China in Africa - Is It a New Colonialist?

Saidu Umar Mohammed
Department of Political Science Bauchi State University, Gadau Nigeria

Musa Saleh
Department of Political Science Bauchi State University, Gadau Nigeria

Nafiu Mahmood Alhaji
Department of History Aminu Sale College of Education Azare Bauchi State, Nigeria

China started some forums in 2000. And they have been happening every three years. And China uses them as a platform in order to announce a strategy for Africa.

So in terms of loans, trade and investment for the next three year period. - Building a community with a shared future and seeking inclusive growth, the opening ceremony of this year's summit for the forum on China-Africa cooperation, saw President Xi Jinping outline his vision for China's ties with the African continent in the new era. - China is the largest developing country in the world, and Africa is home to the largest number of developing countries. China and Africa have already formed a community with a shared future. We stand united with Africa's people thinking with one mind and working with one heart. - President Xi Jinping has announced eight major initiatives in the coming three years. - The framework of the 10 major cooperation plans, China will work closely with African countries and implement eight major initiatives in the next three years and beyond. It feels like industrial acceleration, infrastructure connectivity, trade facilitation, green development, capacity building, healthcare, people to people exchanges, and peace and security. In order to promote the successful implementation of the eight major initiatives, China will provide $60 billion in support for Africa. For government assistance, financial institutions, and financing from Chinese enterprises. It will include $15 billion in free aid, interest free loans, and concessional loans. $20 billion in credit funds, $10 billion in China-Africa developmental financing, $5 billion in special funds for import trade from Africa, no less than $10 billion in investment from Chinese companies over the next three years. - Already the summit has passed two outcome documents, including the Beijing declaration and the FOCAC action plan 2019 to 2021. Participants say that in a current era of globalization, all nations have a common destiny. And to put it in the words of President Xi, everyone has in himself, a little bit of others. - So as you can see, a lot of big announcements were made at this forum.

And this last image here has actually become very famous because for the first time in the history of these forums, 53 out of 54 African countries were represented. And I remember an African newspaper called Africa News wrote at the time that this was the week where the African continent was bereft of its leaders because everyone was hanging out in Beijing.

So this is just really the most recent peak of China-Africa relations that have gained more and more international attention from practitioners and academics over really the past 10 years or so. But why is it that this has become such a hot topic from a developmental point of view I mean? And in order to answer this question, I would like us to take a step back and think about what are the African regions persistent growth obstacles? And I brought you a comparison here from 1982 to 2016. And you see in the 1980s, China really was poor agricultural, and had just emerged out of a series of intense conflict, namely the Cultural Revolution. And you see that China was in fact poorer than most African countries, except for Guinea Bissau and Uganda. But fast forward to 2016, China is now richer than most African countries except for Equatorial Guinea and the Seychelles. And I know in lecture four we studied very much in detail China's growth miracle. But what was meanwhile happening in the African region. So after decolonization, several African leaders starting in Nigeria, Zambia and Tanzania, tried to import substitution industrialization. And that means you basically keep your economy closed to international trade and you try to grow and develop local industries first that compete within the domestic market. But that is an economic growth recipe really failed. So after several debts and oil crisis, the IMF and the World Bank stepped into Africa and implemented so called structural adjustment programs. And the idea was that everything needed to solve Africa's poverty was real neoliberalism through the Washington Consensus.

So deregulation, privatization, and liberalization. And after that, everything would fall into place. But that logic was flawed. And even after these countries went through structural adjustment programs, foreign investors weren't really willing to come to Africa still. So at the turn of the millennial, Jeffrey Sachs who was a very famous economist at Columbia. He also worked on the Millennium Development Goals with the UN. He wrote this famous piece on Africa being caught in a poverty trap. And what he's saying is that because of diseases, low stocks of human capital, technology, high transportation costs and an adverse geopolitical location, Africa is really stuck with both weak growth and weak institutions. And we have studied the modernization theory that says that growth supposedly leads to strong institutions. But the question here is what leads to growth in the first place. And he's saying that foreign investors don't want to come to the African region, because they aren't strong institutions that could enforce property rights, the rule of law, et cetera. And he's really advocating for aid as the solution to Africa. And there are economists such as William Easterly or Dambisa Moyo who highly criticize this call for aid as a solution for poverty. But it remained the fact that the African region wasn't able to attract much investment. And then, with the wake of the financial crisis in 2008, it looked even more dire because you have the collapse of the Washington Consensus. And if this hit to this overconfidence and neoliberalism as a concept and then the solution to end poverty, and you really see a retraction of Western investment in Africa, also because the West is running capital shortages, as they have to bail out banks at home. So now the question is, where can Africa attract investment from now? But as Deborah Brautigam in her book that you were also supposed to read for this lecture today, predicted, China meanwhile is rising and is running huge capital surpluses.

So where others are exiting as the path of least resistance going back to Hirschman, who we have studied as well. China now fills the void that the West is leaving and increases its presence in Africa. Hence we know that China has lifted millions of people out of poverty. And I would really recommend this book by Ang "How China Escaped the Poverty Trap". So now the question is, is China just a new colonialist? Or is its presence going to add something beneficial to the African continent? And as I walk you through the slides, I would like you to think about this question, whether it is even the right question to ask and I'll also offer you my opinion, as we move along. So for today's agenda, I will provide you with a quick historic overview on China-Africa relations, then I'll give you a big picture of what China is doing in Africa today. And then we'll dive into some key questions that I think are important to ask about this relationship. And I will use two case studies, Nigeria and Ethiopia, which are among the top receivers of Chinese assistance in Africa. And then I'll talk about some lessons and I wanna bring up this idea of African bargaining power here and how much African agency matters in this relationship. And then finally I'll give you my two cents on where I think this relationship with China is going in the future. So a lot of people think that China really started to become present in Africa in the early 2000s. When in fact, we have to go back to the end of World War II. And African countries are slowly becoming independent, while China is meanwhile fighting its own domestic conflict, where the communists had just driven out the nationalists to Taiwan. And Beijing, China is now looking for allies in this Beijing-Taiwan conflict. And after independence, 14 African countries actually decided to side with Beijing here. And we have very skillful leaders like Sekou Toure in Guinea who played the United States and the Soviet Union against each other in their aid offers.

