

## CHAPTER I

### INTRODUCTION

#### 1.1 Background

Africa is the second most populous continent after Asia, with a total population of about 1.43 billion people, or 17% of the world's population. Therefore, there are various kinds of conflicts, which will certainly have a major impact on the economic and social development of the continent. Social, cultural, and educational experts consider the social order in much of the African continent difficult and alarming. In fact, the majority of Africa's population is still considered a developing or even underdeveloped country. Daniel Blondell argues that the current economic and social development of the world is caused by three phenomena that seem to be outside any system and are constantly accelerating, namely demographics, public and private behavior. This is influenced by global interdependence and advances in science and technology. Above all, the situation in sub-Saharan Africa is very complex. (Al- Fadhat & Stuart, 2022)

According to the latest estimates, the proportion of the African population living in extreme poverty has fallen from 57 percent in 1990 to 41 percent in 2013. However, more and more of the world's extreme poverty are concentrated in Africa. In 2013, 389 million people on the African continent were still living on less than \$1.90 a day, more than any other region combined. Africa also lags behind other regions, such as East and South Asia, in reducing poverty. These areas had similarly high poverty rates in the early 1990s but have now dropped significantly to 4% and 15% respectively. In addition, Africa is not only home to the largest proportion of poor people in the world, but the average poor African lives well below the extreme poverty line of US\$1.90 per day.

Africa is often seen as a backward continent compared to other countries in the world due to its many problems, including prolonged civil wars, poverty, famine, and dictatorships that often violate human rights. These domestic problems make Africa a vulnerable country due to instability caused by various factors. The fragility of the country and the socio-political instability at home create opportunities for other countries to build cooperation by offering non-intervention relations in Africa. On the other hand, Africa also needs massive investments to build adequate infrastructure, create jobs, and drive economic growth. China is currently one of the countries that actively cooperates with African countries. China, provides another means of financing that is more accessible and not burdened with strict requirements. China, through

various instruments such as loans, development grants, and direct investment, is actively funding infrastructure projects in Africa, from highways, railways, ports, to dams.

In recent years, China has shown its ambition as a new superpower through changes to its economic system. The key to this great change lies in the reforms and openness policies initiated by Deng Xiaoping in the late 1970s. These policies opened the door to foreign investment, encouraged the privatization of state-owned enterprises, and adopted free market principles. As a result, China's economic growth has increased rapidly through massive exports of manufactured goods, large infrastructure investments, and access to cheap and abundant labor.

China's new economic power resulted in many trade relations with other countries which then increased its influence on the international scene. China with its economic influence has gained political support internationally. This clearly shows that closeness in bilateral relations also has similarities in political views in the international world. The increase in volume between China and countries in the African and Latin American regions has consequences for this trend. (Main, 2021)

Despite its rapid economic growth, China also faces many challenges, including high debt, high population, and environmental problems. With a clear vision for the future and strong government support, China continues to pursue economic transformation to achieve more sustainable and inclusive growth. With that, China sees Africa as a potential market with a large and growing population. Products produced in China at competitive prices have a great opportunity to conquer the African market. This market expansion is not only driven by economic factors, but also by China's strategy to expand its political and diplomatic influence in the international world, especially in developing countries.

With the expansion of the global economy, the Chinese government is actively encouraging investment and cooperation in developing countries. Africa, with its abundant natural resources, is one of the main focuses of Chinese investment. Mineral resources such as copper, iron, coal, and timber are abundant in African countries being a major attraction. In addition, China's growing energy needs, especially oil, are pushing the country to secure crude oil supplies from Africa. Data shows that China's African crude oil imports have increased significantly in recent years, reaching 25% in 2007.

Chinese investment continues to develop many important infrastructure projects in Africa, including ports, airports, highways, and power plants. These projects address Africa's most pressing challenges. China actively cooperates with African countries in technology transfer and capacity building projects in the fields of telecommunications, renewable energy,

information technology, mobile networks, and communication infrastructure improvement. One of the regions that China considers strategically important is East Africa. East Africa, with countries such as Kenya, Tanzania, Uganda, Ethiopia, South Sudan, and Djibouti has been an attractive investment destination for China in recent decades. This region has great potential in various sectors such as infrastructure, mining, energy, and agriculture.

The East African region, Ethiopia receives the highest FDI inflows from China, with the highest amount among the other 7 countries (Kenya, Djibouti, Uganda, Tanzania, South Sudan, Rwanda, Ethiopia).

Djibouti is one of the recipients of China's infrastructure projects, a country not known for its high-value commodities, but recognized for its strategic location. The port of Djibouti was also selected as part of President Xi's initiative in 2017 called *Belt and Road Initiative* (BRI) to develop trade and related infrastructure along the Silk Road's land and sea routes.

