A Profile of the Operations of Chinese Multinationals in Africa

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China's goal is not to overturn the world order but instead to participate in this order and to reinforce it and even to profit from it.

Fu Chengyu, CEO
Chinese National Offshore Oil Corporation, February 2006[1]

Introduction

The marked presence of Chinese multinational corporations (MNCs) on the global stage is changing the landscape of international business and politics. Western firms, which once had virtually undisputed command over international financial resources and the requisite political ties to dominate global business, are now being challenged by a host of emerging country corporations, with China being at the forefront. Highly competitive and strongly supported by the state, Chinese corporations are embarking on an acquisition drive that is capturing key resources and market share across the developing world. In many respects it is Africa, an area rich in natural resources and under-exploited markets and with only limited historical ties to China, which is serving as a proving ground for the new Chinese MNC.

This article will investigate this rise of Chinese MNCs in Africa by, first, examining the content and conduct of Chinese firms, second, their linkages to government strategy and, finally, assessing their impact on Africa.

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Chinese MNCs in perspective

Perhaps the first and most important point to make is that Chinese MNCs are, in many respects, like other state-owned MNCs operating in Africa, for example France's Elf-Aquitaine or South Africa's Eskom. In the French case, Elf-Aquitaine has been highly politicised, building upon or even defining France's Africa policy in particular countries such as Gabon and Angola.

The close proximity between French business and political interests, manifested by the presence of oil company executives in the inner circle at the Elysee Palace as well as the circulation of key political elites such as Jean-Christophe Mitterrand within political and business circles, has been a feature of France's post-independence Africa policy from the outset.[2]

Moreover, the *modus operandi* of foreign policy makers in Paris has been to construct policy around a network of personal relationships with individual African leaders, bolstered by a web of bilateral agreements in trade, finance, development assistance and defence.[3]

The result has been, much to the dismay of many in France, a convergence between the interests of the oil company, the national armaments industry and the government's development policy that has led to, in its worst manifestations, French troops being sent into African countries to quell popular uprisings against local dictators.[4] Much of the thrust of the seemingly perennial efforts at reform of France's Africa policy has been aimed, with limited success, at untangling this complex set of relations with the continent.

South Africa's parastatal, Eskom, represents another form of MNC in Africa whose strategy and operations blend national concerns with those of the continent's major power supplier. The convergence between South African economic interests surrounding the hydro-electric potential of the Congo River in the Democratic Republic of Congo (DRC), which Eskom seeks to exploit as South Africa searches for new power sources, has played a major part in Pretoria's foreign policy calculations towards that country.[5] According to Daniel and Lutchman:

> *It is little wonder then that the South African government has committed so much in the way of time and effort, as well as military peacekeepers, to the task of bringing political stability to the DRC and to ending the endemic conflict in particularly the eastern region (Ituri) of the country.*[6]

Arguably, however, the relationship between foreign policy and corporate interests is most evident in South Africa's relations with the neighbouring state of Zimbabwe. Thabo Mbeki's pursuit of constructive engagement ('quiet diplomacy') with the Mugabe regime is predicated to a large extent upon Zimbabwe's dependence on power supplies from Eskom. Thus, the pressure exerted by the South African government upon Eskom to continue to provide power to Zimbabwe, despite serious shortfalls in payments to the parastatal, has been one aspect of this convergence between foreign policy and MNC conduct; while at the same time, the threat of cutting electricity supplies remains one of the key (if under-utilised) tools available to Mbeki.

The emerging Chinese MNC

The rise of the emerging market MNCs is a recent development. Companies from China, India, Brazil, Malaysia and South Africa are rapidly establishing themselves as influential corporate players, particularly in emerging market economies. According to *Fortune* magazine, a company becomes a multinational when its international sales exceed 20% of its total.[7] It can be argued that the business strategies and corporate behaviour of emerging market MNCs differ in important ways from those of firms found in traditional market economies. For China, these differences are linked to the historical conditions of development from a command to a market-oriented economy, the political continuity that has accompanied unbroken single party rule, and the commensurate changes to its relationship with the international community. These factors influence of the strategy and operations of Chinese multinational corporations abroad.

China's relationship with international business firms has been shaped by its own revolutionary past and its more recent movement away from socialism. After the formation of the People's Republic of China in 1949, the new communist government ejected Western multinationals. China entered a period of four decades of self-imposed isolation from the global economy. During this period, it undoubtedly built some very large companies — mostly in the energy, mining and construction sectors. But shielded from competition, both internally as well as externally, these firms lacked competitiveness. China is now entering a new phase in its economic history — the birth of the Chinese multinational corporation. In a similar manner to how China has created its own developmental model, business strategies unique to

Chinese multinationals are being designed, differentiating Chinese firms from their Western competitors in the global marketplace.

