# WIN-WIN PARTNERSHIP?

## China, Southern Africa and the Extractive Industries

Edited by Garth Shelton and Claude Kabemba

SARW
Southern Africa Resource Watch

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# Contents

# Forward

In recent years there has been a flurry of think tank activity related to the role and place of China in Africa's economic growth. This book is important because while it adds to the growing literature on the role of China in Africa, it does so in three distinct and new ways. Firstly, the book is developed by an institution that is firmly rooted in Southern Africa. Whereas there are many Western institutions that produce interesting research on China-Africa relations, this is often developed to answer questions that are important to policy makers in developed countries. The policy perspectives of southern Africans, and the interests southern African research serves are quite different. Therefore, this research is intended to serve both civil society and state actors across this region.

Secondly, much of the research that exists has focused on macro-level economic growth. And while the overall picture of how Chinese activity and investment is driving an economic boom on the continent is important to understand, the studies that have been carried out by Southern Africa Resource Watch and its partners, are a critical addition because they provide local-level experiences and practical examples of the ways in which Chinese investments affect various communities. The research finds that the developmental impact is mixed. Resources are indeed provided for local citizens, jobs are created and much-needed infrastructure is provided. Where Chinese money is invested in joint ventures with local firms or with firms based in other countries, opportunities are created for local businesses.

Lastly, this research provides much-needed nuance. The research shows that Chinese investment is neither an unqualified boon nor is it a bane. Governing elites tend to overstate the development benefits of Chinese investment, while the critics of Chinese investment understate them or deny them entirely. The challenge for the countries of the region is, therefore, not how to deter Chinese investment but how to ensure that the positive developmental potentials are enhanced.

Most importantly however, a thorough reading of this research makes it clear that the real challenges and opportunities related to Chinese investment must be exploited by southern African states. Indeed, as the editors conclude, "the degree to which China helps to develop rather than to exploit the region depends on Southern African governments and their citizens more than it does on the attitudes and strategies of Chinese investors."

Sisonke Msimang
Executive Director
Open Society Initiative for Southern Africa

# Acknowledgements

The Southern Africa Resource Watch (SARW) was fortunate to have professor Garth Shelton from the University of Witwatersrand as research team leader. He has been following China's intervention in Africa for a decade now and brought broad experience to the work.

I also thank the members of the research team for their chapters (Abdon Yezi for Zambia, Albertina Delgado, Camilo Nhancale for Mozambique, Dorivaldo Edson da Silva Pedro for Angola, Francisco Paulo for Angola, Garth Shelton for South Africa, Claude Kabemba for DRC and Louis Masuko for Zimbabwe). Each one of them brought a wide variety of skills, analysis and knowledge to bear on their different chapters. For the past two years and half, through meetings, e-mail exchanges and comments on draft reports, they have contributed immensely not only to their own chapters but to the overall analysis in this book. I also want to thank each member of the research team for your extraordinary efforts in collecting data sometimes in very difficult conditions, especially in relation to the problems encountered in securing interviews with Chinese companies.

This is the second book that SARW has published. The first looked at the behaviour of South African mining companies in southern Africa. SARW will focus on Indian and Brazilian companies next year. The first book received wide coverage in the media and attracted the attention of the mining companies, which later met with SARW for an open and frank discussion on the contents of the book. SARW was subsequently requested by the mining companies to undertake a second visit to the mines. The ensuing report has been discussed with the relevant companies, some of which have since introduced a number of changes to their corporate social responsibility approaches. It is our hope that this book on Chinese companies will receive the same attention and will contribute to improving Chinese companies' behaviour not only in southern Africa but in the continent as a whole.

The compilation of this book benefited from the work of Professor Steven Friedman, Director of the Centre for the Study of Democracy at Rhodes University and University of Johannesburg, who helped with the reconfiguration of country chapters into themes. I express my deepest appreciation to Moratuoa Thoke, SARW Programme Assistant, for her administrative and financial support throughout the life of this project. Finally, SARW appreciates OSISA's funding, which made this project possible. I am ever grateful to Sisonke Msimang and Deprose Muchena, respectively, OSISA Executive Director and OSISA Deputy Director, for their encouragement and belief in this project.

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Mediterranean Sea
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Banghazi
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Namib Desert
Keetmanshoop
Luderitz
Tsumeb
SOUTH AFRICA
Pretoria
Johannesburg
Pietersburg
Bloemfontein
Welkom
Durban
East London
Port Elizabeth
Cape Town
Cape of Good Hope
Beaufort West
Oudtshoorn
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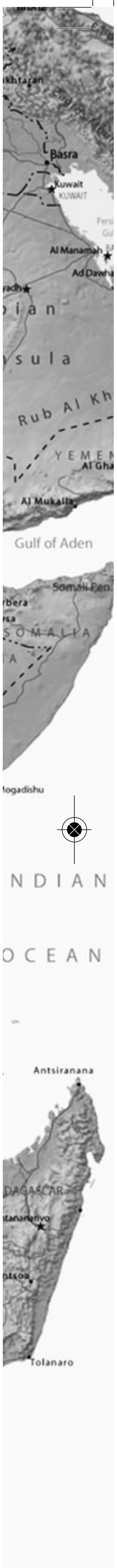


# Acronyms

| | |
|---|---|
| ABET | Adult Basic Education and Training |
| ACDH | Action Against Impunity for Human Rights |
| AFDL | *Alliance des Forces Démocratiques pour la Libération du Congo-Zaïre* |
| AGOA | Africa Growth and Opportunity Act (US) |
| AIDS | Acquired Immune Deficiency Syndrome |
| ANC | African National Congress (South Africa) |
| ANSA | African Network for Social Accountability |
| ASF | African Social Forum |
| AU | African Union |
| BEE | Black Economic Empowerment |
| BNC | Bi-National Commission (China and South Africa) |
| BRICS | Brazil, Russia, India, China and South Africa |
| BSAC | British South Africa Company (Zimbabwe) |
| CADEF | China Africa Development Fund |
| CATIC | China National Aero-Technology Import and Export Corporation |
| CCB | China Construction Bank |
| CCCC | China Communications Construction Company |
| CCCM | Chinese Collum Coal Mine (Zambia) |
| CEEC | *Centre d'Evaluation, d'Expertise et de Certification* |
| CEEC | Citizens Economic Empowerment Commission (Zambia) |
| CEO | Chief Executive Officer |
| CFU | Commercial Farmers' Union (Zimbabwe) |
| CGS | Council for Geo-Science |
| CHEMAF | Chemical of Africa |
| CHICO | China Henan International Cooperation Group Co.Ltd |
| CIF | China International Fund |

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|---|---|
| CIMCO | Congo International Mining Cooperation |
| CMoZ | Chambers of Mines of Zimbabwe |
| CMSK | *Compagnie Minière du Sud Katanga* |
| CNMC | China Non-ferrous Mining Company |
| COMILU | *Compagnie Minière de Luisha* |
| COMISA | *Compagnie Minière de Sakanya* |
| COSATU | Congress of South African Trade Unions (South Africa) |
| CPC | Communist Party of China |
| CREC | China Railway Engineering Corporation |
| CSI | Corporate Social Investment |
| CSIR | Council for Scientific and Industrial Research |
| CSIS | Centre for Strategic and International studies |
| CSO | Central Statistical Office (Zimbabwe) |
| CSR | Corporate Social Responsibility |
| CSRSC | Civil Society Research and Support Collective |
| CZI | Confederation of Zimbabwe Industry |
| DAA | Designated Authorising Agency (Zambia) |
| DCP | DRC Copper and Cobalt Project |
| DFA | Department of Foreign Affairs (South Africa) |
| DIAMANG | *Companhia dos Diamantes de Angola* |
| DINAGECA | *Direcção Nacional de Geografia e Cadastro* |
| DNTF | *Direcção Nacional de Terras e Florestas* |
| DME | Department of Minerals and Energy (South Africa) |
| DMR | Department of Mineral Resources |
| DRC | Democratic Republic of Congo |
| DSME | Daewoo Shipbuilding and Marine Engineering Co Ltd |
| DTI | Department of Trade and Industry (South Africa) |
| EAM | East Asia Metals |
| EIA | Environmental Impact Assessment |
| EITI | Extractive Industries transparency Initiative |
| EMA | Environment Management Agency (Zimbabwe) |
| EMCOZ | Employers' Confederation of Zimbabwe |
| EMP | Environmental Management Plan |
| EPA | Economic Partnership Agreement |
| EPO | Exclusive Prospecting Order (Zimbabwe) |

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|---|---|
| ESAP | Economic Structural Adjustment Programme |
| EU | European Union |
| EximBank | Export-Import Bank of China |
| FAW | First Automotive Works |
| FDI | Foreign Direct Investment |
| FLEC | Front of Liberation of the Enclave of Cabinda |
| FNLA | *Frente Nacional para Libertação de Angola* |
| FOCAC | Forum on China Africa Co-operation |
| FTA | Free Trade Agreement |
| FTLRP | Fast Track Land Reform Programme (Zimbabwe) |
| GCM | *Générale des Carrières et des Mines* |
| GDP | Gross Domestic Product |
| GEI | Global Environmental Institute |
| GIBS | Gordon Institute of Business Science |
| HIPC | Highly Indebted Poor Countries |
| HIV | Human Immunodeficiency Virus |
| HRA | Human Resource Department |
| ICBC | Industrial and Commercial Bank of China |
| IDC | Industrial Development Corporation (South Africa) |
| IFM | International Ferro Metals |
| ILO | International Labour organisation |
| IMF | International Monetary Fund |
| ITTO | International Tropical Timber Organisation |
| JISCO | Jiuquan Iron and Steel Corporation |
| JSE | Johannesburg Stock Exchange |
| JV | Joint Venture |
| KCC | Kamoto Copper Company |
| KCM | Konkola Copper Mines |
| LCM | Luanshya Copper Mines |
| LME | London Metals Exchange |
| MAB | Mining Affairs Board |
| MD | Managing Director |
| MDC | Movement for Democratic Change (Zimbabwe) |
| MDD | Mines Development Department |
| MDG | Millennium Development Goal |

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| MERP | Millennium Economic Recovery Programme |
| MFEZ | Multi-facility Economic Zone |
| MHSC | Mine Health and Safety Council |
| MICOA | *Ministério para a Coordenação da Acção Ambiental* |
| MINAG | *Ministério da Agricultura,* |
| MIREM | *Ministério dos Recursos Minerais* |
| MITUR | *Ministério do Turismo* |
| MMCZ | Minerals Marketing Company of Zimbabwe |
| MMK | *Minière de Musoshi and Kinsenda* |
| MMMD | Ministry of Mines and Minerals Development (Zambia) |
| MMSD | Mining, Minerals and Sustainable Development |
| MOP | *Ministério das Obras Públicas* |
| MoU | Memorandum of Understanding |
| MPLA | *Movimento Popular de Libertação de Angola* |
| MPRDA | Minerals and Petroleum Resources Development Act |
| MSD | Mines Safety Department (Zambia) |
| MQA | Mining Qualifications Authority |
| MUMI | Mutanda Mining |
| MUZ | Mineworkers Union of Zambia |
| MWU | Mining Workers' Union (Zimbabwe) |
| NCA | National consultative assembly (Zimbabwe) |
| NECF | National Economic Consultative Forum (Zimbabwe) |
| NEDPP | National Economic Development Priority Programme (Zimbabwe) |
| NEMA | National Environment Management Act |
| NEPAD | New Economic Partnership for Africa's development |
| NERP | National Economic Recovery Programme (Zimbabwe) |
| NUMAW | National Union of Miners and Allied Workers |
| NUM | National Union of Mineworkers (South Africa) |
| MHSI | Mine Health and Safety Inspectorate |
| OECD | Organisation for Economic Co-operation and Development |
| ONGC | Oil and Natural Gas Corporation |
| PARP | Action Plan for the Reduction of Absolute Poverty (Mozambique) |
| PASS | Poverty Assessment Study Survey |
| PEMA | *Companhia de Pesquisas Mineiras de Angola* |
| PGD | Partnership for Growth and Development (China and South Africa) |

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|---|---|
| PGM | Platinum-group Metals |
| PPP | Public Private Partnership |
| PRC | People's Republic of China |
| PWYP | Publish What You Pay |
| RAP | Resettlement Action Plan |
| RBZ | Reserve Bank of Zimbabwe |
| RISCO | Rhodesia Iron and Steel Company |
| RSA | Republic of South Africa |
| SACP | South African Communist Party |
| SACU | Southern African Customs Union |
| SADC | Southern African Development Community |
| SAESSCAM | *Service d'Assistance et d'Encadrement du Small Scale Mining* (DRC) |
| SALRI | Southern Africa Labour Research Institute |
| SAPS | SA Police Service |
| SATCWU | South African Textile and Clothing Workers Union |
| SHE | Safety, Health and Environment |
| SHEQ | Safety, Health, Environment, and Quality |
| SHER | Safety, Health, Environment, and Risk |
| SME | Small or Medium Enterprise |
| SMIG | Minimum International Guarantee Salary |
| SOE | State-owned Enterprise |
| SPFFB | *Serviço Provincial de Florestas e Fauna Bravia* |
| SPGC | *Serviço Provincial de Geografia e Cadastro* |
| SSA | Sub-Saharan Africa |
| SSMB | Small-Scale Mining Board |
| STERP | Short-term Emergency Recovery Programme (Zimbabwe) |
| TFM | Tenke Fungurume Mining |
| TNF | Tripartite Negotiating Forum (Zimbabwe) |
| UDI | Unilateral Declaration of Independence (Zimbabwe) |
| UK | United Kingdom |
| UN | United Nations |
| UNCTAD | United Nations Centre for Trade and Development |
| UNITA | *União Nacional para a Indêpendencia Total de Angola* |
| US/ USA | United States of America |
| VAT | Value-added Tax |

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| WB | World Bank |
| WISCO | Wuhan Iron and Steel Corporation |
| WTO | World Trade Organisation |
| ZANU PF | Zimbabwe African National Union Patriotic Front |
| ZCTU | Zimbabwe Congress of Trade Union |
| ZDA | Zambia Development Agency |
| ZELA | Zimbabwe Environment Lawyers' Association |
| ZIA | Zimbabwe Investment Authority |
| ZIMASCO | Zimbabwe Mining and Steel Company |
| ZIMPREST | Zimbabwe Programme for Economic and Social Transformation |
| ZISCO | Zimbabwe Iron and Steel Company |
| ZMDC | Zimbabwe Mining Development Corporation |
| ZMF | Zimbabwe Miners' Federation |
| ZNCC | Zimbabwe National Chamber of Commerce |
| ZNLWVA | Zimbabwe National Liberation War Veterans Association |

# Executive Summary

The People's Republic of China (PRC) has prioritised Africa as a strategic partner at both the political and economic levels. Over the next few years (and possibly decades), African affairs will be significantly shaped by China's direct commercial involvement, while China's growing geopolitical influence will have significant long-term consequences for Africa's political and economic evolution.

China's spectacular economic growth offers new opportunities for Africa but also major challenges. The World Bank has confirmed that China's growing trade with Africa has already given the continent a 'major boost' and the prospect of increased trade promises to deliver additional benefits for both Africa and China over the longer term. Chinese investments in Africa clearly boost local economies and create new commercial opportunities in domestic markets. Specifically, China's investments in hydrocarbons, mining, infrastructure and telecommunications are immensely beneficial for Africa's development. Chinese investments will, over time, promote the establishment of small enterprises in Africa and concomitant employment opportunities. The International Monetary Fund (IMF) estimates that Africa's growth overall is close to 6 percent – the highest in 30 years – due in large part to China's growing investment. However, South Africa's former President Thabo Mbeki has warned of "an unequal relationship" between Africa and China. Africa needs to ensure a mutually beneficial outcome in its dealings with China, and build local capacity to meet the challenges posed by this burgeoning relationship. As many observers have pointed out, China has a clear strategy for Africa, but Africa has no strategy for China. Greater co-ordination at the African Union (AU) could ensure that African values, interests and developmental objectives are factored into interactions with China.

According to some observers, the evidence of China's growing African involvement suggests a strategy devised to secure access to the continent's abundant resources through a combination of soft power, tactical incentives, strategic investment and political collaboration. Observers declare Chinese interventions particularly troubling where they appear to (inadvertently or by design) support authoritarian regimes, hinder economic development, promote conflict and allow human rights abuses. Western critics contend that China's African agenda is driven by China's narrow self-interests, and thus often undermines efforts to promote regional peace and democratisation. China's urgent drive to access the continent's strategic resources may not favour local development, while the European Union (EU)-United States (US) vision of an Africa governed by western-style democracies, the rule of law and free markets is being challenged by Beijing's offer of non-interference and infrastructure in return for resources.

As the Chinese economy grows, increased commercial interaction with Africa will offer the continent new prospects for trade and investment. The key to success for Africa in this context lies in the continent adopting the appropriate responses to address existing impediments to growth (such as low levels of productivity, high transaction costs, poor market access, and an unfavourable investment climate). Indeed, the central challenge for Africa is to be more like China in terms of enacting economic reforms, especially by creating favourable conditions for foreign direct investment (FDI) flows. The overall framework for Africa's successful development agenda should also include pro-growth and pro-poor policies, democratisation and inclusive systems of government, improved political and corporate governance, conflict resolution, and more competitive labour practices.

Africa's dynamic relationship with China offers many new possibilities and potential advantages, but the form and content of this relationship should be shaped by Africans.

However, appropriate and effective policy responses (from both China and Africa) are required to ensure a mutually beneficial China-Africa relationship, particularly in relation to the most critical sector – natural resources. This study investigates the China-Africa relationship in relation to the extraction of natural resources across southern Africa and suggests policy options and dialogue processes that would help to create a more positive relationship and support mutual economic development.

## Is China's investment in the extractive industries in southern Africa promoting a win-win arrangement?

The challenge for countries in the Southern African Development Community (SADC) – and indeed across the continent – is to ensure that their natural resources are used to promote pro-poor growth and progress towards achieving the Millennium Development Goals. The effective management of these resources is critical in achieving these objectives. Historically, the availability of raw materials on the African continent has been a strong motivator for external involvement. The colonial period was characterised by a focus on mineral exploitation by the European powers. And the same is true today with industrialised nations expected to increasingly engage Africa in pursuit of mineral exploitation. Indeed, the growing global demand for Africa's natural resources offers Africa the prospect of increased exports over the next few decades.

However, the dominant role of natural resources in African economies requires careful strategic management to provide a foundation for longer-term economic development. An over-dependence on natural resources tends to distort the political process and political leadership. Development plans are short-term in focus, rather than designed to ensure long-term sustainable development. Political leaders and the economic elite compete for control of natural resources, while the ordinary people are excluded from the economic process.

In the face of a new and more intense competition for resources, Africa's position in the global economy has been further weakened by continued poverty, related social problems and accelerated de-industrialisation. Natural resource wealth should provide the foundation for development, but countries need to have adequate governance systems and the capacity to administer this sector, and there must be positive links between resource extraction and other sectors of the economy.

The challenge for Africa is to direct, control and effectively manage the natural resource sector for maximum economic benefit. African nations must use their abundant natural resources to underpin poverty alleviation and economic growth strategies. Appropriate laws and regulations need to be crafted with a view to incorporating natural resource extraction directly into national development plans and strategies.

And countries need to manage their growing relationship with China more carefully and more systematically – as this study makes clear. Analysing the impact of China's investment in the extractive industries in six southern African countries – Angola, the Democratic Republic of Congo (DRC), Mozambique, South Africa, Zambia, and Zimbabwe – this book illustrates that Chinese investment does not, in most cases, promote a win-win scenario. However, the book also provides recommendations for changing the status quo, enhancing Chinese corporate behaviour in Africa and promoting mutually-beneficial economic development.

Research into the relationship between Angola and China suggests a desire for mutual benefit. Angola requires China's know-how and investment to sustain its economic growth, while China requires raw materials to continue its rapid development. Currently, China sources 22 percent of its oil needs from Angola. In exchange, China is building infrastructure in Angola – from new cities to new railways to new roads. Angola is said to be the fastest growing economy on the continent. However, there is strong evidence to suggest that China is benefiting more from this relationship than Angola. Most of the projects implemented by Chinese companies are not paid for in Angola, making it difficult for the Angolan authorities to manage or regulate the Chinese engagement. Questions have also been raised about the quality of the construction carried out by Chinese companies, such as the general hospital in Luanda. Overall, there is a lack of control and public information about the presence of Chinese companies in Angola.

China represents a huge opportunity for post-conflict DRC. Chinese presence in DRC's extractive industries involves both private and state-sponsored initiatives. Most of the small private businesses pose serious governance challenges for the country. They do not respect DRC's labour and environmental laws and commit serious human rights abuses. At the governmental level, China and the DRC have signed a development agreement (Sicomines) whereby China will build infrastructure in exchange for mineral resources – and infrastructure development is already making a big difference. However, it is not yet clear whether DRC or China will benefit more from the deal. The challenge for the DRC government is to ensure that interaction with China is mutually beneficial. The extractive industries in DRC are infested with corruption. China cannot afford to undermine the fight against corruption and good governance in the DRC. Indeed, if it wants a stable and peaceful environment for its investments, China has an obligation to adjust its conduct to meet best international practices. Chinese companies need to abide by Congolese laws and regulations, and to respect international norms and standards in the extractive industries. It is in the long-term interest of its investments and its growing relations with Africa that Chinese companies maintain high standards in the DRC – and elsewhere.

Research into the China-Mozambique relationship has revealed that within the forestry industry there is a lack of accurate reporting regarding where and how many trees felled, which facilitates the illegal export of unprocessed logs. The Forest and Wildlife Law (and the regulations which support the law) stipulate the requirements, rights and obligations of both single-license holders and concession licences. The regulations give priority to concessions over simple licences, transfer rights to the local population, require that consultations between operators and communities take place before exploitation is carried out, and give power to local councils to make resource management decisions. Despite these regulations, licenses are often awarded without meeting the necessary requirements, quotas are exceeded, harvesting is under-reported, local communities are not compensated, and unprocessed logs are exported (undermining attempts to promote local industry). Bribes are common and the implementation of the law is weak. The case of Zambezia shows how – notwithstanding the existence of reasonable laws and regulations – inefficient implementation has led to a situation where logging is out of control. The Chinese have driven the boom through their demand for timber and through access to credit, which allows operators to enter the industry. However, insufficient capacity, weak governance structures and corruption by local elites have undermined the regulatory framework designed to protect the forestry sector.

From a short-term business perspective, the relationship between Chinese buyers and South African commodity producers is mutually beneficial. South African companies have direct access to the fast-growing Chinese market, while Chinese companies have guaranteed supplies at affordable prices. In recent years, Chinese steel-makers have adopted different strategies to deal with rising demands and rising domestic production costs – basing their purchasing decisions on stability of supply and the cheapest sources. This has encouraged Chinese steel-makers to purchase mines or smelters in South Africa to ensure access to affordable raw materials. However, the Chinese business model for engaging South Africa's ferrochrome industry presents both negative and positive features. On the negative side, Chinese investors are seeking to secure raw materials at the lowest possible cost, and all beneficiation is carried out by stainless steel manufacturers in China. This approach obviously mirrors a typical neo-colonial relationship in which South African resources are extracted for processing elsewhere and South African consumers are required to import manufactured products. Without value added in South Africa, jobs remain limited and no transfer of skills or technology occurs. On the positive side, Chinese investments (in the form of joint ventures with South African companies) offer the prospect of building more rewarding relationships with Chinese capital.

Like elsewhere in Africa, Chinese development assistance will continue to play a pivotal role in promoting development in Zambia. The relationship is manifested in increasing trade and investments, both important to promote economic growth. However, as long as the relationship is seen to be uneven (favouring Chinese rather than Zambian commercial interests), citizens will exhibit a more negative than supportive attitude towards Chinese investment and investors. The Zambian government should work with various stakeholders to define its priorities and interests in relation to engaging with China, noting that the ultimate benefit should be for the extractive industry to contribute to meaningful and sustainable economic development for the country as a whole.

The policy dichotomy between the Washington Consensus and Beijing's non-interference in the internal affairs of other countries is explored in the context of China-Zimbabwe relations. Two main conclusions stand out. Firstly, the thesis that 'China's engagement in SADC's extractive industry presently conforms to a neo-colonial exploitative approach' is exaggerated. Large Chinese corporations (whether state owned or privately owned) have entered into win-win joint venture operations with Zimbabwean state enterprises and private investors. However, this relationship is currently limited to the extraction of resources, and only ZIMASCO's operations go beyond extraction to beneficiating the mineral ore (in this case chrome ore). The second conclusion is that Chinese companies operating in Zimbabwe do not adopt a one-size-fits-all approach. There are large corporations and there are small-scale individual investors. The latter group, in the main, have tended to capitalise on the excellent bilateral relations between Harare and Beijing to ease themselves into the mining sector. The majority of them have violated regulations, but their activities have now been exposed by the government audit into the mining sector. The reaction of the Zimbabwe government (which has become increasingly sensitive about the exploitation of the country's mineral resources) will be a real test of the all-weather friendship that has characterised China-Zimbabwe relations in recent years.

## Emerging views on China-Africa relations

The fastest growing economy in the world (China) has identified Africa as the future engine of global growth. The pace at which Africa-China relations have shifted from political solidarity to economic development since the turn of the new millennium has not gone unnoticed with a variety of reactions from scholars and policy-makers. Alden (2007) summarised these reactions into three strands: (i) China as a development partner; (ii) China as economic competitor; and, (iii) China as coloniser.

For those who see China as a development partner, the central argument is that China is consolidating its political relations with Africa that date back to the 1960s through a win-win economic partnership that is driven by its own economic needs and an attempt to transmit its development experience to the continent. China's push into Africa has provided several African states with a new and hugely influential trading partner to drive up prices and increase the bargaining and leveraging power of African governments when courting foreign investment.[1] Another major advantage of China as a development partner in Africa is the speed with which Beijing is able to make and implement decisions[2] (Fremantle: 2008). Africa-China relations have also increased Africa's strategic importance, and therefore its "power influence index" value in the global context.[3]

According to the view of China as economic competitor, China is engaged in a short-term resource grab which, like some western counterparts, takes little account of local needs and concerns – whether developmental, environmental or with respect to labour laws and human rights. Coupled with Chinese manufacturing and trade wherewithal, this approach suggests that African development gains are being challenged, if not undermined, by Chinese competitiveness (Block: 2004).

Those who see China as a colonizer emphasise that China's new engagement in Africa is part of a long-term strategy, aimed at displacing the traditional western orientation of the continent by forging partnerships with African elites under the rubric of South-

South solidarity. From their perspective, this process will ultimately result in some form of political control over African territories.

While the debate rages about China's long-term intentions, there is no doubt that its relationship with Africa in recent years has been characterized by accusations of bad practices and that the strength of its partnership with Africa will be affected by the behaviour of its corporates. African governments will also need to start asserting themselves so that the relationship is more mutually-beneficial in future – and to ensure that China does end up as a partner and not as an economic competitor or coloniser.

## Building harmony in China and Africa relations

China's presence in Africa may be increasingly rejected unless the Chinese recognise the importance of taking into account what the majority of Africans want for their continent. Issues of democracy, good governance and economic development are critical to Africans and China should be wary of continuing to collude with political leaders in order to promote narrow and short-term interests. By overemphasising sovereignty and non-interference and working solely with the economic-political elites, the Chinese risk losing the support of African populations.

This research suggests that in the context of raw material extraction, a long-term sustainable and mutually beneficial China-Africa relationship requires modifications in China's corporate engagement with Africa. The Chinese authorities need to ensure that Chinese companies adhere to international standards, promote the transfer of skills and technology, and engage in international initiatives to promote transparency, sustainability, justice and social responsibility. The Chinese government should admonish, encourage, and (where appropriate) insist that Chinese businesses actively contribute to Africa's social, political and economic development. When China refuses to address lapses in corporate leadership, this can only compromise the long-term relationship. Moreover, ignoring the needs and aspirations of ordinary African people is ill-advised – surely this is one of the key lessons of the recent "Jasmine Revolutions" in Tunisia and Egypt.

But it is not just the Chinese authorities and companies that must change their behaviour. Civil society should become more directly involved in determining the consequences of China's growing involvement in Africa. The direct impact on unemployment and poverty requires more in-depth and broader analysis. There is also a need to consider inputs from communities affected by China's footprint in Africa with a view to crafting an effective response to the new challenges posed by globalisation and China's competitive advantages. A comprehensive approach by African governments to foreign investment (from China or elsewhere) would also go a long way to ensuring a more positive and long-term sustainable relationship.

Given the impressive growth of the Chinese economy and the prospects for continued growth into the future, Africa's challenge is to effectively engage China and to seek opportunities for profiting from the interaction with the world's fastest-growing market. The long-term objective is a 'win-win-win strategy', involving a win for China, a win for African leaders, and a win for ordinary African citizens.

For individual African countries, crafting this 'triple win' outcome requires the implementation of suggestions outlined in this study, along with a strong input from civil society to inform policy-makers, the implementers of policy and corporate decision-makers.

## Endnotes

1 The Nigerian government has been quick to charge a premium for its oil after pitting traditional investors in the oil sector from the U.K, France and North America against state-owned Chinese firm's Sinopec and CNOOC and of course the ONGC from India and a host of new players in the market from Russia, Brazil and Malaysia.

2 Where the World Bank takes five years to conceptualise and implement a road or rail upgrade project, China takes 6 months. Infrastructure developments in Angola, Senegal, Gabon, Nigeria and Ghana attest to the rapidity of these developments. This was put graphically by the Senegalese President Abdoulaye Wade when he observed that he achieved more in an hour's meeting with the President Hu Jintao on the sidelines of the recent G8 meeting in Heiligendamm than he did during the entire summit where western leaders promised little more than to honour lofty aid promises made at Gleneagles in 2005.

3 The commodity's boom that led to five straight years of growth in excess of 5 percent in Africa has been led by demand from China and India. Aware of their value, African states are able to dictate the rules of the game to an extent that was previously impossible. While traditional western players have enjoyed preferential (and often monopolistic) control over Africa's resources since 1960, China's voracious appetite for these same resources and its surplus of capital to pay for them has changed the trading landscape in favour of Africa (and indeed China).

1

# INTRODUCTION: CHINA, AFRICA AND THE EXTRACTIVE INDUSTRIES

"Globalisation today is not working for many of the world's poor. It is not working for much of the environment. It is not working for the stability of the global economy. The transition from communism to a market economy has been so badly managed that, with the exception of China, Vietnam and a few East European countries, poverty has soared and incomes have plummeted... The problem is not with globalisation, but how it is managed."[1]
*Joseph Stiglitz*

The People's Republic of China (PRC) has prioritised Africa as a strategic partner at both the political and economic levels, while seeking to link African commodity and consumer markets to China's growing economy. Two-way China-Africa trade has grown significantly in recent years, surpassing US$160 billion by the end of 2011. At the same time, China's development assistance is expanding, while China's investment footprint increasingly covers key economic sectors on the continent. Over the next few years (and possibly decades), African affairs will be significantly shaped, or impacted on, by China's direct commercial involvement. China's growing geopolitical influence globally and in Africa will have significant long-term consequences for the continent's political and economic evolution.

Appropriate and effective policy responses (from both China and Africa) are required to ensure a mutually beneficial China-Africa relationship. This study suggests policy options and dialogue processes with a view to advancing a positive relationship and mutual economic development. The aim of this study is to investigate the China-Africa relationship specifically in the context of natural resource extraction. The project focuses on Southern Africa, particularly Angola, the Democratic Republic of Congo (DRC), Mozambique, South Africa, Zambia, and Zimbabwe.

## Objectives and methodology

The major objective of this study was to assess the nature and scope of Chinese investments in the natural resource sector in Southern Africa, and how these activities affect the communities they operate in. Research teams in each country were expected to compile a paper which attempts to:

a) examine and highlight practical experiences of selected Chinese investments in the mining sector in one Southern African country;
b) identify the social, environmental and economic effects of Chinese companies, especially how they have contributed to the socio-economic improvement of populations around the areas where they are mining;
c) identify and discuss consultation mechanisms with local stakeholders and communities by Chinese companies;
d) formulate recommendations based on current experiences, which could be the basis for improving relations and ensuring that companies contribute to sustainable development in Southern Africa.

All the country teams fulfilled the brief and six country studies were submitted.[2] In order to ensure a more coherent and digestible report, the material contained in the studies was integrated into six thematic chapters discussing the issues raised by China's role in the extractive industries and proposing concrete changes.

This study employed a number of data collection tools, including a structured open-ended questionnaire which was administered directly or indirectly. Where it was used directly, the questionnaire served as an interview guide. The questions were consistent, though applied with varying degrees of emphasis depending on the nature of the respondent. The questionnaire was sent to top and middle management at various mining companies.

The study was supplemented with primary data from other stakeholders such as government departments, civil society organisations, local authorities, and people involved in the extractive industries. The study also used a literature review, accessing local and international studies relevant to the theme. It is worth noting that the researchers often faced limitations on access to specific company profiles (including limited access on parent institutions in China). The major limitation to this study is the non-response of management or its agents to appointments and the questionnaires. Direct observation was also effectively used, especially during field visits to some of the companies.

It is hoped that the outcome of this research will lead to modifications in China's corporate behaviour in Africa's extractive industries. For example, the Global Environmental Institute (GEI) has been influential in reforming China's logging industry overseas. In 2005, GEI launched a programme in co-operation with China's State Forestry Administration to introduce an "integrated policy package." The programme suggested changes to relevant laws and policies governing Chinese logging companies operating overseas. GEI specifically aimed at convincing China's State Forestry Administration to take responsibility for regulating Chinese forestry corporations operating overseas. It also sought to train forestry corporations on how to implement relevant laws and regulations. Its activities have helped to convince banks to adopt lending criteria for overseas timber extraction, such as requiring that environmental impact assessments be performed.

As a result of GEI's activities, in August 2007, China's State Forestry Administration intervened against Chinese illegal logging operations overseas. The State Forestry Administration issued new guidelines aimed at ensuring sustainability and biodiversity in Chinese logging operations. They have insisted that Chinese companies formulate sustainable forestry programmes to provide work opportunities for people in host countries and to improve the livelihood of local people. GEI's guidelines now serve as a model for industry-specific standards, and are helping to improve prospects for logging and sustainable development in African countries.

This study offers the empirical data to underpin specific suggestions and recommendations which could lead to changes in corporate behaviour, which in turn will foster increased economic development and improved commercial conditions for local communities. At the same time, building a stronger domestic economic environment would have advantages for Chinese investors and thus create a "win-win" situation, ensuring benefits for both China and Africa in the pursuit of mutual, co-operative economic development. The long-term objective is to assist African decision-makers in knowledge building which provides the foundation for policies intended to escape the "minerals curse" and resultant poverty trap.

SADC's challenge is to ensure that its natural resources are used to promote pro-poor growth and progress towards achieving the Millennium Development Goals (MDGs). The effective management of these resources is critical in achieving these objectives.

Innovative and constructive ways of engaging with and managing external actors (in this case China) could help to turn the resource curse into a source of economic development and prosperity. Ensuring that China's intervention in SADC's extractive industries is managed for mutual long-term benefit is the key challenge for regional decision-makers. This research seeks to inform, empower and encourage both Chinese and SADC decision-makers to craft policies, regulations, approaches and processes which produce progress towards achieving the MDGs, providing the foundation for regional economic growth and long-term prosperity.

## The "resource curse" in Africa

Historically, the availability of raw materials on the African continent has been a strong motivator for external involvement.[3] The colonial period was characterised by a focus on mineral exploitation by the European powers. Post-independence Africa has retained strong economic links with Europe, with a continued dependency on commodity exports. Given the highly competitive nature of the international economic system and the increasing globalisation of industry and manufacturing, Africa's management of its raw material exports has become critical for the continent's economic development. The dominant role of natural resources in African economies requires careful strategic management to provide a foundation for longer-term economic development. Using natural resources to build sustainable economic development is the challenge faced by many African governments. A judicious business model which ensures wealth creation at all levels in local economies could be the key to providing long-term economic prosperity based on raw material extraction and export.

Growing global demand for Africa's natural resources offers Africa the prospect of increased exports over the next few decades. The industrialised nations are expected to increasingly engage Africa in pursuit of mineral exploitation. The challenge for Africa is to direct, control, and effectively manage this process for maximum economic benefit. The US for example, expects to increase oil imports from Africa to 25 percent of external demand by 2015. US government forecasts predict that Africa will become the fastest growing source of oil and natural gas for the American market.[4] Besides hydrocarbons, a wide range of raw materials which can be sourced in Africa are critical for continued development in the industrialised societies. Continued economic growth in the developed world will result in increased and more intense competition for African resources.

With the possible exception of South Africa, African countries have been unable to leverage raw material extraction into industrialisation and sustainable development.[5] Resource extraction has been the key driver of development in Africa over the last decade and holds the potential for significant future growth. Current estimates suggest that Africa accounts for almost 50 percent of the world's reserves of key minerals (see Table 1 below). Despite this wealth, trends in global resource investments do not indicate significant capital flows to Africa. Only around 15 percent of the total global investment in resource extraction has been targeted at Africa. Problems of political governance in Africa have been identified as key impediments to new investments. Issues relating to the rule of law, respect for property rights, legislation and regulatory regimes, democracy, transparency and accountability are impediments to stronger investment flows. The high cost of doing business in Africa is also identified as a major impediment to new investment.

Despite relatively significant resource investments in Africa since the 1990s, ordinary Africans have failed to see the benefits of this process. The impact (as manifested in the so-called "resource curse") has often been negative overall. Research by John Ghazvinian, author of *Untapped: The Scramble for Africa's Oil*, indicates that between

**Table 1: Africa's mineral reserves versus world reserves**

| Commodity | Africa (reserves) | World (reserves) | Africa relative to World (%) |
|---|---|---|---|
| Platinum group metals (t) | 63 000 | 71 000 | 89 |
| Diamonds (million carats) | 350 | 580 | 60 |
| Cobalt (t) | 3 690 000 | 7 000 000 | 53 |
| Zirconium (t) | 14 | 38 | 37 |
| Gold (t) | 10 059 | 35 941 | 28 |
| Vanadium (t) | 3 000 000 | 13 000 000 | 23 |
| Uranium (t) | 656 | 4 416 | 15 |
| Manganese (kt) | 52 000 | 380 000 | 14 |
| Chromium (1000t) | 100 000 | 810 000 | 12 |
| Titanium (kt) | 63 000 | 660 000 | 10 |
| Nickel (kt) | 4 205 | 62 000 | 7 |
| Coal (mt) | 55 367 | 984 453 | 6 |

Source: Presentation by Mr Sam Jonah, former president of AngloGold Ashanti, University of South Africa, 2005

1970 and 1993, countries without oil saw their economies grow four times faster than oil-exporting countries. Oil exports inflate the value of a country's currency, making all other exports uncompetitive, while oil exports attract workers and local investors, undermining other sectors of the economy, transforming the country into import-dependency. This is the almost inevitable outcome of "Dutch Disease" – the economic phenomenon which occurred in Holland, during the 1960s, following the discovery of natural gas in the North Sea. The Netherlands shifted towards a focus on the exploitation, transport and sale of natural gas, while the rest of the economy withered and the currency strengthened significantly. In the African context, Gabon has a relatively strong agricultural sector, but a focus on oil exports has undermined prospects for sustainable development.

An over-dependence on natural resources also tends to distort the political process and political leadership. Development plans are short-term in focus, based on the resource's taxable revenue, or rent-seeking behaviour, rather than designed to ensure long-term sustainable development. Governments are not dependent on a national tax base and are able to ignore the economic concerns and aspirations of their own citizens. The state thus no longer functions as an engineer of economic growth, but rather as a consumer of limited resources and an impediment to sustainable growth. Political leaders and the economic elite compete for control of natural resources, while the ordinary people are excluded from the economic process. In African oil-producing countries, little of the wealth is invested back into the general economy and employment is limited. Small numbers of the economic elite benefit from these capital-intensive (but not labour intensive) activities. Overall economic development is neglected and the long-term prospects for a future economy without oil (or natural resources) to export is ignored.

In the face of a new and more intense competition for resources, Africa's position in the global economy has been further weakened by continued poverty, related social problems, and accelerated de-industrialisation. The power relationships created by the exploitation of Africa's resources, along with the political economy of access, ownership and distribution, have undermined and distorted development programmes in resource-rich countries. Natural resource wealth should provide the foundation for development, but for this to happen there need to be adequate governance systems, capacity to administer these sectors, and a positive linkage between resource extraction and other sectors of the economy. In Africa, resources have created distorted and concentrated centres of profit and power, undermining the overall development effort.[6] An extensive literature on the contradictions created by the resource curse is now widely available.[7]

The challenge to Africa caused by the resource curse requires urgent attention in the resource-rich countries. In this context, critical questions relating to the ownership and management of resources are brought into focus. Mineral-rich countries claim ownership of resources, but rely on foreign capital and technology to develop these resources. The role of the state in developing long-term resource-based development strategies is weak, or completely absent. Consequently, Africans are denied participation in resource supply chains and related economic activities. Job creation, skills enhancement and technology transfers are limited, while external actors and local political collaborators maximise benefits.

The African challenge is to effectively use an abundant natural resource base to underpin poverty alleviation and economic growth strategies. Appropriate laws and regulations need to be crafted with a view to incorporating natural resource extraction directly into national development plans and strategies.[8] Useful guidelines for constructive development processes come from Botswana, Canada and Norway, where natural resources have been used to advance overall developmental objectives.[9] Informed by success elsewhere, African countries could harness resources for development, but broadly this would require:

- African ownership of development plans and processes;
- strengthening of governance systems;
- crafting new legal frameworks to protect and regulate the extractive industries;
- enhancing institutional capacity;
- investing natural resource wealth in development;
- production of new knowledge to drive resource-based development;
- negotiating better terms with external investors;
- improving investment and business process transparency; and
- fully integrating natural resource sectors into national development plans.

## China and the global economy

According to some observers, the evidence of China's growing African involvement suggests a strategy devised to secure access to the continent's abundant resources through a combination of soft power, tactical incentives, strategic investment and political collaboration. Self-serving diplomatic interventions underpin China's advance across the continent, as Beijing seeks access to sources of raw materials. Observers declare Chinese interventions particularly troubling where they appear to (inadvertently or by design) support authoritarian regimes, hinder economic development, promote conflict and allow human rights abuses. Western critics contend that China's African agenda is driven by China's narrow self-interests, and that it thus often undermines efforts to promote regional peace, economic growth and democratisation. China's urgent drive to access the continent's scarce resources may not favour local development, while the EU-USA vision of an Africa governed by western-style democracies, the rule of law and free markets is being challenged by Beijing's African engagement.

The driver of China's African engagement is a growing necessity to access the ingredients for China's long-term economic growth and prosperity. Many of those ingredients, in the form of hydrocarbons and raw materials, are to be found on the African continent. Over the last twenty years, China has transformed its economy and moved from an inefficient socialist mode of production to a robust free market system. China's successful economic transformation (although still work in progress), along with the country's growing market potential, has acted as a magnet for international investors. Soon after coming to power in 1978, Deng Xiaoping unleashed China's entrepreneurial potential by instituting free market reforms and opening the country to international investment and trade.[10] The result has been an average annual growth rate of close to 10 percent for more than 30 years, and a dramatic improvement in the living standards of ordinary citizens.[11]

China's impressive economic growth has had a dramatic impact on both exports and imports, making the PRC a key element in the global production chain for many labour-intensive products. Capital-intensive components are sent to China from Japan, South Korea and elsewhere for assembly, before being re-exported to global markets, confirming the PRC as a key manufacturing hub for the world. China's exports are matched by significant increases in imports and foreign investments, making the PRC an engine for global economic growth. China's new role as a major trading nation is dramatically changing the world's commodity markets, accounting for 30 percent of iron ore consumption, 20 percent of platinum consumption and 15 percent of aluminium consumption.[12]

China's continued economic development and growing power will be the defining feature of international affairs in the 21st Century.[13] Africa's effective interaction with a rising China offers both challenges and opportunities. Africa's leadership needs to devise appropriate commercial strategies to engage China and benefit from the opportunities offered by China's phenomenal growth. China is well positioned for an extended period of economic growth, based on the enormous economic potential of post-1980 economic reforms and restructuring. High savings rates and good returns on investment will underpin impressive economic performance in China for the foreseeable future. Impressive economic growth over the long-term will be based on an abundant supply of labour, China's continued attraction of foreign direct investment (FDI), along with a very significant expansion of the country's service sector. In international terms, wages are expected to stay relatively low, making China the chosen destination for labour-intensive manufacturing and assembly. More and more, developing countries will be forced to advance market-friendly reforms in order to compete effectively with China. Based on expected continued spectacular growth, forecasts suggest that China will before long overtake the US as the largest economy in the world.[14]

Identifying the 21st Century as "the Chinese Century," Oded Shenkar points out that:

> "China will soon become the dominant manufacturer and exporter in industries ranging from the labour intensive to the technologically driven. It will also be a strong contender, though not yet a leader, in product lines associated with advanced technology and will start to play an important role in the higher end of the market. Chinese made cars will become a common sight on American and European roads, sporting not only the familiar name brands of Ford and VW, but also the marks of SAIC and Dongfeng Motors. Made-in-China aircraft will enter commercial aviation and Chinese missions to space will cease to be a news item."[15]

China's labour-intensive advantage will facilitate leverage into high-tech production and knowledge-intensive areas. This process will transform China into the leading economy in the world, posing both challenges and opportunities to other states.[16] The impact of China's economic transformation will have a enormous impact on the economies of both developed and developing nations. China's economic development model needs to be urgently investigated by developing countries. Given that Africa and China share a similar battle against poverty, China's experience is of direct relevance to the African agenda. As Ted Fishman points out, "China is providing more upward mobility than the rest of the developing world put together."[17]

Africa needs to urgently identify both the challenges and opportunities arising from China's economic success, and to develop an appropriate commercial engagement strategy.[18] Given China's willingness to work with Africa both at the bi-lateral and multilateral level, African states have a unique opportunity to build commercial interaction with China which can take advantage of new opportunities. China's willingness to extend a hand of friendship to Africa as a fellow developing region holds promise for all African states and a chance to participate more directly in China's economic rise with a mutually beneficial outcome.

Economically, China's rise provides major threats and opportunities. China's manufacturing capacity threatens the survival of higher-cost production facilities throughout the globe, while increasingly wealthy Chinese consumers provide almost unlimited opportunities for new commercial engagement. Given the need for China to grow its economy and expand its political prestige, China's global agenda is driven by three key objectives:

- Accessing key raw materials – accelerated economic growth is driving the demand for critical raw materials, many of which will be sourced in Africa.[19] Longer-term trends suggest that China will become the world's largest consumer of number of key commodities.[20]
- Market access – China's burgeoning manufacturing industries demand access to the markets of the world. China's membership of the World Trade Organisation (WTO) was motivated by a need to expand access to the European Union (EU), North American and Japanese markets. At the same time, detailed analysis conducted by China's economic affairs ministry has confirmed the potential of African markets for a range of low-cost manufactured products. Market access is vital to maintain high levels of employment in China and continued economic prosperity.[21]
- Greater role in international politics – China's desire to become a key global player is driving Beijing's efforts to mobilise support from African countries in the major multilateral forums. In the WTO, China seeks support from other developing countries to advance a new agenda intended to allow greater access to cosumers in developed countries.

## China and Africa

While China continues to provide aid to selected African countries, Beijing has shifted its Cold War emphasis to provide official loans with government-subsidised interest rates, and to develop co-partnership or joint ventures between companies from Africa and China. Maoist revolutionary ideology has been abandoned in favour of a more pragmatic economic engagement. Through this process, Beijing, hopes to stimulate African economies and thereby increase the demand for Chinese products. At the same time, it creates an opportunity for Chinese enterprises to establish a viable base in Africa. China is increasingly determined to encourage companies from both China and Africa to co-operate with each other directly through joint ventures and other arrangements. The long-term goal for Sino-African co-operation has been outlined by Beijing as commercial interaction, with private enterprises from both sides becoming the main actors in economic co-operation, opening a new avenue for South-South interaction.

China encourages increased imports from Africa, especially from poor countries which have been granted tariff-free access on a range of products to the Chinese market. China also participates in the economic development of African countries through contracting projects, technology transfers, and management co-operation. Beijing's broad approach towards Africa has been to jointly explore new ways to interact in an effort to expand economic and trade co-operation. Moreover, Chinese authorities are advocating increased trade, along with agreements on the encouragement and protection of investment and the avoidance of dual taxation.