BRI is a development strategy proposed by China in 2013 that focuses on connectivity and cooperation between countries in various regions. BRI has several objectives, namely, to improve communication between governments to better coordinate high-level government policies such as economic development strategies and regional cooperation plans, strengthen infrastructure planning to connect hard infrastructure networks such as transportation systems and power grids, and strengthen the development of soft infrastructure facilities such as finalization of trade agreements, harmonization of regulatory standards and Increased financial integration. The striking goal is not only to facilitate trade and commerce, but also to invest heavily and develop the infrastructure of the participating countries. According to the Chinese government, the BRI is "an effort to improve regional connectivity and embrace a brighter future". According to many experts, BRI is the largest infrastructure development and investment project in human history. The magnitude of this initiative can be seen from the fact that in 2017, BRI covered more than 70 countries in the region (Rahul, 2021).

Based on the discussion above, it can be seen that China's BRI has a positive and negative impact on the African economy. China's BRI in East Africa has brought significant changes to the economic and social landscape in the region. Large capital inflows into China have funded large-scale infrastructure development such as roads, ports, and railway networks. Other impacts are seen as significant in various aspects of people's lives, including social. On the one hand, BRI has encouraged the development of better infrastructure, improved connectivity, and opened up new job opportunities as well as increased access to markets and reduced transportation costs. However, on the other hand, there are concerns about negative social impacts such as labor exploitation, local cultural changes, and rising social inequality.

An increase in the number of Chinese migrant workers in various infrastructure projects, for example, could trigger labor competition with the local population. In addition, the massive entry of Chinese culture and lifestyle can change the values and traditions of the local people.

These infrastructure projects will not only improve connectivity between East African countries, but also open up access to larger markets, facilitate trade, and stimulate economic growth. In addition, BRI China also encourages industrial growth in East Africa. Many Chinese companies are building factories and production facilities in the region, creating new jobs and transferring technology. Manufacturing, mining, and energy are the sectors most positively affected by Chinese investment. However, its high reliance on Chinese investment has also raised concerns about potential debt traps and a lack of sustainable technology transfer. While this brings real benefits to East African countries, problems also arise from this pattern of economic cooperation. The problem that arises is the lack of linkages between foreign capital and local industries and local labor in Africa, as China tends to import both. Second, there are concerns about China's debt accumulation, and East African countries owe a lot to China, thus putting them at risk of interfering in their domestic affairs. (Main, 2021)

## 1.2 Limitations and Formulation of Problems

In addition to China's focus on *Foreign Direct Investment* (FDI) in East Africa, this research will focus on the context of *the Belt and Road Initiative* (BRI). Considering the breadth of the scope of Chinese investment in East Africa, this study will be limited to 7 countries that are recipients of FDI by China, which is representative of the region. Countries included as recipients of Chinese FDI are Ethiopia, Kenya, Tanzania, Uganda, Rwanda, Djibouti and South Sudan. The choice of these countries is based on many sophisticated strategic, economic and geopolitical considerations.

In particular, this study will analyze the political development of China's fdi through BRI China in infrastructure development in this region.

Based on the limitations of the above questions, the formulation of the problem in this study is as follows:

1. What is the impact of China's Belt and Road Initiative (BRI) on the development of infrastructure development in the east African region
2. What are the sustainability challenges of the Belt and Road Initiative (BRI) in the East African region

### 1.3 Research Benefits

Specifically, the benefits of the research conducted by the authors are as follows:

#### 1.3.1 Research Objectives

1. Analyzing the impact of *China's Belt and Road Initiative* (BRI) on the development of infrastructure development in the east African region.
2. Identify the sustainability challenges of the *Belt and Road Initiative* (BRI) in the East African region and analyze the barriers that may hinder the sustainable implementation of BRI projects in the East African region.

#### 1.3.2 Research Benefits

Specifically, the benefits of the research conducted by the authors are as follows:

##### **a. Theoretical Benefits**

1. Provides insight into how *Foreign Direct Investment* (FDI) is being used as a tool of economic diplomacy by China to expand its influence in East Africa.
2. Contribute to the study of international political economy by analyzing how political and economic factors interact in shaping China-Africa relations and their impact on development in East Africa.
3. Provides insight into the dynamics of economic regionalism in East Africa, showing how foreign investment can influence the region's economic integration through cross-border infrastructure development.
4. Know the development of a framework to understand how FDI-related policies can be designed to maximize the economic, social, and environmental benefits of foreign investment.

##### **b. Practical Benefits**

1. Provide insights on how to strengthen bilateral relations between East African countries and China, as well as enhance multilateral cooperation with other actors involved in regional development.
2. Provide practical guidance for East African countries in negotiating with foreign investors, especially China, to ensure fruitful cooperation in the infrastructure sector.
3. Identify the sectors of the economy that have the greatest potential to grow with the support of infrastructure built by China in east Africa

4. Evaluating the environmental impact of FDI projects, the study can provide recommendations to mitigate negative impacts on local ecosystems, ensuring the development of more environmentally friendly and sustainable infrastructure.

