

3-31-2010

Disaggregating 'China' in Africa

Nicholas Imparato

University of San Francisco, imparato@usfca.edu

Lucy Corkin

Follow this and additional works at: <http://repository.usfca.edu/ml>

 Part of the [International Business Commons](#)

Recommended Citation

Imparato, Nicholas and Corkin, Lucy, "Disaggregating 'China' in Africa" (2010). *Marketing (Formerly Marketing and Law)*. Paper 4.
<http://repository.usfca.edu/ml/4>

This Article is brought to you for free and open access by the School of Management at USF Scholarship: a digital repository @ Gleeson Library | Geschke Center. It has been accepted for inclusion in Marketing (Formerly Marketing and Law) by an authorized administrator of USF Scholarship: a digital repository @ Gleeson Library | Geschke Center. For more information, please contact repository@usfca.edu.

Disaggregating 'China' in Africa

Paper prepared for the Symposium: Changing Paradigm of
Analysis of Foreign Direct Investment - Implications for
Studying Globalization of Chinese Firms

3/31/2010

IACMR Symposium: Changing Paradigm of Analysis of Foreign Direct Investment:
Implications for Studying Globalization of Chinese Firms

Nicholas Imparato and Lucy Corkin

Introduction

China's growing role in Africa in terms of both aid and trade and investment flows has been well-documented in recent years. Despite accounting for less than three percent of China's total trade, the unprecedented growth of commercial exchange between China and the African continent has drawn increasing attention from the media, scholars and policy-makers alike.

Significantly, large Chinese financial institutions such as China EXIM Bank and China Development have become large-scale lenders in Africa, rivalling the World Bank and the International Monetary Fund in terms of development finance outreach (Imparato & Shalendra, 2009; Corkin, 2008:4). According to the Chinese Ministry of Commerce, in 2008, African countries were the destination of 9.82 percent of China's total outward foreign direct investment flows (Chinese Ministry of Commerce, 2009). While this is a small percentage, it is a doubling of the previous year's figures, which in turn were themselves twice the Chinese FDI to Africa in 2006.

China tends to spearhead its economic overtures to African countries through high-level bilateral negotiations. Furthermore, particularly since the most visible actors to-date have been state-owned policy banks and large scale state-owned enterprises, initial analyses of China's commercial relations with Africa have been premised on the assumption that China is a monolithic actor in its dealings with African countries. Consequently, in their eagerness to uncover broad trends and patterns in the development of China-Africa relations, researchers have treated 'China' as a singular unit. Although this plays well to the incorporation of conceptualising 'China as the biggest developing country and Africa the biggest group of developing countries'¹, it masks the diverse regional contexts found within both China and Africa. It has more recently been recognised that an attempt to tackle 'China-Africa' is too broad a scope to render any analysis meaningful (Asche & Schüller, 2008:55). Consequently, the dynamism of China's economy and the evolution of its business practices recommend that this methodology be given closer scrutiny.

From a broad perspective, two trends underlie the case for a re-examination of the "given wisdom." First, following China's opening up and reform since 1978, efforts to decentralize the management of state-owned enterprises and allow the private sector room to develop have witnessed a growing multiplicity of Chinese actors, in both a domestic, but progressively more in an international context. With more players comes more pressure to diversify best practices and differentiate among opportunities and threats, weaknesses and

¹ This is quoted from President Hu Jintao's address at the Opening ceremony of the Beijing Summit of the Forum on China-Africa Co-operation, 4 November 2006.

strengths. Secondly, in a bid to 'grasp the large and release the small' China's central government retained direct control over only the most strategic or key industries, devolving the management responsibilities to provincial and regional government structures or allowing companies to privatize (Corkin,2007:309). Management objectives in this newer setting were bound to change as well.

Consequently, these restructured companies answer to different sets of priorities and as a result, a more sophisticated analysis is therefore required in order to distinguish the nuances inherent in the commercial profile of Chinese actors in Africa.

This research project advances a typology of Chinese actors present in Africa in order to assess the drivers of their commercial behaviour. Preliminary analysis has identified the categories of policy banks, centrally state-owned enterprises, provincially owned enterprises, national champions and private companies. Further research seeks to verify these categories and determine the level of heterogeneity that exists within each. In various ways each category inhabits a unique space on a state capitalism versus market centric and a value versus cost matrix. The interest here is in understanding how that positioning leads to different policies and behaviours that affect performance of the organizations within each category, while understanding the implications for competitors and partners. The project emerges from exploratory research represented in secondary research, meetings and interview results, over several years in Africa, from 2006 – 2009 (Burke & Corkin, 2006; Burke, Corkin & Tay,2007) , and in China, since 2008.

Overriding all issues, of course, are the primary concerns raised in both China and Africa, as well as in the West, namely, the extent to which each category of actor is motivated by strategic or commercial considerations and the degree to which they are held to account by public or administrative bodies. At the same time, situations exist in which China foreign policy has been influenced by major organizations (for example, oil firms that have been accused of "hi jacking foreign policy" (ICG,2008:17) . The question still to be explored systematically is whether such influence can be exerted by other Chinese entities engaged in outward FDI to Africa and whether the level and kind of influence is related to category membership.

A second tier of issues pertains to the pattern that exists within each category relative to its approach to market-entry and strategic competition, as well as the level of openness to forming a commercial partnership, and how prospective partners are assessed. Research, anecdotal evidence more than empirical findings, suggests that there are differences across categories in regard to "cost reduction" versus "differentiation" priorities and in regard to "profit" versus "market share" objectives. There is also evidence that some firms, for example, will partner with international firms operating in Africa but not with local firms. The degree to which differences exist among SOEs, private firms and others, however, in