The effect of China's African engagement has at times been criticised as being in opposition to the western-centric globalisation process, but is not necessarily in opposition to Africa's long-term interests.[22] China's ability to compete effectively with other extra-regional actors provides new opportunities and options for African governments.[23] China's engagement in the Sudan, Angola and Zimbabwe have raised questions, as China has provided financial and political support without questioning good governance or human rights.[24] The China critics contend that China's engagement with Africa should be guided by western values and should conform to established patterns of western involvement on the continent.[25] Moreover, China is expected to place restrictions on itself in terms of economic competition and political engagement.[26] However, China's African activities are best understood in the context of China's own political and economic development process, its foreign policy which emphasises non-interference in the domestic affairs of other states, and China's role within the framework of South-South relations. Given China's limited resources and international influence, its ability to transform African governance must be questioned. Given China's own urgent developmental needs, Beijing's necessarily pragmatic approach to Africa requires a direct and focused engagement with clear commercial advantages. The need for economic success at home does not give Beijing's policy-makers the luxury of conditional involvement on the African continent.

As the Chinese economy grows, increased commercial engagement with Africa will offer the continent new prospects for trade and investment. The challenge is for Africa to grasp the opportunities offered by China, and take full advantage of investment and assistance programmes. China's growing commercial interaction with Africa clearly offers many new challenges and opportunities.[27] However, the key to success for Africa in this context depends on Africa's appropriate response in addressing its own impediments to growth, such as low levels of productivity, high transaction costs, poor market access and an unfavourable investment climate.[28] Indeed, the central challenge for Africa is to be more like China in terms of economic reform, and especially in creating favourable conditions for inward FDI flows.[29] The framework for Africa's successful development agenda would include pro-growth policies, democratisation and inclusive systems of government, improved political and corporate governance, conflict resolution, and more competitive labour practices.[30] Africa's dynamic relationship with China offers many new possibilities, but the "shape of things to come lies overwhelmingly in Africa's own hands."[31]

In recent years, many African countries have begun to restructure their economies, while China has also initiated a period of economic reform and restructuring. In order to support economic development in China, Beijing is currently developing new forms of assistance that will include reducing aid to African countries. Through its new approach of providing official loans with government-subsidised interest rates Beijing hopes to stimulate African economies and thereby increase the demand for Chinese products. At the same time, it creates an opportunity for Chinese enterprises to establish a viable base in Africa through partnerships with African companies.

The central challenge for African governments is to ensure that interaction with China is mutually beneficial, both politically and economically. While China bases its policy on friendship and historical solidarity and seeks a "win-win" relationship with Africa, the management of relationships to achieve this is not undemanding. The key to advancing a China-Africa "win-win" relationship is to ensure both international and national co-operation for mutual benefit. At the global level, a joint effort to reshape globalisation and international economic institutions can advance the interests of both Africa and China. However, the reform of multilateral institutions cannot be achieved overnight, and developing countries must in the meantime take responsibility for their own well-being.

Developing a win-win relationship demands that Africa maximise rewards from any external relationship with China (or with any external actor). Ensuring a constructive and rewarding partnership with China suggests that relations should be advanced on both the continental or regional level, and the national level. At the continental or regional level, the focus of Sino-African engagement should be:

- increased symmetry between the Forum on China Africa Co-operation (FOCAC) and the New Partnership on Africa's Development (NEPAD);
- African Union (AU) prioritisation of areas where China's assistance is most needed;
- closer Sino-African collaboration on Africa's development agenda;
- Southern African Development Community (SADC) prioritisation of needs;
- closer policy synchronisation on the global economic reform agenda;
- increased co-operation on UN reform.

At the national level, it is up to African governments to maximise the benefits of China's involvement. The process of ensuring a win-win relationship with China should include the following:

- appropriate investment laws;
- effective tendering processes;
- joint-venture (JV) options;
- local procurement;
- support for local small and medium enterprises (SMEs);
- job creation opportunities;
- technology transfers;
- skills enhancement programmes;
- transparent commercial transactions;

- an investment code (such as the Sullivan code for US businesses);[32]
- beneficiation processes.

A comprehensive approach to foreign investment (from China, or elsewhere) implemented by African governments would go a long way to ensuring a win-win relationship. Ineffective African governance and commercial regulation, will inevitably allow for a poor result from any foreign involvement option.

Given the pressures of globalisation, and the different stages of economic development in China and Africa, structural imbalances in Sino-African trade are inevitable. The challenge for both sides is to recognise the problem and work together in identifying appropriate solutions. At the same time, given the low overall volume of Sino-African trade (accounting for only around 3% of China's total trade volume), there is significant potential for growth. The main Chinese exports to Africa have been machinery and electronics, textiles and apparel, hi-tech products and finished goods, while imports from Africa have concentrated on oil, iron ore, cotton, diamonds and natural resources. For African countries without resources to trade, in some cases, globalisation has resulted in a trade imbalance favouring China.

The WTO removal of quotas on textiles and clothing in 2005 resulted in a global surge in consumer demand for low-cost, reasonable quality Chinese textiles. The competition in productive output is the natural outcome of globalisation and a central feature of the international economic system. China's highly competitive industrial system is thus the inevitable winner in a free market system. The challenge for higher-cost producers is to diversify, to move up the value chain, or to target niche markets. As China's economy grows, an emerging middle class provides new opportunities for niche market targeting.[33] Alternatively, African economies have to move faster to create real regional economic groupings which can compete more effectively and establish larger economies of scale.[34] At the same time, criticism that China is flooding global markets needs to be tempered with the fact that almost 60 percent of China's exports are produced by foreign-owned (or partly foreign-owned) corporations operating from China. This is the consequence of massive FDI transfers to China over the past 30 years.

While globalisation poses a challenge to Africa in the form of Chinese imports (and imports from other highly competitive economies), China's relevance to Africa as an importer is increasingly important. IMF studies confirm China's critical role in generating global economic growth through its increasing prominence as an importer of commodities, goods and services.[35] Developing countries benefit directly from increased exports to China and are able to generate new growth as a consequence of expanding demand in China. In terms of purchasing-power-parity-based GDP, China has annually contributed approximately 25 percent of global economic growth for the last 10 years.[36] The margins on African commodities are a direct result of increased demand in China. Higher mineral prices can, if properly managed, translate into massive benefits for African countries. Long-term growth in China will provide a solid foundation for economic development, countering commodity exporters' terms of trade.

At their respective stages of development, the Chinese and African economies are highly complementary. Each has a clear comparative advantage which, if managed effectively, can translate into a mutually beneficial economic outcome. China's gradual economic opening to the world has resulted in an accelerated growth in Sino-African trade.

Given Africa's lack of industrialisation, China-Africa trade patterns are not without controversy. However, suggestions that China is overwhelming African markets appear largely exaggerated. China's trade intervention now offers Africa an opportunity to adjust economic growth strategies for long-term benefit. The World Bank has suggested that China's growing trade with Africa provides a foundation for the continent to become a processor of commodities and a supplier of labour-intensive goods and services. The challenge is for African countries to design and implement appropriate business models to add value to raw materials, before they are exported to China. Africa has an immense opportunity to take advantage of market demand in China and to turn this into real economic growth.

Globalisation inevitably produces trade friction and this is also evident from time to time in Sino-African trade. China's response in this context is to solve trade disputes through "friendly consultations" and negotiated win-win solutions. For example, China agreed to limit textile exports to South Africa following a surge in sales, making a major concession, outside WTO rules in order to assist South African producers and employees. China also offered to provide skills upgrading and training to improve South Africa's competitiveness in global textile markets. At the same time, as a member of the WTO, it is incumbent on South Africa to abide by the "rules of the game" which require structural changes and increased competitiveness to compete effectively in global markets.

China's growth provides commercial options for Africa and an important alternative to ongoing centre-periphery, neo-colonial relationships with Europe. Less reliance on former colonial powers offers Africa new choices for advancing its own development. Former South Africa's President Mbeki welcomed China's growing trade with Africa, pointing out that this provided an opportunity for Africa's long-term development.[37] The challenge is to build "balanced" Sino-African trade over the longer term. The OECD study entitled *The Rise of China and India: What's in it for Africa?* suggested that Sino-African trade threatened Africa's modest manufacturing capacity. China's leadership has responded to this by actively seeking to balance China-Africa trade. Allowing some products to enter China duty-free was the first step in the direction of concrete measures to alter trade patterns. Limiting textile sales to South Africa, constituted a second, but for a more sustainable balance African exporters will have to diversify and more aggressively target the Chinese market. China's efforts to balance trade have been widely welcomed by Africa.[38]

## China, Africa and the World

China has been modernising its economy away from an inefficient socialist mode of production to a dynamic and vibrant free market system since 1978. China continues to deliver a more structured and gradual free-market reforms. The Japanese economist, Akihiko Tanaka[39] points out that postmodern China has "re-emerged as a world centre of production" posing a challenge to global value chains and established patterns of trade and employment. China's successful economic transformation (still in progress), along with the country's obvious market potential, has acted as a magnet for international investors. Moreover, China's impressive economic growth has had a dramatic impact on both exports and imports, making China a key element in the global production chain for many labour-intensive products. China now poses a challenge to all developing countries through its intensive trade growth, market size, raw material consumption and development strategy, which does not conform to the neo-liberal prescriptions of the Washington Consensus.

China's economic rise as an industrial and export power is now one of the most important factors shaping the international economic system. Ted Fishman ("China

Inc. – How the Rise of the Next Super Power Challenges America and the World") and Oded Shenkar ("The Chinese Century – The Rise of the Chinese Economy and its Impact on the Global Economy") map the rapid rise of China's economy over the last two decades, and project the future impact of this event on both developed and developing countries. The long-term consequences of China's economic rise will be decisive in shaping the global international economic system and the effect on developing countries will be far-reaching.[40] The annual increase of approximately 25 million people in China's manufacturing sector is equivalent to adding another middle-sized industrial country to the world every year. Moreover, China's growing importance as the manufacturing centre of the world, a major destination for foreign investment, and a veracious consumer of oil and raw materials is an ongoing and expanding process which continues to impact on and reshape global markets. If current trends continue, within the next two decades China will dominate the world market for almost every manufactured product.

China's economic challenge to the developing world is either competitive (a threat), or complementary (an opportunity). In this context, China's manufacturing capacity (particularly in clothing, furniture and footwear) poses a threat to developing economies, while exporters of primary products (especially minerals, oil and gas) are offered new opportunities. Over the last ten years, local manufacturing has been systematically undermined by a flood of low-cost products from China, but this process has at the same time benefited consumers. Some resource-rich economies have witnessed significant growth as a consequence of increased exports to China. Continued economic growth in China has significantly increased the demand for oil, gas and raw materials. However, research gaps in the precise nature and extent of China's economic challenge have prevented the development of appropriate policy responses. China's continued and rapid economic rise constitutes a significant disruptive factor in the global economy.[41] Economies which fail to adjust quickly and appropriately to disruptive factors face problems, while those that respond accordingly have opportunities for higher and sustained growth over the longer term.

Raphael Kaplinsky's analysis ("Asian Drivers and Sub Saharan Africa - the Challenge to Development Strategy," *Rockefeller Foundation,* July 2007) outlines the "disruptive challenge" to Africa and other developing countries posed by China's economic rise. China's economic rise is a disruptive force in the global economy for five main reasons.

Firstly, in terms of size, China accounts for over 20 percent of the world's population. Japan's rapid growth since World War II proceeded with minimal disruption to the global economy, given that Japan's population constituted less than two percent of the world's total. China's size and high trade intensity produces an effect throughout the global economy. China's exports have increased dramatically since the 1980s, making China the third-largest trading nation in the world.

A second disruptive factor is China's huge foreign exchange reserves, which now total over US$2.4 trillion. Use of these funds for foreign aid, FDI, bond market purchases or equity investments in developing countries could have far-reaching consequences.

Thirdly, Chinese companies reflect a high level of state ownership, along with easy access to capital and low-cost (subsidised) labour. Foreign investment decisions are often part of a broad government-driven strategic vision based on a long-term approach, and are less risk-averse than western competitors. Moreover, pressures for corporate good governance, social responsibility, and environmental protection are not priorities.

Fourthly, China's combination of abundant cheap labour and a rapid movement up the value chain poses a major challenge to both low-tech and high-tech manufacturers worldwide. China is now the world's second largest investor in research and development (after the US).

A fifth important factor is China's growing demand for hydrocarbons, a broad range of raw materials, and rare metals. China has become a key investor in selected countries on the African continent in order to guarantee access to supplies. Examples include Angola (oil), Sudan (oil), Zambia (copper), and Cameroon, Gabon, Liberia, Equatorial Guinea (timber). Accelerated globalisation facilitates and assists China's trade and resource investment strategy.

China has entered Africa as a resource-seeking state in competition with western nations which have long advocated privatisation, liberalisation, deregulation, and austerity policies within the Washington Consensus (WC) political-economic framework.[42] China advocates a non-interventionist ideology, the so-called Beijing Consensus (BC), which lies within the parameters of the neo-liberal framework, but offers African elites an escape from WC conditionalities.

In the context of China's growing African engagement, China's pragmatic approach provides a wide range of commercial opportunity on the African continent. However, China's African agenda is increasingly criticised as running counter to western-centric globalisation and efforts to democratise the continent. The range of criticisms directed at Beijing's African programme include minimal local job creation; limited skills enhancement or knowledge transfer; questionable labour practices; limited technology transfer; minimal development of local economies; social divisions caused by language barriers and cultural differences; low investment in manufacturing; high focus on the extraction industries and one-way investment flows (with the exception of South Africa).

The central challenge for African governments is to ensure that interaction with China is both politically and economically mutually beneficial.[43] The suggestion that the Sino-African relationship is a "win-win" formula regrettably often translates into a win for China and a win for African leaderships, but not necessarily for the African people. Rather, the ideal interaction formula should be a "win-win-win" (triple-win) approach, through which China benefits, African elites benefit, and ordinary African citizens also share in the fruits of Sino-African relations. Developing the triple-win formula demands that Africa maximise rewards from any relationship with China, ensuring a constructive and rewarding long-term partnership.

An assessment of China's engagement in Africa suggests a significant range of benefits and potential benefits. Increased African raw material exports to China clearly benefit national economies.[44] The International Monetary Fund (IMF) has reported that Africa's increasing growth rate is partly due to increased commodity demand from China.[45] African analysts suggest that "the impact of trade and bilateral relations between China and Africa have been immensely beneficial."[46] Raphael Kaplinsky's research on China-Africa trade suggests that China is driving up the demand for oil, gas and other primary products, which has "positive direct and indirect benefits on resource-exporting African economies."[47] As the Chinese economy grows and the Chinese middle class expands, the range of export opportunities to China will become enormous.[48] In effect, China's economic growth offers new opportunities to the whole world.[49] Success in this context will be driven by the ingenuity and resourcefulness of African exporters.[50] The World Bank has confirmed that China's growing trade with Africa has given the continent a "major boost." The process of increased trade holds significant benefits for both sides over the longer term.

Chinese investments in Africa clearly benefit local economies and create new commercial opportunities in local markets, while regulation of investments for maximum benefit is the responsibility of national governments. Specifically, China's investments in hydrocarbons, mining, infrastructure and telecommunications are immensely beneficial for Africa's development.[51] Chinese investments will, over time, promote the establishment of small enterprises in Africa and concomitant employment opportunities. The IMF estimates that Africa's growth overall is close to 6 percent, the highest in 30 years, due in large part to China's growing investment. Moreover, China's investment drive is encouraging the development of local economies.

Chinese exports to Africa benefit consumers who cannot afford higher-cost imports from other parts of the world. Suggestions that Chinese imports undermine local manufacturing are exaggerated, as in most cases there is little evidence of competitive manufacturing capacity.[52] Moreover, the central challenge to Africa's diminutive industrial capacity is from globalisation in general, rather than specifically from China. This conclusion is largely supported by research on the global textile markets and the impact on African producers.[53]

Chinese construction companies are active across the continent, filling the gap left by the IMF and the World Bank who gave up financing infrastructure years ago (although they are now returning in response to China.) Obviously, this is a major benefit for African countries which require infrastructure for sustainable development. China's willingness and ability to build roads and railway lines in Africa provides a solid foundation for future development, and benefits the population as a whole. The same is true for China's involvement in developing Africa's communications networks. Chinese agricultural and technical assistance is limited, but makes a very positive contribution in many African countries. China's own experience in transforming agriculture and increasing production is a model for Africa.

China's willingness to provide aid, where feasible, is welcomed throughout Africa (almost 50 percent of China's total overseas development assistance goes to Africa). China's aid packages are relatively easy to negotiate and offer African states many new opportunities for rewarding project development. China's involvement in Africa is a welcome filler for the gaps left by unfulfilled promises from the west. African leaders have embraced China's enthusiastic approach and ability to get the job done.[54] The west's many years of "aid, advice and admonishments" have had only limited impact on Africa's economic development, but China's active engagement offers new opportunities for developing resources and economic progress. Chinese and African leaders agree that "neo-colonialism" refers to economic restrictions and arrangements imposed by the former colonial powers on Africa. In contrast, China respects the views and policies of African leaders, which is widely welcomed on the continent. China does not impose unrealistic conditionalities on its African engagement, so there is no political risk for African governments to engage Beijing.

China's pragmatism is seen as a welcome alternative to the west's restrictive and patronising approach. There are no specific political strings attached to China's friendship with African countries, with the exception that they must not accord diplomatic recognition to Taiwan. China's engagement in Africa also differs from the US and western approach of insisting on African conformity with narrow externally defined objectives (such as the global war on terrorism).[55] Moreover, western "hegemonic" conceptions of human rights are not imposed by China on African governments. China and Africa largely agree that human rights issues are not above sovereignty, so interference in each other's internal affairs is not countenanced.[56] China's functional engagement with Africa is welcomed as a "breath of fresh air," offering African countries new opportunities for commercial engagement.[57] China's entry into the African market offers Africa an alternative to the already established external players. A wider option list allows Africa the opportunity to "pick and choose" – an obvious advantage in maximising options.[58] African governments are interested in developing relations with a country that has "never oppressed them, never stolen their people, or their resources" and is willing to engage on the basis of equality and mutual respect.[59]

Critics predict growing competition in Africa between a so-called Beijing Consensus (China's economic and political model) and the Washington Consensus (economic conditionalities imposed by the World Bank and the IMF, along with demands for transparency, good governance and democratisation.)[60] However, given China's firm commitment to non-interference in domestic affairs, this accusation is overstated. China imposes no political or economic model on Africa, nor does it actively oppose democratisation.[61] While China does interact with non-democratic African governments (as do many western countries), Beijing cannot carry the blame for poor governance on the African continent. China's common history as a former colony of

European powers allows for the sympathy of a shared colonial past, and underpins Beijing's sensitivity to the dignity of African countries. Moreover, the stricter definitions of the Washington Consensus (see table 2 below) emphasise economic and not political conditionalities. Given that China, like the west, is an external investor, its interests in the long-term economic success (hence greater capital formation and profits) of the host country must surely be identical.

For Africa, the eurocentric criticism of China lacks moral authority, given the European history of African exploitation through slavery, colonialism and neo-liberalism.

**Table 2: The Washington Consensus and the Augmented Washington Consensus**

| | **Washington Consensus (Williamson 1989)** | | **Augmented Washington Consensus (additions to the original 10-point list) (Rodrik 2003)** |
|---|---|---|---|
| 1 | Reduction of budget deficit to a non-inflationary level | 1 | Corporate governance |
| 2 | Redirection of public expenditure to areas such as education, infrastructure, etc. | 2 | Anti-corruption |
| 3 | Tax reforms to lower marginal rates, broadening the tax base | 3 | Flexible labour markets |
| 4 | Transitions to market-determined interest rates (financial liberalisation) | 4 | Adherence to WTO discipline |
| 5 | Sufficiently competitive exchange rates whichinduce a rapid growth in non-traditional exports | 5 | Adherence to international financial codes and standards |
| 6 | External trade: removal of tariff reductions | 6 | 'Prudent' capital account opening |
| 7 | Abolition of barriers to foreign direct investment | 7 | Non-intermediate exchange rate regimes (completely fixed or completely flexible exchange rates, corner solutions) |
| 8 | Privatisation of state-owned enterprises | 8 | Independent central bank/inflation targeting quantitative trade restrictions; |
| 9 | Deregulation for 'start-ups', general abolition of restraints on competition | 9 | Social safety nets |
| 10 | Better protection of property rights, particularly in the informal sector | 10 | Targeting poverty reduction (for example the Heavily Indebted Poor Countries Initiative) |

*Source: H Herr and J Priewe. : "Beyond the Washington Consensus: Macroeconomic Policies for Development"* International Politics and Society, *No. 2, 2005, p. 84.*

Western commentators are quick to criticise China, without objectively comparing China's present African engagement with the legacy of Euro-American interaction. Moreover, both China and Africa reject western critiques on human rights and democracy on the grounds that they are based on "neo-imperialist arrogance."[62] The imposition of western world views and value systems on China and Africa (and on current Sino-African interaction) is considered unfair, inappropriate and pernicious.[63] The hypocrisy of western governments has scaled new heights as they encourage their own multinationals to seek market share in China, but admonish African leaders to contain Chinese actions on the African continent. Moreover, the actions of Chinese multinationals are condemned, but their business models are not very different from those of the western companies which have long engaged Africa. At the same time, the Chinese government cannot be held responsible for the day-to-day actions of Chinese multinationals in Africa.

China's economic rise is systematically transforming the global economy, shifting global growth and influence away from the Atlantic to the Pacific Ocean. Asia, with China as the core of economic progress, increasingly offers a counterweight to the US-Europe power centre. Growth in future trade for Africa is more likely to come from Asia, rather than US-Europe, as China (and India) continues to offer new opportunities. At the same time, China offers a non-intrusive and equal relationship, avoiding prescription, admonishments, or a patronising approach. China's engagement agenda, including mutual co-existence, mutual respect for territorial integrity and sovereignty, mutual non-aggression, mutual non-interference in internal affairs, equality and mutual benefit and peaceful co-existence, is widely welcomed in African capitals as a fair and effective method for diplomatic and commercial interaction.

Apart from insisting that African countries do not recognise Taiwan, China imposes no complex linkages to its aid or economic interaction. Western donor countries, however, insist on a Eurocentric and an increasingly complex inventory of conditionalities, before aid is dispensed.[64] Evidence of good governance, respect for human rights and democratisation are required to unlock western donor support. In contrast, China's aid is instantly and unconditionally accessible. The west's complex aid system, endless bureaucracy and poor track record in achieving positive outcomes has opened a substantial space for China's growing intervention in Africa. The economic lacuna which China is now filling in Africa was largely created by the inefficiencies and failures of western aid policies towards Africa.[65] Moreover, given China's recent success in tackling poverty, western donor agencies could learn much from the Chinese experience and help to apply some of these lessons, in co-operation with China, to Africa.

In effect, China offers a "no-strings-attached" approach to Africa, while at the same time encouraging African countries to develop their own economy through their own choice of economic development model, without dictating the form and terms of political or economic development. China provides an alternative to the unhealthy economic dependency which has grown between Africa and its former colonial masters. The "China alternative" must be beneficial to Africa as it seeks to find new markets and development partners. To date, China's "no questions asked, no interference" approach has proved successful in establishing an increasingly close relationship with a range of African states. China offers a very convincing engagement package to Africa, consisting of "an alternative consumer for resources, a model for successful development and trade policies that are more benign than western initiatives."[66]

## Conclusion

China's growing appetite for oil and raw materials has been a major boost for African producers. Higher commodity prices have directly benefited African economies and provided a foundation for further economic development. However, in terms of drafting and implementing a comprehensive and sustainable economic development programme, the onus is on African governments and not China.[67] Breaking the so-called "products-for-resources" model is an economic challenge for Africa's leadership, the first step of which is to provide a positive environment for foreign investment, not only in the resource sector but in other areas of the economy as well.[68] So too is controlling the effects of "Dutch disease" (export-driven currency appreciation), which impacts negatively on the competitiveness of other sectors of the economy. China's search for resources offers suppliers new options and new possibilities for commercial expansion to their benefit.

Given the impressive growth of the Chinese economy and the prospects for continued growth into the future, Africa's challenge is to effectively engage China and to seek opportunities for profiting from interaction with the world's fastest growing market.[69] Increased trade with China, with an emphasis on African exports to China, would be the initial starting point. Most economists would agree that trade brings mutual benefits to participants, even when not completely in balance. Whatever the challenges of the China-Africa relationship, there is enormous space to produce a positive, win-win outcome. FOCAC provides the forum to negotiate a win-win formula for China-Africa relations and to build a quality long-term relationship. A comprehensive and determined response from Africa can prevent the "unequal relationship" which the former President of South Africa Thabo Mbeki has alluded to. Through FOCAC, Africa can help to shape the Sino-African agenda and build a common foundation for mutual development. As the Brenthurst Foundation has argued: "The benefits Africa generates from such investment depends on what Africans do for themselves more than what China and the US can do for them."[70]

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2

# SETTING THE SCENE: THE SCALE OF CHINESE INVOLVEMENT

What is the scale of Chinese investment in Africa generally and in the countries we have studied? What form does it take? This chapter will set the scene for the analysis that follows by discussing the scale and nature of Chinese investment.

## Data deficits

Before discussing the details, however, it is necessary to note that the picture offered here is incomplete because data on China's role is, for a variety of reasons, unreliable.

Thus, in Angola, there is very little information on the real amounts of money negotiated with China. Angola is paying China 200 000 barrels of oil per day through the state oil company Sonangol. Credit lines and loans that government gets from different foreign governments and international financial institutions are not included in the national budget, and their management lacks accountability and transparency. This is part of wider difficulty with data collection, which hampered our research team.

In the Democratic Republic of Congo (DRC), the first group of Chinese came to the DRC as traders and not as investors or industrialists. They simply bought the copper from artisanal miners and exported it to China. This trend continues. The former Chinese ambassador to the DRC, Mr Wu Zexian suggested in a 2008 interview in Kinshasa that most Chinese individuals and small businesses are not registered with the embassy. It is therefore very difficult to give a correct assessment of Chinese investment in the DRC, because the relationship with the DRC is not accurately documented.

Information on the timber trade between China and Mozambique is contradictory. As Carlos Nuno Castel-Branco recently mentioned,[1] China-Mozambique business relations are very secretive, and it is difficult to obtain authoritative information. On the timber trade, the figures from the Chinese authorities show a different picture to those of the Mozambican National Directorate: exports of logs to China are reported to have indeed decreased since 2007, but they still make up the majority of timber exported to China. In

2009, around 65 percent of all timber exported by Mozambique consisted of logs. The discrepancies in the data provided by the Mozambican government and Chinese authorities are not small: in 2008/2009, Chinese authorities reported the import of more than 150 thousand $m^3$ of Mozambican logs, whereas Mozambican authorities reported the export of no more than 20 thousand $m^3$. This may suggest the growth in illegal trade between the countries. One of the most alarming concerns regarding the forest industry in Mozambique is the lack of accurate reporting on the amount and location of trees felled, and the significant illegal export of unprocessed logs.

In South Africa, Chinese officials dispute the trade statistics, claiming that South Africa ignores exports to Hong Kong which are intended for mainland China. There are no accurate figures on fixed investment that China has made in South Africa.

In Zimbabwe, the Chamber of Mines of Zimbabwe (CMoZ) represents the interests of all major mining houses in Zimbabwe and would be expected to have a record of all mining companies and activities in Zimbabwe since its member-companies produce about 90 percent of Zimbabwe's total mineral output. But no information was available about two Chinese companies who applied for membership as smaller producers – there are also said to be several Chinese companies in the service provider category but CMoZ could not name any. The assumption is that these would be service providers to Chinese mining companies, strengthening the argument that there are many Chinese companies already operating in the extractive sector in Zimbabwe.

The gaps in the information held by CMoZ leave unresolved questions about Chinese mining operations. The Economic and Commercial Counsellor's Office at the Embassy of the People's Republic of China to Zimbabwe could not provide information on Chinese mining companies except for Sino-Steel, arguing that it was difficult for the embassy to keep track of the many Chinese citizens who come into the country as private individuals. One immediate explanation for this is the small-scale nature of most of the operations. It must be pointed out that this lack of information does not apply only to Chinese mining operations, but (according to the Chamber of Mines) to other mining activities too.

These data limitations obviously mean that no definitive account of the scale of Chinese investment is presented here – indeed, it is not clear that one exists. Rather, the goal is to give a broad sense of the nature of China's economic role on the continent and in the Southern African countries which we studied.

## The big picture: Wider trends

China's foray into Africa since the turn of the century has been remarkable, with trade volumes increasing ten-fold and the Chinese government identifying Africa as the future engine of global growth. There were estimated to be 800 sizeable Chinese firms on the continent in 2008.

Although China's foreign direct investment (FDI) in Africa in 2007 represented less than 3 percent of its global FDI outflows, its injection of upwards of US$9 billion into the continent in 2005 dwarfed the World Bank's US$2,5 billion and South Africa's US$1,2 billion in 2000. With foreign reserves of over US$1,5 trillion and a sovereign investment fund of around US$200 billion to plough into promising global companies, China has also registered sustainable growth of 10 percent per annum for the past 20 years. It has emerged as the largest consumer of iron ore, tin, coal, steel, copper, zinc, gold, aluminium, nickel, lead and other minerals, and is only second to the US in oil consumption. China has become the single largest destination of FDI, followed by India. Currently, China is also dominating world exports of manufactured goods.

Recent trends in Chinese global investments confirm moves towards acquiring raw material sources across the globe – Africa is obviously an abundant source and thus an object of Chinese interest. To ensure the continued growth of the Chinese economy, Beijing must accelerate guaranteed and affordable access to key raw materials. Over the next ten years, China is expected to be responsible for most of the growth in global demand for raw materials.[2] Peter Redward, Head of Emerging Asia Research at Barclays Capital predicts a significant expansion in Chinese demand for commodities over the next decade, given that China is experiencing an extended 'industrial revolution.'[3]

Of the total Chinese mining investment in Africa to date, most projects have been in the mineral-rich SADC region. Since the mid-1990s, China has begun importing large quantities of raw materials and has become the world's leading consumer of raw materials. As Lucy Corkin puts it, over a remarkably short time, Chinese multinationals have claimed their share of the increasingly promising African market.[4] Africa holds almost one-third of the world's mineral wealth, including numerous un-exploited opportunities.

Clearly, then, China is expected to play a strong and growing role in Africa and, therefore, in the countries studied here. The remainder of this chapter will discuss investment in six SACD countries in turn.

## Angola[5]

Financial relations between China and Angola grew in late 2003, when a framework agreement for new economic and commercial co-operation was formally signed by the Angolan Ministry of Finance and the Chinese Ministry of Trade. Chinese financial assistance to Angola is reserved for key public investment projects in infrastructure, telecommunications, and agro-businesses under the Angolan government's national reconstruction programme. The China Construction Bank (CCB) and the Export-Import Bank of China (EximBank) provided the first funding for infrastructure development in 2002. The Angolan Ministry of Finance had little input in these arrangements since CCB and EximBank funding was provided directly to Chinese firms.

In March 2004, EximBank pledged the first US$2-billion oil-backed loan to Angola to fund the reconstruction of shattered infrastructure throughout the country. The loan is payable over 12 years at a concessional interest rate, Libor plus a spread of 1,5 percent, with a grace period of up to three years. It is divided into two phases, with US$1 billon assigned to each. The first tranche was released in December 2004, and by the end of 2007 nearly US$837 million had been utilised. In March 2007, the second half was made available, with the majority as yet unused. As of December 2007, only US$237 million of the second phase had been disbursed, according to the Angolan Ministry of Finance. The first phase of this credit line involved 31 contracts concerned with energy, water, health, education, communication, and public works. This corresponds to 50 projects, valued at US$1,1 billion. Seven Chinese firms are engaged in this initial phase, and the largest project is the rehabilitation of 371 kilometres of road between Luanda and Uíge, valued at US$211 million. In the health sector, the priority has been the rehabilitation and enlargement of provincial and municipal hospitals and district health centres. In the education sector, the focus is rehabilitation of secondary schools and polytechnics. In agriculture, US$149 million permitted the acquisition of new machinery as well as the rehabilitation of irrigation systems in Luena, Caxito, Gandjelas, and Waco-Kungo.

The second phase of this loan was to fund the implementation of 17 contracts, involving over 52 projects, some of which are unfinished first phase projects. Although education remains a priority, the second phase also supports fisheries and telecommunications projects. In fisheries, the contract signed with China National Machinery Equipment Import Export Corporation will finance the acquisition of 36 large fishing trawlers and 3 000 boats for industrial and artisanal use, as well as 10 coastguard vessels. This investment of US$267 million envisages the creation of employment for 20 000 people directly (and a further 100 000 indirectly). In telecommunications, approximately US$276 million was allocated for the construction of next-generation networks, including optical transmission networks, Internet protocol, very small aperture terminals, and intelligent networks across 13 provinces. In May 2007, an extension of US$500 million was negotiated with EximBank to finance 'complementary actions' to first phase projects which had not been budgeted. Under this new financial facility, priority projects include water and energy networks for newly built institutes and schools, the construction of new telecommunication lines, and water treatment plants. To date, no disbursement has been made under this line of credit.

In March 2011, the Chinese Ambassador in Angola, Zhang Bolun, indicated that three of China's state-owned banks (EximBank, the China Development Bank and the Industrial and Commercial Bank of China) have collectively provided approximately US$14,5 billion in credit to Angola since 2002. Loans have been made mainly for construction and infrastructure projects. The assistance provided by China has made a major positive contribution to road and rail networks, while new schools, hospitals and houses have been built. The China-Angola relationship is based on Chinese assistance to Angola for economic development in exchange for oil supplies. Angola now competes with Nigeria for the title of Africa's main oil supplier, with much of it going to China.

Projects financed by the China Construction Bank and EximBank have included the rehabilitation of the Luanda railway system (the 371 km stretch between the capital Luanda and the northern agricultural and mining province of Uige, and repairs to 1 300 km of the Lobito railway line ) and road networks (mostly being done by The China Road and Bridge Corporation). The major one is the construction of national road and bridges in Bengo province and the Lobito oil refinery, expansion of Luanda's electrical network, rehabilitation of Lubango's electricity network and networks in Namibe and Tombowa, along with building telecommunications networks. Close to 100 projects financed and implemented by Chinese companies have contributed to socially-relevant infrastructure in Angola. Besides trade, Chinese FDI has seen a major increase in recent years. The focus remains on oil and construction, but other sectors of the economy have also been targeted. Post-conflict economic growth and relative stability have reduced investment risks and offer a good return. New laws have been promulgated to promote foreign investment and encourage broader foreign involvement in the economy.

China has shown great interest in Angola's extractive industries, but has not yet been able to extract oil in Angola. According to a working paper presented at the Center for Strategic and International Studies (CSIS) conference in March of 2008, after the opening of China's first credit line to Angola in March 2004, Sinopec Group acquired its first stake in Angola's oil industry (50 percent of the BP-operated block 18). They also created a partnership with Sonangol, the Sonangol Sinopec International (SSI), to explore the stake on the block.

Sinopec Group was holding a 55 percent stake in the joint venture, and Sonangol the remaining 45 percent. Although BP's former license partner (Shell) had agreed to sell its stake to India's state-owned Oil and Natural Gas Corporation (ONGC), the Chinese on their first involvement in the Angolan oil industry sidelined ONGC with an offer that media sources estimate at US$725 million.[6] The company reportedly spent an additional US$1,5 billion dollars for the development and exploration of the block.

In March 2005, nine co-operation agreements were signed, most related to energy. Sonangol also entered into a long-term agreement to supply oil to China's Sinopec. A year later, SSI acquired three new Angolan offshore oil blocks with proven reserves of 3,2 billion barrels. It offered US$750 million for 20 percent of ENI-operated block 15 and made a record bid of US$1,1 billion as a signature bonus payment for each of the offshore blocks 17/06 (27 percent) and 18/06 (40 percent). In addition to the bids for the rights to prospect for oil, the joint venture earmarked US$200 million for social projects. The companies also agreed to jointly study plans for a US$3-billion loan to the oil refinery in Lobito with a capacity of 240 thousand barrels per day.

The negotiations collapsed in early 2007 with Sonangol declaring it would manage the project on its own. According to Manuel Vicente, president of Sonangol, 'we can't construct a refinery just to make products for China.' This would suggest some resistance to the strategy of locking in supplies through long-term contracts, which China has applied elsewhere. Later, SSI also renounced its stake on the three newly acquired concessions.

Chevron has contracted the South Korea Daewoo Shipbuilding and Marine Engineering Co Ltd (DSME) to build a US$510 million offshore production platform to be installed in Angolan deep waters. The turnkey platform is expected to be delivered in the fourth quarter of 2013. The 18 758-ton platform will be designed to boost the exploration and processing capacity of the existing facility in block 0 of the Cabinda offshore deep waters region, which produces 100 000 b/d and 4 MMcf/d of natural gas. The massive exploration of oil in the deep waters of Cabinda has become the main economic development strategy of the Angolan government, which is finding it difficult to diversify its economy (particularly the development of the agricultural and industrial sectors). Dependence on oil and gas, as non-renewable resources, poses a major threat to Angola's sustainable long-term economic development.

According to the CSIS, in April 2005 the Angolan Council of Ministers accepted a joint venture agreement between Angola's state-owned diamond company (Endiama) and a private Hong Kong-based company, China International Fund (CIF). It also approved Endiama's participation in the creation of Endiama China International Holding Ltd. (Endiama China) to prospect, produce, and market diamonds, including diamond cutting and production of jewellery in Hong Kong. In September 2005, Angola's Ministry of Geology and Mining authorised a joint venture between Miracel and Endiama China and approved a prospecting, research, and diamond recognition contract between them. In March 2007, the Angolan media reported that the joint venture agreement between Endiama, EP, and CIF had been annulled by the Council of Ministers. No explanation was given.

China's involvement in Angola (as in the rest of Africa) is three-fold: direct investments, financing, and commerce. China's ambassador to Angola has indicated that approximately 50 Chinese state-owned companies and 400 privately owned companies are now active in Angola, covering a wide range of commercial activity. It also currently imports two main products from Angola, petroleum and diamonds. In 2008, it became the biggest importer of Angolan petroleum, and in 2010 (given the financial crises) it exceeded the US. China also became the largest importer of Angolan diamonds, and is consequently Angola's primary commercial partner. Exports from Angola to China have increased substantially, with the period from 2000 to 2008 seeing an increase of more than 1266 percent. In 2007 petroleum exports to China exceeded that of the US by a million dollars, and the following year China absorbed 2,.3 percent of Angola's crude oil exports. It must, however, be emphasised that although China is Angola's primary commercial partner, the commercial weight in oil has diminished consecutively in the last two years.

CIF, is backing the construction of over 200 000 low-cost houses in Luanda. It is also involved in building an international airport, 2600 kilometres of rail tracks, and over 1000 kilometres of roads. These projects are directly assisting the government in promoting economic development across the country and helping to uplift impoverished communities. Given that Angola's economy is based on oil and diamonds, there is little else that it can offer China in exchange for these construction projects. The limitations of the Angolan economy mean that the country's trade with China is no different to its trade with the west, except for the reluctance of European companies to become involved in major construction projects. China clearly has a competitive advantage in being well-positioned to boost the Angolan economy through construction, while accessing oil and diamonds in return.

In May 2011, China and Angola concluded new co-operation agreements including municipal construction programmes, technical co-operation, and the establishment of an anti-malaria centre and the supply of anti-malaria medication. The Chinese telecommunications company ZTE has also expanded its operations in Angola and set up a staff training programme. The agreements suggest a broadening of relations and confirm that China-Angolan links are expanding into new areas of co-operation. In 2010, Angola's exports to China totalled US$21 billion, a significant increase on the US$1 billion in exports recorded in 2002 at the end of Angola's civil war. An improvement in Angola's economic stability and continued good economic growth is expected to lead to a further significant expansion of China-Angola commercial relationship – with the exception of 2009, the last five years have seen Angola's economy grow above that of all countries in the Southern Africa Development Community (SADC).

There was a significant increase in Chinese investments in Angola from 2005 to 2009. In 2005 it was only US$17 million, which then increased to US$166 million (an increase of 832 percent). The bulk is committed to the civil construction sector. Considering China's increased investment in the civil construction sector, it is possible to project a rise in its involvement within the extraction industry, particularly in the exploration of minerals necessary for civil construction (such as grit, sand, gravel stone, limestone, plaster and chalk). In 2007, Chinese investment in the extractive industry (extraction and preparation of minerals) was registered in the Kwanza-Norte province with a value of US$0.5 million. It is evident from data supplied by Angola's national investment agency ANIP that Chinese investments are distributed among the nine provinces (Bengo, Benguela, Bié, Huambo, Huila, Kwanza-Norte, Kwanza-Sul, Luanda and Namibe). The province with the most investment is Luanda, where more than 96 percent of the Chinese investment was allocated in 2009.

In 2010, government officials indicated that an additional US$6,6 billion had been negotiated with the Chinese government under the credit line to support the Angolan government's efforts for national reconstruction and infrastructure development, which suffered some setbacks due to the lack of liquidity following the financial crisis. According to Chinese Vice-President, Xi Jinping, who visited Angola in November 2010, China has already given loans to Angola of about US$10 billion, and business between the two countries amounts to almost US$20 billion (an increase of about 80.8 percent compared to 2009). The numbers clearly show the increasing dependence of Angola on China for development of its devastated infrastructure.

President Eduardo dos Santos has inaugurated a new city (called Kilamba) on the outskirts of Luanda, which aims to house more than 120 000 inhabitants. It is still under construction and is being financed by a Chinese loan and built by Chinese companies. The initiative is seen by many citizens as great and timely but the issue is the cost, which common citizens will not be able to afford.

Despite this substantial role, Chinese investment (as opposed to loans and trade) remains limited. This may be attributed to the language barrier, since this is a constraint in terms of attracting direct foreign investment. Another factor to consider is that although it is known that Angola is *potentially* a rich country, most of the studies conducted in this regard are based on deductions and estimates. In reality, it is still impossible to know how rich the country is, which is a limitation in the extraction industry's investment (not to mention the state's concession allowing national companies to be both referees and players).

## Democratic Republic of Congo[7]

Chinese investment in the mining sector in the DRC can be divided into three phases: the phase of artisanal mining, of smelters or semi-industrial mining, and of industrial mining.

The first phase of Chinese economic activity was dominated by Chinese traders. These were individual Chinese who came either on their own account, or were sent by Chinese companies to buy ore and export it to China. They bought the ore directly from artisanal miners. They had no offices, but briefcases full of cash. With the collapse of the mining sector in the late 1990s, the formal sector was quickly replaced by artisanal mining in the DRC, which was responsible for most production. When the Chinese came to do business in the late 90s, just after the 1996 war, they were not mining but bought most of the ore. Chinese funding which came into the country did not come through the banking system – it was poured into the economy through informal channels. It thus came in illegally and was spent without government knowledge. Most of the Chinese mineral traders were not registered with the provincial division of labour until late 2007.[8] They entered the country with a tourist visa and remained in the country illegally. For most of these first arrivals, investing in mining was too expensive. Buying from artisanal miners was far more beneficial. They avoided all the problems associated with mining.

Formal Chinese investment in the mining sector is very recent, starting at the end of the second republic. During the first republic, the Chinese investment in Mobutu's DRC was government-to-government, and was concentrated in the infrastructure sector. The first semi-industrial Chinese company to mine in the DRC was FEZA Mining, an extension of the Chinese defence industry[9] – mineral resources which FEZA buys in the DRC are sent directly to the Chinese armaments industry. FEZA and other Chinese companies which came into the country when the *Alliance des Forces Démocratiques pour la Libération du Congo* (AFDL), led by Laurent Desire Kabila, overthrew Mobutu in 1997, were mainly interested in buying the ore directly from artisanal miners for export to China.

This situation remained until after the 2006 elections which brought Joseph Kabila to power. With a democratic government in place, the possibility for increased political stability also increased Chinese interest in the country. The influx of Chinese into the Congolese mining sector (particularly in Katanga) is due to the favourable environment created by Congolese natural resources management, and in particular the liberalisation of mining that came in with the mining code of 2002. The Chinese were also motivated by the rise in metal prices on international markets, as well as the high demand of their industries for copper and cobalt.

After the 2006 elections, we see the emergence of many larger private Chinese companies interested in buying ore.[10] However, their modus operandi did not initially differ from the first phase – they continued to buy ore from artisanal miners, with no investment in mining itself. They also operated in many instances without proper registration. The only difference with the first phase is that a level of rudimentary organisation started to emerge in Chinese investment. This change was not voluntary – the Chinese were forced to improve on their operations and refrain from clandestine business practices. The slow transformation from traders to semi-industrial operations was forced upon them by the governor of Katanga, Moise Katumbi Chapwe. In 2007, he prohibited the export of raw ore without first transforming it within the country. The ban on exports of raw cobalt forced Chinese firms that had previously bought concentrate to quickly move and to set up plants to produce cobalt alloy.[11] Chinese companies were not the only ones affected by this measure – many Congolese, Western, Lebanese, Indian and Pakistani companies had to adapt and establish smelters. Of the 79 processing units listed at the provincial Division of Mines, 22 belonged to Chinese owners. In view of the prohibition on exporting rough products, the foundries created a monopoly on the sale or export of minerals originating from artisanal mining sites. According to DRC's small-scale-mining technical assistance and training service, (SAESSCAM), artisanal mining supplied 70 percent of the processing units, the remaining 30 percent originating from SMEs. Chinese plants exported about 28 percent of the artisanal production from Katanga. Based on these figures (and unless proven otherwise), it could be said that Chinese investment in the mining sector was insignificant. However, it is difficult to rely on SAESSCAM statistics, as this technical service was still in its set-up phase. Also, SAESSCAM was going through a delicate period of non-acceptance by the mining operators of the artisanal sector, and was encountering heavy resistance from the lobbyists who controlled the sector and who saw SAESSCAM as an intruder.

This value addition policy of the provincial government encouraged most Chinese who had some money to open smelters. In the initial stage most were of very low quality, but the Chinese dominated the smelter business. This change prompted Barry Sautmann and Yan Hairong to argue that the Chinese companies in the DRC had demonstrated the ability to adapt, and that they had shown the will to contribute to development. They further argue that Chinese companies are often flexible in responding to African development plans.

During this period Chinese operators were also forced to formalise their businesses. This formalisation could be seen in the efforts made by Chinese businesses to certify their products when the DRC's regulatory mining body, *Centre d'Evaluation, d'Expertise et de Certification* (CEEC),[12] set-up its laboratory in Katanga province.[13] The CEEC receives applications from Chinese companies for the certification of mining products. Many Chinese companies certified their products before the financial crisis, in particular CDM, OTA Mining, FEZA Mining, JACKISSING and HOUSHIM. The certification cost was US$125 per batch (25 to 30 tonnes). The revenue was distributed among government offices as follows: US$10 for the governor's offices, US$10 for the mining division, and US$105 for CEEC, of which a part is allocated to operations.

Unfortunately, when the financial crisis hit the mining sector, most Chinese stopped certifying their product when the national minister of mines produced a circular requesting relief measures for economic operators. But the total withdrawal observed was reinforced by the CEEC staff's practice of issuing unreliable certificates and receiving payment for no services rendered. The financial crisis directly affected Chinese businesses in the DRC. Before it, there were 77 processing units, of which 35 were Chinese. After the crisis, only 23 Chinese processing plants survived.

The Chinese continued to buy minerals from artisanal miners and did not invest in mining, but the mining law forbids smelting plants to buy directly from the diggers – they must go through a marketing agent or broker. The relations between the marketing agents and Chinese business caused many problems, which often ended up in court or at the chief prosecutor's office. In order to avoid collaborating with the traders, the Chinese gave their marketing agents the responsibility of buying from the diggers directly. These agents were very powerful because they paid for the products and transport costs. It is surprising to note that no Chinese business had buying counters, despite the fact that they had injected a lot of capital into the artisanal trade.