## **1.4 Conceptual Framework**

### **1.4.1 *Foreign Direct Investment (FDI)***

The theory of FDI cultivation was first proposed by Steven Hymer in the 1960s and has evolved over time. This theory explains the reasons and results of investment by multinational companies in other countries and regions (SoTiana, 2014). According to this theory, FDI is an investment made by multinational companies to gain control over resources and business activities in other countries. FDI occurs when a company or individual from one country invests in a business in another country. In general, FDI occurs when an investor establishes a foreign business or acquires foreign business assets from a foreign company. FDI generally occurs in countries with open economies that offer skilled labor and above-average growth prospects to investors, in contrast to countries with highly regulated economies. FDI often involves more than just investment. It can also include the management and provision of technology and infrastructure. A key feature of FDI is the ability to exercise effective control, or at least significant influence, over the decisions of foreign companies (Mutthaqin, 2024).

China's rapid economic growth has become one of the world's leading economic powers. The need for abundant natural resources to support an ever-growing industry is one of the main reasons China is investing heavily abroad, especially on the African continent. Africa is a potential market with lower investment costs and less complicated environmental regulations for companies than in the United States or European countries. Therefore, Africa accepts China's investment style that is business in nature and does not interfere in political affairs. In addition to investing in natural resources, China is also active in the textile, electronics, telecommunications, and construction industries. China's construction industry has played an important role in Africa's construction industry. Infrastructure investment in Africa has seen a rapid increase in recent years. China, as one of the largest investors, has played a key role in closing the existing funding gap. With a contribution of about one-sixth of total foreign investment, China has complemented the infrastructure development efforts carried out by African countries, which amount to about US\$30 billion per year (Al Paris, 2022) (Freitas, 2023).

In this process, Foreign Direct Investment (FDI) policy has become an integral part of China's economic strategy. This move is driven by a number of important factors that reflect domestic economic needs, geopolitical ambitions, and changing global conditions. FDI plays an important role in encouraging and sustaining sustainable economic growth, both for recipient and investor-giving countries. For example, developing countries can use FDI as a source of financing for the development of new infrastructure or to create job opportunities for local communities. Meanwhile, multinational companies can use FDI to expand global markets. However, one of the main drawbacks of FDI is its reliance on involvement or oversight by various government sectors, which can increase political risks. (Al Paris, 2022) In this regard, the infrastructure development program aims to improve connectivity between countries and with rapid economic growth, China has the potential to expand its influence in the decision-making process in countries that are its investment partners. As a result, FDI has created a situation in which countries in the East African region are increasingly dependent on China.

#### **1.4.2 *International Political Economy***

International political economy can be understood as a dynamic reciprocal relationship between the attainment of power and wealth in the context of international relations. This perspective shows that the theory of international political economy is not entirely technical economics, nor is it entirely political in nature, which views the economic aspect as a mere political tool. Instead, this theory aims to explain the complex interconnectedness between economic and political elements, between market mechanisms and the role of states, within the framework of international relations.

International Political Economy (EPI) is a study of how economic interests and political dynamics influence each other in the process of forming government policies. EPI looks at life in the global economic system by focusing on power dynamics and political conflicts between powerful and weak actors in the international economic arena. In the concept of international political economy, there is a tension between the increasing interconnectedness of the global economy and the state's efforts to maintain control over economic dependence and maintain its political sovereignty. On the one hand, the country wants to get the most out of free trade and the influx of foreign direct investment that can drive economic growth. But on the other hand, the state also seeks to maintain political sovereignty, maintain cultural values, and protect the social structure from external influences that may come with foreign investment flows (Gilpin, 1987). In

other words, the country operates within the framework of market logic, where the geographical expansion of the market and the increase of cooperation between countries, including through international capital flows such as FDI regulated through price mechanisms. This is at the heart of international political economy, which is the complex interplay between global economic interests and domestic political goals. (Qodarsasi, 2019)

The application of economic (market) and political (state) aspects in international trade activities has become prevalent in global dynamics. Normatively, trade between countries occurs because of fundamental differences between countries and their trading partners, such as differences in natural resource wealth, climatic conditions, population, labor skills, geographical location, level of technological advancement, price structure, and social, economic, and political aspects (Hady, 2001). These differences encourage the formation of cross-border exchanges of goods and services known as international trade. However, over time, the purpose of international trade has expanded beyond simply meeting economic needs or resource shortages. In practice, international trade is also used as an instrument to achieve the country's political interests. This is evident, for example, in the country's policy towards foreign direct investment (FDI). The influx of FDI is not only seen as a means to encourage economic growth, job creation, and technology transfer, but also as part of the country's political strategy in strengthening its influence, maintaining domestic stability, and negotiating its position in the global economic system. Therefore, a country's decision to engage in international trade and receive foreign investment is often based on political and economic considerations. Thus, China's BRI strategy in East Africa shows how the country uses its economic power for political purposes, in line with the view of international political economy that sees international relations as an arena of interaction between markets and states, as well as between economic interests and political power.

