CSIS | CENTER FOR STRATEGIC & INTERNATIONAL STUDIES

APRIL 2015

Private-Sector Development in China's Foreign Policy

PROJECT DIRECTOR
Daniel F. Runde

AUTHOR
John Schaus

A Report of the CSIS Project on Prosperity and Development

Private-Sector Development in China's Foreign Policy

Project Director
Daniel F. Runde

Author
John Schaus

A Report of the CSIS Project on Prosperity and Development

April 2015

CSIS | CENTER FOR STRATEGIC & INTERNATIONAL STUDIES

About CSIS

For over 50 years, the Center for Strategic and International Studies (CSIS) has worked to develop solutions to the world's greatest policy challenges. Today, CSIS scholars are providing strategic insights and bipartisan policy solutions to help decisionmakers chart a course toward a better world.

CSIS is a nonprofit organization headquartered in Washington, D.C. The Center's 220 full-time staff and large network of affiliated scholars conduct research and analysis and develop policy initiatives that look into the future and anticipate change.

Founded at the height of the Cold War by David M. Abshire and Admiral Arleigh Burke, CSIS was dedicated to finding ways to sustain American prominence and prosperity as a force for good in the world. Since 1962, CSIS has become one of the world's preeminent international institutions focused on defense and security; regional stability; and transnational challenges ranging from energy and climate to global health and economic integration.

Former U.S. senator Sam Nunn has chaired the CSIS Board of Trustees since 1999. Former deputy secretary of defense John J. Hamre became the Center's president and chief executive officer in 2000.

CSIS does not take specific policy positions; accordingly, all views expressed herein should be understood to be solely those of the author(s).

Acknowledgments

This report is made possible by the generous support of the Smith Richardson Foundation.

Center for Strategic & International Studies
1616 Rhode Island Avenue, NW
Washington, DC 20036
202-887-0200 | www.csis.org

Private-Sector Development in China's Foreign Policy

John Schaus[1]

Introduction

China's role as one of the world's leading economies is well established. By some indicators, China became the world's largest economy, measured in purchasing power parity, in 2014.[2] In addition, last year also saw China surpass the United States as the world's largest consumer of energy. It is no longer solely China's role as a global manufacturing center that is shaping how the world does business. China's increasing need for natural resources, foreign markets, and political influence abroad is pushing China and its firms to conduct more regular investment in, and trade with, countries around the world. This paper describes China's utilization of private-sector-led development to achieve national aims within foreign countries.