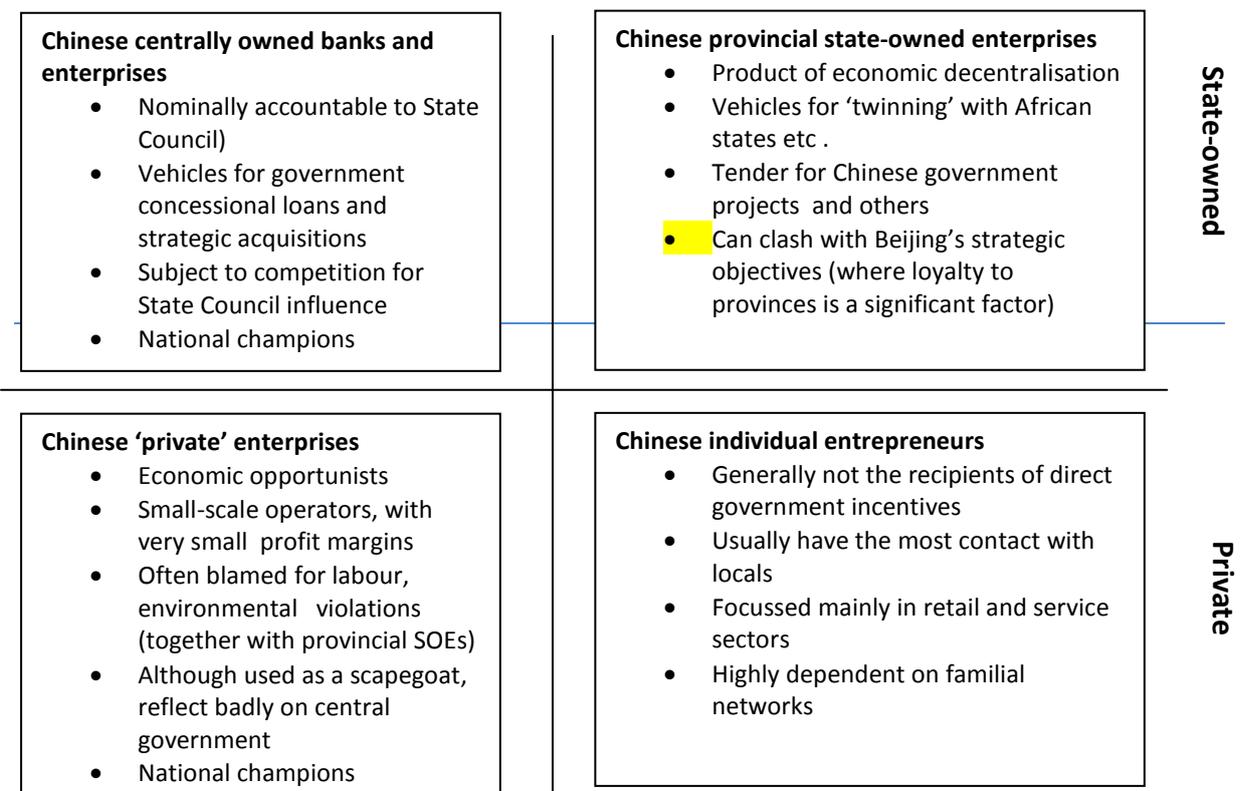
their approach is not clear, though it is a question raised among both private and public sector interviewees during the exploratory research phase.

Furthermore, the extent to which these different actors harmonize or collaborate in their operations and the extent to which their strategic objectives conflict is also an issue of rising importance. One interview with a firm labelled “private,” for example, engaged a senior management who complained bitterly about competition with state owned enterprises, referencing poor quality and unfair market advantages. Again, the broad hypothesis is that different categories of Chinese firms (SOEs, private firms) behave differently.

As a case study, the researchers will examine the market-entry of Chinese construction companies into the Angolan economy through the medium of China EXIM Bank concessional loans to the Angolan government. Despite the specific context of the case study, the frequent occurrence of China EXIM-bank assisted market entry of Chinese companies across Africa, combined with the presence of Chinese actors from a range of the categories identified above, renders the case study appropriate, both in terms of generalizable conclusions and the representativeness of the categories under study.

The research conducted thus far has provided preliminary distinctions among a wide range of Chinese actors present on the African continent regarding their strategic profile and business practices (see Figure 1). Based on discussions with private and public agency actors already conducted, our expectation, as indicated above, is that future findings will clarify the implications for partnership opportunities, innovation versus cost driven strategies, public policy and a host of other issues of interest to customers, competitors and regulators.

Figure 1: Matrix of Chinese actors in Africa



Domestic Policy Context

In August 1979 China's State Council introduced an act permitting specialized Chinese companies to operate overseas. Prior to this, Chinese companies operating overseas were restricted to projects that provided economic and technical aid with funds provided by the Chinese government. This exposure enabled Chinese companies to gain international market experience that was to their benefit following the Chinese government's adoption of an open-door policy.

Despite the opening up of the Chinese economy since 1978, the central government has continued to have a hand in the management of multinationals. Until 1985, the only heavy-weights who had legal foreign dealings were the state-owned import-export companies, as well as provincial and municipal enterprises which fell under the auspices of the State Import and Export Regulation Commission or the State Foreign Investment Commission. By 1993, these functions were consolidated under the Ministry of Foreign Trade and Economic Co-operation (MOFTEC), later renamed Ministry of Commerce (MOFCOM) in 2003. The central government encouraged technological upgrades and propagated what was known as its "two resources, two markets" approach in the 1990's, encouraging the utilization of both the domestic and the international markets to strengthen the firms' commercial position. At the 15th Chinese Communist Party Congress in 1998, further development ensued with the policy of "grasping the large, releasing the small", allowing all but the largest state-owned enterprises (SOEs) or those concerning national security interests to be privatized. The State Assets Supervisory and Administration Commission (SASAC) acts as government shareholder and regulator of the 150 SOEs of which the central government has retained ownership (Shankleman, 2009).

Since the 2002², the 'going global' (zou chuqu) policy has actively encouraged Chinese enterprises to expand overseas. The government has cherry-picked 50 of its largest and most promising industry leaders to act as 'national champions'; as such they qualify for additional assistance in this endeavour (Gill and Reilly, 2007:40). While in theory this list does not exclude private companies, in practice it is dominated by state-owned enterprises. A Chinese ministry official commented: 'SOEs make their own money, they do not give it to the state (or very little), but if they run at a loss, the government will cover it up.' There is indeed growing concern that SOEs are beginning to operate according to their own agendas outside of the central government's strategic objectives (Gill and Reilly, 2007; Chen, 2008). Another researcher commented that though many SOEs that have been established in Africa, they had lost money. Alternatively, the private companies manage themselves

² Brautigam (2009:74) asserts that the 'going global' policy began far earlier than the turn of the millennium

better, as they have to stand on their own (implicitly, at least) and can't depend on the government to bail them out.³

The reform of SOEs in China, as yet incomplete, is still a considerable concern. Although the stake the government holds in SOEs has been reduced, the SOEs are still hybrids – publicly traded on the stock exchange, but still majority-owned by the government. In 2006, the top 10 SOEs were eight times bigger than the top 10 private firms. Compounding this problem, the government's discriminatory regulatory treatment of private or "non-state entrants" means that the SOEs negatively affect the overall economy by their special treatment (Sharma 2009).

