding Worldwide," *China: An International Journal* 1, no. 2 (September 2003): 284.

²² Xiaojun Li, "China as a Trading Superpower," in *China's Geoeconomic Strategy*, ed. Nicolas Kitchen, London School of Economics, IDEAS Special Report no. 12 (June 2012): 25–31.

²³ "MOFCOM Department of Outward Investment and Economic Cooperation Comments on China's Outward Investment and Cooperation in January-November 2018," MOFCOM, December 15, 2018, <http://english.mofcom.gov.cn/article/newsrelease/policyreleasing/201812/20181202819395.shtml>.

²⁴ Kevin G. Cai, "Outward Foreign Direct Investment: A Novel Dimension of China's Integration into the Regional and Global Economy," *The China Quarterly* 160 (December 1999): 868.

²⁵ Rosen and Hanemann, *China's Changing Outbound Foreign Direct Investment Profile*, 2.

²⁶ Barry Naughton, *The Chinese Economy: Adaptation and Growth*, 2nd ed. (Cambridge, MA: The MIT Press, 2018), 421.

expansion of Chinese exports to developing countries signals that China views these markets as offering greater growth potential.²⁷

b. Secure Necessary Resources, Technology, and Expertise

As Hill and Jongwanich point out, in some instances a country determines that a required resource from a foreign country is most effectively acquired via foreign investment, rather than simple importation.²⁸ China requires significant raw materials to produce the goods it brings to market. A great deal of China's FDI and official financing has gone toward securing access to, and minimizing the cost of, the requisite commodities needed for production.

As Chinese manufacturing matured, it shifted from light manufacturing of products such as textiles to the assembly of electronic components. For this shift, it required advanced technology and expertise to be able to produce these more technical products. As Cai notes, foreign investments proved to be an efficient means of obtaining this technology, as well as the management skills needed to run such operations.²⁹ He also observes that foreign operations in more advanced economies provide a valuable training ground for Chinese managers, providing hands-on training and experience. Chinese FDI has continued to target foreign companies with extensive research and development capabilities in pursuit of even more advanced technology.³⁰

For all their manufacturing capabilities and technological advancements, most Chinese firms struggle for brand recognition world-wide. To combat this, Chinese investment has increasingly been focused on higher level resources, such as brand equity and distribution capabilities. While companies such as Lenovo and Haier have been able to successfully establish their own brands in foreign markets, a good portion of Chinese

²⁷ David Shambaugh, *China Goes Global: The Partial Power* (New York: Oxford University Press, 2013), 158.

²⁸ Hill and Jongwanich, "Outward Foreign Direct Investment," 5.

²⁹ Cai, "Outward Foreign Direct Investment," 869.

³⁰ Hill and Jongwanich, "Outward Foreign Direct Investment," 5.

foreign investment has more recently turned to “simply acquiring established western brands and their associated marketing channels to overcome this obstacle.”³¹

c. *Capture a Larger Portion of the Value Chain*

China’s domestic economies of scale have reached their limits. This means that China must expand its role in the value chain both upstream and downstream—an effort that necessitates investing abroad. By Rosen and Hanemann’s calculations, Chinese manufacturing firms capture only around 20% of the profit margin—the remaining value is “enjoyed downstream in distribution, marketing, retail, and customer relations or upstream in product design, quality control, sourcing, branding, and research and design.”³² Chinese firms have found it difficult to develop these value-add capabilities and instead have sought to procure it abroad via investment. This foreign investment is not limited to just Chinese manufacturers, as the growing Chinese services sector has also sought out foreign sources of improved human resources, expertise, and branding. As Rosen and Hanemann put it, “Made in China” is increasingly becoming “Made by China-abroad.”³³

d. *Utilize Foreign Exchange Reserves*

While foreign reserves protect a country from sudden and unexpected shortages of international liquidity—e.g., the Asian financial crisis of 1997–98 and the global financial crisis of 2007–08—too many reserves can lead to unwanted inflation.³⁴ Investing surplus foreign exchange reserves, then, makes economic sense in order to ward off inflation. In addition, while reserves are typically invested in safe but low-yielding assets, an excessive surplus can become “a costly waste of valuable resources,” as huge sums sit by idly collecting little interest.³⁵

³¹ Buckley et al., “Historic and Emergent Trends,” 739–740.

³² Rosen and Hanemann, *China’s Changing Outbound Foreign Direct Investment Profile*, 10.

³³ Rosen and Hanemann, 11.

³⁴ Donghyun Park and Gemma Estrada, “Developing Asia’s Sovereign Wealth Funds and Outward Foreign Direct Investment,” *Asian Development Review* 26, no. 2 (September 2009): 63.

³⁵ Park and Estrada, “Developing Asia’s SWF and OFDI,” 64.

A combination of incoming FDI and trade surpluses throughout the 1990s grew Chinese foreign exchange reserves from \$6.725 billion in January 1990 to \$156 billion by the time the *zouchuqu* policy was announced at the end of the century.³⁶ Reserve levels have ballooned since then, reaching a peak of \$3.99 trillion in June 2014 and sitting at \$3.1 trillion as of May 2019.³⁷ This enormous level of foreign reserves presented China with the two aforementioned problems: inflation concerns and the opportunity cost of idle funds. Foreign investment and official financing provided a means for China to invest a portion of its surplus foreign reserves to both ward off inflation and generate a return on its substantial reserves.

In addition, China has entered a period of rebalancing, which entails a shift to a more consumption-based economy. In the past, exporters were required to exchange all earned foreign currency for renminbi so that China could manage the exchange rate.³⁸ As China has sought to move away from exports to more value-added manufacturing and domestic consumption, Beijing no longer needs as many foreign reserves to maintain the exchange rate. This has allowed firms to retain more of their dollar earnings and invest as they see fit. This shift away from exports has also encouraged a stronger renminbi, which results in greater purchasing power abroad and thus a strong incentive for foreign investment.³⁹ After over a decade of building up capital, China began to invest it.

e. Access Foreign Capital Markets

The structure of the Chinese economy has generally restricted the ability of state-owned enterprises to obtain and carry foreign debt. In addition, domestic capital markets are largely inefficient, shackling Chinese firms' ability to finance expansion. As a result of these difficulties at home, Buckley et al. observe that Chinese firms have used foreign

³⁶ "International Financial Statistics Database," CEIC Data Company Ltd., accessed April 16, 2019, <https://www.ceicdata.com/en>.

³⁷ "China Foreign Exchange Reserves," Trading Economics, accessed June 12, 2019, <https://www.tradingeconomics.com/china/foreign-exchange-reserves>.

³⁸ Rosen and Hanemann, *China's Changing Outbound Foreign Direct Investment Profile*, 9.

³⁹ Rosen and Hanemann, 9.

investment as a means of accessing foreign capital markets to more easily obtain capital.⁴⁰ This desire was a key factor in many Chinese firms investing in Hong Kong in order to list on the Stock Exchange of Hong Kong and obtain capital financing that was unavailable to them on the mainland.

2. Foreign Policy Drivers

Countries often use their economic position to advance their national interests, with the greatest leverage resting with the strongest economies. Baldwin defines economic statecraft as “governmental influence attempts relying primarily on resources that have a reasonable semblance of a market price in terms of money.”⁴¹ He notes that these influence attempts often include various goals and can be used to exercise other forms of a country’s power. Sanctions, for example, may not have much of an economic impact while still sending a powerful signal to the target country. A similar effect can be extrapolated to committing or withdrawing investment funds or official financing. Norris “moves beyond Baldwin’s ‘intentionally broad’ definition in favor of an understanding of economic statecraft that frames strategic outcomes as security externalities that result from the economic activities of commercial actors.”⁴²

There is a perception that economic statecraft plays a particularly important role in China’s foreign policy. Unlike rising powers of the past, China is limited in its ability to utilize military power and conquest to achieve its strategic goals. As Norris observes, “military tools have proven counterproductive for China to realize its grand strategic goals because they prompt regional balancing, arms racing, fears of a revisionist China, etc.”⁴³ China’s economic success, on the other hand, has provided an alternate means of achieving strategic ends. As a result of that success, Norris suggests that China has grown from a

⁴⁰ Buckley et al., “Historic and Emergent Trends,” 740.

⁴¹ David A. Baldwin, *Economic Statecraft* (Princeton, NJ: Princeton University Press, 1985), 30.

⁴² William J. Norris, *Chinese Economic Statecraft: Commercial Actors, Grand Strategy, and State Control* (Ithaca, New York: Cornell University Press, 2016), 16.

⁴³ Norris, *Chinese Economic Statecraft*, 65.

position in which its foreign policy sought to support economic goals to one in which its economic power can now be used to achieve foreign policy goals.

Thus far, academic studies of China's use of investment and official financing as tools of foreign policy are mixed. Almost all China observers acknowledge that China, like any other country, does occasionally use economic levers to try to influence other countries.⁴⁴ Disagreements emerge over the extent to which foreign policy factors drive Chinese investment and official financing decisions. In addition to a general goal of increasing its influence abroad, potential foreign policy drivers of China's investment in emerging economies include isolating Taiwan, exporting an authoritarian model of government, and swaying votes in the United Nations.

a. Diplomatic Isolation of Taiwan

China has always maintained that Taiwan is part of the territory of the People's Republic of China and it is the "lofty duty of the entire Chinese people, including our compatriots in Taiwan, to accomplish the great task of reunifying the motherland."⁴⁵ China has pursued this goal down two paths. It has tried direct coercion via the extensive business ties that exist between Taiwan and the mainland in efforts to influence Taiwanese elections.⁴⁶ It has also "sought to curtail Taiwan's international recognition as an independent entity and to limit Taiwan's participation and voice on the international stage."⁴⁷ Economic statecraft has played a key role in both pursuits. China's efforts to diplomatically isolate Taiwan have predominately consisted of using economic incentives to encourage other countries to sever official relations with Taiwan and express support for

⁴⁴ Timothy Heath, "China's Evolving Approach to Economic Diplomacy," *Asia Policy* no. 22 (July 2016), 169.

⁴⁵ *Constitution of the People's Republic of China*, December 4, 1982, <http://en.people.cn/constitution/constitution.html>.

⁴⁶ Norris, *Chinese Economic Statecraft*, 118.

⁴⁷ Norris, 57.

the 2005 Anti-Succession Law.⁴⁸ By diplomatically isolating Taiwan, China hopes to deter a Taiwanese independence movement and force Taipei to seek a negotiated deal.⁴⁹

b. *Exporting Authoritarianism*

Some argue that China's economic success in the 21st century has legitimized authoritarianism.⁵⁰ This group contends that, rather than engage in a direct confrontation with the West, China seeks to grow its influence on the world stage by exporting its model of government to developing countries. Chinese FDI and official financing could provide an effective means of exporting this form of government to developing countries with regimes that are attracted to the notion of economic growth without political liberalization.⁵¹ At the 19th National Congress in October 2017, Xi Jinping proffered socialism with Chinese characteristics as "a new option for other countries and nations who want to speed up their development while preserving their independence."⁵² Some China observers have claimed that this means "the Chinese model of one-party state-led capitalism...is ready for export to other nations."⁵³ The spread of authoritarianism could increase China's global power by shifting support away from Western powers who advocate for democracy.

c. *United Nations Voting on Human Rights-Related Issues*

Voting behavior in the United Nations General Assembly (UNGA) and United Nations Human Rights Council (UNHRC) is one measure of foreign policy convergence

⁴⁸ Scott L. Kastner, "Buying Influence? Assessing the Political Effects of China's International Trade," *Journal of Conflict Resolution* 60, no. 6 (2016): 999.

⁴⁹ Murray Scot Tanner, *Chinese Economic Coercion Against Taiwan: A Tricky Weapon to Use* (Santa Monica, CA: RAND, 2007), 15.

⁵⁰ Stefan Halper, *The Beijing Consensus: Legitimizing Authoritarianism in Our Time* (New York: Basic Books, 2010).

⁵¹ Halper, *The Beijing Consensus*.

⁵² Xi Jinping, "Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era," http://www.xinhuanet.com/english/download/Xi_Jinping's_report_at_19th_CPC_National_Congress.pdf.

⁵³ William Hague, "China is Exporting Authoritarianism Globally, and the West is Losing the Old Tools to Stop It," *The Telegraph*, November 20, 2017, <https://www.telegraph.co.uk/authors/william-hague/>.

between countries. While overall voting records provide little insight over which country is influencing others, votes on specific issues of importance to a country can help determine if policy convergence has occurred and, if so, which country was the influencer.⁵⁴ Flores-Macias and Kreps identified UNGA votes concerning country-specific human rights resolutions as an issue “of considerable importance and concern to China” and one on which China’s voting record has been consistent for decades.⁵⁵ Their research uncovered a link between economic ties with China and a convergence on UNGA votes on these types of resolutions. This implies that China has been able to use its economic influence to garner votes on a key issue. While their research focused on trade, it is worth exploring whether a similar motive drove Chinese investment and official financing.

d. Counterarguments against Foreign Policy Drivers

Several authors downplay the role of foreign policy motivators for Chinese investment and official financing. Rosen and Hanemann argue that Chinese FDI and lending is illiquid and is thus difficult to wield as a cudgel in response to changing political sentiment.⁵⁶ Ross found that a country was more likely to accommodate China if it was within range of its power projection capabilities; economic measures were a relative non-factor.⁵⁷ A Medeiros et al. study of Chinese relations with six western Pacific countries concluded that “China does not appear to have had much success in translating economic interactions into political influence.”⁵⁸ Bräutigam and Tang’s study of Chinese investment zones in Africa concluded that the government’s involvement was driven not by foreign policy goals but by a desire to ease foreign investment for Chinese firms, access new

⁵⁴ Gustavo A. Flores-Macias and Sarah E. Kreps, “The Foreign Policy Consequences of Trade: China’s Commercial Relations with Africa and Latin America, 1992–2006,” *Journal of Politics* 75, no. 2 (April 2013): 361.

⁵⁵ Flores-Macias and Kreps, “The Foreign Policy Consequences of Trade,” 361.

⁵⁶ Rosen and Hanemann, *China’s Changing Outbound Foreign Direct Investment Profile*, 15.

⁵⁷ Robert S. Ross, “Balance of Power Politics and the Rise of China: Accommodation and Balancing in East Asia,” *Security Studies* 15, no. 3 (July-September 2006): 355–95.

⁵⁸ Evan S. Medeiros, Keith Crane, Eric Heginbotham, Norman D. Levin, and Julia F. Lowell, *Pacific Currents: The Responses of U.S. Allies and Security Partners in East Asia to China’s Rise* (Santa Monica, CA: RAND, 2008).

markets, and relocate production to ease trade frictions.⁵⁹ In fact, they found that six of the Chinese firms had already begun building overseas zones and six more firms were already in the planning stages before the government program was even announced.

3. Chinese FDI and Official Financing in Sub-Saharan Africa

Sub-Saharan Africa offers an opportunity to explore Chinese FDI and official financing in emerging economies. The increase in Chinese activity in this region over the past several years has raised several questions. Among the most highly debated are China's intentions for its investment and official financing, the ramifications of China's increased presence on existing development models, and the potential drawbacks for individual African countries in encouraging and accepting Chinese investment and official financing.

China's increased economic activity in Sub-Saharan Africa has produced disagreements over its intentions. On one side are those who accuse China of acting maliciously. This camp argues that China is threatening existing international norms through its no-strings attached lending and "debt trap" diplomacy.⁶⁰ These proponents allege that China's ultimate goal is to use its leverage to influence the host country, whether through access to resources, the forced opening of markets to Chinese goods, access to forward military bases, or any other number of supposed Chinese foreign policy goals. Gone unchecked, such actions threaten to lead to "a rapacious recolonization in all but name."⁶¹

In the other camp are those who argue that Chinese investment in Africa does not differ all that much from existing forms of investments and that the allegations have not matched reality.⁶² In this vein, Bräutigam argues that, based on her extensive research, a

⁵⁹ Deborah Bräutigam and Xiaoyang Tang, "'Going Global in Groups': Structural Transformation and China's Special Economic Zones Overseas," *World Development* 63 (2014): 815.

⁶⁰ Brahma Chellany, "China's Debt Trap Diplomacy," Project Syndicate, January 23, 2017, <https://www.project-syndicate.org/commentary/china-one-belt-one-road-loans-debt-by-brahma-chellaney-2017-01>

⁶¹ Howard French, *China's Second Continent* (New York: Knopf, 2014), 5.

⁶² Agatha Kratz, Allen Feng, and Logan Wright, "New Data on the 'Debt Trap' Question," Rhodium Group, April 29, 2019, <https://rhg.com/research/new-data-on-the-debt-trap-question/>.

deliberate “debt-trap” diplomacy strategy seems “a little farfetched.”⁶³ Instead, Chinese actions are “just globalization with Chinese characteristics.”⁶⁴

Authors who study from both the Chinese and African perspectives also dispute the recolonization claim and argue that, instead, China has acted more like a partner to African countries. Ching Kwan Lee argues that China is forced to be open to negotiation because it lacks an ability to resort to military intervention and does not have the profit-maximizing mandate of private capital.⁶⁵ Meanwhile, Mohan and Lampert observe that African nations possess more agency than they are often credited with and have “negotiated, shaped, and even driven Chinese engagements in important ways.”⁶⁶

The increase of Chinese investment and official financing in Africa also introduced an alternative model for economic development. Alden and Large describe this “African development with Chinese characteristics” as a blend of “classic modernization theory, mercantilist self-interest, and actual development experience within the open-ended rhetoric of ‘South-South co-operation.’”⁶⁷ Bräutigam explains how China has taken the approach that fueled its own development and packaged it as part of a “win-win” approach for African partners.⁶⁸ She argues that the Chinese model comes with many benefits—for example, a practical solution to the natural resource curse, employment for Africans, and an industrial catalyst—and may offer a better way forward for Africa than past efforts led by the West.

⁶³ David Dollar and Deborah Bräutigam, “China’s Belt and Road Stretches to Africa,” April 29, 2019, in *Dollar & Sense*, produced by The Brookings Institute, podcast, transcript, <https://www.brookings.edu/podcast-episode/chinas-belt-and-road-stretches-to-africa/>.

⁶⁴ Deborah Bräutigam, “Is China the World’s Loan Shark?” *New York Times*, April 26, 2019, <https://www.nytimes.com/2019/04/26/opinion/china-belt-road-initiative.html>

⁶⁵ Ching Kwan Lee, *The Specter of Global China: Politics, Labor, and Financial Investment in Africa* (Chicago: University of Chicago Press, 2017), xiii.

⁶⁶ Giles Mohan and Ben Lampert, “Negotiating China: Reinserting African Agency into China-Africa Relations,” *African Affairs* 112, no. 446 (January 2013): 93.

⁶⁷ Chris Alden and Daniel Large, “China’s Exceptionalism and the Challenges of Delivering Difference in Africa,” *Journal of Contemporary China* 20, no. 68 (2011): 35.

⁶⁸ Deborah Bräutigam, *The Dragon’s Gift: The Real Story of China in Africa* (Oxford: Oxford University Press, 2009).

China's use of economic, rather than military, power to gain influence in Africa appears to have broad-based support within African countries. Moyo points to the attendance of nearly every African leader at the first Forum on China-Africa Cooperation in Beijing in November 2006, as well as 2007 Pew Research polls that found widespread positive opinions regarding China across 10 African countries.⁶⁹ After decades of failures following the top-down development programs of Western institutions, Chidaushe notes that China's horizontal approach appears much more alluring, with its emphasis on partnership and mutual benefit instead of dictates from on high.⁷⁰

4. Overview of the Literature Review

After reviewing the literature regarding the various drivers of Chinese FDI and official financing, a few motivators rise above the rest when it comes to China's activities in Sub-Saharan Africa. On the economic side, the need to expand export markets and secure necessary resources to fuel continued economic growth rank as vital interests. With native resources limited, domestic markets saturated, and economies of scale maxed out, China needed to expand both its sources of necessary inputs and the export destinations for its goods and services. A failure to do so would be catastrophic to the Chinese economy and threaten domestic stability. While not as perilous to the Chinese economy as the previous two objectives, the ability to deploy excess foreign exchange reserves in emerging markets was an added bonus.

When it comes to foreign policy drivers, China views Sub-Saharan Africa as a region in which it can leverage its economic might for some degree of political influence. On specific issues of concern to China—for example, the diplomatic isolation of Taiwan and convergence on UN votes regarding human rights—China used economic incentives to gain political concessions that carried little cost to their African partners. These

⁶⁹ Dambisa Moyo, *Dead Aid: Why Aid is Not Working and How There is a Better Way for Africa* (New York: Farrar, Straus and Giroux, 2010), 109.

⁷⁰ Moreblessings Chidaushe, China's Grand Re-Entrance into Africa – Mirage or Oasis?, in *African Perspectives on China in Africa*, edited by Firoze Madatally Manji and Stephen Marks (Oxford: Fahamu, 2007), 117.

observations provide potential explanations regarding the motivations behind China's foreign investment and official financing in emerging economies.

C. HYPOTHESES

This thesis explores what factors drove Chinese foreign investment in developing economies. It attempts to answer this question by examining Chinese investment in Sub-Saharan Africa following the announcement of the *zuochuqu* policy in 1999. This thesis offers two hypotheses.

First, Chinese foreign direct investment and official financing was driven largely by economic considerations. This explanation looks at the relative importance of ensuring economic stability and growth over foreign policy aims. That is to say, Chinese foreign direct investment and official financing abroad was driven by a desire to maintain Chinese economic growth, not by a pursuit of foreign policy goals. While Chinese officials will make official and public remarks regarding economic diplomacy, actual investment actions mostly followed economic interests.

Second, that specific foreign policy goals drove a limited allocation of Chinese foreign direct investment and official financing. China used economic incentives to try and achieve specific foreign policy objectives—namely, the diplomatic isolation of Taiwan, exporting authoritarianism, or convergence with Chinese votes on country-specific UN resolutions regarding human rights. Specific actions such as these occurred in situations in which the costs to the African country of the concessions were relatively low.

D. RESEARCH DESIGN

I test the two hypotheses on drivers by looking at Chinese FDI and official financing across the Sub-Saharan Africa region and then exploring two case studies of individual African countries: Angola and Senegal. Examining the entire region allows for trends to be established and anomalies identified. Examining two countries that experienced widely different outcomes allows for a comparison between economic and foreign policy motivators to determine the extent to which each factored into Chinese decision making. Angola was the fifth-largest recipient of Chinese FDI and the largest

recipient of Chinese official financing, despite the absence of any potential foreign policy opportunities for China. Senegal, meanwhile, received relatively little of either, even though its existing relationship with Taiwan offered China a significant foreign policy opportunity if it could entice Senegal to switch its diplomatic recognition. Studying Angola reveals which factors were present to attract such substantial Chinese attention and economic commitment. Conversely, studying Senegal reveals which factors were missing, such that similar Chinese economic interest was not piqued.

The first potential explanation—that Chinese foreign investment was driven by economic and not foreign policy motivators—is tested by first comparing levels of Chinese investment and official financing to the relative sizes of Sub-Saharan African economies. Outlier countries are explored to determine what likely drove relative under- or over-investment or official financing by China. The analysis looks at the sectors to which investment and official financing flowed, as well as the Chinese institutions behind the financing in an attempt to ascertain the driving factors. The case studies allow for a granular look within two representative countries. In addition to the numbers, a close study of individual projects reveals a great deal about Chinese motivations.

The second possible explanation—that Chinese investment and official financing was used to advance certain foreign policy goals—is tested by looking for relationships between Chinese investment and official financing and the three identified potential Chinese foreign policy goals. For the African countries that have severed ties with Taiwan and established relations with Beijing since 1999, investment and official financing levels are examined pre- and post-switch. The claim of exporting authoritarianism is tested by comparing investment and official financing levels across regime types to see if Chinese money flowed disproportionately to authoritarian African governments. The Angola case study also allows for a project-level view to see if Chinese lending went toward specific efforts to strengthen an authoritarian regime. Finally, Chinese Official Development Aid-like (ODA) flows are compared against voting convergence records to determine if Chinese aid went toward influencing African votes. Chapter II uses UNGA voting records to survey the region, while the individual case studies analyze votes in the UNHRC.

E. THESIS OVERVIEW AND CHAPTER OUTLINE

My research found that Chinese FDI and official financing in Sub-Saharan Africa were predominantly driven by economic motivations—most notably a desire to expand opportunities for Chinese firms and secure new sources of natural resources. While economics factors were the principle driver, some portion of ODA-like flows—those that fit the traditional definition of aid—and the promise of investment were driven by specific foreign policy goals, most notably the isolation of Taiwan. Chinese FDI was heavily concentrated in the resource extraction and manufacturing sectors while official financing funded major construction projects that were largely contracted out to Chinese firms. These economic incentives drove the nearly \$40 billion in Chinese FDI stock and most of the \$109.2 billion in official financing.