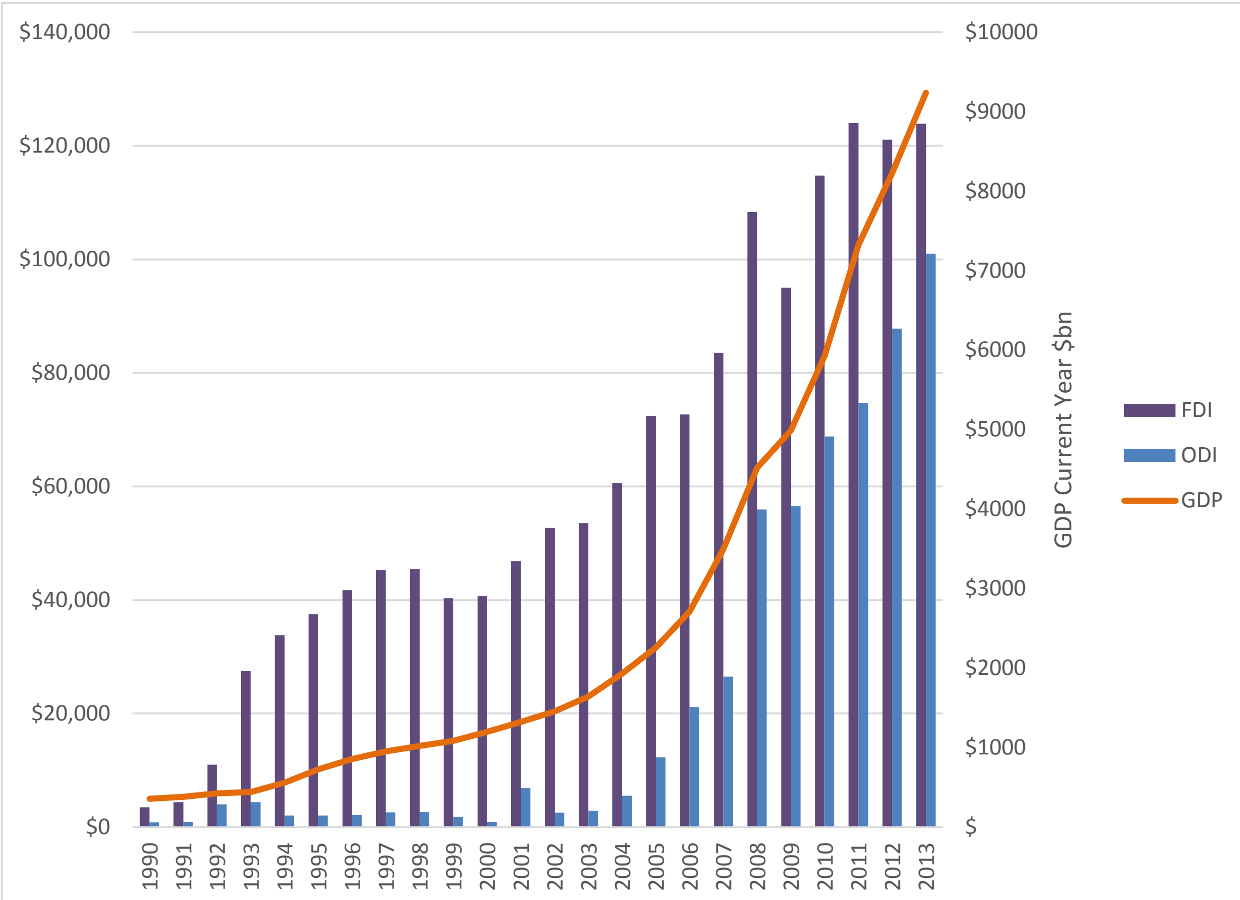
China's Economic Growth

When China began its period of reform and opening, in 1979, its GDP was approximately $200 billion per year (in constant 2005 dollars).[3] In 2013, its GDP had grown to $9.24 trillion, a compound annual growth rate of 11.9 percent. For nearly the entire period, China was a net importer of foreign direct investment (FDI). The capital these investments brought to China enabled the construction of factories, ports, railroads, steel mills, and other facets of China's current economic power. However, the auditing and consulting firm KPMG estimates that China's outbound foreign direct investment (ODI) in 2014 for the first time exceeded FDI into China.[4] Figure 1 shows China's FDI, ODI, and GDP over the past 20 years.

As China's leaders seek to shift China's economy from an export-led and manufacturing-based economy to an economy driven by consumption and based on the service sector, it will need to move up the value chain. This will require increased mechanization of currently labor-intensive manufacturing positions, and domestic policy changes to better spur consumer spending. In addition, as Chinese incomes grow, demand will increase for energy, animal protein, and other indicators of wealth. Constraints on arable land and

[1] John Schaus is a fellow in the International Security Program at CSIS.
[2] Joseph E. Stiglitz, "The Chinese Century," *Vanity Fair*, January 2015, http://www.vanityfair.com/business/2015/01/china-worlds-largest-economy.
[3] Data from World Bank Database, http://data.worldbank.org/country/china.
[4] KPMG, "China Outlook 2015," https://www.kpmg.com/CN/en/IssuesAndInsights/ArticlesPublications/Documents/China-Outlook-2015-201501-v1.pdf.

Figure 1: China's FDI, ODI, and GDP, 1990–2013



natural resources will ensure that most of these luxury goods will have to be imported from foreign markets.[5]

Foreign Investment in China's Foreign Policy

Beginning in 1999, China launched a policy of "going out." Grounded in the 10th Five-Year Plan, which is the base document for all planning and government activity within China, the policy directs Chinese firms—especially state-owned enterprises (SOEs)—to seek out market and resource opportunities abroad.[6] As seen in China's most recent Five-Year Plan (for 2011–2015), China has placed significant continued emphasis on balancing inward and outward investment, and on encouraging ODI in specific sectors. The Five-Year Plan prioritizes the following sectors for government support in ODI: energy, manufacturing,

---

[5] Kenneth Rapoza, "The Four Trends Driving China's Future Growth," Forbes.com, July 30, 2014, http://www.forbes.com/sites/kenrapoza/2014/07/30/the-four-trends-driving-chinas-future-growth/.
[6] For a clear articulation of the five-year plan objectives, see Jiang Zemin, "Build a Well-off Society in an All-Round Way and Create a New Situation in Building Socialism with Chinese Characteristics" (report delivered to the 16th National People's Congress, Beijing, November 8, 2002), http://en.people.cn/200211/18/eng20021118_106983.shtml. Section 7 addresses "bringing in" or FDI and "going out" or ODI.

agriculture, engineering, and projects that improve living standards abroad.[7]

Ministry of Commerce Data compiled by Weiyi Shi at the University of California at San Diego and Tsinghua University show the rate of growth of ODI from China in the years following the announcement of the "going out" began slowly, but increased significantly in recent years.[8]

Further analysis by Shi indicates that 39 percent of 1,652 tracked foreign investments by central SOEs were made in prioritized sectors. By comparison, only 29 percent of other Chinese companies' investments were in the same sectors, out of over 19,000 tracked transactions.[9] This suggests that while SOEs are more responsive to national investment priorities and directives, the directives do not completely determine firms' investments.