The flux of institutional and structural frameworks affects not only the operations of the companies themselves, but the government's ability to regulate them and these effects reach their overseas operations. As one ministry official remarked: ' We have to be patient, I am not saying it must or will all privatise, that is not the answer, but reform is very important. I think SOE reform is the most difficult in China... Because of the reform in China, Ministry to Ministry communication is difficult, We need to have follow-up on the other end in order to co-ordinate...This is a market economy. There is a lack of mechanism to control and co-ordinate.'⁴

The variance in Chinese firms' behaviour will be discussed with reference several aspects: world view, competitive position, experiences during the tender process, local skill enhancement and technical training, labour practices and policy implications.

World View

There are differences generally in the way government officials and the private sector executives they regulate or oversee deal with business challenges. There is evidence, anecdotal at this point, that Chinese leadership in Africa is consistent with the pattern. Private sector executives, for example, tend to think in relatively short term outcomes – at the extreme, in 90 day cycles, or quarters, among firms that are publicly listed – whereas government officials have a longer perspective, usually to the next event that bears on transfer of power. A similar difference is that a private enterprise thinks in terms of profit while public officials think in terms of strategic consequences and legacy. When a private sector leader looks at a situation (both positive and threatening), he asks the question: What's the opportunity? This is consistent with Gu's (2009) findings on surveying the growing number of private Chinese companies in Africa. The same situation is more likely also to elicit an additional question from the bureaucrat or manager who is working as his surrogate: What is my mandate? What is my authorization? And whereas all executives

³ Interview, Beijing, 22 December 2009

⁴ Interview with MFA official , 29 October 2009

understand that they operate at the behest of and for the benefit of an easily defined set of constituencies, for example, shareholders, employees or customers, a more generalized and imprecise sense of stewardship, strategic importance or commitment to a social contract defines the mission of leaders in government associated organizations.

The distinctions were evident during informal discussions in Dubai last year. While talking about the advantages of state backing, Chinese managers of a small, privately held textile facility in East Africa remarked that their brethren “on the other side of the table,” (in this case, a privately held firm with strong connections to government officials) were “handicapped psychologically.” “They see the world differently or at least pretend to” and that fundamental difference distinguished how each group would establish priorities for a week or month. Although the language the managers used was cloaked in some vagueness, one suspects deliberately so, the impression they wanted to convey was clear enough. They needed to act quickly in terms of business survival issues when their counterparts did not, that the latter could afford to kick a problem or complex decision down the road, and always justify the delay in terms of the difficulties in finding the solution that positioned the firm as diligent about social sensitivities and a sense of social obligation in Africa, as it was being talked about at that time among Chinese politicians. The interest in obtaining government influence was important to both groups, according to those commenting, though the expectation of official intervention, if needed, was less salient or absent among the private business people.

Competitive Position

Discussions with businessmen and government officials in Tanzania, who were not engaged at the time with any Chinese firms, also supported another thesis regarding the distinction among Chinese firms. State owned businesses – particularly those that have evolved over the years from organizations that were tightly managed – have an advantage in “demonstration effects.” Large state owned operations have success records not only in other parts of Africa but also in Asian locales, usually in resource rich countries where the target investments and contracts have been in oil, gas and energy. A long track record is a significant advantage when two organizations compete for business in new regions or in areas where investments are going to be large and risk management significant. Clearly, a history of “performing to plan,” assuages a host country’s or business partner’s first level of concern. The deeper the experience enjoyed by a vendor, and the wider the breadth of skills it has employed previously, the more confidence a buyer has in its selection as provider of choice. Technical know-how is subject to the learning curve and the efficiency of a firm can be projected more comfortably with a firm that has a wide array of “reference accounts.” As a former cabinet officer indicated, a derivative benefit of demonstration projects/history is that Chinese managers can expose African executives and political decision makers to

situations and circumstances in other regions, or even other countries. The perception of building a partnership is strengthened in that kind of circumstance.

On the other hand, the possibility that different categories of ownership and management can be tied to different levels of management access elicited the widest differences of opinion among the African managers interviewed in Dubai. In general, the attitude was that privately owned organizations offered more opportunities to meet with managers and owners than firms with deeper state connections. One African manager observed, however, that in either case a certain “haughtiness” characterized leaders in any kind of Chinese firm, though privately held organizations were going to be more receptive, and, these were the words used, “less condescending because they need us more than their government counterparts.”

There was no consensus pertaining to which class of organization would be more motivated to engage in innovative procedures or techniques. The common observation is that Chinese success in Africa, regardless of organizational category, is built on cost advantages and efficiency, as preceded by political connections and access. Expense control is a significant factor in determining effectiveness. Nonetheless, as the African market place attracts organizations from other nations (particularly Brazil, India, Korea), more than cost effectiveness will be needed to provide competitive advantage. Typically, differentiation/innovation is the alternative basis of competition. A long list of caveats precludes the determination at this point about which ownership pattern is most likely to provide the innovation benefits in Africa that could be the path to sustainable success. Yet, each individual interviewed indicated that innovation is likely to become more important as a performance measure over the next five to ten years. On the other hand, there was little likelihood that Chinese firms of any kind would be looking to African markets or partners to build capabilities with innovative solutions, as Chinese managers give the impression that they perceive African managers as having less broad skill sets and experience, qualities assumed to be basic for developing unique solutions.

It should be noted here that ownership patterns might influence the use of strategic planning practices across firms, though no interviewee raised the issue. Dansoh (2005) showed in a study of the construction sector in Ghana, for example, that strategic planning tools were far more likely to be used by civil engineering firms than by contractors. He also found differences within the contractor community where, not surprisingly, the likelihood that such tools might be used declined with fewer qualified personnel and clear management structures. To the degree that ownership patterns can correlate with variables of this sort, it is likely that they would influence the adoption of strategic planning tools to achieve competitive advantage (for example, scenario planning, SWOT analysis, financial filters).

