Chinese increased investment in the Democratic Republic of the Congo and South Africa: the ghost of Western colonialism or the remedy for the different resource curses?

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Introduction

The 20th century, through the experience of two world wars, European dictatorship, colonialism and the consequent waves of democratization was considered a period of deep-root transformations in the global system from a social, political and economic standpoint. The concept of liberalism, became really widespread in the Western World as an efficient way to promote economic growth and improve welfare for the general public (Rosenblatt, 2018). Indeed, this American-led order proved to be successful in bringing "security and prosperity" to a larger part of the population (Ikenberry, 2012). The core concepts behind the strive for liberalism lie in the importance of individual liberties and freedoms which stem from a heavily restrained state which avoided intervention. It therefore gave room for the advent of private property and development of a market economy which in the later part of the 20th century was characterized by the interdependence of economies and an overall interest in economic, social and political globalization (see Hashemi, 2009; Donohue, 2003; Wolin, 2016; Koerner, 2019; Zafirovski, 2007). While liberalism was able to improve the livelihoods for many people, cumulative evidence has raised in the past decades several criticisms regarding liberal political economy. Namely, scholars have argued how it has thrown the world system into an ever-spiraling consumption of earth resources (Wright & Nyberg, 2015). This version of capitalism has indeed failed on many levels to bring environmental and social justice in many parts of the world and finds itself at a crossroad with the emergence of global superpowers such as China challenging the status quo, sovereignty principles and deepening economic and security interdependence (Ikenberry, 2012).

Evidence of what has been coined a resource-curse in developing countries serves as an illustration of these two realities. The presence of large natural resource endowments has proven to be usually paired with a negligible economic performance and the weakness of the countries' institutions and governance (Humphrey et al, 2007; Auty, 2002). There seems to be a sort of consensus among scholars concerning the development and avoidance of a resource curse based on the influence and quality that institutions hold (Venables, 2016). Indeed, the liberal order promoted in the 20th century coincided with the waves of decolonization by European powers in Africa, most of them exerting a large influence in the new countries' affairs during the process of institution building (Chaudry, 1989). The institutional framework of these new countries gravitated then towards the economic interests of western powers who were placed in the profitable natural resource endowments present in the global south (ibid.) making them sources of extractive appropriation (Bunker, 1988) and material overload (Hornborg, 1998). China’s steady rise as a powerful stakeholder in the world system, deepening economic interdependence and exerting a growing influence in periphery countries leaves the door open for theories on its effect in the development pathways of these countries. In addition, China’s increasing investment in the green energy transition has revealed the need for new materials in order to develop new technologies, as is the case of Cobalt mining for batteries and conductors (Gu & Zhou, 2020; SOMO, 2015). This project examines the ways Chinese increased investment in the African continent actively serves as a remedy to the pervasive effects of the resource curse inflicted by decades of western influence in the continent or reinforce it by going into the research question:

What is the impact of increased Chinese investments in Africa in exacerbating or mitigating resource curses?

This project will employ a most similar system design approach by taking a closer look at two sub-Saharan African countries with a shared European colonial past, large natural resource endowments as well as experiencing an increased investment from Chinese companies - the Democratic Republic of the Congo (DRC) and South Africa. The time frame used for this project starts in the year 2008 up until 2014. Yearly reports provided by the International Monetary Fund and Amnesty International and Freedom House will be used to account for institutional quality in both cases. In addition, other indicators reporting on the effects of the resource curse will be used such as the presence of conflict or environmental degradation. This research question aims to shine a light into the developmental state of sub-Saharan countries that are in the wake of unfolding strong economic development and now face crucial decisions in their policy-making with the fairly recent influence of Chinese investment compared to the long-lasting consequences of western influence in the country. This project will attempt to analyze whether the recent win-win relationship that China is pushing by which their investment, as opposed to western one, would guarantee sustained development and improvement of general welfare is indeed materializing or instead inflicting new challenges for the developing countries as theories on debt-trap diplomacy, overall unequal negotiations and the need for new lootable and exploitable materials in the future such as cobalt and lithium would show.

It is concluded how the increased investments from China improve export competitiveness and the relationships with the global economy but perpetuates and even worsens the status quo in fragile states with close to non-existent democratic institutions.

Theoretical framework and literature review

The resource curse:

The concept of a resource curse first appeared among scholarly debate in 1990 through the work of Auty (1993) and his work on mineral economies and how to sustain development under the effects of a resource curse. This theory refers to developing countries where despite the discovery of large natural resource endowments, there has been slow progress regarding economic growth and diversification, improvement of welfare and an overarching deterioration of governance and institutional quality. There has been extensive academic research backing this theory (see Van der Ploeg, 2007; Gyfalson, 2001; Torvik, 2009) all of which discuss the pervasive consequences with regards of the economy, institutional quality and human development.

To begin with, one of the most glaring effects is what has been named the "Dutch Disease". According to this effect, the discovery of profitable natural resources and the rising demand in the global scale favor the trading aspect of the commodity in question and ultimately harms the state of the economy and diversification (see Sachs and Warner, 1995; Arezki & Van der Ploeg, 2007; Humphrey et al, 2007). Through mechanisms such as the "resource movement effect" by which the booming sectors attract large quantities of labor and capital from other sectors and the "spending effect" or "crowding out" through which an appreciation of the exchange rate, importing agricultural and manufactured products become cheaper than producing them domestically, heavily damaging domestic producers and "de-industrializing" the economy (Ross, 2012, p. 48; Sandberg & Solomonsson, 2010).