Further efforts in recent years include China's increased contributions to the African Development Bank,[10] and the establishment in 2014 of an Asian Infrastructure Investment Bank (AIIB) with a target valuation of $160 billion, including $50 billion in initial capital from China.[11] Many observers, including U.S. Treasury Secretary Jacob Lew, have concerns about policy for lending practices, and the Japanese Foreign Ministry does not believe an additional bank is necessary—especially as Japan holds a sizable share of voting shares within the existing Asian Development Bank.[12] While foreign governments may continue to have concerns about China's initiatives, the efforts seem consistent with additional guidance in the Five-Year Plan, directing China to "gradually develop its own large cross country corporations and cross country financial institutions to increase China's level of international operations."[13]

Some of this outward-looking effort can be seen as an effort by China's political leadership in Beijing to position China's economy to continue growing based on long-term trends in energy and resource needs. In addition to national pride, it would also "help cool off China's overheating, investment-driven economy and diminish excess liquidity."[14] Others offer different analysis, proposing that "China's ODI framework serves two objectives: to help Chinese firms become more competitive internationally and to assist the country in its

---

[7] "China's Twelfth Five-Year Plan (2011–2015)," translated by the British Chamber of Commerce, Chapter 52, http://www.britishchamber.cn/content/chinas-twelfth-five-year-plan-2011-2015-full-english-version.
[8] Weiyi Shi, "Risky Business? A Firm Level Analysis of Chinese Outward Direct Investments," briefing presented at the Brookings Institution, September 23, 2013, 5, http://www.brookings.edu/~/media/events/2013/9/23-china-outbound-direct-investment/weiyi-shi-slides.pdf.
[9] Ibid., 8.
[10] China contributed over $125 million to the 2010–2012 (ADF-XII) program, a 5 percent increase over its 2008–2010 (ADF-XI) contribution. From African Development Bank, "China: Partnership overview," http://www.afdb.org/en/topics-and-sectors/topics/partnerships/non-regional-member-countries/china/.
[11] "Why China is creating a new 'World Bank' for Asia," *The Economist*, November 11, 2014, http://www.economist.com/blogs/economist-explains/2014/11/economist-explains-6.
[12] Bob Davis and Prasanta Sahu, "China's Plans for Development Bank Fall Short," *Wall Street Journal*, October 23, 2014, http://www.wsj.com/articles/chinas-plans-for-development-bank-fall-short-1414051724.
[13] "China's Twelfth Five Year Plan (2011–2015)," Chapter 52 (translated), http://www.lapres.net/5yearplan.html.
[14] Melissa Murphy, "Issue in Focus: China's 'Going Out' Investment Policy," *CSIS Freeman Briefing*, May 27, 2008, http://csis.org/files/publication/080527_freeman_briefing.pdf.

development effort."[15] Table 1 presents transaction data from 2005 to 2011 on all Chinese ODI.[16]

Table 1: Sector Breakdown, 2005–2012: Chinese Global ODI (USD billions)

Sector	Investment
Energy and Power	186.1
Metals	90.2
Finance	37.3
Real Estate and Construction	21.7
Transportation	16.6
Agriculture	11.8
Technology	8.7
Chemicals	6.2
Other	8.2
TOTAL	386.7

Even as China's ODI rates grow, African countries have been the target for only a small part of that investment. By the end of 2012, Africa accounted for only 4 percent of China's stock of ODI.[17] A 2014 Brookings Institution study identified two types of countries in Africa that are more likely to receive Chinese support. The first are "'regional leaders,' such as South Africa and Kenya," which receive greater emphasis because of their position as financial or political leaders within their subregion. The second type is "problematic countries" that are experiencing political strife or are the source of diplomatic troubles. Sudan, Zimbabwe, and the Democratic Republic of the Congo (DRC) are offered as examples.[18] Based on calculations from investment data published by the Heritage Foundation and American Enterprise Institute, 25 percent of Chinese investments in Africa from 2005–2014 were to

---

[15] Karl P. Sauvant and Victor Zitian Chen, "China's regulatory framework for outward foreign direct investment," *China Economic Journal*, 7:1, 141–63, http://dx.doi.org/10.1080/17538963.2013.874072.
[16] Originally presented in Megan Bowman, George Gilligan, and Justin O'Brien, *China: Investing in the world*, CIFR Research Working Paper Series (Sidney: Centre for International Finance and Regulation, September 2013), http://www.cifr.edu.au/assets/document/Final-CIFR%20WP-Bowman-Gilligan-O'Brien-ChinaInvestingInTheWorld-Sept2013.pdf. Total may not sum due to rounding.
[17] Denise Leung and Lihuan Zhou, "Where Are Chinese Investments in Africa Headed?," World Resources Institute, May 15, 2014, http://www.wri.org/blog/2014/05/where-are-chinese-investments-africa-headed.
[18] Yun Sun, *Africa in China's Foreign Policy* (Washington, DC: Brookings, April 2014), 20, http://www.brookings.edu/~/media/Research/Files/Papers/2014/04/africa-china-policy-sun/Africa-in-China-web_CMG7.pdf?la=en.

