Is Chinese Outward Foreign Direct Investment Exacerbating Between-Country Inequalities in East Africa?

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1. Introduction

'Africa is not Europe's Africa, nor China's Africa, it is African's Africa'

(China's Minister of the Embassy to the UK, Qin Gang: 2011)

It is true that the present and future of Africa belongs to the Africans, but history has proven that the engagement of foreign powers with the continent has dramatically impacted its present. The shift of power from West to East and the changing roles of each with respect to Africa are determining factors that will inevitably influence the future of the African continent.

In recent years the traditional powers have experienced a dramatic slow down of their economies, while at the same time they have become more dependent on the continuous economic rise of China. This situation has fostered the concerns of some Western countries, which see their supremacy challenged by a well-unknown giant predicted to become the world top economic power in ten years time. These concerns become more pronounced around Chinese engagement in Africa, a continent historically controlled by the West, where the Chinese presence is currently becoming more relevant and visible. The differences between Chinese and Western values, rules, and behaviours are becoming more tangible in the African continent than anywhere else, leading to vivid debates about the motivations and consequences of Chinese engagement in Africa.

The Chinese government argues that the Sino-African relationship is based on a win-win situation, being 'development the number one priority in Africa' (Gang: 2011). The Chinese non-interference and non-conditionality policies together with the thirst for natural resources comprise the great majority of the Sino-Western debates. Furthermore, some Western critiques simplify the problem by arguing that Chinese engagement in Africa is all about oil and that it can be harmful for Africa. But to what extent is Chinese engagement only motivated by the thirst for natural resources? Or is development really the number one priority of China in Africa?

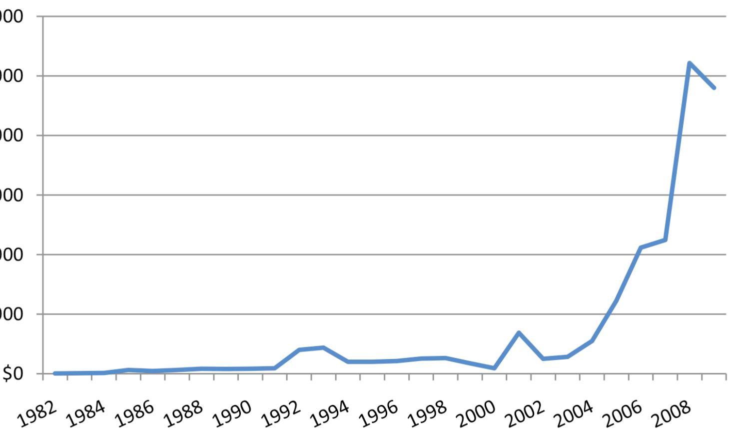
Giving definitive answers to these questions is a difficult task for politicians and academics. Nevertheless what is clear is that separate from the real motivations, Chinese engagement has strong impacts in Africa. The intensity of these impacts varies from country to country, as does the level of Chinese engagement. What is often forgotten is that these differences can exacerbate inequalities between neighbouring countries. This paper will analyze how Chinese Outward Foreign Direct Investment (OFDI) has increased or decreased between country inequalities within East Africa. By understanding these differences and the reasons why some countries have attracted more Chinese OFDI than others, this paper will also try to bring some light to the real motivations of Chinese engagement in Africa.

This paper will first describe the main characteristics of Chinese OFDI to Africa. Second, it will explain the controversy around Chinese OFDI by analyzing some of the arguments for and against. Third, it will describe the evolution of Chinese OFDI to five East African countries: Ethiopia, Kenya, Uganda, Rwanda, and Burundi. Fourth, it will analyze the evolution of six different country level indicators for the five countries, and it will explain how Chinese OFDI has affected between country inequalities in the region. Finally it will conclude and propose a set of actions that could help reduce these differences in the future.

2. Understanding Chinese OFDI to Africa

For the last three decades the world has witnessed the unstoppable growth of China as a new global power. The international role of China has been continuously evolving during these years in many different fields, the role of Foreign Direct Investment (FDI) being of remarkable importance. For many years official statistics have considered China to be one of the main receivers of FDI in the world (Goldstein et al.: 2006), but this situation has changed over the time and particularly after 2003 (Figure 1). Nowadays China is not simply considered a big receiver of FDI but a great emerging investor, especially in developing countries (Sanfilippo: 2010).

Figure 1. Chinese OFDI flow (M of US$): 1982 - 2009

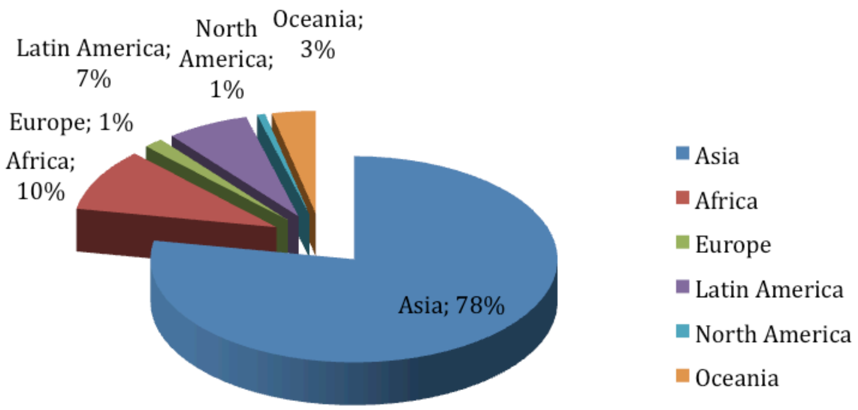


Source: UNCTAD, as cited in Salidjanova: 2011.