And then he secretly accepted $25 million from China on the backside. China at that time is also rewarding socialists and communist movements as in Guinea but also in Ghana and Mali but after the Sino-Soviet split, which was basically about personal differences between Mao Zedong and Nikita Khrushchev, but also different ideological interpretation of Marx Leninism. Sorry, Marxism-Leninism. China has an interest in keeping up this non aligned world that neither sides with the US or the Soviet Union here. And what's really interesting is that in 1971, Beijing, China is actually able to gain back a seat at the UN that had been previously occupied by Taiwan. And Tanzania was very, very vocal here in these negotiations. So we studied how in 1978, China opened up its borders to the world. And it officially starts its bringing in period where it is trying to attract as much foreign capital as possible. And what's really striking here is that China is the only developing country in the world that is also offering aid to other developing countries. And the strategy here is very much based on its own experience as an aid recipient for example from Japan. That during that time knocked on China stores and said, we'll offer you low interest, low interest loans for technology and material and in exchange for crude oil. And we see very similar deals still being made today between China and Africa. And we studied how China was able to rise very fast. So starting in the early 1990s, China's running huge capital surpluses and is officially entering this going out period, that we're still in today. And China is trying to put its capital abroad, to invest it abroad, and it really uses its aid as a strategic tool to promote Chinese exports, and to help Chinese infant companies really grow and learn in other countries. And it also positions itself sort of as an alternative to Western aid. So in 2005 in Tanzania President Mkapa, he really when he stepped down, wanted to give his population kind of as a departure gift, a football stadium.

But the problem was that Tanzania was on the list of highly indebted poor nations. And they were supposed to actually run austerity measures, and couldn't spend all that money. But then he went to China and China said, okay, we're willing to build you that football stadium. It's gonna be smaller, but we're still gonna build you one. So he was happy. But what's very interesting is that in the early 2000s, China seems to have accepted the rules of neoliberalism. And the US is an economic headroom at that time, because it joins the WTO at a lot of pressure from the US and it seems like it wants to play by the capitalist international rules that were set up by the US. But then as we studied the financial crisis hits in 2008, and this is also a hit to this overconfidence that neoliberalism is sort of the way to go. And it gets a lot of affirmation to the Beijing, China model which is the state capitalism and that it sometimes it's better if the government owns companies in a certain sector that is deemed strategic. And if you have large infrastructure investments and that sort of an interventionist approach by the government is more effective than leaving everything to the private market. And an embodiment of this new confidence that China has found is the Asian Infrastructure Investment Bank, and the Belt and Road Initiative that I'll talk about in a little bit. But I would really recommend this book by Kurlantzick here, where he also talks about the effect of state capitalism and the spread of it in today's world on democracy if you're interested. And as I said, the most recent peak of China-Africa relations has really been this FOCAC meeting of 2018 where you saw the clip, where really China is trying to rebrand this relationship with Africa and it has signal that it's been listening to the concerns about debt traps, et cetera. So it seems like the relationship has matured or that's at least the narrative about it.

So what is China doing an Africa today and I'll briefly walk you through loans and trade, which are oftentimes in the news. But then I also wanna talk about investments, which is what I'm focusing on and it's a smaller sector of Chinese involvement, but growing. And then I'll also talk very briefly about China's military presence in Africa. So China's loan strategy in Africa is very much based on this idea of state capitalism, that you need to take a lot of money into your hands first, and invest in infrastructure and sort of get in the early stages of development, kind of the state to make growth happen. And as we know, African countries sometimes have shortages of money. So these loans serve that they lend to these countries now so that they can build infrastructure which is pre-stage of industrialization, in order to make growth and development happen. And just to give you an idea of how big these loans are today, we see that really, the loans from the China Exim Bank are already competing with World Bank loans. So the same magnitude that we're talking about today. But there's a big difference between World Bank and Chinese loans, namely that World Bank loans come with strings attached. So this is based on the structural adjustment programs today so we have austerity measures, and if you're expected to have fiscal prudence, where Chinese loans really have no strings attached. And a lot of people are concerned about this because if this money gets into the hands of politicians, they could misuse this, could also be a way of China sort of making African countries more dependent on itself. Or it could also be kind of China thinking long term, it gives loans to countries that can't pay back these loans. And then it can take over, let's say ports as it happened in Sri Lanka in 2017. And we'll talk about this a little bit later whether these concerns are justified. So China also gives us these loans as part of the Belt and Road initiative.

And this initiative as I said, was launched in 2013. And it is part of China's going out and going global strategy. And China right now is building trade infrastructure in Eurasia. And it's really meant to build trade routes in Eurasia, that is going to compete with the Transatlantic trade route that is currently being dominated by the United States. So here you again see this confidence that China has in its own development approach. And what's interesting, China's already Africa's most important trading partner. And you can look at these graphs, I'm gonna post them up. But really, the essence of this is that China is exporting more to Africa than Africa is exporting to China. And that was also one of the big topics that the FOCAC of 2018 that China was asked by African countries to also import more from Africa. So as I said, loans and trade kind of dominating the headlines, but Chinese investments in Africa, also a growing sector. So you see that the United States and the former colonial powers is still really leading here. But if you look at a change of five years, they're pretty stable. But when you look at China, this is really rapidly increasing. And I really like this graph here, which is the comparison between US and Chinese investment flows to Africa. And when you look at the blue line here, I think it shows very nicely that you have an upward sloping trend line until the financial crisis and then under the Obama area, those flows really drop. And now if we could extend this to the Trump area, Trump he focuses more, he has more military concerns than kind of foreign direct investment priorities. But when we look at China here, you see an upward sloping trend line and there's one outlier. That's when China bought 20% of the shares of the Standard Bank in South Africa. But I think the essence of this graph is really external shocks really don't matter as much to investment flows of China, and also changes in political leadership, et cetera.

