

## The Tenuous Hold of China Inc. in Africa

China's expanding engagement in Africa has captured world attention. Chinese leaders make regular, lengthy visits to the continent, and Beijing feted leaders from 48 African nations at the third China-Africa summit in November 2006. China has significantly ramped up contributions to UN peacekeeping forces in Africa and now has nearly 1,300 servicemen and police on the ground in six separate blue-helmet missions there. Beijing has even become more involved in resolving the Darfur crisis in Sudan, placing some greater pressure on Sudan to accept an expanded and strengthened African Union force in the country. China is also expanding its development assistance to Africa, with massive infrastructure projects, debt forgiveness, new loans, and increased resources for public health, education, and training. China's complex and expanding role in Africa presents challenges and opportunities to Western and African interests and deserves far more nuanced and in-depth analysis.<sup>1</sup>

Contrary to conventional but typically superficial wisdom, China's interests in Africa go well beyond the continent's wealth of resources and include important political and diplomatic aspects. China's current engagement in Africa is rooted in more than 50 years of friendly, respectful, and supportive relations between China and African countries. Beijing was quick to assist the emergent nations of postcolonial Africa even at a time when China was itself isolated, poor, and beset with internal upheavals. This history continues to play a powerful role and supports Beijing's diplomatic strategy in Africa, which positions China as a different and more-understanding partner than Western

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nations, whose history on the continent is far more checkered. Beijing also expects its deepening engagement with Africa to have diplomatic payoffs, as it draws more and more capitals to recognize China instead of Taiwan. Only five African nations currently maintain official diplomatic relations with Taipei.

**Beijing seems to sense that Africa is on the verge of an economic and political renaissance.**

Most importantly, China's constructive approach with Africa fits squarely within its global strategy to promote China as a peacefully developing and responsible rising power seeking a harmonious world. China does look to Africa's resources to fuel China's growth. More broadly, however, Beijing seems to sense that Africa is on the verge of an economic and political renaissance. It wants to get in on the ground floor and be an integral and valued part of that transformation.

Within that broader strategy, China's "corporate engagement" strategy in Africa consists of several elements. Top Chinese leaders and diplomats create a favorable environment for Chinese investment in Africa through a mixture of prestige diplomacy, economic assistance, and diplomatic support for African leaders. At home, China's economic bureaucratic agencies encourage Chinese state-owned enterprises (SOEs) to increase their investment and trade with Africa. China's SOEs implement Beijing's aid projects, extract strategic natural resources for export back to China or for profit in the international marketplace, and expand their manufacturing bases in China. Chinese workers staff Chinese projects efficiently and at low cost, and Chinese migrants build trade networks and supply chains linking China and Africa. At least, that is the idea.

Since 2000, this impressive policy push has rapidly advanced China's core strategic, economic, and diplomatic objectives in Africa. Chinese corporations have secured long-term access to key strategic resources. Economic policymakers have leveraged ties to the continent to build a more globalized network of large transnational corporations. The prospects for economic growth and investment have encouraged African leaders to support China's broader diplomatic effort to portray itself as a peacefully rising power interested in "win-win" solutions and have helped lure African capitals to drop official ties with Taipei in favor of diplomatic relations with Beijing.

Most analysts, however, tend to exaggerate the prospects of China's corporate engagement in Africa. As it deepens, the Chinese government will more likely find itself hamstrung by what theorists call a powerful "principal-agent" dilemma: an increasing set of tensions and contradictions between the interests and aims of government principals—the bureaucracies based in Beijing

tasked with advancing China's overall national interests—and the aims and interests of ostensible agents—the companies and businesspersons operating on the ground in Africa.

As China's Africa strategy depends on an ever-increasing number of bureaucratic principals and corporate agents, contradictions between them will likewise increase. There is already ample and growing evidence of Chinese corporations and entrepreneurs taking steps that are at odds with Chinese government interests, creating problems for Beijing's attempts to promote a positive and constructive image for Chinese engagement in Africa. Looking ahead, Beijing's ability to rely on its corporate agents to dependably advance its strategic, economic, and diplomatic interests in Africa will further erode. This in turn will likely present new challenges to China's global influence and overall soft-power strategy.