In addition, the resource curse can also be observed with the development of a "rentier state", as mentioned before, the institutional framework was for the most part created under a heavy western influence and in the midst of a natural resource boom which largely influenced the attributes of the institutions that were being created (Chaudry, 1989). Theories on the development of a rentier state mainly discuss its effect on what has been deemed "good governance" which includes market efficiency or budgetary transparency (Grindle, 2004). Indeed, Ross (2001) tackles three different "effects" by which a state can be considered to engage in rentier practices. The increased rents from natural resource endowments induce the “taxation effect” (p. 332). Incumbent governments see no need to develop a robust tax system as they can rely on the rent’s income for their budget. By avoiding taxation, they also face little accountability in the eyes of their citizens and ultimately favor the development of patronage dynamics and clientelism towards the ruling economic elite (Ezrow et al, 2016). The “repression effect” seems to occur as a result of both the government arming itself against popular pressures and the response to possible ethnic or regional conflict arising from the competition on the ownership of the resources (Ross, pp. 335-336).

Indeed, the latter refers to the emergence and persistence of conflict in natural resource rich countries. The linkages that can be made between natural resources and war seem to build on two main directions. On the one hand, armed conflicts motivated by the control of resources and on the other hand armed conflicts which integrate the control of resources into the financing of the war as they control the agendas and strategies of the belligerents (Le Billon, 2001). A relevant framework is also made with regards to the nature and geography of natural resources. Le Billon finds four types of conflict each arising from the characteristics of the natural resource. Whether it is proximate to the capital or administrative center of the country or distant and whether the resource is point-based or diffused (p. 573). Resulting in a variety of conflicts such as coup-d’état, secession, rioting or warlordism.

Lastly, another manifestation of the resource curse which somewhat builds on the discussions of the rentier state is the neglect and underinvestment in robust education and healthcare systems, or to put it in general terms, human development. Gylfason’s (2001) revealed a negative relationship between natural resource endowments and public expenditure in healthcare and education. Savacool (2020) introduced the concept of “inverted hierarchy” as well as “land-dispossession” and “land-grabbing” by which the political elites and the incumbent government find themselves below larger corporations’ interests working in the country which exert and influence in labor and economic affairs namely through the possession of knowledge regarding the extractive sector as large parts of the population remain uneducated (Savacool, 2020, p. 9). There has been growing evidence of the effects of such practices, mostly unethical, of reliance in child labor especially in mineral economies undermining the general public interests and welfare. However, it has also been observed how the little protection offered by national governments, or “governance gap”, has fostered the increased expectation for large corporations to provide goods and services for the general public, underlining the concept of "corporate social responsibility" (CSR) (Simons & Macklin, 2014; Ngoie, 2008; Honke, 2009).

The power dynamics in the world system

The triumph of liberalism led the western world to broaden their scope of influence and deepened the economic structures reliant on interdependence, market efficiency and trade liberalization. However, over the past decades, strong criticisms have been addressed towards the economic structures ruling country interactions. The 'growth paradigm' aims to illustrate how it remains nonetheless the sole option for development and progress despite its failures, arguing how economic growth has been embedded in society and is considered the natural way of development (Koch, 2019). Path dependency theories point towards four seemingly interrelated causes: increasing returns, self-reinforcement, positive feedbacks, and lock-in. All in all, this comes to show how past experiences and legacies are likely to make developing countries gravitate towards the most established, liberal economic path (Page, 2006, p. 88).

While some scholars believe developing countries' best shot at achieving sustainable economic growth and the improvement of general welfare is through path-dependency to globalization and use of the comparative advantage, much academic literature has pointed towards an "impossibility theorem" according to which it is out of question for developing countries to reach western levels of production and consumption both from an environmental standpoint but also socially undesirable unless a minimum welfare conditions are met and shrinking of the wealth gap resulting from a resource curse (Daly, 2018).

There are several instances in how this system is perpetuated nowadays in the global system. Models have been created in order to assess the different dynamics and interactions seen across the globe. One of the most debated ones refers back to Krugman's (1994) core-periphery theory according to which the world is divided into two poles. A powerful core composed of (mostly) Western powers which absorb most of the economic, social and political flows and a periphery which remains marginalized. Similarly, Wallerstein's (1974) first world system theory explores the ways the globe is divided into a core and a periphery but emphasizes the role of technology into the position of a country in the core or periphery. Peripheral countries are structurally constrained to follow one type of development that reproduces their subordinate status. The difference in power dynamics becomes essential to maintain the system as a whole since the stronger states guide the surplus flow towards the core (Skocpol, 1977). The "unequal exchange" is therefore reinforced and perpetuated through an unfair world system that benefits the core at the expense of the peripheral countries (Goldfrank, 2000).