Africans we talked with saw little distinction among organizational types in regard to how they would be affected by foreign policy decisions of the Chinese government. Their

view was that in the face of an unpopular decision, announcement or behaviour by the Chinese the average African wouldn't be inclined to see a difference between a Chinese executive working for a national champion or an organization owned by a regional government. They noted that when Chinese firms in the past have been accused of plundering Africa's natural resources, the emotion is "anti-Chinese," without any effort to make distinctions among ownership structures.

Tendering Process

Despite China Exim bank's relatively recent arrival as a financial institution, the bank has had unusual success in project financing across Africa. According to one Western observer⁵, 'Their project analysis is still somewhat shallow, but their success has been through a combination of access and African acceptance of their projects. The success is ultimately through the high-level diplomacy approach. There are a number of deals panning out where resources for infrastructure are in play. The implementation is impressive, but there is 'not much in terms of quality control'. But whether it is Exim alone or through African Development Bank, Exim is 'not shy in its approach' and its delivery is 'on time and on budget'. They are not however building local capacity through local suppliers. Chinas Exim Bank's response is reportedly that they have not said one thing and then don another; they have met their promises, doing exactly what was pledged, implying, of course that the international financial institutions has not delivered.

According to a private Chinese consultant, the bidding process is a kind of 'performance', occurring in a closed circle of the larger state-owned companies who have influence with the State Council and at China Exim Bank, to get insurance, and credit to operate overseas.⁶ Indeed, it appears that this process is fraught with corruption (Jakobson, 2009:143)

And it seems that this is not only occurring on the China-based side of the transaction. A former Chinese diplomat⁷ described how some Chinese companies, both SOEs and private, in an effort to access development aid projects attempt to manufacture demand for their services. The Chinese company will convince an African government of the need to undertake a certain project, produce an in-house feasibility study assuring the government of the company's ability to undertake a project, and then persuade the African government to negotiate with the Chinese government to access project financing. The Chinese company then subcontracts to a third party and, abdicating from the responsibility of the project.

There are checks to attempt to prevent such occurrences. There is a list of prequalified Chinese companies that are permitted to tender for overseas contracts, renewed every two

⁵ Interview, 14 October 2009

⁶ Interview, Shanghai, 15 September 2009

⁷ Interview with MFA official, Beijing, 29 October 2009

years. Companies, based on poor performance, can be blacklisted from as well, preventing them from bidding. A Chinese official conceded that it might be possible for Chinese companies to manoeuvre around such restrictions. For instance; if they are banned from operating in one African country, they may be able move to a neighbouring country and set up there, if they can navigate the local legal framework. The official complained of difficulty in regulating such process as not all bids took place in China; others occurred in the African country themselves.⁸

Companies with access to China Exim Bank's loans (and tenders for other such Chinese government aid projects) use these mechanisms as a foot in the door for market entry, and then develop their business from there. It seems therefore, that even if SOEs are not directly owned by the central government, and may have their own agendas (as in the case of provincially owned SOEs) they are still more likely than private firms to access state support (Raine, 2009: 195).

A Chinese government official countered that in differentiating between private and SOE companies, private companies are 'only interested in money', and they are also 'only using Africa as a springboard to the US and other markets'. They start from rural areas in China and then rely on the Chinese government. They are interested in 'quick money' and not aspects such as CSR.⁹ A shining example is Huawei (see below) which has entered many markets being involved in rural telecommunications development projects and then expanded to the cities.

The private companies, in contrast, do not have as much privileged access to the China Exim Bank; they reportedly have no information on or recourse to China Exim Bank's services. Many within the private sector in China believe China Exim Bank lacks transparency and the political will to reach out to private Chinese companies.¹⁰ As a consequence, it is predominantly the larger state-owned companies that secure the China Exim Bank tenders. This is especially pertinent when considering the large package deals China Exim Bank has entered into involving infrastructure projects linked to resource extraction, identified as a trend by a private Chinese consultant.¹¹ Negotiated by MOFCOM on behalf of the Chinese Government, the implementation is deferred to China Exim Bank. This co-ordination among the state-owned financier, state-owned construction company and state-owned mining firm is key strength of Chinese engagement with African governments.

Local Skill Enhancement and Technical Training

⁸ Interview with MFA official, Beijing, 29 October 2009

⁹ Interview with MFA official, Beijing, 29 October 2009

¹⁰ Interview, Shanghai, 15 September 2009

¹¹ Interview, Shanghai, 15 September 2009

Politically, the Chinese government has recognized the need to provide locals with training in order to counteract the negative image some Chinese companies are creating. In 2006, at the Opening ceremony of the Forum on China Africa Co-operation (FOCAC) Head of States Summit held in Beijing, Chinese President Hu Jintao announced, as part of an eight-point plan, that China would provide training for 15,000 African professionals and double the number of Chinese government scholarships to African students from 2,000 to 4,000 per year over the following three years.¹² By 2009, it was announced that this target had been reached. Premier Wen Jiabao, at the FOCAC Summit in November 2009 held in Sharm-el-Sheikh, Egypt, announced plans to train 2,000 local agricultural personnel, 3,000 doctors and nurses and 1,500 school principals and teachers, pledging to train 20,000 African professionals from various fields in total. An increase in Chinese government scholarships for African students to 5,500 per year, in order to assist African capacity development, was also promised.¹³ According to a Chinese government official, every year the Chinese government sets aside RMB 1 million (US\$ 146,000) for scholarships and technical transfer for African countries.¹⁴ Furthermore, while some government provision is made for such capacity building, state-owned enterprises (SOEs) are encouraged to create capacity building initiatives independently of government support.

Some of the larger construction oriented SOEs, such as China Road and Bridges Corporation (CRBC) and Sinohydro, have both sent groups of Angolan students to China in the past two years. The students, according to an official Angolan source, are engaged in various studies ranging from engineering and architecture to medicine and language. On their return to Angola, they are expected to either work for the SOE that sponsored their study or become involved in other infrastructure projects in Angola. What is interesting is that the Angolan source suggested that it was an Angolan initiative, maintaining that it was the Angolan Ministry of Public Works that had the 'brilliant; idea of proposing that the larger Chinese SOEs send Angolans to China for training.'¹⁵

No comparable effort is afforded by private companies. However, Huawei was often cited as an exception. Although starting out as a small private firm, it is now the fifth largest telecommunications company globally. Consequently, due to its size and status as a 'national champion', for the purposes of analysis, many treat it as a state-owned company, due to the state support it receives. According to one think tank academic, Huawei is 'an outstanding example. Private companies are good at training people; they are more flexible, they are better at marketing.'¹⁶ A Chinese official commented that although cutthroat

¹² Hu, Jintao (2006) 'Address at the opening Ceremony of the Beijing Summit of the forum on China-Africa Co-operation', 4 November. p. 10.