The history of Chinese OFDI flows to Africa has passed through three different phases over time. The first phase lasted for four decades after the Bandung Conference of Non-Aligned Nations and was characterized by Chinese political, military, and aid support to Africa. The second phase started in the mid 90's and it was characterized by a rapid increase in Chinese trade with Africa, particularly State Owned Enterprises (SOE) targeting Chinese demands for natural resources and implementing aid-funded infrastructure projects. The third phase is taking place currently and is characterized by a mixture of small and medium private firms coexisting with Chinese SOEs in Africa (Kaplinsky and Morris: 2009)

Unlike other channels of international engagement, the study of Chinese OFDI is particularly challenging. The data on Chinese OFDI is limited and partly inaccurate, due to the inherent complexity of measurements, and the difficulty of disaggregating Chinese OFDI and Aid (Kaplinsky et al.: 2007). This inaccuracy can be seen clearly in the four existing sets of estimations of Chinese OFDI to Africa: official and public-domain estimates, African Economic Research Consortium (AERC) estimates, UNIDO's survey of FDI to Africa, and primary studies of small private-sector Chinese OFDI (Kaplinsky and Morris: 2010). Nevertheless, what seems to be clear is which continents are the biggest recipients of Chinese OFDI and the continuous increase of OFDI flow.

Figure 2. Chinese regional distribution of OFDI flow: 2008

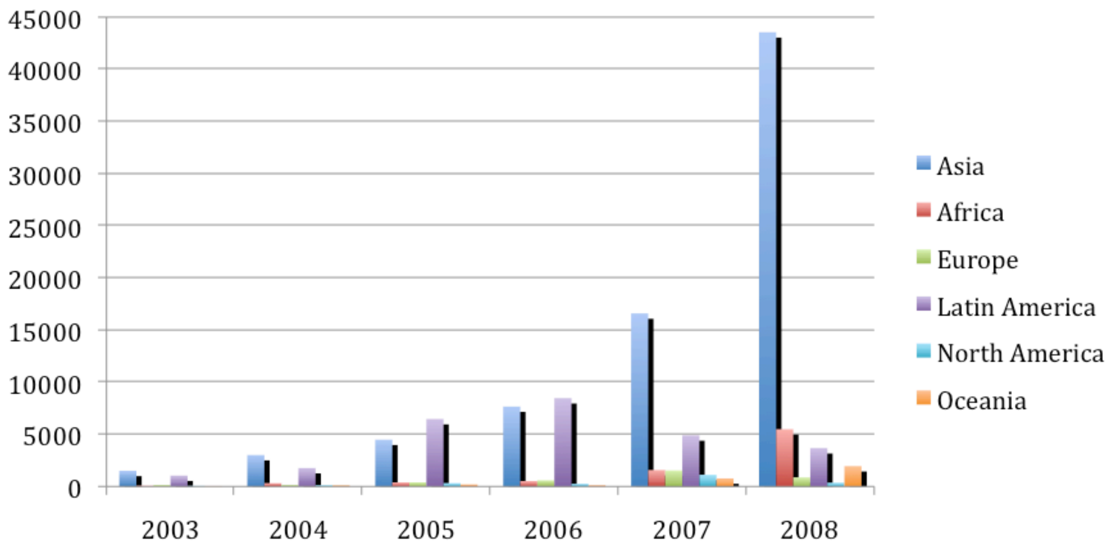


Source Data: Chinese Ministry of Commerce (MOFCOM), China's OFDI Report 2008.

By the end of 2008, Chinese OFDI flow reached US$ 55.91 billion, spreading to 174 countries around the world (MOFCOM: 2008). Figure 2 shows how Asia is the major receiver of Chinese OFDI; this can be explained by its cultural and geographic proximity to China, its levels of inflation, and market openness, as these have been determining factors for Chinese OFDI since previous decades (Buckley et al.: 2007). The second biggest recipient of Chinese OFDI in 2008 was Africa, accounting for US$ 5490.55 million, but the situation has not always been like this.

Chinese OFDI flow has dramatically increased between 2003 and 2008, at the end of 2008 the total amount of OFDI flow was 19.58 times bigger than in 2003 (Figure 3). This figure reflects the extreme volatility of Chinese OFDI on a year-by-year basis, as argued by Dijk (2009). The increase of OFDI to Latin America reached 48% of the total OFDI in 2006 and decreased to 6.6% in 2008. On the other hand, the increase of OFDI to Africa, even if extremely variable, follows a clear and solid upward trend.

Figure 3. Chinese regional distribution of OFDI flow (M of US$): 2003 -2008



Source Data: MOFCOM, China's Outward FDI Report 2008.

The majority of statistics do not distinguish Chinese OFDI on the basis of the kind of firm that originated it. To better understand Chinese OFDI motivations and the differences between Chinese and global FDI, a clarification about the types of Chinese investors in Africa is strongly recommended. Kaplinsky and Morris define four different types of investors: central government SOEs, provincial government SOEs, private sector incorporated in China and Africa, and private sector incorporated only in Africa (2009). Most available studies focus on the analysis of the characteristics and motivations of Chinese SOEs in Africa, while only recent literature like Gu (2009; 2011) or Rui (2010; 2011, forthcoming) analyze the characteristics and motivations of Chinese private enterprises.

The existing literature points to different hypotheses about the determinants of Chinese OFDI to Africa. A recent study published by Sanfilippo tested some of these hypotheses and concluded that the search for long term access to natural resources is one of the main motivations for Chinese SOEs to invest in Africa. Additionally, this study exposed the double dimension of the market-seeking determinant: as a market opportunity to offload Chinese low cost production excess and as a high-potential market for Chinese investors (2010). Along the same lines, Gu argues that market-seeking factors are some of the most important determinants for Chinese private enterprises to invest in Africa (2011, forthcoming). Moreover, Chinese private investment in Africa is highly concentrated in the manufacturing sector, particularly in textiles and garments (Henley et al.: 2008).