Egypt, Kenya, Nigeria, or South Africa. In contrast, only 10 percent of Chinese investments were to "problem" countries, DRC, Sudan, South Sudan, or Zimbabwe.[19]

According to Sauvant and Chen, China's ODI regulatory framework has two major elements. The first is, roughly, a market-seeking force, to provide the government with firms that have better access to a broader range of resources in a wider sample of locations. Second, "China's institutional framework for OFDI especially seeks to encourage OFDI that can contribute most to the country's national development. It does this by selectively supporting particular industries and activities in their internationalization through FDI."[20] Both assertions are consistent with positions presented in the Five-Year Plan.

China's foreign aid in Africa is offered through one of eight programmatic forms, ranging from whole projects, to emergency aid, to human resource development. Oversight of the program is nested within the Ministry of Commerce, under the Department of Aid to Foreign Countries.[21] China's Five-Year Plan offers clear direction on how foreign aid is to be targeted, focusing on people's livelihood and welfare, assistance to social public utilities, and other areas that assist "self-development" capabilities.[22]

Major efforts in recent years include China's announced intent to contribute greater sums to the African and Asian Development Banks, and to establish an Asian Infrastructure Investment Bank. The efforts seem consistent with additional guidance in the Five-Year Plan, directing China to "gradually develop its own large cross country corporations and cross country financial institutions to increase China's level of international operations."[23]

China's foreign assistance budget, according to its most recent white paper, is consolidated under the Ministry of Finance.[24] Specific figures for China's foreign assistance are not available, and at various times have been considered state secrets by China, though China contends that "everyone who needs to know about our generosity already knows."[25]

Even as China's trade with Africa grows, it remains highly concentrated in a small number of bilateral relationships. A 2011 analysis found that 60 percent of Chinese exports to Africa are bound for six countries: South Africa, Egypt, Nigeria, Algeria, Morocco, and Benin. At the same time, greater than 70 percent of China's imports from Africa come from four (largely resource-exporting) countries: Angola, South Africa, Sudan, and the Republic of the

---

[19] Heritage Foundation and American Enterprise Institute, "China Global Investment Tracker," http://www.heritage.org/research/projects/china-global-investment-tracker-interactive-map.
[20] Sauvant and Chen, *China's Regulatory Framework for Outward Foreign Direct Investment*.
[21] Sun, *Africa in China's Foreign Policy*, April 2014, 22.
[22] "China's Twelfth Five Year Plan (2011–2015)," Chapter 52.
[23] Ibid.
[24] Information Office of the State Council, "China's Foreign Aid," Xinhua, July 10, 2014, http://news.xinhuanet.com/english/china/2014-07/10/c_133474011.htm.
[25] Paul Eckert, "New database focuses on China's secretive aid to Africa," Reuters, April 29, 2013, http://www.reuters.com/article/2013/04/30/us-china-africa-aid-idUSBRE93T01Z20130430.

Congo.[26] The same analysis indicates that greater than 80 percent of China's imports from Africa are in the mineral fuels and nonedible crude categories. According to the 2013 White Paper on China-Africa Economic and Trade Cooperation, the mining sector accounted for 30 percent of China's ODI stock in 2011, and construction another 16 percent.[27]

Foreign Aid in China's Foreign Policy

In addition to the growing utilization of foreign investment, China has long used foreign assistance to promote development and to bolster ties between China and other developing countries. A 2014 white paper outlines China's top priorities for foreign assistance as: improving people's livelihood; promoting economic and social development; providing foreign assistance under regional cooperation mechanisms (multilateral organizations); and participating in international exchanges and cooperation. In pursuing these priorities, China asserts:

> When providing foreign assistance, China adheres to the principles of not imposing any political conditions, not interfering in the internal affairs of the recipient countries and fully respecting their right to independently choosing [sic] their own paths and models of development. The basic principles China upholds in providing foreign assistance are mutual respect, equality, keeping promise, mutual benefits and win-win.[28]

China's Premier Li Keqiang echoed this sentiment during a visit to Africa in 2014, saying, "All China's support for Africa will come with no political strings attached. . . . We will not interfere with Africa's internal affairs or ask something impossible of Africa."[29] While China's does not require, for example, that recipient countries adhere to UN human rights standards or standards of accounting transparency, its aid provision has been at least partially motivated by international political considerations since the 1949 revolution.