A typical Chinese MNC has a business model heavily reliant upon political support, receives financial backing from the state and is involved in mining and energy industries. This characterisation applies primarily to Chinese state-owned enterprises whose rapid entry into the global economy can be attributed to the financial support provided by the Chinese government.

In pursuit of its broader global ambitions, Beijing is intent on 'picking corporate champions' that, with the benefit of active and generous support from the state, are being groomed to join the ranks of the Fortune 500. Roughly 180 companies have been designated by the state to benefit from preferential finance, tax concessions and political backing to 'go global' and become true multinationals. Chinese companies have the advantage of building their businesses on the back of a booming home market and leveraging the economy of scale advantage that this provides.

Business strategies

There are a number of imperatives for China's aspirant MNCs. First, the building and leveraging of commercial success in the domestic market; second gaining access to global supply chain through trade; and third obtaining management skills and technology to enable the creation of true multinationals. A number of outward business strategies are being employed by Chinese state-owned firms. These include the following:

- *Backward and vertical integration:* Chinese companies in extractive industries are acquiring upstream assets in order to secure resources and commodities. This can be seen in Sinopec's large investments in Sudan and Angola's oil sector. At the same time, some Chinese firms are expanding into downstream activities such as China National Offshore Oil Corporation's (CNOOC) movement into retail, petrochemicals and power generation.

- *State resources and energy security:* Enjoying access to state capital, Chinese energy firms are on the acquisition trail in Africa, Latin America and the Middle East. The government continues to support the purchase of international energy assets by providing both finance and tie-in development projects that appeal to

leaders in these countries. In value terms, the energy sector will continue to account for the bulk of Chinese international investment over the short to medium term.

- *Partnerships and joint ventures:* Linking up with existing firms, both Western and non-Western, is increasingly a part of the Chinese corporate strategy abroad. This in part reflects the recognition that there are technological and managerial gains for Chinese MNCs, as well as possible inroads into the political establishment of countries with which it has only limited ties. PetroChina's tie-in with Total in Inner Mongolia and Sinopec's joint venture with Sonangol are examples of this phenomenon.

- *Parent satellite investments:* This involves the selective use of listed satellite companies or subsidiaries to acquire resources but a willingness to use unlisted parent companies when deemed more appropriate (such as the need to rapidly secure a deal). China's MNCs are establishing a wide presence in the global economy, for instance, in the information and communication technology (ICT) area, TCL, Lenovo and Huawei Technologies. They are attempting to develop an independent presence, but the vast majority continue to be under the control of the parent company in China.

China's 'first-movers'

China's 'first movers' into the global economy are not just from traditional industries but also the telecommunications and information technology sector. Sinopec, CNOOC and China Minmetals Corp are leading the way in the extractive industries. Huawei Technologies, ZTE Corporation, Lenovo and TCL are rapidly becoming global players in the ICT sector. Despite a number of these firms claiming to be private, there is doubt over the role Beijing plays in influencing the international investments of these firms.

Considering Beijing's concern with energy security, its energy giants are on the international acquisition trail, particularly in Africa. Of the total stock of outbound Chinese foreign direct investment (FDI) which currently stands at $37 billion, approximately $4.5 billion has been invested in Africa. China's state-owned China National Petroleum Corporation (CNPC) has invested in oil assets in Sudan and Chad. Another state-owned enterprise, CNOOC, has acquired energy interests in Morocco, Nigeria and Gabon. China already procures 28%

of its oil and natural gas from Africa, with Sudan and Angola leading exporters to the country.[8]

Its strategy is to acquire assets and exert political influence in the recipient markets. 'When the Chinese make a decision to start-up a strategic relationship, there are obviously going to be strategic implications,' says Riordan Roett of Johns Hopkins University.[9] Diplomacy, with frequent high-profile visits by senior government officials as well as invitations to politicians and businessmen in the target country, are a common feature of the Chinese approach.

Challenges for Chinese MNCs

Chinese companies are seeking to fast-track their international market entry. Their strategies include acquiring established brands, gaining access to retail channels as well as technology. However, many of these firms are venturing abroad saddled with high levels of debt and minimal international experience.[10] Some are already floundering. For example, TCL has failed to turn around the DVD and television businesses of French company Thomson that it has acquired. Nanjing Automobile's acquisition of Britain's Rover group has yet to make progress in shifting the brand's manufacturing to China. Chinese white goods company Haier failed to gain control of US firm Maytag, while CNOOC's acquisition of Unocal ran into political resistance (see below). Chinese brands are battling to gain traction in the international market — a task made more difficult by the negative publicity Chinese exports are receiving from protectionist lobbies in the manufacturing sector.