#### ***1.4.3 Variable Operationalization***

This study uses two variables, namely independent and dependent variables. An independent variable is a factor that affects or determines the change of another variable, namely a dependent variable. While dependent variables are the results or impacts that are influenced by independent variables. These two variables will be analyzed through the table below.

Table 1. Variable Operations

<b>Dependent Variable</b>	<b>Independent Variables</b>	<b>Category</b>	<b>Indicators</b>
INFRASTRUCTURE DEVELOPMENT IN EAST AFRICA	CHINA'S FDI POLITICS	<i>Foreign Direct Investment (FDI)</i>	<ol style="list-style-type: none"> <li>1. Contribution to economic growth</li> <li>2. Impact on related sectors (economic, social and environmental)</li> </ol>
		International Political Economy (EPI)	<ol style="list-style-type: none"> <li>1. Bilateral and diplomatic relations</li> <li>2. China's involvement in the domestic policy of the recipient country</li> <li>3. Regional/global influence strategy</li> </ol>

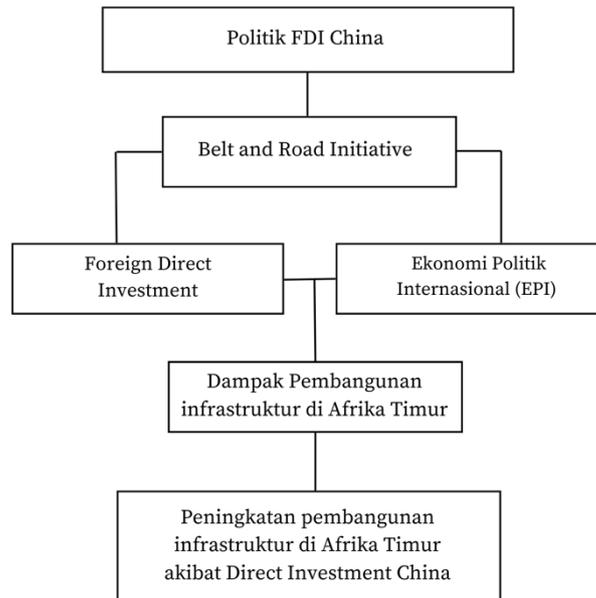
Source: Created by the author

The independent variable in this study is the politics of *Foreign Direct Investment (FDI)* through the Belt Road Initiative (BRI). Meanwhile, the dependent variable is infrastructure development in East Africa. This research is grouped based on the categories of FDI theory and International Political Economy (EPI). Based on FDI theory, the indicators used include economic growth and the impact on related sectors (economic, social and environmental). This theory helps to understand the role of foreign investment as a tool for development in developing countries, especially in creating regional connectivity and accelerating economic growth. Meanwhile, the EPI category includes indicators such as the bilateral and diplomatic relations of the country concerned, the involvement of the investor's country in the recipient's diplomatic policy, and regional or global influence strategies. This indicator reflects the extent to which this theory clarifies the purpose of Chinese investment in several countries in East Africa. Not only economic activity in general, this indicator shows that FDI is often used as a political tool. China's investment will bring geopolitical benefits, including strengthening

its diplomatic position, forming partnerships, and access to strategic natural resources. Economic relations that take place are a means of political influence.

## 1.5 Schema and Discussion

Figure 1. Schedule



Source : Created by the Author

In this study, the author will use two main theories, namely the theory *Foreign Direct Investment* (FDI) and theory International Political Economy (EPI). Both theories were used to analyze the political impact of China's FDI in the East African region, which is the main focus of the research. Through this approach, the FDI theory and EPI will help comprehensively examine the various impacts of China's direct investment and enhancement on infrastructure development in the East African region.

## 1.6 Research Methods

### 1.6.1 Types of Research

This study uses a qualitative research method used to examine the natural conditions of objects, from the impact of Chinese *Foreign Direct Investment* (FDI) in East Africa. Lexy J. Moleong, in her book that discusses qualitative research methods, cites various expert views. One of them is Bogdan and Taylor who define qualitative methodology as a research procedure that produces descriptive data. This data can be words, both written and oral, that come from the people and behaviors observed. This qualitative research is

unique because the researcher itself is a key instrument. With that, researchers must collect data, and also play an active role in analyzing and interpreting the data. Therefore, qualitative research is very fixated on strong theories and broad insights.

### 1.6.2 Data types

The type of research conducted by this author is by using library research. This literature study is different from research involving research subjects, as the data is collected indirectly through various written sources such as books, magazines, pamphlets, and other relevant documents. Moh. Nazir explained that the study of literature aims to delve deeper into existing and developing theories in the field of science being researched. In addition, literature studies are also useful for finding research methods and techniques, both for collecting and analyzing data. By studying these various sources, researchers can get a broader orientation to the problems raised in the research. Thus, it can be concluded that literature research is research that examines and explains a problem in accordance with the theories of experts by referring to the relevant postulates regarding the problem.