In the competition between Beijing and Taipei for diplomatic allies after 1949, both sides used financial and development assistance as inducements for third countries to change diplomatic recognition. As Beijing and Taipei both followed this practice, "a diplomatic war broke out over who could pay more for retaining diplomatic allies."[30] The result of this competition was, for decades, countries that would change diplomatic recognition of

---

[26] Mary-Françoise Renard, *China's Trade and FDI in Africa*, Working Paper No. 126 (Tunis: African Development Bank, May 2011), 14–15, http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Working%20126.pdf.
[27] Information Office of the State Council, "China-Africa Economic and Trade Cooperation," August 2013, http://www.safpi.org/sites/default/files/publications/China-AfricaEconomicandTradeCooperation.pdf.
[28] Information Office of the State Council, "China's Foreign Aid."
[29] Matt Schiavenza, "What the Kenya Railroad Says about China's Approach to Africa," *International Business Times*, May 13, 2014, http://www.ibtimes.com/what-kenya-railroad-says-about-chinas-approach-africa-1583863.
[30] Sigrid Winkler, "Biding Time: The Challenge of Taiwan's International Status," Brookings, November 2011, http://www.brookings.edu/research/papers/2011/11/17-taiwan-international-status-winkler.

"China" from Beijing to Taipei, and back, depending on which capital provided the best offer.

Private-sector Development in China: Kenya

As China has increasingly looked to Africa as a destination market for its goods—and more significantly as a source of natural resources to fuel its own economy and consumption—China has sought out increasing investments across countries in Africa. Examining the role of Chinese policy in steering investments into Kenya provides a case study into better understanding how China utilizes its private sector as an instrument of national power in developing countries.

Assessing the role of China's policies in private-sector development poses a challenge. Data for China's level of activities and engagement is at best incomplete, and likely inconsistent. According to the above-cited Heritage-AEI data, Chinese entities have invested $7 billion in Kenya since 2005. Of this, $5.5 billion has been invested in the energy and transportation sectors. Former U.S. ambassador David Shinn offers an admission from a Chinese official responsible for calculating ODI, who "acknowledged the total [figure] is based only on FDI reported to the government. He commented that many Chinese invest without government authorization and these figures do not show up in government statistics."[31] UN Data offers a different total, indicating that China's ODI into Kenya during the 2001–2012 period totaled $314 million, with cumulative ODI stock of $403 million.

More useful, perhaps, than the aggregate numbers would be closer examination of specific efforts by China to invest in Kenya. Taking into account China's stated priority on the previously noted areas of energy, manufacturing, agriculture, engineering, and projects that improve living standards abroad, the Heritage-AEI data suggests Chinese investments in Kenya are consistent with those priorities. Of China's investments, 65 percent, by value, were in the transportation sector, and 28 percent in the energy sector.[32]

Of particular interest may be support by China's Exim Bank for the Mombasa-Nairobi-Malaba railroad, and the investment by a Chinese firm in Kenya's Lamu Port. Starting with the railroad, the project is intended to link Kenya's largest port in Mombasa with major cities in Kenya, South Sudan, Uganda, Rwanda, and Burundi. The existing track dated to the British Empire, and conditions hampered transport. In a statement, Kenya's President Uhuru Kenyatta noted that the new railroad is expected to lower freight costs from $0.20 per ton to $0.08 per ton (USD), and will permit increased speed of travel.[33] The initial deal, a $5 billion agreement in which China offered to construct a railway line between Mombasa and Malaba, on the Kenya-Uganda border,[34] was signed when Kenyatta visited Beijing in

---

[31] David Shinn, "Lessons from the Field: China's Investments in Africa," *Africa Up Close* (blog), Wilson Center, November 20, 2012, http://africaupclose.wilsoncenter.org/chinas-investments-in-africa/.
[32] Heritage Foundation and American Enterprise Institute, "China Global Investment Tracker."
[33] Schiavenza, "What the Kenya Railroad Says about China's Approach to Africa."
[34] James Macharia, "Kenya signs infrastructure, energy deals worth $5 bln with China," Reuters, August 19, 2013, http://www.reuters.com/article/2013/08/19/kenya-china-idUSL6N0GK2MT20130819.

2013. In 2014, during Chinese Premier Li Keqiang's visit to East Africa in 2014, Li announced the first phase of the plan, $3.8 billion in support for the project through financing from the Export-Import Bank of China. Phase one of the project is planned to connect the port city of Mombasa with Kenya's capital, Nairobi. The second phase will extend the track to the Kenya-Uganda border.