China did use some of its economic influence to pursue certain foreign policy goals through the allocation of some ODA-like funds and the promise of future foreign direct investment. Most notable were the six African countries that renounced their relationship with Taiwan and established, or reestablished, official relations with China, leaving Eswatini as the only African nation that still recognizes Taiwan. This thesis did find some degree of voting convergence on UNGA votes regarding human rights issues, but did not find significant evidence that China provided disproportionately more investment and official financing to authoritarian regimes.

This thesis is organized into four additional chapters. Chapter II examines Chinese investment and official financing across Sub-Saharan Africa since the implementation of the *zouchuqu* policy. Chapter III details the economic opportunities that drove substantial Chinese investment and official financing in Angola. Chapter IV describes the lack of economic incentives that resulted in very little Chinese involvement in Senegal, despite the potential for foreign policy gains. The conclusion, Chapter V, summarizes the findings, assesses the veracity of the hypotheses, and discusses potential implications of continued Chinese investment and lending in emerging economies.

II. CHINESE FDI AND OFFICIAL FINANCING IN SUB-SAHARAN AFRICA: ECONOMIC INCENTIVES FUEL A GROWING RELATIONSHIP

China signaled a new era of economic relations with Africa with the establishment of the Forum on China-Africa Cooperation in 2000. Since then, Chinese investment and official financing in Africa has grown considerably, with FDI stock reaching nearly \$40 billion as of 2017 and official financing totaling over \$100 billion as of 2014. This chapter examines where and how that investment and financing was deployed in Africa and tests the strength of the two hypotheses on drivers offered in this thesis against the evidence.

This thesis proposes two hypotheses. First, that Chinese investment and official financing was driven primarily by economic considerations, with the goal of ensuring the continued growth than underpins China's domestic stability. Second, that specific foreign policy goals drove a limited allocation of Chinese funds. The possible objectives identified were diplomatic isolation of Taiwan, exportation of authoritarianism, and convergence on UN votes regarding human rights. The findings of this chapter provide evidence in support of these hypotheses.

The main findings of this chapter are that Chinese FDI in Sub-Saharan Africa was driven by economic incentives while Chinese official financing was driven by both economic and foreign policy motives, depending on whether the funds were Official Development Assistance-like (ODA) or Other Official Flows-like (OOF). ODA-like flows are what is traditionally viewed as aid. OOF-like flows may contain a grant element, but not enough to meet ODA criteria, and are for “essentially commercial purposes.”⁷¹ These types of funds are typically used to facilitate development and exports. Economic interests drove all types of official finance flows, but foreign policy considerations also factored into the distribution of some ODA-like flows. ODA-like flows totaled \$46.6 billion across 1,764 projects, while OOF-like flows totaled \$37.7 billion across 233 projects. An

⁷¹ “Other Official Flows (OOF),” OECD, accessed October 15, 2019, <https://data.oecd.org/drf/other-official-flows-oof.htm>.

additional 172 projects totaling \$24.9 billion were categorized as Vague Official Finance, as there was insufficient information to make a clear categorization.

China followed a historical precedent set by previous expanding economic powers in using “state-driven lending to tap into new markets abroad, to secure commodity imports, and to further their global ambitions.”⁷² To support these aims, the composition of China’s official financing to Africa differed significantly from that of Organization for Economic Co-operation and Development (OECD) donors.⁷³ ODA-like flows made up just 42% of the total financing China provided from 2000 to 2017.⁷⁴ In comparison, during the same time period, ODA made up 92% of total official flows from the United States and 82% of the combined official flows of all European member countries of the Development Assistance Committee.⁷⁵

The primary drivers of Chinese FDI and official financing in Sub-Saharan Africa were a desire to expand export markets to relieve Chinese excess capacity—especially for large state-owned construction firms and for Chinese manufacturers—and to secure access to natural resources. Chinese investors were heavily involved in the resource extraction sector while Chinese official financing mostly used African resources as collateral for loans made to fund major construction projects that were subsequently contracted out to Chinese firms.

China did use its economic influence to pursue certain foreign policy goals through the allocation of some ODA-like funds. While China was not unique among other donors in using “aid for strategic reasons, China communicates more openly that its aid is

⁷² Sebastian Horn, Carmen M. Reinhart, and Cristoph Tresbesch, “China’s Overseas Lending,” (working paper, National Bureau of Economic Research, 2019): 2, <https://www.nber.org/papers/w26050>.

⁷³ Deborah Bräutigam, “Chinese Development Aid in Africa: What, Where, Why, and How Much?” in *Rising China: Global Challenges and Opportunities*, ed. Jane Golley and Ligang Song (Canberra: ANU Press, 2011): 205

⁷⁴ Even if one assumed that all Vague Official Finance was ODA-like—a very generous and unlikely assumption—it would still only equal 65% of all total official financing.

⁷⁵ OECD Stat Database (accessed October 16, 2019), <https://stats.oecd.org/Index.aspx>.

supposed to be mutually beneficial.”⁷⁶ In Sub-Saharan Africa, these mutual benefits included diplomatic isolation of Taiwan and some degree of voting convergence on UNGA votes regarding human rights issues. This chapter did not, however, find evidence that China provided significantly more funding to authoritarian regimes.

This chapter first recaps the various FOCAC pledges made since the initial ministerial conference in 2000. It then examines Chinese FDI from 2003 to 2017 and Chinese official financing from 2000 to 2014, based on the data available for each category. Finally, it tests the data against the potential economic and foreign policy drivers to determine which, if any, significantly influenced Chinese investment and lending decisions.

A. FORUM ON CHINA-AFRICA COOPERATION

In October 2000, Beijing hosted the first FOCAC Ministerial Conference. Ministerial conferences meet every three years and alternate between China and Africa. FOCAC Summits were held in conjunction with the ministerial conferences in 2006, 2015, and 2018.⁷⁷ As Alden describes it, “this regularized structure provides a public setting for celebrating the achievements of the relationship, an opportunity to formulate a raft of economic targets aimed at fostering mutual development interests and recalibrating policies to match these, as well as a stage to endorse common perspectives on global issues.”⁷⁸ While China uses the triennial meetings to publicly announce its pledges for all of Africa, he notes that most of the work is carried out bilaterally between China and individual African countries. Further, Alden and Large point out that the relationship with Africa is one in which the Chinese central government “retains a strategic role in agenda

⁷⁶ Axel Dreher and Andreas Fuchs. “Rogue Aid? An Empirical Analysis of China’s Aid Allocation.” *Canadian Journal of Economics* 48, no. 3 (August 2015): 1018–1019.

⁷⁷ Li Anshan, Lui Haifang, Pan Huaqiong, Zeng Aiping, and He Wenping, *FOCAC Twelve Years Later: Achievements, Challenges, and the Way Forward* (Beijing: Peking University School of International Studies, 2012): <https://pdfs.semanticscholar.org/3fbf/0fafe9e3b2d7f56c34b57b50190759044629.pdf>.

⁷⁸ Chris Alden, “China and Africa: From Engagement to Partnership,” in *China & Angola: A Marriage of Convenience?*, ed. Marcus Powers and Cristina Alves (Nairobi, Cape Town, Dakar and Oxford: Pambazuka Press, 2012): 20.

setting and financial resource provisions but devolves responsibilities for implementation to a mix of state, provincial, and private interests.”⁷⁹

China’s FOCAC pledges provide useful insight into Chinese interests in Africa, but they do not tell the full story as not all Chinese financing to Africa falls under FOCAC pledges. Bräutigam notes, for example, that loans from 2013–2015 totaled over \$42.5 billion, despite the FOCAC pledge in 2012 committing to only \$20 billion.⁸⁰ What is telling is the composition of FOCAC pledges—how much is allocated to aid, investment, and the various types of loans. In this regard, changes between FOCAC pledges can signal changes in China’s relations with African countries.

From 2006 to 2012, China’s FOCAC pledges doubled at each meeting. The 2006 pledge totaled \$5 billion: \$3 billion in concessional loans and \$2 billion in buyer’s credits.⁸¹ In 2009, China’s \$10 billion pledge consisted entirely of concessional lending.⁸² In 2012, Hu Jintao announced that “China will provide 20 billion dollars of credit line to African countries to assist them in developing infrastructure, agriculture, manufacturing and small and medium-sized enterprises.”⁸³ Despite popular media reporting the pledge as Chinese aid, there was no reference to the newest pledge containing concessional or preferential terms. This was the first signal that China’s relationship with Africa was turning more toward business.

The next two meetings—both official summits—broke with the trend of doubling Chinese commitments. The 2015 FOCAC pledge totaled \$60 billion—triple the amount of

⁷⁹ Alden and Large, “China’s Exceptionalism,” 36.

⁸⁰ Deborah Bräutigam, “Beijing’s FOCAC Commitments: A ‘Real Story’ Primer,” The China-Africa Research Initiative Blog, August 20, 2018, <http://www.chinaafricarealstory.com/2018/08/beijings-focac-commitments-real-story.html>.

⁸¹ Ian Taylor, *The Forum on China-Africa Cooperation* (New York: Routledge, 2011): 72.

⁸² Taylor, 84.

⁸³ Hu Jintao, “Chinese President’s Speech at Opening Ceremony of Fifth Ministerial Conference of Forum on China-Africa Cooperation,” July 19, 2012, http://www.gov.cn/english/2012-07/19/content_2187301.htm.

the 2012 pledge.⁸⁴ Eom, Bräutigam, and Benabdallah detailed the breakdown of funds.⁸⁵ \$35 billion was allocated to export credit lines and concessional and preferential loans. \$10 billion was used to establish the China-Africa Industrial Capacity Cooperation Fund. \$5 billion went toward expanding the China-Africa Development (CAD) Fund. Foreign aid, in the form of grants and no-interest loans, totaled \$5 billion.

At the most recent FOCAC Summit, held in Beijing in September 2018, President Xi Jinping announced another \$60 billion pledge of funds for Africa, matching the \$60 billion pledged at the previous FOCAC summit in 2015.⁸⁶ All but one African nation sent a delegation to the summit. Unsurprisingly, the only non-attendee was Eswatini—the sole African nation that still maintained official relations with Taiwan. Three new attendees had switched their official recognition from Taipei to Beijing since the 2015 FOCAC Summit: Burkina Faso, the Gambia, and Sao Tome and Principe.

The 2018 FOCAC pledge represented a shift away from previous packages' emphasis on loans toward more prominent roles for investment and aid.⁸⁷ The most noteworthy change was that \$10 billion of the new pledge was to come from private Chinese investment. The \$50 billion to be provided by the Chinese government was comprised of: \$20 billion in credit lines, \$15 billion in foreign aid grants and concessional loans, a \$10 billion development fund, and a \$5 billion fund to finance African exports to China. Bräutigam offers that the 2018 package was “a more concessional package than that offered in 2015,” noting that the foreign aid portion increased from \$5 billion in 2015 to \$15 billion in the 2018 pledge.⁸⁸

⁸⁴ Xi Jinping, “Open a New Era of China-Africa Win-Win Cooperation and Common Development,” December 4, 2015, <http://www.dirco.gov.za/docs/speeches/2015/xi1204.htm>.

⁸⁵ Janot Eom, Deborah Bräutigam, and Lina Benabdallah, *The Path Ahead: The 7th FOCAC* (Washington, DC: SAIS-CARI, 2018): <http://www.sais-cari.org/publications-briefing-papers-bulletins>, 9.

⁸⁶ Shannon Tiezzi, “FOCAC 2018: Rebranding China in Africa,” *The Diplomat*, September 5, 2018, <https://thediplomat.com/2018/09/focac-2018-rebranding-china-in-africa/>.

⁸⁷ Sun, “China’s 2018 Financial Commitments to Africa.”

⁸⁸ Deborah Bräutigam, “China’s FOCAC Financial Package for Africa 2018: Four Facts,” *The China-Africa Research Initiative Blog*, September 3, 2018, <http://www.chinaafricarealstory.com/2018/09/chinas-focac-financial-package-for.html>.

Chinese pledges of financing for Africa provide one level of insight; the actual disbursement of funds affords another. The following sections analyze Chinese foreign direct investment and official financing in Sub-Saharan African countries in an effort to determine what drives the flow of Chinese money into Africa.

B. NOTES ON CHINA-RELATED DATA

This thesis relies on data derived from two main sources. FDI data comes from the China-Africa Research Initiative at Johns Hopkins, which pulls from the annual China Statistical Yearbook.⁸⁹ Chinese official financing data comes from the AidData project at William & Mary.⁹⁰ These sources provide a great deal of insight, but each comes with their own caveats and limitations that must be acknowledged.

The Chinese government's lack of transparency hinders collecting robust statistics, resulting in likely underestimates of actual FDI. Eom et al. detail the shortcomings of Chinese FDI data.⁹¹ First, the China Statistical Yearbook has used different definitions for outward foreign direct investment in different years, which likely led to underestimates. Second, official Chinese FDI statistics only account for the country to which the investment first flows. In China's case, vast sums of FDI flow through offshore intermediaries such as Hong Kong, the British Virgin Islands, and the Cayman Islands. The funds are recorded as FDI to those locations, despite largely continuing on to a final destination.

Third, the data does not capture instances when Chinese subsidiaries operating in other countries acquire African assets. In other words, if a Chinese-owned subsidiary operating in Hong Kong invests in Africa, that investment is not captured as Chinese FDI. Finally, Chinese data only capture the projects that are officially registered with China's Ministry of Commerce (MOFCOM), meaning that investments that do not meet the \$10

⁸⁹ "China-Africa Foreign Direct Investment Data, Country by Country, 2003–2017," SAIS, February 28, 2019, <http://www.sais-cari.org/chinese-investment-in-africa>.

⁹⁰ Axel Dreher, Andreas Fuchs, Brad Parks, Austin M. Strange, and Michael J. Tierney, "Aid, China, and Growth: Evidence from a New Global Development Finance Dataset," AidData, October 2017, <https://www.aiddata.org/data/chinese-global-official-finance-dataset>.

⁹¹ Janet Eom, Jyhjong Hwang, Lucas Atkins, Yunnan Chen, and Siqi Zhou, *The United States and China in Africa: What Does The Data Say?* (Washington, DC: SAIS-CARI, 2017): <http://www.sais-cari.org/publications-policy-briefs>.

million threshold requirement or that sidestep the bureaucratic process are not reflected. As a result of these factors, some MOFCOM officials' off-the-record estimates peg actual investments levels at two to three times the official figures.⁹²

The lack of Chinese transparency provides difficulties in tracking official Chinese financing as well. Media reports tend to overestimate Chinese lending. A study by Hwang, Bräutigam, and Eom found that “of the 1,325 reports of Chinese loan financing analyzed, only 56% actually materialized and are being used. The rest turned out to be mistakes, hopes, rumors, cancelled, or real loans—but not from China.”⁹³ Bräutigam and Hwang further caution:

Chinese companies (and African governments) need to have a signed contract in hand before they can apply for finance from Chinese policy banks. Furthermore, companies, banks, and governments frequently sign memorandums of understanding as they launch discussions, and companies often confidently claim to be able to arrange financing. We are reluctant to assume that a memorandum of understanding, or even a project contract, with an announced intention to secure Chinese finance, is the same as a commitment. As Remi Bello, founder and CEO of B&M Consulting, a political-risk consultancy focused on Africa, has noted, “only 2% to 4% of MOUs [memorandum of understanding] lead to projects in Africa.”

The dataset used for this thesis, however, takes steps to mitigate the possibility of these types of overestimates and employs a methodology that may actually result in underestimating the total levels of Chinese official financing. AidData's Tracking Underreported Financial Flows (TUFF) methodology does not solely rely on media sources and does not verify a project as legitimate until it can triangulate multiple sources of information on a project. The dataset also only recommends for research projects “that have reached the official commitment stage, projects in implementation, and completed

⁹² Xiaofang Shen, *Private Chinese Investment in Africa: Myths and Realities* (Washington, DC: World Bank, 2013), <http://documents.worldbank.org/curated/en/488211468216585858/Private-Chinese-investment-in-Africa-myths-and-realities>, 7.

⁹³ Jyhjong Hwang, Deborah Bräutigam, and Janet Eom, *How Chinese Money is Transforming Africa: It's Not What You Think* (Washington, DC: SAIS-CARI, 2017): <http://www.sais-cari.org/publications-policy-briefs>.

projects.”⁹⁴ This thesis follows that recommendation and, as a result, only includes projects that have been verified by multiples sources to be at the official commitment stage or beyond. By adhering to this standard, funds that may have eventually reached the official commitment stage were not counted, potentially underestimating the actual level of Chinese lending that came to fruition.

C. CHINESE FOREIGN DIRECT INVESTMENT IN SUB-SAHARAN AFRICA

The China Africa Research Initiative at the Johns Hopkins University School of Advanced International Studies (SAIS-CARI) draws from the annual China Statistical Yearbook and Statistical Bulletins of China’s Outward Foreign Direct Investment to compile data covering Chinese foreign direct investment flows and stocks in Africa from 2003 to 2017.⁹⁵ Unless otherwise noted, all FDI-related figures come from the SAIS-CARI database. Percentages are rounded to the nearest quarter percent.

During that time period, the stock of Chinese FDI in Sub-Saharan Africa grew from \$4.64 million to \$38.49 billion, as shown in Figure 1. By 2016, China had become the fourth largest investor in Sub-Saharan Africa, behind the United States, United Kingdom, and France.⁹⁶ As Chinese FDI in Africa grew, so too did the proportion of that FDI that came from private Chinese investors. MOFCOM recorded only four privately owned FDI projects in Africa in 2002.⁹⁷ By 2013, that number had grown to 1,217—53% of the total projects and 45% of total value for that year. Private investments were largely in the manufacturing and service sectors, while government-led investments were concentrated in construction and mining. Despite the significant growth in FDI stock, Africa remains a

⁹⁴ Austin M. Strange, Mengfan Cheng, Brooke Russell, Siddhartha Ghose, and Bradley Parks, *AidData Methodology: Tracking Underreported Financial Flows (TUFF) Version 1.3* (Williamsburg, VA: AidData at William & Mary, 2017), i.

⁹⁵ SAIS, “China-Africa Foreign Direct Investment Data.”

⁹⁶ UNCTAD, *World Investment Report 2018* (Geneva: United Nations, 2018), https://unctad.org/en/PublicationsLibrary/wir2018_en.pdf.

⁹⁷ Miria Pigato and Wenxia Tang, *China and Africa: Expanding Economic Ties in an Evolving Global Context* (Washington, DC: World Bank, 2015): <http://documents.worldbank.org/curated/en/241321468024314010/China-and-Africa-expanding-economic-ties-in-an-evolving-global-context>, 17.

very small portion of China's global FDI portfolio. As of 2015, Africa accounted for less than 4% of China's FDI stock, although this figure does not reflect any Chinese FDI that may have first flowed through intermediaries such as Hong Kong.⁹⁸

FDI flows consistently increased over the time period, with a few notable exceptions (Figure 1). The first was the acquisition by Industrial and Commercial Bank of China (ICBC) of a 20% stake in South Africa's Standard Bank for \$5.6 billion, which was completed in 2008 and significantly skewed that year's flows upwards.⁹⁹ The substantial drop in FDI flow in 2009 is partly a result of this outlier event, but may also have been affected by the global financial crisis. While global Chinese FDI actually increased by 6.5% from 2008 to 2009, this represented a much lower growth rate than the previous several years.¹⁰⁰ As a relatively small position in China's FDI portfolio, Africa likely felt the effects of the investment slow-down as China shifted its economic focus to responding to the crisis. The other disruption to the steady growth in flow was a 27% decrease in 2014, likely due to the collapse in oil prices that year—from a high of \$107.95 per barrel in June to a low of \$53.45 by the end of the year.¹⁰¹ Chinese FDI began to grow again in the subsequent years.

⁹⁸ Eom et al., *The United States and China in Africa*, 3–4.

⁹⁹ Eom et al., *The United States and China in Africa*, 3.

¹⁰⁰ Lucian Cernat and Kay Parplies, "Chinese Foreign Direct Investment: What's Behind the Headlines?" Vox – Center for Economic and Policy Research, July 16, 2010, <https://voxeu.org/article/chinese-foreign-direct-investment-whats-happening-behind-headlines>.

¹⁰¹ "Crude Oil Prices – 70 Year Historical Chart," Macrotrends, accessed October 15, 2019, <https://www.macrotrends.net/1369/crude-oil-price-history-chart>.

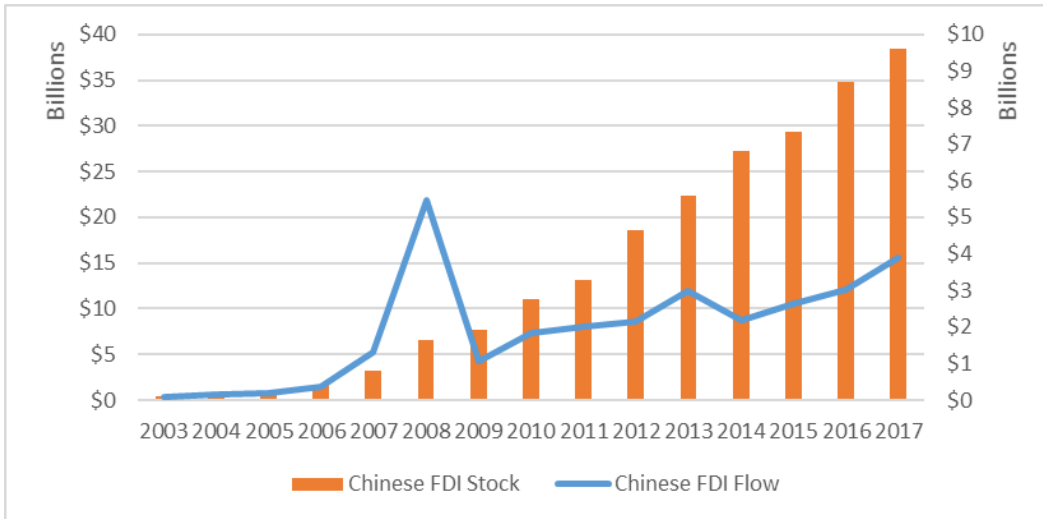


Figure 1. Chinese FDI in Sub-Saharan Africa, 2003–2017¹⁰²

The geographic allocation of Chinese FDI was highly influenced by three factors: market size, natural resources, and the political stability of the recipient country.¹⁰³ The largest recipient of Chinese FDI was South Africa, due in large part to the ICBC’s 2008 acquisition of a stake in Standard Bank. This investment provided ICBC access to the African banking market through Standard Bank’s extensive network on the continent.¹⁰⁴ The rest of the top five recipients are all natural resource rich countries: the Democratic Republic of the Congo, Zambia, Nigeria, and Angola. Indeed, six of the top 10 recipients—Zimbabwe and Ghana in addition to those already listed—were attractive due to their natural resources. These six combined for 40% of China’s FDI stock by 2017.

The other notable location for Chinese FDI was East Africa, with Ethiopia, Kenya, and Tanzania among the top 10 recipients. The relatively developed infrastructure—largely funded by Chinese official financing—and the closer proximity to China were attractive features, as were the efforts of the East Africa Community to attract foreign investment.¹⁰⁵

¹⁰² Adapted from SAIS, “China-Africa Foreign Direct Investment Data.”

¹⁰³ Wenjie Chen, David Dollar, and Heiwai Tang, “Why Is China Investing in Africa? Evidence from the Firm Level,” *The World Bank Economic Review* 32, no. 3 (2018), 615.

¹⁰⁴ Sarah Raine, *China’s African Challenges* (Abingdon, Oxon: Routledge, 2009): 30.

¹⁰⁵ Chen, Dollar, and Tang, “Why Is China Investing in Africa?”

Chinese investment was not heavily influenced by the rule of law situation in recipient countries, but it was very sensitive to political stability. Many large investments were made in African state-owned enterprises. Chinese investment did not have much concern about property rights in African countries, but it was interested in ensuring that the regimes with whom it invested remained in power in order to ensure a return.

The available FDI data does not provide a detailed breakdown of Chinese FDI within each country. However, some conclusions can be made by comparing the amount of Chinese FDI in a particular country to the relative size of that country's economy. It can be expected that investment driven by economic factors will be allocated roughly in proportion to a potential market's capacity and ability to generate a return. On the other hand, excessive investment in a country that does not have a sufficiently-sized economy may signal that other factors are driving the investment decisions. That is to say, if half of China's FDI in a region went to a country whose economy made up only 5% of the regional market, it would suggest that those investment funds are driven by non-economic factors. Exceptional circumstances may affect a country's ability or desire to invest in a certain country—for example, a civil war or chronic government instability—but this metric is still useful as a means of roughly assessing FDI in order to identify outliers that require further investigation.