### 1.6.3 Technical Data Collection

Data collection in this study will be carried out using several methods to ensure the completeness and accuracy of the data obtained. These methods are:

- a. **Literature Studies**, According to (Koentjaraningrat, 1983) literature techniques as the main method in data collection. This technique basically involves collecting different types of materials found in libraries or other sources of information. These materials can be newspapers, books, magazines, manuscripts, documents, and various other types of written sources relevant to the research topic, namely the impact of China's direct investment on infrastructure development in East Africa.
- b. **Media Analysis**, According to (Van Dijk, T. A. 1995) focuses on *critical discourse analysis* to understand how the media reflects and reinforces power structures. He emphasized the use of language in the media to build a dominant narrative. Media analysis helps understand how Chinese-funded infrastructure projects are portrayed in local, regional, and international media. This includes positive narratives such as contributions to economic development and negative narratives such as allegations of exploitation of local resources.
- c. **Archival Study**, A research method that uses pre-existing data records, either in physical or digital form, to answer research questions or understand certain phenomena.

This archival data can be in the form of official documents, personal records, government reports, mass media, manuscripts, photographs, or other artifacts stored in institutions such as libraries, museums, or other archival institutions. A review of the archives allows for an in-depth analysis of the long-term impact of Chinese investment in Africa. Historical data from infrastructure development reports show how these projects improve regional connectivity, but also raise criticism of potential failures and prioritizing China's interests over local needs.

#### 1.6.4 Data Analysis Techniques

The data analysis technique used is qualitative data needed to understand the social, political, and environmental impacts of China's *Foreign Direct Investment* (FDI). Data can be collected through case studies, interviews with various stakeholders (governments, companies, local communities), and analysis of documents such as reports, agreements, and news. Qualitative data analysis techniques include *coding*, theme search, and narrative interpretation to identify patterns, perspectives, and narratives that emerge from the data.

#### 1.7 Chapter Composition Design

Below is a brief explanation of the writing systematics that will be structured by the researcher into five chapters, including;

**CHAPTER I** Introduction includes the background of the problem, limitations and formulation of the problem, the purpose and benefits of the research, the conceptual framework, the research methodology, and the systematics of the research writing.

**CHAPTER II** Literature Review will discuss theoretical descriptions related to the variables to be studied by testing arguments and reviewing relevant concepts/theories as a reference for research studies. In this study, the literature review will be explained related to the concepts of *Foreign Direct Investment* (FDI) and International Political Economy (EPI)

**CHAPTER III** The Overview will discuss a general description of China's role as an investor in Infrastructure development in East Africa, including *the Belt and Road Initiative* (BRI), as well as the opportunities and challenges within it. History and development of the Belt and Road initiative, China's political and economic strategy in the East African region, and China's FDI statistics and trends in East Africa.

**CHAPTER IV Results and Discussions** discuss the impact of Chinese FDI on the development of infrastructure development in East Africa. In addition, this chapter will also explain the challenges of BRI's sustainability in the East African region.

**CHAPTER V The Closing** contains conclusions to answer the research questions that have been asked and revalidate the assumptions and hypotheses projected at the beginning of the study.

## CHAPTER II

### LITERATURE REVIEW

This chapter presents a literature review consisting of a discussion of the two main concepts that are the basis of this study, namely *Foreign Direct Investment* (FDI) and *International Political Economy* (EPI), as well as a review of various relevant previous studies. A deep understanding of each concept is needed to build a strong theoretical framework as well as explain the relationship between foreign investment and a country's environmental performance. Furthermore, this chapter will also outline various results of previous research that are related to the focus of this study. Thus, this research is useful for providing understanding, identifying research gaps, and strengthening the position of this research in the scientific realm.

#### **2.1 *Foreign Direct Investment***

*Foreign Direct Investment* (FDI) is defined as international investment made by a resident entity of one country into business activities in another country with the aim of building long-term interests (International Monetary Fund, 1993). FDI occurs when an investor from a country cooperates in the destination country with the intention of managing the asset. According to (WTO, 1996). It is this management dimension that distinguishes FDI from portfolio investments such as stocks, bonds, and other financial instruments abroad.

In general, FDI is also identified through ownership of at least 10% of common shares or voting rights in a company, which is considered to reflect "significant influence" from investors (IMF, 2000). However, these thresholds can differ between countries, depending on their respective policies, where some countries limit the level of foreign ownership in domestic companies.

FDI is a form of foreign investment that builds long-term interests or actively controls the management of a company (World Bank, 2004). The relationship between FDI and economic development has been the focus of various empirical studies. In general, FDI is considered to have an important role in creating jobs, increasing productivity, strengthening competitiveness, and encouraging technology transfer. For developing countries, especially countries with low levels of development, FDI serves not only as a driver of exports and access

to international markets and currencies, but also as an alternative source of financing in addition to bank loans.