### **Corporate Agents: Implementing China's Africa Policy**

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In combining economic assistance, debt relief, and expanding market access for African states, China's African engagement strategy is similar to that of the West. China is unique, however, because it significantly relies on the active involvement and cooperation of Chinese corporations in its approach to the continent. The profusion of Chinese corporations involved in Africa is part of China's "go out" (*zou ququ*) policy, which is designed to develop these corporations' technological skills, exploit China's comparative advantages, gain access to key inputs, open new markets abroad, create global Chinese brands, and help China to avoid becoming overly dependent on export-led development.<sup>2</sup> More than 7,000 Chinese enterprises have invested in 160 countries and regions around the world, with a total outward foreign investment stock and flow estimated at \$50 billion and \$5 billion, respectively, by 2005.<sup>3</sup>

The Chinese government promotes business ties with Africa by providing information, coordination mechanisms, and financial assistance for Chinese companies and investors in Africa. For example, Chinese construction firms operating in Africa receive export credit for feasibility studies, government guarantees for bank loans, export credits for financing the operational cost of projects, and lines of credit for capital goods and machinery. Such government support was listed by Chinese firms as the second most-important factor, following the pursuit of new markets, in their decision to invest in Africa.<sup>4</sup>

In 2000 the first Forum on China-Africa Cooperation (FOCAC) founded the China-Africa Joint Business Council, provided government support for investment by Chinese enterprises in African countries, and established an array of economic partnerships. At the 2006 FOCAC, China pledged \$3 billion in preferential loans and \$2 billion in export credits to African states over

the next three years, created a special fund of \$5 billion to encourage Chinese investment in Africa, and established the China-Africa Joint Chamber of Commerce.

Beijing has also set up 10 centers for investment and trade promotion in sub-Saharan Africa. These centers provide business consultation services, special funds, and simplified approval procedures for Chinese enterprises seeking to invest in Africa.<sup>5</sup> In November 2004, China established the Chi-

**China's interests in Africa go well beyond resources.**

na-Africa Business Council (CABC) jointly with the UN Development Program in order to support China's private-sector investment in sub-Saharan Africa. The CABC, a unique public-private partnership, replicates aspects of China's poverty alleviation-focused Guangcai Program, which encouraged investment and philanthropic links between coastal and inland regions of China.<sup>6</sup>

In 2002 the government began selecting some 50 "national champions" from the most promising or strategic SOEs in China. These large corporations enjoy a range of benefits from the government, including information-sharing networks, domestic tax breaks, cheap land, and low-interest funding from state-owned banks. China's more dynamic and more profitable small- and medium-sized enterprises have also been expanding beyond China's borders. In total, more than 700 Chinese companies are involved in cooperative projects in Africa. Most of these firms are affiliates of state-owned enterprises in China, particularly in the capital-intensive resource extraction (such as oil and minerals) and construction sectors.<sup>7</sup>

**CHINESE OIL COMPANIES**

In Africa and around the world, China's top leaders have encouraged state-controlled companies to seek out exploration and supply contracts with countries that produce oil, gas, and other resources.<sup>8</sup> In Sudan, for instance, 13 of the 15 largest foreign companies operating are Chinese, primarily in the oil industry.<sup>9</sup> China National Petroleum Corporation owns a 40 percent stake in the Greater Nile Petroleum Operating Company, pumping more than 300,000 barrels per day. Another Chinese firm, Sinopec, is constructing a 1,500-kilometer pipeline to Port Sudan on the Red Sea, where China's Petroleum Engineering Construction Group is building a tanker terminal. Sudan, which was an oil importer before Chinese firms arrived, now earns some \$2 billion in oil exports each year. Due primarily to oil-oriented investment, Sudan became the largest recipient of Chinese overseas investment in Africa by 2005.<sup>10</sup>

## **CONSTRUCTION, MANUFACTURING, AND TRADING FIRMS**

The majority of Chinese firms in Africa are involved in building transportation, electrical, and communications infrastructure. Big, state-owned Chinese construction firms have been particularly competitive in large-scale infrastructure construction projects in sub-Saharan Africa, due primarily to their efficiency and low costs. Chinese firms are building Sudan's Merowe Dam, worth \$650 million, and a hydroelectric plant at Kafue Gorge in Zambia, worth \$600 million. By 2005 the accumulated value of Chinese firms' construction contracts in Africa had reached \$34 billion, placing 43 Chinese construction companies among the 150 global leaders in this sector.<sup>11</sup> Chinese textile manufacturing companies have also expanded their operations in Africa, exporting back to China as well as to the United States and Europe, taking advantage of the preferential trade arrangements offered to select African countries. Chinese firms have even invested in agricultural and fish processing projects.