So I think this shows that China intends to be in Africa for a longer, longer future. And we can't say really the same about the US, we don't know what's gonna happen. And here just to give you an idea, investments, Chinese investments in Africa, very diverse, and the biggest sectors are construction, transportation, manufacturing. And I think this really nicely fits into Sun's story of the Flying Geese Theory and the geese flying to Africa now. Where we have talked about the Flying Geese Theory a little bit when we talked about China. Capital basically moves to wherever labor is the cheapest, and we saw Japan industrialize in the '50s. And as labor prices increase there they moved to other areas in East Asia. And now because labor is increasing, labor prices are increasing so much in China. We see a lot of Chinese manufacturers moving to Africa and actually, I conducted a lot of interviews with Chinese manufacturers in Africa, in Nigeria, Tanzania, Kenya, other places that are really said, I'm here because this looks like China in the '70s. And it's really amazing labor is so cheap, land is so cheap. So officially, China's saying that it is interested in an economic and sort of cultural exchange with Africa. But people are getting more and more concerned also about China's military presence, because right now China is already the Security Council member that deploys the largest amount of troops under UN command in Africa. And what you need to know here is that African countries don't really like if soldiers from neighboring countries are deployed inside their countries because ethnically which is oftentimes cross national borders. So now the AU, the African Union and the UN might like to employ and have Chinese military stationed in these countries to avoid this problem. And then China also set up its first military base in Djibouti that also raised a lot of concerns and I have a little clip. - A fleet of Chinese ships en route to the Horn of Africa on a mission to set up China's first overseas military base in Djibouti.

China's is the base will be used to support peacekeeping and relief missions. - The establishment of the base will help Chinese vessels escort missions in the Gulf of Eden and Somalia and international obligations such as humanitarian rescue missions. It helps China to continue to make even greater contributions to the peace and stability of Africa and the rest of the world. - Construction began on the base last year. Although small, Djibouti is strategically placed, sitting on a busy shipping route and a stable country in an otherwise volatile region. China now joins the ranks of several other nations with military bases in Djibouti, including the US, France and Japan. But China's new base and rapid modernization of its military is raising alarm bells for neighboring countries, particularly India. With concern this base could become another one of China's so called string of pearls, building up strategic military alliances and sea lanes in the region. - So I think we can all agree that whatever China's doing in Africa, it's a very wholistic strategy. And China has really increased its presence in Africa in the early 2000s. And it seems like it wants to stay for a near and medium future. So I think there are a couple of key questions that we should be asking on this relationship that really try to get at what are China's intentions but also what is in it for the African side. So first of all, going back to our central question from the beginning, is China a new colonialist? Or is this presence adding to local development on the ground in Africa? And are the final colonialists here by a foreign power that tries to take partial or complete political control over another nation, as well as engages in economic exploitation? Then the second central question is how does China's presence add to institutional development? So sort of more on the political side. Does it have good or bad governance? Thirdly, are debt trap claims justified? And these are all questions that really media and scholarship has been trying to analyze and answer.

And I would like to throw in a fourth question, which is how much bargaining power do African governments have in their relationship with China? And how do they use it? Is there leverage on the African side to influence what this China-Africa story might look like? And so on this key question of China, is China new colonialist, China's officially running a five nos policy in Africa. So it's this five nos policy is very much based on its general policy of non intervention. So that's also why China is not supporting the responsibility to protect or to keep because it's basically saying every nation is responsible for its own population. And we're not going to intervene with anyone else's affairs, as we also don't want anyone to step into our domestic politics. That's also why China oftentimes vetoes sort of intervention. So resolutions at the UN, also with Syria for example. So here you see Xi Jinping talk about his five nos policy in Africa. - China values sincerity, friendship and equality in pursuing cooperation. The over 1.3 billion times people have been with the over 1.2 billion African people in pursuing a shared future. We respect Africa, we love Africa and support Africa. We follow a five no approach in our relations with Africa. No interference in African countries pursuit of development path fitting their national conditions. No interference in African countries internal affairs. No imposition of our will on African countries. No attachment of political strings to systems to Africa. And not seeking of selfish political gains in investment and financing cooperation with Africa. - So you see here China's official stance on this is, of course, we're not a new colonialist. We're not interested in kind of political control. We're just really as I said before, interested in economic and cultural exchange.

But of course they're also more critical voices on this China-Africa relationship. And I brought you here a comic by a famous South African artist. And you see basically China coming in with those big machines, and it says China's industrial colonialism. And these machines are going against the local population. And here you also see, Africa's environment is also suffering from so the expansionary vision of China and Africa. And when you look at Western newspaper reports, there are also a lot of articles like on Chinese debt trap diplomacy again with those loans, economical cold war. Is it a new colonialism? Chinese investments bring racism and discrimination. And I also talked to locals that have told me that the Chinese they just take all the jobs. So it really, everyone is split about this topic. So I would like to have a poll now on sort of from your background knowledge on China and Africa, what do you have heard from the news, et cetera, who thinks that China is a new colonialist in Africa? Okay, that's a lot of people. I didn't expect that. So who thinks China's influence in Africa is really kind of they're actually better than what the former colonialists have done? Okay, yeah. And who was split on this topic? Yeah. So I think the vast majority thinks that China is the new colonialists. So I'll just give you my opinion on this issue. So I think if China is a new colonialist, which I actually doubt is, first of all, it is a very different kind of colonialism. Because as you've seen in that famous image, 53 out of 54 African countries actually deliberately selected into it. So it wasn't like China, just coming to Africa and kind of taking over political control. but it is they are offering deals and the Chinese side is can either accept them or not. And there are a lot of speeches from African leaders from this forum that talk very favorably about China and how their relationship is different with China than with the West because of this non intervention. We also talked about how altropy is is sort of Europe centric.