Countries' efforts to attract FDI are based on expectations of increased productivity, technology transfer, managerial skills development, integration into global production networks, unemployment reduction, and market expansion. This also confirms that FDI is able to generate a greater technology spillover than domestic investment. FDI enables the adoption of advanced technologies by local companies. However, some critical views also emerge that the positive effects of FDI tend to be limited, and more dominated by the negative impact. The positive impact of FDI is highly dependent on the investment sector, where the agriculture and mining sectors have a limited contribution to development. FDI provides various positive benefits, including opening job opportunities for domestic workers, improving their skills and competencies, and fostering an entrepreneurial spirit among local business actors. This also encourages a decent increase in income and spurs collaboration between local and foreign entrepreneurs in producing high-quality goods and services. In addition, the state also benefits in the form of income from income tax and value-added tax arising from various business activities, which can ultimately improve the standard of living of the community as a whole.

The entry of multinational companies into foreign markets is largely driven by market failures, which creates opportunities for FDI. Foreign companies rely on their technological advantages and knowledge to seize market share in the destination country. In perfectly competitive market conditions, FDI would not have occurred, as there was no incentive to make cross-border direct investments. Various approaches are used to understand FDI. Conceptually, FDI theory can be seen as a logical confluence of three major theories namely, international capital market theory, international enterprise theory, and international trade theory. Capital market theory emphasizes international allocation to consumption suspension and risk assumption. International company theory addresses the optimal size and structure of companies in the global economy, with a focus on efforts to reduce the cost of cross-border transactions. Meanwhile, international trade theory examines the influence of production technology and consumer preferences in determining the optimal location of production factors. Recent developments have placed more emphasis on capital market theory and corporate theory, with the use of a simple general equilibrium model to clarify the relationship between these theories. This approach shows how various aspects of different theories can be combined to explain the dynamics of FDI more fully. (Denisia, 2010)

In the history of its development, the initial attempts to explain FDI using the theory of comparative advantage turned out to be inadequate. This theory, which is based on two countries and two products with perfect factor mobility at the domestic level, is not able to explain the existence of FDI, nor does it allow it within the framework of the model. Currently, FDI is increasingly seen as one of the alternatives to private financing from abroad for developing countries. Foreign investment is generally driven by the prospect of long-term profits from business activities managed directly by investors. As FDI involves investing in production, distribution, and other investment assets, its role is becoming increasingly important for developing countries. For these countries, FDI not only serves as a means of capital formation, but also becomes a medium for technology transfer, upskilling upswing, introduction of innovation, modern managerial practices, and expanded access to global markets.

In this study, the concept of FDI will help the author to determine the influence of FDI in improving infrastructure in the east African region. The great potential of FDI in accelerating economic growth and transformation has made developing countries strive to attract more foreign investment. Various policies are implemented to create a friendly environment for investors. In order to maintain its position in the global economy, especially for countries with limited natural resources, the FDI system is often used as a tool to attract foreign investment, including through the provision of incentives and ease in tax procedures and rates. In fact, some countries are willing to set very low tax rates in order to attract foreign capital flows that will ultimately provide overall economic benefits. Since the 1960s, as transnational corporations have grown and the importance of international investment has increased, FDI has become a key element in global economic relations. The understanding of FDI is also growing, not only as a capital flow or trade activity, but also as a company's strategy in managing risk, accessing technology, expanding production networks, and securing resources in the international market.

## **2.2 International Political Economy**

In recent decades, it is known that the level of dependence between countries in the world has increased significantly. International economic relations are increasingly influenced by political dynamics, and conversely, developments in economic relations also have a major impact on international politics. The international economic system is influenced by the international political system that existed in its time, and vice versa which states that they add

to the behavior of governments in economic issues is determined by political calculations, which in turn are influenced by the political structure of the world. At the same time, the government's political measures also depend on economic capabilities, and increasingly take the form of economic action (Phillips and E. Weaver, 2011) .

The term International Political Economy (EPI) itself reflects the many relationships between economic and political aspects that need to be studied. Although the need for the development of EPI studies is widely recognized, this field is still relatively underdeveloped. Throughout the 20th century, the study of international political economy tended to be overlooked. Politics and economics are separated in analysis and theory, thus causing fragmentation between international political studies and international economics (Spero, 1977).