According to Arthur Kroeber, China's 'unique combination of First World infrastructure and Third World labour costs and its focus on capacity building rather than technological innovation mean that corporate successes are more likely to be component manufacturers of processors of intermediate goods than global consumer brands such as South Korea's Samsung.'[11] Undoubtedly, China is lagging both Japan and Korea in similar stages of their development in building international brands in key sectors. Other challenges include cultural differences, politically influenced strategies and different management standards.

Despite stellar domestic economic performance, China is producing very few truly competitive multinational companies outside the energy and heavy industries. Even with Beijing's considerable capital resources, Chinese firms are battling to become world class. In

too many instances, Chinese managers strive for short-term profit and diversification of their businesses rather than investing in long-term technological development and innovation.[12]

This is unlike Indian companies that are also emerging out of a highly regulated system. Indian firms are most often successful despite government, not due to its support. India's economy was never as closed as that of China and has always had a large private sector network and globe-trotting elite of English-speaking executives. Its Westernised business practices are allowing Indian firms to integrate into the international economy in a far more fluid fashion than Chinese competitors. Nandan Nilekani, CEO of Indian high-tech giant Infosys, states that Chinese managers 'think large scale, have tremendous drive and are quick at execution, but lack experience dealing with global stock markets, marketing profit-making and communicating a vision.' [13]

Finally, Chinese state-owned firms are increasingly being criticised for their lack of collaborative business models, contributions to capacity building and sustainable business practices in recipient economies. Coupled to this is the adverse publicity that some Chinese firms generate through their labour practices and alleged under-bidding for tenders.[14] Pressure for greater transparency in the way Chinese firms do business is increasing in some countries where Chinese MNCs are investing, with domestic labour, local industry, environmental and human rights groups taking the lead.

For China, the challenge lies in corporate governance and accountability — both difficult to institute in Chinese SOEs. Ownership structure determines corporate governance practice in China. Typically, in state-owned or state-invested enterprises, political directives influence business strategy rather than market imperatives. The lack of corporate governance codes and a developed system of commercial law within China fail to regulate Chinese SOE practice in the international economy. Only when these regulations begin to be institutionalised in the domestic economy will Chinese firms gain a greater sense of social responsibility when investing abroad. In this sense, one could say that China's move offshore is outpacing the development of its domestic commercial legal system.

Chinese MNC strategies and operations in Africa

China's renewed interest in Africa, as noted in the recent flurry of literature on the topic, is tied to the dramatic rise in its economic fortunes since the early 1980s.[15] With resource security at the heart of

China's approach to the continent, the role of Chinese MNCs and in particular those in the petroleum and gas industry as well as related infrastructure development, had become a significant feature of the African investment and development landscape. The dilemma for Beijing, however, has been its status as a 'late comer' to investment in Africa as well as its relative lack of experience in developing and managing large-scale extractive projects abroad. In the words of He Jun, a Beijing-based energy consultant:

> *China does not have a competitive edge over its Western counterparts in an open market. But in a closed market like Africa's, Chinese companies are able to gain from government influence.*[16]

Western oil companies, not to mention industry based in other sectors, have been able to build upon generations of engagement dating back to the colonial period to secure their investments in Africa. The result has been a Chinese strategy constructed around the following features:

- *Competitive political advantage:* An explicit willingness on the part of China to work with any state, regardless of its international standing, based upon the Chinese foreign policy precepts of non-interference in domestic affairs in other states. In practice, this has meant China has been able to invest in pariah regimes which Western firms are barred from doing business in.

- *Comparative economic advantage:* Utilising a low-cost bidding strategy, centred on lower skilled labour and lower managerial costs. The use of low-skilled Chinese labour in projects is one of the key distinctions from traditional Western — and South African — MNCs in Africa.

- *Symbolic and economic diplomacy:* The lavishing of diplomatic attention, coupled to support for prestige projects and development assistance (low interest and outright grants) to potential recipient countries by the Chinese government, is a prominent feature of the MNCs' overall bidding process.