3. China, Africa, the West and the Debate.

> 'We Europeans should not leave the commitment to Africa to the People's Republic of China, we must take a stand in Africa.'
>
> (German Chancellor Angela Merkel: 2006)

China's increasing engagement in Africa, especially its interests and investments in natural resources, are fostering critiques from Western countries that see their interests in the region undermined by the Chinese presence (Meidan: 2006). The debates about who controls Africa are reaching all different levels of Western society, from the political level to TV documentaries, and have led to a broad range of direct critiques to Chinese investment in Africa. Before analyzing some of the critiques, it is necessary to highlight that these debates tend to forget the role of the West in the rise of Chinese Trans-National Companies (TNCs) in Africa. As a consequence of the liberal investment climate imposed by Western donors in the past, Chinese companies have benefited from better access to African economies (Kragelund: 2009).

One of the most important critiques of Chinese OFDI to Africa is the Chinese hunger for natural resources; as argued by USAID, China's search for minerals extends across the globe and it is has been the most aggressive in Africa (Li: 2006). Moreover, Vines affirms that oil is the key driver of China's activity in Africa and that Chinese OFDI is mostly channelled to resource-rich countries (2007). Furthermore, Zafar argues that Chinese firms in Africa frequently operate in extractive industries, and not in textiles and garments (2007). But to what extent are these affirmations true?

Henley et al. carried out an extensive analysis for UNU-WIDER about Chinese, Indian, and South African OFDI to sub-Saharan Africa and concluded that Chinese firms were particularly concentrated in the manufacturing sector, especially in the textiles and garments sub-sectors (2008). For example, in Kenya, a country that has limited resources of oil and gas, Chinese investment has increased rapidly in the manufacturing and service sectors (Fiott: 2010), which proves that some of the previous statements are not necessarily true. Nevertheless, Chinese investments in oil extraction in Sudan or in copper in Zambia prove that the extractive industry remains a priority focus of Chinese OFDI to certain African countries (Kaplinsky et al.: 2007).

'It is not only, but it is also about oil and raw materials.'
(Member of the Euro Parliament for Portugal, Ana Maria Gomes: 2011)

Some other critiques concentrate on the reliance of Chinese firms on their own low-cost labour without investing in the training and education of African workers (Zafar: 2007). This critique is difficult to deny, but it should be highlighted that the Chinese government is starting to encourage Chinese private enterprises to employ local African labour (OUCAN: 2011). More controversial topics are the Chinese policies of non-conditionality and non-interference, which differ from the agenda of good governance and human rights that Western powers want to promote in Africa (Meidan: 2006).

Furthermore, this debate reaches its maximum controversy around countries like Zimbabwe, where the US keeps extending sanctions against Mugabe's regime (Kellerhals: 2010), while China represents a way out of economic stagnation for the country (Meidan: 2006).

'We should engage with China, but not change our political conditionality.'

(MEP for Portugal, Ana Maria Gomes: 2011)

'Chinese policy of non-interference is not going to change (…) we want to help people, not dictators'

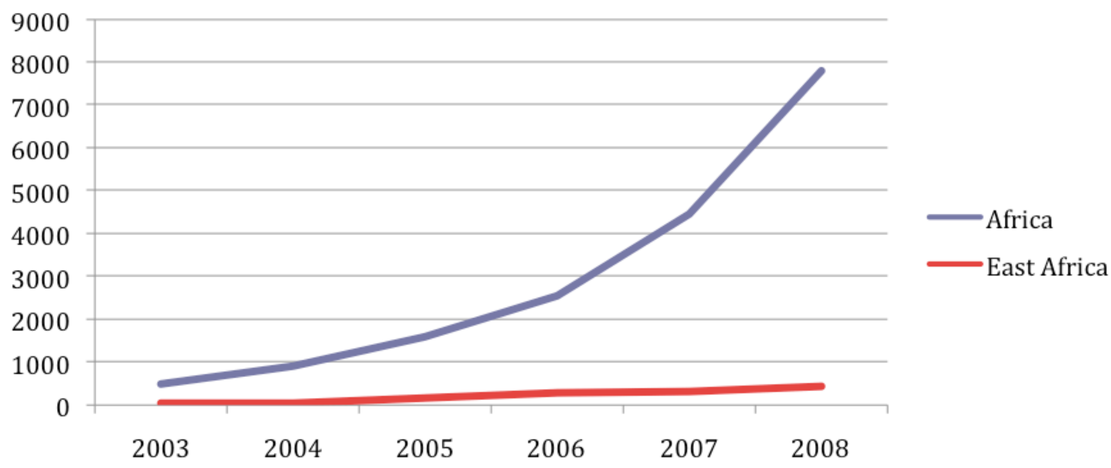
(CME to the UK, Qin Gang: 2011)

FDI to Africa is currently in a period of relative decline; to meet the Millennium Development Goals (MDGs) the African continent needs Chinese OFDI (Dijk: 2009). Nevertheless some of the countries that are more in need of FDI are not yet benefiting from Chinese OFDI. Moreover, the whole debate focuses primarily on the motivations that make Chinese OFDI target one country over another, or the consequences that this engagement has at the country level, but it hardly analyses the consequences that this country selection has at the regional level. A study of the regional level is crucial to understand how Chinese OFDI is promoting or exacerbating between country inequalities.