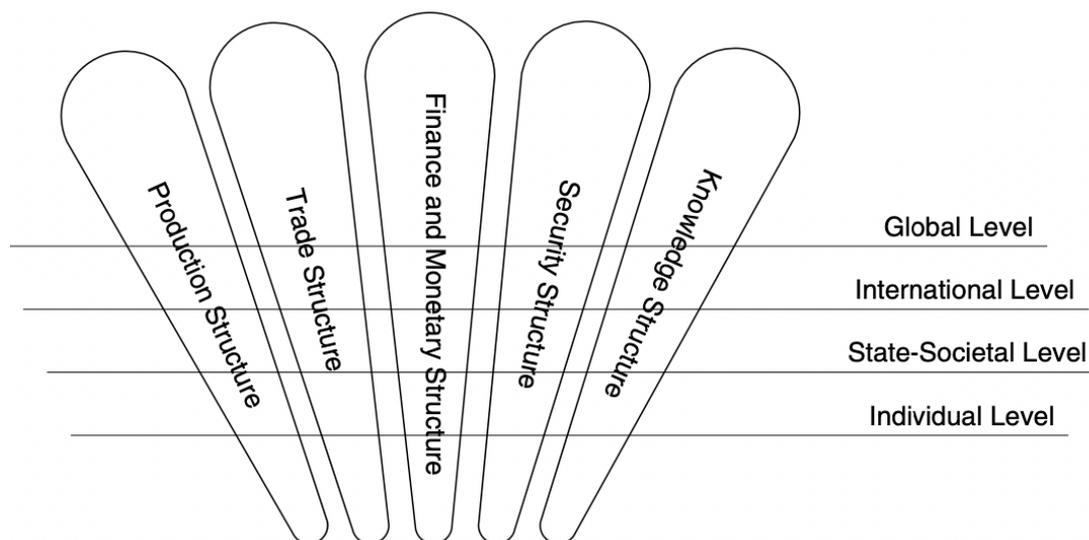
EPI has a political dimension that includes the use of power by various actors, such as individuals, domestic groups, the state as a unit, international organizations, NGOs, and multinational corporations (TNCs). EPI It also involves an economic dimension that addresses how limited resources are shared in the market, whether among individuals, groups, or countries. In the study of EPI, there are four levels of analysis that are often used to understand the dynamics of global relations, namely: individual, state, international system, and global. These four levels of analysis are interrelated with the main structures in the EPI which serve as a conceptual framework for analyzing various economic and political issues at the international level.

According to Susan Strange, there are five main structures in EPI, namely:

1. Production Structure
2. Trading Structure
3. Financial Structure
4. Security Structure
5. Knowledge Structure

These structures are a complex array of state institutions, non-state organizations, and other actors, which together determine the rules and processes regarding who has access to production resources, trade flows, financial flows, security systems, and knowledge distribution. In other words, these structures form the main foundation of the global political economy.

Figure 2. Main Structure of EPI



Source: (David N. Balaam, 2019)

In practice, each structure is governed by the so-called rules of the game, which can be in the form of formal agreements (treaties), informal agreements, or some form of compromise and bargaining between actors. These rules act as a binding element (such as a frame or support) that maintains the continuity of the structure. However, these structures are never free from tension, because each actor, whether state or non-state, always seeks to maintain or change existing rules according to their own interests and values. For example, in a trade structure, a country may support a free trade policy at one time, but choose to impose trade barriers at another time to protect its domestic industry. In addition, problems in one structure often have an impact on other structures. This dependence often creates pressure and conflict between various global actors. Susan Strange asserts that many international conflicts arise when a country seeks to shape and control the structure of the global political economy, which will affect how other countries, their political institutions, their economic enterprises, and their people operate within the global system.

Within **the framework of the EPI**, the relationship between China and countries in East Africa can be analyzed through two main approaches, namely, **mercantilism** and **constructivism**. The mercantilism approach sees the state as a central actor seeking to strengthen its position on the global stage by securing control of vital economic resources. In this context, China's investment in East Africa is not solely for economic gain, but also part of a long-term strategy to expand geopolitical influence and ensure the supply of resources needed for its industry. Meanwhile, the constructivist approach views that China's interaction with East

Africa through **the BRI cannot** be separated from the social construction and values it brings. Solidarity among developing countries and the spirit of development cooperation are the foundation for the legitimacy of China's economic presence in the region, as well as playing a role in shaping new norms in the international relations between the two sides.

Through the concept of EPI, this trade and investment relationship shows that economic development in East Africa is strongly influenced by global power flows, cross-border economic interests, and the structure of the larger international system. This means that the dynamics of growth in this region do not stand alone, but are closely related to the world political and economic context.

### **2.3 Previous Research**

In compiling this study, the author refers to a number of previous studies that are related both thematically and conceptually. These studies are used as a basis for comparison as well as a foothold to show the position and contribution of this research in existing academic studies. By analyzing previous research, the author can identify gaps and reinforce the relevance and urgency of the topics raised in this study. The resulting analysis can also make an important contribution in building a conceptual framework and broadening the researcher's perspective on the issues discussed. In addition, this study is useful for showing the position of new research in a broader academic context, so that the results obtained can be more valid and relevant to scientific development.

The first research, by Ferian Al Pais entitled "*Angola's Strategy in Increasing Chinese Foreign Investment in 2014-2015*" (2022). In his research, Ferian Al Pais focuses his study on the strategies carried out by the Angolan government in attracting foreign investment from China, especially in the period 2014 to 2015. The theory used is qualitative descriptive based on Angola case studies, with an emphasis on the oil and infrastructure sectors as the main factors in attracting investment. This study uses the theory of *Foreign Direct Investment* (FDI) as a conceptual foundation and relies on statistical data from the World Development Indicators and other supporting documents. The results of the study show that strategies such as positive image development, attraction marketing, infrastructure marketing, and people marketing are the keys to Angola's success in increasing investment flows from China.