More than 800 Chinese state-owned firms are now active in the African economy. At the World Economic Forum's Davos meeting in

January 2006, a session was dedicated to evaluating China's commercial role in Africa in which Elizabeth Economy noted:

> *Whether oil in Angola, timber in Mozambique or copper in Zambia, China is breathing new life into these African economies. All over Africa today you will see Chinese construction firms building railroads, highways, telecoms, enormous dams, even presidential palaces.*[17]

For example, in December 2005, CNOOC bought a 45% stake in an offshore Nigerian oil field for $2.27 billion, China's largest foreign acquisition to date, eclipsing Chinese computer manufacturer Lenovo's $1.75 billion purchase of IBM's personal computer business in 2004. This was despite that fact that industry analysts believed that the Chinese had over-estimated the potential returns on Nigeria's Block 130.[18] China's energy presence is especially strong in Angola and Sudan, states that are not traditionally aligned to the Western powers and have been subject to intense criticism or sanctions for their governments' practices. And, as China projects its commercial power abroad, strategic competition with US and European interests is increasing.[19]

For a general insight into Chinese corporate motivation and strategy in operation, it is instructive to look at the much publicised example of a Chinese MNC, in this case CNOOC and its failed bid to acquire a controlling stake in a US oil company with large production interests in South-East Asia. Unocal, the ninth largest American oil firm, had already come to an agreement with Chevron when CNOOC put in its $18.5 billion cash bid in June 2005. Behind the timing and content of the Chinese bid, which was higher than that offered by Chevron, was the hope that an all-cash offer would be more attractive to Unocal than the mix of cash and shares on offer from Chevron. Chief executive and chairman of CNOOC, Fu Chengyu, was forthright in expressing his desire to transform this state-owned company into a global multinational player of the first order: 'We aim to be a participant in the global industry, like all the international majors, supplying the global marketplace as well.'[20] In the end, the latent fears of Chinese control over American corporate interests caused the US Congress to introduce legislation blocking the takeover.

Though conditions differ with respect to the veto power of the national legislature over such deals, there are parallels with some of the conduct of Chinese MNCs, especially in the oil arena, in Africa. In

particular, the case of Angola stands out as echoing some of the key features of the CNOOC deal. For example, the state-owned Indian oil company, the Oil and Natural Gas Corporation (ONGC), thought it had secured a deal with Shell to assume the lease for Angola's Block 18 but a last minute decision by Sonangol gave the rights to Sinopec. Crucial to the turnaround was the Chinese government's willingness to provide a $2 billion loan to the Angolan government, freeing it from its reliance upon IMF sources (and the accompanying conditionalities sought by the international financial lending agency). Moreover, Beijing has gone on to provide additional finance, expertise and even its own labour force in reconstructing Angola's shattered infrastructure including an estimated $500,000 refurbishment of the Benguela railroad, a new airport in Luanda and the building of a refinery in Lobito.[21]

In Nigeria, the promise to provide $7 billion in investments, coupled to the rehabilitation of two vital power stations and a willingness to sell arms for use in the troubled Niger Delta, were part of the package that ultimately secured the deal.[22] In Sudan, China stepped in with a massive, and ongoing, programme in 1996 to construct a modern export industry that would both serve as a source of oil for the country and an opportunity to spotlight Sinopec's growing expertise to the international community.[23] Chinese military hardware and diplomatic support for the government in Khartoum in its civil war with the South, and now the Darfur region, have played a significant role in sustaining the relationship.

In a more highly regulated environment such as South Africa, Chinese MNCs have a very different role from that in other parts of the continent. Joint ventures, such as the agreement between Sasol Synfuels International and its Chinese partners, China Shenhua Coal Liquification Company, Ningxia Luneng Energy and High Chemistry Investment Group, to establish coal-to-oil plants in Shaanxi and Ningxia provinces, are the product of lengthy and detailed negotiations that — apparently unlike some deals struck in other African settings — are framed in terms which conform to international legal norms and responsibilities.

Huawei Technologies has expanded its communications business into 39 sub-Saharan African countries, including a $800 million contract to build the infrastructure for Nigeria's lucrative mobile phone market.[24] At the same time, when Chinese firms do make headway in taking market share or outbidding local firms, their actions are increasingly both scrutinised and criticised by the media and elements

of civil society.[25] The dispute over the importation of Chinese manufactured textiles, which has erupted in states as diverse as Lesotho and Kenya, with their own established clothing industries, is the most prominent example of this.