With a few exceptions, the relative share of Chinese FDI stock invested in each Sub-Saharan African country was comparable to the relative size of each economy. When comparing total FDI stock at the end of 2017 to 2017 Gross Domestic Product (GDP) figures, the share of Chinese FDI in all but 5 of the 43 recipient countries fell within 2.5 percentage points of the country's relative share of Sub-Saharan African GDP. Kenya, for example, made up 4% of the Chinese FDI portfolio, in line with its 3.5% share of Sub-Saharan Africa GDP. Table 1 displays the five outliers.

Table 1. FDI Share/GDP Share Outliers.¹⁰⁶

FDI Share/GDP Share Outliers				
Country	FDI Stock (2017)	FDI Share	GDP Share (2017)	FDI Share/GDP Share Difference
Nigeria	\$2,861,530,000	7.49%	27.49%	-20.01%
South Africa	\$7,472,770,000	19.55%	25.47%	-5.91%
Congo, Dem. Rep.	\$3,884,110,000	10.16%	1.99%	8.18%
Zambia	\$2,963,440,000	7.75%	1.67%	6.09%
Zimbabwe	\$1,748,340,000	4.58%	1.07%	3.50%

Two of the five outliers received less Chinese FDI than a GDP-based estimate might predict: Nigeria and South Africa. A detailed study of these cases is beyond the scope of this thesis, but potential explanations for each are offered. Nigeria’s economy made up 27.5% of total Sub-Saharan African GDP in 2017, but only 7.5% of China’s FDI portfolio. This may be a result of major Western oil companies being firmly entrenched in the oil industry that dominates Nigeria’s economy. Chinese companies may wish to invest more in Nigeria, but find opportunities limited.

South Africa, meanwhile, accounted for 25.5% of GDP and 19.5% of China’s FDI. South Africa is by far the largest recipient of Chinese FDI, although the ICBC acquisition of a stake in Standard Bank accounts for most of that investment. A possible explanation for the lack of further investment may be that Chinese investors do not see as much opportunity to compete in South Africa due to its developed economy and established infrastructure. Chinese companies looking to invest in Africa might find that the level of products and services they can offer are not in high demand in South Africa, especially when compared to other Sub-Saharan African countries. Indeed, a key factor in ICBC acquiring its stake in Standard Bank was the access it would provide to the rest of Sub-Saharan Africa through its network of over a thousand branches in eighteen countries.¹⁰⁷

¹⁰⁶ Adapted from SAIS, “China-Africa Foreign Direct Investment Data.”

¹⁰⁷ Raine, *China’s African Challenges*, 30.

The other three outliers received a larger relative share of Chinese FDI than their relative share of Sub-Saharan Africa GDP: the Democratic Republic of the Congo (DRC), Zambia, and Zimbabwe. Despite accounting for just 2% of Sub-Saharan African GDP, the DRC made up 10% of China's FDI stock. This disparity is likely due to China's heavy involvement in the DRC's mining industry. The DRC contains some of the world's largest reserves of cobalt and copper, both of which China imports in vast quantities. In exchange for providing development loans, China received mineral rights and Chinese state-owned enterprises (SOE) became the majority partners in Socomin—the joint venture founded with a Congolese SOE to mine the resources.¹⁰⁸

Zambia represented 7.75% of Chinese FDI despite making up just over 1.5% of the Sub-Saharan African market. This significant level of investment can be linked to the privatization of Zambian copper mines and creation of Multi-Facility Economic Zones (MFEZ). As Barton discovered, “an overview of licenses issued by the ZDA [Zambian Development Agency] for operation in MFEZs in 2011 demonstrated a near-monopoly by Chinese interests.”¹⁰⁹ He notes that dozens of Chinese firms have been involved in mining operations, physical construction of the MFEZs, and manufacturing operations in the MFEZs.

Zimbabwe made up a 4.5% stake in the Chinese FDI portfolio despite its economy comprising only 1% of Sub-Saharan Africa GDP. Youde links the Chinese investment to Zimbabwe's Look East policy, implemented after Western sanctions were imposed against the Mugabe regime.¹¹⁰ In exchange for providing desperately needed aid and investment, China received mineral concessions to Zimbabwe's substantial platinum and copper deposits. Chinese companies have invested heavily in developing these resources, as well as establishing their presence in the telecomm and power generation sectors—all without any foreign, and little domestic, competition.

¹⁰⁸ Michael Komesaroff, “China Eyes Congo's Treasures,” *Far Eastern Economic Review* 171, no. 3 (2008): 38.

¹⁰⁹ Stuart John Barton, “Sino-substitutions: Chinese Foreign Direct Investment in Zambia,” *Journal of Chinese Economic and Foreign Trade Studies* 7, no. 2 (2014): 94.

¹¹⁰ Jeremy R. Youde, “Why Look East? Zimbabwean Foreign Policy and China,” *Africa Today* 53, no. 2 (2007): 11.

D. CHINESE OFFICIAL FINANCING IN SUB-SAHARAN AFRICA

The College of William & Mary’s AidData lab provides a robust dataset of projects funded by Chinese government institutions globally. Covering the period from 2000–2014, the dataset categorizes projects using OECD criteria to identify financing as ODA-like or OOF-like. Projects lacking enough information to definitively identify as either ODA-like or OOF-like are tagged as Vague Official Finance. This allows a nuanced understanding of Chinese financing as opposed to classifying all Chinese official financing as aid. Unless otherwise noted, all project-related figures for Chinese official financing come from the AidData dataset and are reported in 2014 USD.¹¹¹ Percentages are rounded to the nearest integer.

1. Types of Chinese Official Financing

The flow of Chinese funds into Sub-Saharan Africa comes in a few varieties, each with its own set of drivers. It is important to differentiate between the types of Chinese funds. This both avoids misconstruing all Chinese official finance as aid and helps to understand what should be expected of each type in order to identify areas in which the reality does not match expectations. As China is not a member of the OECD, it does not conform to the definitions established by the OECD. The researchers at William & Mary, however, analyzed Chinese official finance projects from 2000 to 2014 and categorized them in accordance with the OECD definitions. This allows an analysis of Chinese official financing in more familiar terms so that China can be more accurately compared to other donors and investors.

ODA-like flows fit the traditional understanding of aid. OOF-like flows may contain some grant element, but not enough to meet ODA criteria. These types of funds are for “essentially commercial purposes” and often are used to facilitate development and exports.¹¹² The final category is Vague Official Finance, which encompasses the projects that lacked sufficient data to positively identify as ODA-like or OOF-like.

¹¹¹ Dreher et al., “Aid, China, and Growth.”

¹¹² “Other Official Flows (OOF),” OECD, accessed October 15, 2019, <https://data.oecd.org/drf/other-official-flows-oof.htm>.

2. Findings

From 2000–2014, Chinese official financing to Sub-Saharan Africa totaled approximately \$108.25 billion across 2,169 projects, as shown in Figure 2. Across the region, 35% of Chinese official financing went to 233 OOF-like projects totaling \$37.71 billion, 42% went to 1,763 ODA-like projects totaling \$45.58 billion, and the remaining 23% was categorized as Vague Official Finance totaling \$24.96 billion across 172 projects. Sub-Saharan Africa accounted for 12% of all Chinese official financing globally during the time period. In context, in 2014, Sub-Saharan Africa’s GDP, \$1.64 trillion, constituted just over 2% of world GDP, \$73.69 trillion.

By flow class, projects in Sub-Saharan Africa made up 8% of China’s total global OOF-like financing; 24% of ODA-like financing; and 10% of Vague Official Financing. China’s official financing across the globe during the 2000–2014 period was split 50% OOF-like, 21% ODA-like, and 28% Vague Official Financing. Sub-Saharan Africa received a smaller portion of a much larger OOF-like portfolio, but a larger percentage of China’s significantly smaller ODA-like allocation.¹¹³

¹¹³ Figures in 2010 USD; “GDP” World Bank, accessed October 16, 2019, <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD>.

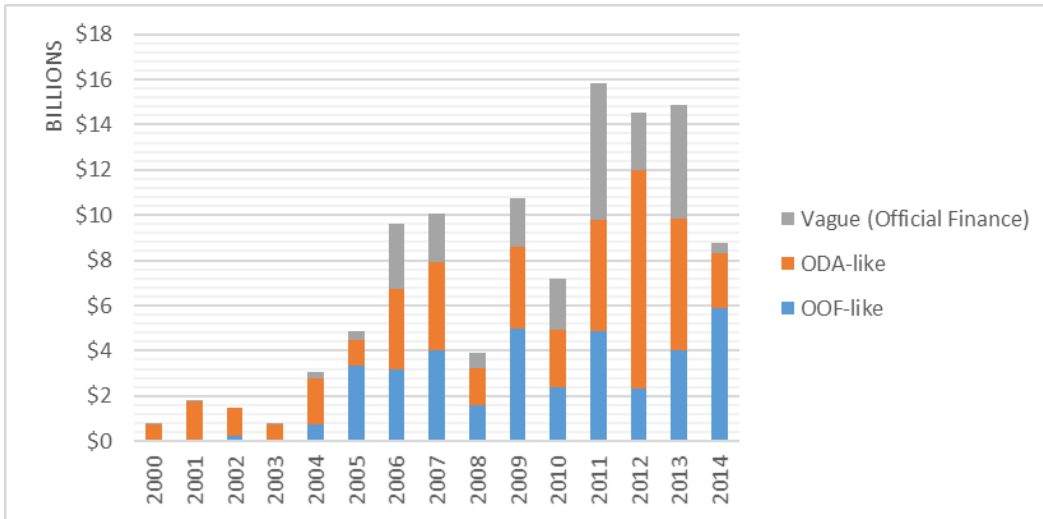


Figure 2. Chinese Official Financing in Sub-Saharan Africa, 2000–2014¹¹⁴

3. Geographic Breakdown

Chinese official financing was heavily concentrated geographically. Nearly half of all funds went to five countries: Angola, Ethiopia, Nigeria, Zimbabwe, and Kenya. Angola and Ethiopia both received more than twice as much total financing as any other African country and, combined, accounted for 30% of all Chinese funds. The top 10 recipients—the aforementioned plus Cameroon, Ghana, Cote D’Ivoire, South Africa, and Zambia—received 71% of all Chinese official financing; the remaining 29% was split among 32 other countries.

With the exception of South Africa, projects in each of the top countries were predominantly infrastructure projects for which China provided loans. These countries were similar in that each possessed some means of assuring China of repayment. For the East and Southern African countries, this took the form of natural resources. Most of the projects in Angola, for instance, were funded via a line of credit that was secured by oil revenues. The largest project in Zimbabwe, meanwhile, was backed by tobacco exports.

¹¹⁴ Adapted from Dreher et al., “Aid, China, and Growth.”

Not all loans were directly tied to natural resources, but the presence of the resources offered some semblance of an ability to repay that satisfied China.

The East African countries of Ethiopia and Kenya, while relatively resource poor, offered larger and more developed economies and the prospects of increased trade that the Chinese-funded projects would bring. Chinese financing funded major railway, highway, and power generation projects in each country. One highway project in Ethiopia tied future tolls to loan repayment and energy generation projects offered similar prospects of guaranteeing loan payments. It appears more likely, however, that the size and maturity of the two economies—both among the top six in Sub-Saharan Africa—and the large infrastructure opportunities for Chinese construction firms were enough to instill confidence in each countries' ability to repay the loans.

South Africa was the outlier of the group in terms of attracting Chinese official financing. Its place among the top 10 was directly tied to the ICBC's acquisition of a 20% stake of South Africa's Standard Bank in 2008. Following that investment, the ICBC funded a \$1 billion loan to increase Standard Bank's activities in Africa and Asia. Later, ICBC provided a \$2.2 billion loan to finance South Africa's Renewable Energy Independent Power Production Procurement program in a deal put together by Standard Bank. These two loans accounted for 82% of China's official financing to South Africa.

4. Sector Breakdown

Chinese official financing was categorized across 24 separate sectors, as shown in Table 2. When broken down by percentage of total funds, the majority of China's portfolio was allocated to the Transport and Storage (33%) and Energy Generation and Supply (27%) sectors. Breaking down Chinese financing by the number of projects provides a slightly different picture. In these terms, the Health sector was the largest, with 482 projects. Education (269), Government and Civil Society (235), Transport and Storage (175), and Agriculture, Forestry, and Fishing (142) completed the top five.

Table 2. Chinese Official Financing by Sector, 2000–2014.¹¹⁵

Sector	# of Projects	Total Funding
Action Relating to Debt	61	\$3,488,598,863
Agriculture, Forestry and Fishing	142	\$3,662,971,861
Banking and Financial Services	3	\$1,388,306,108
Business and Other Services	8	\$207,817,414
Communications	112	\$6,058,654,651
Developmental Food Aid/Food Security Assistance	26	\$70,371,777
Education	269	\$1,517,013,279
Emergency Response	82	\$255,374,804
Energy Generation and Supply	119	\$29,445,156,685
General Budget Support	3	\$49,690,137
General Environmental Protection	8	\$52,517,032
Government and Civil Society	235	\$2,699,942,721
Health	482	\$1,905,854,248
Industry, Mining, Construction	43	\$3,718,449,563
Non-food commodity assistance	2	\$0
Other Multisector	82	\$5,831,872,207
Other Social infrastructure and services	102	\$2,806,456,340
Population Policies/Programs and Reproductive Health	6	\$1,501,012
Support to NGOs and Government Organizations	4	\$380,478,676
Trade and Tourism	9	\$979,674,136
Transport and Storage	175	\$35,827,182,841
Unallocated/Unspecified	131	\$3,522,507,111
Water Supply and Sanitation	56	\$4,364,189,583
Women in Development	8	\$11,657,675
Grand Total	2,168	\$108,246,238,724

The difference between the percentage of total funding and the number of projects in each sector can be explained by the nature of each sector. The Transport and Storage and Energy Generation and Supply sectors consist primarily of OOF-like projects that include massive construction contracts for Chinese firms and significant outlays for energy projects such as oilfield exploration. The three sectors with the largest number of projects are those with the most ODA-like projects, which fit the traditional profile of aid. The

¹¹⁵ Adapted from Dreher et al., “Aid, China, and Growth.”

number of these types of projects, as well as Sub-Saharan Africa's 24% share of China's global ODA-like budget, demonstrate that China expends significant effort to traditional aid programs, despite the disparity in funds allocated.

5. Chinese Financing Institutions

The Export-Import Bank of China was the largest supplier of official financing, accounting for the majority of funds in each category. The other major sources of Chinese official finance differed based on whether the funds were ODA-like, OOF-like, or Vague Official Finance. China Exim Bank funded 141 ODA-like projects totaling \$29.5 billion—62% of all ODA-like funds. Funds were largely concentrated in the Transport and Storage sector (\$11.3 billion). The Energy Generation and Supply (\$3.6 billion), Water Supply and Sanitation (\$2.7 billion), and Communications (\$2.3 billion) sectors also received notable sums. On the whole, these projects consisted of concessional loans made to fund major infrastructure projects that were largely contracted out to Chinese firms.

The rest of the ODA-like financing came mostly from unspecified Chinese government institutions, which funded 1,567 projects totaling \$15.5 billion—34% of all ODA-like flows. These were traditional aid projects funded by various Chinese government agencies. While each sector received ODA-like funds, the vast majority of these projects were in the Health, Government and Civil Society, and Education sectors. While these traditional aid projects represented 72% of the total number of projects, they accounted for only 14% of total Chinese financing.

China Exim Bank was also the majority provider of OOF-like financing, funding 100 projects totaling \$19.6 billion—52% of all OOF-like funds. The Transport and Storage (\$6.6 billion) and Energy Generation and Supply (\$6.2 billion) received most of these funds. Sizeable loans were also made in the Agriculture, Forestry, and Fishing (\$2.3 billion) and Communications (\$1.5 billion) sectors. These types of funds were predominantly non-concessional loans made to fund construction projects that were largely contracted out to Chinese firms.

The other major sources of OOF-like funding were China Development Bank (CDB) and Industrial and Commercial Bank of China. CDB provided \$9.6 billion across

24 projects, accounting for 25% of OOF-like financing. Almost all of CDB's financing occurred in the Energy sector, with 4 loans to Angola's parastatal oil company, Sonangol, and funding for a power plant in Zambia. ICBC financed a total of \$4.1 billion across 6 projects, accounting for 11% of OOF-like flows. Four projects in the Energy sector accounted for \$3.97 billion.

China Exim Bank also provided the majority of funds classified as Vague Official Finance, funding 65 projects for a total of \$13.7 billion—55% of all Vague Official Finance. Similar to the other types of flow, these funds were concentrated in the Transport and Storage and Energy Generation and Supply sectors in the form of loans to fund infrastructure projects. China Exim Bank, CDB, and ICBC combined to fund 2 projects in the Transport and Storage sector totaling \$5.5 billion—22% of all Vague Official Finance. Unspecified Chinese government institutions provided \$4.5 billion across 101 projects, accounting for 18% of Vague Official Finance flows. Projects in the Transport and Storage sector received the largest allocation of these funds as well.

E. POTENTIAL ECONOMIC DRIVERS

This thesis's first hypothesis is that China's investment and official lending to Africa was largely driven by economic factors. The research showed that the majority of Chinese funds to Africa were indeed economically driven. Chinese FDI was heavily focused on pursuing profits in the resource extraction and manufacturing sectors. Chinese official financing, meanwhile, largely consisted of OOF-like and Vague Official Finance that were aimed at commercial opportunities. These funds often were secured by African resources and largely went toward major infrastructure projects that were required to utilize Chinese firms for a majority of the work. In this way, both Chinese FDI and official financing sought to expand export markets for Chinese firms and secure resources needed domestically to fuel continued economic growth.

1. Expand Export Markets

Chinese investment and official financing to Sub-Saharan Africa largely sought to expand export markets for Chinese goods and services that had saturated the domestic market. The National Development and Reform Commission laid out specific priorities

when it established special loan programs with China Exim Bank and China Development Bank. Among these were “overseas productive projects and infrastructure projects which can give impetus to the export of domestic technologies, products, equipment, and labor services, etc. ... [and] overseas enterprise M&A [merger and acquisition] projects which can improve the international competitiveness of enterprises, and accelerate exploration of international markets.”¹¹⁶

Chinese efforts toward these ends occurred across a variety of sectors and were often complimentary, with official financing funding projects that were contracted out to Chinese state-owned firms. The model China employed was based on “the system China learned from Japan: using vary 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.”¹¹⁷ By having Chinese financing institutions directly pay Chinese firms executing the contracts, this approach incentivizes Chinese companies to expand into African markets by reducing the risk of non-payment.¹¹⁸

China’s political stability and economic prosperity rely upon continued economic growth. As the domestic market became saturated and profit margins contracted, Chinese firms were pushed to expand globally to find new markets for their excess capacity.¹¹⁹ While China’s largest trading partners have historically been developed countries, it could no longer rely exclusively on mature markets to generate the returns necessary to drive continued growth.¹²⁰ Sub-Saharan African markets were attractive to Chinese firms as underdeveloped markets with significant growth potential. Chinese construction firms

¹¹⁶ Bo Kong and Kevin P. Gallagher, *The Globalization of Chinese Energy Companies: The Role of State Finance* (Boston: Boston University Global Economic Governance Initiative, 2016): https://www.bu.edu/pardeeschool/files/2016/06/Globalization.Final_.pdf, 19.

¹¹⁷ Bräutigam, *The Dragon’s Gift*, 307.

¹¹⁸ Alden, “China and Africa: From Engagement to Partnership,” 16.

¹¹⁹ Cai, “Outward Foreign Direct Investment, 868.

¹²⁰ Naughton, *The Chinese Economy*, 421.

discovered enormous demand for their capabilities. Chinese manufacturers, meanwhile, identified a large and growing market for their low-cost wares.

Many African nations are in desperate need of infrastructure. The African Development Bank estimates that Africa's infrastructure needs total \$130–170 billion annually, with a financing gap ranging from \$68–108 billion.¹²¹ Chinese construction firms, meanwhile, “have developed a reputation for low-cost and reasonable-quality” infrastructure and faced an increasingly saturate domestic market.¹²² Alden observes that many African leaders were attracted to these “‘turnkey’ operations that placed few demands on the African recipients and produced in short order a relatively inexpensive and functioning road, railroad, bridge, or dam.”¹²³

The two sectors that received the most official Chinese financing, by far, were the Transport and Storage and Energy Generation and Supply sectors.¹²⁴ The Transport and Storage sector received a total of \$35.83 billion, one-third of all Chinese official financing. Road construction and maintenance and railways were the two largest types of projects in this sector, totaling \$9.6 billion and \$9.5 billion, respectively.¹²⁵ The Energy Generation and Supply sector received \$29.45 billion, 27% of total financing. This sector largely focused on “hydroelectric projects, power transmission and distribution lines, gas pipelines, gas-power plants, and coal-power plants,” with hydropower projects alone totaling \$8 billion.¹²⁶

¹²¹ African Development Bank Group, *African Economic Outlook 2018* (Abidjan: ADBG, 2018): <https://www.afdb.org/en/documents/document/african-economic-outlook-aoe-2018-99877>.

¹²² Ali Zafar, “The Growing Relationship Between China and Sub-Saharan Africa: Macroeconomic, Trade, Investment, and Aid Links,” *The World Bank Research Observer* 22, no. 1 (2007): 123.

¹²³ Alden, “China and Africa: From Engagement to Partnership,” 16.

¹²⁴ Dreher et al., “Aid, China, and Growth.”

¹²⁵ Deborah Bräutigam and Jyhjong Hwang, “Eastern Promises: New Data on Chinese Loans in Africa, 2000 to 2014,” (working paper, SAIS-CARI, 2016): 4, <http://www.sais-cari.org/publications-working-papers>.

¹²⁶ Bräutigam and Hwang, “Eastern Promises,” 4.

Projects in both sectors involved major construction projects, which often included stipulations that up to 70% of the project be contracted to Chinese firms.¹²⁷ This was well above China Exim Bank's normal requirement that half of all projects funded with concessional loans utilize Chinese goods and services.¹²⁸ For example, the largest project recorded was a \$2.8 billion loan in 2013 to build the Ethiopian section of the Addis Ababa-Djibouti Railway Project. The China Railway Engineering Corporation was awarded a contract worth \$1.4 billion to build the section from Addis Ababa to Mieso, while the China Civil Engineering Construction Corporation received a \$579 million contract to build the section from Mieso to the Djibouti border.

While there was a natural fit between Africa's infrastructure needs and China's construction firms, China was also able to use some of these projects to obtain preferential access to African resources.¹²⁹ These types of concessions not only secured access to materials China needed, they also provided additional business for Chinese firms, who were often heavily involved in resource extraction and related industries.

In the manufacturing sector, Chinese firms faced pressure to find new markets for their products and identified Sub-Saharan Africa as an enormous—and growing—market of potential customers. The total population of Sub-Saharan Africa was approximately 640 million in 2000, with projected growth to over 1 billion by 2020 and over 2 billion by 2050.¹³⁰ With demand falling in China, African markets offered a new outlet for low-cost Chinese goods.¹³¹ Shen noted that “over half of the firms interviewed, mostly manufacturers, cited “market access” as the main motivation driving them to Africa.”¹³² An anecdote from Shen's study was illustrative of the promise Chinese manufacturers saw

¹²⁷ Greg Pollock, “Back to the Future: Understanding China's Return to Africa and its Implications for U.S. Policy.” *Journal of Public and International Affairs* 18 (2007): 66.

¹²⁸ Bräutigam, “Chinese Development Aid in Africa,” 205.

¹²⁹ Evan Medeiros, *China's International Behavior*, 66.

¹³⁰ “UN World Population Prospects 2019,” accessed November 15, 2019, <https://population.un.org/wpp/>.

¹³¹ Raine, *China's African Challenges*, 44.

¹³² Shen, *Private Chinese Investment in Africa*, 18.

in Africa. In Nigeria, one Chinese investor noted that everyone wore plastic sandals and “imagining one pair for each, this country would offer a market of 170 million pairs.”¹³³ Chinese firms not only exported goods to these markets, they also set up “import companies and sold through a growing informal network of trading posts across urban and rural Africa,” profiting from each step of the process.¹³⁴

For Chinese companies across multiple sectors, Sub-Saharan Africa was a market that offered significant growth potential. As China grew economically, it began to encounter barriers that threatened to stifle continued growth. Some took the form of national security concerns, especially in the West. As an example, in 2005, the U.S. cited national security concerns in rejecting a bid by the China National Offshore Oil Corp (CNOOC) to acquire UNOCAL, an American oil firm. Undeterred, CNOOC’s chairman, Fu Chenyu, responded: “If you can’t do it somewhere, then you can always do it somewhere else. We’re looking at opportunities in Africa.”¹³⁵

Chinese companies had also begun to run into tariffs and trade barriers, which were relatively non-existent in Africa. The accession agreement that granted China membership in the World Trade Organization contained China-specific safeguards that allowed other members to limit Chinese exports if they threatened market disruption.¹³⁶ A textile-specific provision particularly hamstrung low-cost Chinese textile and clothing exports by permitting other World Trade Organization (WTO) members to impose import restrictions on these types of goods. While many trade restrictions on China were lifted upon its entry into the WTO, the unprecedented speed at which Chinese firms came to dominate foreign markets sparked a backlash. In the U.S., for example, quotas were lifted in January 2002 in 29 categories of products. A year and a half later, China’s share of those combined categories had surged from 9% to 45%, prompting the American Textile Manufacturing

¹³³ Shen, 18.