Finally, it is interesting to touch upon the concept of semi-peripheral countries. They have been considered to act as a "buffer zone" including activities and attributes from both core and peripheral countries (Skocpol, 1977). Historical evidence has pointed towards several Asian economies that have pushed for the development of a large manufacturing industrial economy but still experienced high levels of inequality and poverty (Paldam, 2003). In this day and age, there seems to be an academic consensus on China and South Africa forming part of these middle-ground economies. However, the sheer force of Chinese manufacturing gives it the edge in leveraging and power in comparison to other semi-peripheral and peripheral economies. It is now compelling to assess what are the theories and literature on Chinese increased investment in peripheral and semi-peripheral countries, in this paper, the DRC and South-Africa.

The increasing presence of China in Africa

Recent accounts of Chinese involvement in the economy of developing countries and more in particular Sub-Saharan countries is the "debt-trap diplomacy". This concept was first coined in 2017 under the name of "debt book diplomacy" (Parker & Cheviz, 2017). With this strategy, China has been providing Asian developing countries with hundreds of billions of loans that most of the time can't afford to repay them. The goal of China would be to achieve control over the "string of pearls" in the Indian Ocean and solve its "Malacca dilemma", which generally means to ensure the access of Chinese vessels through the Malacca strait and avoid disturbances with oil imports (ibid.). While the paper mainly focuses on China's influence on South and South-East Asian countries with an influence in the Indian Ocean, the authors also consider how this strategy is increasingly used in African countries. Indeed, African states will need to "resort to payments in kind" (ibid, p. 38). Exchanging debt forgiveness for commercial, strategic and political interests with, for example, the support of the Chinese policy positions on Taiwan and at the United Nations. Following the publication of the article, academic turmoil regarding the theory arose, many scholars have attempted to debunk it.

Indeed, the publication of this theory spurred some debate among academics with many views strongly disagreeing. Jones and Hameiri (2020) focus on the Chinese belt and road initiative, which is defined as a “call for an open and inclusive model of sustainable international economic, political and cultural cooperation and development under the guiding principles of the peaceful coexistence of sovereign states, achieved through multiple types of increased connectivity and financed by new multilateral financial instruments” (Dunford & Liu, 2018, p. 145). It has systematically been used as an illustration of debt-trap diplomacy and assumed that countries affected would reject the BRI. However, evidence has shown, with the example of Malaysia, how countries have been able to harness Chinese economic expansion to their own benefit and own domestic goals. The BRI is presented here as some sort of bilateral agreement and interactions with the outcome shaped by both parties’ interests, governance qualities and agendas (Jones & Hameiri, 2020, pp. 27-28).

Theories on economic expansion and more specifically with regards of foreign direct investment have addressed the underlying conditions that are crucial for sustainable foreign direct investment (FDI) to arise. Governance infrastructure seems to be the main determinant of cross-country growth differences (see Hall & Jones, 1999; Roll & Tallbot, 2001; Keefer & Knack, 1997). Governance quality is an underlying condition for a friendly business environment and the attraction of FDI (Globerman & Shapiro, 2002). Indeed, poor governance has resulted in the breach of bilateral investment agreements. Through expropriation and nationalization of foreign assets, FDI is heavily discouraged (Wellhausen, 2015). However, evidence has shown how Chinese presence in the African continent has been equally registered in countries with acceptable levels of governance such as South Africa and countries with corruption ridden institutions such as the DRC. The reasoning behind it seems to rely on the idea that Chinese investment disregards factors like property rights and the rule of law (Chen et al, 2018). Indeed, democratic institutions may hinder FDI flows by limiting the monopolistic behavior of certain multinationals, constraining the ability of governments to grant financial and fiscal incentives for foreign investors (Li & Resnick, 2003). China would then have the edge during negotiations against weak institutional capacity to negotiate the deals with Beijing on an equal footing. Poor governance and accountability structures, negligible regulatory frameworks reduce Chinese interests in providing a solution to these issues hence, exacerbating an existing resource curse (Alves, 2013, p. 221).

Conceptualization

All in all, this paper aims at tackling the concept of the resource curse as a “dynamic, complex and multi-scalar process” (Papyrakis, 2017). In addition, the resource curse will be analyzed in light of Gonzalez-Vicente’s (2011) “new perspectives” according to which the resource curse is a dynamic process that can be divided into three different “curses”. First off, an external curse, with aspects visible in the relationships between a resource-endowed country and the rest of the world, here one could talk about the declining terms of trade and the Dutch Disease. The internal curses are referred in this framework to the political and economic trends that resource-based economies tend to register. These may include the prevalence of patronage politics, clientelism, corruption, armed conflict or an underinvestment in the welfare state (p. 69). Lastly, the intrinsic curse refers to inevitable damages arising from resource extraction, mainly referring to environmental degradation and depletion of resources (Gonzales-Vicente, 2011).

Another dimension which this research needs to conceptualize is Chinese presence in Africa. One of the most evident trends when measuring economic expansion is foreign direct investments. In this project these will be regarded as a “composite bundle of capital stocks, know-how, and technology” (de Mello Jr, 1997). Other views define FDI more specifically, dividing it in two categories, macro and micro, each explained by two different sets of theories and branches of economics (Lipsey, 2001). The macro sees FDI as a type of flow of capital across national borders which give rise to stocks of capital in the host country under the form of the value of investments from the foreign investors, controlled fully by the foreign country or partially controlled by the host country which may have access to “a certain share of voting rights” (ibid., p. 1). The micro aspect, the “oldest” of FDI refers to the “motivation” behind the investments and examines the consequences of FDI operations from the standpoint of the investor and to the host country (ibid.)

