Dialogue 3: **Chinese investment in natural resources in Africa**

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Dialogues are convened by De Beers and moderated by Professor Alyson Warhurst, Warwick Business School and Maplecroft. Dialogue is under the Chatham House Rule. Below we note key observations of those participating, which may not necessarily reflect individual viewpoints.

Key themes:

Chinese foreign direct investment and influence in Africa is increasing. There are an estimated 800 Chinese companies currently operating in Africa, with investment reaching US$2 billion in 2006. Only recently, in September 2007, US$5 billion was invested in Democratic Republic of Congo alone in return for long term mineral supply contracts and mining concessions. Minerals, metals and oil/energy resources from Africa help fuel Chinese economic growth and related investments have strategic long term objectives. Chinese investment in Africa raises a number of considerations: (a) Chinese investment tends to be public, focussed on infrastructure, through governments, and lacks the conditionality – with respect to combating corruption or improving human rights records – that Western capital has traditionally carried; (b) China's record of human rights infringements and poor health, safety and sustainability standards is feared to have a negative impact on African development and the improved reputation of the extractive sector; and (c) Western companies have reported that Chinese investment in Africa represents a shift away from the recent "levelling of the business playing field". A key step to addressing these considerations the group agreed is to engage with the Chinese government and companies as well as Africa in the international arena.

How does Africa benefit from Chinese investment in natural resources?

- **Increased revenues –** Africa accounts for c.30% of the world's natural resources but only c.10% of production. Increased foreign investment will enable Africa to increase production and stimulate additional taxes and revenues for the continent. The 5-6 percent economic growth in 2006 and predicated 6-7 percent growth in 2007 in sub-Saharan Africa has been attributed to Chinese investment.
- **Improving infrastructure –** Chinese investment usually involves developing infrastructure within the recipient African country. This should attract further foreign investment.
- **Post-conflict reconstruction** – Post-conflict states are especially in need of foreign investment. Many such states have significant mineral resources, which, if developed through Chinese investment, could lead to economic and social development.
- **Access to consumables –** The import of Chinese consumables has (a) increased competition and led to reduced prices and (b) enabled poorer Africans greater access to consumables associated with globalisation.
- **Opportunities for marginalised regions –** Lower health, safety, labour and environmental standards (arguably linked to lower monetary costs) can create short-to-medium term opportunities for marginal extraction projects. Although this point is somewhat controversial, it has been argued by Chinese investors.

How is Africa impacted negatively by Chinese investment in natural resources?

- **Safety –** The Chinese record of safety, particularly in the extractive sector, is among the worst in the world. There is evidence, with fatal accidents in a Chinese-controlled Zambian mine, to suggest this disregard for safety is being transferred to African mines under Chinese control. However, with the approach of the 2008 Beijing Olympics, there are indications that Chinese concern for safety standards compliance is growing. There are reports that 1,000 small unlicensed coal mines within China will be shut down before the Olympics and the Chinese government is reportedly dedicating nearly US$60 billion over five years to improve safety in industrial workplaces.
- **Resource-rent distribution –** There is concern about the impact of Chinese investment on local communities and citizens not involved in extractive operations. Access to wages, contracts, infrastructure etc. may increase purchasing power and wealth for some but marginalise and exclude others (due to increased prices of goods and services etc.). A further aspect is the lack of local value-added beneficiation activities in Africa, as the extracted raw materials are primarily exported directed to China.
- **Long-term impacts –** The Chinese approach to investment is often functional and without integration. There is often little focus on the impacts and long-term sustainable development in Africa. Chinese firms often use their own imported labour rather than local employees, providing little local skill training or capacity building. The long-term environmental costs of heavy industry can also be high. There is consequently rising concern about the negative impacts of Chinese investment after the industry has departed. Exit and planning for closure, which is often an element of Western investment seems minimal.
- **Human rights infringements –** Rule of law in some areas of Africa is poorly applied. This has led to worries of companies taking advantage of African workers, through low wages, discrimination and intolerance to collective bargaining. There is also a risk of investment perpetuating human rights infringements in post-conflict states.