¹³⁴ Chris Alden, “China in Africa,” *Survival* 47, no. 3 (2005): 147–164, 150

¹³⁵ Raine, *China’s African Challenges*, 38.

¹³⁶ Liu Huan and Sun Laixiang, “Beyond Phase-Out of Quotas in Textile and Clothing Trading: WTO-Plus Rules and the Case of U.S. Safeguards against Chinese Exports in 2003,” *Asia-Pacific Development Journal* 11, no. 1 (2004), 58–60.

Institute and other trade organizations to file joint petitions to re-impose quotas on Chinese imports.¹³⁷

Investing in African markets allowed Chinese manufacturers to both access customers in those markets and establish foreign subsidiaries that would be able to export to other markets without being subject to the same protectionist restrictions imposed on goods exported from China. Indeed, Hong and Sun contend that “textile and clothing factories established by Chinese firms in some African countries...are essentially designed to circumvent trade barriers and to protect and promote exports.”¹³⁸ Chinese firms not only found an open door into African markets, but other doors that opened up to even more potential customers.

2. Secure Resources

The National Development and Reform Commission of the People’s Republic of China identified “overseas resource development projects which can make up for the relative insufficiency of domestic resources” as a key priority for its special loans programs with China Exim Bank and CDB.¹³⁹ Oil and other natural resources did indeed play a significant role in China’s investment and official financing in Sub-Saharan Africa, although there were notable differences between investments and loans. Whereas a large portion of Chinese investment went toward resource extraction, Chinese loans more often used resources as collateral than as the basis for funded projects.

Sub-Saharan Africa was attractive to China for a few key reasons. First—and most importantly—it had the resources. Raine reported that, by 2009, Africa accounted for 12% of global oil production.¹⁴⁰ Moreover, most of the world’s newly-found reserves have been discovered in West and Central Africa. She also noted the large reserves of key metals and minerals, including cobalt, chromium, and copper.

¹³⁷ Huan and Laixiang, “Beyond Phase-Out of Quotas,” 62.

¹³⁸ Eunsuk Hong and Laixiang Sun, “Dynamics of Internationalization and Outward Investment: Chinese Corporations’ Strategies,” *The China Quarterly* 187 (September 2006): 624.

¹³⁹ Kong and Gallagher, *The Globalization of Chinese Energy Companies*, 19.

¹⁴⁰ Raine, *China’s African Challenges*, 38.

Second, African markets offered China the opportunity to diversify its sources of oil and mitigate some of the risk imposed by political instability in the Middle East and North Africa.¹⁴¹ Sub-Saharan African countries that were shunned by the West were particularly attractive to China “given that the Chinese National Petroleum Company (CNPC) [did] not possess the financial or legal sophistication necessary to compete with the large Western conglomerates.”¹⁴² CNPC and other Chinese firms also did not possess compunction regarding human rights or governance issues—a competitive advantage over Western companies in many African markets. The case study of Angola in Chapter III explores this point in more detail.

Finally, China was able to use African resources as both a source of necessary inputs and as collateral to fund further investments on the continent. As mentioned, there were notable differences between investment and financing funds. Zeng corroborated previous conclusions that Chinese investment sought out markets with plentiful natural resources, with around 30% of total Chinese FDI going to extractive industries.¹⁴³

Chinese financing, on the other hand, more often used natural resources to secure credit lines than fund projects aimed at resource extraction. Bräutigam and Hwang reported that only 10% of Chinese loans went toward mining and oil exploration and development projects.¹⁴⁴ Meanwhile, they noted that one-third of the loans were secured by commodities or export credits and largely funded the major infrastructure projects described in the previous section. Thus, while Chinese investors sought out opportunities in the resources sector, Chinese loans were “much less about locking up natural resources and more about reducing the risks of lending to poor and unstable countries.”¹⁴⁵

¹⁴¹ Alden, “China and Africa: From Engagement to Partnership,” 12.

¹⁴² Pollock, “Back to the Future,” 60–61.

¹⁴³ Ka Zeng, “The Political Economy of Chinese Outward Foreign Direct Invest in One-Belt, One-Road (OBOR) Countries,” in *China’s International Investment Strategy: Bilateral, Regional, and Global Law and Policy*, ed. Julien Chase (New York: Oxford University Press, 2019): 377; Pigato and Tang, *China and Africa*, 3.

¹⁴⁴ Bräutigam and Hwang, “Eastern Promises,” 4.

¹⁴⁵ Bräutigam and Hwang, 4.

3. Economic Drivers Conclusion

This thesis's first hypothesis is that China's investment and official lending to Africa was largely driven by economic factors. The evidence presented in this chapter supports that theory. Chinese FDI was heavily concentrated in the resource extraction and manufacturing sectors and appears to have followed reasonable investment potential. With a few exceptions, the share of Chinese FDI that a Sub-Saharan African country received was closely aligned to its share of Sub-Saharan Africa GDP. Regarding the outliers, China faced obstacles to further investment in Nigeria and South Africa due to the heavy presence of Western firms in the former and a relative lack of demand for Chinese goods and services in the latter. As a result, extra investment was made in resource-rich countries in which China faced little to no competition.

Chinese official financing, meanwhile, was aimed at facilitating commercial opportunities for Chinese state-owned firms, whether the funds were OOF-like or ODA-like in nature. OOF-like loans were offered at commercial rates and often included access rights to natural resources. A majority of ODA-like funds were used to provide concessional loans and development grants that funded major infrastructure projects that were predominantly contracted out to Chinese firms. Less than half of China's total official financing was categorized as ODA-like, meaning that even when China offered African countries traditional aid, it often benefitted Chinese firms in the process. Vague Official Finance went toward these same endeavors. In this way, both Chinese FDI and official financing sought to expand export markets for Chinese firms and secure resources needed domestically to fuel continued economic growth.

F. POTENTIAL FOREIGN POLICY DRIVERS

This thesis's second hypothesis is that foreign policy goals drove only a limited amount of Chinese FDI and official financing. The research shows that China did use official financing, largely in the form of ODA-like flows, to influence African behavior on certain issues. Most notable was the diplomatic isolation of Taiwan. In the time period studied, Beijing was able to leverage the promise of economic aid and investment to convince six African nations to sever official ties to Taiwan and establish relations with

China. This made these countries eligible to receive Chinese aid and opened them up to Chinese investment—both of which predictably increased in the years following their diplomatic switch.

The research also reveals that China did not disproportionately provide official financing to authoritarian regimes. With regard to human-rights related votes in the UNGA, most African states that received Chinese aid exhibited similar voting patterns. When controlled for only the votes that were deemed important by the U.S. State Department—an attempt to discern natural African preferences given the voting dissimilarity between China and the US—African nations proved twice as likely to vote against China or abstain. However, Africa votes still tended to align with China and no correlation was found between the amount of Chinese ODA-like flows received and voting convergence.

1. Diplomatic Isolation of Taiwan

Since 2000, six African nations have severed official relations with Taiwan and established relations with the PRC: Liberia, Senegal, Chad, Gambia, Sao Tome and Principe, and Burkina Faso. The promise of Chinese official financing and investment likely influenced each of these decisions, as level of both rose significantly after each respective switch. Five of these countries—Sao Tome and Principe being the exception—had previously maintained official relations with China prior to switching recognition to Taiwan in the 1990s. While this yo-yo diplomacy may call into question the durability of these new relations, it does not change the fact that China was able to use its economic clout to persuade these countries to renew the relationship.

a. Liberia

Liberia switched diplomatic relations from Taiwan to China in October 2003. There was no official Chinese financing to Liberia prior to the switch. After reestablishing relations, official Chinese financing in Liberia from 2004 to 2014 totaled \$362 million across 85 projects. About two-thirds of that funding went to 76 ODA-like aid projects, 23% went to 7 OOF-like projects, and 11% to 2 Vague Official Finance projects. While FDI data prior to 2003 is lacking, total stock in 2003 was only \$5.8 million. From that starting point, Chinese FDI stock in Liberia grew to \$319 million in 2017. This evidence suggests

that China was able to utilize the promise of aid, official financing, and investment to persuade Liberia to sever ties with Taiwan.

b. Senegal

Senegal reestablished relations with China in October 2005. Prior to the switch there was no official Chinese financing. From 2005 to 2014, China provided a total of \$674.38 million in official financing across 29 projects. Forty-eight percent of the funding went to 23 ODA-like projects, 29% to 3 OOF-like projects, and 23% to 3 Vague Official Finance projects. While there was some Chinese FDI in Senegal prior to the switch, FDI began to noticeably increase after reestablishing ties with China. Starting at a base of \$2.35 million in 2005, Chinese FDI stock increased 77% in the first year of the renewed relationship. By the end of 2017, FDI stock grew to \$214 million. Senegal is studied further as a case study in Chapter IV of this thesis.

c. Chad

The China-Chad diplomatic relationship was reestablished in August 2006. Chinese official financing, non-existent to that point, began in 2007 and totaled \$1.13 billion across 20 projects by the end of 2014. Three-quarter of the funds went to 15 ODA-like projects, 13% to 1 OOF-like project, and the remaining 12% to 4 Vague Official Finance projects. Chinese FDI stock in 2005, prior to the diplomatic recognition switch, totaled \$2.71 million. That number increased to \$12.78 million by the end of 2006 and \$412.25 million by the end of 2017.

d. Gambia

Gambia is unique in that it severed its diplomatic relationship with Taiwan in November 2013 but did not establish official ties with China until March 2016. Because it did not have an official relationship with China, there was no official Chinese financing provided to Gambia during the time period of the AidData project. FDI data, however, shows a significant increase in Chinese FDI after the two countries reestablished official relations. From a stock of \$1.24 million in 2015, FDI more than tripled in 2016 to \$3.84 million. By the end of 2017, Chinese FDI stock in Gambia totaled \$5.36 million. While the

increase was a fraction of a percent of Chinese FDI in all of Sub-Saharan Africa at the time, from the Gambia perspective, it represented a 332% increase in just two years.

e. Sao Tome and Principe

Sao Tome and Principe switched its recognition from Taiwan to China in December 2016. Due to the recent change, there is insufficient official financing and FDI data to draw any conclusion on this individual case alone. There is insufficient data at this point to meaningfully analyze any trends in official financing and FDI from after the change. Some insights, however, can be gleaned from levels of official financing and FDI—or lack thereof—in the years prior. The AidData project captured no official Chinese financing to Sao Tome and Principe during its 2000 to 2014 time frame. This is unsurprising given China’s policy of only offering aid to countries that recognize the One China Policy. Chinese FDI to Sao Tome and Principe was virtually non-existent, with FDI stock totaling only \$380,000 in 2017.

While data on completed projects does not exist at this time, news reports on the new relationship have revealed the first wave of Chinese financing and aid to Sao Tome and Principe. In a visit in June 2018, Wang Chen, vice chairman of the Standing Committee of China’s National People’s Congress, expressed China’s intent to extend the Belt and Road Initiative to Sao Tome and Principe.¹⁴⁶ In April 2019, plans were revealed for a Chinese-financed renovation of the Sao Tome and Principe International Airport at an estimated cost of \$31 million.¹⁴⁷

f. Burkina Faso

Burkina Faso switched its recognition from Taiwan to China in May 2018. While the recent change means there is little data from which to draw conclusions, the lack of official Chinese financing and FDI prior to 2018 is telling. The AidData project captured

¹⁴⁶ “China, Sao Tome and Principe Vow to Enhance Practical Cooperation,” Xinhua, June 8, 2019, http://www.xinhuanet.com/english/2019-06/08/c_138127127.htm.

¹⁴⁷ “China to Fund the Expansion and Renovation of Sao Tome & Principe International Airport,” Ecofin Agency, April 25, 2019, <https://www.ecofinagency.com/public-management/2504-39971-china-to-fund-the-expansion-and-renovation-of-sao-tome-principe-international-airport>.

no official Chinese financing to Burkina Faso during its 2000 to 2014 time frame. Chinese FDI to Burkina Faso from 2000 to 2017 was virtually non-existent, with flows of \$4.34 million in 2013, \$4.45 million in 2014, and \$200,000 in 2016.

While there is no data yet on implemented projects, there are news reports of Chinese commitments to Burkina Faso in the wake of the newly reestablished relations. In August 2018, Burkina Faso Foreign Minister Alpha Barry revealed plans for a \$1.3 billion highway linking the country's two largest cities—to be funded via a concessional loan from China Eximbank.¹⁴⁸ Barry also revealed a Chinese pledge to provide annual funding to complete development projects started by Taiwan prior to the diplomatic switch. In January 2019, Chinese Foreign Minister Wang Yi announced a 300 million renminbi pledge to the G5 Sahel, only after Burkina Faso became the last of the group to sever relations with Taiwan.¹⁴⁹

2. Exporting Authoritarianism

Some argue that China's economic success in the 21st century has legitimized authoritarianism.¹⁵⁰ This group contends that, rather than engage in a direct confrontation with the West, China seeks to grow its influence on the world stage by exporting its model of government to developing countries. At the 19th National Congress in October 2017, Xi Jinping proffered socialism with Chinese characteristics as “a new option for other countries and nations who want to speed up their development while preserving their independence.”¹⁵¹ Some China observers in the media have claimed that this means “the Chinese model of one-party state-led capitalism...is ready for export to other nations.”¹⁵²

¹⁴⁸ Simon Gongo, “China Cements Fresh Burkina Faso Ties with Hospital, Highway,” Bloomberg, August 6, 2018, <https://www.bloomberg.com/news/articles/2018-08-07/china-offers-infrastructure-to-cement-new-ties-with-burkina-faso>.

¹⁴⁹ Oana Burcu and Eloise Bertrand, “Explaining China's Latest Catch in Africa,” *The Diplomat*, January 16, 2019, <https://thediplomat.com/2019/01/explaining-chinas-latest-catch-in-africa/>.

¹⁵⁰ Halper, *The Beijing Consensus*.

¹⁵¹ Jinping, “Secure a Decisive Victory.”

¹⁵² Hague, “China is Exporting Authoritarianism Globally.”

Chinese official financing could provide an effective means of exporting this form of government to developing countries with regimes that are attracted to the notion of economic growth without political liberalization.¹⁵³ *Ceteris paribus*, a motivation to legitimize authoritarianism abroad would suggest that the Chinese government would allocate more funds to authoritarian regimes.

This section attempts to assess the validity of that claim by analyzing Chinese official financing to Sub-Saharan African countries based on regime type as defined by the Democracy Index. The analysis revealed that, while authoritarian regimes did receive significant Chinese official financing, ODA-like flows were roughly in line with might be expected based on economy size. In other words, authoritarian regimes made up 52% of Sub-Saharan African GDP and received 57% of Chinese ODA-like flows. China does provide significant aid to authoritarian regimes in Sub-Saharan Africa, but authoritarian regimes rule over a significant portion of Sub-Saharan Africa.

These findings echo the results of similar studies on Chinese ODA to Africa. Landry found no “evidence to support the hypothesis that China allocates a disproportionate share of its development finance to countries ruled by kleptocrats and dictators. Rather...it appears that China simply disregards governance quality in its allocation of development finance (in line with its non-interference principle).”¹⁵⁴ Utilizing the Polity variable, Dreher et al. found “no evidence that China’s ODA to Africa is tied to domestic political institutions in recipient countries.”¹⁵⁵

a. Methodology

In this analysis, GDP was used as the measuring stick to judge expected versus actual Chinese financing and investment. While an imperfect measure, GDP serves as a

¹⁵³ Halper, *The Beijing Consensus*.

¹⁵⁴ David G. Landry, “Comparing the Determinants of Western and Chinese Development Finance Flows to Africa” (working Paper, SAIS-CARI, 2018): 21, <http://www.sais-cari.org/publications-working-papers>.

¹⁵⁵ Axel Dreher, Andreas Fuchs, Brad Parks, Austin M. Strange, and Michael J. Tierney, “Apples and Dragon Fruits: The Determinants of Aid and Other Forms of State Financing from China to Africa,” *International Studies Quarterly* 62 (2018): 189.

reasonable proxy for a country’s ability to productively receive and utilize financing and investment. That is to say, all else equal, a country with a larger economy should be capable of deploying more capital—in the form of loans or investment—than a country with a smaller economy. The Economic Intelligence Unit’s Democracy Index was used to categorize each country’s regime type. The Democracy Index ranks countries on a 10-point scale. A score under 4 is categorized as “Authoritarian”; between 4 and 6 as “Hybrid Regime”; between 6 and 8 as “Flawed Democracy”; and above 8 “Full Democracy.”¹⁵⁶

The GDP of each Sub-Saharan country that received Chinese official financing was totaled and each category was compared to the total. For example, the 19 Authoritarian countries had a combined GDP of \$802 billion, or 52% of total GDP of the Sub-Saharan Africa recipients. All figures used were from 2014 to coincide with the end period of the AidData dataset. The results are shown in Table 3.

Table 3. GDP Share by Regime Type, 2014¹⁵⁷

Regime Type	# Countries	Combined GDP	% Total GDP
Authoritarian	19	\$802,054,879,767	52%
Hybrid Regime	12	\$186,731,500,679	12%
Flawed Democracy	7	\$535,392,272,886	35%
Full Democracy	1	\$11,554,737,012	1%
Total		\$1,535,733,390,344	

b. Findings

The first level of analysis was to compare the number of projects and the total sums of Chinese official financing to the African countries’ rating on the Democracy Index.¹⁵⁸ As Figure 3 shows, significantly more Chinese official financing—the sum of all ODA-

¹⁵⁶ Economist Intelligence Unit, *Democracy Index 2018: Me Too? Political Participation, Protest, and Democracy* (2019), https://www.eiu.com/public/topical_report.aspx?campaignid=democracy2018.

¹⁵⁷ Adapted from Dreher et al., “Aid, China, and Growth;” Economist Intelligence Unit, *Democracy Index 2018*.

¹⁵⁸ Sao Tome and Principe, Seychelles, and South Sudan do not appear on the Democracy Index and are thus excluded.

like, OOF-like, and Vague Official Finance flows—was provided to Sub-Saharan African countries that scored lower on the index.¹⁵⁹ In total, Authoritarian regimes received 63% of Chinese official financing despite accounting for only 52% of Sub-Saharan Africa GDP.

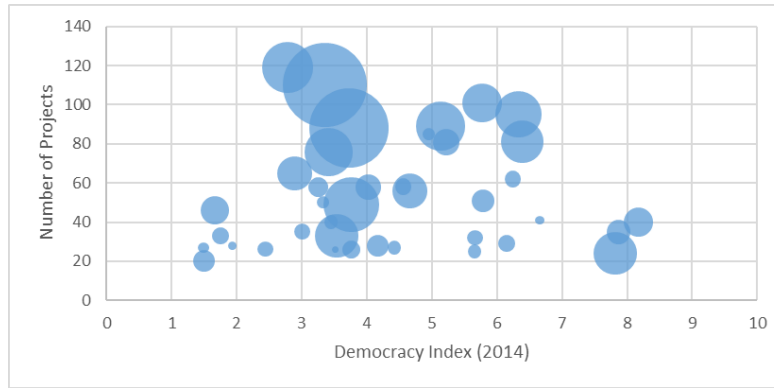


Figure 3. Number of Projects and Total Official Financing by Democracy Index¹⁶⁰

Analyzing total official financing, however, does not discriminate between the different types of Chinese official financing. As has been noted, Chinese official financing ranges from traditional forms of aid and grants to non-concessional loans meant to generate a return. OOF-like flows have been shown to be made primarily with commercial interests in mind. Vague Official Finance mostly went to large development projects but sufficient information was lacking to determine the portion of the grant element and classify as either ODA-like or OOF-like. Looking at OOF-like and Vague Official Finance figures, as shown in Figure 4, reveals how a few large projects skewed the total financing picture.

¹⁵⁹ The size of each bubble represents the amount of Chinese official financing. Relative size is held constant across all three graphs.

¹⁶⁰ Adapted from Dreher et al., “Aid, China, and Growth”; Economist Intelligence Unit, *Democracy Index 2018*.

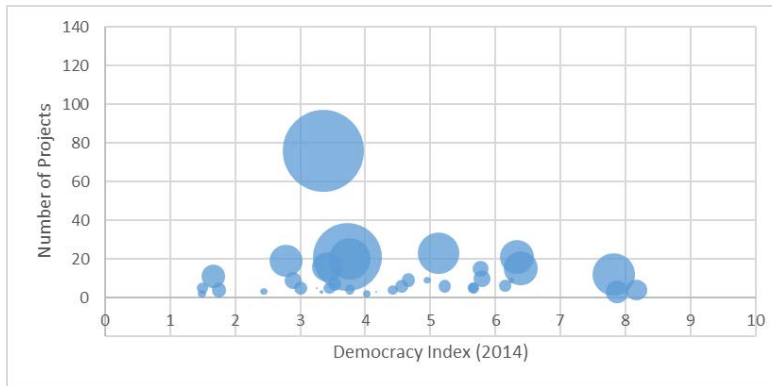


Figure 4. Number of Projects and OOF-like and Vague Official Finance by Democracy Index¹⁶¹

ODA-like flows, then, are left as the type most likely to be driven by foreign policy motives, as they lack the expectation of an investment return. Analyzing Chinese ODA-like flows reveals a different distribution of Chinese funds, as shown in Figure 5. ODA-like funds to Authoritarian regimes totaled 57%—still above the 52% share of GDP, but closer to expected levels.

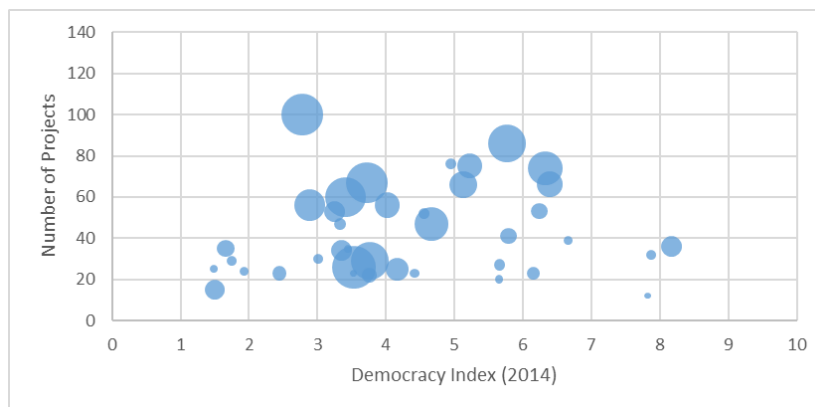


Figure 5. Number of Projects and ODA-like Financing by Democracy Index¹⁶²

¹⁶¹ Adapted from Dreher et al., “Aid, China, and Growth”; Economist Intelligence Unit, *Democracy Index 2018*.

¹⁶² Adapted from Dreher et al., “Aid, China, and Growth”; Economist Intelligence Unit, *Democracy Index 2018*.

From this perspective, Chinese ODA-like flows to authoritarian regimes in Sub-Saharan Africa are slightly higher than, but roughly in line with, what would be expected based on a comparison to GDP. In other words, the fact that 57% of Chinese ODA-like official financing to Sub-Saharan Africa went to authoritarian regimes is not particularly remarkable when one acknowledges that authoritarian regimes made up half of the countries that received aid and their combined economies represented 52% of total Sub-Saharan Africa GDP. Chinese aid, it appears, did not disproportionately go to authoritarian regimes.

3. United Nations Votes on Human Rights Issues

UN votes on human rights issues are especially important to China, which steadfastly opposes any resolutions that impinge on state sovereignty regarding internal affairs. Official financing could have provided China with a means of influencing the votes of African countries on these types of votes in the UN. For reasons already explained in previous sections, if this type of foreign policy incentive did drive Chinese decisions, it would have most likely affected ODA-like flows. Thus, if this issue was a driving factor, one would expect to find a strong correlation between voting convergence and the amount of ODA-like funds received by an African country.