In the beginning, they exported rough products. Restrictions forced the mining operators to install foundries and concentrators in order to be able to export finished products. During this period, we see an interest by these Chinese companies in applying for mining concessions. The nature of mining also started to change with the decrease of artisanal mining output from 80 percent to 10 percent with the appearance on the market of companies such as Compagnie Minière du Sud Katanga (CMSK), DRC copper and Cobalt Project (DCP), First Quantum, Frontier, Kamoto Copper Company (KCC), Mutanda Mining (MUMI) and Tenke Fungurume Mining (TFM) Other large companies involved in mining at the time included AMCK, ANVIL Mining Congo, BOSS Mining, Chemical of Africa (CHEMAF), Compagnie Minière de Sakanya (COMISA), Générale des Carrières et des Mines (GCM) , KALUMINES, KCC, KISANFU, Minière de Musoshi and Kinsenda (MMK), and RWASHI Mining, The early group of Chinese traders either went back to China, or moved to other African countries, or transformed themselves into semi-industrial businesses. The artisanal and smelter phases, it could be argued, were an incubation period for the Chinese presence in the DRC. China was observing the progress the country was making, considering that the DRC was still a fragile post-conflict state.

Applying for concessions did not mean that the Chinese wanted to get involved in mining. Their intention had never been a long-term investment with a real impact on the lives of the people (in terms of employment and economic development). This was clear when the financial crisis hit the Congolese mining sector in 2008 – most Chinese companies closed immediately, without any discussion with the authorities or their employees, and the owners disappeared. Among Chinese companies that remained after the financial crisis, we can mention FEZA Mining, Congo Dong Mining (CDM), and Linda Mining. The first two represent the worst and the best cases of the Chinese investments in the DRC.

FEZA Mining was established in 1997. It is situated in the central region of the DRC, in Likasi, just opposite the installation of Gecamines. CDM is situated in the Jolie area, 20 kilometres out of Lubumbashi town (now transformed into MIKAS. MIKAS is still putting in place its infrastructure). Despite the fact that we see some form of organisation and offices, these Chinese companies differ very little from the previous phase in terms of behaviour. The industrial installations of most Chinese companies are provisional and erected to satisfy only short-term objectives. FEZA Mining, one of the largest Chinese foundries that we visited, deserves special attention. Whoever visits the installations of this foundry will question its future. The investors give the impression that they are in a hurry. The administrative building is not well maintained, the walls are dirty and badly painted, the offices have very little (and very poor quality) furniture.

The Chinese role moved well beyond mining in 2006, when the government of Joseph Kabila invited China to help rebuild the DRC, prompting an agreement in which China committed to investing heavily in infrastructure in exchange for mineral resources (see Chapter 3). Two Chinese companies Congo International Mining Cooperation (CIMCO) and Compagnie Minière de Luisha (COMILU), situated in Luisha, have already invested in real mining In 2010, the value of the China-DRC joint venture, in terms of minerals, was released. The bank guarantees have also been finalised. After the transfer within the framework of partnerships, publicly owned mining company Gécamines' reserves are currently evaluated at 40 million tonnes of copper, with a potential for twenty years of mining. Of these reserves, Gécamines is ceding 10,6 million tonnes of copper and 626 619 tonnes of cobalt in the Dima mining complex, a collection of three open-pit copper mines in Kamoya (in the central group), Dikuluwe and Mashamba (in the western group) region of Kolwezi to the joint venture, Sicomine.

Public-private projects are being implemented as part of the joint agreement. Chinese assistance is expected in the form both of grants and interest-free loans. Beijing will build or rehabilitate some 3500 km of roads and 3200 km of railroads, 32 hospitals, 145 health centres and 2 universities. The contract also has immediate implications for the power sector, as the list of projects proposed by Beijing includes the construction of two hydropower dams (at Katende in Western Kasai and Kakobola in Bandundu province), and the rehabilitation and extension of the Kinshasa and Lubumbashi distribution networks. The expansion of the power grid is important if China wants to guarantee the smooth extraction of copper in Katanga and its export to China. Equally, roads and railway networks are critical for China to move products in and out of this vast country, the size of Eastern Europe.

In the infrastructure development (from the Sicomine funds, the result of a joint venture between Gecamines and a Chinese consortium), the first disbursement was agreed at US$350 million for the first year. The Chinese banks released money for four projects: the central hospital in Kinshasa, the south-west highway from Ndjili airport to town (which will be a two-lane road), the N1 from the border with Zambia to Lubumbashi, and the N4 in Pedi (Kisangani). All these projects have started and are nearing completion. The N1 has already been completed (although the quality is questionable). One project that posed a problem was the building of the hospital (see Chapter 3). The infrastructure development is already proving to be a success story of China-DRC trade relations, and could have contributed to more people, especially in Kinshasa, voting for President Kabila in the disputed 2011 general elections.[14] The extent of construction of roads in Kinshasa has not been seen since the Belgians left the country.

Not all infrastructure projects being implemented by Chinese companies are part of the Sicomines deal. According to the Congolese Ministry of Public Works, Chinese contracts are divided into two categories: projects linked to the main Chinese contract, and private ones executed by Chinese companies (either with Congolese government funding or funded by Chinese companies in the mining sector, sometimes in partnership with Congolese public mining companies). Some projects are funded directly by the Congolese government and carried out by Chinese companies outside the joint agreement. These include: Libération Avenue (Kinshasa), Lumumba Boulevard, Erosion of Kindele, Rout Kamituga-Kasongo, Erosion de Mataba, Place de la gare, and Bridge Mponzo (being pre-financed by Chinese companies). Congolese government funding for these projects comes mostly from the National Fund for Road Maintenance (FONER), and the money comes mostly from oil payments (from oil extracted in the Bas-Congo). In the past two financial years (2010 and 2011) oil contributes more to the Congolese national budget than mining.

## Mozambique[15]

Chinese investment has focused on various sectors, reflecting Beijing's attempts to promote Chinese companies overseas.

Construction has been of particular interest to China, with over 30 Chinese construction companies currently based in Maputo.[16] Henan International Cooperation Group, for example, was responsible for the construction of the bridge over the Incomati

River. In 2009, roughly one-third of all road construction in Mozambique was being carried out by Chinese companies. Projects include the Muxungwe Inchope road built in 2007, the Chitma Magoa road, and Moamba Bridge over the Incomati River completed in 2008. Chinese companies have also been involved in urban water supply systems, investing US$30 million in rehabilitating the water supply system of Maputo, and US$25 million in Beira and Quelimane.[17]

Eximbank signed a memorandum of understanding (MoU) with the Ministry of Public Works to fund the construction of a US$300 million hydroelectric dam in Moamba. The bank also signed an MoU to finance the Mpanda N'kuwa dam worth US$2,3 billion in 2003. The MoU has since expired but the project, which was awarded to the Brazilian firm Camargo Correira and its Mozambican partner Insitec, will be the first Eximbank project to be carried out by a non-Chinese firm. In the telecommunications and transport sector, Eximbank provided funding for the construction of Maputo's modern international airport. This project was funded through a concessional loan worth US$75 million, and was completed in November 2010.

In 2008, China was Mozambique's third-largest trading partner after South Africa and Portugal. Mozambique accounted for 5 percent of China's imports and 4,7 percent of its exports.[18] Trade between the two countries increased by 48 percent in 2008 compared to 2007, largely due to an increase in Chinese imports of oil seeds, sawn wood, and chromium ore.[19] According to data from the World Trade Atlas, Mozambique's exports to China are dominated by wood products, which account for 70 percent of its exports, followed by vegetable products (18 percent), chromium (10 percent), precious stones and cotton (2 percent). This pattern of trade with China is consistent with other non-oil African countries. Despite China's rapid increase of trade with Mozambique, much of Mozambique's export remains directed towards other markets. The Euro Zone and South Africa are principal buyers, suggesting that, although China has increased its share in trade with the country, Mozambique remains far from dependent on the Chinese demand for its exports.

Trade links are also significant in the fishing and forestry sectors, which have experienced increasing interest from China. Commercial fishing accounts for 3 percent of Mozambique's GDP and provides employment for artisanal fishermen. However, Chinese companies are accused of illegal fishing using long liners and gill nets that catch turtles and sharks, and large-scale poaching of shrimp and lobsters. The forestry sector in Mozambique is dominated by Chinese buyers and has become one of the most contentious issues concerning Chinese activity in Mozambique.

Until recently, fisheries and timber represented the two main sectors where Chinese businesses have been involved in natural resource exploitation. Since the 1990s, Mozambique has experienced an explosion in the level of forest cutting, and this has very much been fuelled by China's appetite for wood. China has become one of the world's largest importers of timber, and the world's leading importer of logs. Log imports have increased from 4,5 million $m^3$ RWE to 24 million $m^3$ RWE.[20] This is due in part to a rise in Chinese consumer demand for forest products, and also due to China's significance as a major world manufacturer, capturing nearly one-third of the global furniture market.[21]

In 1998, China issued a ban on logging of its own national forests. Since then domestic timber production halved from 80 million $m^3$/year to 40 million $m^3$/year, and in 2002 the deficit was estimated to be 60 million $m^3$/year.[22] To meet this demand, China has become the world's largest importer of timber, with the main suppliers being Russia, Malaysia (mostly illegal logs from Indonesia), Papua New Guinea, and Gabon. According to a recent report, in the period 1997-2006, Chinese imports of forest products and secondary fibre increased from 40 million $m^3$/year to 142 million $m^3$/year RWE. Apart from Gabon, African countries are not among the main suppliers of timber to China, but their supply is still significant. As one the largest importers of timber, China has a preference for importing logs as opposed to semi-processed wood, and according to data from International Tropical Timber Organisation (ITTO), since 2005 roughly 80 percent of China's recorded timber imports have been logs and not sawn or ply wood. African countries are not an exception to this rule, and most of the timber trade between China and Africa involves logs (85 percent of the total exported to China in 2006).

In 2006, African countries exported 2,6 million $m^3$ of forest products to China, accounting for around 3 percent of China's product imports.[23] Mozambique is among the six top African exporters of wood to China, accounting for around 5 percent of the trade in 2006. The country jumps to fifth place amongst the top exporters of logs to China (5,8 percent of the trade).[24] Although Mozambican woods represent a small percentage of Chinese imports of timber, the fact is that most timber exported by Mozambique ends up in China. Since 1997, China and Hong Kong have received around 88 percent of Mozambique's annual timber exports, especially logs.[25] The National Directorate of Lands and Forests of the Ministry of Agriculture estimates that Mozambique's export of logs stood at around 20 thousand $m^3$/year in the period 2008/2009, whereas the export of sawn wood stood at around 80 thousand $m^3$/year. Most of this wood, according to the National Directorate, went to China.

The Chinese presence in the Mozambican timber business has mainly been as buyers of unprocessed logs rather than directly in the logging process. According to the report *Tristezas Tropicais*, which was published by a coalition of NGOs in 2009, prior to 2004 most Asian buyers present in Zambezia province relied on local loggers to gain their produce. The buyers would provide credit to simple license holders to cover their license fee and operating costs necessary to hire or buy equipment. The predominantly Asian buyers control the timber market, fixing prices. The community of buyers is dynamic, with individuals coming and going from year to year. By 2008, there were several Chinese log buyers in Zambézia: Chung Tai Li, Today Traders, South Pacific, Harley Timber, and Chong Sun Wood Products.

Chinese involvement in natural resource extraction has not been as significant in Mozambique as it has been in neighbouring countries. Much attention has been given to Chinese involvement in oil-rich countries such as Angola and Sudan, and coal- and copper-producing countries such as Zambia. In the case of Mozambique, most of its natural resources have yet to be exploited, with the exception of the forestry industry (which has been intensively exploited since the end of the civil war in 1992). More recently, there has been Chinese interest in the exploitation of Mozambique's coal reserves, with Chinese inroads into the Moatize and Mucanha-Vuzi coal mines in Tete province.

In July 2010, the Australian Riversdale mining group signed an MoU with the Chinese multinational Wuhan Iron and Steel (Group) Corporation (WISCO) for exploitation of these coal reserves. It provides for the acquisition by WISCO of 40 percent of the Zambezi Coal Project, which will bring the value of the project to US$2 billion, according to Riversdale Chief Executive Michael O'Keefe.[26] Riversdale has also signed a logistics partnership agreement with the China Communications Construction Company (CCCC) for Zambezi coal. This marks a significant achievement for Chinese firms in terms of natural resource acquisition in Mozambique. The coal mines in the north will undoubtedly be of great impact economically, environmentally and to the local community in the years to come.

Public buildings and infrastructure have dominated much of Chinese aid to Mozambique. The first major donation was the rehabilitation of the country's parliamentary building in 1999. This was followed by the construction of the Joaquim Chissano International Conference Centre, which was built with a donation of US$5 million in 2003, the Foreign Ministry building in 2004 also with a donation worth US$12 million, and low-income housing in Zimpeto. By means of concessional loans, China has built the office of the Auditor General (worth US$40 million), two primary schools, an anti-corruption centre, a prison in Matola and the National Stadium, which was worth US$50 million and was handed over to the government in November 2010.

Debt cancellation has been another important aspect of Chinese cooperation with Mozambique. In the 1990s, as Mozambique embarked on its economic reform programme, it became the first country to benefit from the Highly Indebted Poor Countries (HIPC) initiative led by western donors. During the 1980s, Mozambique had already signed several agreements with China to cancel debt, which by 2001 resulted in US$21 million of debt relief, with a further US$30 million in 2007.

In agriculture, China has pledged major investments in modernising the sector. This includes efforts to improve agricultural research. In 2007, an agreement was signed with the University of Eduardo Mondlane to conduct research on rural development and agriculture and the establishment of the Umbeluzi Institute of Agricultural research in Maputo. A significant Chinese investment in this area was the joint project between Mozambique and the China Grains and Oil Group, which led to the Beira soya processing plant, worth US$10 million.[27]

## South Africa[28]

During the early 1990s, direct trade relations between China and South Africa were initiated, and within a relatively short period of time, two-way trade increased significantly. The volume of trade in 1991 was only US$14 million, but by 1997 this had grown to over US$1,5 billion. The establishment of formal diplomatic relations in

1998 provided a further boost to commercial interaction, with two-way trade growing substantially.[29] Investec bank's investment strategist Michael Power contends that South Africa is an ideal trading partner for China, and thus the potential for increased two-way trade is significant.[30]

Since 2000, the China-South African relationship has grown significantly across a wide spectrum of political, economic and cultural interactions. With a GDP of US$240 billion (more than 25% of Africa's total GDP), South Africa is significantly different to most other African countries in terms of political, economic, social and commercial development.[31] It is the only country in Africa to invest in China, and it is well known that many of South Africa's advanced technologies (such as liquid fuel from coal and pebble bed nuclear reactors) are sought after by China. In 2006, South Africa's exports to China stood at US$2 billion, with imports calculated at US$6,7 billion. In 2008, South Africa's exports had grown to almost US$3,5 billion, but imports from China stood at over US$10 billion.[32] A sudden surge in Chinese clothing exports amounted to an increase of over 335 percent during the period 2002 to 2006. The impact on the industry has been a job loss of almost 40 percent, with little prospect for any improvement over the longer term. By 2006, the majority of clothing items for sale in South Africa originated in China.

China also sees South Africa as a convenient base for involvement in the region. COSCO, a Beijing-based global shipping company, and First Automotive Works (FAW), a 2006 Fortune 500 vehicle manufacturer, are two examples of Chinese companies using South Africa as a base for their regional activities. COSCO Africa has a 55 percent share in a joint venture with Rennies called Sosren Shipping Agency and also manages COSCO Group's operations in southern and western Africa. FAW has an assembly plant in Gauteng where it assembles trucks and busses for the SADC market. Its sales programme extends as far as Uganda. FAW South Africa's company slogan is 'China's Gateway into Sub-Saharan Africa' and, while this is typical of most mission statements' idealism, it is possibly a useful indication of the thinking of several Chinese multinationals.

Both sides acknowledge a trade imbalance favouring China, which could have significantly negative consequences for South Africa over the longer term. Imports from China now make up over 10 percent of South Africa's total imports, making

China South Africa's largest trade partner. South Africa's exports to China are resource-based, with ores and metals accounting for almost 70 percent of the total. At the same time, South African exports of minerals to China have not grown significantly compared to exports from other developing countries. Base metals and mineral products account for over 70 percent of South Africa's exports to China. Machinery and equipment has shown robust growth. Other strongly growing export categories include chemicals, pulp and paper, textiles, clothing, and live animals. China's low-cost manufacturing base provides the foundation for exports to South Africa, which are expected to continue as China's manufacturing capacity increases.[33] The range of products South Africa now imports from China includes machinery, electrical equipment, footwear, textiles and toys. Thus the trade structure approximates the typical colonial relationship, with South African raw materials exchanged for Chinese manufactured products.[34] With China's manufacturing capacity expected to rise further over the next few years, the pattern of trade is likely to remain largely unchanged for the foreseeable future. Chinese low-cost manufactured products will continue to flood the South African market, undermining the competitiveness of local producers.

China's investments in South Africa extend considerably further than natural resources industries. Chinese companies presently involved in South Africa include Zijin Mining, Minmetals, Jiquan Iron and Steel (Jisco), East Asia Metals, and Sinosteel. As long as South Africa remains the easiest sub-Saharan African country in which to do business, it is safe to assume that it will continue to be the first port of call for future Chinese (non-oil) investment. Standard Bank's decision to sell a 20 percent stake to the Industrial and Commercial Bank of China (ICBC) for US$5 billion is believed to be China's biggest international investment to date. ICBC-Standard Bank has set aside US$1 billion to invest in African resources, while the new corporate strategy is expected to focus on brand acquisition, new technologies, advanced management processes, and market networks. ICBC is 70 percent owned by the Chinese government and is thus expected to drive a more geo-political corporate strategy in Africa, with less concern for margins. Chinese officials suggest that ICBC-Standard Bank intends to open new opportunities for small borrowers in Africa and South Africa, but no evidence of this intention is yet available from the bank itself. The Chinese embassy in Pretoria estimates that investments in South Africa totalled US$1 billion prior to the ICBC-Standard Bank deal, which stands at US$5 billion.

There is general agreement that South African companies have invested more than US$800 million in China. South African investments in China have included technology transfers and job creation in China, but have no measurable impact on employment and poverty reduction in South Africa.[35] The Kumba Group exports iron ore to, and owns a zinc mine in China. Naspers has enjoyed significant success in China's Internet sector, while Anglo American has acquired exploration permits for gold, platinum and diamonds, along with an investment of US$150 million in Shenhua Energy Corporation, China's biggest coal-producing company. SABMiller now partly owns 55 Chinese breweries. South African investments in China have facilitated technology transfers, sharing of management skills, and job creation.

Following China-South Africa bilateral discussions in 2008, it was confirmed that the US$5 billion China-Africa Development Fund (CAD-Fund) is available for mining investments in South Africa. China will thus provide state backing for its corporations seeking new investments in South Africa. Chinese companies are looking for stable and profitable companies which can guarantee long-term supply of selected raw materials to the Chinese market. Joint-venture partnerships with economically sound entities is the chosen strategy, rather than turn-around strategies for struggling ventures.

In late 2006, Larry Yung Chi Kun, son of the former Chinese Vice-President Rong Yien, invested US$800 million in Anglo American, one of South Africa's leading mining companies. Purchasing shares in South Africa's mining companies is a direct and obvious way of extending control over mineral production, but could prove costly and unreliable over the longer term. Given the size of South Africa's key mining companies, buy-outs may not be cost-effective. Buying selective mines, smelters, or smaller mining companies appears to be more appropriate as a business strategy for China's engagement with South Africa's mineral sector.[36]

Chinese investment in South Africa's mining sector is, however, limited (only five examples) and indirect, via joint ventures, so the Chinese footprint is limited and the impact confined. However, given China's global investment strategy and the continued demand for commodities to sustain economic growth in China, significant Chinese investment in South Africa's raw material extraction process is expected over the next few years. A possible expansion of investment activity could include coal (depending on transport facilities), platinum, chrome and vanadium.[37] Generally, China's South

African investment strategy in the mining sector appears to be based on a business model intended to minimise costs in purchases and maximise profitability in commodity sales, with little involvement in local economies.[38]

China's approach approximates that of Kumba Resources to the extraction and sale of iron ore. At a seminar in 2004, Kumba's Chief Executive, Dr Con Fauconnier, explained the simplicity of iron ore exports to China – direct from Kumba's Sishen mine to the port at Saldanha, followed by shipment to China. The business model included no job creation, skills enhancement, beneficiation, or Chinese investment in South Africa which could promote development.[39] In 2009, demand for some commodities showed a marginal increase, with iron-ore sales to China showing sustained expansion. China was described as the 'life-line" for Kumba, which increased sales to that country by almost 130 percent during the first half of 2009. At the same time, demand for iron ore in Europe, Japan and Korea declined sharply over the same period. In response to strong demand in China, Kumba now has plans to increase its output to 53 million tons by 2013 with a focus on sales to China.[40] Ongoing and continued demand for resources in China is expected to remain a key factor in sustaining South Africa's mining sector over the longer term.

The relationship between South African chrome producers and Chinese steelmakers is considered mutually beneficial, with South Africa producers assured of access to a growing market, and Chinese investors assured of supplies at a reasonable cost. Deputy Managing Director of International Ferro Metals, Xiaoping Yang, has suggested that Chinese investments in South Africa are not strategically intended to control price, as prices are determined by the market.[41] Chinese investments are therefore focussed on guaranteeing supply for the growing steel market in China.

In platinum group metals (PGMs), during 2006, Zijin purchased 29,9 percent of Ridge Mining for US$16 million (subsequently purchased by Aquarius Platinum). The focus of the investment is on Sheba's Ridge Mine and Blue Ridge Mine, both of which produce PGMs. Mineral reserves are estimated at 51 million tons, with an approximately 20-year production cycle. Zijin's business model in acquiring the investment is intended to assure long-term supplies at affordable prices. The Zijin Mining Group Co (formally Fujian Province Shandong County Mining Co) is listed on the Hong Kong Stock Exchange and is presently the largest gold producer in China (responsible for 10 percent of China's total output). The company has 80 subsidiaries across China, and the major shareholder is Pinnacle Mines Ltd, a Canadian company.

Aquarius Platinum (South Africa) (Pty) Ltd (AQPSA) is Zijin's South African joint venture partner. AQPSA focuses on the production of PGMs in southern Africa, and in turn is owned by Aquarius Platinum Limited, an Australian company registered in Hamilton, Bermuda. Aquarius mining is the world's fourth largest platinum miner. AQPSA purchased Ridge Mining (originally a UK-owned company) in July 2009. Chen Jinghe, the Chairman of Zijin, has explained that the investment in Ridge was an important step in the company's long-term strategy to increase resources and production facilities overseas. Purchasing a South African platinum mine was considered a breakthrough for a Chinese company.

Aquarius Platinum CEO Stuart Murray has suggested that Chinese companies are not planning to invest in South Africa as they have done in other parts of Africa, such as the DRC, Zambia and Zimbabwe. Rather, they are seeking partnerships, joint ventures and supply relationships with well-established and profitable enterprises. In South Africa, the emphasis is on surety of supply, rather than ownership, extraction and transportation. Given that South African mines have solid track records and international-level technology, China's capital injections can focus on plant expansion and production increase which favours both South African producers and Chinese consumers.[42]

The South African chrome mining industry sees China as an ideal long-term partner, and has been working hard to develop its position as a reliable and low-cost supplier.[43] Thus Sinosteel's partnership with Samancor offers the Chinese investment company a ready-made solution to navigating South Africa's complex legal environment, and a well-established corporate structure which efficiently produces chrome ore for the Chinese market. Sinosteel requires no direct interface with South African labour or mining legislation, while benefits in the form of guaranteed supplies at competitive rates are available for the Chinese market.

In 2007, China's Minmetals Development Company, a subsidiary of the state-owned China Minmetals Group, purchased exploration rights for the Naboom chrome project from Mission Point and Vesatex. Based in Beijing, Minmetals is China's biggest metal-trading company with a range of international interests. The company specialises in the production and trading of metals and minerals, but also has interests in finance, real estate and transport, while its major exports from China are coke, coal, ferroalloys and refractory minerals. Other exports include copper, aluminium, tungsten, antimony, tin, rare earth, tantalum and niobium. Minmetals has operations in the UK, Germany, Italy, Sweden, Russia, Hong Kong, Japan, Korea, India, Singapore, Australia, the US, Brazil and South Africa. Minmetals is a major purchaser of South Africa's iron ore, mainly from the Palabora Mining Company, while recent reports suggest it is interested in buying Anglo America's zinc mines.[44] The company is also seeking new iron ore suppliers, given that Vale SA, Rio Tinto and BHP Billiton dominate global markets.

Until 2006, the project was owned by Chrometco, which sold in favour of focussing activities on copper and cobalt. Minmetals executives explained that the growing demand in China for steel was the driver for investment in South Africa. Ensuring supply from South Africa, along with price predictability, were seen as the incentives for the new venture. At the same time, Minmetals was satisfied with a less than controlling share in the Naboom project, allowing South African companies to retain control. The Minmetals strategy thus excluded China from direct management of workers and from interaction with the local communities affected by production. The approach was rather a partnership through which China would provide a capital injection and assurances of purchasing output, while the day-to-day management of the project remained in South African hands.[45]

The Jiuquan Iron and Steel Corporation (Jisco), one of China's largest steelmakers, has invested US$157 million for a 26,1 percent share in International Ferro Metals (IFM) which owns the Buffelsfontein chromite mine and smelter near Brits. Jisco is the largest stainless steel manufacturer in northwest China and is wholly-owned by the Chinese government. The mine includes both open-pit and underground operations, with an operational life-expectancy of approximately 15 years. Annual ferrochrome production is an estimated 270 000 tonnes, of which 50 percent is shipped to China. There is no beneficiation of the chrome ore, and only 1000 new jobs were created as part of the mine expansion process. According to IFM's Managing Director and founder, Stephen Turner, Jisco played a key role in developing the Buffelsfontein project. Jisco has agreed to purchase 50 percent of chrome output at a price proportional to that of the open market (the other 50 percent being sold on global markets).

This gave IFM sufficient financial backing to secure full funding for the completion of the project.[46] Jisco's motivation for the investment was to ensure security of long-term supply.[47]

The Buffelsfontein project makes IFM the fifth-largest producer of ferrochrome in South Africa, making up approximately 6 percent of the country's production.[48] Xstrata is the largest producer of ferrochrome in South Africa, accounting for 49 percent of the country's output (followed by Kermas at 20 percent, Hernic Ferrochrome at 12 percent, and Ferroalloys at 8 percent). The Buffelsfontein mine has an estimated capacity of 32,9 million tonnes with the possibility of major expansion in future. Only five Chinese management-level staff, representing Jisco's interests, are employed on the project. The mine is presently one of the cheapest producers in the world and is thus highly competitive in the Chinese market.

Jisco's investment has been a major boost to production and long-term export prospects. Only a handful of Chinese managers are involved in the project, while a capital injection into the mine has opened possibilities for the expansion of activities and new employment opportunities. Jisco executive Yang has suggested that his company's involvement in the mine has ensured jobs for South Africans and helped build capacity. Jisco's agreement to purchase fifty percent of the mine's production guarantees jobs and provides a long-term commercial base for the mine. In effect, Jisco is not merely exporting raw materials, but is providing capital, helping to build the mine, create new jobs, and add some value to chrome (turning it into ferrochrome) and then buying the output at a market-related price. The Jisco investment model is thus significantly different from Chinese corporate activity in other parts of Africa, where the criticism has focussed on China's exploitation of local labour and a neo-colonial engagement.

Sinosteel owns 50 percent of the Tweefontein chrome mine and Tubatse ferrochrome smelter, based on an initial investment of US$230 million in the form of a joint venture with Samancor Chrome. With an estimated annual production of 300 000 tons, chrome is sold to China as well as on international markets. Samancor is a key player in South Africa's ferrochrome industry and a major exporter. The company has a long history of activity in South Africa and has developed cutting edge technologies and advanced operational management strategies. Five business units are currently operating in South Africa: two mining operations and three smelters. The company produces chrome ore, intermediate-carbon ferrochrome, and low-carbon ferrochrome. Samancor's business model includes building joint ventures with Chinese companies to ensure long-term access to the Chinese market.

The largest joint venture operation involving a Chinese company is ASA Metals in Polokwane. Sinosteel has partnered with the Limpopo Province Development Corporation in a project that is mining 400 000 tonnes of chrome ore per annum, and producing 120 000 tons per annum of ferrochrome from an on-site smelter. This operation is primarily a response to China's growing demand for industrial inputs from the world's extractive industries. East Asia Metals (EAM), a subsidiary of Sinosteel, owns 60 percent of ASA Metals, which is a joint venture with the Limpopo Economic Development Enterprise, for ownership of the Dilokong chrome mine. The mine has an estimated reserve of 50 million tons. EAM's investment has facilitated the construction of two additional furnaces, which has boosted production and export capacity. Chrome from the mine is exported to China, Europe, Korea, Japan and Taiwan.

Before ASA purchased the Dilokong Mine, it had been supplying chromite to various local smelters to produce charge chrome. The ASA investment enabled the mine to establish its own smelter, through vertical integration of smelting and mining, creating an opportunity for Dilokong to compete more effectively in local and international markets. The mine produces approximately 420 000 tons of raw chromite annually which is transformed into 320 000 tons of chromite ore for export. The smelting process is a marginal beneficiation to raw chrome, but few new jobs have been created in the process and the real value-add remains in the Chinese market (where chrome is used in making stainless steel). ASA has plans to expand operations by sinking two new shafts and building a processing facility in South Africa. According to company MD Richard Zang, the company has mining rights to more than 47 million tons of unexploited chromite resources. Plans include a 1.2 million tons per year smelter, a 600 000 tons per year pelletising and sintering plant, two 66 MVA closed submerged arc furnaces, and a raw-material handling and batching facility.[49]

## Zambia[50]

China has made huge investments in Zambia's extractive industry in the last five to six years. Chinese intentions to upscale involvement and to be one of the major players in

Zambia's extractive industry are seen through medium- to long-term investments, and in the establishment of other industry-supply based infrastructure. China is, in addition, making long-term financial commitments to the country, although obviously actual expenditures will ultimately be the basis for assessing this support and investment.

While the focus is on the copper industry, China also has an interest in secondary industries that have a direct bearing on the extractive industry, as indicated by its investment in multi-facility economic zones in the Copperbelt and Lusaka.

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The Zambian mining industry is the largest contributor to the development and growth of the economy, with the main mineral resource extracted by mining companies being copper. The mining sector suffered a setback in 2008 and 2009 with a decline in production due to the global economic downturn and a corresponding reduction in copper prices. However mining, spurred by growth in China, India, and other emerging markets, has since recovered and it is estimated that Zambia's copper production in 2010 was approximately 720 000Mt, a level last achieved in the 1970s.

The volume of Chinese investment in Zambia has increased over the years, according to the Zambia Development Agency (ZDA).[51] Between 1993 and 2007, 166 Chinese companies invested US$666 million in Zambia and created over 11 000 jobs. Manufacturing, construction, mining, retail trade and tourism attracted the largest Chinese investments, which account for 10,5 percent of total foreign direct investments in Zambia.[52] It is further reported that from US$46 million in 2004, there was an increase to US$68 million in 2006 (excluding investments in the mining sector). By the end of 2008, China's accumulated investments were US$216 million and Zambia was the third most important destination for Chinese investments in Africa (after South Africa and Sudan). Chinese companies currently invest in most sectors of the Zambian economy, but mining has in the recent past experienced the largest investment pledges and expenditures.[53] Apart from the Vedanta-owned Konkola Copper Mines (KCM) in Chingola, Equinox-owned Lumwana, and First Quantum-owned Kansanshi, Chinese investment has become cumulatively the largest investment in the extractive industry.

Chinese interest and investment in mining and exploration has spread across Zambia, especially the Copperbelt and North-Western provinces. The most significant investments are those made by the China Non-Ferrous Metal Mining Company (CNMC), which has invested US$150 million in the Chambishi copper mine. In July 2009, China's Zhongui Mining signed an agreement with Zambia to invest US$3,6 billion in mining activities in the Copperbelt and North-Western provinces; this is expected to create 34 000 jobs. The Jinchuan Group announced on 5 August 2009 that it will take a 51 percent ownership stake in the formerly Australian-owned Albidon Nickel mine, which closed in March 2009 due to low nickel prices; and the Lwanshya Copper Mine (LCM). China is also setting up a US$ 900million multi-facility economic zone (MFEZ) in Chambishi, underwritten by the Chinese business community and government.[54]

The government selected CNMC to reopen the Luanshya Copper Mine which was shut by ICM (a Swiss-Israeli joint venture) in January 2009 in the aftermath of the collapse of copper prices. CNMC and a smaller Chinese copper firm signed a deal in 2006 to invest US$220 million to build a 150 000-ton copper smelting plant, which has since been commissioned in the same area.[55] When CLM took over Luanshya mine it also confirmed the existence of an estimated 60 million deposit of copper ore at Mulyashi. CLM has proceeded to build an open pit mine at Mulyashi. The company has projected a production of 41 000 tons of finished copper per month which is approximately 492 000 tonnes a year. The estimated life-span of the project is 25-30 years and at its full capacity. The project at the peak of mine construction employed 2500 people, most of them casual workers. It is estimated that at operation stage, in 2012, it will employ 1 000 people. The plight of Luanshya has featured prominently on the political agenda because, as is the case for many mining towns, the local economy is reflective of the performance levels and productivity of mining. Following the first closure of the mine (under the Binani Group), local business and development almost came to a halt. The impact is visible in the dilapidated infrastructure, abandoned office spaces, low money circulation, and lack of social amenities. The second owners focused only on mineral extraction, with very little attention paid to other sectors in the local economy.[56] The situation became worse when these owners pulled out of the mine and 1500 workers were rendered jobless. CNMC's arrival must be seen in this context.

Chinese direct investment has propelled the development of the Zambian copper industry, particularly during two separate periods of crisis. NFCA acquired the Chambeshi mine in 1998, and China played a considerable role in bolstering the mining sector during the international financial melt-down between 2008 and 2010, when some western mining companies reduced (or closed) production, resulting in substantial job losses.

Chinese companies have also been accessing projects in other sectors of the economy, especially construction; Chinese companies are participating in major construction works. In 2008, the Zambian government awarded two Chinese companies seven EU-funded road construction contracts worth US$19 million. CBMI Construction of China was contracted and completed the approximately US$120 million Chilanga Cement factory in Lusaka. Other investments include construction of the government complex (including a museum, a banquet hall and a conference centre), Football House (a new headquarters for the Football Association of Zambia), and Lumwana Power Project (a power supply system for the Lumwana copper mine).

A recent study[57] shows that Zambia's debt to China stood at US$217 million as of 12 December 2006, making China its highest non-Paris Club creditor. Zambia's indebtedness to China is concentrated in two areas: loans for the TAZARA project (see Chapter 3) at 36,5 percent (recently cancelled according to media reports), and the China National Aero-Technology Import and Export Corporation (CATIC) at 27,9 percent. The debt to CATIC involved the purchase of planes and earthmoving equipment. US$2 million was used to service the CATIC loan from the grant of US$6 million provided by the Chinese government during the Zambian presidential visit to China in November 2003.

## Zimbabwe[58]

China is the prime consumer of several resources which Zimbabwe has in abundance, and investment trends in 2009 and 2010 show the high Chinese appetite for local mineral resources. China is ranked fourth in terms of the size of mining investment approved by the Zimbabwe Investment Authority (ZIA) in 2009, after British Virgin Islands (BVI), Mauritius, and South Africa.

China's appetite for Zimbabwean resources is far from fading. If anything it is surging. For the first six months of 2010, its approved investment is second only to Isle of Man/South African joint ventures (JVs), followed by South Africa, then Mauritius. According to data from ZIA for 2009, as many as 14 investors with an average investment portfolio of US$8 million each had their mining projects approved in 2009. This seems to be just the beginning of more Chinese investors to come. It has also been noted that Chinese involvement in mining can be indirect e.g. the US$500 million offered by Sino-Zimbabwe (Pvt) Ltd. to the Reserve Bank of Zimbabwe to purchase gold.

China ranks at number one in jobs created for each dollar invested. For every US$49 000 invested by a Chinese company, a job is created. In comparison, BVI needs US$817 000, Mauritius US$337 000 and South Africa US$169 000 to create one job. Chinese investment creates 17 jobs for every one created by BVI investment. However China remains a laggard when it comes to involving local investors. Only 5 percent is taken up by local investors, compared to 51 percent in Mauritian companies, 37 percent in South African companies, and 20 percent in Isle of Man/ South African JVs.

For purpose of analysis Chinese investors in Zimbabwe from 2000 can be divided into two categories. The first is large corporate investors who come in the form of government-to-government arrangements. They are in most cases protected by government protocols and are generally engaged in joint ventures with state companies. In certain cases they are exempted from complying with certain rules and regulations. Companies such as Sino-Steel, Wamboa and Wanboa fall into this category. The second is comprised of individual investors. These are generally small investors who either sneak into the country or come through the ZIA like everyone else. They do not enjoy any privileges and are expected to meet the criteria set out by the ZIA like any other investor, foreign or local. Once the project is approved and registered, very little is known about them.

The Chinese strategy of involvement seems to be more targeted at controlling mineral resources than actual mining. The China Africa Development Fund (CADEF) was talking of venture capital with small-scale chrome miners where CADEF would have a 20 percent controlling stake. This has proved difficult because the current mining claims held by local small-scale miners are too fragmented. The advice the Minerals Marketing Company of Zimbabwe (MMCZ) has offered to the Zimbabwe Mining Federation (ZMF), which represents mainly small mining companies, is for the latter to encourage its members to consolidate their claims into syndicates. To circumvent this problem, small-scale Chinese companies have entered into agreements with small-scale Zimbabwean claim holders whereby the former work on the claims of the latter for a fee.

Partnerships with Chinese companies exist in copper, chrome and platinum mining. They are a result of joint cooperation agreements (JCAs) signed by the two countries. There have also been JCAs with the Russians since 2005. The Zimbabwe Mining Development Cooperation (ZMDC) has several joint ventures with a Chinese company, Norinco. They have a 50-50 share in Global Platinum, a 50-50 share in Zimbao (which mines copper), and a minority shareholding of 20 percent in Wambao (Norinco owns the balance with a small share belonging to another state entity), which mines chrome. ZMDC is also in partnership with chrome miner Star Communications of China on a 40-60 basis. Sino-Zimbabwe announced an $8 billion investment agreement with the government of Zimbabwe in 2009. While the perception was that this was a government corporation, emerging information suggest that Sino-Zim is officially a private company. It is involved in cotton contract farming and buying, and in chrome and platinum.[59]

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三
3

# PARTNERSHIP OF A SPECIAL TYPE? THE NATURE OF CHINA'S RELATIONSHIP WITH AFRICA

China's relationship with Africa in general and Southern Africa in particular, is more complicated than it might seem.

For some, it is purely an economic relationship spurred by China's need for raw materials and, perhaps, future markets: in exchange it may offer development help but only in order to smooth the way to getting what it needs. China itself and the governments with which it deals tend to portray it as a development partnership, an expression of South-South solidarity. And, while major powers who are active in Africa always seek to portray their involvement as a development partnership rather than an exercise in extraction, the history of China's role in Africa as well its current status in the world mean that this has more plausibility than it does when the claim is made by Western powers.

Unlike the European powers, China never colonised Africa and so it approached the continent not as a former master. On the contrary, China's previous forays into Africa – most famous among them the Tazara railways project of the 1970s – were designed as exercises in anti-colonial solidarity. At that time, China was seen not as a colonial power but as a country of the global South, allied with other countries in a fight against imperialism. The development projects were portrayed as expressions of that reality. Today, despite its phenomenal economic growth, China's alliances are with Southern countries, most notably, the BRICS partnership with Brazil, India, Russia and South Africa, rather than with the major economic powers gathered in the Organisation for Economic Co-Operation and Development (OECD). So, unlike the United States which also never colonised the continent, China has previously presented itself as an ally in the fight against economic domination rather than as a former dominator seeking to become a partner. This means that partnership with China can be seen as a continuation of South-South solidarity rather than an attempt to bolster Chinese economic power.

Even if we reject this sympathetic portrayal of China's presence, it is possible to see it as a political rather than a purely economic phenomenon. It could be seen as an attempt to enhance China's political influence in much the same way as other major powers use their relationship with countries in the South to enhance theirs. Or it could be seen as an attempt to build a bloc of opposition to Western power. This would give governing elites in African countries the option of ignoring Western influence. Since the end of the Cold War, the West's values and vision have faced no competition from another major power, reducing the bargaining power of African governments who have often had no option but to comply with the West's requirements. Partnership with China would offer governments an option not previously available. But this could also work against the interests of citizens because it could ensure Chinese support to governments which violate their citizens'rights and ignore calls for democracy. As our Zimbabwean study points out, it is possible to see China as a development partner, an economic competitor, or a coloniser. All of these descriptions can be backed with credible evidence.

This has important implications for our analysis. If, in the minds of the Chinese authorities and the African governments with which they interact, the relationship is an exercise in South-South solidarity, then attempts to ensure that the relationship is fairer and more suited to Africa's needs should enjoy a sympathetic hearing, since both the reformers and the governments with whom they interact would share a wish to promote the interests of African countries. If, however, the talk of partnership and the recollection of previous solidarities are purely a disguise for what has become a purely commercial arrangement, the road to change would lie not in moral appeals to Chinese solidarity but in the adoption of a more tactically coherent and principled strategy towards Chinese investment by African countries. If China's political influence in Africa is growing, strategies for change may need to identify ways in which this can strengthen or impede pressures for reform.

This chapter will thus discuss the way in which the governments and other stakeholders portray the relationship; it will assess whether those portrayals are accurate, and will attempt to analyse the nature of the relationship. It will also point out the implications for strategy.

## Partners in the past: Historical solidarities

In several of the countries studied, China's role as a partner dates back to struggles against colonialism and this reinforces the notion of the relationship as a continuation of past partnership. But the relationship has rarely been an easy one and, despite romantic memories of the Tazara railway, stadiums and parliament building, it has been marked by tension as well as solidarity.

China's involvement in Angola typifies this complexity. It dates back to the early years of the anti-colonial struggle, through its support for the three major liberation movements in the country: the *Movimento Popular de Libertação de Angola* (MPLA), *União Nacional para a Indêpendencia Total de Angola* (UNITA), and the *Frente Nacional para Libertação de Angola* (FNLA). At that time, the Cultural Revolution was raging in China, and relations were defined by the Cold War. In 1960, the MPLA, which enjoyed the support of the former Soviet Union, received Chinese political and military assistance. However, following the Organisation of Africa Unity's recognition of FNLA and UNITA as legitimate liberation movements, Chinese support to the MPLA ceased and it took a special interest in the two rival movements. In 1963, Holden Roberto of the FNLA met with Foreign Minister Chen Yi in Nairobi, and China is reported to have agreed to provide most of the FNLA armaments. Likewise, in 1964, Jonas Savimbi of UNITA met Chairman Mao Zedong and Premier Zhou Enlai in China, where he received military training and became a disciple of Maoism. With the end of the Cultural Revolution in 1970, China provided military training to MPLA commanders and guerrillas. Internal splits within the MPLA, and also China's desire to balance the USSR's strong support for the MPLA, made this aid short-lived. China's support once again shifted to the two main rival liberation movements. Although UNITA received some sporadic aid, China's attention was mainly targeted at the FNLA.

Relations between China and the MPLA, which has governed Angola since independence, have, therefore, been anything but smooth. When Angola gained its independence, China initially refused to recognise it and formal diplomatic relations between Beijing and Luanda were only established in 1983. The first trade agreement was signed in 1984, and a Joint Economic and Trade Commission created in 1988 (although its first meeting was only held in December 1999, with a second meeting in May 2001). Relations between Angola and China improved gradually in the 1990s, and Angola became China's second-largest trading partner in Africa (after South Africa) by the end of the decade, mostly because of defence co-operation. In October 1997, Yang Wesheng, Chinese deputy minister of economy, trade, and cooperation, announced while visiting Angola that trade had been increasing significantly over the previous six months.

A similar ambiguity in relations with the governing liberation movement is evident in South Africa. Since the start of the struggle against apartheid, China has been a supporter, regarding this as an integral part of the drive for national independence and political liberation of the African continent. ANC president Oliver Tambo visited Beijing in 1963, while SACP (South African Communist Party) members maintained close links with the Communist Party of China (CPC).[1] While official accounts insist that Beijing's full support for the liberation of South Africa was never questioned,[2] the Sino-Soviet dispute hampered China's interaction with the ANC and the SACP, leading to increased Chinese support for the ANC's rival, the Pan Africanist Congress. During the early 1990s, Taiwan actively supported the ANC in the hope of winning diplomatic recognition or at least a decision by the ANC government to deal with both Chinese governments. It was presumably emboldened by the previous tensions between China and the ANC.

Ultimately, a combination of strategic calculation and political ties persuaded South Africa to cement its relationship with China. While assessments that Chinese economic power was too great to ignore played an important role, the CPC's interaction with the SACP through a party-to-party framework, provided a solid foundation for positive relations between Pretoria and Beijing. CPC interaction with the ANC and the SACP provides a foundation for increased collaboration between China and South Africa.[3] In November 1996, the South African government decided to withdraw recognition of Taiwan (which had, unsurprisingly, been recognised by the apartheid government), in favour of China. Formal diplomatic relations between China and South Africa were established on 1 January 1998, opening a new chapter in Sino-African relations and bringing South Africa in line with African diplomacy.[4]

During Nelson Mandela's visit to China in May 1999 (the first by a South African head of state), Mandela thanked China for its consistent support of South Africa, particularly in the struggle against apartheid[5] (thus signalling the end of the struggle-era tensions). Moreover, Mandela indicated his determination to promote the development of a mutually beneficial Sino-South African diplomatic partnership. In November 1998, the general secretary of the SACP, Blade Nzimande, visited China and was received by President Jiang. During the meeting, Jiang described Nzimande as an 'old friend of the Chinese people', and he thanked the SACP for its contribution to the establishment of diplomatic ties with South Africa. It was decided to set up a regular mutual consultation mechanism, which was the first of its kind established between the CPC and a foreign political party. At the same time, Jiang pointed out that formal diplomatic links between China and South Africa enhanced prospects for Sino-South African co-operation at all levels.[6] Ironically, since the SACP was initially among the Soviet Union's strongest allies in the world communist movement (including, of course, during the period of the Sino-Soviet split) it now regards China's Communist Party as a firm ally and this is seen as a major contributor to relations between the two countries.

China-Zimbabwe relations might have been expected to be particularly strong given that China had supported the ruling ZANU (PF) party during the fight against colonial rule. But, by the time Zimbabwe achieved independence, China's role in Africa had declined. In the first decade of Zimbabwean independence, the 1980s, Zimbabwean economic policy, despite much socialist rhetoric, was conservative and market-oriented, dictated by a concern for Western investment. There was more continuity than transformation. Relations with China remained at the political level, with the national sports stadium being the only investment of note.

The ties between China and Mozambique go back to the 1960s, when China assisted Frelimo (the country's main liberation movement at that time, and the ruling party since independence), providing military training and equipment. In 1963, the first group of Mozambicans went to China to receive military training.[7] Upon independence, China was one of the first countries to recognise Mozambique and establish diplomatic ties on 25 June 1975. During Mozambique's civil war, which left the country and the economy in disarray, diplomatic ties were severed, although China did yet again provide military training to the government, a support that was recognised by Mozambique's first President, Samora Machel, in 1978.[8] Other projects during this period included a textile mill, a shoe and clothing factory, well drilling and water supply projects.[9] Formal links were re-established in the 1980s as Mozambique adhered to economic stabilisation policies imposed by the IMF and the World Bank, and China opened its doors to the world after Deng Xiao Ping took office in 1978, leading China towards a market economy. In 1992, after sixteen years of civil war, Mozambique signed a peace agreement with the rebel movement Renamo. That same year, Qian Qichen, the then Chinese Ministry of Foreign Affairs, visited the country to further bilateral ties.[10]

In the case of the DRC, China has maintained a good political relationship with successive governments, including the governments of Patrice Lumumba, Mobutu Sese Seko, Laurent Kabila, and now Joseph Kabila Kabange.

