Chinese State-Owned Enterprises' Investment in Africa: An Unequivocal Role?

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The Forum on China-Africa Cooperation (FOCAC) whose aim is to enhance Sino-Africa relations, just celebrated its 20th anniversary on 12 November 2020. Two years ago, the global attention to the 2018 Beijing FOCAC Summit highlighted China's increasing interests on the African continent and the desire for both sides to cooperate further. However, the growing engagement of China in the African market has triggered criticism and suspicion on the "real" benefits of China's strategy and policy".[1]

The growing attention on the presence of China in Africa partly because of the players involved, which among them the group of central-government-level Chinese State-Owned Enterprises (SOEs) are the critical player. In order to shed light on this issue, this post gives an overview of the role of Chinese investment, especially investment made by Chinese SOEs in Africa. This post will answer the question: “Do Chinese SOEs always have an unequivocal role in Africa?” **[2]** Ultimately, the authors argue for a non-categorical approach identifying both positive and negative spill-overs, aiming at improving the Chinese involvement in the region.

1. Status Quo

Chinese companies have rapidly expanded their business footprint in Africa, predominantly in the East African region. About one-quarter of Chinese investments in Africa are concentrated in Nigeria and Angola. However, western companies are still the leading group of investors on the African continent.[3] For instance, more than 65 % of international oil companies operating in Africa are headquartered in the West, meaning that comparatively Chinese oil companies have a lesser impact in the region.[4]

It has been argued that China’s involvement in Africa corresponds to a real-politic desire to exploit natural resources to support Chinese businesses.[5] Tied to China’s increasing demand for manufacturing inputs, China’s initial investment focus has been to secure its access to energy and natural resources in Africa. Nevertheless, the portfolio of Chinese investment has increasingly diversified with a decrease in the proportion of investment in resource-rich countries and an increase in non-resource-oriented countries. Following that trend, China has further expanded the distribution of its investment to encompass infrastructure construction, trade, telecommunication, science and technology, real estate, finance and agriculture.[6]

2. The Unequivocal Role of SOEs Debate

2.1. The Close Ties between Chinese SOEs and the Chinese Government

The first issue is the controversial role of Chinese SOEs in Africa because of their close ties with the Chinese government. This raise because of state ownership of the SOEs. “Political versus commercial objectives” of investments made by SOEs are frequently discussed in international investment debates in recent years.[7] The Chinese government indeed announced the initial plan of large projects, such as the Belt and Road Initiative (BRI), in its national policy. Nevertheless, national policy is not always incompatible with commercial interests. Intergovernmental cooperation, (e.g. FOCAC), and Chinese national policy can provide advantages for those who intend to follow the government’s direction to invest. Chinese SOEs may invest in Africa to fulfil these promises made by the Chinese government. SOEs might enjoy a range of subsidies and privileges, such as loans with lower than market rates, special government funds, or direct capital contribution.[8]

It should be noted that the state ownership of Chinese SOEs is not necessarily negative. For instance, Chinese SOEs can incorporate their investment strategies within the broad framework of the Sino-African cooperation, thus reducing political risks and improving the compatibility with the development policies of African countries. During the 2018 FOCAC, the President of the African Development Bank Group stressed that Chinese financing to Africa primarily focused on energy and agricultural sectors.[9] China has provided funding for infrastructure projects, such as railway projects in at least five African countries.[10] Infrastructure is a critical asset for the sustainable growth of the economic and inclusive development of Africa. Many infrastructure projects are planned or constructed to facilitate the development of the energy sector, which is also participated by Chinese companies.[11]

Chinese SOEs favor of undertaking projects that are guaranteed with funding from the Chinese government in the form of foreign assistance or cooperation and aid. Chinese SOC’s also undertake projects funded by multinational institutions. The decision of Chinese SOEs to invest abroad or operate overseas is constrained by accountability, economic feasibility and profitability. However, in the cases where the financial interests of companies and China’s strategic goals come into conflict, SOEs have to strike a balance.[12] Since many Chinese SOEs have already conducted overseas investment for several years, for their international image and reputation, they may decide to follow commercial standards and practice. SOEs are also expected to maintain enduring operation rather than short-term benefits in their investment.