For ordinary Africans, the most significant impact of Chinese economic involvement on the continent remains the surge in low cost consumer goods, albeit sometimes of variable quality, available to Africans as never before. These are being supplemented by the importation of higher value-added products, such as 'white goods' (refrigerators, air conditioners, etc.) and even Chinese manufactured vehicles, which appeal to the pockets of middle class consumers as well.[26] Related to this, however, has been the displacement of local labour in industries such as textiles, clothing and shoes due to the influx of cheaper Chinese products (and threats to do so in the automotive industry as well). In South Africa, the trade unions have stated that more than 800 firms and 60,000 workers have become unemployed as a result of the removal of tariffs on textiles and have successfully petitioned the government to lobby Beijing to place a voluntary restraint on exports.[27]

An equivalent debate is emerging with regard to the Chinese practice of employing its own nationals in construction projects. The failure to substitute African workers for Chinese workers employed in the recent flurry of Chinese infrastructure projects, be they technicians or un/semi-skilled labourers, is an important oversight with economic as well as political implications.

In the first instance, as noted above, construction firms from the West and South Africa have cried foul with respect to Chinese bidding practices and point out that systematic undervaluation of labour and managerial costs is a key differential in explaining their success. These companies' own legal standing in their home countries, which imposes labour and environmental standards, from which Chinese MNCs are free, as well as obligations to fulfil development mandates such as training local staff, place an untenable burden on them when it comes to competitive bidding against the Chinese.

Moreover, the use of nationals for labour by Chinese MNCs involved in construction and infrastructure projects, justified by Chinese managers in terms of their cost, productivity and cultural affinity, seems misguided when one examines the rates of local unemployment among Africans. Echoing this dilemma is the example of the low wages paid to African staff in the mining sector in Ndola where a Chinese company has opened an abandoned copper mine.

This has led to complaints from Zambians. And, lastly, the emergence of Chinese retailers across parts of rural Africa has both brought new goods closer to the population and, concurrently, threatened to undermine established retailers. In Namibia, Botswana, Angola and Cape Verde, the influx of Chinese trading shops (or *baihuo*) has been met with a mix of enthusiasm and concern, reflecting the ambivalent impact on the local economy.[28]

Conclusion

The presence and conduct of China's businesses in Africa is fast becoming one of the permanent features of the African economic landscape. That this new development excites controversy within Africa and on the part of Western firms is inevitable. Some of the concerns expressed are, it must be said, part and parcel of the emergence of such a significant player in a liberalising global trading environment based upon market principles. In this vein, the controversy over textiles is seen as perplexing by Chinese officials who point out that, having undergone the difficult task of restructuring their domestic textile and clothing industries ahead of joining the World Trade Organisation, China has abided by the rules of international trade and the market should therefore be allowed to determine the outcome of this matter.[29]

More generally, much to their consternation, traditional Western actors are finding that their once undisputed influence and dominance of Africa is being challenged by aggressive Chinese MNCs in collusion with the state.

As the Corporate Council on Africa, a US industry lobby group based in Washington DC, said recently, 'By American companies not taking more initiative in Africa, we're going to lose important market share to the Chinese.'[30] The recent loss of lead-operator rights on another oil block to a joint venture by Sinopec-Sonangol is attributed by some in the oil industry to French persecution of participants in its arms-for-oil scandal in Angola.[31]

Second, the 'good governance' agenda, which Western donors have sought to promote, and which indeed is embedded in African initiatives such as the New Partnership for Africa's Development (Nepad) and the institutional structures of the African Union, does seem to be under threat from the Chinese approach to business. As head of the Nigeria Investment Promotion Commission, Mustapha Bello, says:

> *The US will talk to you about governance, about efficiency, about security about the environment. The Chinese just ask: 'How do we procure this licence?'*[32]

The dilemma thus facing Western MNCs and donors, as well as African governments and concerned civil society actors, is how to successfully preserve their economic interests without undermining the structures and emerging institutions which, at least in their view, are crucial to building successful market economies within the framework of a liberal constitutional state. China's aversion to the promotion of the latter is a challenge to this agenda.

However, there is evidence that the Chinese MNCs are, as part of their desire to emulate established global MNCs, in the process of embracing aspects of the corporate responsibility agenda.[33] As Chinese firms become 'marketised' — accountable to shareholders, adhering to governance principles and becoming more socially aware — so their business practices will evolve. Both China and Africa have institutional shortcomings when it comes to the regulation of commerce and, as such, the conduct of Chinese firms whether domestically or in Africa, differs little. Indeed, even critics admit that if one sets aside the particular cases of Sudan, Angola and Equatorial Guinea, 'the rest of PetroChina and Sinopec activities on the African continent are not especially reprehensible' or at least no more so than many of their Western counterparts.[34] In the long run, perhaps it is this drive to emulate Western 'best practice' that will be the determining factor in Chinese corporate conduct in Africa.

Endnotes

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