China officially recognised the Congolese government shortly after it declared independence from Belgium on 30 June 1960. In February 1961, China and the DRC established diplomatic relations. In 1961 China called back its ambassador after the DRC established diplomatic relations with Taiwan. In 1972, China and Zaire normalised relations. President Mobutu Sese Seko visited China five times during his stay in power (1973, 1974,1980,1982 and 1994). Chinese officials who have visited the DRC include: Huang Hua, Minister of Foreign affairs (June 1978) and li Xiannian, Vice-Premier of the State Council (January 1979).

President Laurent Kabila was among the first African presidents to promote relations with China in what has come to be known as the 'look East policy'. Soon after assuming power in 1997, he turned to China for economic and military assistance. Kabila expanded and intensified DRC-China relations, buying most of his armaments from China in exchange for minerals. Kabila's 'Go East' policy attracted animosity from the west. While not doing anything serious to threaten western interests in the DRC, Kabila's intention to shift the source of development away from the west was seen as a threat. He refused to accept financial assistance from the IMF and the World Bank and turned to China for development assistance, especially military and agricultural equipment. However, before this relationship could mature, Laurent Kabila was assassinated in January 2001. His son Joseph Kabila adopted a more pragmatic approach to Western investment.

Only in Zambia does the relationship appear straightforward. China's political connections to Zambia are deep-rooted, dating back to the days of the liberation struggles, and these are being used to promote economic engagement. China has been extending assistance to Zambia prior to and after the latter attained independence in 1964. Most of the Chinese recipient countries, including Zambia, were instrumental in supporting the one-China policy, whereby Taiwan is recognised as part of the People's Republic of China. Chinese aid at that time was seen not only as South-South co-operation but as a means of strengthening the fight against apartheid because it was meant to strengthen Zambian self-sufficiency and thus reduce its dependence on apartheid South Africa.

This brief history shows that there are grounds for insisting that the Chinese role is an expression of an historical relationship. But these grounds are, on examination, far flimsier than either China or Southern African governments would have us believe. The history is marked by estrangement as well as friendship and, on its own, is an insufficient basis for explaining the strength of the current relationship.

## A friend in need? The relationship as a development partnership

Despite the qualifications expressed in the previous paragraph, the relationship between China and the countries researched here has repeatedly been presented as a development partnership, not a commercial arrangement.

In May 1996, Chinese President Jiang Zemin's tour of six African countries gave birth to the Forum for China-Africa Co-operation (FOCAC), created to ensure the development of a long-term co-operative relationship between China and Africa. Since then, China's presence all over the African continent has grown at great pace. For some, FOCAC has provided an alternative to the Washington consensus and its stress on free markets as the engine of growth. It is seen, rather, as an expression of Beijing's policy of non-interference, which sets no conditions for economic co-operation and does not therefore insist on any particular economic policies or political orientation. Thus Rwandan President Paul Kagame called on his fellow African leaders to prioritise and clarify development objectives and programmes in order to take advantage of the new opportunities offered by FOCAC.[11] The Chinese policy of non-interference in the internal affairs of other countries facilitates its strategic interest in some of its African trading allies, but the approach could also be informed by China's similar experience in the past when it faced international isolation after emerging from colonialism. The policy is thus seen as opportunism by its critics – particularly when it offers support to governments which abuse human rights – but as an assertion of Southern sovereignty by its supporters.

The country in the region which has most conspicuously taken advantage of this is Zimbabwe, whose government faced increasing pressure from Western powers and responded by proclaiming a 'Look East' policy in 2003, in which Chinese resources were seen as a substitute for those previously invested by the West. The shifting world geo-economics spearheaded by Brazil, Russia, India and China provided an opportunity for Zimbabwe to respond to Western pressure for political change by redefining the ownership and destination of natural resources in the favour of its ruling elite . It can be argued that the government's Look East policy of 2003 provided the necessary framework for the Indigenisation and Economic Empowerment policy of 2007 which sought to transfer foreign-owned assets to Zimbabweans, and that it initiated a 'win-win' relationship for China and Zimbabwe's elite. For those who see China as a development partner, the central argument is that it is consolidating its political relations with Africa that date back to the 1960s through a win-win economic partnership that is driven by its own economic needs and a commitment to attempt to transmit its development experience to the continent. For those who see it as a coloniser, of course, it is taking advantage of the strategic needs of Zimbabwe's elite to enhance its economic power at the expense of the country's citizens.

Before the 'Look East' policy was proclaimed, China's role in Zimbabwe had been limited, despite the historic links. During the period of structural adjustment between 1991 and 1996**, t**rade relations with China averaged 1,5 percent of total trade, compared to averages of upward of 30 percent for the EU and South Africa.[12] In the three years after that, which were characterised by crisis management rather than coherent policy, and by the emergence of a strong opposition political party, the Movement for Democratic Change (MDC), Chinese investors began to trickle into the Zimbabwean economic space, initially establishing links with war veterans association (the Zimbabwe National Liberation War Veterans Association, ZNLWVA) by way of donations of tractors, grinding mills, bicycles and the like. There was movement during this phase by small Chinese investors into the mining sector, mainly as buyers of chrome from small-scale indigenous miners in the Great Dyke mining belt. But in the crisis period of 2000-2003, when politically expedient policies were adopted, and strong anti-market and anti-imperial sentiments prevailed, even Chinese investors responded cautiously to an environment dominated by conflict and the seizure of farm assets through the Fast Track Land Reform Program (FTLRP).

In the subsequent period, China's economic presence increased markedly. Following Zimbabwe's stand-off with the UK, the EU and the US and the declaration of the Look East policy, Chinese goods (in particular textile goods known as *mazitye* or *zhingzhong*, footwear and gadgets) invaded the Zimbabwean market. There was also an upsurge in investment in sectors such as manufacturing and the service sector. The

Chinese population became much more visible. What is easily noticeable from available statistics[13] is that there was a major shift in the geographical origin of investment, with Europe and the US contributing less to inflows during this phase. The bulk of the investment projects approved by the Zimbabwe Investment Authority (ZIA), especially as from 2003, were from the east: 98,3 percent of the manufacturing sector projects approved by ZIA in 2007 were from China and South Korea. The proportion of approved manufacturing sector projects to the total cumulative investment projects approved by ZIA in 2007 was 44,2 percent. Exploration joint ventures between Chinese and Russian mining houses and the Zimbabwe Mining Development Cooperation (ZMDC) started around 2005.

The meteoric rise of China as an economic power over the last 20 years, the economic decline of Zimbabwe, and the shift in policy and key policy drivers (particularly over the last 10 years to 2010) have given new meaning to the relationship. While emphasis was initially on the appreciation of the new Zimbabwean government for the assistance granted to the former liberation movement during the struggle, the relationship has transformed into 'all weather friendship' at the political, diplomatic and economic levels, particularly since the turn of the millennium. The two-day visit by the Chinese Foreign Affairs Minister Yang Jiechi in February 2011 was viewed as solidifying Zimbabwe's position as one of China's key partners in Africa.[14]

South Africa has not seen its relationship with China as an alternative to other international relationships, but here too the parties have sought to present it as a development partnership. The South African Department of Foreign Affairs (DFA) identified the promotion of bilateral trade and investment as the focus of Mandela's visit mentioned earlier and stressed the need to improve two-way trade.[15] During April 1998, then South African Deputy President Thabo Mbeki undertook a five-day visit to Beijing, which included meetings with Premier Zhu Rongji and Vice-President Hu Jintao. The visit was seen as the first step towards consolidating relations after formal diplomatic recognition earlier in the year. Official discussions focussed on the potential for economic co-operation and the possibility of working together to establish a 'fair and just world economic and political order.' Hu Jintao paid a reciprocal visit to South Africa in February 1999, when he officially opened new consulates in Cape Town, Johannesburg and Durban. While in South Africa, Hu stressed China's objective of enhancing trade, suggesting that the new consulates would be important in this regard.[16]

Chinese ambassador to South Africa, Zhong Jianhua, has indicated that Sino-South African relations are to focus on enhanced co-operation in agriculture, trade, science and technology, education, and human resource development.[17]

A key focus has been an attempt to portray the relationship as an exercise in South-South solidarity. In April 2000, President Jiang Zemin paid a state visit to South Africa, where he signed the Pretoria Declaration with his counterpart Thabo Mbeki. The 'Pretoria Declaration on the Partnership between the People's Republic of China and the Republic of South Africa' commits both countries to a spirit of partnership and constructive dialogue, while uniting in the 'moral imperative for developing countries to strengthen capacity for co-operation and mutual support in the international system.'[18] The most important outcome of the agreement was the establishment of a bi-national commission (BNC) which would meet regularly to guide and co-ordinate all government-to-government relations between China and South Africa, while providing an effective forum for consultation on matters of mutual interest in bilateral and multilateral affairs.[19] While South Africa has established BNCs with other several countries, an indication that the partnership was presented as a great deal more than a commercial arrangement is that the Pretoria Declaration committed China and South Africa to a 'constructive dialogue', a concerted effort to expand economic links, and a joint initiative to advance, peace, security and development on the African continent.[20]

Besides the Pretoria Declaration, China and South Africa signed six agreements including police co-operation, maritime transport, preventing the spread of deadly pathogens, animal health and quarantine, arts and culture, and avoidance of double taxation. However, the emphasis of Jiang's and Mbeki's public statements at the time was on the need for both countries, along with the developing world, to work together to ensure benefits from globalisation. President Mbeki stressed South Africa's desire to 'deepen existing relations' and to 'extend relations to broader areas of co-operation.'[21] Mbeki also emphasised the need for South Africa and other developing countries to seek closer co-operation in international affairs with the objective of restructuring the global economic architecture.

The BNC was officially launched during President Mbeki's state visit to Beijing in December 2001. A range of discussions were held at ministerial and senior official level including the ministries of foreign affairs, economics and trade, public security, the judiciary, science and technology, energy and tourism.[22] The initial BNC meeting led to the establishment of sectoral committees on foreign affairs, economy and trade, science and technology, and national defence. A number of other government departments from both counties subsequently established direct channels of communication and also maintain a regular and constructive dialogue.[23] The BNC provides a framework for the further development and enhancement of bilateral China-South African relations. Moreover, the BNC agenda has been complemented and strengthened by a frequent exchange of high-level visits between the two countries. Mbeki's visit to Beijing focussed on expanding relations to include scientific and nuclear research, while the Department of Foreign Affairs confirmed that South Africa was looking to the PRC 'both as a market and an investor.'

Mbeki was accompanied by the ministers of trade and industry, agriculture, tourism, defence and technology as well as a group of business people seeking investment opportunities in China. He stressed that the launching of the bilateral commission was a 'historic moment' in the development of China-South African links and initiated a new phase of positive and constructive relations with opportunities to work together in a wide variety of areas. Mbeki specifically called for a strengthening of bilateral ties to include political, economic and multilateral issues.[24] Building on the BNC dialogue and numerous high level visits and interactions, South Africa and China have to date signed 32 agreements covering a wide range of political, social and economic issues.[25]

At the close of the 2004 China-South Africa BNC meeting in Pretoria, Deputy President Jacob Zuma confirmed both countries' satisfaction with their broadening interaction in trade, culture, education, science and technology, and co-operation on international issues. The specific areas of co-operation noted by Zuma included an agreement on China's offer to provide human resource development; formal recognition of China's market economy status; an agreement on South African export of agricultural products to China; an undertaking to begin negotiations on a free trade agreement (FTA); a range of business-to-business agreements including chambers of commerce; a letter of intent by Sasol to go ahead with investments in China; and an agreement to co-operate in strengthening South-South co-operation in the context of WTO negotiations.[26] The key mechanism for China-South Africa interaction is through regular BNC meetings, which bring together senior policy-makers from both sides to promote co-operation and ongoing diplomatic interaction. The most recent took place on 23-26 September 2007 in Beijing. The South African delegation was led by Deputy President Phumzile Mlambo-Ngcuka, accompanied by three ministers, three deputy ministers and thirty businesspeople.

In June 2006, President Mbeki and Chinese Premier Wen Jiabao signed an agreement to help protect the South African textile industry from the ongoing influx of low-cost Chinese textiles. In so doing, Beijing was seen to have signalled its willingness to assist a fellow country of the south to ameliorate the impact of globalisation. The agreement provided a breathing space for the recovery of South Africa's textile industry, giving local manufacturers an opportunity to modernise and restructure manufacturing processes. In addition to Beijing's concession on textiles, China and South Africa signed an additional 13 agreements including co-operation in agriculture, minerals and energy, technical co-operation, investment and trade promotion, customs co-operation and nuclear non-proliferation.[27] The range of agreements concluded and the broad synthesis of international perspectives provided further impetus to the China-South Africa relationship.[28]

Despite mutual commitments to partnership, the relationship has been a difficult one since domestic interests which are negatively affected by Chinese investment have pressed the government to curb China's role. The South African government has thus adopted a hard line on China's engagement with the mining sector. As former Deputy President Phumzile Mlambo-Nguka suggested:

> South Africa wants to boost foreign mining investment, but not if it fails to help develop a country still suffering from a huge inequality of wealth... the danger is that China is going to colonise us, take our minerals, with its big appetite for commodities and leave us just nothing. We need to make decisions about what is in our best interests.[29]

China's mining investments in South Africa are distinctly different from investments in other parts of the continent.[30] The legal complexities of South Africa's mining environment, along with intense international competition, has required the development of a new investment model for Chinese corporations operating in South Africa. Thus Sinosteel's partnership with Samancor offers the Chinese investment company a ready-made solution to navigating South Africa's complex legal environment, and a well-established corporate structure which efficiently produces chrome ore for the Chinese market. Sinosteel requires no direct interface with South African labour or mining legislation, while benefits in the form of guaranteed supplies at competitive rates are available for the Chinese market.

In Zambia, as noted earlier, the most celebrated Chinese development assistance project is the Tanzania-Zambia Railway (TAZARA), which was constructed over the period 1970-75. This railway was built to link Zambia's rich Copperbelt to the coastal port of Dar Es Salaam, to break dependency on white-ruled Southern Rhodesia.[31] Both Zambia and Tanzania benefited from a US$405 million interest-free loan for the project, representing then one of the largest single offers of economic assistance granted to an African state by a communist country.[32] Recently, and as a response to the management and efficiency challenges that the TAZARA has been facing, the Zambian government has yet again accessed an interest-free loan to assist with the recapitalisation of the railway company. Besides TAZARA, notable bilateral projects arising from the China-Zambia relationship include the Mulungushi Textile Mill in Kabwe.

While the evidence suggests that the current relationship is purely commercial, there is still a tendency on the Zambian part to see the co-operation as government-to-government – and based on South-South principles. The People's Republic of China is seen as a full market economy within the framework of trade regime agreements. There have been some signs of solidarity – the Chinese government signed a protocol with the Zambian government on partial debt remittances in July 2001. The objective is to support the country's efforts in developing its national economy and reduction of its debt burden. Cancellation of debt owed by the heavily indebted least developed countries is one of the announcements made by China to enhance African development. Moreover, Zambia was exempted from paying 12 batches of interest-free loans which matured before 31 December 1999 (RMB 174 million, £7000 and US$9 million). In 2007, China cancelled Zambian foreign debt amounting about US$200 million. Zambia subsequently requested a complete debt cancellation, which was offered in 2010. When President Sata swept to power in 2011, many people in and outside of the country sensed a looming downward spiral in bilateral relations between Zambia and China, especially economic ties that have seen a booming multi-billion dollar Chinese investment in Zambia. However, Sata shocked many because soon after he ascended to power what was anticipated did not happen. His first formal engagement after being inaugurated as Republican President was a meeting with Chinese Ambassador Zhou Yuxiao in Lusaka and it seemed, despite expectations of a rift, the bond between the two countries has since grown stronger.

Commercial relations between Angola and the Republic of China date back to the colonial era. External commerce statistics indicate that in 1968 China was a country to which Angola exported (and from which it imported) nutritional products, beverages and textile products. Both exports from Angola to China and imports from China to Angola were rather small, the quality and value of these being minimal. At this stage China was not a significant external commercial partner for Angola. In the post-independence period, relations between the two countries remained negligible. It was only in September 1979 that the two countries effectively developed a partnership, and it was only in 1983 that diplomatic relations were established. This led to strong economic links between the two in subsequent years, but more specifically in 2000.

Relations between China and Angola are not always smooth – there have been times of serious disagreement. For example, in 2009 the Anglolan government awarded the contract to design and construct the oil refinery in Lobito (Benguela province) to the US giant Kellogg Brown and Root. The project will cost $6,4 billion paid for by the state oil company Sonangol. A previous agreement with the Chinese company Sinopec to build the plant fell through in February 2007. According to Sonangol, there was no agreement with the Chinese company on the products that would be produced. There have been suggestions that Sinopec wanted to focus on products for the Chinese market, whilst Sonangol wants to concentrate on the home market.

But in October 1998, Angolan President Dos Santos visited China and had meetings with Chinese premier Zhu Rongji and other officials. Following the end of the internal Angolan conflict in 2002, China's relationship with Angola shifted quickly to an economic one. Since China's infrastructure loan in 2004 (See Chapter 2), co-operation between the two countries has been characterised by frequent bilateral visits of important state officials aimed at strengthening the partnership further. These visits have contributed to the normalisation and consolidation of bilateral relations and have resulted in the signing of various political, diplomatic, economic, cultural, and social agreements. China currently maintains an embassy in Luanda with 17 officials. Likewise, since 1993, Angola maintains an embassy in Beijing. In April 2007, increasing investments in Hong Kong led Angola to open a consulate there, and in November 2007 an Angolan consulate was also opened in the former Portuguese colony of Macau. A new consulate opened in Shanghai in 2008.Increased political activity between Angola and China has enabled bilateral economic ties to progress quickly.

Angola's leaders have welcomed the engagement with China, which offers new opportunities for expanding the country's global economic activity. Angola, they believe, has been able to move away from the traditional Eurocentric pattern of economic dependency towards a more diversified approach, offering Angola's leadership new options for trade and investment. Angola, in this view, has been able to move away from importing from the high-cost Euro-zone towards more affordable Chinese options. Consequently, trade with China has grown significantly and is expected to continue growing over the long term. China has made an important contribution to Angola's infrastructure renewal programme, but approximately US$20 billion is still required to fill the gaps in the country's communication system. Given that the west has lost interest in financing or building infrastructure in Africa, Angola hopes that China is now well-positioned to provide the foundation for the country's long-term development. A partnership between Angola and China does have clear advantages for Angola, which requires Chinese know-how and investment to sustain economic growth.

But perhaps the most remarkable relationship is that between China and the DRC which, alone among the countries studied here, invited China to play a role in its economy. According to the Chinese special envoy for Africa 'contrary to views that China is seeking by all means to access minerals on the continent, in the case of the DRC, it was the Congolese government that approached the Chinese government first.'[33] And the president whose government did this was initially unenthusiastic about a relationship with China. When Joseph Kabila took power after his father's assassination, he chose a less antagonistic approach to the west. He chose to be a good partner to both the west and China but, for political reasons (to ensure stability of his regime), he chose in the early years of his presidency to be closer to the west. During the transition period (from 2003 to 2006), his government gave important mining rights to western companies First Quantum (Canadian) and Tenke Fungurume (American). For these actions he was applauded by the west. Joseph Kabila did not attend the 2002 FOCAC meeting. This continued until he was democratically elected in 2006.

Economic and development imperatives inevitably forced Kabila to consider expanding links with China.[34] After the 2006 elections, his government urgently needed to develop the economy. Having learned about the reconstruction projects in Angola that China was involved in, the Congolese government approached the Chinese government. His move came as the west failed to fulfil its promise to give financial support to the new government. It had promised to provide US$ 1,7 billion as part of the multi-sectoral reconstruction and rehabilitation plan, but the DRC has only received US$450 million. Western conditionalities and delays provided a reason for Joseph Kabila to turn to China and to invite it into DRC. China and the DRC, through their companies China Railway Group Ltd and Sinohydro Corporation, and Gecamines, respectively signed a joint venture, called Sicomine. A person with inside knowledge of the contract suggests that in fact it was not the Congolese government that started engaging China, but the publicly owned mining company Gecamines which initiated steps to form partnerships with Chinese mining operators to revive the company, which had been weakened by various internal and external crises.[35] For Gecamines, this project had three main objectives: to replace the aging equipment, to employ new and younger staff, and to improve production and staff salaries. When the Congolese government became involved, the project took on a political dimension. China responded by proposing one of the biggest investments to any country on the continent (US$ 9 billion) to be spent on infrastructure in exchange for minerals.[36] This major commitment was seen to contrast to the perceptual prism and deficit model of the west, which views Africa mostly in terms of a looming apocalypse characterised by chaos, conflict, poor governance and underdevelopment.

China had initially proposed the Angolan model for the DRC. The Angolan model is one of investing massively in infrastructure using money from Chinese banks, and getting reimbursed progressively with oil. Angola is currently implementing an ambitious national reconstruction and development programme, of which the Chinese government is a key partner.[37] Through this process, China has access to Angolan oil. But the Congolese government was doubtful that the Angolan model would work in the Congo considering that the DRC does not have oil production that would allow it to start payment immediately. The Congolese only produce approximately 35 000 barrels of oil per day. Another model was proposed. The two parties agreed to create a joint venture between Chinese companies China Railways Group, Sinohydro, and China Railway Engineering Corporation (CREC) on the one hand, and Congolese public enterprise Gecamines on the other. It is these two parties which are contracted, and not the two governments. The Chinese companies will borrow from the Chinese banks to invest immediately in the infrastructure, and the Chinese will be reimbursed with minerals – not immediately, but when the joint-venture starts production. This agreement is supposed to change the nature of Chinese investment in the DRC from purely trading in ore to mining

China's commitment to invest in the DRC is a confidence-builder for the Congolese. It came at a very important period in the history of the DRC. An elected government had just come into office with the objective of reinvigorating the Congolese economy. What is surprising is the speed with which China responded to the DRC's call. Moreover, China did not impose conditions like the west. The investment challenges the west's characterisation of the DRC as the 'Heart of Darkness', a place where you go to take what you need but not a home for investment. Trade, investment, improved physical and communications infrastructure are but one part of the calculus that defines Sino-DRC relations. Social intervention features considerably in the relations – building of hospitals, clinics, universities and houses. China says it believes that Africa in general (and the DRC in particular) is on the threshold of a developmental take-off. This gives it an opportunity to play a positive and active role in assisting the continent to address its multiple challenges. China thus provides trade and infrastructure development opportunities for the DRC.

Mozambique's relationship with China began to be rebuilt when, in September 1997, Chinese Prime Minister Li Peng visited Mozambique on a tour of African countries.[xxxviii] With this visit came the establishment of a $20 million fund to provide incentives for Chinese companies to do business in Mozambique.[39] There have been several cooperation agreements and commissions between the two countries. In 2001, Mozambique and China set up a Joint Economic and Trade Commission. In 2003, under the initiative of the Chinese Ministry of Commerce, Macau became the headquarters of the Forum for Economic Cooperation and Trade between China and Portuguese-Speaking Countries.[40] This trans-regional forum aims to promote mutual development by enhancing economic cooperation and trade between China and Portuguese-speaking countries. As a result of the 2006 FOCAC summit, China made commitments to set up an agricultural technology centre in Boane worth US$55 million, and another in Moamba worth $700 million. In 2007, Hu Jintao visited Mozambique and pledged a further

US$170 million in the form of loans and co-operation in agriculture, technology, education, health, economy, and exploration of natural resources.

While civil society has been critical of China's role (see below), Mozambique's leadership has welcomed the growing Chinese interest in the country. In 2006, at the Economic Forum in Davos, Switzerland, Mozambican President Armando Guebuza insisted that the bilateral co-operation had been 'mutually beneficial'.[41] As recently as July 2010, the president hosted a delegation of 46 investors from China headed by the Chinese Deputy Minister of Trade. During a press conference, Mozambican Finance Minister Manuel Chang declared that he wanted to see strengthened relations between Mozambican and Chinese companies, learning from Chinese experiences.

These dealings between individual countries and China have emphasised the ambiguity discussed earlier. China is sometimes viewed as a partner in South-South co-operation, sometimes as a donor, and sometimes as a source of business opportunities. In many cases, the lines between the three are blurred. Predictably, governments do not describe the relationship as exploitative, nor do they take the less confrontational route of insisting that concessions to China's needs are made to secure development assistance. They tend to insist, like Guebuza, that the relationship is a partnership which benefits both sides. The view in civil society is, however, often far more sceptical.

The relationship between China and African governments is clearly elitist. China prefers to deal directly with heads of government, while the governments with which it deals do not consult their citizens on the relationship. Our DRC study notes that the infrastructure development that President Joseph Kabila is engaged in is a top-down agenda, and one is not sure if it responds to the immediate needs of the Congolese people. There has never been consultation with Congolese people on what constitute their immediate, short and long term needs. The reconstruction agenda has never been set by the Congolese people. Much the same can be said of the other countries in the region. Inevitably, however, it has affected the interests of local stakeholders who have responded if they are organised enough to make an impact on public debate. In countries such as South Africa, where economic interests are well organised and vocal, civil society has had much to say about China's role, much of it critical. In other countries too, organised interests in civil society have presented a different perspective to that of their governments.

## Doubts about development: Civil society and China's role

China enters the continent at a time when civil society is questioning why resources (especially minerals) are not contributing significantly to the development and growth of Africa's cities and people. Civil society, governments, and the private sector are engaged in finding new ways of managing resources so that they benefit the people. Equally, companies are being requested to observe higher corporate social responsibility (CSR) standards when doing business on the continent. Government and companies are also being requested to adhere to good governance practices when managing revenues from the extractive industries. African civil society has embraced the Publish What You Pay (PWYP) campaign and is lobbying governments and companies to join the Extractive Industries Transparency Initiative (EITI) to ensure that revenues are properly managed. Inevitably, Chinese investment has faced scrutiny, and has at times been found wanting.

In Mozambique, civil society concern has been expressed, as noted in Chapter 4, by journalist Marcelo Mosse who complained about the 'rampant plunder'of the country's resources by Chinese investment. His view reflects many of the concerns felt throughout civil society, which come in stark contrast to the opinions expressed by the country's political elite. They also reflect the concerns of civil society elsewhere in the region.

South Africa's leading trade union federation, the Congress of South African Trade Unions (COSATU), has been particularly critical of China's growing exports to South Africa. Over the last few years, the South African footwear industry was essentially eliminated by cheaper imports from China. More recently, the textile industry has been the victim of China's export tsunami. (China is now the world's largest exporter of textiles, with increases from US$7,2 billion in 1990 to US$41,1 billion in 2005, a 469 percent increase over fifteen years.) COSATU has been increasingly outspoken against Chinese imports and the impact they are having on employment in South Africa. Rudi Dicks, co-ordinator for COSATU, estimates that job losses in clothing and textiles are between 75 000 and 85 000, where there is little prospect of re-employment in the industry, or in a related industry. The South African Clothing and Textile Workers Union (SACTWU) calculated the loss of jobs at 75 000 between 1995 and 2005 (from a high of 230 000 people employed in the industry in 1995). Given the already high levels of unemployment and poverty in South Africa, these losses were described by SACTWU as 'unacceptable'

The Southern African Labour Research Institute (SALRI) tracked retrenchments, company closures and liquidations, identifying a significant and ongoing decrease in employment over an extended period. The International Textile, Garment and Leather Workers' Federation Africa Region (ITGLWF-Africa) identified the flood of Chinese garments as the major threat to South Africa's industry. Moreover, it warned that China's trading patterns were becoming increasingly 'colonial' in character, with African countries exporting raw materials and China returning manufactured products. South Africa's Textile Federation pointed out that Chinese-made denim jeans were arriving in the country at a landed cost of US32c (R1,92) per unit, way below the lowest possible production cost in South Africa. The major Western Cape clothing manufacturer Rex Trueform confirmed a loss of US$10 million over a six year period as a consequence of low-cost imports from China.

Historically, the clothing and textile industry has been an important source of employment in South Africa, especially for women. During the 1990s, the industry was the sixth largest in South Africa and a significant exporter. For example, in 2000 the clothing and textile sector recorded exports of over R34 billion. Since 2000, globalisation and WTO rules have brought significant new challenges to the industry. The generally inefficient and uncompetitive industry was further challenged by a massive increase in Chinese imports. Pressure from COSATU on government led to an agreement with China, in terms of which China agreed to limit textile exports to South Africa for a period of three years. However, independent analysis of the agreement suggested a marked weakness on South Africa's part in negotiating the arrangement. Gustav Brink concluded that South Africa's poor handling of the negotiations did little to protect the textile industry and save jobs in the face of Chinese competition. SACTWU dismissed the clearly flawed textile agreement as "too little too late", pointing out that jobs had already been lost.

An antagonistic trade union movement, operating in a robust legal environment, makes Chinese investment in South Africa a complicated and challenging undertaking. Moreover, COSATU is implicitly suspicious of China, given that COSATU's general secretary Zwelinzima Vavi has publicly described China's policies towards Africa as distinctly 'colonial', because in his opinion they focus on the exploitation of mineral resources while exports of low-cost products undermines the continent's manufacturing capacity. China's commercial engagement with Africa is thus seen as mirroring the exploitative and self-interested approaches of other external actors.[42]

National Union of Mineworkers General Secretary Frans Baleni has been critical of the safety record at Aquarius mines. In 2009, NUM criticised Aquarius Platinum's suggestion that it had received a clean bill of health after a government safety audit. According to NUM, Aquarius has in the past claimed the successful completion of safety audits, without the completion of safety inspections and assessments.

But, despite all this intervention, the debate on China-South Africa relations lacks an effective and consistent input from civil society. Some research institutes and trade unions have voiced opinions, but a broader consensus is required to build an appropriate response to the challenges posed by China's engagement with South Africa. Although discussions by civil society on China's South African and African footprint have begun, there has been little progress in building a comprehensive and appropriate response to China. The promotion of a China-South Africa interaction which advances pro-poor, people-centred development should be the core issue for debate and deliberation.

In the Democratic Republic of the Congo, critics have pointed to the poor quality of Chinese work, and inadequate social corporate social responsibilities of Chinese companies. At least one project, the building of a hospital, also encountered resistance from local residents. The site identified was in a residential area, so government needed to move people before work could start, but government and the inhabitants did not agree on the compensation fee. This took time and delayed the entire process. The dilemma was how to balance the national interest (a public hospital) and individual interests (the level of compensation). Home owners in the area were of the view that the government was negotiating in bad faith. Government was proposing to pay all of them the same amount, and people thought that was unfair. The residents' request to meet the DRC president was unsuccessful.[43] People refused to move without proper compensation, and they suggested that they would rather be destroyed together with their houses. However, the government needed a success story ahead of the elections in 2011 and this ensured adequate compensation. The hospital has been built and is operational.

In Zambia, attention has focussed on the manner in which Chinese-owned mining has impacted on towns. There is also a conflict between farmers and mine management regarding ownership and utilisation of the land. Responsibility to resolve the issue has been given to district stakeholders, including government officials and policy-makers, through the respective members of parliament (MPs).

In Zimbabwe, the Look East policy was criticised for much the same reason as in South Africa – that it was crowding out local businesses. Concerns were raised over China's trading practices, and a columnist in *The Zimbabwe Independent* raised concerns about the invasion of the local market by Chinese products in 2004, described as 'a flooding of Zimbabwe with immense quantities of Chinese textiles, clothing, footwear, steel and other products, retailing at prices which are at a fraction of the price of locally produced products'.[44] The columnist contends that, while it may not be clear whether this is being done by local informal traders or by Chinese traders themselves, the effects are deleterious on local companies and employment:

> The embattled Zimbabwean manufacturers also contend that their enquiries and investigations have shown that to a considerable extent the import of Chinese manufacturers has been without any incidence whatsoever of customs duties and value-added tax (VAT). They allege that many container loads enter Zimbabwe under documentation claiming that the container contents are personal effects of Chinese citizens arriving to take up residence in Zimbabwe in order to pursue investment in the country in terms of the present friendship and collaboration circumstances between the Zimbabwean and Chinese governments.

The columnist, Eric Bloch, argued that, while no indisputable evidence was given to prove this allegation, there was a need to be concerned about the possibility of such occurrences. This study contends that this might well be the case given the special relationship that existed at state level. Even if not expressly stated, such a loophole would be open to abuse. The issue was that it was difficult to explain the sudden influx of Chinese products onto the local market in the absence of foreign currency allocations by the Reserve Bank of Zimbabwe (RBZ). In any case, the RBZ did not allocate foreign currency for fabric except for manufacturing purposes. The source, therefore, was local cross-border traders who circumvented customs duty, or Chinese traders themselves.

Another bone of contention with Chinese importers was that they were prepared to accept payment in Zimbabwe dollars, and subsequently used the proceeds for new investments, thus obviating the need to bring in new funds. Bloch recommended that '... the Zimbabwe Investment Centre and Export Processing Zones Authority must monitor that approved investments are funded with specified foreign currency inflows'. Such reactions are a clear indication of the increased presence of Chinese investors in the Zimbabwean economic space (including the retail, agriculture, manufacturing and mining sectors). Chinese investment found its way into the agricultural sector through the RBZ-coordinated agriculture mechanisation programme, and into chrome mining through acquisition of existing mines, joint ventures with government public enterprises, and small-scale individual investors. It is during this phase (2006) that Zimplats ceded 36 percent of its platinum resource base to government.[45] The Zimbabwe Mining Federation (ZMF) which represents mainly small mining companies in Zimbabwe, while appreciating China's assistance during the unforgettable decade of the 2000s in spite of the ambivalence displayed by other potential investors, are of the opinion that most of the Chinese attempts at involvement with small-scale miners failed because of what they termed 'greed'. While the law says that one of the partners in any syndicate formed has to be a Zimbabwean, it would seem that the Chinese investors had other ideas. The basic problem was that even in cases where they brought in machinery as investment, they still refused even 25 percent shareholding to Zimbabweans.

To much of civil society, China's role is not that of a valued Southern partner – it is an economic presence which negatively affects local stakeholders, who feel they need to be vigilant in their defence of their interests. While this reaction may at times express the immediate interests of particular economic actors rather than that of society as a whole, it does help to identify a key point – that, despite all the talk of South-South co-operation, the Chinese presence is fundamentally about advancing China's economic interests. The remainder of this chapter will elaborate on this point, seeking to demonstrate that the relationship is fundamentally based on the desire for economic gain, not on international solidarity.

## Staying on the sidelines: China's limited role

Both allies and opponents of China's presence tend to assume that it has an important political impact.

For friends, it provides a welcome source of support in contrast to the perceived disdain of the West, with its constant demands that Africans conform to its values – we noted earlier, for example, how China's willingness to invest in the DRC was seen as a confidence booster in contrast to the denigrating attitudes in the West. China, it is argued, has prioritised Africa as a strategic partner at both the political and economic levels, while seeking to link African commodity and consumer markets to China's growing economy.[46] Its development assistance is said to be expanding as its investment footprint increasingly covers key economic sectors. Those who take this view argue that China's push into Africa provides several of the continent's states with a new and hugely influential trading partner to drive up prices and increase the bargaining and leveraging power of African governments when courting foreign investment.[47] Another major advantage of China as a development partner in Africa is the speed with which Beijing is able to make and implement decisions. Africa-China relations are said to have increased Africa's strategic importance, and therefore its 'power influence index' value in the global context.

For critics, its immediate impact is to provide protection for dictators. Thus China's non-interference policy has been criticised as support for undemocratic rule and corruption – in, for example, Sudan and Zimbabwe.[48] In the case of the DRC, concerns are that China's presence with big cheques will render President Joseph Kabila's government arrogant, and start to reverse the democratic gains brought about by western encouragement. (Its supporters reply that the West has also turned a blind eye to undemocratic regimes – in, for example, Angola, Congo-Brazzaville and Gabon – when its interests were at stake). Critics also suggest that China is developing a sphere of influence in Africa, just as colonial powers once did. Our Zimbabwe study notes the view that China's new engagement in Africa is part of a long-term strategy, aimed at displacing the traditional western orientation of the continent by forging partnerships with African elites under the rubric of south-south solidarity. From this perspective, this is a process that will ultimately result in some form of political control over African territories.

Both supporters and critics see China's role as a symptom of a wider geo-political shift. Thus one of our research studies notes that consensus abounds that the world balance of power is changing at both the political and economic levels, especially the latter.[49] The ascendance of China to the number two slot in the world economy as measured by gross domestic product (GDP) leaves little doubt that the world economy is being redefined. This vindicates predictions by *The Economist* in October 1994 that the biggest shift in economic strength for more than a century would occur in 2020. Using the data provided in this issue of *The Economist,* and using the GDP at purchasing power parity (PPP) as measure, five current developing countries will be part of the G8 (with China leading the group) in 2020. It was further foreseen in this *Economist* issue that China will surpass the US to become the world's largest economy in 2025.

This is seen as part of a wider shift in power towards emerging markets. It is noted, for example, that the number of trans-national companies from developing countries (such as Brazil, China, Hong Kong, India, Russia, Singapore, South Africa, and Taiwan) that are generating outflows of foreign direct investment (FDI), mostly into other developing countries, has increased remarkably. While only 19 such companies featured among *Fortune 500* in 1990, 47 did in 2005. These companies generated FDI outflows of US$120 billion in 2005, the highest level ever recorded.[50] In similar vein, our Democratic Republic of Congo study argues that the rise of China and the decline of the USA will be accompanied by tension, distrust, and conflict. In Africa, this conflict might well be fought in the DRC, which became a battlefield during the Cold War because of the need to control mineral resources, and because of geographic positioning. The coming battle between China and the west will be fought in the DRC for the same reasons, it argues. It does not predict an armed conflict – it believes that this time economic preoccupations will take pre-eminence over political considerations – but it does suggest that Africa is becoming the scene of a struggle for control.

This impression of a global conflict is heightened by obvious Western antipathy to China's role which has at least once become an overt attempt to curb it. Thus China's US$9 billion concessional loan to DRC, the biggest financial agreement ever signed by China in Africa, was reduced following International Monetary Fund intervention. The IMF threatened to disqualify the DRC from debt cancellation if the deal was allowed to proceed without adjustment. In the initial phase of the agreement, before the IMF and World Bank intervened to try to stop it, the two Bretton Woods institutions argued that the DRC could end up increasing its debt. Criticising the Angolan model, World Bank head Paul Wolfowitz, the UK government and the IMF argued that Chinese activities would plunge Africa into deep debt,[51] and the US Treasury termed China a 'rogue creditor.'[52] For the west, the China-DRC deal was not accept-able. If the DRC was to benefit from the Poverty Reduction and Growth Facility (PRGF) programme, the deal needed to be reviewed. Critics of the West argued that, although this criticism saved the DRC from what could have been a problematic deal, it exposes the hypocrisy of the West in its relations with Africa; Africa remains trapped in debt not because of China but because of past dealings with the West, and the recent cancellation by the West of debts for certain African countries has come when the countries concerned have already undermined their development due to a decade of debt repayments.

The IMF and the World Bank delayed the implementation of the project, requesting that the amount be reduced, and that the agreement be presented as a commercial contract where the DRC government is not a guarantor to repay the debt in case the profit from minerals cannot repay China's investment. The IMF argued that in order for the IMF and the World Bank to be able to go ahead with a new three-year Poverty Reduction and Growth Facility (PRGF) programme[53] (which would eventually make way for substantial debt relief for the debt-laden DRC), the Sicomines contract (Sicomines is a joint venture company owned by Gecamines and a Chinese consortium) had to be re-negotiated so that it was not structured as government debt. The IMF would not proceed with a multi-billion debt relief programme only to see the DRC contract new debt with China. The Chinese and Congolese stakeholders argued that the financing provided by China EXIM Bank for the Sicomines joint venture was not to be seen as government debt since it is mineral-backed and taken on by a joint venture, even though there were certain clauses in the contract (articles 10.3, 13.2 and 13.3.3) which stated that the Congolese state guaranteed the repayment of the loan.[54] China, in an effort not to delay the implementation further, agreed to the IMF and WB requests. The amount was reduced from US$9 billion to US$6 billion, and the contract was restructured to read as a commercial one. In 2010, the DRC benefited from the PRGF despite Canada lobbying against it (due to the Congolese government decision to cancel the mining rights of a Canadian company, First Quantum).

The evidence, however, suggests that judgments which read important political intent into China's presence are premature. In reality, China's promises of non-interference have been kept. There clearly are issues to which it is extremely sensitive. Recognition of Taiwan is an obvious one. South Africa's decision in 2011 not to grant a visa to the Dalai Lama to allow him to attend Archbishop Desmond Tutu's birthday celebrations was also seen as a concession to China. But beyond this there has been little evidence that China wishes to secure political conformity from its African partners. Our studies, even where they were very critical of China's role, reported no evidence of attempts to secure African support for its international positions – it is not even clear whether China asked South African to bar the Dalai Lama or whether the South African authorities simply decided that this is what China would want. Some analyses linked the South African attitude to the SA Communist Party's relationship with the CCP, which is unique in our case studies. China has not yet tried to play a similar role to that which India once sought through the non-aligned movement – to gain influence by becoming a champion of the interests of the global South. Its interventions have been rare and have been limited to making it clear that it does not want its economic partners making common cause with those it believes pose an immediate threat to it at home. Our DRC study thus notes that President Joseph Kabila's regime has been able to see China as an economic but not as a political partner – the USA remains the guarantor of regime stability (as long as the US has not asked for regime change, Kabila's rule is protected), and China has become the hope for the DRC's economic development.

It remains possible, of course, that China will become more politically assertive in the future, and that it may feel that its economic relations with Africa entitle it to demand political loyalty. But that has not yet happened. For now, China's political ambitions seem extremely limited – it is yet to emerge as either a new colonial master or as a powerful friend of African interests. Its chief political role now is to provide African governments with an alternative to the West which is available without surrendering sovereignty (which often seemed under threat by the Soviet Union as well as the US in the Cold War). Where African governments are not democratic, this can undermine efforts by citizens to win democracy. But it also, of course, leaves the fates of countries in the hands of domestic politics, in contrast to relations with the West.

But, if China is no new hegemon, it is no partner in solidarity either. The rhetoric of co-operation agreements notwithstanding, its current role in Africa is best summed up by the observation of our Zambia country study that China does not have a political agenda save for that which will ensure that its economic gains are not jeopardised – it finds that the current arrangement between China and Zambia is more of a capitalist co-operation, based on the profit motive. The same observation can be made of the other arrangements – the evidence shows that China's interest in Southern

African is maximising economic advantage. As other chapters also point out, the difference between China and other investors is often an illusion. The following section will provide evidence from our country studies to support our contention that the relationship between Southern Africa and China should be seen as an economic one, not as an exercise in South-South solidarity or as a new form of colonial control.

## In it for the money: A partnership for profit

The clearest indication of China's goals is offered by a closer look at some of its agreements with Southern African countries. Here it behaves as an economic actor looking to protect its interests, not as a benefactor or a coloniser seeking to trade economic advantage for political influence.

Dealings with South Africa on trade imbalances are a case in point. South Africa sought to correct the imbalance by increasing higher value exports to China. It also urged China to invest more in South Africa with a view to job creation and promoting economic development. Then Deputy President Mlambo-Ngcuka specifically encouraged China to assist South Africa with technology transfer, skills development, and the encouragement of manufacturing. The objective is to promote a more equal and sustainable economic relationship and a move towards a balanced trade profile. China responded with a promise to address the trade imbalance and it agreed in 2006 to establish a more equitable trade balance —a 'win-win' trade relationship. Both sides thus agreed to the Partnership for Growth and Development (PGD), intended to institute measures which would establish a long-term balance in China-South African trade. The key objective of the PGD is to shift the structure of trade towards increasing the value of South African exports to China, by focussing on mineral beneficiation and the export of manufactured and processed agricultural products to the Chinese market. The PGD specifically commits China to support South Africa's mineral beneficiation strategy and to establish a balanced bilateral investment flow over the longer term.

China, however, gave no clear idea how a greater balance would be achieved. No proposals to improve South Africa's access to the Chinese market were tabled. Subsequent discussions with Chinese officials suggest that Beijing expects South Africa to be more competitive and to access the Chinese market via WTO rules the same way all other countries do. Discussions with Chinese officials also suggest that the ad hoc and unstructured arrangements emanating from the BNC will not produce significant outcomes. There is currently no mutually beneficial economic partnership agreement between China and South Africa. A well-structured agreement, similar to those being negotiated by Australia and New Zealand with China, would provide a means of accessing the Chinese economy, expanding South African exports, and creating jobs. Thus far, however, China has not been willing to make concrete commitments which meet South African concerns. While this may indicate that South African negotiators have settled for very little, it does show that hard progress will depend on hard bargaining, not South-South solidarity.

Analysis of the agreement establishing the China-DRC minerals joint venture suggests that the Congolese government risks committing itself at a loss: the money is paid in instalments. For their part, the Chinese administer the partnership and unilaterally import equipment and use Chinese personnel. In short, they do everything themselves. Critically important is the requirement in the contract which says that if the reserve in minerals given to the Chinese companies is not sufficient to recover or to pay back Chinese investment, the Congolese government must find other reserves. At one stage, the Chinese contended that the mines being given to them in Kolwezi would not be enough to repay their investment. For this reason, China suspended the second disbursement of funds (to the tune of US$1 billion) allocated for infrastructure development. But this position has since been refuted by the Congolese government which undertook a detailed geological survey analysis to demonstrate that the reserves were enough to repay the debt. At current prices, the value of deposits is estimated at US$80bn-US$85bn. The project has an estimated duration of 25 years, divided into three phases. During the first phase, all the profits of the joint venture will go to reimburse mine development and to build the infrastructure which the DRC hopes will radically improve the lives of its citizens. According to Global Witness, 'Neither the Congolese nor the Chinese parties have properly explained how the minerals are to be priced, nor what infrastructure is to be built and at what cost. This ambiguity makes it very hard to measure whether pledges are being met. Much of the financial risk appears to be loaded onto the Congolese side of the bargain – take, for example, Congo's risky guarantee that the Chinese companies will make a 19 percent profit.'[55] Again, China appears as a hard bargainer, not as a development partner.

Our Angola case notes that, at the end of that country's conflict in 2002, China's relationship with Angola shifted quickly from a defence and security basis to an economic one. China, it finds, requires raw materials to ensure its development. It is clear that its objectives are being met. The issue is whether Angola has been able to achieve its goals. Our Mozambican study demonstrates, in detail, that the prime purpose of the arrangement is to extract resources to meet China's appetite for a resource – timber. Our Zimbabwe study notes that the fact that investment from the east took place during the most difficult years in Zimbabwe's economic history puts China in an advantageous position. Zimbabwe indeed has the resources that emerging giants require to sustain their high rates of development and to satisfy the appetite of their growing middle and wealthy classes. China, in turn, has the resources to invest in extracting (and probably beneficiating) the mineral resources. Whether this relationship will be a 'win-win' relationship or an exploitative one will depend on a number of factors, including compliance with the requirements of the Indigenisation and Economic Empowerment Act, the level of beneficiation engaged in before exportation, and technology transfer. Exports of Chrome ore were suspended by the government of Zimbabwe to encourage beneficiation in 2011. Throughout this analysis is the assumption that the outcome will depend on bargaining and on strategy, not on mutual solidarity.

## Just another investor?

Information gathered from our case studies suggests that China is no better – but no worse – than other investors in Southern Africa. This implies, of course, that the relationship between China and the countries of the region is not fundamentally different to that with other countries.

In the DRC, our research finds that early Chinese investments show that Chinese corporate activity is not very different to that of Indians, Lebanese, Pakistanis and certain western companies. As Jian Junbao has argued, Chinese companies in the Katanga province 'simply focus on profits regardless of their harmful influences on African society, such as environmental pollution, excessive development and exploitation of local labour.' The Congolese government has been criticised for engaging in major contractual arrangements without the capacity to effectively manage these arrangements, but this criticism affects all the contracts the DRC has signed with western or Asian governments and companies. In Angola, the Chinese are not the only beneficiaries of current oil and gas production. While the Chinese market has been the destiny for Mozambican timber, the players involved in the industry are far from exclusively Chinese.