Finally, it is compelling to conceptualize what ‘developing countries’ despite being a contested concept subject to debate among scholars and international institutions. According to the United Nations department of economic and social affairs, it defines developing countries as low-income countries facing difficulties to achieve sustainable development. They are highly vulnerable to economic and environmental shocks and possess low levels of human assets

(World Economic Situation and Prospect, 2014). Despite how abstract the term is, this research will also draw from the insights provided by Amartya Sen's Human Development Index as it does, as well, encompass both economic and human proxies which seem suitable for an analysis of the resource curse.

Methodology

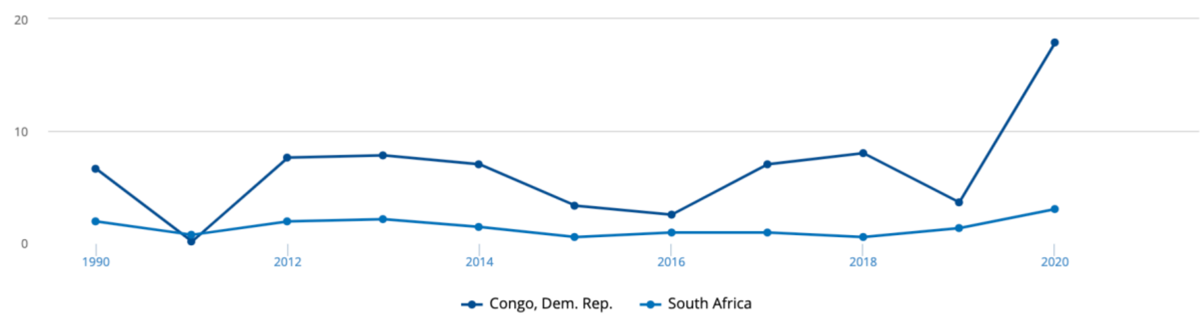
Case selection

This bachelor project will undertake a comparative analysis through a most similar system design (MSSD) which proves helpful in avoiding the omitted variables bias. Using a small sample of two cases will allow for a deeper analysis and a better identification and explanation of the correlating factors between the two variables (Halperin & Heath, 2017). The countries selected for this analysis are the Democratic Republic of the Congo (DRC) and South Africa. Both countries share several similarities but differ nonetheless both across the independent and dependent variables. While both being large recipients of Chinese foreign direct investment, they still show differences in the sector and level of involvement. Indeed, South Africa has been subjected to higher rates of Chinese investment in comparison to the DRC, with 152 deals in South Africa against 80 deals in the DRC (Chen et al, 2016) and has been treated as an illustrative example of new type of investments especially with regards of 'soft-power' tactics and Chinese image building in Africa through the media and appearing as a "friend or a foe" (Madrid-Morales & Wasserman, 2018; Wasserman, 2015) As aforementioned, it is assumed how institutional quality and governance exerts an important influence in the development of a resource curse. The DRC and South Africa show differences in this regard as the DRC scores merely 19 out of a 100 according to Freedom house, while South Africa sits at 79 out of a 100 following a long process of democratization (Freedom house, 2021). These differences will avoid selecting cases on the dependent variable (Halperin & Heath, 2017).

To begin with, the DRC and South Africa share a similar history with regards to colonial rule and legacy. It is argued how it had a uniformly negative effect in the development of African countries as opposed to other parts of the world where colonialism sometimes encouraged development (Heldring & Robinson, 2012). It is discussed however, how the preconditions before the scramble for Africa shaped the relations between the colony and former power during the processes of decolonization. South Africa belongs to the group of "white settlements" while the DRC pertaining to the group which did not experience a centralized state prior to the scramble for Africa and did not have a significant white settlement (ibid., p. 5). This goes along the lines of the theory on how the influence of colonial legacies on FDI are more nuanced and complex than first considered (Glaister et al, 2020).

Both countries also show large natural resource endowments, mostly in the form of minerals. There is also evidence of an increase of minerals as the percentage of the GDP in both countries. Accounting for 17.9% in the DRC and 3% in South Africa (World Banka). South Africa has proven to be a hub for the extraction of highly valuable minerals from diamonds, to gold, platinum but also coal, iron ores and concentrates as well as refined petroleum oils (Wilson, 2001; Growth Lab at Harvard University, 2019). Similarly, the DRC is richly endowed with minerals and metals, such as gold, diamonds, copper, coltan and zinc (Amnesty International, 2013).

<u>Figure 1</u>: Mineral rents as percentage of GDP



source: World Bank

Yet another aspect which can be observed is the struggle to achieve acceptable levels of institutional quality and good governance. As such, both countries have suffered from corrupt political systems and an overall disconnection from the general public's interests in welfare and human development. While on the surface, South Africa's institutional quality has seen successful improvements in the last decades. Empirical evidence shows how the effects of the resource curse in South Africa as a result of mineral mining are severely understudied and can be comparable to more flagrant examples in the continent (Elbra, 2013).