¹³ Wen, Jiabao (2009) Address at the Opening Ceremony of the 2009 FOCAC Summit in Sharm-el-Sheikh, Egypt, 9 November. Available: <http://www.china-wire.org/2009/11/wens-speech-at-4th-ministerial-conference-of-forum-on-china-africa-co-op-full-text/>

¹⁴ Interview with MFA official, Beijing, 29 October 2009

¹⁵ Interview, Beijing, 28 October 2009

¹⁶ Interview, Beijing, 22 December 2009

competition can be counter-productive, due to Huawei's attempts to cut its prices to compete with Zhong Xing Telecommunications (ZTE) is very solicitous of its clients in order to keep them.¹⁷ Another researcher, who had interviewed Huawei's management in Angola, said: 'Huawei is different, the staff speaks English very well, and so they can have a Portuguese-English translator. They also have a training centre in Angola and are a very good model for other companies. They have overcome this language and culture barrier. They can stay longer and the development from their engagement will be more sustainable. They have about 50/50 in terms of Chinese employees and local employees. They also have a co-operative agreement with a technical school, whereby they set up and support the school and then recruit the students.'¹⁸

Although Huawei was often cited as a model for a Chinese company having 'localised', a private Chinese consultant disputed the success of the Huawei model, saying that there were no successful models of localisation by Chinese companies in Africa. 'The way that Chinese companies come in with their own workers in a turn-key type operation is the way that they know, it is how they operate in China and in other developing countries - it is the operational model that they know.'

One Chinese policy advisor has been strongly advocating that the Chinese government pay more attention to ways in which technology transfer can be facilitated through further investments in Africa, citing China's experience with Western technology transfer. He suggested that this was a matter for policy, as '...companies, without any policy guidance would not think if this [technology transfer].' Chinese State-owned enterprises, and the larger private companies such as Huawei, place an emphasis on training. While he conceded that personnel training, the aspect also most concentrated on by the Chinese government thus far, is important, he suggested that the exchange of technological know-how had been neglected and that Chinese companies needed to contribute more in this regard.¹⁹ It was confirmed by another Chinese policy-maker that Chinese companies on the whole are not enthusiastic about technology transfer.²⁰

The perception among many in Beijing is that it is the newly arrived private companies that cause most of the problems, such as the small-scale copper smelting operations that set up and then abandoned Democratic Republic of Congo (DRC) and Zambia during the economic crisis. 'They are small so they can come and go, they have no social responsibility at all, they are also often retailers and only in it for profit.' Fundamentally, the idea remains that corporate social responsibility and profit are mutually exclusive. To a certain extent, this

¹⁷ Interview, Beijing with MFA official, 29 October 2009

¹⁸ Interview, Beijing, 9 September 2009

¹⁹ Interview, Beijing, 4 January 2010

²⁰ Zeng Qiang, presentation on 'Challenges to the further development of Sino-African Economic Co-operation: Some reflections, Symposium on Sino-African Relations: Reflections and Prospects. Organised by the Institute of West Asian and African Studies, Chinese Academy of Social Sciences, Beijing, 13 October 2009

does depend on the companies' economy of scale, and but even larger companies are more interested in an easier solution, a Chinese policy-maker commenting wryly that it is a Chinese characteristic to throw money at a problem to make it go away.²¹ This may not necessarily imply bribery, but that a social project like the building of a rural school will be hastily announced without an assessment of the real needs of the local community in questions, their sustainability or that of the companies' operations.²²

Labour Rights

A Chinese academic conceded that prior to the emphasis placed on it by President Hu Jintao the Chinese companies were not interested in corporate social responsibility; they never realised this was important and 'need to have their consciousness raised. They need to realise there are many other factors; it is not just the commercial deal, there are aspects like the training, the environment and sustainability to consider.'²³

Labour rights, particular against the backdrop of international standards, have been a perennial problem for Chinese companies in Africa, both from the perspective of implementation and enforcement.

Trade unions, generally very strong in Africa, are considered a force that reduces the productive environment.²⁴ This is not dissimilar from the sentiments of other employers; the difference is that

Chinese companies across the board, are not accustomed to dealing with them give the weakness of trade unions domestically. In Africa, trade unions, as is the case with most employers are considered a force that reduces the productive environment.

One African diplomat expressed concern with regards to a lack of cultural understanding between Chinese managers and their local working staff. The Chinese managers are not sympathetic to bereavement leave or leave to observe religious practices, regarding these as impacting negatively on productivity levels. China National Petroleum Company (CNPC) reportedly made a petition to the Sudanese government to grant the Sudanese oil workers exemption from Ramadan observance. It was not granted.²⁵ A lack for these cultural practices themselves, which are in a large part alien to the Chinese expatriate managers, can often be interpreted as a lack of respect for local customs and does not bode well for labour relations on these projects.

²¹ Interview, Beijing 21 October 2009

²² Interview, Beijing, 5 November 2009

²³ Interview, Beijing, 16 October 2009

²⁴ Interview, Beijing, 3 December 2009

²⁵ Interview, Beijing, 28 October 2009

Safety concerns are also a key issue. One Chinese academic pointed out that this was a problem for China domestically as well: 'You may notice in China all the mining accidents occurring very frequently; many companies are not paying attention to these issues of environment and safety etc. There are lots of problems and protests from the rural villages about environmental damage inside China. It is now like this in Africa too. It is the same thing everywhere. You hear about this damaged forest in that country... no matter whether the story is true or not, it brings us to the fact that we should pay enough attention to this. African law-making is very important, but the Chinese side should also be more responsible'.