In Zimbabwe, transfer of ownership of a mining company to Chinese interests produced no change in human resource policy. There are doubts about the company's HIV and AIDS policy, but again this observation is not unique to companies with Chinese involvement.[56] Nor are all Chinese companies operating in Zimbabwe the same. There are the large corporations and there are the small-scale individual investors. The latter, in the main, tend to capitalise on the excellent bilateral relations between Harare and Beijing to ease themselves into the mining sector. Some of Chinese companies in Zimbabwe include: Anjin Investments, San He Mining Company Private Limited Zimbabwe, China Africa Sunlight Company which is doing exploration for coal and methane gas in Gwayi-Shangane concession area and ZIMASCO. Most have violated every rule that has been laid down for those wishing to participate in this sector. However, their activities have been exposed by the government audit into the mining sector, and the reaction of the Zimbabwean government (which has become increasingly sensitive about the exploitation of the country's mineral resources) will be a test of the 'all weather friendship' tag that is placed on China-Zimbabwe relations.

While Zimbabwe's Look East policy has been trumpeted as a special arrangement, research into whether there were any special incentives given to Chinese investors in view of the government's declared policy and the special relationship between the two countries found that there were not. Responses from the responsible ministry and field interviews showed that Zimbabwe had an open-door policy to investment from all sources, and there is no particular incentive for any region. Although many companies from different countries could be exploiting the loopholes presented by the lack of policy coordination at the local and national levels, Chinese companies have been singled out in a report on investors.

Some of this evidence suggests that Chinese investment may have been judged too harshly, others that it may not have been judged harshly enough. What this evidence and that gathered in Chapter 4 (on development impact) and Chapter 5 (on work conditions and corporate social responsibility) show is that the difference between China and other investors is far smaller than much analysis seems to suggest. China is seeking to gain economic advantage from its relationship with Africa – in some cases, this is contributing to development, in others it is not. But it confirms the point made here – that the relationship is an economic one and needs to be treated accordingly.

The strategic implications are clear. Chinese investment will become more developmental not because African governments have appealed effectively to South-South solidarity but because they have decided to negotiate more effectively, to legislate to protect their interests, and to ensure that laws and rules are implemented. This is a task for governments but one in which civil society will have an important role because it can hold governments accountable and make it more likely that they will meet their obligations to their citizens to ensure that resources which flow into Southern African countries contribute to the development of their societies. Before discussing this, however, it is necessary to look in greater detail at the development impact of Chinese investment and its effect on the workplace and society. It is to this that we now turn.

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# BEWARE OF EASTERNERS BEARING GIFTS? THE DEVELOPMENT IMPACT OF CHINA'S ROLE IN THE REGION

Does China's role in Africa – and particularly Southern Africa – promote development or is it purely a form of exploitation, fuelling Chinese growth at the expense of African economies?

Governments clearly take a positive view of the Chinese role. They embrace China as a strategic development partner, enter into economic agreements with it, and in some cases are prepared to waive rules to encourage Chinese investment. (See Chapter 1). In 2006, at the Economic Forum in Davos, Switzerland, Mozambican President Armando Guebuza denied allegations that China was solely interested in exploiting Africa's natural resources, stating that the bilateral co-operation had been 'mutually beneficial'.[1] Carlos Nuno Castel-Branco notes that foreign capital often enters Mozambique in close alliance with national capital. Therefore, Chinese investment and trade relations between the countries have provided business opportunities for Mozambique's elites.[2] Similar patterns are evident elsewhere.

Civil society groups and commentators sometimes take precisely the opposite view, labelling China's involvement 'neo-colonial', as our Zimbabwe study puts it – a purely exploitative relationship in which it takes from the continent what it needs and offers no sustainable development in return. This view is perhaps best expressed by a critic from Farai Maguwu, a leading human rights defender in Zimbabwe's extractive industries,when he says "Whilst there is no dispute that China has taken advantage of the fall-out between Zimbabwe and the West to intensify its relations with Zimbabwe, questions have arisen on the actual economic value of the influx of Chinese companies in Zimbabwe extractive sector. In terms of labor, Chinese companies have a penchant for bringing their kith and kin to take up jobs which Zimbabweans can easily do, thereby deflating the employment creation claim. Further, they pay low and insulting wages to locals and evade paying tax to government." They have been fined on several occasions by Environmental Management Agency (EMA) for showing no regard to the environment and workers have repeatedly complained of human rights abuses at Chinese companies. There is limited technology transfer to locals, owing to the secretive nature of Chinese operations in Zimbabwe, their policy of shipping only raw materials to China with no commitment to value addition inside Zimbabwe. For example there are no sign that China intends to neither cut or polish in Mutare or Harare nor process the chrome it is mining in the Great Dyke region.

The answer, as it so often does, lies somewhere in the middle. Our research finds that the developmental impact is mixed. Resources are indeed provided for local citizens, jobs are created and much-needed infrastructure is provided. Where Chinese money is invested in joint ventures with local firms or with firms based in other countries, opportunities are created for local businesses. But these impacts are far more limited than the elites who see Chinese resources as a solution to African development constraints are willing to acknowledge. In those countries with significant domestic manufacturing capacity, Chinese investment does threaten the viability of local industries. Skills and technology transfer are limited, and in some cases the investments do not generate the tax revenues which would normally be recovered. There is often little evidence that areas in which Chinese money has been invested have become more viable and are more likely to become sources of sustained development. Joint ventures seem limited mainly to countries which already have a substantial industrial base.

Chinese investment is thus not an unqualified boon or bane. Governing elites tend to overstate the development benefits, and the critics of Chinese investment understate them or deny them entirely. The challenge for the countries of the region is, therefore, not how to deter Chinese investment but how to ensure that the positive developmental potentials are enhanced.

## It depends on where you sit? General impacts

Recent research has attempted to analyse the developmental impact of China's role. It has echoed the point made here by stressing the mixed impacts, but it also makes an equally important point – that the impact depends on the nature of the African economy in which Chinese resources are invested. They suggest that countries with more developed industrial infrastructure may find Chinese investment more of a problem than those which rely on the export of raw materials.

Globally, according to our South Africa study, trade is the most visible impact of China's growth. A recent study by Barry Eichengreen and Hui Tong ("How China is Reorganising the World Economy") confirms that labour-abundant economies (such as South Africa) increasingly feel competitive pressure from China.[3] On the other hand, capital- and technology-abundant economies enjoy a strong and increasing demand for their exports to China, creating new lines of comparative advantage. Their conclusion is that countries specialising in the production and export of components, capital goods and raw materials have positive spin-offs from China's growth, while countries specialising in the production of consumer goods are impacted negatively. The pattern in foreign direct investment (FDI) flows is similar, in that countries which compete with China for horizontal FDI (such as South Africa) find it more difficult to attract investments. Some Asian countries have been able to build a supply chain relationship with China, but Africa's geographical disadvantage excludes it from this process.[4]

Most countries in the region are not exporters of capital goods and components – exports of finished goods to China are hardly a feature of the relationship. This analysis would suggest that they would benefit by finding a ready market for their raw materials. South Africa does export some finished products to China but, in the view of this analysis, the benefits are more than cancelled out by the effect on manufacturing industry. Raphael Kaplinsky, Dorothy McCormick and Mike Morris's investigation into China's growing impact on sub-Saharan Africa[5] concludes that China's intervention in the Southern African region poses a major threat to manufacturing, while welfare gains from increased commodity exports often turn into a 'resource-curse' with little benefit for the overall population.[6] Chinese businesses do reduce costs for local consumers – for example, in South Africa, Chinese firms play a major role in importing low-cost clothing which cut prices for the domestic poor. But there is scepticism about the degree to which this benefit outweighs the negative impact on local manufacturing.

Their study does, however, appear to confirm that raw materials exporters benefit from the relationship. They note that much of Africa's estimated 5 percent economic growth in recent years was attributed to China's rapidly growing demand for African commodities.[7] By the end of 2010, China-Africa trade was expected to total over US$110 billion, but it accounts for less than 4 percent of China's total world trade and Chinese officials see significant potential for further trade growth.[8]

It should be stressed, however, that the gains to raw material exporting countries are not necessarily developmental. While exports to China do clearly bring in revenue, if this does not generate sustainable local economic activity then the benefits – to citizens in the area where Chinese resources are invested as well as to central governments – are certain to be limited at best, and Chinese investment will not be a source of prolonged development. Chinese investment thus offers only potential gains to these countries. Unless Chinese investment prompts local beneficiation and value addition, the financial gains for some African countries will not have a longer-term developmental impact.

This broad analysis needs fleshing out by reference to concrete evidence in the countries which our research teams studied.

## No undiluted blessing: Limitations to developmental impact

While governments tend to talk of China's role as that of a benevolent development partner, our research revealed substantial evidence that the relationship's developmental impact is often far more limited than the official rhetoric claims.

In Angola, Chinese financing has offered better conditions than commercial loans, along with lower interest rates and longer re-payment periods. This new co-operation has been immensely beneficial to the Angolan government as it struggles to rebuild the country after decades of civil war and social unrest. Complex conditionalities imposed by western donors complicated Angola's recovery trajectory, but China has provided a new and less restrictive model for commercial interaction. China's willingness to assist with construction and infrastructure has given Angola an opportunity to rebuild its economy and begin a new phase of economic development. China also offers Angolans low-cost technology transfers, ideal for local conditions and more appropriate than western options. Chinese scholarships for Angolans to study in China offer opportunities for skills development and help to consolidate commercial interaction. It is wrong to assume that only the Chinese are benefiting in Angola. Government has taken two major steps towards adding extra value to its oil production with the development of a liquefied national gas plant in Zaire Province and an oil refinery in Benguela Province. The process of liquefying gas enables it to be transported by ship to Europe or the US, where the gas is used in homes and industry. The cost of the gas plant is $4 billion, paid for by the investors (British Petroleum, Chevron-Exxon, Sonangol and Total). The plant is expected to absorb much of the natural gas that is currently burnt as an unwanted by-product in the petroleum industry.

Nevertheless, the developmental impacts seem dubious. Chinese companies are not creating jobs and there is limited skills or technology transfer to Angola from China. These negatives are meant to be outweighed by the Chinese role in building infrastructure, but this is itself a mixed blessing. Quality is a problem, with serious maintenance issues emerging on a number of projects (as in the case of the General Hospital of Luanda, which was built by a Chinese company five years ago, but is already requiring major repairs and maintenance). Quality control on Chinese construction projects has become a focus of attention. The poor quality of Chinese construction has given rise to a popular saying which suggests that 'Chinese construction takes no time.' The infrastructure built by Chinese companies is generally of poor quality, and hasn't been monitored by the government or civil society.[9] Óur research suggests that the development partnership is not equal – the majority of projects implemented by Chinese companies are not paid for in Angola. No money from the credit line entered Angola; all transactions were made in China, with only services provided on behalf of the credit line.

In the Democratic Republic of Congo, an agreement which will trigger new mining development is expected to have some negative effects on development. It is estimated that some 10 000 local workers will be employed in the first phase of this project. The Congolese employed by the Chinese firms will be paid less than in other foreign enterprises, there will be limited protection of workers' rights, very little (if any) transfer of skills, there will be no provisions on how to maintain the Chinese-built infrastructure in the future, and no taxes will be paid by China on mineral reserves such as copper and cobalt (cutting a considerable amount of public revenue). On the environmental front, the project might impact on biodiversity. It will affect the Kundelungu National Park and Retenue Lake, and it is very likely to have an irreversible impact on air quality, water quality, natural habitats, and biodiversity.

The DRC is unusual in that some Chinese investment (discussed also in Chapter 1), is initiated not by official agreements between governments or corporations, but by the activities of individual Chinese mining operators who rely on dealings with Congolese artisanal miners. This relationship brings some benefits to local people but cannot credibly be seen as a contribution to development. The Congolese economy is largely informal, and Chinese mining operators make use of informal practices. They buy raw materials for cash, directly from the artisanal miners. The impact on the socio-economic life of the communities is visible; money is exchanged between small earners, and their buying power increases. During the financial crisis (2008) the presence of the Chinese was perceived as a breath of fresh air to compensate for the stuffiness of the western bureaucracies which were not providing financial support to the government. The direct effects of Chinese investment were felt in the daily life of small earners. This helps to improve social tensions. There is a lot of money circulating in the streets, which brings some relief. They increase the buying power of the population. But Chinese investment has not yet led to sustainable development.

Chinese business at this stage did not have an impact on the country's macro-economic indicators. Chinese mineral traders were in need of a large number of artisanal miners to ensure that they met their monthly quotas. Children abandoned schools and women left the market to look for minerals. People were sent into the bush to buy and transport the minerals to the Chinese buyers. The Chinese sent their marketing agents into the artisanal open-pit quarries to buy ore.[10] The marketing agents were acting as independent traders, set up on mining sites. However, the marketing agents often did not have trading permits. It was often a clandestine form of trading, and it created conflicts. These marketing agents were very powerful financially because they had direct connections with Chinese traders.

It is difficult to know how much money the Chinese have used to purchase and process artisanal mining products, and the money that they gain from these operations escapes all financial control. Chinese money bypasses the banking system, and strengthens the informal sector. The injection of Chinese capital in the informal economy was a solution in itself – with great impact on the life of the artisanal miners and the Congolese. But the loss of fiscal earnings for the state due to this behaviour cannot be determined. The consequences of the world financial crisis also taught the DRC a lesson – the Chinese money simply disappeared. The Chinese companies present in Katanga have not yet drawn up an integrated economic and social development programme. They have also not yet carried out any social actions to the benefit local communities (as have South African and western companies).

In Mozambique, Chinese involvement has hindered the prospects of developing an export industry of processed wood products. In 2006, a damning report entitled *Forest Governance in Zambézia, Mozambique: Chinese Takeaway!* was published in Mozambique.

It highlighted the growing problem of illegal logging and mismanagement on the part of local government officials, who instead of implementing the laws designed to protect the forests were directly benefitting from the industry. While Chinese entrepreneurs are not the only business people involved, China has a huge appetite for wood. In 1998, it issued a ban on logging of its own national forests. Since then domestic timber production halved from 80 million $m^3$/year to 40 million $m^3$/year, and in 2002 the deficit was estimated to be 60 million $m^3$/year.[11] To meet this demand, China has become the world's largest importer of timber. China has a preference for importing logs as opposed to semi-processed wood, and according to data from International Tropical Timber Organisation (ITTO), since 2005 roughly 80 percent of China's recorded timber imports have been logs and not sawn or ply wood. African countries are not an exception to this rule, and most of the timber traded between China and Africa involves logs (85 percent of the total exported to China in 2006). Mozambique is amongst the six top African exporters of wood to China, accounting for around 5 percent of the trade in 2006. It could be argued therefore, that the timber trade denuded Mozambique of a natural resource without adding any developmental value which might have accrued if wood products were manufactured locally.

In Zambia, CCCM is located in Chief Sinazongwe's area, in a resettlement scheme for families displaced during the construction of the famous artificial lake, the Kariba Dam. Fishing from Lake Kariba, animal rearing, and small-scale farming are the major economic activities in the district, while the two coal mines are the main source of revenue. The district depends on coal, which the country has been producing since 1967, the bulk of it coming from the two mines.[12] The effect of the mining industry on the socio-economic life of the people cannot be underestimated. Whatever material developmental aspirations the people of Sinazongwe have, they will always be linked (directly or indirectly) to the mining wealth of the district. Given conditions in the area, we would expect a flood of mining investment to have a strongly developmental effect. But, in terms of contribution to the improvement of people's livelihood, most respondents in the area observe that the mine has not contributed significantly, though they acknowledge that the institution is a major source of employment. The overall view from most of the respondents in the area was that they are subject to a raw deal, because the profits of this company were not benefiting the local community. As noted in Chapter 1, Chinese investment has not prompted significant skills transfer to local economic actors.

There is some tax benefit to the local authority. According to information gathered by the local government, CCCM contributes between 5 and 10 percent towards its total budget. This is mainly through payments of road tax and a personal levy. But it does not pay ground rent or property tax (which would have been a more significant revenue to the local government authority) because it is located on customary land, which is governed by customary laws. It was difficult to ascertain whether the company pays royalties to the local chief. It was also difficult to ascertain how the mine was acquired.

Local business could be said to have benefited from the operations of CCCM only through the strengthening of currency circulation in the area. The procurement system is not formal and no service apart from direct labour is procured from the surrounding businesses. Almost all machinery at the mine is procured from China, and Chinese vegetables are grown next to the shafts for the expatriates.

In South Africa, the effect on jobs has, as suggested earlier, been most pronounced. China has been able to maximise market share in South Africa, competing effectively against local businesses, by leveraging its undervalued currency, efficient production processes, and low labour costs. The general trend of Chinese investment in South Africa to date is not promising in terms of skills transfers or job creation (given the very significant dollar reserves held in China). There is clearly potential for an expansion of Chinese investment, so these trends are likely to continue.

The experience of job losses in textiles, resulting from significant increases in Chinese imports, followed significant retrenchments in the footwear industry and is expected to be replicated in many other manufacturing sectors within South Africa. The increase in Chinese low-cost manufactured products in South Africa continues, with new threats emerging in the auto and auto-parts industry. Faced with the ultra-competitive Chinese manufacturing sector, South African industries will find it harder and harder to compete. Other countries have responded to China by increasing productivity, moving up the value chain, or moving into services. However, given South Africa's level of development, constructing an effective competitive response to China will not be easy. By the middle of 2009, China had become South Africa's biggest trade partner, but the content of South Africa's exports remained focussed on raw materials.[13]

In response to demands from trade unions and some businesses, the South African government has negotiated a trade agreement with China. But observers pointed out that negotiating with China on textiles (and footwear) was largely irrelevant, as devising a strategy to protect an industry after it was already undermined by international competition made no sense. Instead, they argued, the Department of Trade and Industry (DTI) should be devising survival strategies for other South African industries, such as automobiles, which are yet to enter into full competition with Chinese exports. The SA Textile and Clothing Workers Union (SACTWU) proposed measures to reverse retrenchment trends, such as combating illegal imports, local sourcing by retailers, improved quality, design innovation, improved technology, increased productivity, better training, and expanding new investments.

One of the hardest hit textile production centres in South Africa has been the Qwa Qwa region. Chinese clothing and textile imports into South Africa have resulted in massive job losses in Qwa Qwa, and there is little prospect for retrenched workers to find new employment. Interviews with retrenched workers concluded that many of them were sole breadwinners, with family size averaging six persons. Ebrahim Patel, then General-Secretary of SACTWU (now minister of Economic Development), suggested that the loss of jobs in the clothing and textile sector affected almost half a million people- the widespread loss of employment has been devastating for the community. Interviews with former textile workers revealed that in many cases more than one member of a family was retrenched, undermining the traditional household support structure. Prospects of re-employment at the same factory are very low, while new skills would be required for employment in related sectors.

Joint ventures between local and Chinese companies do not generate any significant compensating job creation or business opportunities. Executives of the partly Chinese-owned Aquarius, which mines platinum group metals, have confirmed that Zijin, the Chinese investor, did not bring any new technology to South Africa as part of the deal, nor were any new jobs created. A deal between Standard Bank and Chinese investor ICBC, while it brought billions of US dollars into the local bank, has not generated job growth. Chinese officials suggest that ICBC-Standard Bank intends to open new opportunities for small borrowers in Africa and South Africa, but no evidence of this intention is yet available from the bank itself.

The present Chinese business model for engaging South Africa's ferrochrome industry presents significant negative features. Chinese investors are seeking supply at the lowest possible cost, and all beneficiation is carried out by manufacturers in China. This approach obviously mirrors a typical neo-colonial relationship in which South African resources are extracted for processing elsewhere, and South African consumers are required to import manufactured products. Without value added in South Africa, jobs remain limited and no skills or technology transfers occur. Sustainable development strategies are the focus of much debate and planning, but Chinese investments are part of the existing corporate mining strategies which essentially focus on maximum material extraction at minimum cost. Besides capital transfers to South African mines, China's engagement remains limited. South African ferrochrome producer Xstrata Alloys has criticised the growing export of unbeneficiated chromite ore to China, which, the company claims, is driving a decline in ferrochrome exports. Xstrata's claims are supported by the data, with South Africa's share of the global ferrochrome markets reportedly dropping from 50 percent in 2004 to 42 percent in 2006. China places no tariff on chromite ore imports, but does tax the import of ferrochrome. This is classic tariff escalation in a bid to protect Chinese value added. Beneficiation in South Africa would attract taxation in China and may not be advantageous in the longer term.

South Africa has no preferential market access to China (such as that provided for by AGOA, the law which gives preferential access to the United States) making exports difficult. South Africa retains the status of a supplier of primary products (with no value added) to the bourgeoning Chinese economy. The China-South Africa trade profile shows that in 1993 South African manufactured exports to China constituted 50 percent of the total. But by 2003, this figure had fallen to just 8 percent, with 92 percent of exports consisting of resources and intermediate products. South Africa has not yet identified either challenges or opportunities in response to China's economic engagement, and so it has not developed an appropriate strategy. It has not yet found instruments to break the 'products-for-resources' model of commercial interaction, and is not active and strategic in its engagement with China.

In Zimbabwe, teams have been sent from China to design dust and smoke control systems for the open furnaces at ZIMASCO, a subsidiary of Sino-Steel Zimbabwe which produces high-carbon ferrochrome and has 30 chrome mines. However it was not possible to establish a working relationship between these teams and local staff because of the language barrier.

Perhaps more importantly, Africa's mining industry in general is characterised by very low value addition, and Zimbabwe (in spite of her relatively advanced industrial infrastructure and fairly good human resource base) is no exception. The tragedy is that a few kilometers from ZIMASCO is an iron and steel producing plant (the Zimbabwe Iron and Steel Corporation, ZISCO) which also exports iron products. But ZIMASCO's chrome does not feed beneficiation at ZISCO. Rather, it smelts chrome to produce high-carbon ferrochrome, a major ingredient in the production of stainless steel. It exports this and the stainless steel is used to make many industrial products, which Zimbabwe subsequently imports. According to the response obtained from ZIMASCO, this ferrochrome is exported to all global stainless steel producing countries in Europe, North America and the Far East (including China). It is clear that this technology-intensive process largely remains the preserve of developed countries, thus maintaining the technological divide between the north and the south.

An exploitative character to the Chinese investment was also observed. When the Chinese first came into Zimbabwe donating tractors and grinding mills to war veterans around 1997, they were involved in chrome buying, but the prices offered were deemed so ridiculous that the ZMF had to intervene and stop introducing small-scale miners to Chinese buyers. While on the face of it they wanted joint ventures, in reality they were not interested in mining but in buying chrome at sub-economic prices. The price offered to small-scale miners was lower than the price offered by the Chinese to South Africa, so it was more profitable to export to South Africa.

What is very clear is that Chinese small-scale investors are averse to indigenisation. Data available to our research team amply show that they had the least indigenous shareholding in the approved investment projects. While the Chinese conglomerates had entered into 50-50 joint ventures (and rarely below 40 percent indigenous) with either the state companies or individual indigenous investors, small-scale investors averaged 11 percent indigenous content (on paper).

## Giving back and taking out: Developmental effects of the Chinese presence

The evidence gathered thus far clearly warns against too positive an assessment of the impact of the Chinese economic presence in the region. But there is also ample evidence to contradict an entirely negative assessment which paints Chinese investment as purely exploitative and neo-colonial.

In Angola, over the last few years, it has become clear that Chinese investments have contributed to overall poverty reduction. The rehabilitation and construction of electrical and hydro-electrical infrastructure has expanded electricity access for ordinary Angolans and improved lives. New water-supply systems have improved access to clean water for people across the country. War-damaged roads and rail systems have been improved, allowing access and new commercial interaction across the country. Improvements in hospitals and health centres offer improved healthcare for Angolans, while China has sent doctors to Angola to assist in strengthening medical facilities.

In the Democratic Republic of Congo, cash brought in by the Chinese has had a significant impact on the day-to-day life of ordinary people in Katanga province and beyond. It came at the time when none of the DRC's traditional partners wanted to provide finance to the government. The Chinese cash came as relief to the population of Katanga who were experiencing hardships. The sudden increase in the mass of liquidity in the province contributed to increasing the number of artisanal miners.

Chinese intervention, which is built on direct responsibility for infrastructure development, is proving far more effective than western intervention. Much of the funding that the west sends to the DRC (whether through multilateral or bilateral cooperation) is misappropriated and ends up in European banks (a situation that has prevailed since the days of Mobutu). The accusations of corruption levelled at the Congolese government have been linked to funds that are provided by western governments, and taxes that western mining companies pay to government. With the Chinese approach, money which would have been paid as taxes is put straight into infrastructure development. This has prevented money from going into the pockets of politicians, and resulted in tangible progress for Congolese citizens. This might also explain why China is reluctant to join the Extractive Industries Transparency Initiative (EITI), a coalition of governments and private interests dedicated to greater transparency in the extractive industries. The EITI is a progressive initiative, but it is proving quite weak in stopping corruption where it is implemented because of its voluntary approach. Corrupt African officials and mining executives cannot be sanctioned through the EITI.

China's increasing investment on the continent has benefited from the failures of western development strategies led by the World Bank and IMF. The Chinese follow a different approach to entering the mining sector in the DRC. Their 'infrastructure for resources' model addresses the issues of variability as they build infrastructure and roads while exploiting resources at the same time.[14] This approach of 'infrastructure for minerals' is a complete paradigm shift that will avoid some of the major international trade factors (such as volatility of price, variation in the rate of extraction, the change in timing of payment by companies, and fluctuations in the price of natural resources). A clear example of this was during the financial crisis. While many were expecting a change of attitude from the Chinese, they continued to build infrastructure even before they could start extracting the minerals. For the Chinese, there should be a serious impact on the contract considering that it is a long term project. But China agreed during the negotiations and gave guarantees to the Congolese government that external factors (including global financial turmoil) would not undermine the contract.

In Zambia, Chinese mine ownership has reversed a negative trend in which privatisation eroded the viability of the LCM mine. In 2004, after a difficult period, the mine was sold to J and W, originally from India, with 80 percent shareholding and a 20 percent share for the government of Zambia. Four years later, and following the effects of the 2008/2009 global economic downturn, the company decided to place the mine under care and maintenance before withdrawing their interest and leaving more than 1500 employees jobless.[15] The Zambian government, through ZCCM-IH, managed the mines until a strategic partner was found. Due to two previous bad experiences, various stakeholders took a keen and active interest in ensuring that the anticipated new owners were more established, experienced, and with the requisite financial capabilities. With this in mind the government embarked on a process to look for a suitable investor to take over the operations at the mine. In April 2009, a new equity partner was found to take over mining operations and projects at LCM through a bidding process which witnessed a great deal of pressure from the general citizenry and, finally, China Non-ferrous Mining Company (CNMC) was sold an 85 percent shareholding while the other 15 percent was retained by the government.[16] In June 2009, CNMC pledged to invest US$400 million in LCM. This new money was to see the Baluba mine reopened and further development of the Mulyashi project, intended to produce copper cathodes. The effect has, as mentioned in Chapter 1, been renewed and apparently sustainable growth and enhanced job creation. Locals who are deeply critical of Chinese mine CCCM acknowledge that it is a major source of employment.

Our study showed that the new owner has taken a seemingly unique approach by partnering with the local business association, the Luanshya Suppliers and Contractors Association (LSCA), with whom they have agreed that for all business opportunities connected to provision of services, local institutions or companies shall be given priority consideration. LCM so far has sub-contracted most of the LSCA members for work during the rehabilitation of the mine. More than forty local companies are enjoying good business relations, with contractual work ranging from the supply of engineering equipment to labour. LCM has also put in place a predictable payment system, which enables the business community to plan their activities and investment.[17] CNMC has shown its commitment to increased involvement and consultation with stakeholders in the community, and there seems to be a very transparent system of doing business with the locals. Although the mine was not yet operational at the time of the study, observations show that the local economy of the district has started recovering. There are increased transactions in banks, and increased goods in local shop. Most of the respondents interviewed by our researchers further hoped that the long-term commitment by the mine, especially when it becomes operational, will assist in restoring economic activity to the district.

In South Africa, academic sociologist Mike Morris argues that the negative employment impact is partly balanced by the welfare gains to consumers arising from the competitiveness of Chinese imports[18] which lower prices and ensure that goods are available at affordable prices to the poor. Morris further contends that saving jobs (an anti-Washington Consensus approach) should not be the only priority, as China's global exports should be calculated in terms of both welfare and competitiveness impacts. Clothing retailers have opposed quotas on Chinese clothing imports, complaining that it would result in a 20 percent to 25 percent price increase.

From a short-term business perspective, the relationship between Chinese buyers and South African commodity producers is mutually beneficial. South African companies have direct and guaranteed access to the fast-growing Chinese market, while Chinese steelmakers have a guaranteed supply at affordable prices. In recent years, Chinese steelmakers have adopted different strategies to deal with rising demand and rising domestic production costs. The driving factors for steelmakers in China are stability of supply and the cheapest sources. This has pushed Chinese steelmakers to purchase mines and or smelters in South Africa to ensure access to affordable chrome.

Deputy MD of the partly Chinese-owned IFM Yang Xiaoping has suggested that Chinese purchases of ferrochrome mines were not aimed at driving down prices, but rather to guarantee supply, pointing out that purchases of ferrochrome are made at market-related prices. However, obviously over the longer term, market forces will demand that production costs in South Africa be contained or improved. Yang also stressed that Chinese investors saw joint ventures with well-established South African producers as the best business model under present conditions. Thus for the foreseeable future, Chinese companies would not seek a controlling share in South African producers, unless options for the purchase of small operations emerged.[19] The Chinese business model for the ferrochrome industry also has positive features. Chinese investments in the form of joint ventures with South African companies offer the prospect of building more rewarding relationships with Chinese capital. Through joint ventures, Chinese companies are exposed to and are automatically supportive of existing corporate social investment programmes. The Sinosteel-Samancor relationship, for example, offers a good model for Chinese business partnerships with South African companies.

In Zimbabwe, the thesis that 'China's engagement in SADC's extractive industry presently conforms to a neo-colonial exploitative approach' is exaggerated. Chinese investment seems geared to the longer term, and is more tolerant of conditions in host countries than investment based in other countries. The CEO of Sino-Steel and Chairperson of ZIMASCO expressed great optimism on Zimbabwe's economic prospects. He felt that the challenges Zimbabwe was currently facing were of a temporary nature, and that his company was looking into the future and not just the short-term. To illustrate his company's long term perspective, he gave the example of its Australian investment which made losses throughout the 1980s and only started making profits in 1995 (some 15 years later). According to information provided, projected investments in Zimbabwe over the next 5 years are over $500 million. In 2009,

$20 million was injected into ZIMASCO and a further $40 million in 2010 that helped to expand capacity. A new furnace is planned in KweKwe to expand smelting capacity. The CEO of ZIMASCO is quoted as saying that his company plans to increase production from the 69 000 tonnes recorded at the end of 2010 to about 162 000 tonnes (a 245 percent increase) by bringing one of the company's furnaces back on line (newzimbabwe.com). The target is an operational capacity of 230 000 tonnes per annum through the upgrading of furnace no. 2 when their capital allows it. There are also expansion plans beyond the refurbishment of furnace no. 2. The research team learnt from the CEO of Sino-Steel that efforts were underway to upgrade technology at the ZIMASCO plant. Teams have been sent to China for training on manning the furnace. There is also a process of learning from each other between locals and Chinese staff.

Large Chinese corporations (whether state-owned or privately owned) seem to have entered into 'win-win' joint venture operations with Zimbabwean state enterprises and private indigenous investors. This relationship, however, is currently limited to extraction of resources, and only ZIMASCO's operations go beyond extraction to beneficiating the mineral ore (in this case chrome ore). For those that are engaged in extraction, Zimbabwe still stands to benefit from technology transfer and capital investment and also from the 50 percent shareholding that it enjoys in these corporations. The aggressive entry of Chinese corporations in platinum, diamond and other minerals would increase production to levels that justify the establishment of processing facilities in Zimbabwe. The extent to which mineral producers climb the value-addition ladder depends on economies of scale, market dictates, and the returns earned. Market conditions should therefore be made to favour the beneficiation of minerals because economies of scale are guaranteed by the new investment and the expansion drive that has been observed at the sites of the traditional investors.

## Conclusion: Development begins at home

We have noted that the evidence shows that Chinese investment is neither an unqualified benefit for the economies of the region, nor simply a neo-colonial plundering of local resources. Because it has potential for both harm and good, our research teams were of the view that the impact of Chinese investment for good or ill depends very much on the way in which local politicians and governments approach the issue. Governments, it was agreed, can ensure that the impact of Chinese investment is positive rather than negative.

The DRC study, for example, noted that the state needed to improve its mining resource management capacities, in particular through training and the promotion of the formal economy. More importantly, the DRC government must fight corruption and fraud in the sector. We have already noted the South African study's view that the government needs to gather more information on Chinese investment which must be used to inform a more strategic approach. But it was our Mozambique study which explored this issue at greatest length. We cite it here to illustrate problems common in lesser or greater degree to all our case studies.

The Mozambican study points out that the business opportunities which Chinese investment presents to elites are not always in line with their countries' policies and regulations, and such mismatches between the national interest and the interest of individuals might provide part of the answer to the lack of political will to improve the capacity of the state to implement and oversee the country's regulatory framework. In other words, it suggests that local political and business elites may have a strong incentive to allow resources to be exploited in contravention of local laws and rules because they benefit directly.

To illustrate, it argues that, while Chinese demand for unprocessed wood has driven the extraction of much of Mozambique's forest and determined the export market of timber, the problem lies not so much with the Chinese, but rather with weak governance, poor implementation of the laws designed to protect the industry by the Mozambican authorities, and the lack of a clear strategy of the government to develop the timber business sustainably. Not only has illegal logging continued, but it is suggested that state-owned enterprises (which import 40-50 percent of Mozambican timber exports) are largely responsible for the illegal trade in logs, as they have an incentive to support national companies and favour timber processed in China rather than Mozambique.[20]

An element that influences China's preference for importing logs is the risk involved in paying in advance for sawn timber. Exporters claim that there is a risk of receiving products that are of low quality or otherwise unsuitable. For this reason, exporters are reluctant to ship sawn wood in case it gets rejected. These problems primarily reflect the poor governance and reputation of Mozambique's timber industry. Yet, as long as a preference for unprocessed timber exists, Mozambique will have little opportunity to gain added value from the timber industry.[21]

A key problem is weak regulation. Several countries have imposed a ban on the export of logs (or of logs from certain species of trees), trying to both reduce the rate of deforestation and create incentives for the growth of a national timber industry. In Mozambique, until recently most forest species could be felled and their timber exported as logs. Currently, the export of unprocessed timber is not illegal under Mozambican law, but the government has tried to reduce the amount of logs exported from the country by placing a ban on the export of certain species of wood. For several reasons, this ban has not significantly reduced the amount of logs exported from the country, although it has had some impact on the growth of the exports of sawn wood.

In other countries, too, lack of regulation or failure to enforce the rules that exist are responsible for weak or negative development impacts. Despite the complaints about exploitation, Chinese investment does have the potential to promote Southern African development. It was noted in Chapter 1 that China is clearly not engaged in the region as an act of solidarity, but is motivated by its hunger for resources to fuel economic growth. China needs the region, therefore, at least as much as the region needs China. This suggests that Southern African countries have greater leeway to negotiate the terms of Chinese investment and to ensure that it conforms to local laws and needs. The degree to which China helps to develop rather than to exploit the region depends on Southern African governments and their citizens more than it does on the attitudes and strategies of Chinese investors.

## Endnotes

1 For details, see: http://zambezia.co.mz/noticias/94/1774-lchina-e-muito-bem-vinda-a-africar-afirma-armando-guebuza
2 Castel-Branco 2010
3 Eichengreen, B and Tong, H. 2006. How China is reorganizing the world economy. *Asian Economic Policy Review,* 1 (2)
4 Corkin, L and Naidu, S. 2008. China and India in Africa, *Review of African Political Economy,* 35 (115), p. 116.
5 Kaplinsky, R McCormick, D and Morris, M. 2006. The Impact of China on Sub-Saharan Africa, *DIFID*, April.
6 Herman, H. 2009. Made in China - implications for Africa, *ChinAfrica*, August.
7 Kaplinsky, R. 2008. What does the rise of China do for industrialisation in sub-Saharan Africa? *Review of African Political Economy,* 35 (115) March, p. 16.

8 See Hazelhurst, E.: "Exports of Metal to China Fall Short," *Business Report,* 1 March 2011.

9 The General Hospital of Luanda was inaugurated in February 2006, its construction cost the state US$ 8 million under the credit line from China. The construction was carried out by a Chinese Company, China Overseas Engineering Group (COVEC). A year after it opened, the building began to show cracks in its interior and exterior, and on July of 2010 had to close its doors for rehabilitation.

10 Interview with manager of the CMKK Co-operative/ Group Centre.

11 *China Daily,* February 19, 2002

12 The Maamba and Nkandabwe deposits and other known coal occurrences are confined exclusively to the lower Karoo Gwembe Formation, within the series of fault-controlled basins that comprise the Mid-Zambezi Rift Valley. These deposits occur within the Kazinze Basin, but coal seams have also been discovered in the adjacent basins. There is proven reserve of 20Mt in the same area.

13 China becomes South Africa's top export destination, at  accessed 24 November 2009.

14 Business Report, *Sunday Times*, Sunday, 1 August 2010, "Natural resources export do not always benefit the country's poor."

15 During this withdrawal, there were allegations of asset stripping activities at the mine. Though the extent is not easy to verify through this study, one observes that the new owners have had to invest considerably in rehabilitation and capitalisation.

16 Some legislators complain that, due to the pressure placed on government to ensure that a new strategic equity partner was identified for the closed Luanshya mine, the transaction with CNMC did not follow the laid-down tender procedures, providing an opportunity for government to handpick the next owner.

17 One of the challenges that Zambian companies, especially those that were supplying goods and services to the mines, suffered from was delayed payments for their services, eroded their supplying capacity. In many instances companies closed due to litigation as goods had to be obtained on credit.

18 Morris, M.: "The Rapid Increase of Chinese Imports: How do we Assess the Industrial, Labour and Socio-economic Implications," *Labour Law Conference,* 4 July 2007.

19 Quoted in *Chrome World,* "South Africa: Chinese Riddle for Ferrochrme," at  accessed 26 November 2009.

20 Mackenzie, C. e Daniel Ribeiro Tristezas Tropicais – Mais Histórias Tristes das Florestas da Zambézia, Justiça Ambiental/ORAM, Maputo, 2009 (*Tristezas Tropicais* 2009)

21 *Tristezas Tropicais* 2009.

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# CORPORATE CITIZENS? WORKING CONDITIONS AND CORPORATE SOCIAL RESPONSIBILITY IN CHINESE OWNED COMPANIES

How socially responsible is Chinese investment in Southern Africa? Does it respect worker rights and contribute to society?

The common perception is that it does not. Work conditions in Chinese-owned enterprises are perceived to be poor. Workers are said to be forced to labour in harsh conditions inferior to those in other workplaces. In China, it is argued, people are expected to work hard for very modest pay and, predictably, Chinese firms therefore expect African workers to labour under the same conditions as their Chinese counterparts. In this common view, the jobs which these plants provide – or the more general development benefits they bring to African countries – might make China's presence beneficial to development in Africa. But it is widely assumed that to work in a Chinese-owned plant is to experience considerable hardship and that Chinese-owned enterprises are particularly harsh work environments. The research confirmed that this is a common perception – in several country studies, informants were highly critical of conditions at Chinese-owned plants.

Another common concern is that Chinese firms are, more than those owned by non-Chinese enterprises, likely to ensure that the important jobs are done by Chinese people rather than locals. Chinese investment, it is suggested, does not therefore enhance the skills and capacities of people in the host country.

Given these perceptions that Chinese investment is narrowly focussed on extracting resources, it is assumed that corporate social responsibility programmes play little or no role and that Chinese firms do little to assist development in African countries.

These perceptions do have empirical backing in some cases, but the reality is far more complex. Our country studies did indeed find Chinese-owned workplaces in which workers' right to dignity and fair treatment was not honoured and in which work conditions were harsh. Some of the companies have been closed down for brief periods by the host government because health and safety laws were violated. In some, workers have reacted to their conditions by striking.

But it also found employers who were at least as concerned to respect the rights of their workers as other companies – in some cases, Chinese owned firms are offering better working conditions than the average. In some firms, Chinese workers were indeed favoured over locals. In others they were not. This suggests that there is no clear pattern in the employment conditions of Chinese firms operating in Southern Africa and that the perception that Chinese investment inevitably means poor working conditions is inaccurate. Further evidence which may suggest that it would be inappropriate to single out Chinese firms is that, where Chinese companies enter into joint ventures with local businesses or those owned by nationals of other countries, Chinese participation does not alter labour standards negatively. In one case, where Chinese investment took over a plant which had been owned by non-Chinese business, conditions significantly improved.

Since there are differences between Chinese firms, it may well be inappropriate to see working conditions at Chinese companies as a problem. The issue is, rather, whether countries in the region can ensure fair labour practices by all employers. The research seemed to suggest that technology transfer to local people is not a feature of most Chinese investment. But, if states wish to address this problem, they would need to look more broadly at measures to ensure that foreign investment ensured technology transfer, rather than relying on special arrangements for China.

## Hard labour: Poor conditions at Chinese firms

The qualifications offered above do not alter the reality that, at many of the Chinese-owned firms studied, working conditions are poor.

In Zambia, there is serious disquiet relating to how workers are treated. A trend towards casualisation raises concerns about the insecurity of labour, and has been a point of political contestation. There are concerns about the treatment of local staff by their Chinese managers, who are perceived to have used the vulnerability of workers to ignore their rights and entitlements. Thus at the CCCM mine, where the labour force has grown since 2002 from 60 to approximately 421 people, local sources said that the real size of the workforce was probably around 900 because many workers were recruited on short-term contracts.[1] Employees interviewed said that they were very concerned about their job security, as they are hired and fired at will.

Since its establishment, this company has been closed down five times, largely because of non-conformity to mine safety rules and poor sanitation.[2] The most recent closures were in December 2009, following two visits by the Mines Safety Department, which discovered that the mine was not adhering to mine safety and health regulations, resulting in an outbreak of cholera (a water-borne disease) due to poor sanitary conditions. There was industrial unrest by workers who decided to go on strike demanding improved conditions of service and improvements in safety at the mine.[3] Our findings were that employees are paid between K300 000 (US$65) and K500 000 (US$110). The mine owners note that they are not breaking the law because these rates are above the minimum wages of K268 000 per month set by the Zambian government, but the consequence is that the workers are not in a position to feed their families. And, because these salaries are below the taxable bracket, the company does not remit pay-as-you-earn tax and its contribution to national tax revenues is thus reduced. The management continues to cite low prices and poor demand as the reasons why it cannot increase employees' wages, but wages do not change in boom times. When there is an increase in wages, it is always under pressure. For example, when President Michael Sata won the election in 2011, all Chinese companies gave their Zambian employees a surprise salary increase. This was particularly experienced at the Chinese owned Chambishi Copper Mine, where local employees received two different paychecks. Sata, when in opposition, was critical of Chinese companies and promised to close most of the companies once elected because of their poor human rights records. It looks like Chinese companies had prepared for any outcome of the election by printing two pay slips for the month of September 2011. It appeared that had the now opposition Movement for Multi-Party Democracy (MMD) won the Presidential election, the status quo would have prevailed but because the opposition Patriotic Front led by Michael Sata won the election an increase was effected. The sudden pay raise at Chambishi Copper Mine is perhaps a belated effort for Chinese mine operators to burnish their image, an image that has been tarnished by abuse treatment and violence against Zambian employees.

Most of the miners revealed that there are no leave days, accusing the mine owners of focusing on making profits in disregard for human life. During the study it was further observed that CCCM was employing boys who are 12 years old to operate underground, which is in conflict with Zambian laws and contravenes the International Labor Organisation (ILO) principles of child labour. This was visible at shafts two and three.

As the plant closures suggest, CCCM has a poor record on protecting the safety and health of its workers. Employees have been working without protective equipment. The drainage and sanitation system is very poor, and most of the cholera patients in the Sinazongwe District, come from Nkandabwe, where the mine is situated. According to laboratory results, the water is contaminated and the shafts have no toilets for the workers. The district Health Subcommittee of the Sinazongwe District Development Coordinating Committee, has tried to devise mechanisms for preventing waterborne diseases like cholera without the involvement of the mining company.

In 2006, the Mine Safety Department shut down CCCM because it was found that miners had been forced to work underground without safety clothing or boots.[4] It was later reopened after management positively responded to some of the concerns raised, but little progress was made. The mine was subsequently closed in 2008 and 2009 for the same reasons. Miners interviewed for the study say that they work with unsatisfactory protective clothing, while others are compelled to provide their own. They bemoaned the absence of safety inspections and periodical medical check-ups. The mine owners do not, they say, subject employees to the statutory annual medical examinations.

At another Chinese-owned firm, Luanshya Copper Mines (LCM) Chinese workers appear to be receiving treatment which locals do not. Our findings suggest that the company favours Chinese employees. Although we could not obtain the comparative statistics, information gathered suggests that for the same kind of job done by a local and a Chinese employee, a Chinese staff member is being paid three times more than a Zambian. Besides this, most local staff (especially in management positions) have been subordinated to their Chinese counterparts during the reorganisation process. LCM has created two positions in most of the management and strategic positions, with the local person becoming a deputy. Examples of skills and knowledge transfer in such arrangements are rare, with interviewees seeing the process as one in which the Chinese access as much information as possible to render the deputies irrelevant. Some suggested that it is a strategic position of the Chinese owners to pretend that they have an integrative approach to the management of the mines which includes locals – but that in practice this is not the case because decision-making is by the Chinese, and (increasingly) communication is in the Chinese language, disadvantaging most of the local staff.

In Angola, where there is no Chinese company operating directly in the extractive industry, the approach of Chinese companies can be best assessed by focusing on their construction activities. According to the CEIC (Research Centre of Catholic university), where more than 130 Angolan workers who work for three different Chinese companies were interviewed, the overall working conditions in Chinese companies are poor. Almost all workers lacked individual protection items (such as helmets, boots, and gloves). Asked why they work under those conditions, they answered that the companies they work for do not provide better conditions, and that they were required to buy protective clothing for themselves.

Most of those interviewed suggested that they are working for Chinese companies because these do not require any documents, which means that the only requirement is the desire to work. In Western-owned companies, workers require many documents to secure employment. As it is extremely difficult to obtain documents, many young people who cannot work for western companies seek employment in Chinese companies as an alternative. The labour market is unable to meet the strong demand for jobs, so even people with documents prefer to spend time with Chinese enterprises rather than staying at home doing nothing. All those interviewed were unanimous in saying that it was a '*biscato*' working for Chinese managers – temporary work, only to have extra money, while a person looks for a better job. Chinese companies in the construction industry generate only temporary employment, which may end at any moment. There is no security or stability. At one company workers received between US$1,50 and US$2 per day for lunch. With this money they buy bread and a soft drink, if the money is sufficient.

Here, the complaint that the firms rely on Chinese rather than local labour seems justified. An estimated 80 000 Chinese expatriates are working in the country, mainly on construction projects. The Angolan government requires Chinese companies to sub-contract 30 percent of any project to local companies, and to employ local workers. But, according to the Chinese Ambassador to Angola, Chinese companies have been unable to achieve the 30 percent requirement. Chinese businesses complain that Angolan workers are not skilled enough and demand higher wages than Chinese workers. Given the tight building schedules and project completion deadlines, Chinese companies have been reluctant to hire local workers. Transport of building materials is often undertaken by Chinese drivers, although Angolans could easily be employed to do this. Chinese companies do not engage in joint venture partnerships with Angolan companies to strengthen local corporations and facilitate technology and skills transfers.

In the Democratic Republic of the Congo, conditions of work in Chinese companies are generally harsh. Here the claim that local workers are expected to work under the same conditions as those in China seems to be accurate. In the two companies visited, the Chinese personnel were found busy at work in the same conditions as the Congolese. The research team was told a story of a company called Magma Mining which used to let its Congolese employees sleep with the minerals in the store rooms (the company has now closed). Chinese managers have refused to accept the presence of worker's unions in their installations. For example, the best performer, CDM, took three years before it would allow some labour union activities in its facilities.

Chinese companies pay their Congolese workers very poorly. They were forced to accept the minimum international guarantee salary (SMIG) of US$100 by the governor of the province. But the SMIG itself is inadequate, and does not correspond to the market. A Chinese firm, FEZA mining, has refused to pay workers above the SMIG.[5] Here, the Chinese companies lag behind the Western companies in the area (TFM for example). All the workers in Chinese companies complained about poor salaries and conditions. At FEZA, for example, salaries vary between US$132 and US$500 per month (an average of US$316). This includes:

- healthcare: the employees and their families benefit from care (judged by the employees to be of quite good quality) at the ASVIE centre managed by a local NGO;
- housing allowances: FEZA pays 60 percent of the standard city rental, which is US$17.24 per month;
- family allocation, which is calculated with the index of 112 Congolese francs per day, equivalent to 2900 Congolese francs (US$3,2) per month per child.