And it could also lend itself to again, like colonialist aspirations, et cetera. So this is sort of an agreement here. But I think obviously, the Chinese government, the West and African leaders, they're self interested actors, and they're very irrational in sort of what narrative they put out there. So I think instead of listening to what different leaders are saying here, we should focus more on impact and the variables that we can actually measure of what China is doing in Africa. And I think there are three questions that are probably the most productive to focus on if we want to have a real assessment here of whether China is a new colonialist. The first one is, is China helping to grow and diversify African economies? And this one is really important from both an economic development perspective but also from an institutional one and also in terms of democratic one. First of all, economic one because we want to see with China's presence in Africa, are African countries that are mostly agricultural now, are they moving more towards industry? And from an institutional perspective, I know we started to risk it all in detail where they're all saying we can't really predict when a democracy, like when the transformation to a democracy becomes more likely. But what can we say about its survival? So we know that democracies are more likely to survive if they have a higher per capita income than $14,000 as well as they have a diversified economy. And then I want to ask two more questions, which are is China adding local human capital and technology? And how does the competition with local businesses look like? And these two questions are really inspired by China's own growth miracle, because when China opened up in 1978, it invited a lot of foreign investors and provided incentives, all of that, to come into specific industries. But what's very interesting about China is that it actually kept a pretty strict foreign investment catalog, where it laid out certain sectors that were completely restricted to foreign investment and others where foreign investment was allowed and encouraged but had caps on foreign equity that was allowed for a joint venture requirements and also requirements and how many foreigners were allowed on the boards of companies.

So they're much I summarize, this is local participation requirements. And China was using them really as a magnifier effect because China was able to import the technology from abroad and get the money from abroad, but it built a second of local managers that could then run the show. And this is also one of the explanations as to why China was able to grow and develop so fast, because locals learned very much and very fast from foreigners in their countries. And before I dive into my case studies, Nigeria and Ethiopia, I just wanna point out that, this idea that there's One China Inc. Africa is also flawed. So I know we talk about China and Africa, now also use the term just for simplicity reasons. But through my research, I found that there actually at least three different types of Chinese companies in Africa that have very different incentives that are worth studying. So first of all, you have state owned enterprises, and they're very much linked to China's sort of state capitalism model. They are very dependent on the Chinese government's control. And oftentimes, they're both driven by an economic incentive as well as sort of a different diplomatic kind of relationship, let's say between China and Nigeria where these companies are allowed to operate at razor thin profit margins. If this is important enough for the strategic relationship between an African country and China. Then you also have big private firms like Huawei who come to Africa to really they're very profit driven. I've talked to CEOs from Huawei who really want to compete with Western companies in Africa. But they have such a high profile that they can't really hide from the Chinese government.

And so they're still dependent sort of, on China's, the Chinese government's strategy in Africa, and they can just do everything they want, because China's actually very concerned about its image in Africa. So they have still have to obey by certain rules. And then there's a third category which I particularly find very interesting to study which is small, private firms. So how they come to Africa is in two ways. So sometimes you have Chinese state owned enterprises being sent to Africa. And then employees in the state owned enterprises are realizing, okay, we're not really making any money. So individual entrepreneurs, they venture off and they open a small company in Africa to really make more money than that sit on the enterprise. Or we have some small Chinese private companies already in Africa that do have friends back home in China. And they will tell them all like land here is really great. Like here, the taxes really low, et cetera. So you should come from China to here. And they keep a very low profile, and they hide a lot from the Chinese government as well. But what I would also like to add is the Chinese government doesn't really care if they hide or not as long as you're not big enough to really matter. And if you make an impression, if like your company screws up and it's gonna be in the news and stuff that could be could influence this image that China has in Africa. So I also talked a lot of two or three types. And as I said, they all have very different incentives. And that matters for the stories that I'm going to tell you now. So let's first focus on Nigeria. So Nigeria as a country in West Africa. And just to give you a little bit of background on Nigeria, it has the largest population in Africa, and also one of the largest youth populations in the world behind China and India. And it's a former British colony, and it went through a military period, military regime period. And it's been formally democratic since 2015, when Jonathan Goodluck deliberately stepped down to Muhammadu Buhari and democratic elections.

And Muhammadu Buhari he just ran for a second term in February and I was actually in the country during that time. So it was very interesting to observe. So what's really interesting about Nigeria is that in the '70s and early '80s, it actually had the largest textile industry in Africa. So we had some diversification of the economy happening. But when we fast forward to today, 80% of all finished consumer goods are imported. And really, the economy is not diversified at all. So what happened there? So in 1958, Nigeria discovered oil, and by the 70s, this was really the largest sector of the economy. And I think that led to really three outcomes. So first of all, as we talked with the Soviet Union, if there's one dominant sector in a country, the political elites really have an interest in keeping that one sector dominant because they can grant access to the sector and they can make a lot of money versus if you try to diversify the economy and try to provide alternatives to the population, they would not pay you anymore to get access to the sector. Secondly, there's also the Dutch disease and basically as your revenues increase in one particular sector, your currency appreciates and that makes exports from any other sector really expensive. So Norway is also an oil rich country, has tried to circumvent this issue by when it gets the revenues for its oil, it doesn't even convert them into its own currency but puts them into funds again abroad. So because Nigeria has all this oil, its GDP per capita is pretty high, but we have very high inequality. And it is one of the top receivers of Chinese investments. And those are not just investments in natural resources. But I also talked to a lot of manufacturers there, people in the service sector so it's a very attractive market because you have a huge population, very cheap land and very cheap labor. And what's important to note about Nigeria as well finally is that it really adapted the structural adjustment programs and went with it.

So in 1995 it allowed 100% foreign ownership in all sectors. And really, if you're a foreign investor in Nigeria, you can basically do whatever you want. So you can compete with locals, you can make money there and you can export it abroad. So you can really have a lot of leeway there. So let's look at growth and diversification, as I said like that is one of our key questions, is China's presence adding to growth and diversification? And here you see that Nigeria actually just emerged out of a recession. And that was because of a drop in global oil prices and output chalking, Nigerian and advocate policy to really respond to this. And here you see how much Nigeria is, is really dependent on the oil industry, because over the past 20 years, the value added from industry actually declines so we don't see any diversification happening over the past 20 years unfortunately. So let's hone in a little bit on how China's presence is really adding maybe something to diversification and local participation in Nigeria. And what's interesting to note here is that in 2006, at another form of China-Africa cooperation, China announced that it wants to build eight special economic zones in Africa. And that was really based on this idea that China used special economic zones in the beginning of its opening up to really experiment with capitalism. And so they suggested kind of as a policy strategy, you should also build these zones and have tax incentives, tax holidays, and let's see what happens but the difference is that these zones are much smaller than the ones in China. So that's why they might not be working effectively. But Nigeria got two zones during this bidding process, the Lekki Free Trade Zone and the Ogun Guangdong Zone, and both are very much top down joint venture, joint venture project between state governments in Nigeria, as well as Chinese state owned enterprises.