Another contentious issue is that of fees. A researcher from a policy think-tank mentioned that private companies are also 'creating problems'. They do not respect the local customs and some of the local workers are not paid or are paid very low salaries in comparison to the Western firms.²⁶

A Chinese diplomat confirmed this, saying, 'They try to keep the salary lower; there is no social security. On Monday they will recruit workers, on Friday they will lay them off – by keeping them only weekly workers, they remain casual workers and they do not have to pay benefits. This already has a bad result in China from Hong Kong and Taiwanese companies. They are doing the same bad things in Africa. A Chinese high-level official criticized them saying: 'You have been prevented from doing these things in China, so now you are running off to do them in Africa!'²⁷ This is exacerbated by the relatively lower (even when compared to China, in some cases) level of policy implementation in Africa to prevent such practices, and may indeed may be a motivation drawing some of the less scrupulous Chinese (and other foreign) companies.

An African diplomat however assured that 'The Chinese have learned their lesson and do not want a repeat of the embarrassing incident when Hu Jintao went to Zambia and could not visit Chambishi²⁸ due to the rioting (against the Chinese) in the area. They have realised the political consequences of not utilising local labour and the importance of perceptions in this regard. Therefore there seem to be positive developments in terms of procurement and labour practices. Furthermore, more African governments seem to be stepping up to the challenge of calling attention to breaches in regulations and labour practices where they occur.'²⁹

A Chinese ministry official commented: 'We need to change their mindset in terms of dealing with them if we want them to foster development and see it as part of their

²⁶ Zeng Qiang, presentation on 'Challenges to the further development of Sino-African Economic Co-operation: Some reflections, Symposium on Sino-African Relations: Reflections and Prospects. Organised by the Institute of West Asian and African Studies, Chinese Academy of Social Sciences, Beijing, 13 October 2009

²⁷ Interview with MFA official, Beijing, 29 October 2009

²⁸ This was a highly embarrassing incident of a Chinese state-owned mining company using exceptionally poor health and safety standards at the special economic zone set up in Zambia. There were riots when President Hu came to set the cornerstone in the opening ceremony in February 2007

²⁹ Interview, Beijing, 8 September 2009

mandate. At the moment it is not seen as part of their job. We need the institutions and the legal framework to send them to court.’³⁰

Hiring Labour

It seems that Chinese companies, regardless of their ownership structure have a reputation for being reluctant to hire local labour. This is much likely to be the case with the larger state-owned companies, purely due to political pressure. For instance, in the case of oil-related projects, all Chinese companies are centrally owned. The government shareholder is the State Assets Supervisory and Administrative Commission (SASAC) (Shankleman, 2009:20). A former diplomat assured that: ‘When China gets involved in oil, there is the development of the locality, the regional area. It is the Chinese government with a Chinese company, but 80 percent plus of the work force is local in order to ensure sustainability. The Chinese diplomats are also getting much better at co-operating with the local media to communicate the future of the people and the facelift of the area.’ Another Chinese think tank researcher agreed, suggesting that Chinese SOEs were ‘more disciplined’ and were more aware of CSR practices, and labour issues. She explained that many of the SOE operations she had visited in Africa stated that their operations were 95% local labour, although it depended on the sector.³¹

This is not always the case however, especially in the case of the construction industry, where many of the companies are owned not by the central government, but by various Chinese provincial governments (Shankleman, 2009:23). A Western observer commented ‘What many people fail to realise, is that the major engineering projects from China are operating in Africa much like they operate in China- they bring their own workers. So if a company from Guangdong wins a tender for a project in Ningxia, the company recruits all its own workers from Guangdong. It is therefore not surprising that the Chinese companies are not using the local labour and suppliers in Africa.’³²

Several respondents asserted that the two biggest problems with using local labour are the language issue and the skills issue.³³ Put bluntly by one academic, ‘Although many construction projects are pursued under international bidding rules, the locals are not participating in these projects as the Chinese companies prefer to employ the Chinese workers because they are hard-working.’³⁴ Another Chinese policy consultant agreed, indicating that there is a tendency for Chinese people to regard African s as lazy, ‘they don’t

³⁰ Interview with MFA official, Beijing, 29 October 2009

³¹ Interview, Beijing, 22 December 2009

³² Interview, Beijing, 14 October

³³ Interview, Beijing, 21 October 2009, interview, Beijing, 3 December 2009

³⁴ Zeng Qiang, presentation on ‘Challenges to the further development of Sino-African Economic Co-operation: Some reflections, Symposium on Sino-African Relations: Reflections and Prospects. Organised by the Institute of West Asian and African Studies, Chinese Academy of Social Sciences, Beijing, 13 October 2009

have the mentality to work'.³⁵ A Chinese consultant to Chinese companies entering African markets suggested that the companies seem to feel that Chinese workers are 'easier to manage', inferring that they are more compliant.³⁶ Almost all respondents commented on the Chinese perception that African employees are not used to working as hard as their Chinese counter-parts.

It appeared that this was a particular issue where deadlines were concerned and that the strongest motive for using Chinese materials and workers was in order to ensure that the projects are on time and on budget.³⁷ Another Chinese journalist expanded on this, stating that after the skills shortage and language is that problems encountered with cultural differences 'This relates to work ethics. The Chinese way to work until the target for that day is reached – the second story for example. It is not to work a certain number of hours and then go home or be paid for overtime.'³⁸ Of particular importance were development assistance projects of which the Chinese government had promised within a delivery within a certain deadline, such as the FOCAC 2006 promises³⁹. In these cases, Chinese labour was used because to training local workers was seen as delaying project's completion. This has serious implications for local labour training, as Chinese development assistance in the form of facility construction is extensive.

One policy –maker maintained that if it were up to him, if these two issues could be addressed, he would use local labour (culture and work ethic, language) . Using local labour means not needing pay for flights, visa, living expenses etc. Interestingly, An African diplomatic mentioned that there are problems in terms of the local labour practices of the Chinese companies operating in his country. However, he had some sympathy with Chinese managers wanting to use Chinese labour, despite the social tension this caused. He mentioned that many local workers were unskilled and untrained and the political impetus to insist on local employment slowed projects down and decreases efficiency and productivity.⁴⁰

Concluding Remarks

It appears from this brief examination, that while difficult to generalise in an absolute way, there are indeed emerging differences between state-owned, provincial and private companies. As remarked by Gu (2009:570), prior research has focussed on SOEs in a way that implied that the category was homogeneous, belying the fact that China's own

³⁵ Interview, Beijing, 21 October 2009

³⁶ Interview, Beijing, 8 December 2009

³⁷ Interview, Beijing, 21 October 2009, Interview, Beijing, 14 October

³⁸ Interview, Beijing, 3 December 2009

³⁹ These were a set of eight pledges announced by Chinese President Hu Jintao at the 2006 FOCAC Summit in Beijing to be completed by 2009. Several were infrastructure related, including building a conference centre for the African Union, building 10 agricultural demonstration centres, 100 rural schools, 30 malaria prevention and treatment centres.