After reviewing the data, UN General Assembly votes on human rights-related issues did not appear to be a strong driver of Chinese ODA-like financing. A weak correlation existed between differences in voting convergence and ODA-like flows received. Every Sub-Saharan African nation that received Chinese ODA-like flows did tend to vote in alignment with China. The flow of ODA-like funds, however, varied widely among the countries, making it difficult to draw a link between one and the other. Most African countries received similar levels of ODA-like flows from China, despite convergence scores ranging from .77 to .92 on a 1-point scale. Meanwhile, some African countries with weaker voting convergence scores received significantly more ODA-like flows than those that voted more closely in line with China.

a. Methodology

This analysis utilizes the UNGA voting record dataset compiled by Voeten, Strezhnev, and Bailey.¹⁶³ The methodology is as follows: only votes from 2000–2018 are included to match the time period covered by this thesis. The data is filtered to include only votes related to human rights, as signified by a HR code in the data set, for which China was present. For each resolution vote, each Sub-Saharan African country is assigned a point value based on its votes relative to China’s vote on that resolution. When a country voted the same as China, it receives a value of 1. When a Yes or No vote differed, a value of 0 is assigned. For votes on which either country abstained, the value assigned is 0.5. This designation acknowledges that abstentions can be used to signal a lesser degree of either support or disapproval, depending on the specific situation, and is consistent with other comparative analyses of UN voting records.

The total number of points a country accrued was divided by the total number of votes and abstentions in order to calculate an alignment score. For example, Angola was present for 399 votes and totaled 350.5 points. Thus, its alignment score is 0.88. A value of 1 represents full convergence with China’s voting record. A value of 0 represents complete divergence.

The voting record is examined twice. The first analysis includes all human rights-related votes. If a desire to influence voting patterns influenced Chinese ODA-like flows, one would expect to find that African countries that voted more closely in line with China received more ODA-like flows. This analysis finds that every Sub-Saharan African country that received Chinese aid did tend to vote in alignment with China on these types of issues.

The second analysis is to try and determine if the voting convergence uncovered by the first analysis was a function of Chinese influence or of African countries naturally holding similar preferences. To do this, the second analysis includes only those votes that were categorized as important by the U.S. State Department in its Voting Practices in the

¹⁶³ Erik Voeten, Anton Strezhnev, and Michael Bailey, “United Nations General Assembly Voting Data,” Harvard Dataverse V21, Aug 13, 2019, <https://doi.org/10.7910/DVN/LEJUQZ>.

United Nations report.¹⁶⁴ China and the U.S. had the least similar voting records and both have significant financial ties to Africa. In theory, then, their influence would counterbalance one another on these votes, allowing for a better sense of African countries’ natural voting preferences on these types of resolutions. The results from the first analysis are better understood with the context provided by the results of the second analysis.

b. Findings

As Figure 6 shows, the results of the first analysis of all UNGA human rights-related votes reveal a slightly positive but weak correlation between ODA-like funds received and voting alignment with China. For these 437 resolutions, 81% of Sub-Saharan African votes were in alignment with China, 4% were different, and the remaining 15% were abstentions. The overall alignment score—total points divided by total votes—is 0.88. All African recipients of Chinese aid tended to vote in alignment with China. However, there are several countries with a close voting alignment but little Chinese ODA-like flows. On the other hand, there are some countries that received large amounts of ODA-like funds but had a weaker voting alignment.

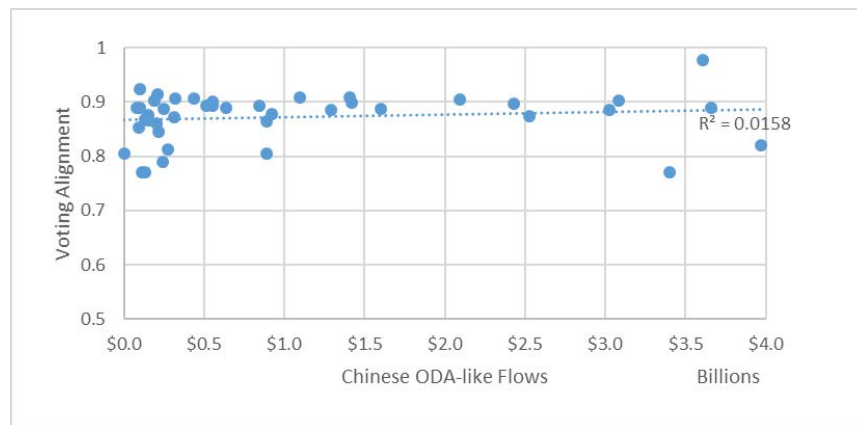


Figure 6. UN Voting Alignment by Chinese ODA-like Flows¹⁶⁵

¹⁶⁴ Department of State, *Voting Practices in the United Nations, 2017* (Washington, DC: Department of State, 2019), <https://www.state.gov/voting-practices-in-the-united-nations-2017/>.

¹⁶⁵ Adapted from Dreher et al., “Aid, China, and Growth”; Voeten et al., “UNGA Voting Data.”

The second analysis tries to establish a baseline of natural African preferences in order to better interpret the findings of the first analysis. If African countries already tended to have preferences similar to China, the voting convergence discovered in the first analysis would not seem extraordinary. If, on the other hand, African preferences were naturally dissimilar to Chinese preferences, it might reveal a Chinese motive to use aid to influence African votes.

In order to determine a baseline for African preferences, the second analysis looks only at votes on resolutions that were designated as important by the U.S. As the U.S. and China had the most dissimilar voting pattern, their competing influence on these types of votes would theoretically counter balance, resulting in a voting record more in line with the African country’s natural preferences. There are 116 of these resolutions—approximately 27% of all the human rights-related resolutions in the group. Of the Sub-Saharan African votes on these resolutions, 58% aligned with China, 9% differed, and 32% were abstentions. The overall alignment score is 0.74—compared to 0.88 in the first analysis. With the exception of Liberia, every Sub-Saharan African country scores above 0.5, with about half scoring above 0.75. Figure 7 plots the voting convergence scores and the amount of Chinese ODA-like flow that each Sub-Saharan African country received.

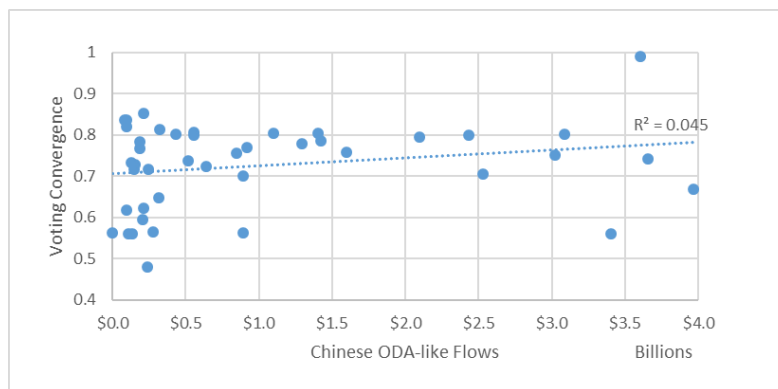


Figure 7. UN Voting Alignment by Chinese ODA-like Flows (Only Votes Designated Important by U.S.)¹⁶⁶

¹⁶⁶ Adapted from Dreher et al., “Aid, China, and Growth”; Voeten et al., “UNGA Voting Data.”

The evidence suggests that Sub-Saharan African preferences on human rights-related votes naturally tended to align with those of China. For votes on which the competing influence of China and the U.S. theoretically neutralized one another, Sub-Saharan African countries were still overwhelmingly more likely to vote the same as China or abstain. Only one country has a convergence score under 0.5, but even Liberia's voting record indicates that it was more likely to abstain than vote differently than China.

These analyses conclude that a desire to sway UN votes on human rights related issues was not a strong driver of Chinese ODA-like flows. If ODA allocation decisions were driven by a desire to influence votes, one would expect to see much larger allocations of ODA provided to countries that voted more closely with China. Over the eighteen-year period examined, this would have revealed both incentives for future votes as well as rewards for past votes. That type of relationship simply did not appear in the data in a significant way. While the first analysis revealed a slight increase in voting convergence over the baseline African preferences estimated by the second analysis, there was no correlation between these voting patterns and varying levels of Chinese ODA. Some African countries voted very closely in line with China yet received similar amounts of aid as countries that were just as likely to abstain. Other African countries received significant amounts of Chinese ODA despite relatively lower voting convergence. On the whole, it appears that other factors drove China's ODA allocation.

G. CONCLUSION

The China-Africa relationship entered a new era in the 21st century, highlighted by the establishment of the Forum on China-Africa Cooperation and evidenced by the nearly \$150 billion in combined Chinese FDI and official financing that poured into the continent. The findings of this chapter strongly support the economic drivers hypothesis. Chinese firms sought to expand the markets for their goods and services, as well as diversify their sources of input materials. The Chinese government, through its official financing, sought to facilitate this expansion by providing large lines of credit to African governments to fund infrastructure projects that were then contracted out to Chinese corporations. In this way, the Chinese government was able to help Chinese firms—especially large state-

owned construction firms—find new markets abroad to soak up their excess capacity. This type of arrangement was present with both OOF-like and ODA-like flows, indicating that economic motives were the primary driver of every type of Chinese funding examined.

This chapter's findings also offer some support for the foreign policy hypothesis. Specific foreign policy goals drove some percentage of Chinese ODA-like flows and investment, but were found to be a relatively small factor. China was able to promise aid and investment to persuade six African nations to sever ties with Taiwan, furthering China's goal of diplomatically isolating Taiwan. This was the most significant foreign policy motivator, although total official financing provided to these six countries accounted for only \$2.2 billion of the \$108.2 billion that China provided to Sub-Saharan Africa as a whole from 2000–2014 and FDI to these six countries totaled only \$952 million of China's \$38.5 billion total Sub-Saharan Africa FDI stock as of 2017.¹⁶⁷

The evidence does not support the other two potential foreign policy drivers that this chapter set out to test: a desire to export authoritarianism or compel voting convergence on human rights-related votes in the UN. China did not apportion significantly more aid to authoritarian countries, nor was there a strong correlation between the ODA that an African country received and its voting record that would suggest a history of Chinese aid directed at influencing votes. Instead, other factors appear as more compelling explanations of what drove the vast majority of Chinese investment and official financing allocation—namely, opportunities for Chinese firms, mainly state-owned-enterprises, to benefit from the financing provided by the Chinese government.

The following chapters of this thesis examine two case studies: Angola and Senegal. These two countries are chosen because they represent, respectively, one of the top recipients of Chinese FDI and official financing and one that received very little of each. They also represent two different cases regarding official recognition of Taiwan. While Angola has never had official relations with Taiwan, Senegal officially recognized Taiwan at the beginning of the time period studied by this thesis and switched its official recognition to Beijing in 2005. Angola was the fifth largest recipient of Chinese FDI, with

¹⁶⁷ Dreher et al., "Aid, China, and Growth"; SAIS, "China-Africa Foreign Direct Investment Data."

FDI stock totaling \$2.3 billion in 2017, and the largest recipient of Chinese official financing, receiving a total of \$16.6 billion from 2000–2014. Senegal, meanwhile, totaled only \$214.3 million in Chinese FDI stock as of 2017 and received only \$674.4 million in official financing during the time period studied.¹⁶⁸

By examining the case of a country that received large sums of Chinese investment and financing, as well as one that received relatively little of it, the following chapters test the economic and foreign policy hypotheses to determine what drove Chinese allocations to one country and not the other. With one country having an existing relationship with Beijing and the other with Taipei, it also allows for an examination of the role that foreign policy drivers may have played in Chinese decision making. What was unique about Angola that attracted the fifth largest allocation of Chinese FDI and largest share of Chinese official financing? What was characteristic about Senegal that failed to attract significant levels of either? Chapters III and IV aim to answer those questions.

¹⁶⁸ SAIS, “China-Africa Foreign Direct Investment Data”; Dreher et al., “Aid, China, and Growth.”

III. CHINA IN ANGOLA: ECONOMIC OPPORTUNITIES DRIVE INCREASED CHINESE INTEREST

In 2004, China extended Angola a \$2 billion line of credit that was secured by Angolan oil and designated for major infrastructure projects. Following that agreement, Chinese FDI stock in Angola rose to \$2 billion by 2017, while official Chinese financing to Angola grew to over \$16.5 billion by 2014; both were virtually non-existent at the beginning of the century.¹⁶⁹ This chapter seeks to determine the factors that drove China's increased economic interest in Angola and tests the strength of the two hypotheses on drivers offered in this thesis against the findings. The findings of this chapter provide evidence in support of economic drivers hypothesis, but little evidence to support the foreign policy drivers hypothesis.

The significant growth of Chinese FDI and official financing was predominantly driven by economic considerations, as China sought to diversify its source of natural resources and access new markets for state-owned enterprises that faced overcapacity issues. Government policies and subsidies had encouraged Chinese SOEs to invest in fixed assets and increase their production capacity.¹⁷⁰ As the domestic market became saturated, however, overcapacity became a serious concern. Underutilization squeezes profit margins, which incentivizes companies to cut costs, including the research and development that drives innovation and keeps companies competitive. Chinese firms that failed to find new markets to absorb their extra capacity risked falling into a downward spiral in which they would have to continuously cut costs in order to remain competitive. This cycle can only go on for so long before the limits of cost-cutting are reached, firms become unprofitable, and China's economic stability is threatened by the potential failure of major SOEs. Substantial opportunities to access both resources and new markets attracted China to Angola and drove its enormous investments and loans.

¹⁶⁹ Dreher et al., "Aid, China, and Growth."; SAIS, "China-Africa Foreign Direct Investment Data."

¹⁷⁰ Jörg Wuttke, "The Dark Side of China's Rise," *Global Policy* 8, no. 4 (June 2017), 63.

There is little evidence, meanwhile, that foreign policy objectives drove Chinese decision making with regard to Angola. Angola has never had official ties with Taiwan, eliminating a desire to diplomatically isolate Taiwan as a possible driver. The nature of the projects funded by Chinese government loans did not appear to support means of expanding authoritarianism. Nor is there evidence that Chinese official financing sought to influence Angola's voting preferences on human rights-related resolutions. Indeed, the case of China in Angola lends robust support to the economic drivers hypothesis that Chinese investment and official financing followed Chinese financial interests. Despite offering China few foreign policy incentives, Angola became the fifth largest Sub-Saharan African recipient of Chinese FDI and the largest recipient of Chinese official financing. This strongly suggests economic interests dominated Chinese decision making.

This chapter first presents the growth of Chinese FDI from 2003 to 2017 and Chinese official financing from 2000 to 2014, based on the data available for each category. Chinese official financing is broken by flow type, sector, and financing institution in order to better describe the nature of these types of projects. This chapter then tests the data against the potential economic and foreign policy drivers to determine which, if any, significantly influenced Chinese investment and lending decisions in Angola.

A. CHINESE FOREIGN DIRECT INVESTMENT IN ANGOLA

Angola was the fifth largest recipient of Chinese FDI during the time period studied. Unless otherwise noted, all FDI-related figures come from the SAIS-CARI database.¹⁷¹ Percentages are rounded to the nearest quarter percent. Chinese FDI stock grew from \$300,000 in 2003 to \$2.26 billion as of 2017, as shown in Figure 8. Chinese FDI began to increase in 2005 and grew consistently until a notable draw back in 2014. This growth was likely spurred by the increased economic ties between China and Angola that began in 2004 with the \$2 billion line of credit. On the back end, the significant drop in 2014 was largely due to the collapse in oil prices that year—from a high of \$107.95 per

¹⁷¹ SAIS, "China-Africa Foreign Direct Investment Data."

barrel in June to a low of \$53.45 by the end of the year.¹⁷² Given that China’s economic involvement in Angola is heavily tied to Angolan oil, this drop is unsurprising. After the initial oil price shock, Chinese FDI began to grow again in the subsequent years.

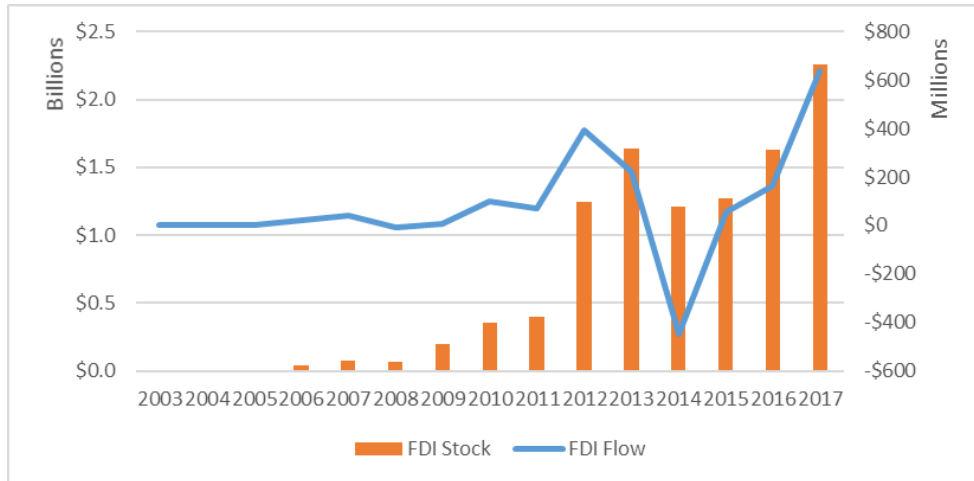


Figure 8. Chinese Foreign Direct Investment in Angola, 2003–2017¹⁷³

The amount of Chinese FDI in Angola is comparable to the relative size of Angola’s economy. While the available data does not allow for a detailed breakdown of Chinese FDI within Angola, some conclusions can be drawn based on the overall amount of Chinese FDI relative to Angola’s place in the Sub-Saharan Africa and global economy. By this measure, the relative share of Chinese FDI stock in Angola was comparable to Angola’s relative share of Sub-Saharan Africa GDP. As of 2017, Angola represented nearly 6% of China’s Sub-Saharan Africa portfolio. In context, Angola’s GDP in 2017, \$101.12 billion, made up 6% of Sub-Saharan Africa’s total GDP, \$1.68 trillion.¹⁷⁴ While constituting an appreciable share of China’s Sub-Saharan Africa portfolio, Angola represented only one-eighth of a percent of China’s global FDI stock in 2017. This figure also reflected the

¹⁷² “Crude Oil Prices – 70 Year Historical Chart,” Macrotrends, accessed October 15, 2019, <https://www.macrotrends.net/1369/crude-oil-price-history-chart>.

¹⁷³ Adapted from SAIS, “China-Africa Foreign Direct Investment Data.”

¹⁷⁴ World Bank, “GDP.”

relative size of Angola’s economy, which made up approximately one-eighth of a percent of global GDP in 2017.¹⁷⁵ The amount of Chinese FDI in Angola, then, appears proportional to the size of Angola’s economy.

B. OFFICIAL CHINESE FINANCING IN ANGOLA

Angola was the largest recipient of Chinese official financing during the time period examined. Unless otherwise noted, all project-related figures come from the AidData dataset and are reported in 2014 USD.¹⁷⁶ Percentages are rounded to the nearest integer. From 2000–2014, Chinese official financing to Angola totaled approximately \$16.56 billion across 110 projects. Of the 110 projects, 70 were classified as OOF-like, 34 as ODA-like, and 6 as Vague Official Finance. More significantly, 81% of Chinese official financing in Angola went to OOF-like projects, while less than 6% went to ODA-like projects; Vague Official Finance made up the remaining 13%. Angola accounted for 14% of all Chinese official financing in Sub-Saharan Africa during the time period, but 31% of all OOF-like flows. In context, Angola’s GDP in 2014, \$145.71 billion, made up 8% of Sub-Saharan Africa’s total GDP, \$1.83 trillion.¹⁷⁷ Figure 9 displays the official financing provided by year, broken down by flow type.

¹⁷⁵ World Bank.

¹⁷⁶ Dreher et al., “Aid, China, and Growth.”

¹⁷⁷ World Bank, “GDP.”

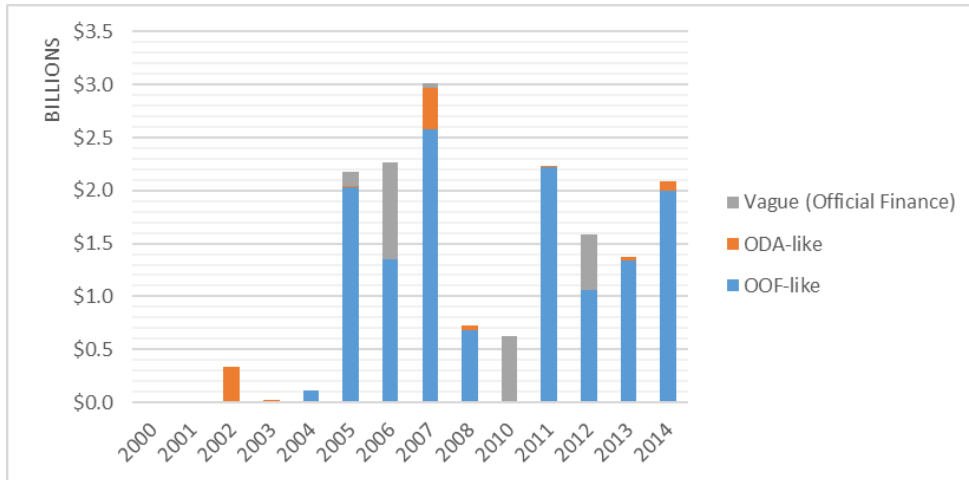


Figure 9. Chinese Official Financing in Angola, 2000–2014¹⁷⁸

1. Sector Breakdown

Chinese official financing was categorized across 14 separate sectors, as shown in Table 4. When broken down by percentage of total funds, the majority of China’s portfolio was allocated to the Energy Generation and Supply (47%) and Transportation and Storage (28%) sectors. Breaking down Chinese financing by the number of projects provides a slightly different picture. In these terms, the Health sector is the largest, with 21 projects. Energy Generation and Supply (20), Transport and Storage (16), Agriculture, Forestry, and Fishing (12), and Education (11) complete the top five. Of note, 14 of the Health projects, 11 of the Education projects, and 5 of the Agriculture, Forestry, and Fishing projects included construction projects related to those respective industries. In each instance, the contract was awarded to a Chinese firm, regardless of whether the financing was OOF-like or ODA-like.

¹⁷⁸ Adapted from Dreher et al., “Aid, China, and Growth.”

Table 4. Chinese Official Financing in Angola by Sector, 2000–2014¹⁷⁹

Sector	# of Projects	Total Funding
Action Relating to Debt	1	\$10,696,845
Agriculture, Forestry and Fishing	12	\$1,020,641,742
Communications	5	\$364,587,011
Education	11	\$680,818,608
Emergency Response	3	\$3,407,490
Energy Generation and Supply	20	\$7,789,613,889
Government and Civil Society	6	\$82,700,862
Health	21	\$557,141,452
Industry, Mining, Construction	1	\$24,236,231
Other Multisector	2	\$667,980,037
Other Social Infrastructure and Services	1	\$56,971
Transport and Storage	16	\$4,605,375,361
Unallocated/Unspecified	2	\$41,284,265
Water Supply and Sanitation	9	\$707,837,431
Total	110	\$16,556,378,193

2. Chinese Financing Institutions

The Export-Import Bank of China was involved in the funding for 71% of the projects in Angola and provided just over half of all Chinese official financing. On its own, China Exim Bank financed 75 projects for a total of \$8.25 billion. Of these projects, 66 were OOF-like, 4 were ODA-like, and the remaining 5 were Vague Official Finance. The Exim Bank financed three additional ODA-like projects totaling \$271.22 million in conjunction with China Construction Bank. While China Exim Bank is the sole Chinese institution that provides concessional loans, the vast majority of its lending in Angola has been at commercial rates.¹⁸⁰

China Development Bank funded only four projects, but accounted for 40% of all funds. Unsurprisingly, all four of these projects were OOF-like resource-backed loans to the Angolan parastatal Sonangol for development of oil and gas projects in its joint venture with Sinopec.

¹⁷⁹ Adapted from Dreher et al., “Aid, China, and Growth.”

¹⁸⁰ Jian-Ye Wang, “What Drives China’s Growing Role in Africa?” (working paper, International Monetary Fund, 2007), 14, <https://www.imf.org/external/pubs/ft/wp/2007/wp07211.pdf>.

The remaining 28 projects were funded by unspecified Chinese government institutions. All but one of these projects was ODA-like in nature, with the sole Vague Official Finance project an-interest free loan for the reconstruction of the Benguela Railway. These projects were in line with what is traditionally viewed as aid. Examples include the donation of sporting equipment, dispatch of Chinese medical teams to provide free medical services, grants for health initiatives, and food aid in response to natural disasters. While numbering a quarter of all projects, these aid projects totaled less than 9% of total financing.

C. POTENTIAL ECONOMIC DRIVERS

Chinese investment and official financing in Angola was predominantly driven by economic considerations, namely securing resources and expanding export markets for Chinese goods and services. That Angola was among the largest recipients of both Chinese investment and official financing was the result of each countries' needs aligning with the other's capabilities and resources.¹⁸¹ For Angola, China's state-owned-construction firms and policy banks fulfilled the need for infrastructure and the financing to fund it. For China, Angola's infrastructure needs and vast oil resources absorbed excess Chinese construction capacity, met a growing need for oil, and satisfied a mandate for Chinese firms to expand globally.