Further discussion points on Chinese investment in Africa

- **Transparency –** Much of the Western uncertainty and concern towards Chinese investment in Africa lies in a lack of access and information flow from Beijing to the international world. China also appears to limit itself to an isolationist approach. This stance, however, may change, with an increased willingness by China and Chinese companies to integrate themselves into the international arena and at regional level where they invest.
- **Integration –** Chinese approach to investment deals is predominantly through high level government, rather than entry and dialogue at the local level. This approach reduces the obligation of Chinese companies to develop a social licence to operate with local communities.
- **Responding to allegations –** Chinese officials and companies are not accustomed to responding to the allegations and concerns of civil society. Chinese officials have demonstrated their endeavour to improve human rights, but have admitted they need creative solutions to aid their understanding and capacity to do so. This is an opportunity for the West and African governments to work with China to improve standards. More recently China has apparently pulled out of Zimbabwe in line with international concerns about human rights violations.
- **Finance –** Unlike many companies in the West, whose projects often comprise two-third debt funding and one-third equity, Chinese companies do not usually need debt funding. Many of the conditions placed on foreign investment by Western businesses are set by financial backers, which Chinese investment by-passes. If and when the Chinese banking sector develops and contributes to Chinese or other investment in Africa, it is anticipated that international banks and institutions can work with them to introduce more widely standards like the Equator Principles.
- **Companies outside China –** Chinese companies offer technology at a lower cost and with increased efficiency. They do not generally participate in socially responsible investment or other initiatives that contribute to beneficiation and sustainable development. This has led to a change in the playing field. Non-Chinese companies want to focus on their social investment, sustainable development contribution and contribute to national development goals as a means of winning business in Africa and addressing stakeholder concerns in the west about good corporate citizenship.
- **Preaching by example –** A particular obstacle for Western companies winning business in Africa against China is the perception of neo-colonial rhetoric from the West towards both China and Africa. The historic reputational damage associated with the role of some business during colonialism is still high. Apart from the colonial imprint, some companies from the West have worked with corrupt regimes in Africa and have not used the leverage to effect positive change.
- **Including China in the international arena –** Anti-Chinese view points may be inhibiting the potential for the west to embrace China in the international development arena. It is crucial to stimulate and support dialogue to enhance transparency and understanding. China could be invited to join more actively global standards such as the EITI and the Equator Principles. Particularly important is increasing EU dialogue with China. There needs to be increased diplomacy and possible strategic partnerships to encourage fuller participation from China.

Conclusions:

Ensuring Africa’s success and sustainable development – Africa cannot be allowed to slide backwards in development. Resource stewardship will be part of Africa’s success. The potential of this opportunity to be either a great success or a failure are both high. A crucial factor for enabling Africa to succeed in development is in both leveraging and improving national governance. All companies with investment in Africa can work to strengthen national governance and build capacity to ensure Africa’s resources are to Africa’s advantage also. Foreign investment must not be allowed to take advantage of Africa, but needs to ensure sustainability and increase development. Western companies can utilise their competitive advantage of demonstrating value through business.

Engaging with China – International organisations, NGO’s and companies currently have a window of opportunity to engage with China. China is interested in being involved in diplomacy and dialogue. As Chinese investment becomes more integrated in African societies, it will become necessary for Chinese companies to acquire a social license to operate, when one might expect to see higher standards in respect to heath and safety, human rights and the environment in response to local community considerations.

Next steps:

- There was great interest in continuing the lunch time dialogues on natural resources and Africa.
- The final session this year will focus on “How does one measure and evaluate the development ’footprint‘ of a business involved in natural resource production in Africa?” (**Thursday 13 December**). Please could you confirm your attendance or an alternate.