The second research, entitled *"Implementation of Dependency Theory Case Study: China's Belt and Road Initiative Policy, Especially in the East African Region"* by Agung Prija Utamayan. In his research, he uses dependency theory to explain how the pattern of relations between China and East African countries has the potential to create economic and political dependence.

The study revealed that China's massive investments in the infrastructure sector, such as the construction of the Ethiopia–Djibouti railway and port projects in Kenya and Djibouti, not only bring economic benefits, but also strengthen China's dominance in policy-making in these countries. One of the important findings is that China's presence through the BRI program can trigger the phenomenon of *debt-trap diplomacy*, where investment-receiving countries face high risks due to the large amount of foreign debt and low contribution of local industries.

In this study, it is explained that economic dependence in the Kenya and Djibouti regions has developed into political dependence, as seen from the granting of permits for the construction of Chinese military bases in Djibouti. The study emphasizes that dependency is not only caused by Chinese policies, but also by the inability of recipient countries to manage investments effectively. The research makes an important contribution to understanding the political dimension of China-Africa economic cooperation, as well as reinforcing the argument that the BRI program cannot be separated from China's strategic interests as a new economic power.

The third research by Andika Raka Dianjaya entitled *"The Politics of Chinese Investment in Africa under Belt and Road Initiative (BRI) Project"* uses a political economy approach with reference to the theory developed by Weingast & Wittman, to analyze the motives and strategic impacts of China's involvement in infrastructure development and lending to African countries. In his study, the author highlights that China invests up to USD 60 billion in Africa which includes the infrastructure, agriculture, technology, and human resources sectors. One of the key points of the study is the alleged long-term strategic motive of China to build African economic dependence, which has the potential to expand into political dependence. This can be seen from major projects such as the construction of the Ethiopia–Djibouti railway and ports in Kenya that are funded and built by Chinese companies. The study also emphasizes the existence of Chinese military bases in Djibouti as a form of expanding geopolitical influence in the region. With a political economy approach, this study assesses that China is not only investing for economic gain, but also to strengthen its position in the global political constellation, including through soft diplomacy and educational cooperation. Africa

is considered a potential partner due to its wealth of resources and its strategic position in global trade routes. This study explains how the political dimension of China's foreign direct investment is so relevant to explore the implications of the BRI program in the Global South region, especially Africa.

The next research is titled "*China's National Interests in Cooperation with Djibouti*" by Bayu Anindito Adi Nugroho. This study examines how one of the countries in the East African region, namely Djibouti, as a small country with a strategic position, became an important point for the expansion of China's influence through the *Belt and Road Initiative* (BRI) policy.

In the theoretical framework of neorealism, this study explains that cooperation between China and Djibouti is not just an economic relationship, but also reflects Beijing's military and geopolitical strategy. The construction of Chinese ports, airports, free trade zones, and military bases in Djibouti shows that China's national interests include economic, military, and ideological aspects. This research explains that Djibouti is not just a trading partner, but also a symbol of the project *Chinese Dream* President Xi Jinping is trying to build China's global position as a great power.

This study uses a descriptive qualitative approach by relying on secondary data from books, journals, international reports, and online media. Results of the findings obtained indicates that this cooperation is inseparable from the geopolitical dynamics between China and the United States in the Red Sea region, as well as China's increasing military presence abroad as a form of global power projection. This research makes a significant contribution to understanding China's foreign policy transformation and how China's national interests are concretely realized through infrastructure, defense cooperation, and ideological influence, especially in strategically important regions such as Djibouti.

The latest research was reviewed by Isaac Doku, John Akuma, and John Owusu-Afriyie in their article titled "*Effect of Chinese Foreign Direct Investment on Economic Growth in Africa*". This study uses an approach with data from UNCTAD and the World Bank.

The results show that a 1% increase in FDI carried out by China in Africa is able to drive the GDP growth of African countries by 0.607%, significantly. In addition, there is a one-way link from Chinese FDI to Africa's economic growth, suggesting that Chinese investment plays an important role in boosting economic development on the continent. However, this

study also revealed that the impact of FDI is not entirely positive. Local sectors in Africa, such as the textile industry, have experienced a decline in production and job losses due to the high penetration of cheap imported products from China. This shows that while China's FDI contributes to macroeconomic growth, its socio-economic impact is uneven across all sectors. This research makes an important contribution to understanding the relationship between Chinese foreign capital flows and economic dynamics in Africa. By combining statistical analysis and sectoral studies, this study offers quantitative evidence on how China's investment strategy through BRI has long-term consequences for the economic development of developing countries, including in the East African region.