⁴⁰ Interview, Beijing, 28 October 2009

domestic decentralisation has led to a marked fragmentation of commercial actors with a range of business and strategic policy-oriented motivations. China's domestic policy context then, will likely drive the diversification of strategies and practices across the scope of entities now regarded as state owned enterprises and national champions. But it is not alone in creating the context for change.

Put simply, this is not a static situation. The SOE reform programme is far from complete and Chinese private actors are constantly shifting their market behaviour as they familiarise themselves with what might be broadly called the "African context." The markets obviously, are dynamic too, as in changing political environments wherein tax, tariff and labour rules are revised. Third party elements also have an impact, notably when American, EU, Brazilian and Korean enterprises sharpen their competitive strategies in the face of Chinese success and inroads. In other words, Chinese firms of all types, regardless of their differences in resources, are likely to experience demands for change that are in addition to the intentions emanating from China's own centres of power and economic planning.

Without doubt, there was one unifying theme that enveloped the scope of issues raised in our interviews and discussions. This was the perceived need for Chinese firms to build relationship capital. In some sense, the varying levels of success that might be attained by international firms, hypothesized one African observer, will become increasingly dependent on their ability to generate linkages with local firms, customers and government authorities in ways that are economically and politically efficient. The drive to localization can manifest itself in several ways.

The localization of the labour force is one instance. Preliminary information indicates that The China Africa Business Council's research regarding private sector infrastructure companies included one company, a Shandong-based firm, that had difficulty with 'local people' upon their entry to Africa 15 years ago. Initial interaction with locals was difficult, and more preparation for complying with regulations pertaining to employment of local people was needed. But now the company reportedly has few labour difficulties and has provided many jobs for locals, who, in turn, have emerged as a loyal labour force over the years.⁴¹ Although one cannot generalise from this single case study, it does appear that certain Chinese companies, particularly those private firms with more experience in African markets, are more willing to 'localise.' This conclusion fits the notion that smaller firms can adapt and absorb relationship driven change more efficiently than larger firms

Another aspect worthy of consideration is the dynamism (or lack thereof) between Chinese companies and local policy formulation. One government researcher suggested that

⁴¹ Interview, Beijing, 8 December 2009

‘the African countries need to ... create a better environment for employment’⁴²; another that there have been ‘half efforts’, but not much effort on this front and that there needs to be co-operation with the African side to make the deal more realistic.’⁴³ Indeed, this may be true on several counts. African governments are often tempted to allow Chinese companies to use their own labour force in order to accelerate the rapid completion of much-needed infrastructure projects. The long-term benefit of skills training and employment is subordinated to the short-term benefit of alleviating pressures to deliver specific political goods (roads, railroads and other infrastructure). One Chinese policy advisor suggested that a better way was to impose localisation criteria during the bidding process as an additional criterion, such as dictating that a percentage of the labour should be locals that are trained on-the-job. This would ensure that the companies would include such requirements in their project time framework. Consequently, such provisions would have to be negotiated up-front as regards the financing conditions of institutions such as Exim Bank. Such was the case for Angola. Although in principle China Exim Bank loans require that all projects that it finances are undertaken by a Chinese company, in the Angolan case it was negotiated that up to 30 percent of contract could be outsourced to Angolan companies and the personnel used on the projects must be Angolan. Although a minority percentage, it is arguable a realistic condition, given the paucity of skilled labour and local industries to support the material requirements of projects of this scale. An Angolan official⁴⁴ reported that initially enforcing the 30 percent local content was very difficult, but the situation has improved since 2004, when the first China Exim Bank-financed projects commenced. The Chinese companies are required by most African host countries to supply on-the-job training to their workers. A Chinese official, although supportive of such measures, cautioned that depending on the country, they would meet with mixed success.⁴⁵ He added that maintenance contracts spanning one year to 18 months should also be a part of the contract, as a way to assure government cooperation in executing such initiatives and thereby aligning incentives on both sides of the table.

Another aspect of the relationship capital deficit is the perceived lack of understanding about its importance. One group of interviewees commented that all Chinese firms need to re-dress the omission of adequate efforts to localize with community leaders and authorities but that some organizations had a better understanding of its significance. It was presumed by some, though no hard data were available to buttress the argument, that smaller firms were more intent on preserving relationships once they were established. The argument was along the lines that relationship building is costly in terms of time and money – and missed opportunities to develop new business elsewhere. Small firms could not let investments of that sort waste or decay. Alternatively, others suggested that it was the

⁴² Interview with MOFCOM researcher, 5 December 2009

⁴³ Interview, Beijing 4 January 2010

⁴⁴ Interview, Beijing, 28 October 2009

⁴⁵ Interview, Beijing, 29 October 2009

larger firms that did more to preserve relationships once they were established. In neither case was there an effort to apply the difference to one class of SOE or another – yet, a difference in style regarding “relationship resources” would likely exist as it would in regard to differences in husbanding other resources. Consistent with previous comments, it is reasonable to hypothesize that private firms, incapable of availing themselves to speedy state intervention akin what might be gained by an SOE, are going to be more disciplined in their effort to hold on to such relationships once the investment was made in obtaining them.

Of course, the methods firms use to develop significant relationships are also likely to vary. The techniques used by firms to identify stakeholders and to prioritize their engagement would be subsumed under broader strategic or commercial objectives. One could expect that how firms move to shape public opinion would vary, if for no other reason than because of differences in state support or appetite for financial risk. The entire arena of “environment shaping” would likely be approached differently. Collaborations with NGOs, involvement with public private partnerships and reaction to activist campaigns are likely to vary, initial discussions suggest, but the specific expression of these differences is now unclear. Large Beijing-led SOEs, for example, might be able to access the resources of a global communications network while a smaller, provincial firm might have to do with improvised public relations resources at hand. Similarly, the willingness to exchange information with other groups, it was argued, would differ according to ownership structure.