When the Angolan civil war finally ended in 2002, the government was left with few financial resources to face the overwhelming challenges to ensuring peace and stability.¹⁸² Bräutigam describes Angola's financing difficulties.¹⁸³ War costs and widespread corruption resulted in a dearth of public savings and over \$10 billion in outstanding debt obligations across an estimated 48 oil-backed loans. Angola's application for a new International Monetary Fund (IMF) loan was rejected due to its failure to both

¹⁸¹ Markus Weimer and Alex Vines, "China's Angolan Oil Deals 2003–11," in *China & Angola: A Marriage of Convenience?* ed. Marcus Powers and Ana Cristina Alves (Cape Town: Pambazuka, 2012), 100.

¹⁸² Assis Malaquias, "China is Angola's New Best Friend—For Now," in *China & Angola: A Marriage of Convenience?* ed. Marcus Powers and Ana Cristina Alves (Cape Town: Pambazuka, 2012), 37–38.

¹⁸³ Bräutigam, *The Dragon's Gift*, 273–277.

curb this rampant borrowing and meet transparency requirements. Outstanding debts to the Paris Club, meanwhile, precluded Angola from receiving new loans from its members. When Angola could secure new financing from international banks, Bräutigam highlights, it was at high rates and on short terms with no grace periods. These loans often went toward making payments on existing debts and were not suitable for investment in large-scale infrastructure projects with long payoff timelines. On top of its financial shortfalls, the war also left Angola bereft of skilled laborers.

Around the same time, the Go Global (*zuochuqu*) policy drove Chinese firms to seek opportunities abroad. One driving factor behind the policy was a need to expand the sources of input materials that were increasingly consumed by the growing Chinese economy. Another was the need to develop new export markets for Chinese firms that were beginning to saturate the domestic market. Both countries, then, had problems the other could help solve. Angola had a desperate need to rebuild infrastructure that was destroyed during its civil war but lacked the labor force, expertise, and necessary financing to build it. However, it had large oil reserves. China, on the other hand, had a mandate to expand globally, an excess of construction capacity, and a growing need for oil.

Unsurprisingly, nearly half of all Chinese official financing in Angola went to the Energy Generation and Supply sector—most of it to Sonangol to develop its capacity to expand oil and gas projects in its joint venture with Sinopec. As the world's largest energy consumer, China was heavily invested in expanding and stabilizing its sources of input materials.¹⁸⁴ With instability in the Middle East and Northern Africa and major Western corporations established in Africa's largest oil market in Nigeria, Angola offered an attractive sourcing option for China.

In addition to securing necessary materials, Chinese aid and investment in Angola also provided a new market for major Chinese corporations, who were involved in nearly every OOF-like and Vague Official Finance project and many of the ODA-like projects. Half of the total projects involved a major contract awarded to one or more of 15 different

¹⁸⁴ Drew Thompson, "China's Emerging Interests in Africa: Opportunities and Challenges for Africa and the United States," in *Africa in China's Global Strategy*, ed. Marcel Kitissou (London: Adonis & Abbey Publishers Ltd, 2007), 50.

Chinese state-owned firms. Alden described Chinese financing supporting projects carried out by Chinese firms as “a concerted strategy of risk mitigation [that], concurrently, provides incentives for domestic firms to go out and seek opportunities abroad.”¹⁸⁵

Projects involving contracts awarded to Chinese firms totaled \$4.85 billion and spanned the Agriculture, Communications, Education, Health, Transport and Storage, and Water Supply and Sanitation sectors. Sinohydro and the China Machinery Engineering Corporation (CMEC) were the most common firms to receive contracts, with involvement in 19 and 17 projects, respectively. As Fletcher described, China’s excess construction capacity offered a “turnkey operation that placed few demands on the African recipients and produced in short order a relatively inexpensive and functioning road, railroad, bridge, or dam.”¹⁸⁶ In addition, Sinopec—by virtue of its joint venture with Sonangol—benefited from the \$6.62 billion in financing provided by the Chinese Development Bank for development of the Angolan oil company. In total, \$11.47 billion—about 70% of all Chinese financing—went toward projects that involved a Chinese state-owned firm.

The potential of Angola’s low-end consumer market also appealed to China. Low-end Chinese manufacturing firms—with their goods already unattractive to developed Western markets and quickly losing appeal in the maturing domestic market—needed to find new markets for their wares.¹⁸⁷ This attracted Chinese manufacturers to invest in production and distribution capabilities. Chinese official financing, meanwhile, helped to facilitate this increased trade between the two countries, leading to “a boom in the purchase of items such as bicycles, radios, and watches that were once out of reach of ordinary Africans.”¹⁸⁸

Finally, it is worth noting that, in addition to the economic upside, Angola also offered China an opportunity to employ a financing structure that limited the downside for

¹⁸⁵ Alden, “China and Africa: From Engagement to Partnership,” 16.

¹⁸⁶ Alden, 16.

¹⁸⁷ Harry G. Broadman, *Africa’s Silk Road: China and India’s New Economic Frontier* (Washington, DC: World Bank, 2007), <http://documents.worldbank.org/curated/en/752831468008112968/Africas-silk-road-China-and-Indias-new-economic-frontier>.

¹⁸⁸ Alden, “China and Africa: From Engagement to Partnership,” 16.

both Chinese financing institutions and Chinese firms that were contracted to complete the infrastructure projects. China learned this oil-for-infrastructure scheme from Japan, which had used it in China decades earlier. In this model, China Exim Bank extends a line of credit that is at least partially secured by natural resources—in Angola’s case, oil.¹⁸⁹ The loan terms are often concessional, with low rates and a grace period that allows development projects to begin producing revenues that will then service the debt.¹⁹⁰ Most projects funded by the line of credit include large infrastructure contracts, which are predominantly awarded to Chinese construction firms. China Exim Bank’s policy mandates that at least half of the projects be awarded to Chinese firms; in Angola, that figure was closer to 70%. Payments to contracted firms are made directly from the line of credit— an “agency of restraint” that ensures funds go toward the proposed development projects and not to corrupt politicians.¹⁹¹

The model mitigates risks for Chinese entities on both ends of the transaction. Chinese firms can be confident of payment because the funds they receive come directly from the line of credit extended by China Exim Bank. China Exim Bank, meanwhile, can be confident that the loans it provides go toward funding the projects that will generate the funds used for repayment, as the amount of funds that pass through African hands—and thus become vulnerable to corruption—are limited. By tying the loans to Angolan oil, China Exim Bank both ensured that it would be repaid and secured a new source of energy for China. For all of these reasons, Angola presented Chinese investors and lenders with a very attractive opportunity.

¹⁸⁹ Miria Pigato and Wenxia Tang, *China and Africa*, 16.

¹⁹⁰ Lucy Corkin, “Angolan Political Elites’ Management of Chinese Credit Lines,” in *China & Angola: A Marriage of Convenience?* ed. Marcus Powers and Ana Cristina Alves (Cape Town: Pambazuka, 2012), 46.

¹⁹¹ Bräutigam “Africa’s Eastern Promise: What the West Can Learn from Chinese Investment in Africa,” *Foreign Affairs*, January 5, 2010, <https://www.foreignaffairs.com/articles/africa/2010-01-05/africa-s-eastern-promise>.

D. POTENTIAL FOREIGN POLICY DRIVERS

Chinese financing for projects in Angola did not appear to be heavily influenced by any Chinese foreign policy goal. The strongest evidence for this was the allocation of Chinese official financing: less than 6% was ODA-like, which is the flow type most likely to be used to push foreign policy goals. While \$15.6 billion went toward financing infrastructure projects that were mostly carried out by Chinese firms, only \$919.2 million went toward traditional aid projects. None of these ODA-like projects appeared to be driven by Chinese foreign policy motives.

This thesis examines three potential Chinese foreign policy goals with relation to its investment and official financing: diplomatically isolating Taiwan, exporting authoritarianism and gaining support for UN votes on resolutions regarding country-specific human rights issues. The first is quickly dismissed as a potential driver of Chinese finance in the case of Angola. The China-Angola relationship reaches back to the 1960s and Angola has never officially recognized or established diplomatic relations with Taiwan.¹⁹² The other two potential drivers require closer examination.

Alden argues that China has needed to find similarly-minded partners as its economic growth has forced it to become more involved on the international stage.¹⁹³ The fact that Angola's authoritarian government is the largest recipient of Chinese official financing in Sub-Saharan Africa would seem to support the claim that China seeks to export its authoritarian system of government through financial support for other authoritarian regimes. In the Economist Intelligence Unit's 2018 Democracy Index, both China and Angola were among the 53 countries classified as authoritarian, scoring 3.32 and 3.62, respectively.¹⁹⁴ The significant levels of Chinese aid and investment in Angola, then, could be interpreted as support for a fellow authoritarian regime.

Assessing whether Chinese actions were driven by a desire to export authoritarian requires examining the types of projects that were funded by Chinese official financing.

¹⁹² Malaquias, "China is Angola's New Best Friend—For Now," 36–37.

¹⁹³ Chris Alden, *China in Africa* (London: Zed Books, 2007), 16.

¹⁹⁴ Economist Intelligence Unit, *Democracy Index 2018*.

Authoritarian regimes can retain their grip on power by using repression, patronage, or a combination of both. Most authoritarian regimes do not publicize their attempts to repress the population. Analyzing the types of projects financed by official Chinese funds, however, can provide some insight into whether the Chinese government has attempted to strengthen a fellow authoritarian regime. The three areas that seem most likely to contain efforts toward this end are direct funding to the Angolan government, projects involving the Angolan military, and technology that could be used for monitoring the Angolan population.

Based on the data available, there is little evidence that such was the case in Angola. From the AidData project-level data, direct government-to-government financing consisted of China training a small number of magistrates, a journalists cultural visit to China, and Chinese donations of office equipment to various Angolan ministries. Chinese financing involving the Angolan military consisted of a donation of de-mining equipment, the procurement of 25 buses, and an upgrade to a military telecommunications network as part of a larger network project. In the technology sector, China financed large projects to build, repair, or upgrade major telecommunications networks, largely through contracts with ZTE.

There is an argument that this increased technological capability could provide the Angolan government with greater reach to monitor its population. That the Angolan government could use the technology toward this end seems reasonable; whether they have used it in this manner has yet to be demonstrated. Feldstein uncovered “circumstantial or anecdotal evidence of AI surveillance [in Angola], but not enough verifiable data to warrant inclusion” in his AI Global Surveillance Index.¹⁹⁵ It is impossible to completely disprove the assertion that Chinese funding is meant to strengthen the authoritarian Angolan regime’s ability to repress political opposition. However, the evidence strongly supports alternative explanations as the drivers behind China’s significant economic commitments.

¹⁹⁵ Stephen Feldstein, “The Global Expansion of AI Surveillance,” (working paper, Carnegie Endowment for International Peace, 2019), 6, https://carnegieendowment.org/files/WP-Feldstein-AISurveillance_final1.pdf.

The data similarly reveals little evidence that Chinese funds were driven by a desire to support the political patronage that the Angolan regime also utilizes to maintain power. While the MPLA does utilize Sonangol as an instrument for political patronage, the \$6.6 billion worth of lines of credit extended by the Chinese Development Bank were all part of a joint venture between Sonangol and Sinopec. The MPLA may have benefitted from the financing made available to Sonangol and the dividends from the exploration it enabled, but the nature of China's lending coming as part of a joint venture—and China's keen interest in sourcing more energy inputs—suggests that economic motivators were the real driving factor behind the loans.

In addition, the oil-for-infrastructure model that China utilized extensively in Angola was designed to minimize corruption and ensure that most Chinese loans went toward paying Chinese firms for contracted work. In Angola, China Exim Bank provided nearly half of the total official financing provided from 2000–2014. While China Exim Bank's policy is that at least half of each project be awarded to Chinese firms, in Angola that figure was nearly 70 percent. As these Chinese firms were paid directly by China Exim Bank, those funds never passed through Angolan hands, limiting the potential for corruption. Even if the MPLA did benefit from the economic growth funded by Chinese official financing, it does not appear that China's commitments were driven by a desire to export authoritarianism.

The other potential foreign policy driver—UN votes on resolutions regarding human rights—is complicated to decipher. China and Angola have both served multiple terms as members of the UN Human Rights Council (UNHRC) since its foundation in 2006. In this sense, there is ample accessible data to focus on the specific type of vote that China highly values. From 2006 through the June 2019 session, there were a total of 73 votes in the UNHRC regarding country-specific human rights situations on which both China and Angola were present for voting.¹⁹⁶ Figure 10 displays the voting results. Of that total, there were four on which Angola voted in favor while China opposed the resolution,

¹⁹⁶ “Country Voting History Portal,” Universal Rights Group, accessed October 8, 2019, <https://www.universal-rights.org/nyc/country-voting-history-portal/>.

42 on which their votes were the same, and 27 on which China voted against the resolution while Angola abstained or chose not to vote.

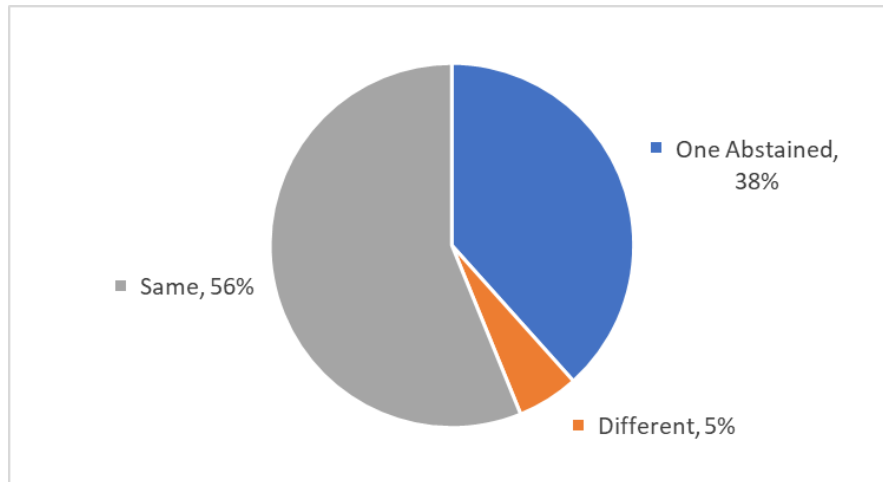


Figure 10. China-Angola Votes on Country-Specific UNHRC Resolutions, 2006–2019¹⁹⁷

Analyzing the voting records and financial flows does not reveal any significant correlation between the divergent votes and financial flows, regardless of categorization. The four divergent votes all concerned Syria and occurred in 2012 following the Houla massacre.¹⁹⁸ The following year, total Chinese official financing increased 47%. ODA-like flows—those typically tied to policy convergence and thus, conceivably subject to retaliatory cuts—nearly doubled, from \$16.7 million to \$32.8 million.

Interestingly, all but two of the convergent votes regarded either the Occupied Palestinian Territory or Occupied Syrian Golan, or both. Both China and Angola voted in favor of those 40 resolutions, as well as a resolution regarding Sri Lanka. Notably, in each of these resolutions, the sovereignty of an individual nation was never challenged. Forty of the resolutions concerned occupied territories, while the Sri Lanka-related resolution condemned the actions of the Liberation Tigers of Tamil Eelam and reaffirmed Sri Lankan

¹⁹⁷ Adapted from Universal Rights Group, “Country Voting History Portal.”

¹⁹⁸ Martin Chulov, “Houla Massacre: UN Resolution Condemns Syria,” *The Guardian*, June 1, 2012, <https://www.theguardian.com/world/2012/jun/01/syria-houla-massacre-un-resolution>.

sovereignty.¹⁹⁹ The final convergent decision was abstaining on a vote concerning Nicaragua.

Similar to the divergent votes, no tie is found between the convergent votes and any appreciable change in Chinese financing. The convergent votes were spread out from 2006 to 2019, almost exclusively concerned the same topics, and experienced no change in Chinese or Angolan votes. Chinese official financing in all three forms, on the other hand, has fluctuated from year to year. Given the consistency of the voting record and the fluctuations of the money flows, it is highly improbable that one drove the other.

An argument could be made regarding the 27 instances in which China voted against a resolution and Angola abstained. Significant Chinese financing to Angola began in 2004. Since that time, Angola has ranked among the top 10 recipients of Chinese OOF across the globe.²⁰⁰ Chinese FDI stock also grew to over \$2 billion during this same time period. Each of the UNHRC votes have occurred since 2006. It is plausible, then, that Angola's decision to abstain on nearly all of the resolutions that China has opposed in the UNHRC was motivated by a desire to not disrupt the economic relationship.

Whether this was driven by Angolan self-interest, Chinese pressure, or some combination, is difficult to determine, but Angola's own record on human rights cannot be ignored. Angola scored a 31 out of 100 in Freedom House's Freedom in the World 2019 report, joining China in the decidedly "Not Free" category.²⁰¹ Meanwhile, Angola's Human Personal Freedom score of 6.11 out of 10 ranked it 117 of 162 countries in the Cato Institute's most recent Human Freedom Index—in the same neighborhood as China and its 5.35 rating.²⁰² In the analysis of voting convergence scores conducted in Chapter II,

¹⁹⁹ United Nations Human Rights Council, *Report of the Human Rights Council on Its Eleventh Special Session, A/HRC/S-11/2* (26 June 2009), <https://daccess-ods.un.org/TMP/417307.466268539.html>.

²⁰⁰ Samantha Custer, "China's Financial Statecraft: Winning Africa One Yuan at a Time?" AidData, March 22, 2018, <https://www.aiddata.org/blog/chinas-financial-statecraft-winning-africa-one-yuan-at-a-time>.

²⁰¹ "Angola," Freedom House, accessed September 2, 2019, <https://freedomhouse.org/report/freedom-world/2019/angola>.

²⁰² Ian Vásquez and Tanja Porčnik, *The Human Freedom Index 2018: A Global Measurement of Personal, Civil, and Economic Freedom* (Washington, DC: Cato Institute, 2018), <https://object.cato.org/sites/cato.org/files/human-freedom-index-files/human-freedom-index-2018-revised.pdf>.

Angola's baseline score was 0.77, indicating that its natural preference on human-rights related votes tended to align with China's position.²⁰³ Given that Angolan preferences already tended to align with Chinese views, it appears unlikely that Chinese investment and financing was driven by a desire to sway Angolan votes.

E. CONCLUSION

The evidence suggests that economic factors drove Chinese decision making in Angola. Angolan needs aligned perfectly with Chinese capabilities and resources, and vice versa. Chinese construction firms with excess capacity provided a solution to Angola's lack of infrastructure, while Angolan oil reserves offered a way for China to diversify its energy inputs. Following these economic incentives, Chinese FDI poured into Angola: from \$300,000 in 2003, FDI stock exploded to \$2.26 billion in 2017, making Angola the fifth largest Sub-Saharan recipient of Chinese FDI. Meanwhile, Angola was the largest recipient of Chinese official financing, receiving a total of \$16.5 billion from 2000 to 2014. Of this official financing, less than \$1 billion went toward traditional aid projects. The rest went to fund massive infrastructure projects, with 70% of the contracts awarded to Chinese firms.

These enormous sums were deployed in Angola despite the lack of clear foreign policy incentives for China. Little evidence is found to support any of the three potential foreign policy drivers this thesis proposes to examine. Angola has never officially recognized Taiwan, removing diplomatic isolation of the island as a possible driver. Chinese allocations did not suggest a concerted effort to unduly support authoritarianism. Rather, Chinese FDI was apportioned to Angola roughly in line with the size of the Angolan economy and Chinese official financing was almost entirely tied to infrastructure projects that clearly benefitted Chinese firms. In addition, what ODA-like flows Angola did receive were for traditional aid programs, with no indication of an intent to strengthen

²⁰³ As detailed in Chapter II, the baseline process used votes on human-rights related resolutions that were designated as important by the U.S. State Department as a means of estimating African nations' natural preferences. The theory was that the competing interests of China and the U.S.—who had the most divergent voting pattern—would offset for these votes, revealing the best estimate of African nations' natural preferences. On a 1 point scale, 0 represents complete divergence, 0.5 represents one country abstaining, and 1 represents complete convergence.

the authoritarian regime. Finally, Angola's track record on human rights issues already tended to align with China's, which contradicts any notion that Chinese funds were driven by a desire to influence Angolan votes.

The foreign policy hypothesis is further weakened by the fact that China and Angola have never appeared to be likely long-term strategic partners. This can be seen in political differences between the two, as well as Angola's continuous efforts to build relationships with the West. Despite Angola's authoritarian record, the hard-won expansion of political freedom and economic liberalization—however slow their pace of progress—were crucial to the negotiated end of its civil war. Thus, Malaquias argues, the Chinese model of strict one-party control does not appeal to an Angolan society that has “taken the important initial first steps toward democracy and free markets.”²⁰⁴ Angola also only turned to Chinese financing after overtures to Western countries and institutions failed. Angola's “debilitated regime...had staked considerable political capital on the promise of a post-conflict economic boom” but was unable to meet IMF loan conditions and was restricted from taking out new loans from the Paris Club by outstanding debt obligations.²⁰⁵ Desperate for financing, China's covenant-lite financing was a welcome—but second choice—option to quickly begin the massive reconstruction projects that the Angolan government had promised during the peace negotiations.

As Angola was working with the Chinese on infrastructure financing, it was simultaneously courting relationships with the West. Unlike many other oil states, Angola “encouraged Western business rather than fostering anti-Western sentiment” in an effort to balance Chinese influence.²⁰⁶ Angola was able to leverage the 2004 loan from China to secure additional financing from Western institutions. Bräutigam highlights a \$2.35 billion oil-secured loan—with a higher interest rate and shorter repayment term than the Chinese loan—from a group of Western banks that included Barclays and Royal Bank of Scotland

²⁰⁴ Malaquias, “China is Angola's New Best Friend—For Now,” 28.

²⁰⁵ Malaquias, 39.

²⁰⁶ Corkin, “Angolan Political Elites,” 54.

that was secured within months of the first Chinese line of credit.²⁰⁷ She also mentions a \$2 billion loan from Crédit Agricole in 2005 and an \$800 million credit from U.S. Exim Bank for the purchase of six Boeing aircraft. Less than a decade after failing to meet IMF standards, Angola secured a \$1.4 billion standby loan from the Fund in 2009.²⁰⁸

China was well aware of Angola's desired engagement with the West but was undeterred by the reemergence of Western financiers. China Exim Bank extended an additional \$2 billion line of credit in 2005 and added a complementary \$500 million loan in 2007. This additional financing—coming after Western powers reentered the space—provides further evidence that economic opportunity drove Chinese investment and official financing.

In the end, the numbers tell the tale of China's investment and financing in Angola. With incredible opportunities to leverage Angola's oil reserves and meet an enormous demand for infrastructure construction, Chinese investment and official financing poured into the African country. This significant investment—Angola received the largest combined sum of Chinese FDI and official financing during the time period studied—came despite the lack of any significant foreign policy incentives for China to pursue in Angola. Indeed, the case of Angola encapsulates the validity of the economic drivers hypothesis: Angola offered tremendous economic opportunity for Chinese firms and, as a result, received substantial sums of Chinese FDI and official financing.

²⁰⁷ Deborah Bräutigam, *The Dragon's Gift*, 276.

²⁰⁸ Corkin, "Angolan Political Elites," 53.

IV. CHINA IN SENEGAL: SEVERING TIES WITH TAIWAN LEADS TO NEW INFLUX OF CHINESE YUAN

In 2005, Senegal severed its diplomatic ties with Taiwan—which it had held since 1996—and reestablished its relationship with China.²⁰⁹ Following the switch, Chinese FDI stock in Senegal rose from \$2.35 million to \$214 million by 2017, while official Chinese financing went from being non-existent to totaling over \$674 million by 2014.²¹⁰ These were meaningful increases for Senegal, but relatively minuscule allocations for China. Senegal accounted for just over one-half of one percent of both total Chinese FDI and official financing in Sub-Saharan Africa, despite its relative share of the Sub-Saharan African economy totaling around 1.25 percent as of 2017.²¹¹ This chapter examines China’s growing interest in Senegal and tests the strength of the two hypotheses on drivers offered in this thesis against the findings. The findings of this chapter provide evidence in support of both the economic drivers and foreign policy drivers hypotheses.