And I will show you a video now from the Lekki Free Trade Zone. - For many African countries, attracting foreign investments has always been a challenge. And now it's become even more difficult with an economic downturn in Europe and the United States. So here's how some African countries have responded. They set up what are known as free trade zones. These are places where multinationals can come in, set up shop and in some cases, a little or sometimes no tax at all. It really does beg the question, what's in it for the ordinary African. Mark Edwards been checking up on that in Nigeria, Africa's most populous nation. - In Lagos they hope this will be the road to economic success. The Lekki Free Trade Zone is being carved out of thousands of hectares of untamed land near the coast of Nigeria's commercial capital. - The first part is 3,000 hectares. - They call Sola Oworu the Empress of the zone. This former city banker is in charge of creating what she believes will become the Dubai of West Africa. - The idea is actually to create a new model city, not just industrial, also a residential, commercial area, so that you have a self sustaining city. - While Lagos State providing the land, a Chinese consortium is responsible for the actual construction. There's a lot to build. The zone will have its own international airport, deep sea port, and its own water, power and sewage systems. - The idea is to have the zone as a catalyst for economic development in Lagos State, diversify the economy, we would want to attract foreign direct investments into Lagos State. - There are 23 other Free Trade Zones in Nigeria, all vying for the attentions of international investors. But the Lekki Free Trade Zone here in Lagos has one big advantage, size. At 16,500 hectares it could become the biggest in Africa, four times the size of Manhattan in New York. - So this is a video from 2013. And what's striking here is that you can't really see the zone itself, right? So I tried to find videos where you have some video footage, what it actually looks like, but I couldn't so I would have liked to show you.

So I was wondering about that myself. So I went to the zone and I drove there and when you arrive there's a really nice building in front with the administration and like they welcomed me and I could talk to the MD, the managing director on the Nigerian side as well as on the Chinese side and everyone said, yeah, the zone is gonna be amazing and like all of that potential and it really is going super well. And then a team of engineers took me around the zone. So we came behind the administration building, and what you could really see was not that much, because there wasn't. So there was some basic infrastructure built. But I was driven around and I talked to a few companies that were really only 14 fully operating

Chinese companies in the zone. And that was after 13 years of being built, right? So I think it lags a little bit behind expectations. And one of the reasons I see is really, because it's more of a top down joint venture between two governments. So as I said before, you have Chinese state owned enterprise involved. And it is kind of bound to this diplomatic relationship between Nigeria and China and it is a prestige project. So that's why they build a lot of infrastructure there. But how to make the zone actually work is a different story. It is a very profit driven story. And when I saw kind of the management building and then like the office is there, they're very comfortable in that position, I don't really see that big of an incentive to go out of your way to really attract all of these companies. So while there's tax holidays, so no taxes inside the zone, there's a very high management fee actually. And I talked to companies that had considered moving into Lekki Free Trade Zone, but they didn't find it profitable because they were too small for the management fee to make sense. And finally, they were also locals that have been protesting because of resettlements.

'Cause that used to be their land who have been protesting a lot. And in 2012 actually, one of the managers of the zone got killed. So they'll have problems to make the zone really, really work and profitable. And we have a similar story for Ogun Guangdong. So now though I would say it is performing slightly better. So it was started with a Chinese state owned enterprise. And then they were caught up in some smuggling problems. And then a Chinese company actually took over the zone, the management of the zones. And they were more interested in kind of making the zone work because they were more profit driven. But then the Chinese government kicked them out, I believe two years ago and put in again, a Chinese Special Economic, SOE, State Owned Enterprise, because they felt like they had more control over what that company could be doing with this prestige project, which meant a lot for the diplomatic relationship between Nigeria and China. And there's a very interesting story that I would like to share with you. Professor Shapiro and I, we both separately, interviewed the private management at that time of the zone. And they told us they had one big problem, which was someone was blowing up the gas pipelines that were coming to the zone. So who do you think was blowing up these pipelines? Yes. No, it was not terrorists. Yeah. So what's really interesting is that you actually had locals blowing up these gas pipelines because they started sort of as a local competition, or like as a foreign project that they weren't really being able to have any advantage of. So again, have locals seeing the zone and like seeing the infrastructure, but not really being able to participate. And as I said like in Nigeria, you can kind of just come in as a foreign company and you don't have to employ locals or train locals or have them on or kind of give them ownership. So I've heard a lot of stories of competition between Chinese companies and Nigerian ones.

And obviously competition is good for kind of growth. But there's also the flip side of local inclusion. So I guess that is the trade off here. And I know these stories are just anecdotal. So I have like, for example, in the bike ride hailing services, and there's a really aggressive Chinese company right now or in the FinTech industry, whether a lot of Chinese companies Offering loans to locals, just competing on price alone. And I'm going to conduct a survey experiment with Chinese companies next semester in Nigeria to kind of get more at the trend here. So I don't only wanna talk about negative things about Nigeria, so they also some positive developments here. So for example, Aliko Dangote, he's the richest African right now. And what you need to know about Nigeria is that it exports all of its crude oil and imports the refined oil, because it's not doing the refining itself domestically. So Aliko Dangote is now currently building an oil gas refinery, in Lekki Free Trade Zone to solve this problem. And I talked to locals and they generally actually feel positive about it because they're excited that this is now finally that there's some domestic refinery here. I would be a little bit cautious because 20 years ago, Nigeria had this law that not one private businessman could own that much oil in that industry just because of national security concerns, right? And I think Aliko Dangote is getting a lot of political power because of this now, because he controls, he can just stop the oil immediately. He is also, I heard he wants to also sell it at kind of international prices. And if the government doesn't really comply with what he wants, he can just easily export the oil as well, because he's in the Lekki Free Trade Zone where they have an airport and a seaport. But what I'm more excited about are these small Chinese industrial parks. And I know you also had to read an article on this. Where through an interview, a local Nigerian broker who work with Chinese companies, he invited me to his village and he said, I live in this village where the local chief he set up an industrial park with Chinese and I should come visit.