Some African mineral economies like Botswana are largely studied as successful attempts at escaping the resource curse. With South Africa's positive record in democratization and GDP growth, it remains nonetheless underrepresented in this category (Elbra, 2013). As previously discussed, colonial legacy plays an important role here. South Africa's experience with apartheid in the 20th century which ended in the 1990s has left a legacy in the country's institutional functioning and specially with the perpetuation of strong inequalities present in the country (Seekings & Natrass, 2002). However, it is not adequate to portray South Africa as "two nations" divided inter-racially but rather create a new conceptualization of "intra-racial inequality" rising in the nation. The changing structure of the richest class cannot be mistaken with a reduction of inequality (Elbra, 2013; Seekings & Natrass, 2002). Corruption seems to be flourishing in the country in the last decades. Reports on economic greed, major organizational changes, retrenchments and poverty, mismanagement and inefficient government as well as environmental degradation are becoming a common occurrence (Serfontein & de Waal, 2015; Faull, 2007). This evidence is backed up by the increasing reliance on natural resource rents that are yet to be beneficial to the general population. The formal invitation from China to South Africa in 2010 to join the BRIC formation certainly expanded its relations and created joint interests to meet both economic and developmental needs in both countries (Wasserman, 2012) which makes South Africa, together with the observed new investment trends in services and media image-building, a suitable and interesting case to analyze (Elbra, 2013).

The DRC, renamed in 1997 from its former name Zaire, has only known for the most part a history of turmoil, political instability, and an overarching weak institutional framework. The process of independence and subsequent state building can roughly be divided in three stages (Chazan et al, 1999). In the 1960s, a process of power centralization began under the rule of president Mobutu, under which ethnicity gained importance as the ruling elite belonged to one particular ethnic group, granting them unfair disproportionate benefits in power and wealth (Esterhuyse, 2012). This process ultimately led to the governing party to merge with the state, making it hard to differentiate between state and government (ibid., p. 38). Early Zaire became a patrimonialist state and corporatist state, co-opting capital and labor from international mining corporations. Similar to an absolutist state, the ruler pretends to extend its power but also makes use of state resources for personal gains (Clark, 1998; Reno, 2006). Phase two included the loss of legitimacy and even larger drop of state effectiveness. During the third phase, Mobutu's government became unable to limit violence and opposition and formed a failed state (Esterhuyse, 2012, p. 67; Chazan et al, 1999). Negative economic and social development was already visible in phase one, and progressively deteriorated until today. China's rise as a hyper manufacturing hub has increased the relations with the DRC as it holds some of the largest amounts of valuable manufacturing minerals such as the coltan-boom of the early 2000s to the recent increased need for cobalt. More specifically, the Southern-Katanga region is one of the few resource-rich regions in which violent conflict over the control of the resources is limited which has turned it into an opportunity to create a stable, just, profitable and safe region. Sino-Congolese relations became an illustration of both the change from traditional western-led influence in Africa named "Chinese exceptionalism" (Alden & Large, 2011) which has proven to be detrimental for the development of mineral economies but also to the perpetuity of the status-quo and the resource curse, turning therefore the DRC and the future of the Katanga region into a suitable case (Curtis, 2013)

Data and operationalization

This project will make use of primary sources and will be based on the time frame going from 2008 until 2014. This time frame ensures to see the effects of the first China-Africa cooperation forums started in the year 2000 as investment effects and consequences are not immediate. In addition, this time frame covers the adhesion of South Africa in the BRIC group (Brazil, Russia, India, China and then South Africa) which increased the country's but also the region's cooperation and interdependence with China. In addition, the time frame will cover the results of the implementation of the DRC's 2006 Poverty Reduction and Growth Strategy (PRGS) as well as the new elected government in 2007 in charge of implementation (IMFa, 2010).

In order to measure Chinese involvement in the African continent, data will be retrieved from the World Bank and OECD databases. The presence and reliance of natural resource endowments can be observed through the World Bank databases indicating the evolution of natural resource rents as a percentage of the country's GDP as well as the 'Atlas of Economic Complexity' developed by Harvard University and giving a detailed view of a country's economic diversification across a given time frame.

Furthermore, the operationalization of the resource curse will follow the framework explained in the conceptualization of the term. Regarding the external curse, effects like the 'Dutch disease' and contraction of the economy can be observed through Harvard's Atlas which gives an overview of sector growth or decline. Commodities price volatility is reported through the World Bank.

Institutional quality, governance and emergence of conflict can be assessed through yearly reports from the Freedom House and the International Monetary Fund (IMF), data is available for both countries throughout the sources except for the year 2008 and 2012 for which this project will make use of other reports from the same source in both cases to avoid bias. Other indicators include the corruption perception index (CPI). Health and education expenditures are provided by the World Bank which will account for human development. Yet another relevant effect of the resource curse is the appearance and longevity of conflict related directly, or indirectly, to natural resources. Indexes such as the Global Peace index which uses proxies on militarization, internal and external conflict and the level of societal safety and security will be referenced. Lastly, inferences about the "intrinsic curse", also referred as the environmental damage can be made through the Environmental Performance Index (EPI)