4. Chinese OFDI to East Africa

Before proceeding to the analysis of Chinese OFDI to East Africa, it is necessary to clarify which countries are defined as East Africa, as this classification varies greatly depending on the organisation using the classification. Figure 4 in the Appendix, shows that Burundi, Djibouti, Eritrea, Ethiopia, Kenya, Rwanda, Somalia, Tanzania, and Uganda are classified as East African countries for the purpose of this study. Applying this classification to the official data provided by the Chinese Ministry of Commerce, Figure 5 shows that Africa as a whole has witnessed an astonishing rise of Chinese OFDI Stocks since 2003, while East Africa has only benefited from a moderated increase. This first analysis points to the unequal distribution of Chinese OFDI between different regions across the African continent.

Figure 5. Chinese OFDI Stock in East Africa (M of US$): 2003 -2008

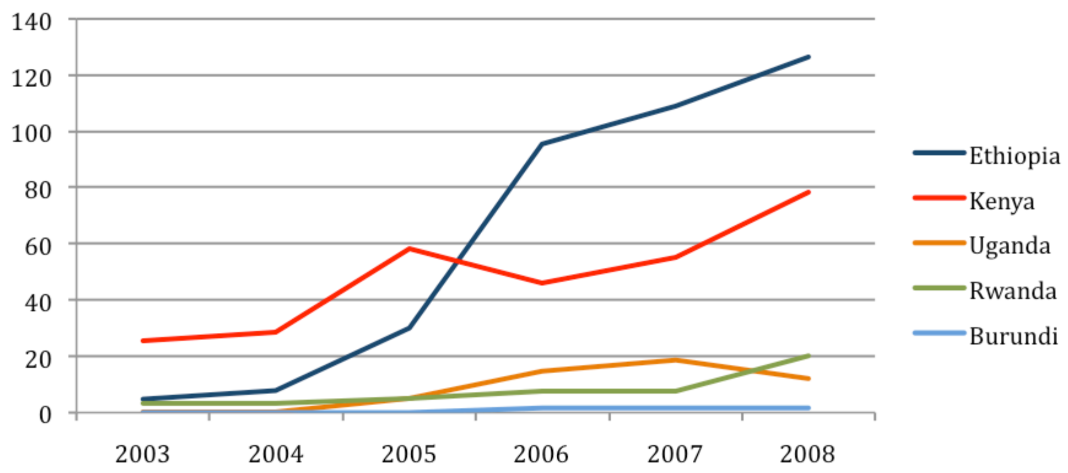


Source Data: MOFCOM, China's Outward FDI Report 2008.

The allocation of Chinese OFDI has also been unequally distributed between countries in East Africa; this is clear when comparing countries like Somalia, which in 2008 had zero Chinese OFDI stock, and Tanzania, which accounted for more than US$ 190 million in the same year (MOFCOM: 2008). Nevertheless, the need for Chinese investment is more acute in some countries than others, particularly in the case of landlocked countries, which experience high financial and infrastructure constraints. Two main groups of landlocked countries can be identified in East Africa: Burundi, Rwanda, and Uganda with ocean access via Kenya or Tanzania, and Ethiopia with ocean access via Djibouti. The analysis of this paper will focus on the four East African landlocked countries and Kenya, due to its strategic importance for Chinese investors engagement and development in the region.

Figure 6 shows how in 2003 Chinese OFDI Stock was similar in all four East African landlocked countries, however five years later the levels of OFDI differed greatly from each other, especially in the case of Ethiopia. Kenya started in a relatively higher position and followed a clear upward trend; however, in 2008 its levels of Chinese OFDI were below those of Ethiopia. To understand these tendencies it is necessary to explore the relationship between China and each of these countries individually.

Figure 6. Chinese OFDI Stock by Country (M of US$): 2003 -2008



Source Data: MOFCOM, China's Outward FDI Report 2008.

Ethiopia

China's relationship with Ethiopia started in 1956 and both countries have maintained good relations over the years. This relationship has become much stronger during the last decade, probably motivated by the Chinese accession to the WTO in 2000

(Geda: 2008). The overall trade between both countries has increased drastically, rising from US$ 100.12 million in 2002 to more than US$ 1 billion in 2009. Between 1992 and 2009, Chinese OFDI stock also increased, but this only represented around 4 per cent of the total amount of FDI in Ethiopia. Nevertheless, in terms of employment Chinese OFDI contributes to around 13 per cent of the total employment associated with FDI in the country (Geda and Meskel: 2009).

Chinese OFDI takes two different modalities in Ethiopia: Chinese owned investment and joint ventures. In 2009 there were 812 Chinese firms in Ethiopia; the majority of their investment was concentrated in the manufacturing sector (over 60 per cent). In addition to direct investment, there are numerous joint ventures between Chinese firms and the Ethiopian Government. In this investment modality Chinese engagement has been particularly outstanding in two main sectors: telecommunications and construction. In the telecommunications sector Chinese firms are dominating the majority of the projects, as the Chinese company ZTE has offered the Ethiopian telecom a US$ 1.5 billion credit in exchange for operating without bidding. In the construction sector ten Chinese firms are engaged in about 60 per cent of road construction in the country (Geda and Meskel: 2009).

Kenya

Official diplomatic relations between China and Kenya were established in 1963, while their trade relations date back to the Ming Dynasty. Kenya is currently a key focus of China's trade and investment strategy in Africa; it is considered a gateway to the region due to its political stability and lack of violent conflict. Furthermore, Chinese investors consider Kenya an ideal regional base from which they may expand their business operations into other African countries. At the beginning of 2008 there were around 96 Chinese investment projects in Kenya, with a workforce of approximately

6700 Kenyans (Onjala: 2008).

From the beginning of the 2000's, the vast majority of Chinese investment in Kenya has been concentrated in services and manufacturing and the employment generated by these firms has been mainly local. Moreover, there is increasing investment in sectors like transportation, construction, power plants, and telecommunications (Onjala: 2008). China Road and Bridge Company is the most successful Chinese construction firm, which has built more than 1000 kilometres of trunk roads since 1985 (Chege: 2008). In addition, in 2008 Chinese construction firms in Kenya were considered a leading source for employment in the country (Chege: 2008). Furthermore, in telecommunications the Chinese firm Huawei won a contract to provide cell phone service in Kenya (Onjala: 2008)

Chinese firms have also shown interest in oil prospecting and in a titanium-mining project on the south of Mombasa. In 2006 the Kenyan government gave China National Offshore Oil Company (CNOOC) exclusive rights to explore oil blocks in the north and south of the country (Chege: 2008). However, these exploration expeditions have failed to discover oil so far. Nevertheless, the recent discovery of oil in Uganda has promoted Chinese investment in the Kenyan pipeline and road infrastructure in recent years (Gathanju: 2010).