So I drove there for a weekend and I interviewed all the Chinese companies there and I also talked to the local chief. He invited me for tea and we just sat and chatted. And this looks like much more like a bottom up sort of win-win situation where in the '90s, a Chinese businessman, a private one came to that village and he wanted to do some fishing there. So his people they built two houses for the village chief, for his palace. And kind of as an exchange, he was allowed to fish there and then he brought more and more people, small, private Chinese firms and they build this industrial park. And they prefer being in that small industrial park to being in the big ones because it's located on a very strategic street that goes from the south to the north and they produce mattresses and slippers and all of that and they actually also get tax benefits from the state government because the village chief talks to the state government and they also employ locals and have them not as office managers, but at least as floor managers. So there seems to be more promise here. So I wanna contrast the Nigerian case with the Ethiopian one and Ethiopia is a country in East Africa. And I'm comparing it because it is the second most populous country in Africa. So similar in size, it has never been colonized. Except for a short period of where the Italians occupied Ethiopia during the Second World War. It went through a communist era. But then what's really interesting is starting in the 1990s, where you have an authoritarian regime, arising the Ethiopian People's Revolutionary Democratic Front. And Ethiopia also went through structural adjustment programs, but they didn't apply them one to one. They sort of like China that also went through structural adjustment, took the pieces that they felt like that would work in their country and left everything else out.

So in 2002, they adopted an industrial policy strategy. And that transformed into two growth and transformations plans that are very much based on the Chinese and Korean developmental models. And when we look at Western investment flows to Ethiopia, after 2003, they have like really declined because there was sort of, the Western companies weren't able to just operate in this market anymore, because like in China it was more strategic, like some sectors were closed, some are open to foreign investment. But Chinese investments stocks meanwhile, rose a lot. And it's already ranked 11th for amount of Chinese investment stocks in Africa. And I expect it's gonna join the top 10 very soon. So when we think about growth and diversification in Ethiopia, this is a much more positive story. Although Ethiopia is also starting from a much lower level, of course, and it's much poorer than Nigeria, because it doesn't have this oil wealth. So now Ethiopia is actually the fastest growing economy in Africa right now. And it's in the news for that a lot. When we look at industrialization, this graph looks very positive, but actually when you compare over the past 20 years, the shelf industry has only grown by I believe it's 11%. And most of it is coming from construction, which is kind of the pre-stage for industrialization. So it looks promising, but we aren't there yet. And actually, we see a lot of movement from the agricultural sector towards services. So Ethiopia looks more like India now, than Korea or China, although it has this industrialization policy so. What are some positive developments here by the Ethiopian government that were implemented? So first of all, Ethiopia has really tried to ramp up primary education enrollment over the past 10 years, and it isn't that 100% now so obviously, this isn't the perfect measure of quality education, but it's one measure to look at sort of human capital stocks and then how there's human capital growing in the economy.

And as I said Ethiopia is also very strategic and has a local content initiative where some sectors are completely closed off to foreign investors. In some sectors, they are open but there are a lot of incentives for joint ventures. And even informal sort of deals. Investors are always expected to come up with a strategy and a proposal of how locals are going to benefit from this investment that is being made. However, there's the study by Blattman and Dercon, which I found very interesting. They tracked industrial workers in five different factories in Ethiopia, and actually 70% of them quit after one year. So again like there's potential in Ethiopia for industrialization, but it seems like there are more options still in the agricultural and informal sectors and people aren't really picking up these industrial jobs yet on or running with them. So I do think industrialization is happening in Ethiopia right now. But locals should be incentivized to pick up these jobs and stay for longer and they were also health concerns. So there were a bunch several blocks to move out of the way. And here's the Eastern Industry Park. And this is also one of these eight Chinese special economic zones that were placed in Africa, after China announced they want to build them in 2006. But this is a very, very different approach to what we saw in Nigeria, because this is actually a bottom up, very private initiative. So it's a private Park. And there was one Chinese businessman that came to Ethiopia in 2006. And he wanted to build a pipe factory. But then he heard about these biddings for these special economic zones. And he applied for one and he brought one of them to Ethiopia. And in the beginning, the Ethiopian government was very much against it, it was like very skeptical of what was happening there. But this private Chinese businessman, he brought government officials from Ethiopia to see the zones in China. And over a while the Ethiopian government really got into this idea of special economic zones.

And in 2015, they even implemented industrial zone framework and they have four more zones planned now here and there are 83 Chinese companies operating in the zone already, although it's much smaller than the ones in Nigeria. So you have some footage from there. -

If you look for some of the best China based companies operating in Africa, chances are you'll find most in this humongous industry zone. Located about 30 kilometers outside of Ethiopia's capital, Addis Ababa, the Eastern Industry Zone is a place for the multi faceted industries from China. - This industry is first industry in Ethiopia. And this industry is a wide stage for the foreign investor. And this one is we get support from both of Ethiopia and China government, because they know in China government, we have the experience, how to build these industries, and how important to attract the foreign investor. Also now Ethiopia, they want to develop the industry. And now they know. - Since its inception seven years ago, the Eastern Industry Zone has been showcasing Chinese industrial developments positive impact here. The zone now houses best Chinese manufacturers such as Huazhan Shoes and Lifan Motors. Here there is already a conducive environment for any investor to operate. And that according to the management of the Eastern Industry Zone is key. - Now Ethiopian they give good condition. They support us like one stop surveys, like the customers credit lines, inside industries, they give good service very easy. And the here is peaceful. - Now the future equally matters for Ethiopia's manufacturing sector. There is already a big ambition to make the nation Africa's manufacturing hub. For that Ethiopia eyes the new Belt and Road Initiative to make all the dreams a reality. - So actually there have been a few academic studies done on the zone. And what they found was that actually companies are training locals. Because as I said, the Ethiopian government sort of informally requires that you come up with a proposal on how locals benefit.