The railway projects are important for Chinese firms, and for China's efforts to more economically acquire energy resources from South Sudan and Uganda. In building railways to serve as conduits for these resources, China also creates opportunities for agricultural products and other domestic goods to more economically reach ports and therefore global markets. The railway investments therefore satisfy three of China's priorities noted above: focus on energy, engineering, and improving the lives of local people. In addition, the project supports Chinese firms' efforts to establish a presence for themselves abroad—as the contract to build the railway was awarded to the China Communications Construction Company.[35]

In addition to the efforts to rebuild and strengthen the railroad system within East Africa, Kenya is pursuing efforts to further cement its role as the transportation and economic hub of the region. The second example, the development of a shipping port in Lamu, illustrates this effort. The overall initiative, called the Lamu Port-South Sudan-Ethiopia Transport Corridor Program (LAPSSET), will link key economic centers in Kenya, Ethiopia, and South Sudan via railroad and highway, will build a new oil pipeline, and will provide improved access to ocean-borne shipping via a new port facility in Lamu, for a total cost of $25.5 billion.

The LAPSSET project's first phase will be the start of the Lamu port in Kenya. The first contract, valued at $484 million, is for constructing three berths for the port; the contract was let to the China Communications Construction Company in 2013.[36] While currently unstated, it seems likely that the Lamu port will include an oil terminal to fill oil tankers. This is made even more likely by Kenya's decision in 2013 to shut down its only operating oil refinery because it could not attract an international investor to operate and upgrade the facility. Without a refinery of its own, Kenya will rely on foreign refineries and re-importation to satisfy domestic demand for petroleum products for transportation or manufacturing.

The railway investment is not without detractors. In a strongly argued piece in a leading Kenyan newspaper, critic David Ndii suggests that the throughput of the railway does not provide a sufficient business case for accepting the loan terms offered by China's Exim Bank—as opposed to the alternative of working through the World Bank or African

[35] Patrick Thuita, "Mombasa-Kigali rail project gets underway," *Construction Business Review*, November 29, 2013, http://www.constructionkenya.com/2996/mombasa-kigali-rail-construction/.
[36] Drazen Jorgic, "Kenya says Chinese firm wins first tender for Lamu port project," Reuters, April 11, 2013, http://www.reuters.com/article/2013/04/11/kenya-port-lamu-idUSL5N0CX38D20130411.

Development Bank to receive concessional loans and a 10-year grace period.[37] Ndii goes on to argue that the Mombasa-Nairobi railroad line is also duplicative of the LAPSSET initiative, indicating that the two may compete with each other for business to the extent that neither is able to support sufficient business so as to be revenue-positive for Kenya.

Economics are not the only driver of the LAPSSET project, particularly from China's perspective. Landlocked South Sudan currently ships nearly all of its oil production through Sudan—from whom South Sudan broke away in a bitter conflict—to reach international markets. The creation of an alternative port to the south, such as Lamu, would offer an economically viable alternative to moving the oil through pipelines across Sudan. China's state-owned China National Petroleum Corporation (CNPC) controls at least 40 percent in all currently operating oil exploration and extraction blocks in South Sudan. China does not want its access to oil subject to political issues between Sudan and South Sudan, as happened during a particularly tense period in 2013 when Sudan's president ordered the oil pipeline be shut down.[38]

The observed investments China's SOEs have made in Kenya seem consistent with the priorities laid out in its most recent Five-Year Plan. As seen from the Heritage-AEI data, China's investments in Kenya are highly concentrated in transportation and energy. Further, much of the transportation investments seem designed to facilitate more economic access to energy and natural resources in inland East African nations such as Uganda and South Sudan. China believes it needs access to the energy and natural resources to enable its own continued economic growth.

Following criticisms that China's approach benefited China too much and target countries not enough—for example, from China importing all of the labor to construct roads or other infrastructure—there are now signs it is beginning to adapt. This can be seen by the inclusion in the most recent (12th) Five Year Plan of the need for China's assistance to include a focus on benefit for the people of receiving countries. Deputy Minister of Commerce Zhang Xiaochuan stated during Premier Li's travel to Africa in 2013 that "[o]ver the past years, China focused on building landmark architecture. We will still be doing so in the future, but we will also keep a closer look at issues relating to the public,"[39] signaling a shift in China's approach to include a focus on human and social impacts of their efforts. The impact of a policy shift to include greater awareness of and emphasis on human and social development remains to be seen.

---

[37] David Ndii, "New railway is not value for money," *Daily Nation* (Nairobi), February 14, 2014, http://mobile.nation.co.ke/blogs/New-railway-is-not-value-for-money-/-/1949942/2207034/-/format/xhtml/-/qupvukz/-/index.html.
[38] Greg Botelho and Amir Ahmed, "President: Sudan to stop oil flow from South Sudan over arming of 'traitors,'" CNN, June 9, 2013, http://www.cnn.com/2013/06/08/world/africa/sudan-oil/.
[39] Teddy Ng, "Beijing reveals strategy shift in Sino-Africa ties ahead of Li Keqiang's four-nation visit," *South China Morning Post*, May 1, 2014, http://www.scmp.com/news/china/article/1501531/beijing-reveals-new-focus-sino-africa-ties-ahead-li-keqiangs-four-nation.