The evidence suggests that the potential of Chinese investment and official financing was used to influence Senegal to sever ties with Taiwan, achieving an important foreign policy objective. While direct evidence for this claim is admittedly lacking—for example, no statement or official document from either the Chinese or Senegalese government indicating the existence of a quid pro quo was discovered—the circumstantial evidence is quite robust. Additional Chinese FDI had stopped after Senegal recognized Taiwan in 1996 and remained relatively stagnant until Senegal switched its diplomatic recognition back to China in 2005—at which point Chinese FDI stock soon began to quickly grow. Meanwhile, the lack of official ties with China from 1996–2005 precluded Senegal from receiving Chinese official financing, but with the implication that reestablishing diplomatic relations would restore Senegal’s eligibility. The announcement soon after Senegal’s diplomatic switch in 2005 of two major projects funded by Chinese

²⁰⁹ “Senegal Picks China Over Taiwan,” BBC News, October 26, 2005, <http://news.bbc.co.uk/2/hi/asia-pacific/4377818.stm>.

²¹⁰ Dreher et al., “Aid, China, and Growth”; SAIS, “China-Africa Foreign Direct Investment Data.”

²¹¹ World Bank, “GDP.”

official financing, and the subsequent flows of Chinese official financing compellingly hint that China’s economic influence was used to sway Senegal’s decision.²¹²

Meanwhile, economic incentives attracted some Chinese investment in Senegal, but the total level of investment was rather limited. This finding offers a different type of support for the economic drivers hypothesis. If Chinese FDI and official financing were indeed driven by economic motives, as suggested by the hypothesis, one would expect to find that Chinese funds flowed heavily to countries that offered strong economic prospects and largely avoided countries that offered little in the way of economic potential. Whereas Angola in Chapter II offers an example of the former, Senegal offers an example of the latter. Senegal offered very little immediate economic opportunity for China to pursue, and as a result, received relatively little Chinese FDI and official financing.

This chapter first presents the growth of Chinese FDI from 2003 to 2017 and Chinese official financing from 2000 to 2014, based on the data available for each category. Chinese official financing is broken down by flow type, sector, and financing institution in order to better describe the nature of these types of projects. This chapter then tests the data against the potential economic and foreign policy drivers to determine which, if any, significantly influenced Chinese investment and lending decisions in Senegal.

A. CHINESE FOREIGN DIRECT INVESTMENT IN SENEGAL

Chinese FDI in Senegal grew significantly following Senegal’s diplomatic switch in 2005, but accounted for only a tiny portion of China’s overall Sub-Saharan Africa portfolio. Unless otherwise noted, all FDI-related figures come from the SAIS-CARI database.²¹³ Percentages are rounded to the nearest quarter percent. Chinese FDI stock in Senegal grew from \$2.5 million in 2003 to over \$214 million as of 2017, as shown in Figure 11. In 2006, the year after Senegal’s switch in diplomatic recognition, Chinese FDI stock grew by over 75%—a precursor to the significant flow of Chinese investment that was to follow.

²¹² Dreher et al., “Aid, China, and Growth.”

²¹³ SAIS, “China-Africa Foreign Direct Investment Data.”

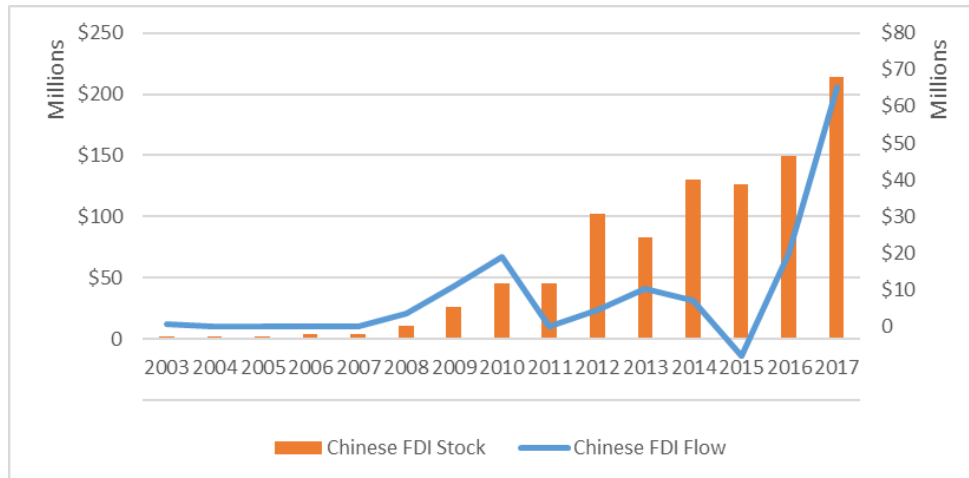


Figure 11. Chinese Foreign Direct Investment in Senegal, 2003–2017²¹⁴

While Chinese FDI stock increased in absolute terms, Senegal’s share of China’s overall Sub-Saharan Africa portfolio is less than would be expected based on the size of Senegal’s economy. In other words, the relative share of Chinese FDI stock in Senegal was smaller than Senegal’s relative share of Sub-Saharan Africa GDP. As of 2017, Senegal represented 0.56% of China’s Sub-Saharan Africa portfolio. In context, Senegal’s GDP in 2017, \$21.2 billion, made up 1.25% of Sub-Saharan Africa’s total GDP, \$1.69 trillion.²¹⁵ Senegal’s miniscule position in China’s global FDI portfolio, 0.012%, was also smaller than its share of global GDP, 0.026%. While these figures are tiny in absolute terms, both show that China’s investment was about half what the size of Senegal’s economy might have predicted it to be.

B. CHINESE OFFICIAL FINANCING IN SENEGAL

Unless otherwise noted, all project-related figures come from the AidData dataset and are reported in 2014 USD.²¹⁶ Percentages are rounded to the nearest integer. From 2005–2014, Chinese official financing to Senegal totaled approximately \$674 million

²¹⁴ Adapted from SAIS, “China-Africa Foreign Direct Investment Data.”

²¹⁵ World Bank, “GDP.”

²¹⁶ Dreher et al., “Aid, China, and Growth.”

across 29 projects. There was no reported Chinese official financing prior to 2005 when Senegal maintained official relations with Taiwan. Figure 12 displays the annual official financing, broken down by flow type. Of the 29 projects, 3 were classified as OOF-like, 23 as ODA-like, and 3 as Vague Official Finance. 29% of Chinese official financing went toward OOF-like projects, while 48% went to ODA-like projects; Vague Official Finance made up the remaining 23%.

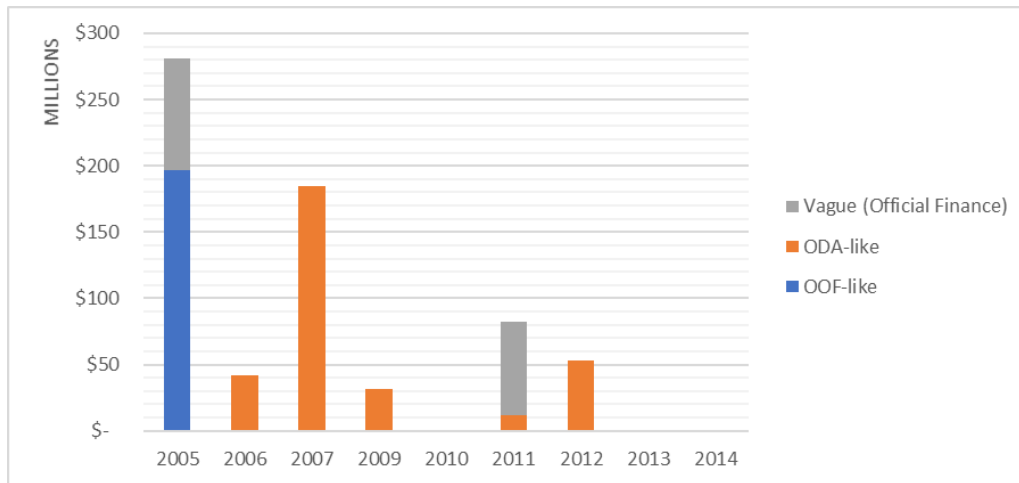


Figure 12. Chinese Official Financing in Senegal, 2005–2014²¹⁷

Senegal accounted for just 0.57% of all Chinese official financing in Sub-Saharan Africa during the time period. By flow class, Senegal accounted for 0.68% of Chinese ODA-like financing, 0.45% OOF-like, and 0.55% Vague Official Financing. In context, Senegal’s GDP in 2014, \$19.77 billion, made up 1.08% of Sub-Saharan Africa’s total GDP, \$1.83 trillion.²¹⁸ Like FDI, the allotment of Chinese official financing was smaller than Senegal’s relative share of Sub-Saharan African GDP.

²¹⁷ Adapted from Dreher et al., “Aid, China, and Growth.”

²¹⁸ World Bank, “GDP.”

1. Sector Breakdown

Chinese official financing was categorized across 11 separate sectors, as shown in Table 5. When broken down by percentage of total funds, the largest portion of China's portfolio (29%) was allocated to a Government and Civil Society project that went toward building an e-government network. The next largest sectors by percentage of total funds were Other Social Infrastructure and Services (16%) and Transport and Storage (15%). The former included what are typically called vanity projects: the construction of several sports stadiums and a museum. The latter included Chinese construction of bridges and renovations of Senegal's transportation fleet and infrastructure.

By number of projects, the Health sector was the largest with 9 projects, despite receiving only 2% of funds. The bulk of the funding in this sector went toward a project to build a children's hospital. Most health-related projects in Senegal included China sending various medical teams to provide services, education, and training. China also donated equipment and medicine to combat malaria. Most of China's official financing projects in Senegal consisted of debt cancellation, ODA-like donations of equipment and medicine, and sending technical experts. In the handful of major projects that involved construction, Chinese firms were typically involved.

Table 5. Chinese Official Financing in Senegal by Sector, 2000–2014²¹⁹

Sector	# of Projects	Total Funding
Action Relating to Debt	1	\$34,029,103
Agriculture, Forestry and Fishing	3	\$84,229,818
Education	3	\$0
Emergency Response	2	\$53,544,114
Energy Generation and Supply	1	\$79,156,652
Government and Civil Society	1	\$196,412,718
Health	9	\$12,514,859
Other Multisector	1	\$0
Other Social infrastructure and services	4	\$105,789,573
Transport and Storage	3	\$101,783,332
Unallocated/Unspecified	1	\$6,920,770
Grand Total	29	\$674,380,939

2. Chinese Financing Institutions

The Export-Import Bank of China was involved in the funding for only 2 of the projects in Senegal. Notably, however, these were the largest and third-largest projects and combined to make up 41% of all Chinese financing. The largest was an OOF-like project to build an e-government network that heavily involved Huawei and CMEC. The third-largest project was an ODA-like concessional loan to construct power transmission lines.

The remaining 27 projects were funded by unspecified Chinese government institutions. All but two of these projects were ODA-like in nature. These projects were in line with what is traditionally viewed as aid. Examples include sending medical teams, humanitarian aid for flood victims, scholarships for Senegalese students, and agricultural expert teams. Of the non-ODA-like projects, one was categorized as OOF-like and included establishing a Confucius Institute at the University of Dakar. The other was a Vague Official Finance project to construct retention ponds throughout Senegal to aid the agricultural sector.

²¹⁹ Adapted from Dreher et al., “Aid, China, and Growth.”

C. POTENTIAL ECONOMIC DRIVERS

When it comes to Senegal, the potential economic drivers of Chinese investment and official financing must be examined from two vantage points. The first is China's activity within Senegal itself. From this perspective, economic factors played a role in driving Chinese firms to expand their presence in the Senegalese markets through investment or contracts funded by Chinese official financing. The second perspective examines China's activity in Senegal in the context of its overall activity in Sub-Saharan Africa. From this viewpoint, the relative lack of economic opportunity for China in Senegal and the resultant relative dearth of Chinese investment and official financing lend further proof that economic motives largely drove Chinese decision making.

From the first perspective, this thesis identifies securing natural resources and expanding export markets as the two most likely potential economic drivers of Chinese investment and official financing. In Senegal's case, securing natural resources was not a factor, but a desire to capture a greater share of the Senegalese market did appear to be a contributing factor in driving Chinese investment. Senegal could not offer China any meaningful natural resources. Its top export, refined petroleum, totaled only \$473 million in 2017 and has always been almost exclusively exported to other African countries—predominantly Mali.²²⁰ Senegal does export other minerals, including titanium, but at levels that are miniscule compared to China's needs.

The renewed relationship between China and Senegal did offer Chinese firms the opportunity to expand an export market. This opportunity appeared to drive some Chinese investment into Senegal, while official financing projects offered construction opportunities for Chinese SOEs. In 2005, when official relations were reestablished, Chinese goods accounted for less than 4% of Senegal's imports.²²¹ By 2017, China's share had tripled to 12%, surpassing France as the largest source of imports. As was typical in many Sub-Saharan African countries, this increased trade was accompanied by Chinese investment, as Chinese investors set up distribution and merchandising businesses in

²²⁰ "Senegal," OEC, accessed January 31, 2020, <https://oec.world/en/profile/country/sen/>.

²²¹ OEC, "Senegal."

Senegal to sell these Chinese goods. FDI stock grew from \$2.35 million to \$214.3 million in that time, indicating that Chinese investors recognized some economic opportunity.

Official financing, meanwhile, funded some major projects that were contracted out to Chinese firms for completion. The largest projects—to build the e-government network—was contracted out to CMEC and Huawei. CMEC was also involved in the third largest project, building power transmission lines and transformer substations. These two projects accounted for 41% of all Chinese official financing. As was the case in Angola, Chinese firms also benefitted from Chinese official financing projects in Senegal.

From the second perspective, the case of Senegal provides a different type of evidence that China's activities across Sub-Saharan Africa were largely driven by economic motives. The economic drivers hypothesis has two implications. First, Sub-Saharan African countries that offered attractive economic prospects would receive significant Chinese FDI and official financing. Second, Sub-Saharan countries that could not offer economic opportunities for Chinese firms would not receive significant Chinese FDI and official financing. Senegal is an example of the second implication. The relatively small sums of Chinese FDI and official financing in Senegal were the result of the limited economic opportunity for Chinese firms in the country.

D. POTENTIAL FOREIGN POLICY DRIVERS

Foreign policy motives played a notable role in driving China's investment and official financing in Senegal. Senegal made up just over 0.5% of both China's FDI portfolio and total official financing in Sub-Saharan Africa, despite its economy accounting for a regional share twice that size. Potential foreign policy gains appear to have driven what little attention China did pay to Senegal. This thesis examines three potential Chinese foreign policy goals: diplomatically isolating Taiwan, exporting authoritarianism, and influencing votes on human-rights related UN resolutions. This chapter finds evidence to suggest that isolating Taiwan was a key driving factor of Chinese decision making, no evidence that a desire to export authoritarianism played a role, and little evidence in support of a desire to influence votes in the UN.

China's desire to isolate Taiwan appears to have been the most prominent driving factor behind its investment and official financing in Senegal. While no direct evidence was found on either the Chinese or Senegalese side of an explicit promise of Chinese funding in exchange for the diplomatic switch, the circumstantial evidence strongly suggests that the potential to receive Chinese investment and official financing factored heavily into Senegal's decision making. FDI stock remained constant in the years preceding the 2005 switch—reflecting existing Chinese investments from before Senegal switched its recognition from Beijing to Taipei in 1996.²²² Senegal also received no official financing from China while it maintained its relationship with Taiwan. After the diplomatic switch in 2005, however, FDI began to flow into Senegal. Chinese FDI stock increased by 75% in 2006 and reached \$214 million in 2017, up from \$2.35 million in 2005.²²³

Soon after the switch, Senegalese President Abdoulaye Wade and Chinese President Hu Jintao reached two major financing deals: one in which China Exim Bank provided a \$100 million loan to build an e-government network in Senegal and another in which approximately \$38 million of a combination of Chinese grants and loans went toward the construction of retention ponds.²²⁴ From 2006 to 2012, Senegal received an additional \$393.7 million in official financing—82% of which was ODA-like. That Senegal received so little OOF-like financing after the initial e-government project in 2005 was telling, as those types of funds were typically tied to economically attractive opportunities. Whatever the nature of Chinese funds, however, the near total lack of them in Senegal prior to 2005 and the significant flow in the aftermath of the diplomatic switch lend strong evidence that a desire to isolate Taiwan factored heavily into China's renewed economic engagement with Senegal.

No evidence was found to support a claim for the next potential foreign policy driver—a desire to export authoritarian. The *Economist's* Intelligence Unit's Democracy

²²² Richard J. Payne and Cassandra R. Veney, "China's Post-Cold War African Policy," *Asian Survey* 38, no. 9 (September 1998), 872.

²²³ SAIS, "China-Africa Foreign Direct Investment Data."

²²⁴ Dreher et al., "Aid, China, and Growth."

Index ranks countries on a 10-point scale. Those scoring less than or equal to 4 are classified as authoritarian regimes. In the 2018 Index, China scored a 3.32, classifying as solidly authoritarian.²²⁵ Senegal, on the other hand, scored a 6.15—the 8th highest score in Sub-Saharan Africa—and was classified as a flawed democracy. It could be argued that Senegal received such a low level of Chinese financing because it is not a fellow authoritarian regime.

Other explanations for the relatively low levels of Chinese FDI and official financing in Senegal appear more plausible. One is that the relatively short amount of time that Senegal has been eligible to receive Chinese investment and financing may skew the statistical data. For the first few years of both the FDI and the official financing datasets, Senegal—due to its recognition of Taiwan—was restricted from receiving Chinese funds. This would explain the lower total figures.

A more compelling explanation is that Senegal’s lack of considerable natural resources available for immediate extraction or a viable consumer market meant that it could not offer enough economic incentive to attract significant amounts of Chinese capital. As of 2017, Senegal’s top export was refined petroleum, but those exports totaled only \$472 million and went almost entirely to neighboring Mali.²²⁶ Senegal’s GDP per capita, meanwhile, was \$3,450—ranking 155th in the world and indicating very little market potential for Chinese companies.²²⁷ While China became Senegal’s top import origin in 2017, its \$974 million in Chinese imports were virtually insignificant to a country that exported \$2.41 trillion that year.²²⁸ In light of this, it seems more plausible that the lack of Chinese FDI and official financing in Senegal was not due to its more democratic government, but rather a result of limited economic opportunities for Chinese firms.

The final potential foreign policy driver—UN votes on resolutions regarding human rights—is complicated to decipher. China and Senegal have both served multiple

²²⁵ Economist Intelligence Unit, *Democracy Index 2018*.

²²⁶ OEC, “Senegal.”

²²⁷ OEC.

²²⁸ OEC; “China,” OEC, accessed January 31, 2020, <https://oec.world/en/profile/country/chn/>.

terms as members of the UNHRC since its foundation in 2006. In this sense, there is ample accessible data to focus on the specific type of vote that China highly values. From 2006 through the June 2019 session, there were a total of 89 votes in the UNHRC regarding country-specific human rights situations on which both China and Senegal were present for voting. Figure 13 displays the voting results. Of that total, there were 15 votes on which the countries voted differently, 51 on which their votes were the same, and 23 on which China voted against the resolution while Senegal abstained. Figure 13 shows the voting breakdown using data derived from the Universal Rights Group’s Country Voting History Portal.²²⁹

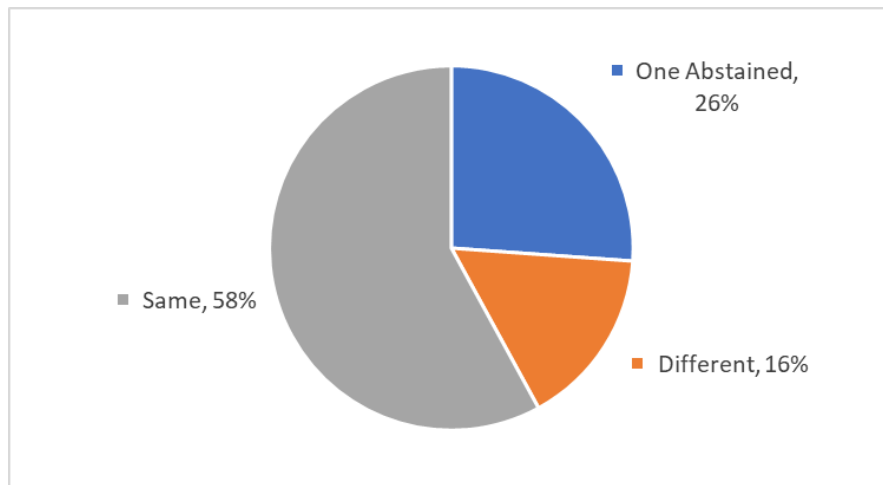


Figure 13. China-Senegal Votes on Country-Specific UNHRC Resolutions, 2006–2019²³⁰

Analyzing the voting records and financial flows does not reveal any correlation between voting records and Chinese official financing. All but seven of the convergent votes regarded the Israel-Palestine situation. Both China and Senegal voted in favor of those 42 resolutions. Both countries also voted in favor of a resolution condemning Israeli military actions in Lebanon and a resolution commending the Sri Lankan government’s

²²⁹ Universal Rights Group, “Country Voting History Portal.”

²³⁰ Adapted from Universal Rights Group, “Country Voting History Portal.”

efforts at assisting internally displaced persons. Notably, in each of these resolutions, the sovereignty of an individual nation to manage its internal affairs was never challenged. That was not true of the resolution regarding Yemen, which both China and Senegal voted against. Both countries abstained on a vote concerning Nicaragua and joined consensus resolutions regarding Darfur, Myanmar, and Egypt.

From 2006 to 2009, China and Senegal voted the same on each resolution. Official financing, meanwhile, fluctuated wildly: from \$280.6 million in 2005, down to \$41.8 million in 2006, up to \$184.9 million in 2007, and back down to \$31.2 million in 2009. Despite the total voting convergence in the years prior, there was no Chinese official financing recorded for 2010—quite unusual if Chinese official financing was meant to sway votes, whether as a carrot or a stick. Given the consistency of the voting record and the fluctuations of the money flows, it appears highly improbable that one drove the other.

Similar to the convergent votes, no tie is found between divergent votes and funding levels. Eleven of the fourteen divergent votes—all of which entailed China voting against a resolution and Senegal voting in favor—occurred from 2010 to 2012. While no Chinese official financing was recorded for 2010 or 2013, Senegal received \$82.6 million in 2011 and \$53.18 million in 2012. An argument could be made that the lack of funds in 2013 was driven by dissenting votes during the previous year. That argument, however, would fail to explain a similar lack of Chinese official financing in 2010, despite Senegal’s identical voting record during the preceding four years. Instead, it appears that an attempt to sway Senegalese votes was not a driving factor for China’s economic actions.

Senegal’s own record on human rights and voting preference must also be considered. Senegal scored a 72 out of 100 in Freedom House’s Freedom in the World 2019 report, falling into the “Free” category.²³¹ Meanwhile, Senegal’s Human Personal Freedom score of 6.77 out of 10 ranked it 105 of 162 countries in the Cato Institute’s most recent Human Freedom Index²³² While Senegal scored higher on the freedom metrics, its

²³¹ “Senegal,” Freedom House, accessed September 8, 2019, <https://freedomhouse.org/report/freedom-world/2019/senegal>.

²³² Vázquez and Porčnik, *The Human Freedom Index 2018*.

voting pattern revealed long-held preferences that already tended to align with China's. In the analysis of voting convergence scores conducted in Chapter II, Senegal's baseline score was 0.81, indicating that its natural preference on human-rights related votes tended to align with China's position.²³³ It appears unlikely, then, that Chinese investment and financing was driven by a desire to sway Senegalese votes, as there was little swaying to be done.

E. CONCLUSION

The evidence suggests that both economic and foreign policy factors drove Chinese decision making in Senegal, with China's desire to isolate Taiwan playing a notable role in driving its renewed interest in the West African country. While a circumstantial claim, the swift uptick in Chinese FDI and the announcement of two major projects funded with Chinese official financing soon after Senegal's diplomatic switch in 2005 strongly hinted at Chinese influence behind the scenes leading up to Senegal's decision. Chinese FDI stock jumped 75% in the year after the diplomatic switch and reached \$214 million in 2017—up from \$2.5 million prior to the switch.²³⁴ Chinese official financing, meanwhile, was non-existent while Senegal recognized Taiwan, but totaled \$674 million from 2005–2014 after Senegal severed ties with the island and reestablished official relations with China.²³⁵

The stark difference between Chinese activity in Senegal before and after the diplomatic switch in 2005, and the rapidity with which that Chinese activity increased almost immediately after Senegal's decision provides sufficient circumstantial evidence to conclude that Chinese economic influence played a role in Senegal's switch. Little evidence is found, however, to support the other two potential foreign policy drivers this thesis proposes: exporting authoritarianism and influencing human rights related votes in

²³³ As detailed in Chapter II, the baseline process used votes on human-rights related resolutions that were designated as important by the U.S. State Department as a means of estimating African nations' natural preferences. The theory was that the competing interests of China and the U.S.—who had the most divergent voting pattern—would offset for these votes, revealing the best estimate of African nations' natural preferences. On a 1-point scale, 0 represents complete divergence, 0.5 represents one country abstaining, and 1 represents complete convergence.