Uganda

China and Uganda started their diplomatic relations after independence and over the years Uganda has played an important role supporting China in the international arena (Obwona et al.: 2007). Commercial activities between both countries began in 1991 and have increased over time, more so in recent years. By the end of 2006, 118 Chinese firms accounted for around 26 per cent of total FDI in Uganda. These companies were focused primarily on the manufacturing sector followed by the power sector, their investment in infrastructure being very limited. After the discovery of oil in 2006 the Chinese Premier decided that the Chinese priority investment in Uganda would focus on energy, transport, mineral development, textiles, fruit processing, and tourism (Obwoma et al.: 2007). Moreover, the Chinese Government has encouraged Chinese investment in Uganda since then.

The majority of Chinese firms investing in Uganda are privately owned; however, in sectors like construction, communications, and transport, Chinese firms tend to form joint ventures with Ugandan firms. After Uganda discovered oil in 2006, the Chinese firm Huawei started the construction of a fibre-optic backbone in the country (The Monitor: 2006). The second phase of this project started after Uganda confirmed in 2009 that the oilfield could be possibly the largest onshore discovery in Sub-Saharan Africa (Centre for Chinese Studies: 2010). After this event China announced the interest of the Chinese Industrial and Commercial Bank to invest in oil refining, pipeline construction, and infrastructure projects in Uganda. In addition, two of the biggest Chinese state-owned oil enterprises (SOE) were shortlisted to partner with the European firm Tullow Oil for oil exploration in Uganda's lake Albert area (Centre for Chinese Studies: 2010).

Rwanda

The 1994 genocide and civil war depleted Rwanda's human capital and seriously damaged its economy. Despite the country's economic recovery since the end of the war, it has remained heavily dependent on subsistence agriculture and foreign aid. Nevertheless, during the last decade the country has started to pursue the "Vision 2020" with the aim of becoming a middle-income country by the year 2020 (ACET: 2009). Chinese engagement in Rwanda dates back to 1971, at the time when mainland China took over a permanent seat on the UN Security Council (Grimm et al.: 2010). In these four decades both governments have signed a total of eight trade agreements for economic and technological cooperation and their economic engagement has increased during the last decade (CFM: 2006a).

An important part of Rwanda's Vision 2020 is to attract FDI as current levels of FDI remain low. The main reasons for these low levels are: the small size of the market, limited natural resources, low levels of human capital, poor infrastructure, high operational costs, and landlocked nature of the country. Chinese OFDI has recently started to flow into the country, however it has done so in small quantities. Chinese OFDI to Rwanda accounts for less than one per cent of China's OFDI flows to Africa and less than 0.01 per cent of its global OFDI flows. Nevertheless, between 2003 and 2007 Chinese OFDI stock to Rwanda represented 5.6 per cent of Rwanda's total FDI. Chinese investment in Rwanda concentrates mainly in Information and Communication Technologies (ICT) and manufacturing. However, they have also invested in one project in the services sector and another in the mining sector. Overall Chinese companies generated a total of 1,313 new jobs between 2000 and June 2009 (ACET: 2009).

Burundi

In 1993 Burundi started a civil war that lasted almost a dozen years. In 2005 the country established a new constitution and elected a new government. One year later a ceasefire was signed with the last rebel group of the country, but the country still faces several challenges and is considered one of the poorest countries of the world (CIA: 2011). As security is still fragile and the socio-economic conditions of the population remain poor, there is a significant risk of falling back into conflict. For this reason, even if Burundi has joined the East African Community (EAC), FDI inflows to the country still remain very limited. Moreover, the underdevelopment of the private sector, the lack of diversification of the domestic market, the weak institutions, and the bad situation of the existing infrastructure are some of the main challenges for the country to attract FDI

(UNCTAD: 2010).

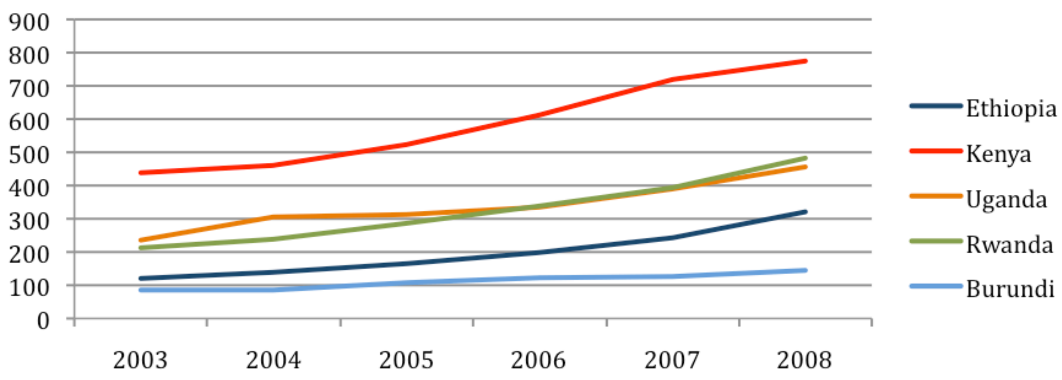
China established diplomatic relations with Burundi in 1963, however two years later Burundi unilaterally broke off these relations. In 1971 both countries restored their diplomatic relationship and since then have signed six different agreements for economic and technological cooperation (CFM: 2006b). However, trade between both countries has remained relatively low, amounting to only US$ 12.2 million in 2005 (Xinhua: 2006). Since Chinese OFDI generally arrives after the establishment of a trade foothold within a country (ACET: 2009), it is not surprising that Chinese OFDI to Burundi was almost nonexistent until 2005. In this year Chinese OFDI to Burundi increased to US$ 1.65 million and remained at that level until 2008. Information about Chinese OFDI to Burundi is extraordinarily limited; there is only some evidence available about Chinese Firms that have invested in nickel mines in the country (Sebastian: 2008).