FEZA is a reflection of most Chinese companies. The toilets are dirty, with water running continuously for lack of maintenance. A visit to another Chinese company, CDM, left our research team impressed by the infrastructure and good order that was prevailing. We were refused interviews, but the outside impression suggested that the company was behaving responsibly towards its workers. Congolese NGOs, however, argued that this external impression is misleading, and that working conditions at CDM are no different from other Chinese companies: contract negotiations are never concluded, so the Congolese end up working without contracts, and with very poor hygiene.

A key cause of the problem is government failure to enforce laws and regulations. The provincial ministry of labour suggested that in China working conditions are also poor and that, as China improves its labour standards at home, we should expect to see changes in the way its companies operate outside its borders. This argument was used, by implication, to deflect the reality that Chinese companies are meant to respect Congolese laws and regulations. When Chinese companies come into the country, they are not properly introduced to Congolese labour law and so Chinese businesses are often not aware of Congolese laws. Thus the Chinese are subject to widespread criticism, based on comparisons with the conduct of Western companies and with Congolese law. There is significant Congolese responsibility for the Chinese not respecting the law. It is clear from our discussion with different ministries that (i) there were no conditions set for Chinese investment; (ii) the Chinese were not informed of the Congolese law; and (iii) there were questionable relations between Chinese investors and certain individuals in government, who provided protection in exchange for monetary rewards. The Congolese authorities must thus accept some responsibility for the way Chinese businesses behave. We were told of a permanent tension that exists between Chinese managers and their workers, but the Congolese government has never tried to intervene seriously.[6] For most Chinese entrepreneurs, Congolese labour law is largely neglected. According to the provincial ministry of labour, 'when we ask them to abide by the law, they accuse Congolese officials of being dictators or communists'.

In Mozambique, concerns have been raised over Chinese firms' abuses of workers' rights. In March 2006, the Minister of Labour, Helena Taipo, ordered the closure of two Chinese companies[7] accused of physically and psychologically abusing Mozambican workers. In June 2007, workers for the China Henan International Cooperation Group Co.Ltd (CHICO), responsible for building the bridge over the Incomati River, went on strike, accusing the company of several violations of labour law (including unfair dismissal, physical assault, excessive workload, racial discrimination, and paying below national minimum salaries.)[8] In response to growing public concern over Chinese businesses mistreating Mozambican workers, the Ministry of Labour recently published a Mandarin translation of the Mozambican labour law.

A study[9] found tense working relations between Chinese and Mozambican workers in the construction and restaurant sectors. On the one hand, Mozambicans complain of poor working conditions (which include unfair penalisation for late arrivals, poor pay, lack of respect, poor bonuses for good performance, and insignificant transfer of skills). On the other, the Chinese complain that the Mozambicans are undisciplined, lazy, with no vision beyond surviving from day to day. While the study identifies cultural and language barriers as key factors contributing to the disgruntled relations between the two parties, it also points out that the manual and low-wage nature of these industries has an important role to play.

In South Africa, National Union of Mineworkers General Secretary Frans Baleni has been critical of the safety record at Aquarius mines. In 2009, NUM criticised Aquarius Platinum's suggestion that it had received a clean bill of health after a government safety audit. According to NUM, Aquarius has in the past claimed to have undergone successful safety audits, without the completion of safety inspections and assessments.

In Zimbabwe, Chinese mining firms suffer the now common accusation that they export jobs by bringing in workers even for the meanest tasks (like earthmoving equipment operators and opening the main company gates). A Minister from one of the SADC countries who (as part of the Kimberly Monitoring team) visited the Chinese company, Unji, which is mining diamonds in Marange, was disturbed to find that it was a Chinese person who was opening the gate of the company. The culprits are the small Chinese mining companies. The Mining Workers' Union also reported that most Chinese mining firms exceed the legally stipulated working hours of 8 hours per day. They generally work 12 to 18 hours. At the Makwiro platinum concession, workers complained that they do not get overtime for the 12 hours per day they work, and are instead asked to take time off. Related to this, local holidays were not observed. Protective clothing (if any) was also said to be in short supply, and workers had been observed wearing their own clothes for work.

While some mining houses have put up reasonable accommodation for their employees, this is an area still in need of attention, especially among the new investors.

This was said to have nothing to do with being new in the environment, but an observance of minimum working standards. Another bone of contention between trade unions and Chinese mining firms has been their use of contract labour in violation of the Labour Relations Act. Contract labour is said to be generally preferred. Neither are minimum wages observed. It was also alleged that trade unions cannot address these concerns because of communication barriers with the owners, even in cases where the latter can speak English. These claims were substantiated by the findings of a government audit into the mining sector that no records on labour were available, and of all the sites visited none had legally appointed skilled workers (as required by law).

While some technical and engineering skills might have migrated, there is still an abundance of general and lower skills that can be employed. One of the biggest impediments to skills transfer is the language barrier. This occurs even at the senior level where the reports of translators are too simple in the technical sense (or incomprehensible). Even where there are Zimbabweans who speak the languages there are problems between the locals and official interpreters. Skills transfer at the small-scale Chinese companies is non-existent as they operate mainly like 'big *Makorokozas'* (big panners). At plants owned by a key Chinese firm, Sino-Steel, it seems that, for the time being, the issue of translation of manuals is out, and so only Chinese printed manuals will be available. This raises questions about what will happen when, as the CEO indicated, Sino-Steel upgrades the equipment currently installed at ZIMASCO using Chinese blueprints. It is premature to say at the moment, but there is a real possibility of the elbowing out of local know-how (which, admittedly, is non-existent at the moment) in the absence of training and technology transfer. It was reported that whenever Sino-Steel wanted mining development, it sent for technical teams from China. This practice has a strong bearing on technology transfer.

## Balancing the books:<br>Chinese companies' respect for worker rights

The patterns identified thus far are serious indictments of some Chinese companies' approach to labour relations in the region. But, as we indicated at the outset, other patterns are discernible too – those in which Chinese companies show at least as much respect for worker rights as other firms.

In Zambia again, Chinese companies seem to have enhanced job creation, in contrast to the privatisation process of the mid-1990s, which resulted in high unemployment. Although there are no reliable statistics, it is projected that approximately 25 000 jobs have been created directly through various projects which have benefitted from a financial and capital injection by Chinese firms in the last four years.[10] Many respondents interviewed during the study acknowledge that jobs have been created, especially in the mining companies and those that support the industry. The Chinese company LCM has created jobs which were lost by the mine's previous owner – a study found, that so far over 2 250 workers who previously lost jobs are reported to have been re-engaged, and that the majority of the workers will be on pensionable contracts. The offering of pensionable jobs is a major point of departure from the practice of most Chinese firms in the sector, who have provided mostly for short-term contracts with high levels of casualisation.

Pay is also better than at many other firms. LCM is reportedly offering salaries that are better than the former employers, with the lowest-paid employee being at ZMK1,2 million (approximately US$250) and a housing allowance of up to 25 percent of one's salary. This again is in contrast to most salary scales in which Zambian employees are given salaries not exceeding ZMK560 000 (well below the estimated living wage for a family in Zambia, which is approximately ZMK2m or US$450). In addition, the contribution of the mining firm to national budget (especially in the form of pay-as-you-earn PAYE tax) remains minimal. For those miners who have their income taxed, their take-home salary is less than ZMK600 000. The inadequacy of finances (and financial stress amongst miners) is seen in their inability to send children to school, or to meet the costs of health and other services. Most of the miners are in perpetual debt to micro-financing companies. But this is a general reality in the industry and wages at LCM, low though they are, are higher than those paid by other firms.

LCM's attitude to trade unions is also more positive than that of many mining companies. Zambia's mining sector has a tradition of miners being represented through trade unions, especially the Mine Workers Union of Zambia (MUZ) and the National Union of Miners and Allied Workers (NUMAW).[11] But the role of trade unions as platforms to represent workers' rights has not been favoured by mining firms; mine owners have preferred to deal with individual workers through contracts. The LCM management, however, signed recognition agreements with the two unions in October 2009. Management has extended an invitation to the unions to commence negotiations on conditions of service. During the maintenance and care period before the government offered the mine to the Chinese company CNMC, the labour movement was at every stage consulted. Their concern had been giving back jobs to their members, and they pressurised the government to shorten the company registration process.

Although the mine was not yet operational at the time of the study, safety may be an area in which Chinese ownership may be accompanied by improvements. Accidents have characterised most mining establishments in the recent past, but the Mines Safety Department (MSD) say they have been actively involved in the development phase of LCM, continuously inspecting the preparations for production. An important issue worth highlighting is that the MSD has been dealing with LCM's sister company, NFNC in Chambishi, from which valuable safety and health experiences have been gained. While agreeing that safety has been of concern in most Chinese companies, the MSD was positive about their experiences of NFNC, which they described as impressive.[12] The company is said to be adhering to high standards and practices, and as a commitment to its new development at the Luanshya Copper Mines, key staff responsible for safety (particularly the mining engineer) were transferred to Luanshya from Chambishi. The decision taken by the new management at LCM to start with development of the mine before production will lessen the likelihood of accidents. One of the reasons for bringing in management from the sister company in Chambishi was to ensure adherence to safety and health requirements.

In Zimbabwe, the Chinese company ZIMASCO's claim that it is an equal opportunity employer which seeks to attract high-quality employees who can add value to the business and that concern for its employees well-being is of paramount importance'is corroborated by the labour movement. Research finds that management is patently aware of the need for health and safety to maintain productivity and value addition for the long-term viability of its chrome mining and smelting business. To this end, its safety, health and environment (SHE) management strategy includes:

- SHE management issues form part of any value creation decisions made by the business;
- establishing management systems to assess, monitor and control SHE risks associated with company operations;
- compliance with relevant legal, internal standards and international SHE management systems;

- participation in the national bodies that are concerned with matters of SHE;
- educate, train and make all employees aware of their SHE responsibilities;
- strive for continuous improvement in all SHE programmes.

Compliance with this policy was said to be mandatory for all employees.

ZIMASCO employs 2794 people. Of these, only three are Chinese at the managerial level. The rest of the staff is wholly local (understood in the limited sense of employees who had been with the company before Chinese ownership, because the data did not capture actual nationalities). In this case, the claim that preference is given to Chinese employees over locals is clearly not justified. It has a training and development function that is responsible for training new and old employees in various disciplines (including engineering, mining, smelting, supervisory and managerial skills). Apprenticeship, graduate, technician and skills-upgrade programmes are also offered. In all this there are no foreign personnel being understudied, and all the technology transfer is between Zimbabweans. Sino-Steel Zimbabwe, which owns the company, has four managers from China (the CEO, the Development Department Director, the Administration Director and the Finance Director). The local management team at ZIMASCO has been retained, and only the Finance Director and the Chairperson of the Board are Chinese. The management team at the Rushinga Iron Ore Project is wholly local.

In South Africa, the partnership between Chinese firm Zijin and Aquarius conforms to legislation and accepted business practice. This is said to be because diligent union oversight ensures that required programmes and procedures. But, while unions may take the lead in pressing for compliance, the company does not appear to resist this. Employment practices and procedures comply with internationally accepted standards and conventions, such as the UN Universal Declaration of Human Rights and the International Labour Organisation's Fundamental Principles and Rights at Work. The company has a comprehensive safety management programme, along with extensive medical surveillance procedures. A plan to reduce noise levels to 110dBA by 2011 (as stipulated by legislation) is in effect. Housing subsidies, adult basic education and training (ABET) and bursaries are provided for workers, while specific recruitment programmes for women are in place.

Another Chinese-owned company, Jisco, appear to comply fully with legislation protecting worker rights. Investec Asset Management strategist Michael Power suggests that Jisco's approach is guided by South Africa's strict legal environment and robust labour legislation. Martyn Davies, head of the China-Africa Network at the Gordon Institute of Business Science (GIBS), has pointed out that South Africa's standards of corporate governance require that all investors, including those from China, adhere to a socially responsible approach.[13] Chinese investors do not appear to be resistant to complying with these requirements.

The Chinese-owned Buffelsfontein mine has a superior safety record to most of its competitors. It has recorded 6 million fatality-free person-hours and a low disabling injury rate of 0,38 – far below the industrial average. A delegation of inspectors from the Department of Mineral Resources recently commended the Australian-Chinese ferrochrome miner IFM on its good health and safety performance. The most recent environmental compliance audit indicated exemplary compliance with general environmental obligations, while the group has pledged its compliance with the Mining Charter, which sets social responsibility standards. Chinese-South African joint venture ASA Metals has committed itself to prioritising the prevention of occupational injuries, illnesses, property losses, responsible environmental management, and compliance with all applicable legislation and SHEQ requirements, with the aim of zero harm to people and the environment. ASA also has in place a comprehensive pollution-control policy and a training programme to ensure worker's compliance with SHEQ requirements. The effective application of SHEQ requirements is reviewed annually by internal management and verified by an external assessment. All employees and contractors are required to accept responsibility and accountability to the SHEQ policy, thereby ensuring implementation and adherence.[14] Although a worker was killed as a result of ground falls at the ASA's Dilokong Mine in March 2009, high safety standards seem to have prevented other fatalities.

## Caring without control: Corporate social responsibility

Do Chinese enterprises contribute to the societies in which they extract resources? According to independent researchers Chinese companies generally do not promote corporate social responsibility (CSR) programmes in Africa, but are increasingly interested in these programmes and the positive impact they could have on corporate image.[15] Our research revealed a familiar pattern: the companies insist that they are contributing to society, their critics respond that they are not putting back anything like that which they take out. But this is hardly unique to Chinese companies.

There are clear breaches of social responsibility standards. Perhaps the clearest example is the role of individual Chinese traders who relied on an exploitative relationship with artisanal Congolese miners. This relationship was not initially contractual or predictable. Chinese bosses bought commodities spontaneously, without knowing the real value of the merchandise (because the goods never went to a laboratory for analysis). In many cases, Chinese buyers pretended that the minerals were of low grade, and paid the Congolese less than they were worth. The Congolese artisanal miners were desperate to find money for their daily meal, and Chinese traders used this situation to devalue the goods. It is not surprising that artisanal miners speak of bad working conditions and bad treatment at the hands of Chinese companies. One of the biggest human rights abuses in the mining sector was the presence of children in quarries. Most of the Chinese commodities were acquired through child labour. A study by a Congolese NGO, Action Against Impunity for Human Rights (ACDH), found that of the over 200 000 miners employed in artisanal mining, 40 per cent were children under the age of 15 years.

There are many cases in which companies are accused of not doing enough. Our Zimabwe research team encountered a strong view that mining companies generally, the Chinese and Russian included, do not plough back resources into the community. In the Democratic Republic of the Congo, the agreement setting up a new mine, Sicomines, which will start production in 2013, is said to be weak. The mine is not expected to make a significant CSR contribution.

In Zambia, Chinese company LCM differs from other mining companies such as Lumwana (a Canadian company), where corporate social responsibility is an integral part of its strategic engagement with the community. There was no evidence to suggest that the same applies at LCM. CCCM's contribution to the community as part of its corporate responsibility is almost non-existent. Apart from providing employment to the surrounding villages, no contribution has been made to the development of the area.

From the field studies, we noted the following:

1. **Education:** Apart from ferrying sand to Chamukwapulo community school during construction, no other commitment has been witnessed by the surrounding

community. According to employees, education is a key priority as lack of it has caused a lot of suffering and underdevelopment.

2. **Training:** The company hasn't put in place any plan to upgrade employee skills and education standards.
3. **Health facilities:** At the time of the study, the mine sites had recorded a number of cholera cases involving employees; this resulted from the lack of concern by the management to put in place precautionary health measures. According to the area councilor, there have been suggestions for the company to contribute to the upgrading of a local health post into a centre or mini-hospital, but the response hasn't been positive. There is a sick-bay at shaft 1, stocked with drugs and administered by a Chinese expatriate without being approved by a medical institution. The person in charge of the sick-bay understands only Chinese, while the Zambian workers do not understand Chinese.

The road leading to the mine is important for the local people. It was constructed between 1965 and 1968, when Maamba coal mine started mining in the area before relocating to its current location. Besides the mine, the road serves the needs of this predominantly agricultural community, serving as an important link between people's produce and access to market. During the study, most respondents lamented the state of the road which is now in a deplorable state. They observed that until 2005 the road was intact and transport wasn't a problem for the local farming community, but by the time production commenced at CCCM the road had been damaged extensively. The company does not repair the road. When asked whether the community had talked to the mine owners about the road, the area councillor informed the study team that they had on several occasions. He further stated that in one meeting the mine owners informed the community that if they were issued instructions from State House, they would take corrective action. CCCM management doesn't recognise the lower organs of government, and this raises concerns about the extent of political control and decision-making. The people of the area are in desperate need of a good road if their agriculture is to be developed further. At the time of study, the newly appointed District Commissioner in the area acknowledged that his office had made frantic efforts to improve dialogue with the mine owners, inviting the management many times to meet for discussions. He further contended that he had in possession technical reports from the Ministry of Mines Safety Department whose major recommendation is the closure of the shafts until identified issues are addressed. Despite this, the mine has continued operating.

Unlike most of the large mining operators in the Copperbelt and north-western regions of the country which are on state land, Collum Coal Mine is on Chief Sinazongwe's customary land.[16] It is not yet clear as to the type of mine license the company has. There have been a lot of systematic displacements, which have been carried out with full consent of the local village headmen and the chief. It is not clear as to who owns the land between the mine and the local community, and the extent of the land is not known. The local government authority has no idea on how the land was acquired.[17] When local households are displaced, compensation arrangements have been made indirectly through traditional structures, and not directly with the households concerned.

But again, the assumption that Chinese companies ignore CSR is contradicted by evidence of an array of programmes in several firms. In DRC, despite a generally bleak CSR record, Chinese companies are upgrading their operations – many have made applications for large-scale mining permits, which shows their intention to convert to industrial mining. At the same time, many Chinese private companies have promised to contribute to the amelioration of the social conditions of their workers and to respect the country's legislation.

In South Africa, Aquarius's CSR and community development projects include a water and sanitation project, upgrading of schools in Ikemeleng, Rustenburg Waste Management project, training at the Lapologang Village, expansion of Retief and Marikana Primary Schools, Kiwi Early Childhood Development Centre, and Bakone Ba Phetla Community Centre. Environmental management plans (EMPs) are developed in accordance with national legislation, while SRK Consulting conducts annual performance assessments of the EMPs.[18]

In Zambia, LCM's poor performance is not as poor as it seems. From information gathered away from the establishment (including periodic observations of ongoing practices), LCM has taken on various commitments of support to a number of sectors, including education,[19] health, recreation (support for a football team, Roan United) and sports facilities, support to the swimming pool facilities and related activities.[20] Two unique areas of support are the women's club for miners' wives, with a focus on empowering them economically, and supporting activities for female child life skills. LCM will support these activities through a centre in the Mpatamatu community. The second area is the support being provided to agricultural activities. According to information gathered from officials, LCM has for the 2009-2010 farming season, donated 25 million kwacha (US$5000) worth of agricultural input, including 100 bags of fertiliser and 50 bags of maize seed. LCM sees this as a way of addressing alternative economic survival measures for the district. LCM is a member of the Chamber of Mines, which advocates for its members to be fully involved in issues affecting their immediate community. One of the ways in which LCM, like many other mining companies which entered development agreements, is expected to contribute to the community is through engaging in social projects within and close to the district. This is the anticipated corporate social responsibility programme, which anticipates that the mine owners will be compelled to share some of their profits to the benefit of the immediate communities. And, at the time of study, the newly appointed District Commissioner in the area in which CCCM is active observed that it is wrong to say that Chinese investment is not community-friendly.[21] He cited cases other than CCCM where companies from China are operating differently.

In Zimbabwe, ZIMASCO has long-standing CSR programmes. Donations have been made to local schools, hospitals and disabled people. ZIMASCO has donated in kind to 11 primary and secondary schools, four hospitals (including the construction of Mutorashanga Hospital and the mortuary at Kwekwe Hospital), five stadiums and youth centres, a bridge and road maintenance, water treatment for Kwekwe Town Council, Kwekwe Polytechnic (and equipment), 50 houses in Kwekwe, and a police station in Mutorashanga. Seven orphanages, six homes and seven rehabilitation centres benefit in cash and in kind on a regular basis. The advent of Sino-Steel has seen other high-profile donations. According to the CEO of Sino-Steel Zimbabwe, a donation of $200 000 was made to the first lady's orphanage in the Mazowe district (north of Harare). The research team also learnt that there were plans to sponsor a budding local driver in Formula One car racing. But most of these donations predate the majority shareholding takeover of ZIMASCO by Sino-Steel Corporation. The real issue is their continuation and possible expansion under the ownership arrangement.

A recurring theme in several of the country studies was the absence of a clear legislative framework forcing companies to engage in CSR activities. In South Africa, this does exist in the various industry-wide charters negotiated between employers and other stake-holders, including the government – the Mining Charter is obviously the applicable instrument here. In Zimbabwe, there was previously no legal requirement for CSR, but new legislation requiring the indigenisation of companies contains regulations which stipulate that 10 percent of gross profit must go to the community. The Mining and Minerals Act will be amended to legalise this requirement. Since the South African Charter was initially designed to ensure greater black ownership, both of these measures requiring CSR are a result of indigenisation policies. In other countries, where this is not a pressing issue, there are no policies or laws compelling CSR.

Zambia has no policy compelling multinational corporations to engage in social projects. The absence of a compelling corporate responsibility policy or framework is visible, and works to the disadvantage of both the mining companies (who are expected to make contributions to the community, though these remain undefined) and the community (who expect to benefit from the mining companies in some way). Corporate social responsibility is implemented largely as an alms-giving activity. CSR, in the view of our research team, needs to be an integral component of the companies' strategic development plan. It should also take into account a more responsive, deliberate strategy rather than a reactive one, and ensure that sustainable results are achieved.

In Zimbabwe, the Chamber of Mines argued strongly during an interview that there should be targets for CSR. ZELA concurs with the MMCZ view on CSR in the mining sector. A distinction ought to be made between the facilities they provide for their employees, and what they do for the surrounding communities. On the former they are obligated by their business interests; on the latter they operate on a "trickle-down" or spill-over basis. In other words the surrounding communities are not an object of their investments. Small-scale miners are instead depriving the communities they are working in of both community development and environment reclamation.

In the view of our research teams, CSR should not be voluntary and the other countries studied would benefit from following South Africa and Zimbabwe's lead by introducing frameworks requiring a minimum level of CSR.

## Living off the Earth: Chinese investment and the environment

China's key interest in Africa is to source raw materials to fuel its economic growth. Given this, we should expect Chinese enterprises to show little interest in environmental sustainability. But, as with labour relations, the reality is more complicated. There are examples of disregard for environmental protection, but there are also cases of sensitivity to it.

In the Democratic Republic of Congo, a provincial department of environmental affairs which has jurisdiction over Chinese companies reports that, if it were not for their contribution to the province's socio-economic condition, these companies would have been asked to close, as they do not meet environmental standards. The system they use for treating mining products is very harmful to the environment. Generally, the foundries use hydrometallurgy to melt off the copper and cobalt in a furnace. The fuel used in this process is coke, which is very damaging to the environment. Many people interviewed were concerned that Chinese companies are not adhering to lawful practices, but are protected by political authorities at all levels of government. Chinese companies involved in the smelter business pollute the environment and make no effort to respect the legal restrictions. As one Congolese informant put it 'In spite of their economic contribution (referring to the circulation of cash), for the most part they should be closed.' The proliferation of mining in Katanga is damaging the environment. The water, air, and soil are polluted. The pH is between 3 and 5 (which is very serious and could contribute to the disappearance of many species), particularly in the Naviundu River. Deposits of minerals are stored on the ground, in an area not cemented according to recommended standards.

One of the biggest environmental challenges facing the DRC is the granting of protected areas to mining companies. For example, CDM has been given the right to mine in the lower Kando region of Kolwezi. This is a violation of the environmental law. The mining law forbids installations in lower Kando, which is a protected area. The mining office granted this permission in contradiction of the mining law, which clearly states that lower Kando (or Kondo) is non-conceded reserve. The Congolese authorities must accept the blame for difficulties in applying the mining law as it relates to the environment. There is a lack of sincere collaboration between the environmental divisions and the mining ministry. The mining law is of an exclusive nature (which repeals the general law) and of an exhaustive nature (which limits the number of parties involved). In the case of the environment, the mining law repeals ordinance no 41/48 of 1953 on harmful salubrious and insalubrious establishments (which in fact is the general law that governs the environmental sector). By way of exception, the mining law refers to the special law for the settlement of environmental matters with regard to processing units. In spite of difficulties linked to the non-intervention of services in the mining sector, environmental departments continue to intervene. There are also problems linked to the quality of agents (including laxity in recruitment and incompetence). The DRC has drawn up an environmental framework law. This document has been approved by the president and is awaiting promulgation.

In Zambia, the mining method being used at CCCM requires a lot of logs, and this has led to indiscriminate cutting of trees by local people for sale to the mine. This has raised concern and caused other stakeholders to call on the government to regulate the cutting of trees before the area is completely deforested. There have also been suggestions for the mining company to consider employing or designing other environmentally-friendly means of extracting and processing the coal. The study noted that most of the land use in the district is mining oriented. The rest is reserved as forest land. The issue of land is critical in the district as a result of the dependence of the district on mining. In trying to diversify sources of income and livelihoods, households have resorted to agriculture, and the only land near to the mining community is either mine land or the Maposa National Forest reserve. There is therefore, a conflict between the farmers and mine management regarding ownership and utilisation of the land. Responsibility to resolve the issue has been given to district stakeholders, including government officials and policy-makers, through the respective members of parliament (MPs). The regulatory institutions for mining activities are the Environmental Council of Zambia and the Mines Safety Department. The relationship between the two is governed by a memorandum of understanding.

In Zimbabwe, a strong view was expressed that mining companies generally, the Chinese and Russian included, violate sections of the Mines and Minerals Act on land reclamation. While this point is made about all companies, there are specific cases of disregard for the environment by Chinese enterprises. In Midlands Province, Chinese companies are illegally mining chrome without the requisite EIA reports. One of them had set up a chrome washing plant on the banks of Ngezi river in contravention of the country's environmental laws. Findings of the audit report into mining companies' activities concur. A study found that at present there is no specific engagement of the Chinese as a major player of the future in the environmental sphere. An interview with the Zimbabwe Environmental Lawyers Association (ZELA) confirmed this.

But there are other Chinese companies in DRC and Zimbabwe which have made an effort to reduce pollution levels. CDM and others (such as HUACHIM and Congo Loyal Mining) have modernised the fume filtering mechanism in their chimney stacks, and the technology that they are using in the processing of products is highly recommended. In Zimbabwe, ZIMASCO has initiated a process to reduce smoke and dust emissions from the open furnaces, and work has already started on one of the five furnaces. It was also stated that in the mining areas there was reforestation and reclamation of land. This is something that the study did not empirically establish. All in all, the study was informed of the following measures:

- environmental monitoring of water, stack emissions and dust
- dust suppression and extraction systems
- resource monitoring
- rehabilitation programmes.
- awareness programmes for resource conservation
- effluent water dosing programmes to reduce pollutants
- oil separators.

The efficacy of these programmes can only be established at the empirical level, something the study did not seek to establish, especially given the dispersion of chrome claims throughout the Great Dyke (and particularly with regard to resource conservation and monitoring and reforestation). But they do at the very least show a willingness to take environmental protection seriously.

## A concern for care? HIV and AIDS policies

The pattern discerned through much of this chapter, of uneven responses, is also true of responses to HIV and AIDS, which has come to be seen as a core test of corporate social responsibility in the region. While this may seem to be a labour relations issue, since companies are usually responding to employees who are affected by the virus, it is usually seen as a CSR issue because some companies do offer support programmes for people beyond the workplace. Responses range from total indifference to significant concern expressed in elaborate policies and programmes. Most companies do see a need to respond.

At the unconcerned end of the spectrum, in Zambia, CCCM management sees no need for an HIV/AIDS workplace policy, insisting that Chinese staff are disciplined and do not indulge in extramarital affairs. This obviously implies that the health of local employees is of no interest. The perception that the Chinese are disciplined and do not engage in sexual activities with locals is not correct. In Luanshya, where LCM is mining, Chinese workers are dating young girls of 12 and 15 years old (they call them "Maria Maria"). A group of Chinese workers were arrested, only to be released after it was discovered that Zambian women were organizing these girls for the Chinese.

At the concerned end, in South Africa, Aquarius has HIV and AIDS policies and programmes, developed in consultation with specialists and employee representatives, in place. Voluntary counselling and testing is available at all operations, while wellness programmes are available for HIV-positive employees and their dependants.

In Zimbabwe, ZIMASCO management acknowledged that HIV and AIDS are a national health problem, and that the group has a duty to educate employees and their families so that they can prevent themselves and others from being infected. Consequently "top management endorses and supports the AIDS Awareness Programme and will make funds available to implement the policy accordingly." (Interview with AF Chadhliwa, Capability Development Manager, ZIMASCO). It was further stated that the group believes that it has a social responsibility to curb the epidemic and to support all Ministry of Health initiatives. According to the group, employees with AIDS (or any other life threatening illness) should be treated with dignity and respect. An atmosphere conducive to caring for and promoting the health of all employees should be created. In addition, prejudice and unwarranted fear should be reduced wherever possible.

As a policy, 'employees with AIDS or any other life-threatening illness will be allowed to continue to work as long as they are able."[22] ZIMASCO's stated policy on HIV/AIDS can be summed up as:

- The group physicians will determine suitability for work. Information entrusted to ZIMASCO physicians will be treated in a confidential manner, as outlined in the company policy on confidentiality.

- Employees are assured of complete confidentiality when seeking testing or counselling.
- HIV infection will not serve as a basis for any employment decision, provided there is no health or safety risk to the employee or other employees.
- HIV testing of employees or applicants will only take place on a voluntary basis or when required by internal standards, and such testing will be accompanied by proper pre- and post-test counselling.

## No breed apart?

Although these working conditions show that working conditions at Chinese-owned enterprises are often poor, it is not always clear that Chinese firms are much different from those owned by other nationalities.

Thus, in Zimbabwe, a Chinese take-over of a plant does not seem to have prompted a change in human resource policy. While it is not clear whether Chinese-owned mining companies look after the families of workers affected by AIDS, through benefits or preferential employment of the offspring of affected families, a study noted that this observation is not unique to companies with Chinese involvement.[23] In Mozambique, high levels of unemployment force many workers to accept poor working conditions. However a study suggests this is not specific to Chinese companies, but is common among other foreign and national firms.

There may well be cases in which conditions at Chinese companies are poorer than those in other plants. But, in the main, the evidence suggests that they are no worse employers than others, and that there is little data to suggest that China's arrival has meaningfully skewed existing labour relations and human resources policies.

## Nothing special?

The evidence presented here clearly suggests that some of the concerns which are expressed about Chinese enterprises' labour practices in Africa and their attitudes to CSR are legitimate. Working conditions are sometimes harsh and the problem of inadequate technology transfer seems to be common to virtually all Chinese enterprises on the continent. Some firms do not do all they could to contribute to their communities. Whether Chinese firms are any worse than those owned by nationals, and other investors is far less clear – there are certainly examples reported here which suggest this, but there are also cases in which they appear better than non-Chinese companies.

What is clear is that there is no evidence to support the assumption, often made in debates on Chinese investment, that Chinese labour and CSR practices pose a uniform and unique threat to working conditions in Africa. Some Chinese employers appear to have adopted humane labour practices. Where practices are harsh, the problem is often not restricted to Chinese firms. Some give significantly to social projects. Chinese social and labour practices are not uniform and so the issue is not how African governments should respond to all Chinese companies. Only particular companies' labour and CSR practices are a problem, and in some of those cases the firm responsible is Chinese-owned. Even the fairly general technology transfer problem may not be unique to Chinese companies since the research did not look at how much transfer occurs in other foreign-owned companies. Nor can it be said that the authorities in Southern African countries uniformly avoid applying labour rules and laws for fear of deterring Chinese investments – in some of the countries, authorities have insisted on applying the law, to the extent of closing firms down for periods when they fail to comply with laws.

This surely means that no approach which singles out Chinese firms as a special problem needing a special solution is necessary – the problems identified here would best be addressed by a general improvement in the way in which labour laws are framed and implemented in Southern African countries. The research seems to indicate a frequent need to apply existing laws more vigorously, and in some cases a need to adopt new laws or change current ones to prevent abuses. Where trade unions are active, conditions appear to improve as a result of their efforts, and so it may be necessary for countries where unions do not play a strong role to look at labour law to examine whether it could be more favourable to workers' right to organise. Our research teams argue also for policy and law requiring CSR, even if the details of what spending priorities should be are left to the companies. But what is clearly needed is a generalised improvement which would apply to all enterprises, not only those from China. The problem is inadequate worker protection and the lack of a CSR framework, not Chinese investment.

## Endnotes

1 The company operates for 24 hours a day, and most of the employees work in shifts. This enables the company to take in more staff and pay comparatively less wages.
2 Interviews with community members indicate that there have been about five fatal reported accidents and several unreported ones. Two local employees have died, another two have lost their legs, and one lost his arm.
3 The strike took place on 2 December 2009, with irate employees blocking the road leading to the mine, and throwing missiles at Chinese managers. The volatile situation saw the employees' open doors to the Chinese premises for a physical confrontation with the risk of damage to property and loss of life. Local police intervention saved the situation.
4 When Alice Simango, then Provincial Minister for Southern Province, visited the mine and saw the conditions there, she wept on national television and accused the management of treating workers like animals, prompting the government to close the mine for three days in July.
5 Interview, FEZA Staff.
6 In 2008, SARW (in partnership with the provincial ministry of mines) organised a conference in Katanga province on CSR. The conference was attended by all mining companies. Each company presented its corporate social responsibility programme. During this conference the provincial minister of health lamented how a Chinese businessman stabbed to death a Congolese employee, and the government failed to act.
7 Monte de Ouro and Irmãos Comércio Kodak, both based in the province of Zambézia.
8 Savana, 14 June 2007
9 Feijó, J. '*Relações sino-moçambicanas em contexto laboural – uma análise de empresas em Maputo'*, in Carlos Serra (org.), *A construção social do Outro, Perspectivas cruzadas sobre estrangeiros e Moçambicanos*, Maputo, Moçambique, 2010
10 Statement attributed to Chinese Ambassador to Zambia, January 2010.
11 The management had earlier expressed concerns about the existence of two unions in the same industry and had proposed a merger, which was rejected by the two unions and their members.
12 In 2006, miners were killed in an accident at the Beijing General Research Institute of Mining and Metallurgy Explosive (BGRMME) factory, a multi-million dollar joint venture between China and the NFC Africa Mining Company. The accident, caused by a massive explosion within the manufacturing plant, killed all of the workers who were trapped inside.
13 Quoted in Russell, A.: "Jisco Takes Model Approach in South Africa Project," Financial Times, at accessed 24 November 2009.
14 Company documentation, ASA Metals (Pty) Ltd.
15 Interview with Dr J C Alden, Director, China in Africa Project, SAIIA, 20 May 2011.
16 Zambia has a dual land tenure system, including customary and statutory land (94 percent and 6 percent respectively).
17 Interview with Mashapi Mathews, Director of Works, Sinazongwe District Council.
18 Aquarius Platinum (South Africa) (Pty) Ltd (AQPSA), Block A 1st Floor, The Great Wall Group Building, 5 Skeen Buelevard, Bedforview, South Africa.

19 In terms of education, the new owners have taken over the Luanshya trust school for miners' dependants and other community members, with children attending basic education. Apart from basic education provision, Luanshya Crafts School has been opened for courses in metal fabrication, plant fitting and rigging. Graduates from this school are taken on by the company.

20 LCM management has taken over all the health institutions which used to be managed by their predecessor, Luanshya Copper Mines. These include: Luanshya hospital; Clinic 5 in Roan Township; Clinic 23 in Mpatamatu; and Independence Avenue Clinic. Apart from these, the company has continued to participate in national programmes to roll back malaria and community HIV/AIDS programmes. There is an HIV/ AIDS workplace policy, which has been taken over from the predecessors.

21 Interview with Oliver Pelete, District Commissioner , Sinazongwe, November 2009

22 Interview with AF Chadhliwa, Capability Development Manager, ZIMASCO

23 Wekwete, Jokomo and Masuko: 2005

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# THE ANSWER LIES WITHIN: INTERNAL CONSTRAINTS ON ENSURING A DEVELOPMENTAL IMPACT FROM CHINESE INVESTMENT

A consistent theme of this study has been the extent to which the limited developmental impact of Chinese investment is the responsibility of the Southern African states in which China invests.

Our research does not indicate that China has a 'take it or leave it' attitude to investment – that it would withdraw from African countries if it was expected to obey local labour laws, to contribute development funds to the society, and to obey tax and environmental laws. Where these standards are applied, Chinese enterprises continue to operate in the host country and to obey the law. It follows, therefore, that host countries must take a considerable share of the responsibility if Chinese resources are used to treat workers harshly, ignore local development needs, or to harm the environment. Where Chinese enterprises are able to escape tax, this is clearly a host government responsibility. In some cases, countries have the laws and rules which would ensure that Chinese investment did not cause harm but do not implement them. In others, they need tougher and more appropriate rules. In both cases, better local enforcement of standards which protect the country's citizens and its resources is needed.

Chinese investment would also be more developmental if host governments were willing and able to strike tougher bargains with China. While the study shows that China drives a hard bargain in negotiations, it is unrealistic to assume that, if it is faced by determined negotiators armed with a clear strategy, it will not make concessions. Southern African countries must, therefore, take responsibility if they have failed to negotiate the terms of investment in ways which advance development prospects.

In some cases, factors other than the government's failure to legislate or negotiate effectively may limit investment's impact. Environments in which social conflict inhibits economic activity may force companies to adopt a narrow approach in which they seek to extract what they can without putting down deep roots. Foreign investors of any nationality are also not immune to local constraints on economic activity such as poor public services, inadequate education and health systems, and infrastructure which inhibits local people's ability to be economically productive. Here too Chinese investment may not have the development impact the society requires, not because of China's practices or attitude but because of local conditions.

It is no surprise, then, that each of our studies stresses that host governments and those who hold power in Southern African countries must initiate changes if Chinese investment is to promote development. This was perhaps the most oft-repeated theme across all the studies. This chapter will flesh out this theme by discussing in detail the domestic constraints which prevent societies reaping the potential benefits of Chinese investment. It will concentrate mainly on the legislative and regulatory dimensions, but will also discuss other constraints which emerged from our country studies.

## What the laws say

Each of our countries has an elaborate legal framework which regulates the extraction of resources. This section will detail the laws and rules. Since the country studies reported on them in detail, it will be divided into country specific sections:

### Angola

Angolan law gives the state a monopoly of all mining activities, including exploration and exploitation of all mineral resources. Companies are expected to obtain a license to mine. To obtain one, they accept obligations which include: integrating Angolan labour as far as possible and offering workers professional training; giving preference to Angolan companies as subcontractors and compensating for any damage or loss to third parties as a result of any operations; ensuring the protection of workers and the environment. Entities that regulate the extractive industries are not independent. State companies Sonangol (petroleum) and Endiama (diamonds) regulate and intervene in the operations, playing the role of referee and player at the same time.

Endiama is legally enshrined as the executor of mining policies and the commercialisation of diamonds. The law permits exploration by hand of selective diamond deposits where these are not explored on an industrial scale. The diamond exploration zones are segmented into restricted areas, protected areas, and those of deposits. The law prohibits the carrying out of any further economic activity in the restricted and protected zones. This is because companies awarded the grants have to indemnify owners of the existing commercial, industrial, agricultural and cattle breeding establishments within the area. Expropriation by public utility, both in favour of the state as well as benefiting companies with grants, is permitted. The law is severe when it comes to crimes relating to the illicit prospecting, exploring, extraction, theft, possession and trafficking of diamonds as well as the illegal entry of diamonds into national territory. These crimes are punishable by 8 to 12 years imprisonment.

The petroleum law establishes the regulations pertaining to accessing deposits and exercising operations in disposable areas (including surface, submerged national territory, interior waters, the territorial sea, the exclusive economic zone, and the continental platform). It excludes activities such as refineries, storage, transporting, distribution and commercialisation of petroleum (which are regulated by a separate law). Prospecting licenses are required and are issued for a maximum of three years. According to article 12, an extension may be requested by the licensee, or the national concessionary. In terms of environmental protection, article 24 specifies that companies should take the necessary precautions to protect the environment and guarantee the preservation of health, water, soil and subsoil, air, biodiversity, flora and fauna, the ecosystem, scenery, atmosphere and the cultural, archaeological and aesthetic appeal. Article 25 states that petroleum companies are liable for any third party damages caused during operations, except where they can prove that they proceeded inoffensively.

### Democratic Republic of the Congo

The Congolese mining industry is governed by the Mining Code, Law No. 007/2002 of 11 July 2002, and by the subsequent mining regulations enacted by Decree No. 038/2003 of 26 March 2003. During the post-war period (1999 to 2006) and while the transitional government was in place, many mining and other natural resource deals were signed, which were subsequently found to have been based on corrupt practices. The transitional government and the international community were keen to pass new legislation quickly to ensure that the country's natural resources could be properly managed. Many of the laws were considered inadequate, which has led to additional laws being created. In light of the new laws, the status of some of the agreements signed during the immediate post-war period are disputed. Companies were allowed to start operating without producing Environmental Impact Assessments (EIA). The Mining Code suffers from these inconsistencies, and is subject to several additional laws.

The main provisions of the 2002 Mining Code and the 2003 Regulations make it clear that consultation over potential loss of assets and land with affected parties is required. Compensation should be at the actual replacement value plus 50 percent, or the assets must be returned to their original condition. However, a resettlement action plan (RAP) is not required under DRC law; and mining companies have to comply with international best practice in drawing up a RAP for a mining project in the DRC.

The key documents of national legislation relating to social and community issues in the mining industry include the Mining Code 2002, Law No. 007/2002 of 11 July, 2002; and Mining Regulations enacted by Decree No. 038/2003 of 26 March 2003. Additional relevant documents and laws include the Forestry Code, Law No. 011/2002 of 29 August 2002, the Investment Code, Law No. 004/2002 of 21 February 2002, and the Labour Code, Law No. 015/2002 of 16 October 2002. The evolution of mining codes in Africa (regulatory and legal frameworks aimed at creating stability within the domestic mining sector) is described as having three generations, each building on and learning from its forerunners. The DRC Mining Code is considered as one of the third-generation mining codes, which place greater importance on the participation of affected people, and require some levels of state involvement to meet wider environmental and social development objectives. In particular, it has made provisions to ensure that revenue distribution favours social development and those impacted by mining activities. In terms of the code, 60 percent of royalties remain in the hands of central government, 25 percent is paid to the provincial administration where the mining project is located, and 15 percent to the town or administrative territory in the area where the mining takes place. The funds are allocated exclusively for the building of basic infrastructure in the interest of the community.

The Directorate of Mines and the Directorate of Protection of the Mining Environment are responsible for administering these laws and supervising mining activities with regards to social and environmental impacts. The *Cellule Technique de Coordination et de Planification Minière* (CTCPM), which sits within the Ministry of Mines, provides advice and co-ordination for mining activities in DRC. The CTCPM also plays a role in developing mining policies and strategies.[1]

Chinese companies working in the DRC have to conform to these laws and policies. The Chinese and DRC governments have also ratified international human rights standards like the International Covenant on Economic, Social and Cultural Rights and the Convention on the Rights of the Child. Consequently their provisions should be respected by all companies operating in the DRC. Many of the key standards of the International Labour Organisation (ILO) have also been ratified (for example, Convention 100 and Convention 111 on the elimination of discrimination in respect of employment and occupation and Convention 138 on the elimination of child labour and Convention 182 on the elimination of the worst forms of child labour).

### Mozambique

The use, management and exploitation of natural resources in Mozambique are regulated by a complex web of institutions, policies, strategies, laws, and regulations.

At the institutional level, the bodies responsible for the regulatory framework for natural resources vary depending on the issue at hand. At the highest level, it is the responsibility of the Assembly of the Republic (*Assembleia da República)*, Mozambique's Parliament, to pass general laws on issues concerning natural resources, and of the Council of Ministers (*Conselho de Ministros)*, the executive power, to enact decrees regulating how these laws will be implemented. To make them operational at the central and local level,[2] the responsibility lies with the Ministry of Agriculture (*Ministério da Agricultura,* MINAG), Ministry of Mineral Resources (*Ministério dos Recursos Minerais*, MIREM), and Ministry for the Coordination of Environmental Affairs (*Ministério para a Coordenação da Acção Ambiental,* MICOA). Other Ministries, such as the Ministry of Public Works (*Ministério das Obras Públicas,* MOP) and the Ministry of Tourism (*Ministério do Turismo,* MITUR) are often also involved in setting up the regulatory framework for natural resources. At the Ministry of Agriculture, the main ministry involved in the forestry sector, the National Directorate of Geography and Cadastre (*Direcção Nacional de Geografia e Cadastro,* DINAGECA) and the National Directorate of Land and Forestry (*Direcção Nacional de Terras e Florestas,* DNTF) are the directorates mainly involved in the regulatory process. Both are represented at provincial level by service units – the Provincial Geography and Register Services (*Serviço Provincial de Geografia e Cadastro,* SPGC) and the Provincial Services for Forestry and Wildlife (*Serviço Provincial de Florestas e Fauna Bravia,* SPFFB). At provincial level, the services are accountable to their line ministry and the provincial governor.[3]

Since independence, the government has produced several development policies, strategies and planning instruments. Strategic planning, even if often more an exercise in theory than in practice, is at the centre of Frelimo's style of governance. There are general, sector-wide and issue-specific policies and strategies. For the long-term, Mozambique's main national policy, or vision, is Agenda 2025, which provides a comprehensive analysis of the country's situation and its challenges up to 2025. It is complemented by the Millennium Development Goals (MDGs), to which the government has pledged its commitment, and the National Action Plan of the African Peer Review Mechanism (APRM), which the country concluded in late 2009 and is being implemented. In the medium-term, there is the government's Five-Year Programme (2010-2014), and there was (until 2010) Mozambique's Action Plan for the Reduction of Absolute Poverty 2006-2009 (PARPA II), the country's second poverty reduction strategy paper. PARPA II has expired and has been replaced by the Action Plan for the Reduction of Poverty 2010-2014 (PARP). Most sector-wide and issue-specific policies and strategies are designed to be implemented within a 3 to 5 year time-frame. In the short-term, there is the Economic and Social Plan (PES), approved every year by the government to spell out that year's main objectives and activities, based on the medium- and long-term strategies and priorities. Budgeting, mobilisation, and allocation of resources to implement the strategic plans are undertaken through the Mid-Term Fiscal Scenario (CFMP) and the State Budget (OE). All ministries have annual plans that detail their day-to-day activities.

*Agenda 2025* was drawn up by academics, representatives of political parties, and civil society organisations during broad popular consultation at the beginning of the 2000s. Launched in 2003, after unanimous approval by the Assembly of the Republic, the document discusses several potential scenarios for Mozambique, identifying challenges, threats and opportunities that might emerge in the next years, but it does not have any clear strategy either for the extractive industries or for the forestry sector.

PARPA II sets out objectives that should contribute to reducing absolute poverty and promoting rapid, sustainable and strong economic growth. Economic development should, according to its priorities, guarantee the sustainable use of natural resources and the implementation of transparent mechanisms in their management and use. It also recognised that most Mozambicans depend on the use of natural resources for the maintenance of their livelihoods and for income generation, and that, given this, the plan could only achieve its objectives if natural resources were well-managed and preserved, with a focus on the relations between their use and the benefits that accrue to the poor.[4] On forestry, minerals and the extractive industries in general, the document is almost silent, mentioning briefly the importance of protecting the forests, of raising citizens' awareness of legal norms protecting the forestry and wildlife, of continuing the prospecting of minerals, and of promoting geological mapping.