Table 1: reports used for the DRC's analysis

Year	Report
2008	Freedom of the world report 2008
2009	Request for the Rapid-Access Component of the Exogenous Shocks Facility and Report on the 2008 Staff Monitored Program
2010	Joint Staff Advisory Note on the Progress Report of the Poverty Reduction and Growth Strategy Paper
2011	Third Review of the Three-Year Arrangement Under the Extended Credit Facility, Financing Assurances Review, and Request for Modification of Performance Criteria—Staff Report and Press Release on the Executive Board Discussion
2012	Freedom of the world report 2012
2013	2013 article IV consultation—staff report, press release and statement by the executive director

	the Democratic Republic of the Congo
2014	2014 article IV consultation—staff report, press release and statement by the executive director the Democratic Republic of the Congo

Table 2: reports used for South Africa's analysis

Year	Report
2008	Freedom of the world report 2008
2009	South Africa: 2009 Article IV Consultation: Staff Report; Staff Statement and Supplement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for South Africa
2010	South Africa: 2010 article IV consultation
2011	South Africa: 2011 Article IV Consultation—Staff Report; Staff Supplement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for South Africa
2012	Freedom of the world report 2012
2013	South Africa 2013 - Article IV consultation
2014	South Africa: Staff Report for the 2014 Article IV Consultation

Analysis

<u>The Democratic Republic of the Congo</u>

The beginning of the 21st century in the DRC was politically eventful with the adoption of a new constitution in May 2005 and the very first peaceful democratic elections in July 2006 (Freedom House, 2008) despite "daunting logistical challenges" (ibid.). Following up the elections, the newly elected government in charge of implementing the Poverty Reduction and Growth Strategy (PRGS) had to face fights breaking out in the capital city of Kinshasa as well as a devastating conflict between the Tutsi rebel group in Eastern North Kivu led by Laurent Nkunda reporting 370 000 displaced people (Freedom House, 2008). Much of this conflict is attributed to the control of the vast valuable mineral resources available in the country accounting for 70% of DRC exports (Growth Lab at Harvard University, 2019). It was during that same period that a historical deal was signed with China worth 5 billion dollars and which anchored Chinese presence and activity in the country under their policy of 'win-win' cooperation (Freedom House, 2008c; Curtis, 2013), as they increased the level of FDI outflows by 230% compared to the previous year (World Bankb). However, Freedom house names corruption, insecurity and the lack of a welfare state as recurrent problems. In fact, the corruption perception index gives a score of 1.7 to the DRC placing 171 (CPI, 2008), human security was severely affected by the war through which the global peace index ranks the DRC 128th out of 140 with a score of 2.707 (GPI, 2008). Environmental degradation also entered an all-time low with a score of 47.3 out of 100 in the environmental performance index (EPI, 2008).

In 2009 and 2010 progress was made with the negotiations of debt sustainability arising from Sino-Congolese relations and the removal of a second-phase infrastructure deal (IMF, 2009a). Despite the attempt to reach equal-footing negotiations in government concessions, economic growth slowed, unemployment in the mining sector increased, the DRCs terms of trade abruptly deteriorated and conflict in the eastern provinces scaled worsening security and GPI score to 2.925 (IMF, 2009a; GPI, 2010). The government showed attempts at strengthening institutions and government planning under the PGRS to reap the full benefit of Chinese investment in the country planning in "selecting investment in high growth impact and ensuring long-term funding for budget maintenance" (IMF, 2010a). However, the IMF reports that poor accountability and transparency remain fundamental problems (IMF, 2010a) Mineral and metal dependency increased in the period from around 2 billion gross export value in 2009 to 4.5 billion in 2010 (Growth Lab at Harvard University, 2019). Corruption measures slightly improved from 1.7 in 2008 to around 2 as a result of the government efforts of strengthening institutions ("CPI", 2010) and the willingness to improve governance in the mining sector to obtain validation from the Extractive industry transparency Initiative to broaden the benefits from mineral investment (EITI). In addition, the country also showed slight progress in the environmental performance scoring 51.6 compared to 47.3 in 2008 ("EPI", 2010) as the policy and legal framework for sustainable forest management improved significantly and the rights of indigenous people living close to the forest were as well strengthened (IMF, 2010a).

In the period of 2011 and 2012, significant progress was made in improving the terms of trade of the country which boosted GDP growth rate to 7% compared to 2% in 2009 (IMF, 2011a) as mining, construction but also the tertiary sector saw an increase in value and production in the period reviewed (Growth Lab at Harvard University, 2019). This can partly be attributed to the signing of a Sino-Congolese financing bonus agreement "adequate" to meet the PRGS program (IMF, 2011a). Corruption perception slightly improved during this period up to 2.1 ("CPI", 2012) as the implementation of governance and transparency reforms especially in extractive industries are proceeding satisfactorily in accordance with the IMF, World Bank and EITI guidelines (IMF, 2011a), as well as the publishing of all oil, mineral timber and gas concessions within 60 days of signing them (Freedom House, 2012). Nonetheless, human security is still at stake as the effects of the war and civil conflict in North Kivu endured together with the implementation of private, corporate mining police exerting unprecedented violence and violations of human rights (Freedom House, 2012, Amnesty International, 2013) upping the GPI score to 3.073 ("GPI", 2012). Despite such efforts and improving the functioning of the state, there is still a disconnect between the government and the general public welfare. Figures on health expenditure in the DRC indicate and abrupt decline between 2008 and 2012 from 4.99% of the GDP to 3.26% or a decrease of 34,7% (Word Bankc).