5. Analyzing the Data.

To analyse if Chinese OFDI has exacerbated inequalities between the five selected countries, this section will study the evolution of six different indicators between 2003 and 2008. Three of the indicators have been selected as representatives of sectors directly linked to Chinese OFDI in the region: telecommunications, exports, and manufacturing. The other three reflect the level of economic development, health, and education of each country.

GDP per capita is considered one of the best indicators of economic development in a country. However, it is difficult to give definitive explanations about its progression over the time, as there is a broad range of factors that influence it. Figure 7 shows that there is an overall upward trend in levels of GDP per capita for all five countries in the study. Nevertheless, between-country differences have become more acute over the time and the difference between levels of GDP per capita in Kenya and Burundi has almost doubled.

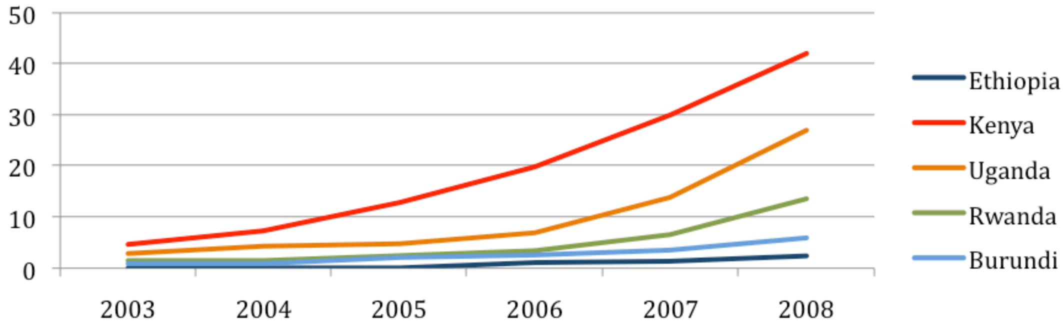
Figure 7. GDP per Capita (Current US$): 2003 -2008



Source Data: World Bank, World Development Indicators (2011)

Chinese OFDI has had a strong impact on the evolution of the telecommunications sector in the majority of the countries in this study although, the amount of Chinese OFDI has not been the same in every country, resulting in a substantial increase in between-country inequalities (Figure 8). In the case of mobile phone subscriptions the links with Chinese investment are evident. In 2004 the Chinese company Huawei won a US$ 34 million bid from Kenya's biggest mobile operator (Huawei: 2011); this is reflected in the growth of mobile cellular subscriptions in the country after that year. In the same way, Uganda's mobile subscriptions rose in 2006, also coinciding with the increase of Huawei's activity in the country. In the case of Rwanda the link is less clear; however, the country has benefited from Chinese investment in telecommunications in recent years. Chinese investments in telecommunications in Ethiopia have been extensive, however mainly concentrated on phone landlines rather than mobile phones.

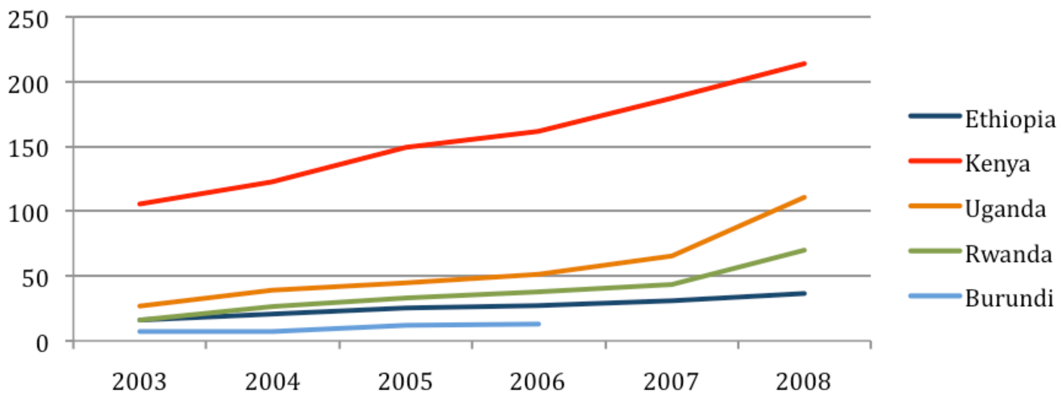
Figure 8. Mobile cellular subscriptions (per 100 people): 2003 -2008



Source Data: World Bank, World Development Indicators (2011)

The bad maintenance and lack of infrastructure in East Africa have historically been reflected in the limited amount of exports from the region. Chinese investment in transport infrastructure has been crucial to Kenya, and Uganda after the discovery of oil in 2006. Figure 9 shows how exports per capita in Kenya have grown at around 15 per cent annually during this period, while in the case of Uganda there has been a substantial increase in the growth rate after 2007, probably driven by the improvement of transport infrastructure in both countries. Rwanda's exports have grown parallel to this, as a consequence of Uganda's improved infrastructure. The result has been an increase in between-country inequalities, as differences have almost doubled in six years.