2.2. **The Lack of Transparency and Alleged “Debt Trap”**

Lack of transparency is another problem that is usually criticised in the process of SOEs bidding for projects. For instance, the parliament of Uganda initiated an investigation of the procurement process of the railroad after the government overturned a construction award to a Chinese SOE.[13] It was also reported that the Kenyan allocation of a rail project was awarded to the China Road and Bridge Corporation (CRBC), which faced allegations of fraud and corruption leading to its debarring by the World Bank from bidding on non-competitive tenders.[14]

Lack of transparency from a systemic standpoint may result from China's approach to investing. The western approach of investing comes typically in the form of direct transfers of material and cash with conditionality, while the Chinese approach is mainly to provide low-interest commercial loans and to export credits to African countries for large infrastructure projects that are more flexible, faster and without conditionality.[15] According to statistics, as of 2015, nearly 2/3 of the new debts of African countries was loaned by China.[16] A lot of these loans are used to purchase Chinese goods, services and labour in exchange for natural resources.[17] In addition, the banks that are financing investment projects generally include Chinese commercial banks and Chinese government-involved banks. As a result, investment projects are predominantly conducted and supported by Chinese entities.

However, there is no evidence to support the preposition that China is intentionally creating a "debt trap", thus key issue to consider is how to deal with issues that are happening or have happened.[18] The loan facilities provided by China are neither inherently bad nor good per se. Rather, the success of investment projects correspondingly depends on the ability of African governments (as host states) to negotiate and implement them.[19] Whether the projects only focus on deals providing short-term gains rather than long-term costs is one critical factor to be considered.[20] When African countries use Chinese aid to offset poor governance and irresponsible policies, then Chinese SOE's investment may lead to further problems. In contrast, when African countries use Chinese finance efficiently, then it may help to improve the necessary infrastructure, thus spurring economic development.

On the side of Chinese SOEs, investment projects conducted by them are usually funded by a variety of stakeholders, ranging from development aid to equity financing. To diversify sources of financing and find a more sustainable approach, Chinese SOEs began to seek alternative and market-based solutions for their projects. These solutions may include private equity from western countries and other sources, e.g. co-financing fund established by both the

People’s Bank of China and the African Development Bank, to create new opportunities for trilateral cooperation in infrastructure investment.[21] It is also important to increase the transparency of relevant projects and to enhance communication with involved parties,[22] particularly concerning the demand and difficulty in financing.

2.3. **Environmental and Labour Concerns**

Environmental protection and labour conditions provided by Chinese SOEs have been scrutinised. Because of the lax enforcement of environmental standards in China, critics have grounds to believe that Chinese SOEs may generate concerns regarding weak environmental standards, unrestored land and pollution.[23] In practice, actions adopted by many Chinese SOEs have shown their increasing significant interests in protecting the environment, which can be evidenced by China National Petroleum Corporation’s (CNPC) renewable energy endeavours with the building the largest biodegradable wastewater treatment facility in Sudan. Moreover, the China Development Bank and China Exim Bank have their own policies concerning social and environmental responsibilities, but it is worth noting that these are different from the environmental impact assessments required by global financial institutions. The authors suggest Chinese SOEs should follow the global financial institution and their own policies in order to gain easy access to investment loans.

The employment practices of Chinese SOEs in Africa has been criticised for SOEs bringing their workers from China instead of hiring local workers and further that they provide poor working conditions, less training programme, and lower wages to the African workers. Many Chinese workers indeed come to Africa after Chinese SOEs have invested there. This is so particularly at the beginning stage of an investment project because these workers are familiar with the operation and working process of these companies.[24] It is worth noting that the scenario might not be so dark. In 2013, a report provided by the Chinese Academy of International Trade and Economic Cooperation stated that 82 % (17,600 employees) of the CNPC staff in Africa were local hires and Chinese National Minerals Corporation (CNMC) had 12,500 local hires in Zambia.[25] Concerning salary paid to local workers, the World Bank report demonstrated that in Ethiopia, the monthly salary of employees provided by Chinese companies was more than the average salary and Chinese companies also provided formal training programmes to these hires.[26]

However, it is important to note that the conflicting claims and misunderstandings of Chinese SOEs also imply that Chinese SOEs need to pay attention to cultural differences in the working place.[27] This difference may cause mistrust, conflicts and even bring a negative effect to ongoing projects if not adequately managed by the SOEs.