Indicators of Impact

UN Support

China's engagement with Africa, in the early years after 1949, was based on political calculations and China's efforts to avoid diplomatic isolation. China utilizes its assistance and relationships in Africa to build support for its position in the United Nations, where African nations account for nearly 25 percent of seats. According to Larry Hanauer and Lyle Morris at RAND, "African votes in the UN also function to shield Beijing from criticism of its human rights policies. Motions by Western nations to censure China over its human rights record at the UN Commission on Human Rights Council have failed on numerous occasions due to support from African countries."[40] These findings are also supported by Jing Yan, in a study of China's ODI, which found that "China's outbound FDI tend to go to countries that vote more consistently with China in UN General Assembly resolutions."[41] In particular, Yan notes that correlation with security issues and human rights votes carried greater weight.

Taiwan Recognition

The weight of China's economy—and potential as a financial benefactor—has also tilted the scale toward Beijing in the contest for recognition with Taipei. The competition between the two has quieted down in recent years, following the 2008 proposal by Taiwan's president, Ma Ying-jeou, for a diplomatic truce. The truce halted the steady decline in countries diplomatically recognizing Taiwan—though limits their recognition to only 22 countries, largely in the Pacific islands and Latin America. By contrast, 172 countries currently recognize Beijing.

Economic Benefit

Over time, and in particular since China's economy has expanded since "reform and opening" in 1979, its ODI with countries in Africa "tried to balance both economic and political interests."[42] As seen in the discussion of Renard's work, above, China derives significant benefits from the natural resources it acquires from African countries, including petroleum, iron ore, bauxite, and other major components of a manufacturing-based economy.[43]