²³⁴ SAIS, "China-Africa Foreign Direct Investment Data."

²³⁵ Dreher et al., "Aid, China, and Growth."

the UN. China's relative underinvestment in Senegal did not appear to be due to Senegal's status as a flawed democracy instead of a fellow authoritarian regime. Instead, the lack of natural resources or a viable consumer market for Chinese goods appear to be more likely explanations of China's tepid interest. An analysis of UN voting records reveals that Senegal's voting history on human rights related votes already tended to align with China's. In addition, comparing voting records with yearly ODA-like flows revealed wildly fluctuating levels of Chinese official financing but no correlation with either convergent or divergent votes. Thus, it does not appear that Chinese official financing was used as either a carrot or a stick to influence Senegalese votes.

The Senegal case also lends further support for the economic drivers hypothesis as an example of a country that did not receive much Chinese FDI or official financing because it did not offer much in the way of economic opportunity for China. While some Chinese firms were driven to expand their export markets or benefit from Chinese-funded projects, Senegal received relatively little Chinese money overall. Whereas Senegal's GDP made up about 1.25% of Sub-Saharan African GDP at the end of the time period examined, it accounted for only 0.56% of total Chinese FDI stock and 0.57% of Chinese official financing in Sub-Saharan Africa during that time. With Senegal offering virtually no natural resources for export to China and a low GDP per capita that meant limited income to spend on Chinese goods, Chinese firms saw little economic opportunity in the West African country. As a result, Chinese FDI and official financing—when compared to the region as a whole—barely trickled into Senegal.

In the end, the Senegal case lends support to both hypotheses. While foreign policy motives appear to have driven Chinese actions in Senegal, Senegal accounted for a mere fraction of China's overall activity in Sub-Saharan Africa. This supports the contention that specific foreign policy drivers played a limited role in driving China's activities. The opportunity to further isolate Taiwan seemingly encouraged China to use its economic influence to sway Senegal to make a diplomatic switch in 2005. Notable upticks in both FDI and official financing immediately after the switch and the stark difference in pre- and post-switch levels of each provide compelling circumstantial evidence that this specific foreign policy goal drove China's increased economic presence in Senegal. China's

activity in Senegal, however, was miniscule compared to its overall activity in the region. This fact supports the economic drivers hypothesis: Senegal offered very little economic opportunity for Chinese firms and, as a result, received very little Chinese FDI and official financing.

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V. CONCLUSION

The objective of this thesis is to examine China's foreign direct investment and official financing in Sub-Saharan Africa after the announcement of the "Going Out" (*zuochuqu*) policy in 1999 and assess the drivers of that increased economic activity. I was determined to test the veracity of claims about Chinese activity that appear regularly in the media—chief among these that China deliberately engaged in "debt trap diplomacy"—to obtain a deeper understanding of the motivations behind China's increased presence in Africa.

This thesis looks behind headlines, speeches, and press releases and draws conclusions based on the best available—and most reliably verifiable—data. It does so by examining Chinese FDI and official financing across the Sub-Saharan Africa region and then exploring two case studies of countries whose vastly different experiences promised to provide deeper insights into Chinese motivations: Angola and Senegal. Angola received the largest combined sum of Chinese FDI and official financing. Senegal, meanwhile, received relatively little of either, despite offering China the prospect of a significant foreign policy gain if it could entice Senegal to sever official ties with Taiwan. This approach reveals a more nuanced understanding of what drove China's activities in Sub-Saharan Africa since the beginning of the twenty-first century.

This thesis proposes two hypotheses. First, that Chinese foreign direct investment and official financing was largely driven by economic considerations. Second, that specific foreign policy goals drove a limited allocation of Chinese foreign direct investment and official financing. Specifically, this thesis identifies diplomatically isolating Taiwan, exporting authoritarianism, and influencing UN votes on human rights issues as three potential Chinese foreign policy goals. The research and analysis present a more nuanced representation of China's actions in Sub-Saharan Africa and provide a more solid basis for crafting an effective policy response by the United States.

The findings of this thesis reveal that pursuing economic opportunities for Chinese firms—particularly large state-owned-enterprises—was the primary driver of China's

foreign direct investment and official financing in Sub-Saharan Africa. Foreign policy objectives—most notably isolating Taiwan—drove a small portion of Chinese activity, but investment and official financing primarily went toward enabling Chinese firms to expand into new export markets and secure new sources of natural resources. Both these pursuits are vital to maintaining the economic growth that underpins Chinese domestic political stability. Angola, which offered both oil and a large demand for infrastructure that could be met by Chinese excess construction capacity, epitomized an African country that offered plenty of economic opportunity for China and received substantial Chinese investment and official financing in return. Senegal, on the other hand, demonstrated that foreign policy drivers could influence some Chinese funds—Senegal switched its official recognition from Taiwan to China in 2005—but that, without significant economic prospects to offer, the amount of Chinese investment would be quite limited.

A. REVIEW OF THE FINDINGS

The evidence reveals that economic considerations were the primary driving force behind China's foreign direct investment and official financing in Sub-Saharan Africa. China was particularly drawn to countries that offered the promise of natural resources, the opportunity to expand export markets for Chinese firms, or, ideally, both. Regime type did not play a significant role in where China chose to invest or lend, meaning that China's activities in Sub-Saharan Africa did not disproportionately benefit fellow authoritarian regimes. Regime stability, on the other hand, was an influential factor, as China sought to ensure that its commitments would bear fruit.²³⁶ The evidence shows that China did not particularly mind how autocratic or democratic an African government was, so long as it was likely to remain in power and thus minimize the risk that Chinese commitments would be disrupted or undone by a regime change. Sub-Saharan African countries that offered China the promise of resources or markets and could promise political stability received significant flows of both Chinese foreign direct investment and official financing. Sub-Saharan African countries that could not offer these traits, on the other hand, received very little Chinese attention.

²³⁶ Chen, Dollar, and Tang, "Why is China Investing in Africa?," 615.

This conclusion is founded on an analysis of Chinese actions across the entire Sub-Saharan Africa region, as well as individual case studies of Angola and Senegal that illustrated Chinese motivations. Across the region, Chinese firms sought new sources of input materials and new markets for their goods and services. This drove investments in areas such as manufacturing, distribution, and joint ventures with African firms to extract resources. Chinese official financing, meanwhile, helped further these economic goals. Large Chinese grants and loans—both concessional and non-concessional—provided financing for African countries to invest in their respective countries. Oftentimes, these investments took the form of massive infrastructure projects: roads, buildings, railways, telecommunications networks, and agricultural developments projects were common. China Exim Bank’s requirement that any project funded by a concessional loan be largely contracted to Chinese firms facilitated Chinese firms’ expansion into Sub-Saharan African markets—particularly large state-owned construction firms. This allowed the Chinese government to assist in relieving Chinese excess capacity concerns, which threatened to disrupt the economic growth that underpins China’s domestic political stability.

The case studies in Chapters III and IV provided further evidence of the dominant role that economics played in driving China’s investment and official financing. The Angola case highlighted the strong economic incentives that attracted the largest combined sum of Chinese investment and official financing of any Sub-Saharan African country. Angola’s substantial need for infrastructure aligned perfectly with China’s excess construction capabilities and Angolan oil reserves provided a means for China to partially secure its massive commitments. As a result, China provided \$16.5 billion of official financing from 2000 to 2014.²³⁷ The vast majority of that funding went toward funding Sinopec-Sonangol joint ventures and massive infrastructure projects in which 70 percent of the contracts were awarded to Chinese firms. This funding came alongside foreign direct investment stock that rose from \$300,000 in 2003 to \$2.26 billion in 2017.²³⁸

²³⁷ Dreher et al., “Aid, China, and Growth.”

²³⁸ SAIS, “China-Africa Foreign Direct Investment Data.”

These massive Chinese commitments were made despite a near complete lack of foreign policy incentives for China to pursue in Angola. First, Angola has never recognized Taiwan, removing diplomatic isolation of the island as a potential driver. Any claim that Chinese largesse was a reward for this fact would have to explain the near complete lack of Chinese investment or official financing prior to 2004. Second, Angola is an authoritarian regime, but a desire to export authoritarianism would suggest that China would appropriate a disproportionate share of its commitments to such government types. Instead, Chinese FDI was apportioned to Angola roughly in line with the relative size of the Angolan economy and official financing was almost exclusively tied to infrastructure projects that clearly benefitted Chinese firms. Finally, Angola's human rights track record already tended to align with China's, which weakens any claim that Chinese funds sought to influence Angolan votes. In the end, the data clearly shows that economics drove China's substantial investment and official financing in Angola.

The Senegal cases provides a different type of proof that economic drivers dominated by demonstrating how a Sub-Saharan African country that offered little economic promise to China received very little Chinese investment or official financing in return. In Senegal's case, this was despite offering an opportunity for China to secure a key foreign policy objective. While China was able to use the promise of Chinese investment and official financing to persuade Senegal to sever diplomatic ties with Taiwan in 2005, the relatively low levels of both highlighted the primacy of economic drivers. Chinese FDI stock in Senegal totaled just \$214.3 million in 2017 and total Chinese official financing amounted to only \$674.4 million from 2000–2014.²³⁹ These figures represented just 0.56% and 0.57%, respectively, of China's total sums of each to all Sub-Saharan Africa. Quite simply, Senegal offered little in the way of economic opportunity for Chinese firms and, thus, was largely ignored compared to other Sub-Saharan African countries.

These findings support both hypotheses offered by this thesis, although the evidence supporting the economic drivers hypothesis was more abundantly clear. The data strongly support the first hypothesis that China's foreign direct investment and official

²³⁹ SAIS, "China-Africa Foreign Direct Investment Data"; Dreher et al., "Aid, China, and Growth."

financing was predominantly driven by economic considerations. Chief among these goals were Chinese desires to diversify the sources of natural resources and to expand export markets for Chinese firms. Both pursuits were motivated by China's desire to fuel the continued growth of the Chinese economy by securing vital inputs and easing excess capacity concerns for major Chinese firms. A failure to address either of these issues would threaten to derail the continued economic growth that underpins the stability of the Chinese regime. This appears to be the primary concern that shaped China's actions in Sub-Saharan Africa.

The evidence also supports the second hypothesis: that specific foreign policy objectives drove a limited allocation of Chinese FDI and official financing. Foreign policy drivers took a clear backseat to economic drivers when considered in the total context of Chinese investment and official financing. This is most apparent in the vastly different composition of Chinese official financing compared to the other major benefactors in Africa. Whereas ODA accounted for 92% of total official flows from the U.S. and 82% of the combined official flows of all European member countries of the Development Assistance Committee, ODA-like flows made up just 42% of the total financing China provided from 2000 to 2014.²⁴⁰ In other words, less than half of the official flows from China were what is traditionally viewed as aid, which is the type of financing that is typically used to influence recipient behavior.

In Sub-Saharan Africa, the major foreign policy win identified was persuading six countries to sever official ties with Taiwan and establish or re-establish relations with China. Despite this being the most significant foreign policy motivator uncovered by the research, FDI in these six countries totaled only \$952 million of China's \$38.5 billion total Sub-Saharan Africa FDI stock as of 2017 and total official financing accounted for only a combined \$2.2 billion of the \$108.2 billion that China provided to the region as a whole.²⁴¹

Little evidence is found to support the other two potential foreign policy goals: exporting authoritarianism or seeking to sway UN votes. Instead, Chinese actions seemed

²⁴⁰ OECD Stat Database.

²⁴¹ SAIS, "China-Africa Foreign Direct Investment Data"; Dreher et al., "Aid, China, and Growth."

to reflect the reality on the ground in Sub-Saharan Africa. Chinese ODA-like flows—those most likely to pursue a foreign policy goal—were not disproportionately allocated to authoritarian regimes. Instead, China appeared to be more concerned about regime stability in order to minimize the risk that its investments or official financing would be disrupted by a regime change.²⁴² China also did not appear to try and influence African votes on human rights related issues in the UN. Instead, the UN voting preferences of most Sub-Saharan African nations already tended to align with China.

In sum, the evidence for economic considerations being the primary driver of Chinese investment and official financing Sub-Saharan Africa is overwhelmingly strong. Chinese commitments flowed heavily to Sub-Saharan African countries that promised economic opportunities for Chinese firms and passed over those countries that could not offer such potential. That proof is clear in both the countries in which China was heavily involved and the sectors in which Chinese funds were concentrated. Meanwhile, little evidence was found to support the popular claims that foreign policy motivators drove most of China’s activities in Africa. While China was able to secure some foreign policy gains—largely in further isolating Taiwan—the evidence convincingly suggests that China’s actions were primarily driven by the desire to ensure the continued economic growth that underpins China’s domestic stability by securing new sources of natural resources and expanding export markets for Chinese firms, especially large SOEs.

B. IMPLICATIONS FOR CHINA

For China, these findings have a few important implications for its activities in Sub-Saharan Africa. First, China views the economic stability of its large SOEs as vital to maintaining the economic prosperity that underpins political stability for the Chinese regime. This shapes its approach to investing and lending in Sub-Saharan Africa, as the overarching concern is finding new opportunities for Chinese firms to expand abroad and ease excessive capacity concerns at home. Thus, China can be expected to continue to offer African governments “mutually beneficial” opportunities in the form of major

²⁴² Chen, Dollar, and Tang, “Why is China Investing in Africa?,” 615.

infrastructure projects, as these projects align with both African and Chinese needs. Sub-Saharan Africa has massive infrastructure shortfalls and financing challenges. China has an over-supply of infrastructure building capacity and labor, massive balance sheets ready to be loaned out, and a pressing need to ensure the survival of its large corporations. That Chinese loans often come with more generous terms and less onerous conditions than Western alternatives makes them all the more attractive to African governments.

Second, because the overseas expansion of Chinese firms is heavily reliant on Chinese official financing, a disruption of that financing poses the largest risk to Chinese firms operating in Sub-Saharan Africa—especially the large SOEs that benefit from the China Exim Bank policy that requires majority use of Chinese contractors. It is highly unlikely that Chinese firms would have invested or expanded operations in Sub-Saharan Africa had those efforts not been heavily encouraged and subsidized by the Chinese government. The success of China thus far in Africa has been in areas in which China has offered services for which African governments have had no alternative. If another country or institution were to enter the African marketplace offering similarly priced infrastructure, telecommunications, and agricultural development opportunities, or if African countries were to develop their own native capabilities, the continued success of Chinese firms could be seriously challenged.

Third, continued Chinese success in Sub-Saharan Africa will be predicated on China either expanding into countries that it has thus far mostly avoided—whether due to political instability or more attractive opportunities elsewhere—or into new, higher value industries. Expanding into Sub-Saharan African countries that received relatively little Chinese investment or financing appears to be the easier short-term path. China's initial expansion in Sub-Saharan Africa under the *zuo chu qu* policy focused on countries and sectors that offered the highest probability of success and lowest barriers to entry. As a result, efforts were heavily concentrated in a small number of countries. Ten countries accounted for 65% of China's total FDI stock in Sub-Saharan Africa as of 2017, while the top ten recipients of Chinese official financing from 2000–2014 accounted for 71% of total

official financing.²⁴³ China’s future success in Sub-Saharan Africa appears to rest on its ability to continue to use its official financing to open more markets for Chinese firms.

The other alternative—moving into new sectors—is a harder proposition for China to accomplish, but one that offer more long-term benefits for China and raises more significant concerns for the United States. To accomplish this, China must move beyond offering basic infrastructure and develop its capacity to deliver more advanced technologies that are both scalable and affordable. There were some hints of this in large telecommunications projects that received Chinese official financing and leveraged the capabilities of Huawei and ZTE. While China will face difficulties in this pursuit, Feldstein’s AI Global Surveillance Index shows that China has already begun to introduce such technologies into Sub-Saharan Africa and plans on further expansion.²⁴⁴

C. IMPLICATIONS FOR SUB-SAHARAN AFRICA

For Sub-Saharan Africa, China is now a firmly established and viable alternative to Western governments and financiers. Starting in 2006, China’s annual flow of total official financing to Sub-Saharan Africa began to rival—and in some years even exceed—that of the U.S. and EU, as shown in Table 6. The existing foreign powers and MDBs involved in Sub-Saharan Africa will continue to play an important role, but the presence of a new competitor has changed the landscape of development finance in Sub-Saharan Africa. China’s push into Sub-Saharan Africa brought not only badly needed financing and infrastructure, it also gave African nations leverage. African governments have been able to use the option of instead turning to China as a bargain chip in their engagements with Western governments and MDBs. Likewise, “African actors have negotiated, shaped, and even driven Chinese engagements in important ways—and in so doing have carved out more opportunities than is often recognized for their own benefit and advancement.”²⁴⁵

²⁴³ SAIS, “China-Africa Foreign Direct Investment Data”; Dreher et al., “Aid, China, and Growth.”

²⁴⁴ Feldstein, “The Global Expansion of AI Surveillance.”

²⁴⁵ Mohan and Lampert, “Negotiating China: Reinserting African Agency into China-Africa Relations,” 93.

More options on the table has led to more opportunities for many Sub-Saharan African countries.

Table 6. Total Official Financing by Year (in billions)²⁴⁶

Year	China	U.S.	E.U.
2006	\$9.63	\$7.27	\$21.99
2007	\$10.05	\$5.57	\$16.91
2008	\$3.89	\$8.31	\$16.30
2009	\$10.75	\$9.29	\$14.67
2010	\$7.19	\$9.22	\$14.71
2011	\$15.82	\$11.92	\$15.09
2012	\$14.55	\$9.54	\$14.56
2013	\$14.85	\$10.51	\$13.97
2014	\$8.78	\$10.04	\$12.47

D. IMPLICATIONS FOR THE UNITED STATES

In crafting an effective policy response to China’s growing influence in Sub-Saharan Africa, the United States must consider the implications described in the previous sections. The U.S. enjoys the benefits of a longer and deeper engagement with Africa, but China has quickly closed that gap in recent years. China’s FDI stock still represents a small share of total FDI stock in Sub-Saharan Africa—around 7% as of 2017—but Chinese FDI flows have grown more similar to U.S. flows in the twenty-first century, as Figure 14 shows.²⁴⁷ Likewise, while overall stock of official financing is still tilted heavily in favor the U.S. based on several more decades of engagement with Africa, China’s annual flows make it an undeniable influence in the present day.

²⁴⁶ Adapted from Dreher et al., “Aid, China, and Growth;” OECD Stat Database.

²⁴⁷ Dreher et al., “Aid, China, and Growth;” OECD Stat Database.

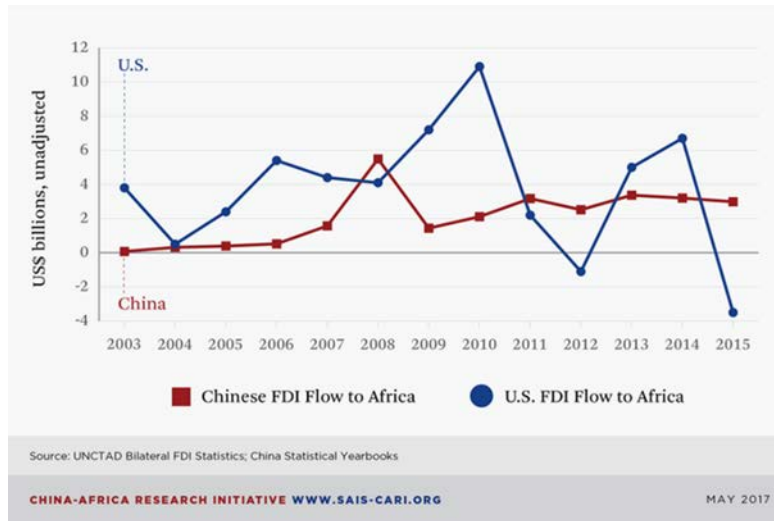


Figure 14. FDI Flow to Africa, China vs. U.S.²⁴⁸

The U.S. must also acknowledge that Sub-Saharan Africa faces serious challenges, many of which China can help solve conveniently and affordably. This is particularly true in the infrastructure, telecommunications, and resource extraction sectors, in which Chinese firms have excess capacity and labor and access to cheap financing that makes their services affordable for African governments. If the U.S. is concerned about China’s increased influence in Africa, it must be able to provide suitable alternatives to help the region meet its pressing needs. Otherwise, China’s quick and affordable “turnkey” solutions will continue to attract the interest of African governments.²⁴⁹

A U.S. response, however, cannot seek simply to expel China from Sub-Saharan Africa or implore African governments to refuse Chinese grants and loans. China not only provides practical solutions for African needs, its economy is also inextricably tied to the global economy. The survival and economic health of Chinese firms—which benefit from government assistance in reaching new markets—has direct and indirect consequences for

²⁴⁸ Source: SAIS, “Chinese Investment in Africa,” accessed February 12, 2020, <http://www.sais-cari.org/chinese-investment-in-africa>.

²⁴⁹ Henry Fletcher, “Development Aid for Infrastructure Investment in Africa: Malian Relations with China, the European Commission and the World Bank,” (occasional paper, South African Institute of International Affairs, 2010), <https://saiia.org.za/research/development-aid-for-infrastructure-investment-in-africa-malian-relations-with-china-the-european-commission-and-the-world-bank>.

the U.S. economy. Not only are the U.S. and China directly linked by trade, supply chains, and financial markets, both China and the U.S. count the E.U. as their other largest trading partner.²⁵⁰ A disruption in China's economy, then, would have effects on both the U.S.-China relationship, as well as knock on effects in U.S.-E.U. economic relations.

While the U.S. must acknowledge China's increased role in Africa, it should also recognize that it remains the partner of choice for many African countries. The Angola case in Chapter III was just one example of a Sub-Saharan African country turning to China only after overtures to the West were rebuffed or found insufficient. Even after Angola secured Chinese lines of credit, it continued to court Western countries and institutions in order to build closer relationships. This case was illustrative of several Sub-Saharan African countries, who have largely viewed China as an additional source of aid and investment, rather than a replacement for the U.S. In many cases, the U.S. remains the preferred partner, but Chinese funds provide an additional source of aid and investment when Western aid and investment fails to meet every need.

The findings of this thesis imply two ways in which the U.S. can leverage its status as a preferred partner—as well as Sub-Saharan African countries' own concerns over their increasing reliance on China—to counter the growing influence of China in Sub-Saharan Africa. The first is to develop and facilitate viable alternatives in highly sensitive sectors, particularly telecommunications. Whether through bilateral deals that involve American firms such as Cisco or Qualcomm, or partnering with the EU to involve Nokia or Ericsson, the U.S. cannot expect African governments to reject Chinese kit without offering them a feasible alternative. The U.S. should accept that China fulfills a vital need in constructing basic infrastructure, but it should not allow Chinese telecoms firms—or Chinese firms in any other sensitive sector—to be the only practical option in Sub-Saharan Africa. Acknowledging that China has a role to play in Sub-Saharan Africa, but striving to limit it to basic construction projects is a more reasonable approach than simply expecting African governments to refuse China's offers.

²⁵⁰ World Trade Organization, "Trade Profiles," accessed February 12, 2020, https://www.wto.org/english/res_e/statis_e/trade_profiles_list_e.htm.

The second is to encourage more engagement with regional forums and multilateral institutions in Africa, with a distinct effort to also involve China. This type of multilateral approach allows the U.S. to mitigate concerns over outsized Chinese influence by drawing it into settings in which China is one of many participants, rather than the dominant power in a bilateral relationship or the dominant power amongst a smaller group. This requires that the U.S. recognize that an approach that insists that African governments choose between the U.S. and China is destined to fail. The U.S. simply cannot meet Sub-Saharan Africa's infrastructure needs, let alone at the low costs made possible by Chinese official financing.

The U.S. must also recognize that it does not have much leverage in forcing an ultimatum on African governments and adjust its approach accordingly. China not only professes a policy of non-interference in other countries' affairs, it also has a much stronger interest in ensuring that its SOEs remain engaged in Africa, as their economic health is crucial to the health of the Chinese economy. Thus, an ultimatum would risk the prospect of an African nation choosing to test American resolve by proclaiming to side with China. For the U.S. demand to carry any weight, it would then have to cut off aid to that African country, ceding the influence to China. Given that this is the very scenario that the U.S. wishes to avoid, it is clear that the U.S. must take another approach.

Engaging China in multilateral efforts in Sub-Saharan Africa is an approach that offers a much greater probability of success for the United States. Through such efforts, the U.S. can recognize the valuable contributions that China can offer to Sub-Saharan Africa while also limiting China's ability to exert undue influence on Sub-Saharan African governments by diffusing its relative power amongst a larger group. Multinational efforts that combine the expertise and resources of the U.S., E.U., and China with the willing engagement of Sub-Saharan African countries offers the opportunity to help African countries develop while curtailing Chinese influence. Such a shift toward multinational efforts will, of course, require that the U.S. also dilute its relative power, but the potential benefits far exceed the cost.

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