The current Government Five-Year Plan (GFYP) (2010-2014) was approved at the beginning of 2010, when Mozambique's new government was sworn in. Extractive industries are discussed in a fragmented fashion (forestry, fisheries and mineral resources in separate headings). On forestry resources, the GFYP is very brief, saying that the government intends to redesign and implement a policy for the sustainable use of natural resources and to establish commercial business farms. On mineral resources, there is more information, and the government commits itself to continue to promote and ensure their sustainable use. Also, it states its commitment to the implementation of EITI.

Several policies and strategies discuss how the government should approach the management and regulation of the forests. The *National Environment Policy* was approved in 1995, in the context of the GFYP for 1995-1999. There, the government clearly recognised the interdependence between development and the environment. Among the policy's general objectives were: 1. Ensure that natural resource management is geared towards the continuing economic relevance of natural resources for future generations, and; 2. Ensure the integration of environmental considerations into socio-economic planning. The policy lists areas that demand special attention, as well as strategies, priorities and specific activities. It does discuss important areas (such as fisheries), but is silent on some areas that have become crucial to the country's development (such as mineral resources), and hardly discusses others (such as forests).

In 1997, the Council of Ministers approved the Policy and Strategy for the Development of Forests and Wildlife. It was enacted in the spirit of ECO-92, the UN Conference on Development and Environment held in Brazil in 1992, and should have guided the government's activities in the area for five years. Amongst the priorities (which reflected government's national priorities) were: 1. Improve the use of forests geared towards their industrial transformation; and 2. Reduce the exports of raw wood and increase the exports of processed wood.

The National Environment Policy and the Policy and Strategy for the Development of Forests and Wildlife were enacted within the context of Mozambique's first democratically-elected government (1995-1999). From 1997 until 2007, no other specific policy or strategy for natural resources was approved, even if new laws and regulations were enacted. Finally, in 2007, the Council of Ministers approved the Environment Strategy for the Sustainable Development of Mozambique, which should be implemented in 5 years. It is longer and more detailed than previous instruments, but is more vague and fragmented. It provides an assessment of the current situation of the environment in the country, but offers only a list of objectives and activities that should be pursued by the government without providing a proper strategy, integrated with other national strategies. It does not include any discussion on the use of mineral resources and forests.

Mozambique has signed on to the EITI since May 2009. Since then the country has produced two reconciliation reports. It is still struggling to become an implementing country.

As for short-term policies, the Economic and Social Plan (PES) provides the context for yearly government activities in various areas, including natural resources. The PES for 2010 is one of the few government strategic documents that does have a specific heading for extractive industries, but it restricts the sector to minerals (excluding forests and other extractive areas). On forests and wildlife, government actions are limited to a few activities, such as finalising the analysis of twenty applications for logging concessions.

Mozambique's constitution sets the general framework for the country's laws, regulations, policies and strategies. The current constitution, which was approved in 2004 (replacing the 1990c Constitution) includes the right to the environment among people's fundamental rights, stressing that (art. 90): 1. 'Every citizen has the right to live in a balanced environment and the duty to defend it, and 2. The state and local authorities, with the assistance of civil society organisations working on environment issues, adopt policies to defend the environment and foster the rational use of natural resources.' Specifically, the constitution advances that the state, to guarantee an environmental balance and the preservation and conservation of the environment, should implement policies that seek to (art. 117): 'a) prevent and control pollution and erosion;

b) integrate environment goals into sector-wide policies; c) promote the integration of environment values into policies and educational policies; d) guarantee the rational use of natural resources, safeguarding their capacity to renewal, ecological stability and the rights of future generations; e) promote the right organisation of the territory in order to obtain the correct placement of activities and a balanced socio-economic development'.

Prior to the enactment of the current constitution, environmental laws were in place, which are still valid insofar as they do not contradict the constitution. In October 1997, Law no. 20/97, the Law on the Environment, was enacted, whose main objective was to establish the legal basis for the right use and management of the environment, guaranteeing the consolidation of a sustainable development process. Law no. 20/97 provides the principles and guidelines for the state and private actors for every action that involves the environment. It says that environmental management should aim at improving citizens' life, that it should be cautious and avoid negative irreversible environmental damage, and that citizens should participate actively in environmental affairs. After Law no. 20/97 was enacted, its main topics were regulated by scattered legislation.

Law no. 10/99**,** of 7 July, the Law on Forests and Wildlife, established the principles and basic rules on the protection, conservation and sustainable use of forests and wildlife resources. Among the principles laid out by the law, it stresses the importance of a complex balance that combines social and economic development and the preservation and conservation of biodiversity with the involvement of local communities, the private sector and civil society, in a joint effort to reach the path towards sustainable development (art. 3). It also refers to the importance of the state in promoting the establishment of industries to process forestry and wildlife products, and increase the export of manufactured goods. Importantly, it establishes the different regimes through which forests can be exploited. Accordingly, there are two different regimes of forest exploitation: a) based on simple logging licences; and b) based on forest concession contracts. In the simple licensing regime, there are limits to the quantities and the period of licensing, and only Mozambicans and local communities can be given this license, whereas in the use based on concession contracts, individuals and private companies can use the forest with no specific limits to the size of the concession. Put differently, although Mozambique instituted a system of "simple license" forest concessions that restrict Mozambican loggers to a limited amount of timber, this system is being abused."

Law no. 10/99 was regulated by Decree no. 12/2002, which spells out how forest and wildlife management and exploitation will be carried out in practice. The decree establishes that simple logging licences are given for one year, and that the application should be analysed by the provincial governor and issued by the Provincial Service of Forests and Wildlife. Applications for concessions are subjected to a much more detailed and thorough process, since they involve larger areas and can be granted to foreigners. The areas that can be made available to concession holders vary from 20 000 (granted by the provincial governor) to 100 000 hectares (granted by the Ministry of Agriculture) or more (granted by the Council of Ministers). Concession grantees are obliged to manage their natural resources in a sustainable fashion, and to establish an industrial unit to process their wood.

At the international level, there are few binding legal instruments with regards to the environment, but there are conventions and declarations that provide guidelines to national policies. Mozambique often takes part in international summits to discuss these issues, and has showed its commitment to translate international agreements into national law. The 1992 Rio Earth Summit produced Agenda 21, the Rio Declaration on Environment and Development. Some years later, Mozambique's government, in the preamble to the Policy and Strategy on the Development of Forests and Wildlife, said it included the objectives and priorities established in chapter 11 of Agenda 21 (Combating deforestation) and also other recommendations from the document. Regionally, Mozambique acceded to some binding instruments, such as the African Convention on the Conservation of Nature and Natural Resources in 1981, and the SADC Protocol on the Mining Sector in 1998. In 2002, the government also ratified the SADC Protocol on the Conservation of Wildlife, and the Application of the Law in SADC.

As a result of changes in the laws governing the timber industry, by 2008 32 concessions had been approved covering 1,2 million hectares, and another 16 concessions (covering 611 545 hectares were in the approval process. Mozambicans are the largest group of concession owners: nine operators controlled 11 concessions; seven were in joint ventures with Asians; and eight Asians had exclusive control. In particular, Singaporean-Chinese Cheng Kee Meng has interests in 10 concessions covering 258 000 hectares. Of those awaiting approval, two were community concessions; one a Mozambican national; three local Zambezian industrial operations; two long-established simple license operators; one Malawian; two Libyans; and five Chinese.[5] While the Chinese market has been the destiny for Mozambican timber, the players involved in the industry are far from exclusively Chinese.

## South Africa

As Chinese officials point out, South Africa's highly developed legal system sets it apart from other African countries. Given its unique features, Beijing's interaction is more structured, broader and more complex than its interaction with other African countries.

The Department of Mineral Resources (DMR) is mandated to formulate and implement an overall minerals and energy policy to ensure the optimum use of minerals and energy. Within the DMR, the Minerals Policy and Promotion Branch is responsible for formulating and promoting a policy which will encourage investment in the mining and minerals industry, with a view to expanding this sector of the economy and promoting development. The Mine Health and Safety Inspectorate (MHSI) is responsible for implementing mine health and safety legislation, while the Mineral Regulation Branch (MRB) focuses on transformation in the mining industry and promoting sustainable development. The overarching policy of the DMR is based on the principles of the Freedom Charter, according to which South Africa's mineral wealth will be transferred to the ownership of the people as a whole. The Minerals and Petroleum Resources Development Act (MPRDA), 2002 (No. 28 of 2002) provides the legal framework for exploitation of the country's minerals. The government's long-term objective is for all mineral rights to be vested in the state, but generally the state's role has been to provide an appropriate legal framework as well as the necessary infrastructure to facilitate efficient raw material exploitation.

In May 2004, the Broad-based Socio-economic Empowerment Charter for the South African Mining Industry was promulgated, and a scorecard devised to facilitate application of the charter. The charter has led to numerous black economic empowerment deals with back-owned companies. It stipulates that by 2014, historically disadvantaged individuals should control 26 percent of the mining industry. The DMR reports good progress on Black Economic Empowerment (BEE) in the mining sector, with 21 junior mining companies being established by 2008. A number of new black-owned mining companies have become important players in the industry.

The National Environment Management Act (NEMA) identifies the Minister of Mineral Resources as the responsible authority to ensure compliance with national environmental standards. A single and comprehensive environmental protection plan for all mining operations is being implemented across the country. Regular inspections are made to ensure compliance. As a consequence of significant environmental damage caused by mining, the DMR has contracted the Council for Scientific and Industrial Research (CSIR), the Council for Geo-Science (CGS) and Mintek to develop solutions to rehabilitate closed mines and protect the environment.[6] This process resulted in the Sustainable Development Through Mining Programme to address a closed mines database, regional mine closure strategies, a sustainable development strategy for minerals and mining and mine environmental management guidelines. The DMR is promoting a gender empowerment programme in the mining industry, and has strengthened the South African Women in Mining Association (Sawima).

The Mine Health and Safety Council (MHSC) is responsible for protecting the health and safety of mineworkers. It focuses on building a healthier and safer mining environment by working with industry management and unions to reduce mine accidents. The agreed objective of this interaction is to decrease mine fatalities by at least 20 percent a year. Another objective is to eliminate silicosis and noise-induced hearing loss (or occupational deafness). A central activity is to reduce the social costs of disease and injury to mineworkers and their communities. In recent years, the DMR has begun working with the SA Police Service (SAPS) to develop a comprehensive strategy to deal with illegal mining, now one of the biggest threats to mineworkers' health and safety in South Africa.

Section 86 of the Health and Safety Amendment Act imposes criminal liability on mine managers where there has been negligence, but has been suspended until concerns about constitutionality are resolved. A key issue of debate in the mining industry is the accelerated effort to improve health and safety. Companies are legally obliged to fulfil certain requirements, but at the same time, many have developed new and innovative health and safety programmes. New requirements for handling and using mine explosives are being introduced to bring South Africa in line with international best practice.[7]

The Mining Qualifications Authority (MQA), under the authority of the Department of Labour is responsible for facilitating the development of appropriate knowledge and skills in the mining, minerals and jewellery sectors. The MQA is specifically focussing on addressing skills shortages and promoting transformation in the mining industry. Training targets are set by the National Skills Development Strategy, informed by BEE, which demands that of all people trained, 85 percent should be black, 54 percent women and 4 percent people with disabilities. The MQA's Mining Charter Support Strategy is based on an Executive Preparation Programme, the Graduate Development Programme, bursary schemes, the Universities Employment Equity Project, and direct educational support for small-scale miners. Grants for small mines, mineral beneficiation, jewellery manufacturing and diamond processing are also provided. Human resource development guidelines drafted by the MQA call for improved opportunities for historically disadvantaged South Africans in the industry, with 40 percent of blacks and 10 percent women required to occupy management positions by 2010.

The DMR promotes the establishment and development of small-scale mining through the Small-Scale Mining Board (SSMB) and the National Small-Scale Mining Development Framework. According to the DMR, approximately 3000 new jobs can be created for every 15 small-scale mining projects. The SSMB helps aspiring small-scale miners in identifying mineral deposits, concluding environmental impact assessments (EIAs), legal and contractual arrangements, mining-feasibility studies, market research, and sourcing mining equipment. The focus of activities is on developing viable mining projects and assessing the feasibility of new projects. The South African Small-Scale Mining Chamber was established in 2005 to represent the interests of small mining operators. With a view to job creation, the DMR has supported 18 small-scale mines, with a number of new projects under consideration.

In response to the challenges faced by the industry, the government has established the Mining Industry Growth, Development and Employment Task Team (Migdett), intended to improve its competitiveness and growth. The specific objectives are to save jobs in the face of falling global demand for raw materials, and to position the industry for growth and transformation. The task team is investigating all aspects of the mining industry in South Africa, with a view to positioning it to take advantage of the expected demand increase within twelve to eighteen months.[8]

## Zambia

The current mining policy was adopted in 1995, and with it came a major shift in the mining sector, as the new policy encouraged foreign investment in exploration and new large-scale developments. It further encouraged private investment in medium- and small-scale mining. Until April 2008,[9] the mining sector was regulated by the Mines and Minerals Act of 1995 and amendments.[10] The Act had abolished mandatory state participation, simplified licensing procedures, and minimised constraints on prospecting and mining activities, creating a favourable inward investment environment. The 1995 Act permitted the government to enter into long-term development agreements with companies, and established the terms under which the mines were sold and the rights and responsibilities of the Zambian State and the new mining companies.[11] The agreements, under which the government could extend more incentives than the Act granted, provided preferential tax treatment for the companies with a view to promoting investment in the sector when copper prices were low.[12]

Mining administration is the jurisdiction of the Ministry of Mines and Minerals Development (MMMD), which consists of a Geological Survey Department (GSD), Mines Development Department (MDD), Mines Safety Department (MSD) and Human Resource Department (HRA).[13] MDD and MSD have key responsibilities, especially as they relate to licensing and inspecting mining operations to ensure that they are in line with appropriate legislation and regulations. For instance, the MSD has the responsibility to ensure safety in all mining operations. It is the body mandated with monitoring and enforcing compliance with the Mines and Minerals Environmental Regulations.

A framework for responsible development has also been created through the publication of environmental protection and pollution-control regulations. Environmental concerns are addressed by Statutory Instrument No. 28 (1997), and environmental impact assessment regulations enacted under the Environmental Protection and Pollution Act of 1990. For a mining project, a developer is expected to follow the guidelines of Statutory Instrument No. 29 (1997), also called the Mines and Minerals

(Environmental) Regulations of 1997, enacted under the repealed Mines and Minerals Act of 1995. The regulation of environmental impacts of the mining sector also involves other sectors, each with its own regulatory instruments: water affairs, tourism, transport, radiation protection, health, energy, national heritage conservation, local government, and land. These bodies are responsible for sectoral regulations and constitute delegated authorising agencies (DAAs) under the EPPCA. ECZ defers to these agencies on specific technical issues, but retains the role of overall coordination of their contributions. For example, it is the DAA for issues arising from mining licenses. Close coordination between ECZ and all DAAs on mining activities is crucial given their complex cross-sectoral environmental impacts.

Zambia's national planning framework (the Fifth National Development Plan or FNDP) states that the strategic focus for the mining sector will be to promote large- and small-scale mining by strengthening the institutional framework support and improving the policy and regulatory framework. The FNDP cites, among other things, weak institutional frameworks[14] and outdated policies and legal frameworks as constraining factors to the growth of the mining sector.[15]

The recognition of the need to improve the management of the extractive industries in Zambia, as in other resource-rich African countries, presents opportunities for the legislature to provide oversight that would promote greater transparency, accountability and responsiveness in government. Zambia joined the EITI in 2009, and has established a multi-stakeholder group to oversee its implementation. As in the case of Mozambique, it has been able to produce two reports. It is not yet an implementing country. Initiatives such as EITI and the Publish What You Pay (PWYP) campaign have drawn attention to the need for increased transparency and accountability in managing extractive industries.

A new tax regime[16] was introduced in April 2008. In recognition of high copper prices and the generally more favourable investment climate, it was revised to be more consistent with international standards. The major change was the increased rate of corporate income tax for companies in the mining sector from 25 percent to 30 percent, and the rate of mineral royalties for companies in base metals mining from 0,6 percent to 3 percent of the gross sales value. Mineral royalty rates for other precious metals increased from 2 percent to 3 percent. Later, the government re-introduced withholding tax on payment of dividends, interest, royalties, management fees and payments to affiliates at the standard rate of 15 percent. It also introduced a variable profit tax for when the profit ratio is above 8 percent, and a graduated windfall tax (levied on production value) for when world copper prices exceed US$2,50 a pound. Capital allowances (depreciation of capital equipment), were reduced to 25 percent from 100 percent per year. A reference price was introduced to assess mineral royalties and any transaction for the sale of base metals, gemstones or precious metals to related or associated parties. (The reference price was to be the price tenable at the London Metal Exchange or any other commodity exchange recognised by the Commissioner General).

The major mining companies and the Chamber of Mines of Zambia rejected the new regime, some arguing that the development agreements were still binding and that the tax changes were too harsh and would trigger recession, unemployment and poverty. In early 2009, the government announced a reversal of its policy.[17] More specifically, following consultations with the mining industry, and in light of the impact of the global crisis on mining, the tax regime was changed[18] to remove the windfall tax but retain the variable profit tax to capture any windfall gains that might arise; to allow hedging income to be part of mining income for tax purposes (this had been removed in 2008); and to reinstate the 100 percent capital allowance as an investment incentive.

### Zimbabwe

General mining policy seeks to sustain development of the country's mineral resources and create employment opportunities. Government is working on statutory instruments to change its policy on state participation in all mining ventures. The policy would provide for government to hold at least 51 percent interest in all ventures, and a 100 percent stake in all alluvial diamond mining projects. Mining houses would be required to set aside 10 percent of their annual gross profit for investment in local communities. There are also facilities geared towards the development of small-scale miners.

Discussion of Zimbabwe's mining policies must be situated in the broader policy framework. The first step when investing in any sector is to obtain approval, which is granted by the Zimbabwe Investment Authority (ZIA). Currently the project should meet four basic criteria: a minimum capital threshold, generating employment for the locals, a strong value addition component, and compliance with the 51 percent local ownership requirement. Some sectors have been reserved for 100 percent indigenous ownership, although foreign (including Chinese) investors still dominate in these sectors. To synchronise the basic criteria and reduce approval time from 72 days to 5 days, ZIA was transformed into a One Stop Investment Centre in 2010.

The Mines and Minerals Act provides the legal framework for investment in the mining sector and is administered by the Ministry of Mines through the Mining Administration Board. It was enacted in 1961 and several amendments have been made since then. According to this Act all minerals are vested in the president, and one acquires rights to work mineral deposits through an application to the Mining Commissioner. Mining activity is open to local and foreign individuals and companies.

An exclusive prospecting order (EPO) confers the exclusive right to prospect for specified minerals in any defined area in Zimbabwe. It is obtained through an application made to the Mining Affairs Board (MAB), and on payment of a deposit fee per hectare (or part of a hectare) per month. Areas cannot normally exceed:

- 130 000ha for coal, mineral oils or natural gas
- 2600ha for precious stones other than diamonds and
- 65 000ha for any other mineral.

Government is amending the Act to reduce the size of the areas for the different minerals. The proposed maximum for coal should not exceed 20 000ha and maximum area sizes for other minerals will also be substantially reduced, but mining houses' representatives feel that these reforms are very limiting.[19] The maximum possible period for operating an EPO is six years (initially for three years, with a possible extension for a further three). License holders must submit work programmes to be carried out in the next six to 12 months, and report on work done in the past six to 12 months.

To prospect, an investor must have a prospecting license. These are valid for two years, while an approved prospector's license is valid for five years and can be renewed. Holders are entitled to peg and register claims. The claim then becomes a registered mining location where mining activity can take place. Mining claims which are worked continuously do not have expiry dates. The permit to mine is called a mining claim. It confers on the holder the exclusive right to mine the mineral resource for which the claim was registered, and of prospecting for other minerals on the claim. It must be inspected annually for a fee. The holder is required to fulfil minimum conditions. These are a commitment to a development work programme, or production, or capital expenditure. The situation on the ground is that government has had to work with the small claims available, as large claims are being held speculatively (and this applies to all minerals). Most (65 percent of known gold and chrome claims) are owned by small-scale miners who do not have capital or equipment to develop and work the claims.[20] They also lack the resources to carry out exploration work. To unlock value, government is proposing a 'use it or lose it' policy.

The Minerals Marketing Company of Zimbabwe (MMCZ) was formed in 1992, and is responsible for marketing all the country's minerals and metal products except gold and silver (which were sold through the Reserve Bank of Zimbabwe before the reforms introduced in 2009). MMCZ finances its operations by a commission charge of 0,875 percent on sales for its clients.

As noted above, the Indigenisation and Economic Empowerment Act provides that 51 percent of old and new investment, mergers etc for enterprises with a net asset value of US$500 000 should be owned by indigenous Zimbabweans. Current investors must dispose of 51 percent at a negotiated price, either to government (through ZMDC, the Statutory sovereign Wealth Fund) or Employee Share Ownership Scheme and Community and Community Share ownership Scheme or Trust)to indigenous investors.

Zimbabwe's second Five Year Development Plan (1991-95) provides that environmental impact assessments (EIAs) should be undertaken for major development projects. The advent of the Environmental Management Act brought environmental issues into sharper focus. This Act prevails over any other Act on environmental issues. After the issuing of a mining license by the ministry of mines an EIA must be conducted and reviewed by the Environmental Management Agency (EMA) and the Ministry of Mines and Mining Development before mining operations can commence.

The Labour Relations Act (No. 16) of 1985 (now known as the Labour Act) provides for the fundamental rights of employees (including the establishment of workers' committees at the shop-floor), defines unfair labour practices, regulates conditions of employment, and outlines a dispute resolution mechanism.[21]

Government has put forward proposals for amending the Minerals Act. Its rationale for introducing legislative changes (e.g. the 'use it or lose it' principle, punitive fees, increasing royalties, and reducing the maximum allowable prospecting area. ) is to encourage the efficient utilisation of land under mining title, bringing the contribution of the mining sector to fiscus at par with other sectors. These changes were implemented in 2011 attracting sharp criticism from the chamber of mines and other stakeholders.

## The need for change in law and policy

The preceding section shows that the countries studied have substantial policy and legislative regimes with which to regulate foreign investment, and that by China in particular. But our studies show that one factor which limits Chinese investment's contribution to development is that improvements in law and policy are still needed.

There is an urgent need for African governments to improve their regulatory frameworks and policies for business, investment, environmental protection, and labour relations. China is simply pursuing its national interest and is acting rationally and pragmatically in seeking business and investment opportunities where these exist. It cannot be held accountable for the absence of appropriate regulatory mechanisms and administrative systems in Africa. As Chris Alden puts it, the 'China problem' in resources can be more accurately folded into a larger set of concerns around the shortcomings of African governance in managing foreign investors in the mineral commodities sector, 'rather than any particular Chinese strain of malfeasance.'[22] It is the responsibility of African governments to monitor Chinese business practices by, for example, ensuring that there are competition laws and policies in place to prevent the abuse of market dominance and uncompetitive practices of which many Chinese companies stand accused. Moreover, strategic sectors such as energy, infrastructure, fisheries, forestry, and mining require extra vigilance in management and governance practices. At the country level, there is a growing need for African-initiated research and analysis to better understand what China is doing, to build local research competencies, and to stimulate public debate.

In Angola, the influence of multi-nationals means that there are insufficient regulations promoting competition in the petroleum or diamond sectors. The Angolan model is different from that in Norway. Norwegian Petroleum Management, which regulates all petroleum operations in the country and controls all petroleum companies including the state-owned Statoil Hydro, is an independent body and is not directly owned by the government, as is its equivalent in Angola. In Norway, there is sound competition between all companies, since all are regulated by one independent body. A change in the law is necessary but not sufficient for ensuring reasonable extraction of natural resources in a manner beneficial to all Angolans, guaranteeing the sustainable development of the country. It is necessary to review Angolan legislation to get its primary concessionaries in the mining sector (Sonangol and Endiama) to become only players and not referees as well. It is also important to ensure that the Revised Mining Code is concluded to provide a single document including all the laws relating the mining sector.

A recent study by Deborah Brautigam of American University (*Dragon´s gift*), indicates that the money from China never gets to Angola in cash form. This reduces the chances of misappropriation of funds, a very common practice in a country that has being rated by Transparency International as the tenth most corrupt country out of 178 countries.[24] But it also limits the social benefits[25] and suggests that different terms would be more helpful to developing Angola's economy.

In the DRC, failure to negotiate adequate terms with Chinese and other foreign interests has ensured that a minerals joint venture (Sicomine) does not adequately protect Congolese interests. The Congolese stand to lose most in this contract from China's vertical integration formula of investment, project operation and business conduct. In terms of this formula, all inputs – management, project design, labour, material, components and technology – originate from China, with little or no local content.

In Mozambique, the policy framework is vague and without clear strategic vision for forestry's economic and environmental sustainability. Under these circumstances, forestry is being ruthlessly exploited with little effort geared towards its industrialisation and its sustainable management for the benefit of local communities. The government's policies, strategies and planning instruments are designed to guide the leadership in the long-, medium-, and short-terms, and in daily activities and decisions. There are different documents covering these periods. Ideally, these instruments should be inter-linked, and policy-making should flow from long-term policies to annual plans of activities. Their design should be participatory, with inputs from civil society organisations and citizens. In practice, though, policy-making processes are often referred to the ministerial level, sometimes with inputs from donor partners and civil society organisations, with final approval from the cabinet (the Council of Ministers). Long-term (and sometimes, medium-term) development policies may be more participatory, with greater public consultation and specific drafting arrangements (committees and *fora*, for example) that bring together different government structures and civil society organisations.

While several countries have imposed a ban on the export of logs (or of logs from certain species of trees), trying to both reduce the rate of deforestation and create incentives for the growth of a national timber industry, in Mozambique, until recently, most forest species could be felled and their timber exported as logs. Currently, the export of unprocessed timber is not illegal, although the government has tried to reduce the amount of logs exported by banning the export of certain species of wood. For several reasons, this ban has not significantly reduced the amount of logs exported from the country, although it has had some impact on the growth of the exports of sawn wood. Policies and strategies exist, but are loosely related and do not provide a coherent vision for government officials and companies. A strong and sustainable timber industry does not seem to be an important part of the country's development strategy.

In South Africa, the most notable problem has been the failure to negotiate an agreement with China which adequately protects local jobs. The agreement which was negotiated provided only limited and marginal protection to its textile industry without improving access to China's market. Clothing manufacturers were forced down the value chain, as the quota had the effect of China exporting higher-priced products. Logistically, the agreement is impossible to enforce, while the exclusion of Chinese exports from (or via) Hong Kong provides a massive loophole. In effect, the agreement provided minimal protection to an industry that had already suffered massive job losses. Moreover, the agreement simply opened the door to a flood of imports from other countries, with buyers switching to Pakistan, Malaysia, Mauritius and Vietnam to source products. A new network of foreign suppliers has replaced China, without any revival of South Africa's textile industry. In effect, negotiations with China gained no concessions (such as preferential entry into the Chinese market), and a broad strategy for revival of the local industry was not implemented.

There is wide agreement that a carefully negotiated Free Trade Agreement (FTA) with China (based on the Australian and New Zealand models) would be immensely beneficial to South Africa and would help to correct the obvious trade imbalances which have grown over the last ten years. (The reduction of trade barriers has resulted in a twelve-fold increase in global trade since 1995, to more than US$4,5 trillion in 2006.) Without a detailed FTA or Economic Partnership Agreement (EPA), the imbalance of trade will continue to shift from the less competitive (South Africa) to the more competitive economy (China) in accordance with the unwritten rules of globalisation and free trade. Ron Sandrey's analysis concludes that an FTA would help in increasing exports to China and thus promote job creation in South Africa.[26] At the same time, there are still bureaucratic impediments to accelerated Chinese mining investment. These are under adjustment, creating the expectation of a significant wave of new investments once global demand recovers.[27]

In Zambia, there are doubts as to whether the new tax regime ensures that the nation as a whole receives a fair share of natural resource rents, while maintaining a globally competitive mining industry. There is also consensus that the legal and administrative framework for managing the extractive sector is disjointed. Equally, the secretive nature of the development agreements signed between the Zambian government and mining investors is seen as a root cause for the many challenges in the mining industry. The development agreements are not disclosed, and in most cases are agreed to without the full involvement and examination of the technocrats – they are mostly driven by political decisions. Amongst the many implications of concern and controversy is uncertainty about what kind of incentives the new owners of the Luanshya mine (for example) have been given. Some have speculated that, because of the terms in the development agreements, there is more tolerance of mistakes made by Chinese firms than those by other investors. The government, as principal gate-keeper for Chinese investment, has often come to the defence of Chinese companies, even when they have flouted the regulations. Since government has become a major player in all this, it is difficult to enforce the law.

In Zimbabwe, national environmental regulations are undermined by the lack of similar protections at the local level. While rules and regulations at national level require that companies provide information on production and other related issues, licenses from local authorities do not require these. It can be concluded that as a result there is rampant smuggling of the minerals, short-changing the country in the process, as these avoid the sole marketing channel (the Minerals Marketing Company of Zimbabwe, MMCZ). Those who are caught in this web are small-scale investors, as the big corporations tend to go about their business according the book. However at one point, even the operations of Sino-Zim in the Midlands province had to be suspended until they complied with the environmental requirements.[28]

Stakeholders have suggested that a two-pronged approach to the revision of mining law to encourage small-scale mining:

- The setting up of an appropriate minimum work requirement – the Ministry of Mines and Minerals Development can work with industry to set minimum work that should be conducted in six months to a year to enable one to maintain a mining title. These requirements should be demanding enough to encourage effective utilisation of land under title, but should not be a deterrent.
- Government must have effective structures to monitor the conducting of work on the ground. Merely charging US$100 per Ha will drive away genuine small-scale miners, as a standard block of 10ha will cost US$1000.

Zimbabwean civil society is critical of its government for concluding cooperation with China when politically and economically, the country is at its lowest point, hardly a good basis for negotiating a win-win outcome. In the current political climat dominated by lack of transparency, secrecy surrounds the mortgaging of resources for loans. This was a recurring theme in interviews with mining industry players.

## Improving implementation: The law, policy and reality

Legislative and policy shortcomings are, however, not the most important constraint. All our studies found that by far the most serious problem is the gap between what the law or policy says should happen and what does happen. This is common to all the countries.

In Angola, there is a lack of governmental control and of public information about the presence of China. Policies to attract investment into the extraction industry are in place, but have limited impact. The government's national geological plan requires urgent and full implementation, and there is a need to carefully monitor and supervise Chinese construction activities.

The Congolese government has been criticised for engaging in major contractual arrangements without the capacity to effectively manage them. This criticism affects all the contracts the DRC has signed with western or Asian governments and companies.

Uncontrolled penetration of DRC by the Chinese was facilitated by lack of guidance from the Congolese government, which was not capable of controlling Chinese activities or ensuring that they were registered. As the provincial ministry of labour puts it:

> 'All foreign workers are requested to register with the ministry of labour. However, it has not been easy to convince the Chinese to register and regularise their stay in the DRC. Many remained unregistered for many days and months after they have entered the country.'

Every time there was an inspection in Chinese companies, all the Chinese workers went into hiding until the inspectors had left.

The ministry argued that 80 percent of Chinese investors do not respect the labour laws. In most situations inspectors had to force the Chinese to obey the Congolese law. The control of Chinese traders is made difficult by the protection the Chinese receive from politicians (at the national and provincial levels), many of them on the payroll of the Chinese traders. Consequently, many Chinese enterprises receive special treatment. Under these conditions, government departments with the responsibility to monitor Chinese activities cannot do their work because of persistent political interference. In the early days, many Chinese traders did not appear on official documents. They had good relations with individuals in government departments and thus ignored the requirements to complete official documentation. There were also many Chinese working in so-called Congolese companies. It was thus very difficult to evaluate the social actions of informal Chinese investors. The first group of Chinese came to the DRC as traders and not as investors or industrialists. In this phase, it is very difficult to give a correct assessment of Chinese investment, because their relationship with the Congo was not accurately documented. Documents at the provincial ministry of labour show the efforts by the provincial government to ensure that most Chinese traders were registered. For example, there are copies of letters sent to companies such as Dong Hui, Zhong Yuan, MKM and Shenand Mining reminding the owners of the companies to respect all the labour regulations from registration to the organisation of labour elections.[29]

It is important to note that there were more Chinese companies in Katanga, but their names did not appear on any list of shareholders. At this stage, according to the ministry of mines, no Chinese company actually held a mining permit. Only one (with the government's approval) owned a gravel and sand quarry. It had a business relationship with the roads construction company CREC. At Linda mine, the Chinese lady who the team met refused to be interviewed: she confused the team with government staff coming to ask for money. She shouted at the team 'If it is money that you want, I will not give you any.'[30]

The Chinese are seen as saviours through the construction of infrastructure – roads, bridges, clinics and railways. The Congolese government thus seems to have accepted bad working conditions, human rights abuses of its citizens, and environmental degradation linked to Chinese operations in exchange for infrastructure. The first and second phases of the Chinese presence in the extractive industries suggest that Chinese businesses had no real intention to invest in mining. Because they were in need of raw materials, they set up small companies and sent individuals to buy ores directly from artisanal miners, and then exported them to China. The Chinese carefully studied the conditions of investment, and concluded that buying ore would be more prudent than mining. Concerning the poor behaviour of these companies and individuals in their dealing with the Congolese, the blame should rest with the Congolese government. It has numerous supervisory and control services, but they are poorly equipped and managed. Moreover, they use informal means to collect taxes from companies. Most Chinese companies appear to be outside the tax collection process. Instead, they paid politicians and public servants who provided them with security and protection for their businesses.

Public representatives are not indifferent to mining in the DRC – they set up a lot of red tape in the face of any attempts to control protected Chinese companies. There is a problem of conflict between state interests and those of political leaders. China should not be permitted to undermine the fight against corruption and good governance, or to weaken social and environmental standards and perpetuate human rights abuses in the DRC. While the new legal and regulatory framework for mining is consistent with international best practices and offers some opportunities to improve the well-being of local populations in the spirit of sustainable management, there are major challenges with its implementation. The central government's effective application of the mining law is wholly inadequate. The state is very weak, in some places non-existent. The national and provincial ministries (mines, environment, labour and health) responsible for implementing and monitoring national laws lack the necessary institutional capacity, expertise and logistical support to enforce the law. The government has also been ineffective in monitoring the corporate social responsibilities of companies. The negative impacts of mining activities on residents are a key concern amongst the Congolese people, but the government is more interested in collecting royalties and taxes than paying attention to the impact of mines on communities. Government has not been able to enforce the mining code which provides mechanisms to minimise mining impact.

In Mozambique, the trade links and investments of Chinese companies and individuals in the forestry sector are, our study finds, largely exploitative and neo-colonial. This is not entirely due to China's approach, but also to weak governance structures in Mozambique, and corruption by national and local elites who approve the exploitation of timber without enforcing laws and regulations, especially the obligation to process it before exporting. Notwithstanding a set of laws and regulations with regards to natural resources, the regulatory framework is not properly implemented:

> 'Forestry is the area which has proven the most challenging in the Sino-Mozambican relations. Illegal logging by a number of Chinese companies in Zambezia, Cabo Delgado, Nampula and Niassa provinces has become the most controversial issue in the Sino-Mozambican relation.'[31]

In 2007, under increasing criticism, the Chinese Government produced a Sustainable Forestry Handbook for Chinese companies operating overseas.[32] It called for a ban on illegal logging and clearing of natural forests for plantations. But not only has illegal logging continued, it is suggested that state-owned enterprises (which import 40-50 percent of Mozambican timber exports) are largely responsible for the illegal trade in logs, as they have an incentive to support national companies and favour timber processed in China rather than Mozambique.[33]

Two comprehensive studies of the timber sector in Zambezia province were undertaken recently. In 2006, Catherine Mackenzie published *Forest Governance in Zambézia, Mozambique: Chinese Takeaway!* and in 2009 Mackenzie, with Daniel Ribeiro, updated her study, producing a report entitled *Tristezas Tropicais: Mais Histórias Tristes das Florestas da Zambézia*. Five problems were identified in these two studies.

First, Mackenzie noted several shortcomings with the process of awarding simple licenses in Zambézia at the time of her research. She found no systematic control over the use of licenses, no records kept of the areas where simple license holders were operating, and no checks to ensure that license holders were felling within their designated areas. As a result, simple licenses for the same areas were issued year after year, leading to over-harvesting and unsustainable management. Many operators felt that rural development was not their responsibility but that of the government, suggesting that there may be a problem with incentives in the current system design. Operators did, however, admit to having paid bribes to local officials to obtain their licences. One of the greatest problems identified in this process was the lack of licensing staff compared with the number of applicants. In 2003, there were a mere 30 staff across the whole province.

Second, forest concessions have been encouraged as opposed to simple licence holders, as it is believed that large industrial companies have an advantage when it comes to controlling an area of forest and have greater capacity to set up processing plants, creating employment and adding value to the timber industry. Despite official government policy to promote the concession regime and to phase out simple licenses, the number of simple licenses went up every year between 2000 and 2004. *Tristezas Tropicais* noted that in 2003 there were 138 simple license and 12 industrial operators harvesting under simple licenses while awaiting approval of concessions. In 2008, there was a decrease in the number of simple licenses and an increase in the number of concessions. The percentage of timber licensed to simple license holders fell from 92 percent to 61 percent. However, of the 32 concessions in operation in 2008, 11 had not yet established processing plants. Another important aspect of the concession model is that, to gain a concession, each firm must present a management plan to the local government. Of the 32 concessions approved in 2008, the researchers of *Tristezas Tropicais* gained access to 20 plans for analysis. They found that, despite the 2005 management manual designed to assist companies in developing their management plans, no improvement from previous years was evident. Despite international recommendations to use cutting cycles of 30 years, all plans included cycles of 20 years, with the most valuable timber cut in the first 5 to 10 years. The life span of these plans is too short, reflecting the priority of reaping profits over forest sustainability.

Of greater concern, however, is that, in practice, concessions have turned into a way of informally sub-contracting to simple license holders, contributing to a further loss in transparency. This is particularly the case with Asian firms who do not oversee operations in concessions; instead, they provide or sell licenses to loggers and buy the timber off them to export, in much the same way as before concessions were encouraged. The researchers of *Tristezas Tropicais* found that only four concessions were operating legally (i.e. they log with their own workforce, process the timber in a sawmill, and export sawn timber or manufactured products). There is still no spatial management, even with legally operating concessions. As a result, it is believed that there is increasingly dispersed timber. According to the reports, although concessions have increased, forest management has not improved. Short rotations and over-cutting have been institutionalised. The concessions are actually being run by small operators, who are allowed to cut before establishing industries, and there is no replanting.

Third, unprocessed wood is a problem. In 2004, unprocessed timber exports were justified as there was a lack of industrial capacity in Zambézia. In 2007, 28 percent of total exports were in the form of rough cut timber as opposed to fully squared. Operators argue that this is because sawn wood is costly and sells for less than logs. Since 2001 there have been no reports on industrial capacity. At that time, there were eight installations with the capacity to process 51 000 $m^3$. Furthermore, in 2003 a Ministerial Diploma was issued which allowed the export of the five most important species, by reclassifying them as a precious class. The researchers argue that this regulation was pushed through the Council of Ministers due to an Asian lobby that put pressure on the government to change legislation to their benefit.

Fourth, by law, those carrying timber are required to have a felling license and a transport license permit. Yet, in practice, Mackenzie found systematic under-reporting. There were few checkpoints, and policing was unfair (often privileging well-connected operators and Asian buyers to the detriment of villagers with small volumes of handsawn timber and established industrial operators). Once again serious understaffing was found to be a problem. The researchers found that the number of checkpoints had increased between 2004 and 2008 from three to five. But the most significant checkpoint at the Port of Quelimane had been downgraded, and less staff were employed to carry out checks. New checkpoints therefore did not mean greater law enforcement, but greater rent-seeking.

Fifth, once at the port, two major irregularities were identified by Mackenzie in 2006: the large-scale export of undeclared timber and the illegal practice of transfer pricing. There were significant inconsistencies between the figures reported by the provincial forestry department and customs officials, and many of those interviewed during her research suggested that, given the number of ships that load up in the port, it was impossible for the low figures reported by customs to be correct. In October 2008, the customs office from Maputo launched an investigation in Zambézia and found that there were still widespread cases of illegal exports and under-reporting.[34] Mackenzie in 2006 also found documents that revealed that some exporters invoice their overseas clients for logs at prices lower than the current market prices in Quelimane, suggesting that transfer pricing is being carried out to avoid tax payments in China.

In theory, Mozambican local government authorities approve licences which should be issued according to annual quotas for designated areas to ensure that over-harvesting does not occur. Rural communities should receive 20 percent of licence fees. Simple license holders are required to hold a consultation process with local communities and reach an agreement on compensation as requested by the communities. Concession holders must present management plans for their requested areas, which should also take local community compensation into account as well as harvesting plans that protect the ecosystem of the area to be explored. Once licences are awarded, quotas should not be surpassed, and all timber felled must be reported to local authorities. Single license holders can sell their timber to local industries to be processed, and concession holders must provide industrial plans for processing. Exports must be of processed wood products, and not logs (although for certain species log exports are permitted, given a special regulation passed in 2003 which reclassified commercial timber). But despite the regulations, licenses are regularly awarded without meeting the necessary requirements, quotas are exceeded, harvesting under-reported, local communities are not compensated as agreed, and unprocessed logs are exported, undermining attempts to promote local industry. Bribes are common, and implementation of the law weak, leaving an open door for Chinese firms keen to buy logs to ship back to China.

The case of Zambezia shows how, notwithstanding the existence of a reasonable set of laws and regulations, inefficient implementation has led to logging that is out of control. The Chinese have provided the drive for the boom through their demand for timber and the access to credit which allows operators to enter the industry. Lack of capacity, weak governance structures, and corruption by local elites who approve the exploitation of timber without enforcing laws and regulations, have undermined the implementation of a regulatory framework designed to protect the forest industry. Most importantly, they have undermined the potential to develop a sustainable industry and allow local communities to benefit. The development of a sustainable timber industry will depend on a clearer commitment from the government, whose strategic thinking and vision with regards to the forestry sector has been largely missing.

In South Africa, the government's attempt to change the racial composition of mine management has, by its own admission, not succeeded. Minerals Resources Minister Susan Shabangu has described the transformation of the mining industry as 'not very encouraging' given that black persons are 83 percent of the population, but 84 percent of mine management positions are still in the hands of whites (predominantly white males).. For the government, accelerating the empowerment of previously disadvantaged individuals is the priority for the mining industry. The National Union of Mineworkers (NUM) has also identified transformation as the industry's greatest challenge, arguing that compromises in this context cannot be allowed to continue.[35] Factors which could undermine South Africa's attractiveness as an investment destination include rising labour costs and higher prices for electricity.[36]

The implementation of safety laws has had mixed results. The most recent report of the MHSC indicates that the industry had 171 fatalities in 2008, down on the 220 in 2007. Accidents per person hours have improved, but mine managers are not being held liable for accidents as required by law (about 5000 people are injured on the mines every year). Industry representatives believe that achieving the goal of zero harm will take time and will involve broad education programmes generally, not only in the mining industry. Overall, South Africa's workplace safety record is very poor. The National Union of Mineworkers (NUM) has called on the National Prosecuting Authority to arrest and charge mine managers when fatalities occur. NUM has also encouraged the DMR to speed up mine inspections and to make reports accessible for comment.

In Zambia, while legislation governing extractive industries is adequate, there are limited capacities in most of the institutions expected to discharge the responsibilities of enforcing it. The concerned departments not only lack capacity, but are regulated by different laws. This proves a challenge when it comes to coordination of actions. The capacities in departments are not homogeneous and have to depend on interventions from other institutions. In the case that one institution does not do its work in time (or properly), there is a chain reaction of inertia and indecision. Most of the enforcement wings of government remain weak despite the demand for them to be strengthened. For instance, the MSD is a critical department whose capacities should have been strengthened when it was projected that the mining industry was going to experience exponential growth.[37] Virtually all institutions charged with the responsibility of enforcing the substantive areas of the legal frameworks are incapacitated. Most do not have the physical presence to consistently monitor and enforce standards and procedures. In addition, they do not have the human resources to enable them to discharge their responsibilities. In some instances, there is lack of clarity on the lead delegated authorising agencies (DAAs) in the enforcement of the various pieces of legislation pertaining to the industry.

In Zimbabwe, small indigenous miners have fallen prey to Chinese investors who lease the claims for a fee based on tonnage produced. According to an audit report by the Ministry of Mines and Mineral Development, half the companies investigated were operating on such claims without government certificates and licenses. They were only registered with the local authorities. An official report concluded that there is 'rampant, indiscriminate and flagrant disregard of the provisions of the mining statutes by foreign and local chrome miners'.[38] These companies did not keep records on labour and production; the records were said to be kept in Harare, Gweru or China. They were not submitting production records to the relevant authorities, which would seem to suggest that smuggling is rife. An audit report by the Ministry has shown that half the investigated mines could be involved in smuggling, which not only deprives government of taxes and royalties, but communities of development projects and investment.

Implementation of the Environmental Management Act is problematic: generally mining companies do not comply with it, and implementation is weak. The audit report also found that most investigated companies had no EIA. Investigations by *Sunday Mail Business* in 2010 showed that some Chinese miners in the Midlands Province were illegally mining chrome without the requisite EIA reports or the proper mining paperwork. The EMA's inspectorate team went to the extent of shutting down the operations of some of these Chinese companies. But according to the Minister of Environment these operate as 'large-scale *makorokoza*'[59] that appear in another area if their operations are closed in one area. The audit report by the Ministry of Mines observed that on all the sites visited (Masvingo, Midlands, Mazowe and Mutoko) there were no legally-appointed skilled workers as required by the law, and nor were there records on safety and health.

Experience teaches that policies that are not coordinated and are not consistent with each other generally lead to the opposite of what was intended. There is lack of coordination and consistency between policies at the local government and national levels. The audit into the activities of investors in the sector highlighted massive violation of rules. Some companies were operating without first registering or being approved by the ZIA. Although companies from different countries could be exploiting the loopholes presented by the lack of policy coordination at the local and national levels, Chinese companies were singled out in the report. Analysts believe that these companies are capitalising on the excellent bilateral relations between Harare and Beijing to ease themselves into the mining sector. Chapter 5 has also reported on wide-ranging failure to implement labour law.

## Other local constraints

Limits to the legal framework and implementation problems are, as noted earlier, not the only constraint to developmental Chinese investment. Local conditions are sometimes not conducive and this limits the contribution of Chinese firms.

In Angola, investments in oil exploration in the Cabinda enclave are being made amidst continued armed attacks by different factions of the Front of Liberation of the Enclave of Cabinda (FLEC) in areas close to oil prospection and exploration bases. In 2010, Sonangol was forced to suspend oil prospecting because of an armed attack by a secessionist faction in which 12 fighters and government soldiers died. Despite political assurances that government controls the enclave, the situation continues to be very tense and many human rights activists have been arrested and imprisoned (with others going underground). The enclave is separated from mainland Angola by a 60 km strip of DRC, and is completely isolated from the rest of the country. Information is fully controlled and censored by the government's information and security services.

The DRC, despite its abundant and diversified natural resources, is among the poorest countries in the world. It has had no effective government since the collapse of the Mobutu dictatorship in 1997. Its education system has all but collapsed, and the state lacks the organisational capacity to engage powerful partners like China on an equal footing. Political instability discourages a long-term mining investment strategy.

In Mozambique, one element that influences China's preference for importing logs is the risk involved in paying in advance for sawn timber. Exporters claim that there is a risk of receiving products that are of low quality or otherwise unsuitable. For this reason, exporters are reluctant to ship sawn wood in case it gets rejected. These problems primarily reflect the poor governance and reputation of Mozambique's timber industry. Yet, as long as a preference for unprocessed timber exists, Mozambique will have little opportunity to gain added value from the timber industry.[40]

South Africa offers China a significant and relatively wealthy market, good infrastructure, political stability, the absence of civil unrest or religious conflict, rich mineral and human resources. But Chinese officials complain of high levels of crime directed at Chinese citizens. They also list impediments to expanding commercial operations, including difficulty in obtaining work permits for Chinese project managers and engineers, restrictive labour laws, poor communications, logistical problems, lack of worker skills, low productivity, and language barriers.[41] Factors which could undermine South Africa's attractiveness as an investment destination include rising labour costs and higher prices for electricity.[42] An improvement in South Africa's overall investment environment could be a catalyst for new and significant Chinese FDI. Several Chinese companies are interested in investing in South Africa and other African countries, but are obstructed by difficult local conditions.