It isn't like for the entire zone, that there's one sort of strategy so I think that could be one improvement here, but at least you see some development. That's the locals are being trained and that local human stocks of capital are going up. So I wanna make a final point here on sort of what's in it for foreign investors on obeying with local participation requirements. And I wanna talk about the state of emergency in Ethiopia. I was actually there during that time. And basically the state of emergency broke out after the Ethiopian government wanted to expand the borders of Addis Ababa, the capital to the south to have like an industrial kind of area there and protests broke out in the Oromo and Amhara regions, and it cost them ethnic tensions, and a lot of protests and arrests, et cetera. And during these protests, locals really went to foreign companies and destroyed them because they felt like they weren't part of this growth story that Ethiopia was telling them and also you could hear in Western media. So I had a very interesting story from an interviewee there that there was Aliko Dangote, which is the richest man of Africa had one factory there. And right next to it was a Dutch South African factory. And what's really interesting is the protesters walked around the Dutch South African factory and destroyed Aliko Dangote's factory. Why? Because the Dutch South African factory, they employed a lot of locals, also gave them shares from the company. It was perceived as a local project. So in some sense, if you incorporate kind of local partners, it also mediates political risks. So let's now turn over to the lessons that we can draw from these two case studies. So first of all I think the central lesson is that deal conditions matter for development outcomes. And going back to this first question that we had in beginning, like is China new colonialist? Or can it sort of put its model in Africa and then now Africa is gonna rise, I really think that this is more about

African side, strategizing rather than the Chinese dictating any model, and you see that in different sort of policy environments.

The Chinese are gonna act very differently as international actors are gonna act differently as well. So I think it's more sort of African agency that is going to determine whether this is a positive or a negative China-Africa story. I also doubt that there's one China-Africa story, because we have 54 different African countries, but very different policies. And the conventional wisdom here is actually on these two conditions that African countries can't set them because they have to be deal takers in order to attract any kind of foreign capital. And this is very much this Washington Consensus Narrative, the Poverty Trap Narrative, that the region historically has not been able to attract significant amounts of investment. So you have to make it as easy for foreign investors as possible to kind of attract them. This is because Africa's population is young and under educated, low stocks of human capital poor infrastructure and political risk, sort of what Jeffrey Sachs laid out in his piece. And even with China in the picture, the African countries still have no exit options to the Chinese offer, right? So it's kind of this idea of whatever the Chinese offering, you have to accept, because there's no one else who will step in and build this for you. So as I said, I conducted 10 months of field research in Africa, kind of to try to find evidence for this. And now based on the evidence that I found, I highly doubt this entire narrative. And I say that paradoxically, I believe African countries actually have significant bargaining power with China. And I think this is fundamentally based on the idea that Africa doesn't just have all these weaknesses, that the poverty trap list here, but in fact, Africa is the region in the world with the most amount of natural resources.

The cheapest labor in the world and the cheapest land. And in contrast to the West, China has both willingness and capacity right now at its developmental stage, to put its money into Africa and to really get returns from these factors that look very attractive and lucrative to China here. So completely, China has massive capital surpluses as I said and it needs raw material to fuel its growth. Africa is the last region to industrialize. So as I said, I interviewed a lot of Chinese manufacturers that are really excited about the African markets, because it's so much cheaper there to run a factory now. Africa also has export deals with the UN, the US. So actually, when they want to export goods, they don't have to pay any tariffs. So as a Chinese if you produce in Africa, it is cheaper for you and in a lot of cases. What's also interesting, I want to focus data in and I interviewed someone who is still in Nigeria and the President said that in 2016, China increased its environmental regulations in symmetric market. And in that year, you saw a lot of Chinese companies that did not want to obey with these environmental regulations to Africa because, for example Nigeria doesn't have these strict government regulations. And finally, Chinese companies also seem to be less risk averse to political instability. So you also have a lot of Chinese investments in South Sudan, for example, which is not politically very stable. So I think that Western investors are much more sensitive, they also stay to these kind of political and safety concerns. They stay a lot of urban areas, where you see a lot of Chinese in rural areas. And I think that what's the most important is that certain concerns with Western investment that limit African bargaining power, are less alien with Chinese one. So first of all, you could argue that because China is offering all these loans to Africa, it makes these African countries very dependent on China. But actually Deborah Brautigam, who is one of the leading scholars here, she wrote a lot on this and saying, the magnitude of this is really overstated.

And then you see countries like Ethiopia who have taken out much more debt with China actually being more aggressive with China than others which are smaller debtors like Nigeria. Secondly, China is also really trying to compete with the West. And the number of allies matters. Also at the UN we see that UN General Assembly, these African countries on certain things they vote with China. And if you're Ghana or if you're Nigeria, you have the same vote, it's one country, one vote. So that's why China's interested in having a relationship with all these countries and economic relationship and there is the loan, trade and investment. And I think this is very important for the central point here that these African countries, there's less of a need for intercontinental competition for Chinese investments because it seems less rivalrous than what's coming from the West. And even if China's the only sort of investor here, China oftentimes prefers to be in your economy, than not be in your economy. Even if they have to adapt slightly to policies that countries imposing and you see this year, you see investment stocks from the US where like you have maybe five countries where the top receivers and the rest is getting very little. And there's a lot of competition here for US investment. But when you look at Chinese investment stocks in Africa, the first ones surely to get more, but then you have a much more even distribution of those investment pies, and you have 51 African countries that actually receive an investment pie. And yes, that is dependent on sort of China's political and economic considerations. But I run some regressions and it is very independent of whether African countries are imposing local participation requirements or not. And let's take one of these investment pies. Let's say Zimbabwe. And let's see what a policy shock does to these investments.

So in 2008, Zimbabwe implemented this Indigenisation and Economic Empowerment Act, where all companies inside Zimbabwe had to have 51% of local ownership. And when we look at US investment flows here, investment stocks in Zimbabwe, you see that after 2006, they were not even counted anymore because they really decreased a lot. And I found a lot of qualitative evidence from Western companies here, complaining about 51% local ownership all of that and it just made Zimbabwe very, very uncompetitive compared to African countries. And of course, you also have the financial crisis hit here in 2008. That also is part of the story. But when you look at Chinese investment stocks here, they really don't seem to be bothered by the 51% local ownership here where you see starting in 2010, these stocks really skyrocket. So this is puzzling and then when we look at Algeria, we have the exact same policy change also in 2008, with 50% of local ownership required with companies. And here you see, starting in 2007, when these were announced it really like the curve really gets much more flat versus Chinese investment stocks. They just you have that upward sloping trend line regardless. And I also conducted a lot of interviews with Chinese businesses and Western businesses, try and get at these sensitivities, to local participation requirements. And really, across the board, when I asked the Chinese they were just like, honestly, like as I said, this is China in the '70s and '80s. And it's great here, I would stay under any kind of policy regulations. Versus when you ask a Western investor, they were like no, like if I had to employ locals, I would think about it twice. And I found this quote from Algeria as well. So the question is, why do some countries like Nigeria, Kenya, negotiate weaker deals in the sense of like, diversification issues and local participation, weaker deals with China than others like Ethiopia and Tanzania? And I think common explanations here are, for example corruption that countries know that they could be asking for more from the Chinese investors, but they aren't because politicians like to just pocket some money and let them do whatever they want.