The years 2013 and 2014 cemented DRC economic growth and tied it closely to the mineral natural resource sector (IMF, 2013a). The reports still highlight nonetheless the risk of debt sustainability concerning in particular the inclusion of public guarantee on external borrowing under the Sino-Congolese "joint venture" named "Sicomines" as commodity prices weakened from their high 2010 levels (IMF, 2013a). However, the mining sector was still expected to become the main driver of growth and foster an 8.7% growth rate (IMF, 2014a). Growth was also expected to be embedded to the investments in construction, communication and transport sectors derived from mining rents (IMF, 2014a). It is still heavily emphasized though, how in order to maintain and derive the largest benefits from this context through increased foreign investment and a friendlier business climate, stronger institutional and administrative capacity is essential (IMF, 2013a). Indeed, CPI stagnated during the period at a 2.2 value showing no significant improvement in transparency and governance (CPI, 2014). The DRC saw no progress in improving human security as the GPI stagnated at around 3.096 and ranked 153 out of 163 (GPI, 2014). In addition, environmental protection worsened and the EPI index in 2014 lowered the DRC score down to 25.01 ranking 170 out of 177 countries (EPI, 2014)

Overall, one can observe how the increased presence of Chinese companies in the mining sector but also in the communications and ultimately tertiary sector has helped foster economic growth and improved the terms of trade for DRCs exports. However, while some efforts have been directed at improving institutional capacity, corruption and transparency, its pervasive effects and weaknesses are very visible. The trend seems to show how increased Chinese investment alleviates the external curse by contributing at a macroeconomic level but does not help and arguably worsens the internal and intrinsic curse not motivating a win-win situation.

South Africa

The end of apartheid in South Africa brought to the country significant improvements in democracy and institutional quality, ultimately deriving in the development of a stronger economy. Much of the institutional flaws and underdevelopments of the country have been attributed to the remainders of apartheid in the institutions and policy-making. In the time period reviewed, initiatives to generalize water and electricity supplies as well as the access to banking and financial systems were put into place. The analyzed reports show reveal South Africa's fight against institutionalized corruption, ensuring welfare and profitable terms of trade.

Between 2008 and 2009, transparency international ranked South Africa 54th of out 180 in the CPI with a score of 4.9 ("CPI", 2008). The average score can be explained thanks to the existence of several bodies and agencies claiming a legal mandate to combat corruption among public officials, but implementation remains inadequate (Freedom House, 2008). Fourteen cabinet ministers and deputies failed to publicly declare their business interests as required by law (ibid). SA reports on one of the world's highest crime rates. Concern about political capabilities has fueled the private-security industry which often lacks transparency in their action promoting wrongful practices (Freedom House, 2008). Overall ranking SA 116th position in the GPI ("GPI", 2008). The dire global economic situation plummeted commodity prices and external (hence, Chinese) demand which harmed the South African economy which saw a decrease of 1 billion dollars in their exports (Growth Lab at Harvard University). The report focuses remain on supporting demand and ensuring stability while facing the "formidable medium-term structural challenges" reflecting apartheid legacies with regards of unemployment and inequality, among the highest in the world (IMF, 2009b).

In 2010 and 2011, it was clear that the global financial crisis had a deeper impact in South Africa than in other large emerging markets (IMF, 2010b). Part of the reason has been addressed to the sensitivity of exports (mainly diamonds and platinum) to credit conditions in other (advanced) countries (IMF, 2011b). During this recovery period, commodities exports saw an important increase from 8.92 billion in 2009 to 13 billion in 2011. This trend is partly attributed to the rise of China both as an exchange partner and its effect on commodity prices (IMF, 2011b). In fact, 2010 marked the entrance of South Africa in the BRICS formation which strengthened economic cooperation and an increase of economic flows. Net-portfolio flows funded most of the current-account deficit and overall improved the terms of trade for South Africa (IMF, 2011b). Human security and violence remained an overarching problem and worsened the score down to the 118th rank (GPI, 2010). This could be attributed to the still weak economic conditions and pervasive unemployment paired with growing wage inequality (IMF, 2011b). Corruption perception worsened as well with a score of 4.1 ("CPI", 2011).

Reports from the 2012 and 2013 period show improvements in the development of a welfare state. The democratization and financing of HIV medication for the 12% of the population infected with AIDS is one of the instances of a slight but steady increase in health expenditure of 0.4 percentage points (World Bankc). Progress was made with regards of the planning of the national development plan (NDP). The plan includes an array of proposals aimed at improving infrastructure, health, education and a strengthening of governance and corruption fight (IMF, 2013a). This reflected in a slight improvement in the CPI up to 4.4 ("CPI", 2013). With regards of Chinese involvement, the reports point out to the economic slowdown in China has negatively affected the terms of trade although it is emphasized how domestic factors, namely unemployment, are the ones contributing to “sluggish growth” (IMF, 2013b). In addition, crime is still seen as an important deterrent for economic activity in the country ranking 121th with a score of 2.292 (“GPI”, 2013).