Despite a growing global demand for raw materials, South Africa has not seen a flood of new investment from China (or elsewhere). Factors inhibiting new investments include:
- closure of mines owing to accidents;
- curtailment of electricity supply (due to an over-demand across the country and poor planning on the part of suppliers);
- infrastructure constraints (undercapitalised rail, port, housing and roads);
- delays in procuring necessary goods and services;
- regulatory constraints, especially environmental permits;

- high cost of labour;
- low capital and labour productivity;
- over-regulated labour market;
- high HIV and AIDS rates among miners;
- complex BEE requirements.

All these factors have delayed expansion and development of the mining sector, and act as a severe impediment to Chinese investors unfamiliar with conditions in South Africa. A significant increase in Chinese investment is thus not expected in the short-term.[43] More recently, growing debate on the advantages and disadvantages of mine nationalisation in South Africa has further undermined international investor confidence.[44] Government officials have confirmed that the nationalisation of mines is not on the agenda, but could be raised at the ANC's next policy conference in 2012. At the same time, SACP Deputy General Secretary Jeremy Cronin has suggested that nationalisation would have no positive impact on job creation, or beneficiation. It would simply be a wealth redistribution strategy, with a significantly negative impact on the economy as a whole.[45] Overall, South Africa is officially estimated to have lost approximately US$5 billion in mining investment as a consequence of an unattractive investment environment. The loss in investment also implies a loss of new job creation and growth for the economy.

Vested interests in the mining sector are well entrenched, making it difficult for external actors to enter the market.[46] Over the longer term, Chinese corporate strategies are expected to focus on expanding ownership of South African mining assets, as a way of ensuring guaranteed supply at competitive prices.

## Conclusion: The answer lies within

The evidence presented by all our studies tells a clear story – the problems associated with Chinese investment are primarily domestic problems.

Whether the cause is government incapacity or collusion between Chinese investors and local elites (or both), it is clear that states in Southern Africa are not doing nearly enough to ensure that Chinese investment enhances local living standards and contributes to development. Again, the 'problem' of Chinese investment is found to be a symptom of a much wider problem – domestic constraints which prevent states from using foreign investment to grow their economies and societies. A reform agenda which seeks to ensure that Chinese resources develop African societies needs to start with a strategy which places at its centre ways of making governments in host countries more effective and more responsive to their citizens.

## Endnotes

1 Further information about mining regulation can be found on the CTCPM website: http://www.miningcongo.cd

2 Mozambique is a unitary state. In administrative terms, the country is divided into 10 provinces and Maputo city, the country's capital (which is legally a province). There are 128 districts, 394 administrative posts, 1072 localities and 10 025 villages. At sub-national level, central government operates through local state bodies (*Órgãos Locais de Estado*), which should exist at all administrative levels: provinces, districts, administrative posts, localities and villages (art. 262 ss., Constitution; Law no. 8/2003). In addition to local state bodies, Mozambique's local governance also has local authorities (*autarquias)*, which represent the government's efforts towards political devolution to autonomous sub-national levels of government.

3 Massuanganhe, Israel Jacob. *Governance, Natural Resources and Local Development in Mozambique*, Doctor of Philosophy thesis submitted to the Department of Agricultural Economics, Faculty of Natural and Agricultural Sciences, the Free State, 2008, pp. 91-94.

4 paragraph 202

5 *Tristezas Tropicais 2009*

6 See Wait, M.: "The State of Research," *Mining Weekly,* April 15-21, 2011, pp. 8-9.

7 See Faurie, J.: "New Explosives Code to Come Into Effect," *Mining Weekly,* January 29- February 4, 2010, p. 39.

8 Creamer, M.: "On Board," *Mining Weekly,* March 5 - 11, 2010, p. 11.

9 In 2007, the government began to amend the Mines and Minerals Act to ensure that the development agreements are subordinate to, and binding only within the confines of, the law. The resulting new mining legislation – the Mines and Minerals Development Act 2008 – removed the requirement to enter into development agreements, which the government considered to have been lopsided, to ensure the new regime offers more benefits the Zambian people.

10 It was under the Mines and Mineral Act of 1995 that the privatisation of the mining industry in Zambia was undertaken. There were several amendments to the Mines and Minerals Act, including Mines and Minerals (Amendment) Act, Act No. 2 of 2000 which was deemed to come into effect on 1st February 2000, and Mines and Minerals (Amendment) Act No. 6 of 2007 which was deemed to come into effect on 1st April 2007.

11 Under the provisions of the Mines and Minerals Act, the development agreements were binding on the government and override any law or regulation.

12 The preferential tax treatment included: a royalty of 0.6 percent of gross value; corporate income tax at 25 percent (compared with a general rate of 35 percent); depreciation for tax purposes at 100 percent; withholding taxes at 0 percent, except on construction and technical services supplied by non-residents; customs duty exemptions for capital-equipment imports; and limits on duties payables for consumables. These terms and the write-down of large investments limited the government's share of potential tax revenues from the copper boom.

13 Policy decisions within the ministry are made by the minister, assisted by the deputy minister. The chief executive is the permanent secretary, who directs four statutory departments: Geological Survey (for prospecting licenses and mineral processing licenses), Mines Development (for issuance of mining licenses), Mines Safety, and Headquarters (for administrative matters).

14 Currently, institutions that provide services to the mining industry (especially the Ministry of Mines and Mineral Development) are weak. Problems include low staffing levels, inadequately trained technical staff, poor funding, and inadequate infrastructure. This has resulted in poor service delivery. With unprecedented growth in mining activities in the country, an efficient institutional framework support is critical.

15 The current mining policy was formulated in 1995. Its primary focus was on the privatisation of state mining corporations. Due to changes in sector (especially technology), the Mines and Minerals Act (1995), the Prescribed Minerals and Materials Act, the Explosives Act, and various regulations are outdated. New pieces of legislation will be required.

16 The new tax regime was intended to ensure that the government received a greater share of mining profits and rents, through the introduction of a windfall tax and a variable profit tax, as well as an increase in the mineral royalty. In implementing the new tax regime, the government wanted to preserve Zambia's attractiveness for investment in mining. All mining revenue in excess of what would have been collected under the old regime was to be saved in a separate government Mining Resource Account (MRA) at the Bank of Zambia. The MRA was to be a stabilisation fund to smooth expenditures over time, taking into account macroeconomic conditions and absorptive capacity. The fund was to be used to finance high-priority projects identified in the FNDP.

17 Ministry of Finance and National Planning (2009), p. 21.

18 Finally, despite repeated representation from the civil society and the parliamentary opposition, the windfall tax was removed altogether from the statute books, in March 2009. This demonstrated the limitations of the parliamentary avenue to protect. It will be evident that the natural endowment which should have helped develop the country, has indeed proven a "curse".

19 CMoZ: 2010

20 Zimbabwe Miners Federation 2010

21 The Labour Relations Act repealed the Industrial Conciliation Act, the Minimum Wages Act and the Employment Act of 1980.

22 Chris Alden, China's Role in Mineral Commodities in Africa: Options for Development. Paper written for the GTD Forum Working Group no. 7 'Commodities, Governance and Poverty Reduction'5 September 2008.

23 Brautigam, D. 2009. The Dragon's Gift: the Real Story of China in Africa, Oxford University Press.

24 2010´s Corruption perceptions index (CPI). The 2010 CPI measures the degree to which public sector corruption is perceived to exist in 178 countries around the world. It scores countries on a scale from 10 (very clean) to 0 (highly corrupt).

25 In 2011, the national budget was approved with a total of US$43.9 billion. Of that amount, 8 percent goes to education and 5 percent to health. There is an increase in the education budget compared to the last three years. However, combined education and health budgets (13 percent of the total budget) are still far from what it is needed to improve the state of education and health and to foster sustainable development in light of the needs of the country´s most valuable asset, its human resources. Funds allocated to these sectors are far below the amount allocated to national defense and security (15.2 percent of the total budget).

26 Sandrey, R and Jensen G.: "Revisiting the South African-China Trading Relationship", *Tralac Working Papers,* No. 6, March, 2007.

27 Interview: PJ Botha, Chairman, African-Asian Society (AAS), 5 March 2010.

28 Moyo, A and Musarurwa, D, Miners plunder chrome reserves, Sunday Mail business (Jan 30-Feb 5), Harare, 2010

29 N0 22/METPS/DPIT/IT.KIR/573/2008 ; N0 22/METPS/DPIT/IT.KIR/572/2008; N0 22/METPS/DPIT/IT.KIR/675/2008; N0 22/METPS/DPIT/IT.KIR/788/2008

30 Chinese companies, like most businesses in the DRC, are regularly harassed by government officials.

31 Jansson and Kiala 2009, p. 14

32 More details can be found on http://news.mongabay.com/2007/0711-china.html

33 *Tristezas Tropicais 2009*

34 *Tristezas Tropicais* 2009

35 Davenport, J.: "Minister Tells SA to Speed up Transformation," *Mining Weekly,* February 26-March 4, 2010, p. 44.

36 Smit, P.: "Positive Outlook for Mining in South Africa," *Mining Weekly,* November 6-12, 2009.

37 The department currently has presence in three provinces, with insufficient numbers of mine inspectors, when extractive activities are being undertaken in literally every district of Zambia.

38 Government of Zimbabwe: 2010

39 "panners"

40 *Tristezas Tropicais 2009*

41 Foreign Minister Yang Jiechi pays official visit to South Africa, at accessed 24 November 2009.

42 Smit, P.: "Positive Outlook for Mining in South Africa," *Mining Weekly,* November 6-12, 2009.

43 Michael Power, Investec. 23 February 2010.

44 "Mine Nationalisation Debate Hurts Bids to Attract Investors," *Sunday Times,* 21 February 2010.

45 Cronin,J.: "The Nationalisation Debate," *Polity.org.za,* at accessed 23 February 2010.

46 Michael Power, Investec, 23 February 2010.

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# SUGGESTIONS FOR CHANGE: RECOMMENDATIONS FOR POLICY AND PRACTICE

How could the problems and challenges identified by this study be addressed? What do Southern African governments and other actors with the potential to initiate change need to do to ensure that the potential of Chinese investment to meet the needs of the countries studied here is fully realised?

In an attempt to contribute to debate on proposals for change, our country teams were asked to make recommendations for action to remedy the problems which they identified. The recommendations are ordered in the same way as the chapters of this report. We first list those which seek to improve the relationship between China and Southern African countries (Chapter 3), then we discuss ideas for improving the development impact of Chinese investment (Chapter 4). We list the recommendations on working conditions and social responsibility (Chapter 5), and on reducing or removing the internal constraints in the countries (Chapter 6).

These recommendations do not, of course, claim to be the last word on the subject – they are listed here only to initiate wider-ranging discussion on how to ensure that Chinese investment in Africa in general (and Southern Africa in particular) is a source of inclusive growth and development. It is hoped that the proposals will generate debate in the countries studied and further afield on how to turn the developmental potential of Chinese resources into a reality.

## Building the relationship

The country studies were, understandably, concerned to make recommendations which assumed that the relationship between China and Southern African countries was a commercial one (rather than an exercise in South-South solidarity). This meant that the proposals examined how this commercial arrangement could become more attuned to local needs (rather than on how the claimed solidarity could be deepened). A strong theme in the recommendations proposed is the need for civil society to play a greater role in the relationship between China and the countries studied.

Our Angolan team made these suggestions for ensuring that the relationship between that country and China is improved:

- Initiate more research into the practical issues that involve China-Angolan co-operation – the implications of this relationship still need to be more fully investigated.
- Make China more accountable, through public discourse.
- Encourage Chinese investors to learn Portuguese, and encourage Angolans to learn Chinese to facilitate better understanding and negotiation.

Our Democratic Republic of Congo study proposed that Chinese companies be made to understand the important role that civil society plays in the DRC to ensure transparency and accountability. The role of civil society is important in matters of transparency of revenues and use of revenues for poverty reduction. Civil society challenges private firms for making unethical profit, and government for not collecting enough revenues or not using the revenues appropriately. This is why it is critical to ensure that initiatives such as EITI be strengthened, especially in weak states with inadequate institutions to control and monitor revenues. There is a need to lobby the Chinese government and Chinese civil society to force Chinese companies to open up to local civil society.

The Mozambican study urged that:

- The links between the over-exploitation of the Mozambican forests and the demand for timber by China should be seriously discussed at the political level between the governments of Mozambique and China, especially when it is obvious that state companies are involved in the trade. China's ban on logging of its own national forests should not be compensated by the over-exploitation of other countries' forests.
- Civil society organisations can play an important role in monitoring the activities of individuals and companies and the performance of government officials and institutions involved in the timber business, as well as providing policy alternatives to the government. Civil society organisations can also provide training to communities for a better forest management. Recently, for example, the organisations involved in the EITI Forum held a meeting in Maputo to prepare the launch of a Civil Society Platform that would strengthen the voice of civil society in discussions regarding the EITI and natural resources management.

- The strengthening of local research institutes and think-tanks is important, since there is a dearth of information and policy analysis with regards to the extractive industry, and especially with regard to the complex issues that involve Chinese companies.

In the view of our South Africa study, civil society should become more directly involved in determining the impact and consequences of China's growing involvement in Africa generally, and particularly in South Africa. The direct impact on unemployment and poverty requires more in-depth and broader analysis. Inputs from communities affected by China's footprint in South Africa need to be considered, with a view to crafting an effective response to new challenges posed by globalisation and China's competitive advantages.

Our Zambian study argues that China's presence in Africa may be progressively rejected unless the Chinese understand that they should urgently take into account what the vast majority of Africans want for their continent, instead of colluding with political leaders to achieve their own narrow interests. Issues of democracy, good governance and economic development are thus critical to Zambia, and to Africa in general. By over-emphasising sovereignty and non-interference, the Chinese are running the risk of losing the support of African populations. The fact that China closes its eyes and refuses to address publicly the lapses in good leadership can only lead to negative consequences: corruption, human rights violations, wars, and the destruction of democratic gains.

The Zimbabwe study stresses the need for the Zimbabwe Mining Development Corporation (ZMDC) to become a major player in negotiating joint cooperation agreements (JCAs) with a mining component. It argues that it has to compete on its own strength and behave like any other mining house. In this way JCAs would have a strong business component.

## Development impact

One theme in this study is that Chinese investment can potentially make a developmental impact, but that it is not anywhere near reaching its development potential – concrete changes are needed to ensure that this potential is realised. The country studies proposed a variety of ways of enhancing development impact.

Our Angolan study urged measures to understand better the effect of China's economic presence prior to regulating it. It urges Angola to:

- Monitor the implementation of projects under the Chinese credit line.
- Improve transparency and accountability with regard to the credit line and investments that have been made in Angola.
- Establish a clear standard of what is required regarding construction before and after the inspection, and verify whether the work is in accordance with agreed standards.

The Democratic Republic of the Congo study argued that the DRC should not look at its comparative advantage (minerals) only; it should also look at its competitive advantage (land and agriculture). The DRC, which has fertile land, should produce agricultural products for export to China. Instead of selling land to the Chinese, the DRC must use it to increase agricultural production. China is expected to struggle to feed its population within a few years. Just as China has used manufacturing and cheap labour, the DRC could use agriculture and cheap labour as the foundation of its development and foreign income earning.

Our South Africa study made these suggestions for change:

- Public-private partnerships could be helpful in strengthening the effective management of resources, towards a system in which industry returns are advanced along with significant local and national economic development. The World Bank is calling for the establishment of public-private partnerships between mining companies and the state, based on the argument that 'co-operation between business, civil society and government can produce a win-win situation for all as it provides long-term benefits to the business sector, while meeting the social objectives of civil society and the state by helping create stable social and financial environments.'[1] This view is proposed as a guiding principle for South Africa.
- South Africa should give consideration to negotiating a trade agreement with China to comprehensively address the trade imbalance and related job losses. The key objective would be to remove protectionist barriers against South African exports. There is a need for preferential trade access (such as America's AGOA legislation) to the Chinese market as an important way for competitively disadvantaged less developed countries to access global value chains.[2] A South African Free Trade Agreement (FTA) with China could increase exports to China, and markedly im-

prove prospects for employment in some economic sectors as a consequence.[3]
- Any FTA negotiation process should include business, labour and civil society.

Our Zimbabwean study proposed a greater role for government in ensuring a greater developmental impact:
- Beneficiation of raw materials before export should be made compulsory, and the percentage threshold to be processed locally should be based on the characteristics of each mineral. A process to ensure raw material beneficiation before export to China (or any other country) is increasingly urgent.
- The Zimbabwe Investment Authority must ensure that approved investments are funded with specified foreign currency inflows.
- At the same time, it is necessary to ensure that a significant percentage of the profits arising from the exploitation of natural resources are used to advance job creation and the fight against poverty.

## Working conditions and corporate social responsibility

The working conditions in Chinese enterprises were a particular cause for concern, and many recommendations were proposed to ensure improvements in these conditions. Many of the recommendations rely on a greater government role, but the need to include worker organisations and to ensure that they have an effective say was also stressed.

Country study authors felt that Chinese companies were not contributing sufficiently to the society through corporate social responsibility programmes, and some suggested that governments intervene to enforce greater corporate social responsibility. A common thread was the suggestion that Chinese companies should be required to implement comprehensive corporate social responsibility programmes by adopting existing voluntary CSR initiatives and guidelines with a proven track record in terms of concrete contribution to local development (including environment protection, decent working conditions, human rights, relations with local communities, local companies and manpower, training programmes, and reinvestment of profits).

Our Angolan study urged that country's government to:
- Meet with Chinese companies and explain how they should treat Angolans workers.

- Establish rules regulating working conditions and promote the creation of employment opportunities, because it is not worth having companies in Angola that do not improve the living conditions of the general population.
- Supervise and monitor compliance with the employment rules by Chinese companies.

Chinese investment in Angola, it argued, should promote permanent jobs and not temporary work, should provide security for Angolan workers, and employment contracts should be in place.

The DRC study suggested that privately-owned Chinese companies (although involved in beneficiation of copper into copper cathodes) often flout local labour and environmental laws. It recommended that:

- The DRC government, especially at the provincial level (notably Katanga), must build its capacity to investigate and punish companies that do not respect the law.
- Chinese companies must accept the need for constant monitoring and evaluation of their activities by state institutions and civil society.
- Chinese investors must be compelled to monitor and safeguard the environment they operate in. Environmental impact assessment reports must be conducted and properly scrutinised before permits to start operations are given. A follow-up mechanism must be put in place to monitor compliance.
- The DRC government must properly define CSR in law. Boundaries between the respective roles of the state and corporations must be clearly defined, and Chinese companies must be compelled to engage with corporate social responsibility. Chinese companies must understand that CSR is an obligation on companies to invest in communities they operate in.

The South Africa study made comprehensive proposals to enhance worker protection and enforce corporate social responsibility. Many were directed at Chinese enterprises rather than the host government.

On the former (worker protection) it recommended that:

- Workers should be full participants in the implementation and evaluation of sustainable development programmes and interventions. Workers and unions should be consulted on safety, environmental issues, and job security throughout the mining life-cycle.

- China should be encouraged to provide more assistance in terms of skills development, and include a skills development component in all investment deals. China should also be encouraged to step up training of South African artisans and engineers along with an expansion of scholarships.
- Chinese mining companies are important sources of new capital to develop the industry, but should focus on sourcing local labour and ensuring the transfer of skills and knowledge.

On corporate social responsibility, it urged that attention be given to these basic standards which are relevant in the extractive industries:

- Obtain free, prior and informed consent of affected communities.
- Ensure that projects do not force communities off their lands.
- Refrain from dumping mine wastes into the ocean, rivers, lakes or streams.
- Ensure that projects do not contaminate water, soil, or air with toxic chemicals.
- Cover all costs of closing down and cleaning up mine sites.
- Fully disclose information about social and environmental effect of projects.
- Fully disclose all money flows to governments.
- Adhere to all relevant international labour standards.

It also urged that:

- Communities should be empowered to play an active stakeholder role in minerals, metals, and mining development. Mining companies should be required to provide information on the impact the mine will have on economic, environmental and social aspects of society. Adequate compensation to communities, based on the mineral value, should be provided. Any relocation of communities should be through consultation, carefully planned, and fully compensated. Heritage and cultural sites should be respected and protected.
- China can help to eliminate the 'second economy' in South Africa by including local communities in business promotion and preferential procurement.

Our Zambian study made several proposals to address concerns about labour conditions and rights:

- Issues of labour need to be seriously addressed and this should not be done in a piecemeal way. It must be borne in mind that the widespread use of casual labour has serious consequences, as it involves human dignity. The onus is on the Zambian government, especially the political leaders, to ensure compliance with laws that would compel mine owners to engage workers on a permanent basis, with full benefits. There is a positive move in this area at the Luanshya mine, but it is an exception rather than a norm. Despite promises to have this situation addressed before and after 2006, little has been done to compel the new mine owners to engage more permanent employees.

- It is widely acknowledged that work is an essential part of human life. One needs to work in order to earn money for buying food, paying bills, and generally meeting other necessities of life. Workers need to know their rights, and there lies the role of trade unions and other civil society organisations. Together with the employers, employees need to recognise the importance of working in safe and clean environments to avoid accidents and illnesses. It is the duty of every employer to provide safe drinking water, reliable sanitary and other facilities.
- Associated with the problem of employment is the issue of mine safety. It would appear that standards of safety have declined since privatisation, which has contributed to an increase not only in mine accidents, but also in fatalities. As a matter of urgency, the authorities which play a role in regulating the mining sector need to be strengthened. This needs to be done in line with their developed strategies, and as a response to the increasing role they are expected to play. Employers should ensure that machines and mining equipment are serviced regularly to avoid accidents. Government should play a major role in ensuring that safety measures are implemented in all workplaces.

The study urges Chinese companies to show greater responsibility to people in their neighbourhood. It argues that there is a need for Chinese companies to proactively respond to concerns about sustainable development in the areas where they are operating. For instance, mining establishments such as Collum Coal mine should work in collaboration with the local community and the Forestry Department on reforestation projects, and support initiatives by the community in which they can earn a living from other forestry products (e.g. beekeeping, wax tapping etc) that have economic value and contribute to improved livelihoods.

Our Zimbabwean study recommended three areas for reform, aimed at enhancing work conditions:

- Workers' organisations need to find ways to monitor the application of the Labour Relations Act in conjunction with the Ministry of Labour. The capacity of the two should be enhanced.
- Zimbabwean skilled personnel in the mining sector should make serious efforts to learn the Chinese language to facilitate skills transfer.
- In terms of mine safety, the UK, Canada and Australia have shown that stricter laws lead to improved safety. This has obvious implications for Zimbabwe.

It urged two measures to enhance corporate social responsibility:

- Zimbabwe should engage the Chinese companies (particularly the small-scale companies) on issues to do with legality, corporate social responsibility, environmental impact assessment, and compliance with the labour legislation. Such engagement should include Chinese conglomerates as best-practice cases to be emulated by the small-scale miners, and should involve the ambassador (as the Chinese representative in Zimbabwe).
- Mining companies should be obliged by law to transfer 10 percent of gross profit (as is proposed by government) to the communities they operate in as part of their corporate social responsibility.

## Removing internal constraints

This report has argued repeatedly that Chinese investment will not trigger sustained development unless host countries become more active in legislating to ensure a fit between Chinese resources and local needs, and in ensuring that laws are respected. It has argued that development impact is hampered by local constraints which need to change if the Chinese presence is to be more appropriate to countries' needs. The country studies contained copious proposals for ensuring that the environment in the countries studied was better suited to ensuring that investment is in the national interest.

The Angolan study recommended that its government should:

- Demand greater transparency and social responsibility in the relationship with China.
- Meet with Chinese companies, and explain what is expected of them and how they should treat Angolans workers.

The DRC study's recommendations were more concerned to suggest what the DRC should do than what China should do. This approach is premised on the position that a sovereign country has the right to put in place rules that govern the extraction of its resources. It is the responsibility of the DRC government and its people to ensure that Chinese companies behave in accordance with national and international standards.

It made these proposals:

- The people of the DRC have been excluded from benefiting from their mineral resources mostly because of elite corruption. This is why the win-win relationship between China and the DRC (according to China) must be changed to a 'triple win'. The Congolese people (and not only Chinese companies and Congolese elites) must be part of the win-win to make it win-win-win. Congolese civil society and government must work toward this objective.
- The DRC must reform its tax system, and improve its revenue collection through monitoring and auditing financial accounts of foreign multinationals operating in their home countries. The efforts to redress unbalanced mining contracts must continue, and this must include contracts signed with China.
- The DRC, if it is to benefit from its extractive industries, has to develop a world-class public administration, especially when it comes to mining. Because of the critical importance of the mining sector for the economy and for the public budget, commodity-dependent countries need to develop world-class public administration within relevant government departments, including public representation on the boards of mining companies. This would require innovative approaches (including a revised system of merits and incentives, and revised terms and conditions of employment) to allow the recruitment of competent staff and the retention of the best officials in key positions in the public service.
- The DRC government must commit itself to transparent and balanced mining tax regimes, as opposed to secret tax deals with Chinese companies or joint-ventures. This is the best way to avoid corruption and assure citizens and investors that the rents from mining are being shared fairly.

Our Mozambican study argued that the development of a sustainable timber industry will depend on a clearer commitment from the government, whose strategic thinking and vision with regards to the forestry sector has been largely missing. Policies and strategies exist, but they are loosely related and do not provide a coherent vision for government officials and companies to work with. A strong and sustainable timber industry does not seem to be an important part of the country's development strategy. It made these proposals for change:

- With regards to the regulatory framework, the most pressing issue is implementation. Laws and regulations should be clearly disseminated at the lower levels of the state, and officials should be trained on the importance of implementing these laws and regulations for the sustainability of the forests
- Proper implementation of the regulatory framework will depend on improvements in the capacity and governance of lower levels of the state administration. More officials with access to better equipment and higher salaries are necessary conditions for curtailing corrupt and illegal practices in the forestry sector.
- Coherent and consistent policies and strategies are necessary with regard to the timber business, clearly advancing a vision for the sector and for its sustainable development, and linking it to a national development strategy. The country's leadership must make clear to government officials, individuals and companies that the forestry sector is an important part of the country's national development, and that the government will make efforts towards the sustainable expansion and the improvement of the quality of the timber industry.

The South Africa study suggested that the government could not be expected to achieve the necessary changes on its own. It thus urged that a coalition of stakeholders should address and investigate sustainability for the mining industry and ensure that foreign investors (including China) adopt appropriate policies. Participants could include:[4]

- African Network for Social Accountability (ANSA)
- African Social Forum (ASF)
- Bench Marks Foundation
- Business and Human Rights Resource Centre
- Civil Society Research and Support Collective (CSRSC)
- Collaborative Research on corporations
- Corpwatch
- Diakonia Council of Churches
- Extractive Industries Transparency Initiative

- Framework for Responsible Mining
- Global Witness
- Industrial Mission History Project
- International Fatal Transactions Campaign
- Jubilee South Africa
- Mines and Communities
- Mining, Minerals and Sustainable Development (MMSD)
- Nederlands instituut voor Zuidelijk Afrika (NiZA)
- SOMO (Netherlands)
- Southern African Peoples Solidarity Network
- Southern African Regional Poverty Network
- Tax Justice Network for Africa
- Third World Network
- War on Want.

It does, however, also assume that the government has a significant role in addressing the challenge of ensuring a greater alignment with local needs:

- Through legislation, foreign investors in the mining industry should be required to include at least first-phase beneficiation before export. Increased governmental control of mining contracts and processes could assist in promoting beneficiation processes and related economic activity.
- In the context of Chinese investment in South Africa, the South African government should promote China-South African joint ventures; require local procurement; ensure job creation with all Chinese investments; insist on technology and skills transfers; require a commitment to the local economy; maintain investment and transaction transparency; draft an appropriate investment code to protect workers; insist on corporate social responsibility and ensure that all projects are consistent with national development plans and policies.

The Zambian study also made proposals for a more effective government role:

- The Zambian government should, working with various stakeholders, define the priorities and interests of engaging with China, noting that the ultimate benefit would be for the extractive industry to contribute to meaningful and sustainable economic development.

- Government needs to reform and define how the mining industry should operate. The policy decision here would be to accelerate and make operational the Extractive Industry Transparency Initiative (EITI), which the government has already agreed to in principle.[5] This will ensure that both government and society have information on what is happening. Enhancing transparency in the mining sector is important to ensure that publicly-owned resources from the sector are realised and used effectively. To this end, the government needs to go beyond signing of the EITI, and to begin to implement its principles. Key to this is the commitment of mining companies to disclosing incomes and taxes paid to government, and of the government to disclosing all material revenues received from the mining sector.
- The issue of taxation in the mining industry is a critical area of discussion, and the Zambian government needs to deal with this issue as a matter of urgency because of its implications for national development. There is a very potent argument (advanced by different interest groups) for the Zambian government to have a taxation regime which not only captures more revenues for the treasury, but also ensures that the country meaningfully benefits from these finite resources. In the short to medium term, the windfall tax is perhaps the most appropriate route to take.

The Zimbabwean study offered that country's government several recommendations aimed at enhancing effectiveness:

- Zimbabwe has a well-defined minerals policy and all the necessary rules and regulations are in place. What is needed is to tighten them through reforms agreed upon by stakeholders in the industry, and the government must follow this up by establishing effective structures to monitor the conduct of investors on the ground.
- Regular auditing of compliance by mining companies should be made mandatory to detect those who want to beat the system.
- Synchronise the rules, regulations and procedures at the national and local levels, such that no investor is given a licence by local authorities without the necessary documents from the ZIA.
- The government should be obliged by law to disclose, publish and subject to public scrutiny all agreements and contracts entered into with foreign mining houses.
- Active exploration for minerals based on an effective 'use it or lose it' principle should be pursued. Government is already in the process of establishing the Zimbabwe Exploration Company to put value to the mineral resources.

- There should be a system to efficiently and effectively allocate and manage mining titles.

## Endnotes

1 Quoted in Dansereau, S.: "Win-win or New Imperialism? Public-private Partnerships in Africa Mining," *Review of African Political Economy,* No. 103, 2005, p. 47.

2 Morris, M.: "Globalisation, the Changed Global Dynamics of the Clothing and Textile Value Chains and the Impact on Sub-Saharan Africa," UNIDO, 25 August 2005.

3 Sandrey, R and Jansen H.: "Revisiting the South African-China Trading Relationship," *tralac Working Papers,* No. 2, 2007.

4 Adapted from the Bench Marks Foundation, 6th Floor Khotso House, 62 Marshall St, Johannesburg, at http://www.bench-marks.org/za

5 EAZ, 2009

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# CONCLUSION: CHALLENGES AND POLICY OPTIONS FOR THE PROBLEMS OF CHINA IN AFRICA'S EXTRACTIVE INDUSTRIES

China has prioritised Africa as a strategic partner at both the political and economic level, but the China-Africa economic relationship is still in its infancy. China's drive for oil and raw materials has initiated a new scramble for Africa, the long-term implications of which are uncertain. As Christopher Clapham argues "China's irruption onto the African scene has been the most dramatic and important factor in the external relations of the continent – perhaps in the development of Africa as a whole – since the end of the Cold War."

China seeks to expand its geopolitical influence in Africa to support domestic growth imperatives. Enhanced political influence, leadership in South-South co-operation, increased market share and guaranteed long-term access to Africa's resources characterise China's growing African footprint. China's African agenda brings into focus the so-called Beijing Consensus which runs counter to the precepts of the Washington Consensus. The latter is characterised by the World Bank, IMF and western donor community conditionalities, including restrictions on macro-economic policy, a reduction in public spending, commitments to transparency and accountability, and the holding of democratic elections. The Beijing Consensus is predicated on non-interference in domestic affairs and the promotion of sovereign integrity. Some African leaders are attracted to the Chinese model of development, which has facilitated spectacular economic growth without a challenge to single party rule. Thus by design or by default, China is building a bloc of African states which buy into the Chinese vision of domestic and global affairs.

## Africa's challenges

The central challenge for African governments is to ensure that interaction with China is mutually beneficial, both politically and economically. While China bases its policy on friendship and historical solidarity and seeks a "win-win" relationship with Africa, the management of relationships to achieve this is not undemanding. Africa's challenges in its relations with China seem to be similar to the problems it faces with western investment in its extractive industries. The critical one which has emerged through the chapters in this compilation is poor governance. The so-called "China problem" in resources can more accurately be folded into a larger set of concerns around the shortcomings of African governance in managing foreign investors in the mineral commodities sector, rather than any particular Chinese strain of malfeasance. In Africa, Chinese companies are now known for pollution, human rights abuses, weak safety and health conditions, and poor labour practices. While China might be dominating the headlines, many other companies (including western, Indian and Brazilian) cannot be exempt. Extractive companies regardless of their origin are taking advantage of the weaknesses of governance structures in most African states.

Given China's apparent lack of interest in African governance and human rights issues, the implementation of Beijing's Africa policy largely contradicts the African reform agenda. China's actions signal a new effort to expand economic and political influence in Africa outside the confines of the Washington Consensus, and in some cases they contradict the OECD rules for engagement of "fragile states". Beijing's Forum on China-Africa Co-operation (FOCAC) is intended to provide a comprehensive and coherent framework for managing China's engagement with Africa, but Africa's failure to form a united response threatens to undermine the continent's ability to shape the Sino-African agenda, or impact on the longer-term outcomes of the process. An appropriate policy response from Africa is required to ensure a mutually beneficial China-Africa relationship. In this context, policy options and dialogue processes become critical in advancing the interests of Africa's economic development, human security and democratisation in the face of new challenges. Africa's governance challenges manifest themselves in different ways. Some challenges can be addressed at the national level, while others require a continental or regional approach.

At the national level, it is up to African governments to maximise the benefits of China's involvement. The process of ensuring a win-win relationship with China should include the following:

First is the building and maintaining an efficient and effective mining public administration. The development of a world-class mining public administration becomes critical for African countries to ensure effective administration of the mining sector, in particular revenue management and enforcement of mining policies, laws and regulations.

Second it is necessary to build the competencies to run the extractive industries. Policy-makers in Africa often lack sufficient expertise and analytical skills to elaborate sound legislative and fiscal policies, as well as industrial and sector development strategies adapted to the local context with the aim of maximising the development potential. This has led to imbalances in mining contract negotiation processes, resulting in inequitable deals between multinationals and the governments of commodity-dependant countries (to the detriment of the latter). These deficiencies have prevented African countries from negotiating beneficial mining contracts (e.g. Sicomine in the DRC). Badly negotiated contracts in favour of investors have undermined the business climate in Africa. Bad contracts deprive African states of the revenues needed for development and for service delivery. For this reason, the argument that discourages African government from renegotiating mining contracts (for fear that it undermines FDI) is contrary to African advancement.

Third, there is need for ownership of policy options on how to transform the extractive industries in such a way that they become beneficial to African people. Most policy documents of most African countries are designed with the support of external institutions.

Fourth is the problem of weak taxation regimes. Fierce international competition, increasing freedom of capital movements, over-incentivisation to attract FDI, and corrupt practices by governments and private stakeholders regarding taxation have seriously undermined revenues arising from mining resources for commodity-dependant countries in Southern Africa. The revenue which is lost in developing countries is being "round tripped" via (or accumulated in) tax havens (e.g. through favourable international transfer pricing schemes) before being reinvested in the developed world. Southern African states must enhance state capabilities to collect tax.

Fifth is the need to build linkages between the extractive industries and local economies. There has often not been a direct link between the extractive industries and the local economy. The revenues from extractive industries have not been used to reinvest in the economy to promote economic diversification or broad-based development. Africa remains a net exporter of raw materials, and an importer of manufactured goods. A strict beneficiation policy (and implementation) is needed. No company should be allowed to export minerals in their raw form. Enhancing linkages between mining and the local economy, improving working conditions in the mines, upgrading local and regional infrastructure, and investing in education and training of manpower in line with economic needs are critical issues to be addressed. The processing of minerals on the continent is a serious issue. Countries on the continent are to add value to their minerals before they are exported. This is possible considering the comparative advantage that Africa has in terms of cheap labour and abundant resources. Processing of minerals would have multiplier effects in terms of infrastructure development: it would open-up opportunities for local companies and increase the national tax base. A larger tax base with reasonable rates would offer more opportunities to fund infrastructure development.

Sixth, there is need to use China's massive finances to support regional infrastructure development. Southern African countries lack the necessary infrastructures at national and regional levels (roads and rail transport networks, energy, water, communication) to fully and sustainably exploit mineral resources and to increase competitiveness on the international market. Africa needs an infrastructure to support global demands. Infrastructure bottlenecks and inefficient energy supply are causing extraordinary frustration to mining companies who fear that their ability to capitalise on the Asia-led resources boom is being undermined. Lack of appropriate infrastructure is a constraint which impedes commodity-dependant countries from attracting investments and using their mineral resources to develop more value-adding economic activities (local first transformation of raw materials), and so to stimulate economic diversification and resource-based industrialisation. Simply focusing on infrastructure directly linked to extraction of minerals would produce an economy with both strengths and weaknesses. The strengths would arise out of the productive and infrastructural capacities that would have been built up around its core sectors. The weaknesses would arise from the failure to integrate it into the rest of the economy. The result would be an internationally uncompetitive consumer goods industry, and limited capacity across a range of intermediate and capital goods sectors. When governments and regions are planning infrastructures, they should have an integrated macroeconomic and industrial strategy, with clear plans on how Chinese infrastructure investments can increase industrial development.

Seventh, China has been let off the hook regarding corporate social responsibilities. Chinese companies are having a damaging impact in terms of environmental degradation, working conditions, displacement of local communities, corruption, and fiscal evasion (particularly in developing countries with outdated policies and weak institutions). There is a need to push Chinese mining companies to implement comprehensive CSR programmes if Southern Africa is to turn the recent positive trends in the mineral sector into sustainable and real development.

At the continental or regional, the focus of Sino-African engagement should be:

- increased symmetry between FOCAC and NEPAD;
- AU prioritisation of areas where China's assistance is most needed;
- closer Sino-African collaboration on Africa's development agenda;
- SADC prioritisation of needs;
- closer policy synchronisation on the global economic reform agenda;
- increased co-operation on UN reform.

The key to advancing a China-Africa "win-win" relationship is to ensure both international and national co-operation for mutual benefit. At the global level, a joint effort to reshape globalisation and international economic institutions can advance the interests of both Africa and China. However, the reform of multilateral institutions cannot be achieved overnight, and developing countries must in the meantime take responsibility for their own well-being.[1] China's challenge is to incorporate global best practice into its corporate engagement with Africa.

Southern African countries can individually or collectively negotiate better deals with China to ensure more local labour, and more technology transfers. A comprehensive approach to foreign investment (from China, or elsewhere) implemented by African governments would go a long way to ensuring a win-win relationship. Ineffective African governance and commercial regulation will inevitably allow for a poor result from any foreign involvement option. African nations need to be more steadfast in pursuing their national interests and achieving their long-term goals. Few African countries, for example, took full advantage of the AGOA framework, and market penetration of African products in the US remains low.

South Africa's former President Thabo Mbeki warned of "an unequal relationship" between Africa and China. Peter Brooks has also asked a critical question. "While China has the potential for doing good in Africa, the question becomes: Is China's approach the answer to Africa's problems or is it just a repeat of Africa's colonial, mercantilist relationship with Europe? Or is it something completely different? Or is it perhaps too early to tell?"[2]

China is in Africa primarily to satisfy its own economic need to access strategic resources. China will use any loophole in the relationship with Africa to access these resources cheaply whenever possible. It is in the interest of Africa to ensure a mutually beneficial outcome in its dealings with China and to build local capacity to meet the challenge. As many observers have pointed out, China has a clear strategy for Africa, but Africa has no strategy for China. Greater co-ordination at the AU could ensure that African values, interests and developmental objectives are factored into interactions with China.[3] Hany Besada argues that the China-Africa relationship should be carefully managed "at ministerial level" to ensure a mutually beneficial outcome.[4] The onus is on individual African countries and African institutions to provide appropriate regulatory frameworks and good governance. The responsibility does not lie with Beijing.

The country studies in this compilation make findings that can be extrapolated to other countries on the continent. The research on the relationship between Angola and China has suggested a desire for mutual benefit, but the results have been disappointing. An investigation of China-Angola relations suggests that the partnership is not mutually beneficial. Policies regarding the attracting of investment into the extraction industry of Angola are already in place, but need to be improved to both attract and manage new investments in Angola. China's engagement with Angola provides infrastructure, but no new money into the country, which on one hand reduces corruption, but there is a need to ensure adequate monitoring and supervision of all Chinese construction activities.

The study of China-DRC relations argued that China represents an opportunity for the DRC, but Chinese companies have an obligation to abide by Congolese laws and regulations and respect international norms and standards of the extractive industries. Corruption is one of the main reasons for instability in the DRC. China should not be allowed to follow practices which undermine the fight against corruption and good governance.

Research into the China-Mozambique relationship has revealed that within the forestry industry there is a lack of accurate reporting regarding the amount and location of trees felled, and thus there is significant illegal export of unprocessed logs. The Forest and Wildlife Law and the regulation which supports the law stipulate the requirements, rights and obligations of both single license holders and concession licences, but despite these regulations, licenses are regularly awarded without meeting the necessary requirements, quotas are exceeded, harvesting under-reported, local communities are not compensated as agreed, and unprocessed logs are exported, undermining attempts to promote local industry.

From a short-term business perspective, the relationship between Chinese buyers and South African commodity producers is mutually beneficial. South African companies have direct and guaranteed access to the fast growing Chinese market, while Chinese steel makers have guaranteed supply at affordable prices. But the present Chinese business model for engaging South Africa's ferrochrome industry presents both negative and positive features. Chinese investors are seeking supply at the lowest possible cost and all beneficiation is carried out by stainless steel manufacturers in China. On the positive side, Chinese investments in the form of joint ventures with South African companies offer the prospect of building more rewarding relationships with Chinese capital. Through joint ventures, Chinese companies are exposed to and are automatically supportive of existing corporate social investment programmes. The Sinosteel-Samancor relationship for example, offers a good model for Chinese business partnerships with South African companies which have well established CSI programmes.

The country paper on China-Zambia relations explored various aspects linked to the development and benefits of doing business based on Chinese foreign direct investment into the extractive industries. The Zambian government needs to reform and define how this sector should operate. The policy decision here would be to improve the application of the Extractive Industry Transparency Initiative (EITI), which it has been implementing since 2009.

In the country paper on Zimbabwe, the policy dichotomy between the Washington Consensus and the Beijing Consensus – non-interference in the internal affairs of other countries was explored in the context of China-Zimbabwe relations. To say that China's engagement in Zimbabwe's extractive industry conforms to a neo-colonial exploitative approach would be overstating the case. Large Chinese corporations whether state-owned or privately owned have entered into "win-win" joint venture operations with the Zimbabwe state enterprises and private indigenous investors. Chinese companies operating in Zimbabwe are not all the same. There are large corporations and there are small-scale individual investors. The latter group of investor's operations, in the main, tend to capitalise on the excellent bilateral relations between Harare and Beijing to ease themselves into the mining sector, and the majority of them have generally ignored rules that have been laid down for those wishing to participate in this sector.

## China's challenges

China's readiness to support infrastructural development has earned Beijing the support from African politicians who are desperate to show some successes to their electorates. China is dispelling the myth that Africa cannot develop. The World Bank and the IMF abandoned supporting infrastructure development on the continent in the 1970s, arguing that it was too expensive. The Chinese role in mineral commodities in Africa is fast changing the landscape of investment in this sector. Southern Africa is the most important region of Africa in terms of Chinese capital investment. Chinese investments in Angola, DRC, South Africa, Zambia and Zimbabwe are among the biggest on the continent. Put together, they represent the biggest Chinese investment on the continent. Southern Africa is undoubtedly the region most attractive to China. The region has oil (Angola), timber (DRC and Mozambique), copper and cobalt (Zambia and the DRC) and other strategic minerals such as platinum, chrome, manganese (South Africa and Zimbabwe and coal (South Africa and Mozambique) that China needs.

Though China has introduced some features in its pursuit of African resources that are contributing to problems through poor practices of its firms, in most respects its comprehensive approach to resource acquisition brings with it tangible development gains in the form of new infrastructure. Where this has been visible is in Angola. China's relationship with Angola suggests a new pattern of Sino-African interaction. Angola's ability to switch from IMF funding to Chinese financial support, suggests that Africa has new options for development assistance. China is building roads and bridges, linking up towns and facilitating the movement of goods and people. Through Chinese infrastructural support the vast Congolese territory could soon be linked, and Congolese will be able to travel the entire country by road and rail.

However, the past decade of Chinese investment in the region has not been without problems. First, Southern African citizens have been vocal on matters of human rights abuses that they are subjected to by their Chinese bosses. Beijing has remained insensitive to human rights abuses perpetuated by its Chinese citizens. This silence has been informed by China's conviction that African governments are unable to confront Beijing for fear of losing China's financial support. Beijing is clear that Africa needs huge capital investment, and with the USA and Europe experiencing economic decline only China (at this juncture) is capable of providing it. For this reason, China is not interested in engaging its companies on the continent and steering them toward good corporate governance. China is more concerned to counter criticism from western capitals that China is exploiting Africa. China is clearly more worried about western criticism than it is about the behaviour of its companies on the continent. Chinese insensitivity to human rights violations perpetrated by Chinese companies on Africans is supported by the silence of most African governments. In many instances it has been African governments which have protected the Chinese who have committed human rights violations.

Second, China's vertical integration formula of investment, project operation and business conduct in Africa is the greatest obstacle to the win-win policy. All inputs originate in China, with little or no local content. The dumping of cheap Chinese labour in favour of local labour is arousing growing anti-Chinese sentiment, popular resentment and antipathy across the continent. While Africans complain that China has not encouraged local participation, supported local business and transferred technology and skills, the Chinese counter that arguing that they find it very difficult to identify appropriate African sources and partners for their needs, and that project completion and quality could be compromised in such a search.

Third, China has been criticised for providing poor infrastructure in exchange for minerals and oil. This seems like the only way the outside world engages with Africa. As Jian Junbao argues, the path taken by China is consistent with the logic of market capitalism [and] liberal trade" and makes China not a colonialist but a successful capitalist in Africa."[5] The poor infrastructure allows the Chinese to remain in business. They are asked to repair the same facilities continuously, and China is making more money through infrastructure than it does with minerals. There are many Chinese companies operating in Africa, mostly in the construction and mining sectors. They are focusing primarily on profits, regardless of their harmful impact on society. Africans have not been able to hold Chinese companies to account. Chinese companies are allowed to operate using their own standards. African governments do not have internal capacity to undertake quality assurance on Chinese projects. Despite the major infrastructure developments in countries like Angola and the DRC and the creation of an economic zone in Zambia, the chapters is in this book suggest that China-Southern Africa relations need to be managed carefully if they are to be sustainable over the long term.

Fourth, China's reluctance to engage with African civil society is worrisome. During the collection of data for this book, researchers in all the countries found it difficult to engage Chinese in the different companies. The debate on China-Africa relations lacks an effective and consistent input from civil society. Some research institutes and trade unions have voiced opinions, but a broader consensus is required to build an appropriate response to the challenges posed by China's engagement with Southern Africa (and Africa as a whole). There has been a proliferation of China-Africa civil society engagement, but this has remained at the academic level. Chinese companies in Southern Africa refuse to meet with civil society.

## Promoting a "triple win" outcome

China trade with Africa will continue to grow. More credit for Africa to access natural resources will continue, and China is expected to step up its infrastructure building in Africa. Two-way China-Africa trade is set to increase within the next five years. At the same time, China's development assistance will increase significantly, while investments in a wide range of African commercial sectors will continue to proliferate.

The long-term objective is a "win-win-win strategy" which implies a win for China, a win for African leaders and a win for ordinary African citizens – defined as job creation and poverty relief. Both China and individual African countries have a common interest in crafting this "triple win" outcome which will ensure a productive, rewarding and fulfilling China-Africa relationship not only for political and economic elites, but also for ordinary citizens.

## Endnotes

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