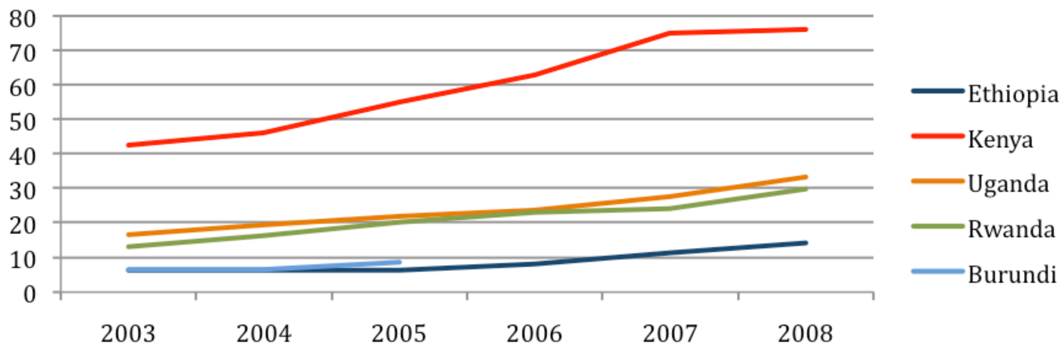
Figure 9. Exports of goods and services per capita (current US$): 2003 -2008



Source Data: World Bank, World Development Indicators (2011), Author's calculations

Manufacturing has been one of the main activities targeted by Chinese investments in the region. Figure 10 shows how all the countries present a clear upward trend in value added manufacturing. The average growth of value added per capita has been similar across the five countries, around 15 per cent annually. However the result shows that differences between countries have increased, this being explained by the higher starting point of Kenya relative to the other countries.

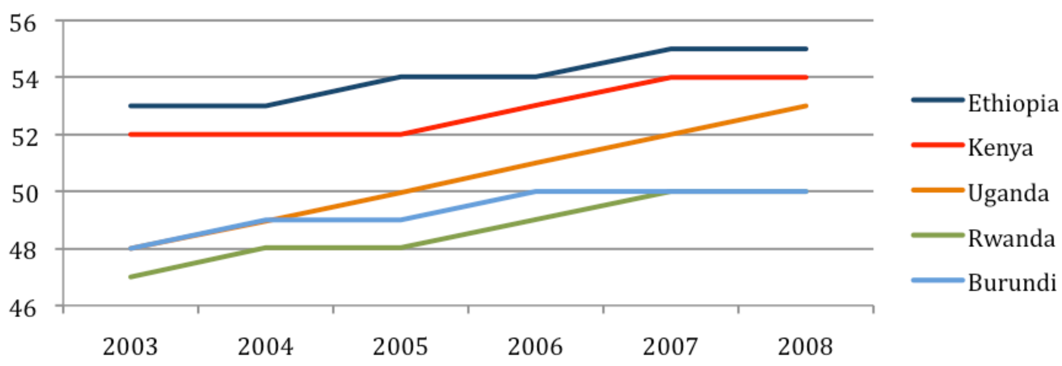
Figure 10. Manufacturing, value added per capita (current US$): 2003 -2008



Source Data: World Bank, World Development Indicators (2011), Author's calculations

In terms of health and life expectancy, the relation to Chinese investment remains unclear. However, Figure 11 shows that life expectancy has increased in all the countries and the gap has been reduced between countries.

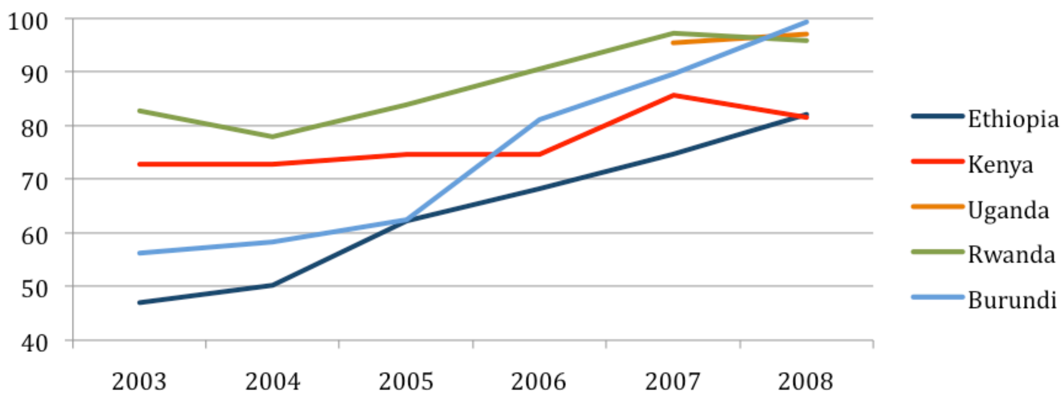
Figure 11. Life expectancy at birth, total (years): 2003 -2008



Source Data: World Bank, World Development Indicators (2011)

Achieving universal primary education is one of the objectives of the Millennium Development Goals (MDG), but there is also no clear link between Chinese investments and the levels of enrolment in primary school. However, Figure 12 demonstrates that the differences between countries have been significantly reduced from 2003 to 2008.