While Chinese companies have made media headlines across the world, many of them are struggling with the same issues encountered by other foreign firms on initial market entry into Africa. It is apparent that the larger state-owned firms and national champions may have such challenges mitigated by state support through a variety of mechanisms. However, those companies that report directly to provincial authorities may experience different incentives than those pushed strategically by Beijing. For instance, Chinese provincial SOEs account for 88 percent of Chinese outward investment (Gill and Reilly, 207:44). Yet despite, the ‘going global’ policy, according to Gu (2009: 579), many Chinese entrepreneurs suspect provincial governments of discouraging the relocation of *private* Chinese firms to Africa as it would result in a loss of tax revenues. Consequently, whereas government support may be SOEs’ largest advantage as regards market-entry in Africa, Chinese private companies are much less likely to solicit Chinese government assistance in-country.

Finally, there are aftershocks to the financial crisis of 2007-2008 that will likely influence any assessment of diverse ownership patterns and their impact on corporate performance and strategy. Private firms, in Africa as anywhere else in the world, represent the effort to capitalize on the same motivations that propel success in free market economies. The Washington Consensus, the prevailing economic framework over recent decades, argues that the surest way to lift a frontier or developing economy was to liberate the private sector and to minimize public interventions. The global turmoil the crisis unleashed, however, has undermined faith in that prescription; hence the statist effort

reflected in government takeovers of ailing firms, stimulus packages and renewed calls for intervention regarding cross-border mergers and executive compensation. Further, China's robustness in the face of the crisis has reinforced the competing Beijing Consensus⁴⁶ that puts considerable stock in the effectiveness of state capitalism. This approach recommends the use of the market place by a national government to pursue its political ambitions. Indeed, in such settings the leadership of both the commercial and political sectors tend to be the same.

Weighing the current situation, thus, invites questions about what kind of renewed and reinvigorated support SOEs, both those driven by the central government and those driven by provincial governments, are likely to earn over the short term. Meanwhile, leaders of private firms recognize the precarious nature of their business environment. Their conversations are replete with references to anaemic recovery and the jeopardy represented in the threats of sovereign defaults, the collapse of monetary regimes, the rise of protectionist policies and renewed activism regarding labour rights. In Africa, and in Angola specifically, the dominance of the economy by state organs in order to facilitate patronage networks severely compromises the development of entrepreneurs.⁴⁷ The possible rise of forces that bias the competitive environment against them is a real concern. How private firms adapt to resurgent central authorities and institutions (ministries, local administration, providers of social services), and indeed whether they even choose to compete, are fundamental questions.

These kinds of considerations are important and necessary but not sufficient for mapping the ways different categories of Chinese organizations will conduct business in Africa. While Chinese companies have been engaged in African economies for decades, the attractiveness of the continent as an untapped market and source of commercial opportunity is relatively new. Clearly, multi-faceted research is required to trace and understand the dynamic nature of various types of Chinese companies penetrating African markets.

Reference List

Asche, Helmut & Margot Schüller (2008)'China's Engagement in Africa – Opportunities and Risks for Development', *GTZ*: <http://www.gtz.de/de/dokumente/gtz2008-de-china-afrika-lang.pdf>

Brautigam, Deborah (2009) *The Dragon's Gift: The Real Story of China in Africa*. Oxford: Oxford University Press.

⁴⁶ For a more comprehensive assessment of the concept espoused by the 'Beijing Consensus, see Ramo (2004)

⁴⁷ For further discussion, see Guest (2004)

- Broadman, Harry. 2007. *Africa's Silk Road: China and India's New Economic Frontier*. Washington, D.C.: The World Bank.
- Burke, Christopher, Lucy Corkin & Nastasya Tay. 2007. *China's Engagement of Africa: Preliminary Scoping of African case studies: A scoping exercise evaluating China's engagement of six African case studies*. Prepared for the Rockefeller Foundation, Stellenbosch: Centre for Chinese Studies, September.
- Chen, Shaofeng (2008) 'Motivations behind China's foreign oil quest: A perspective from the Chinese government and the oil companies' *Journal of Chinese Political Science* 13(1): 79-104.
- Chinese Ministry of Commerce (2009) '2008 Statistical Bulletin of Chinese Outward Foreign Direct Investment', 25 September, available: <http://hzs2.mofcom.gov.cn/accessory/200909/1253869308655.pdf> [31 March 2010]
- Corkin, Lucy (2007) 'The Strategic Entry of China's Emerging Multinationals into Africa' *China Report*, 43: 309-322.
- Corkin, Lucy. 2008. China's interest in Angola's infrastructure and construction sectors. In Dorothy-Grace Guerrero and Firoze Manji (Ed.), *China's New Role in Africa and the South*: 157-190. Oxford: Fahamu.
- Dansoh, Ayirebi (2005) Strategic planning practice of construction firms in Ghana. *Construction Management and Economics*, **23**, 163-168.
- Gill, Bates & James Reilly (2007) 'The Tenuous hold of China Inc in Africa' *Washington Quarterly* 30(3):37-52.
- Gu, Jing (2009) 'China's private enterprises in Africa and the implications for African development' *European Journal of Development Research*, 21(4): 570-587.
- Guest, Robert (2004) *Shackled Continent: Africa's Past, Present and Future*. London: Macmillan.
- International Crisis Group (2008) 'China's Thirst for Oil' Asia Report no. 153, 9 June 2008.
- Imparato, Nicholas and Shalendra Sharma (2009) 'The Financial Crisis and Development among the World's Poor Nations' *World Economics*, October – December, 10(4): 25-44.
- Jakobson, Linda (2009) 'China's diplomacy towards Africa: drivers and constraints' *International Relations of the Asia-Pacific*, vol. 9: 403-433.

Kaplinsky, Raphael & Mike Morris (2009) 'Chinese FDI in Sub-Saharan Africa: Engaging with Large Dragons' *European Journal of Development Research*, 21(4):551-569

Raine, Sarah (2009) *China's African Challenges*, Abingdon: Routledge

Ramo, Joshua Cooper (2004) *The Beijing Consensus*, London: The Foreign Policy Centre

Shankleman, Jill (2009) 'Going Global: Chinese Oil and Mining Companies and the Governance of Resource Wealth' Washington: *Woodrow Wilson International Centre for Scholars*.

Sharma, Shalendra (2009). *China and India in the Age of Globalization: A Comparative Political Economy*. New York: Cambridge University Press.

Yusuf, Shahid, Dwight Perkins and Kaoru Nabeshima (2006). *Under New Ownership: Privatizing China's Enterprises*. Stanford, CA: Stanford University Press.