Or another explanation is ideology so that they know they could be imposing these restrictions and the Chinese would be doing it but let's just keep the economy open because we really support capitalism and let market forces do their job. Or capacity where the government knows they could be asking for more but they don't have trained or skilled negotiators that can face sort of the Chinese negotiators that have more experience. But I would like to bring up a new explanation here, which is the government's perceptions on their own bargaining power matter. And why could this be one of the explanations? I mean, it isn't exactly obvious that these economies do have bargaining power, right? Like we just talked about all the weaknesses and how the Washington Consensus and the Poverty Trap Narrative really suggests that these countries are negotiating from a position of weakness. So I conducted interviews, especially very, very intensively in Nigeria, to understand how the Nigerian government thinks about Chinese companies and how Chinese companies think about the Nigerian government in terms of kind of policy sensitivity and exit thresholds and of what would be the policies that would drive the Chinese out. And the Nigerian government I interviewed national ministers who told me honestly, we have no bargaining power here. The Chinese and the West, they're bringing all the money and we have nothing to offer. So we kind of just have let them do whatever they want to, versus with the Chinese companies, as I said, I got a lot of them just said, you know, I would do everything to be able to stay here. And in other countries like Tanzania, there was much more of this awareness, this China really needs us. And then Ethiopia I've heard that a lot like we are really pulling the Chinese in here right now because we have cheap labor and we have cheap land.

And this is exactly what China is looking for right now. So what are the factors that influence African governments' perceptions on bargaining power? And I tried to understand the political economy behind this. So first of all, I think the historic relationship to the West versus the East matters to where I said, Nigeria was a British colony for a very long time. And we went through the Washington Consensus and really adapted what Western investors were telling Nigeria at that time, versus Ethiopia had never been colonized. Tanzania also has a very long historical relationship with China. They've looked very much more towards the East also during the Cold War. There is also federalism and ministry constellation where in Nigeria, a lot of different states, they actually compete for investments. So they're not likely to share information, how much Chinese investment is actually coming in. And a lot of them really underestimated Nigeria's position and attractiveness to China. And it's the same with ministry constellation, where in Nigeria you have a lot of ministries sort of competing for these deals, and there's not one collaborative effort versus when you have one sort of very centralized government. That government has all the information on sort of what investment comes in. And it's also overtime learning if you have one party in power for a long time, they might have tested out kind of what can we asked for also more informal deals. And then finally individual agency also matters, where I've just met people, for example in Tanzania, someone in a very senior position in the ministry. He was educated in Japan, and just really studied industrial policy through and through. And he just knew, he was very confident that China was going to obey by these rules if Tanzania asked for them. And Tanzania also has similar policies to Ethiopia. So what are some policy implications here? I just think incentives are more effective than requirements.

Mostly because when you look at these different graphs from the West and China, you're trying to attract two different kinds and types of investors. So if you offer like a menu like Ethiopia has here, different types of investors can pick whatever they like the most. So if I care more about low taxes, maybe I'm more willing to have a joint venture and so forth. So you can kind of mix up different policies and offer a different menu to different types of investors that can pick whatever they wanna do. I think because these countries also have weak formal policies, it leaves room for a case-by-case negotiations as we see, for example, with these industrial parks that I talked about. The hidden industrial parks of the villages that kind of set up a deal that work for all sides. And you should also account for enter and exit thresholds where I think the decision of companies to enter your country, are probably, they're more sensitive to kind of your policy environment rather than if you're already in the country. And then certainly, you have to pay higher taxes. So your decision to exit because you already set up kind of a factory, et cetera. It's gonna be less sensitive than if you still need to put in all the capital in the beginning. So what are some expectations for the future? So I think there's certain things to consider on the Chinese side. Which is can China maintain its growth but I also heard that because China's growth is slowing now all these Chinese manufacturers are moving to Africa in search for new opportunities, and they feel like the African region is the next one to industrialize. So it's kind of, literature here is not clear whether China slowing its growth, is actually good or bad for the African region. How its rivalry will play out with the US. And what about automation and the flying geese. So I think that's something we should be concerned about that if labor is being replaced with machines, maybe the cheap labor in Africa is gonna be less needed.

So factors on the African side, I think the biggest question is, can countries start to use their bargaining power and negotiate stronger deals? And just coming up with a strategy, I think here is essential, rather than just leaving the entire economy open and letting investors do whatever they want. Sort of what China did when it was poor and agricultural. It did come up with a strategy that propelled up the economy. And I think this is interesting on debts and trade, because as I said, at the former China-Africa cooperation in 2008, African countries already complained that there was an in trade imbalance between China and Africa and that China should also import more from the African region. So it seems like around debts and trade, there is more of an awareness that this relationship should be more equal. And I hope that investments also are going into the right direction. So just to close, I brought you this comparison here again, which shows very nicely, China's economic growth miracle. And what I find really interesting here is that in the '80s, it was really the West investing in China and doing a lot of trade with China, but we still don't call it the West in China, how we call China in Africa today. And this is because China took some lessons from other countries in the past, like some of the structural adjustment, it's liked and implemented others, it came up with the zones model, which was the state capitalism. And I think similarly, the African region also can just copy and paste one model from China now or from the West, but it should strategize and see sort of what fits to local realities and the common narrative here has always been that the African region can't afford to strategize because otherwise you can't really attract foreign investment to grow. But I think because Africa is the region that has the highest stocks of raw material in the world, the cheapest labor right now and the cheapest land, I do think that there's some leverage here for the African region.

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