Figure 12. School enrolment, primary (% net): 2003 -2008



Source Data: World Bank, World Development Indicators (2011)

Establishing a causal link between the amount of Chinese OFDI to each country and the evolution of the selected indicators is not only difficult, but far from definite. However, this analysis leads to some preliminary conclusions. Those sectors that have been targeted by Chinese OFDI in the region have witnessed an increase in between-country inequalities during the period of study. The relatively higher levels of Chinese OFDI to some countries and the starting point of Kenya can explain this increase in between-country inequalities. In the same way, differences in GDP per capita have increased between countries, probably caused by the improved performance of some economic activities, like exports, and the higher starting point of Kenya. On the other hand, the gaps in the indicators that are not directly linked to Chinese investment have decreased. This could be the result of other programs and donors that have pursued the achievement of the MDGs in these countries.

6. Conclusion.

Since the ascension of China to the WTO in the year 2000, the world has witnessed the astonishing rise of Chinese OFDI. The distribution of this OFDI has been unequal between continents, regions, and countries. This study has shown how the African continent has benefited from a continuous increase of Chinese OFDI flow from the year 2003, becoming the second preferred destination for Chinese OFDI in 2008. However, the increase in OFDI to East Africa has been substantially lower than that to Africa as a whole. Countries rich in oil like Sudan have received more Chinese OFDI than the nine East African countries together, which points to oil as an important driver of Chinese OFDI in the continent.

The levels of Chinese OFDI vary greatly among the five countries of this study; these levels are directly linked to the amount of trade between China and each particular country. Countries with higher levels of trade with China have received more FDI, while others like Burundi or Rwanda have benefited the least. Chinese OFDI to the five countries has been mainly concentrated in sectors like manufacturing, services, telecommunications, construction, and transport. It is evident that oil is not the only driver of Chinese OFDI.

The unequal distribution of Chinese OFDI and the higher starting point of Kenya have contributed to the exacerbation of some between-country inequalities in the region. This link can be observed in sectors like telecommunications, where the differences between countries in mobile phone subscriptions have increased by almost nine times in six years. However, the discovery of oil in Uganda in 2006 has attracted more Chinese OFDI to the country and consequently helped to narrow down the gap between Uganda, Rwanda, and Kenya in some indicators. Nevertheless, the real increase of Chinese OFDI to Uganda has taken place after 2009, but due to the lack of official data for Chinese

OFDI in recent years this study cannot reflect the effects of this rise. Further research will be needed to see how these events contribute to reduce or increase between-country inequalities within the region.

To avoid the exacerbation and creation of new inequalities, East Africa should make use of multi-country organizations like the East African Community. A unified position would help them gain more power to pursue common objectives for the region in the bargaining process with China. Moreover, the recent discovery of oil gives Uganda the bargaining power needed to achieve objectives like the construction of regional infrastructure networks, which could facilitate the access of countries like Burundi to export markets and improve the intra-regional trade. By doing this, East Africa would promote the development of those capabilities required for a long term and sustainable growth.

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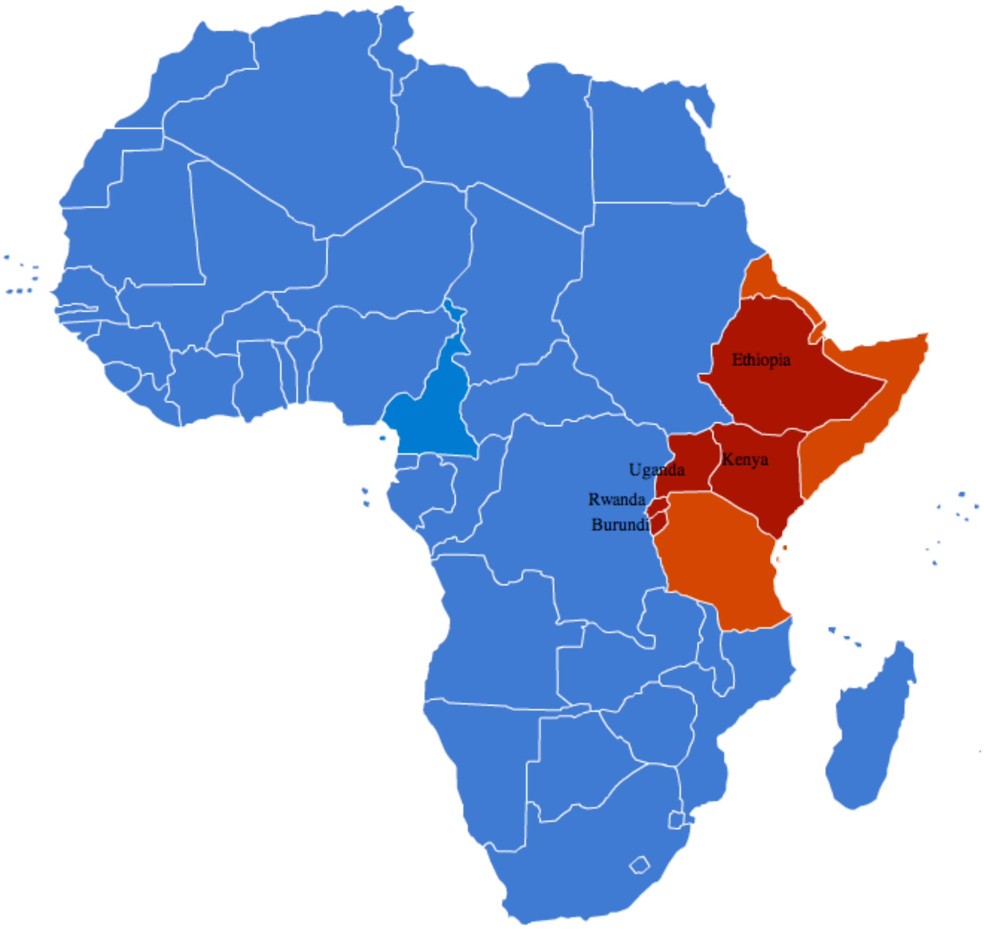
Appendix

Figure 4. East Africa & Countries of Study



Source: Author's Own.