The IMF report in 2014 underlines once again how the South African economy has underperformed peers with a particular focus on the “deep-seated structural factors” playing a role in corruption practices, low human development and environmental degradation. Commodity prices and credit are no longer supportive to the SA economy and more investment from the private sector is needed to solve the long-running unemployment issue (IMF, 2014b)

All in all, it seems here that Chinese activities in South Africa are beneficial from an external demand standpoint as it remains the first trading partner in the region. However, while there is evidence of an internal and intrinsic resource curse in South Africa, there is little proof by which these could be correlated with increased Chinese expansion. The economic and political preconditions which were more consolidated than the in the DRC context have helped South Africa not to experience the most glaring effects of an internal and intrinsic resource curse. The effects that are however seen, such as corrupt practices, the slow progress in human development, inequality and security are largely blamed on domestic conditionalities rather than influenced by external forces as it would be China. This comes to show the importance of institution building and its strength as the driving forces of the development of a resource curse. The lootability of mineral natural resources is constrained through democratic institutions which could explain little correlation. The weak underdeveloped institutional framework in the DRC indeed gave China the edge in expanding within the country and profiting off the poor enforcement and compliance with the legal framework regarding natural resources. The more diversified South African economy also diversified Chinese investments which cannot be blamed for the internal and intrinsic symptoms of the resource curse in South Africa.

Conclusion and discussion

This project was aimed at analyzing the influence of increased Chinese investment in African countries and its effects in exacerbating or mitigating the effects of the resource curse. That is, the low levels of economic development, governance quality and general welfare through robust healthcare, education and government protection programs. Building on a theoretical framework on the resource curse, world system theories and the increased Chinese presence in developing countries, as well as making sense of key concepts and ideas, this research project employed a most similar system design and compared the Democratic Republic of the Congo and South Africa as similar cases with shared colonial past, valuable and lootable mineral natural resources for today but also valuable for future growing technologies and the ongoing green energy transition. The analysis on the resource curse was treated through three dimensions. The external curse, pointing at the negative economic effects and underperformance in the world economic system. The internal curse, seen through the emergence of conflict, bad governance quality and an overall fragile state. Lastly, the intrinsic curse which refers to the degradation of the environmental as the result of the lootability and dismissing of environmental sustainability in extractive industries (Gonzales-Vicente, 2011).

Through analyzing country reports from both countries this project has found two different trends in the countries analyzed. On the one hand, the increased Chinese presence in the DRC helped improve the terms of trade and an increased improvement and presence Congolese exports earnings and conditions. In other words, the alleviation of the 'external curse'. However, part of it can be attributed to the dire governance condition of the country and the fragile state which faces unequal negotiations and deterioration of proxies such as the GPI, CPI and EPI. Chinese presence hence does not seem to bring improvement for the internal nor the intrinsic curse as environmental degradation remains a pervasive problem stemming from mineral exploitation. It has been shown how the "Chinese exceptionalism" (Curtis, 2013) and the win-win cooperation strategy has not fully materialized and remains flawed. On the other hand, while South Africa shows traits of the resource curse, the institutional history and domestic issues prevent making a correlation with increased Chinese presence under the BRICS alliance. The terms of trade improve when China is involved, similar to the DRC. However, when those deteriorate together with internal aspects, blame is mostly directed to the institutional building and previous policy-making structures deriving from colonial and apartheid periods and not to China. It seems logical to conclude how Chinese presence in

African countries alleviates the resource curse associated with economic shrinking and competitivity of exports but exacerbates internal and intrinsic curses in cases where institutions are still in formation as opposed to where (fairly) democratic institutions foster a diversification of investments, therefore preventing a significant correlation between internal and intrinsic curses and Chinese involvement.

Discussion

This project has aimed to take into consideration a new theoretical framework for the resource curse and the role of Chinese investments in exacerbating or mitigating the effects in the internal, external and intrinsic curses. It strengthens the literature regarding FDI attraction strategies and how democracy may hinder or diversify certain flows of FDI towards other sectors as it is the case of South Africa and Chinese media involvement. It has been discussed whether the win-win cooperation strategy is working from a more detailed theoretical framework of the resource curse (Gonzales-Vicente, 2011).

Certain shortcomings can nonetheless be raised from this project. To begin with, some criticism could be addressed to the comparative nature of this study. As it has been shown, two clearly different trends have been observed across our cases, this could be seen as a limitation. Indeed, much of the debate on the resource curse has defended how its presence and intensity is “largely context-specific” and emphasizes the complexities and conditionalities. More specific studies may allow for further and better generalization on the results.

In addition, some criticism may be pointed towards the case selection as these are not the obvious cases to choose. Indeed, the discussion on South Africa’s domestic factors being at the root of the internal resource curse could be further investigated to improve the validity of the inferences that have been drawn, as the apartheid period could have been seen as an exception in the continent, potentially flawing the results. Due to space constraints, this remains an interesting research option for the future of developmental studies.

Lastly, the data selection and analysis could be seen as flawed due to being sourced from heavily western-influenced institutions as the IMF or indexes as the Freedom House. Some more attention could have been addressed to the Chinese, the DRC’s or South Africa’s views and reports on the results of their win-win cooperation strategy and governance reports or in the case of South Africa, data could have been sourced from media companies and public opinion on Chinese investment as much of the FDI has been directed towards media corporations. This leaves room nonetheless for future research to account for more diversified views and sources.

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