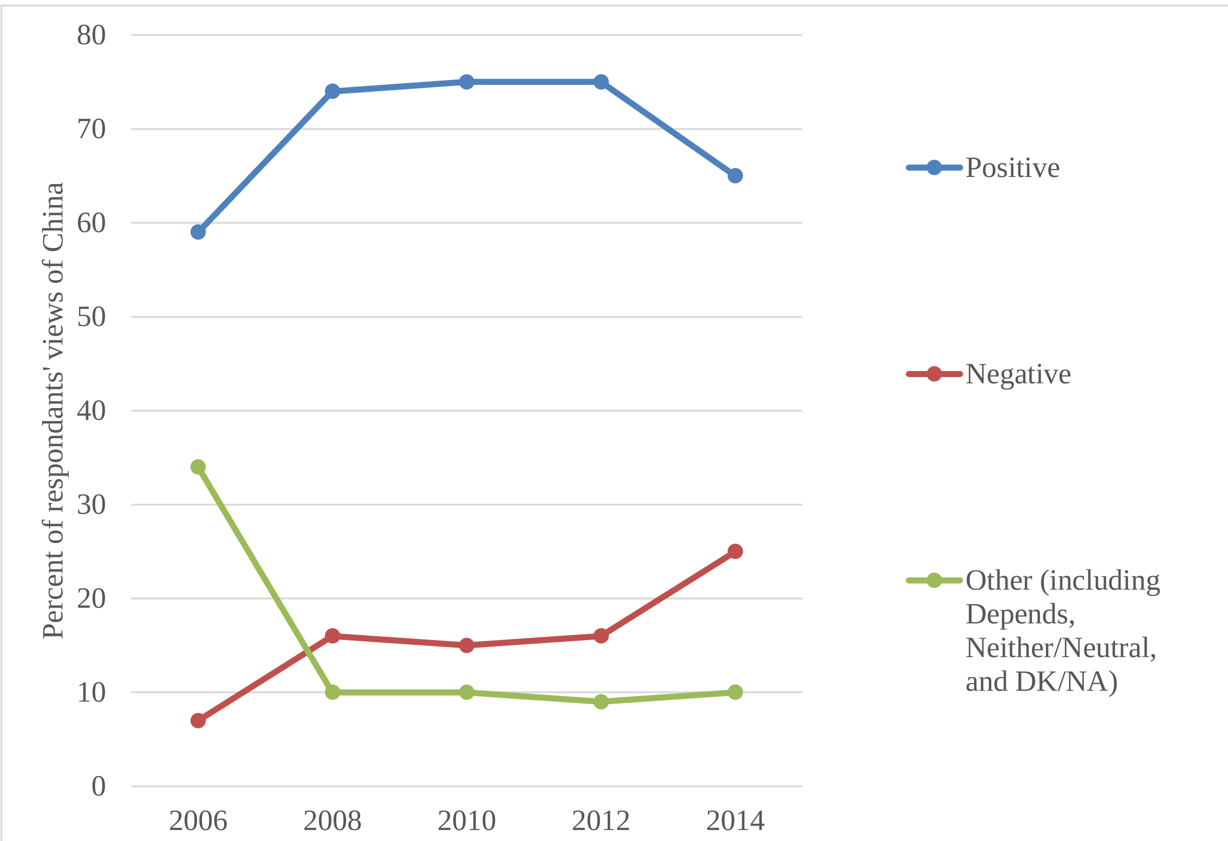
---

[40] Larry Hanauer and Lyle J. Morris, *Chinese Engagement in Africa: Drivers, Reactions, and Implications for U.S. Policy* (Santa Monica, CA: RAND, 2014), 7, http://www.rand.org/content/dam/rand/pubs/research_reports/RR500/RR521/RAND_RR521.pdf.
[41] Jing Yan, "Is China's Outward FDI Politically Driven" (master's thesis, Georgetown University, Washington, DC, April 13, 2012), https://m.repository.library.georgetown.edu/bitstream/handle/10822/557882/Yan_georgetown_0076M_11753.pdf?sequence=1.
[42] Ibid.
[43] Renard, *China's Trade and FDI in Africa*.

Local Perceptions

In the United States and Europe, there is considerable questioning of whether China's development approach is effective, particularly based on impressions that Chinese projects are often carried out by Chinese nationals imported to do the work. As Howard French put it, "citizens [of African countries] are often very skeptical about the murky terms under which many big Chinese projects are negotiated and suspect a kind of unholy collusion between Beijing, Chinese corporate interests and the people that rule them."[44] However, based on BBC World Service polling in Kenya, Kenyan's view of China remains quite high (Figure 3).[45]

Figure 3: Kenyan Views of China: 2006–2014



[44] Howard French, quoted in Schiavenza, "What the Kenya Railroad Says about China's Approach to Africa."
[45] CSIS compilation of published BBC World Service polling reports, from 2006, 2008, 2010, 2012, and 2014, showing Kenyan attitudes toward China. For 2006, http://www.globescan.com/news_archives/bbc06-3/; for 2008, http://news.bbc.co.uk/2/shared/bsp/hi/pdfs/02_04_08_globalview.pdf; for 2010, http://news.bbc.co.uk/2/shared/bsp/hi/pdfs/160410bbcwspoll.pdf; for 2012, http://www.globescan.com/images/images/pressreleases/bbc2012_country_ratings/2012_bbc_country%20rating%20final%20080512.pdf; and for 2014, http://downloads.bbc.co.uk/mediacentre/country-rating-poll.pdf.

Kenyans' view of China is likely also impacted by the degree to which Chinese firms are seen as contributing to the economic enhancement of Kenya. The number of major projects that Chinese firms are undertaking in Kenya likely contributes to a sense that China is contributing to Kenya's advancement. In addition to the Mombasa-Nairobi-Malaba railroad and the LAPSSET initiative discussed above, Chinese firms have also won contracts to build the expansion of the Nairobi international airport, and the Chinese government provides support to Kenyan law enforcement to conduct wildlife protection activities—particularly important for elephants and rhinoceroses in Kenya. If, however, the criticisms leveled by commentators such as Ngii bear out, China could see its standing fall among Kenyans.

Outside economic terms, China's support for Kenya pays dividends in the international diplomatic arena.

Conclusion

China's longstanding assistance to and trade with African countries provided it with a strong base to build upon as its economy grew. Particularly in the realms of extractive industries and energy, China has leveraged its access and its "no strings attached" policy to secure for itself and its firms access to high-demand resources that U.S. and European firms often find too difficult politically, or too risky from a security standpoint, to invest in.

China has been effective in directing state-owned enterprises, in particular, to make investments in—or to win contracts for—infrastructure development projects that contribute to the economic benefits China receives from the project and also lower the political risk of the ventures.

However, China's increasing reliance on international suppliers for key resources, such as oil, is changing the way China interprets and implements its foreign policy of noninterference. In 2014, with political violence rising in South Sudan, China sent an envoy to Africa to actively work with neighboring countries and with South Sudan's rebel groups to find resolution. This practice was, according to a report in *Foreign Policy,* "a stark contrast to the much-criticized, stand-off position China held just a few years [before] when Khartoum ran roughshod over civilians but kept sending plenty of oil to Beijing."[46]

Overall, China's willingness to utilize assistance—whether aid or more traditionally commercial—to achieve national objectives remains greater than U.S. willingness to do the same. The level of control China retains over state-owned enterprises, in particular, provides China with a stronger lever to influence its private sector than is possessed by the United States.

---

[46] Keith Johnson, "China's African Adventure," *Foreign Policy*, April 24, 2014, http://foreignpolicy.com/2014/04/24/chinas-african-adventure/

CSIS | CENTER FOR STRATEGIC & INTERNATIONAL STUDIES

1616 Rhode Island Avenue NW
Washington, DC 20036
202-887-0200 | www.csis.org

Cover photo: Svetlana Arapova / Shutterstock.com.