2.4. **Regulatory Challenges**

Given the size of the projects Chinese SOEs are involved in combined with their lack of know-how, regulatory challenges have been raised to both African countries and China, i.e. the accountability of Chinese SOEs as foreign investors coupled with the responsibility of African governments as host states. The regulatory challenge on the side of African countries is the key issue to address investment risks and disputes. Political risks arising from uncertainty concerning elections and successions, which may threaten foreign investors' desire to invest, increase sharply in several African countries, such as the Democratic Republic of the Congo, Kenya, Zimbabwe, Ivory Coast, and Gabon.[28] In stark contrast to Western investors, Chinese SOEs may prefer investing in less politically stable countries since those countries host fewer competitors from the West, thus leading to easy access to these markets.[29] Investment disputes are inevitable as a result. Therefore, an appropriate dispute resolution mechanism is necessary and indispensable for the interests of investors and African host States. So far, African countries have frequently appeared as respondents before international arbitration tribunals, but there is no unified Pan-African approach to investment dispute resolution. Therefore, disputes between African States and foreign investors are resolved on a case-by-case basis.

In recent years, both China and Chinese investors gradually use investor-State arbitration to resolve their disputes. However, when Chinese investors suffer losses in Africa, their managers usually hold that if a dispute occurs, the best solution is to use the means that can maintain a good relationship with the local government instead of relying on investment treaty protection.[30] Apart from the managerial strategy and tradition of Chinese investors to maintain a good relationship with African government, bilateral investment treaties (BITs) signed between China and African countries also restrict investors from pursuing investor-State arbitration. China has signed BITs with most of the sub-Saharan African countries since it signed the BIT with Ghana in 1989.[31] Notwithstanding the BITs China has with most African countries, there is no publicly known investor-State arbitration case that Chinese investors have brought against African countries as respondents. On the one hand, some BITs, like the China-Ghana BIT, only limit the investor-State dispute concerning the amount of compensation for expropriation to be submitted to an arbitral tribunal. By contrast, some BITs may impose a mandatory negotiation between parties in dispute before an investor-State arbitration claim can be raised. For instance, the China-Tanzania BIT, the latest BIT signed between China and an African country, requests that any investor-State dispute shall, “as far as possible, be settled amicably through negotiations between the parties to the dispute, including conciliation procedures.”[32] In consequence, when Chinese SOEs undertake projects in Africa, they are more likely to choose other alternative ways to claim damages or losses.

The regulatory challenges on the side of China also remain regulation of overseas investment of Chinese SOEs, in particular, the issues concerning competition and corporate social responsibility (CSR). Although Chinese SOEs may not be the members of global initiatives that aim to improve corporate governance, China has developed several internal policies. For instance, the State-owned Assets Supervision and Administration Commission (SASAC) has issued specific Guidelines for SOEs to fulfil CSR, so as to realise CSR in all respects,[33] reflected in the Guiding Opinions on Better Fulfilling Social Responsibilities of State-Owned Enterprises in 2016.

3. **Way Forward**

Although the FOCAC provides business opportunities for investors from both sides, it mainly focuses on political partnership. To attract need-based investment, sound regulatory governance and a politically stable and business-friendly environment are the guarantees of a successful Sino-African collaboration in investment and development. At the initial stage, preferential investment policies need to be put in place while regulations are necessary to manage relevant risks, (e.g. security concerns, environmental pollution and corruption), as well as sufficient legal safeguard offered to investors.

This post ultimately urges for a nuanced approach to China's involvement in Africa, turning the "black-and-white" critiques into catalysts for change. Endemic and systemic issues associated with Chinese SOEs may exist, which may be partly attributed to their lack of know-how in overseas operations as well as to cultural differences. Identifying those issues allows for a maximisation of benefits for both the Chinese SOE and the African counter-part. To achieve that, further joint efforts should be engaged by African countries, China and Chinese SOEs.

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[15] J. Peter Pham et al., ‘Chinese Aid and Investment Are Good for Africa’ *Foreign Policy* (31 August 2018) <https://foreignpolicy.com/2018/08/31/chinese-aid-and-investment-are-good-for-africa/ >

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