## **CHINESE INDIVIDUALS IN AFRICA**

Chinese workers provide low-cost expert and manual labor for Chinese construction and manufacturing corporations while facilitating trade ties between China and the continent. By 2006, approximately 74,000 Chinese workers were involved in Chinese projects in Africa on a temporary basis, ranging from higher-paid "foreign experts" to menial laborers.<sup>12</sup> Although this represents a small percentage of the almost four million Chinese sent abroad to work, their presence is concentrated in high-profile Chinese construction projects, drawing attention from international media and Africans.

The largest Chinese population is in South Africa, estimated at more than 100,000. Tens of thousands of Chinese also live in Algeria, Nigeria, Sudan, and Zimbabwe.<sup>13</sup> Most long-term Chinese residents in Africa are small merchants who sell inexpensive consumer goods, often with very little capital. In Senegal, small-scale Chinese enterprises have sprung up, importing inexpensive goods and running restaurants and Chinese medical clinics.<sup>14</sup> Chinese medical clinics became so widespread in Zambia that the government had to step in to regulate herbal medicines. Chinese shops and restaurants also cater to the 110,000 Chinese tourists who visited Africa in 2005, a 100 percent increase over 2004.<sup>15</sup>

## **Government Principals: Watching the Corporate Agents**

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The Chinese government attempts to ensure that these diverse agents advance China's overall foreign policy goals in Africa. Yet, as Beijing relies

on an increasingly complex array of government oversight agencies to accomplish these goals, its ability to achieve such outcomes becomes more and more difficult.

### **STATE-OWNED ASSETS SUPERVISION AND ADMINISTRATION COMMISSION**

The State-owned Assets Supervision and Administration Commission (SASAC) is either the sole owner of any given Chinese SOE or maintains a controlling share of stock in any public SOE. Because most of China's large SOEs are now listed either on the Chinese or international stock market, the SASAC is constrained by that market. If the SOE's stock goes down, the SASAC has the most to lose as the largest shareholder. The SASAC thus has a clear incentive to maximize value and profit in China's SOEs, even if these companies' pursuit of profits ends up damaging China's broader diplomatic or strategic interests in Africa. The national-level SASAC has an equivalent rank bureaucratically with the Ministry of Commerce (MOC) and Ministry of Foreign Affairs (MOFA). As such, it would take the State Council to resolve a dispute between any of them.<sup>16</sup>

### **MINISTRY OF COMMERCE**

There is perhaps nowhere else in the world where the MOC is more involved in foreign policy than in Africa. Responsibilities are divided across four departments, each with its own set of interests. The Department of West Asia and African Affairs provides policy advice on Africa to top policymakers and encourages investment as well as trade with Africa by distributing information on the local economic, political, legal, and social environments in Africa to Chinese firms.

The Department of Foreign Economic Cooperation (DFEC) of the MOC is responsible for regulating all Chinese companies involved overseas. All Chinese corporations with overseas investments greater than \$10,000 are required to register with the MOC before investing abroad, although the repeated reiterations of this policy suggest that adherence is spotty at best. The DFEC has the authority to fine or revoke the permission to operate overseas for corporations that fail to adhere to MOC regulations and Chinese laws. The DFEC also regulates Chinese overseas labor corporations, in effect making the MOC responsible for the treatment of China's overseas workers by Chinese corporations.

The MOC's Department of Foreign Aid (DFA) plays the central role in administering China's aid projects. Much of China's aid is in the form of concessional loans to African governments for infrastructure projects, many of

which are implemented primarily by Chinese corporations. The DFA approves all corporations permitted to tender bids on aid projects, manages the bidding process, and oversees the project itself. The DFA takes direct responsibility for the safety and quality of construction in China's aid projects.

The MOC also has operational authority over the office of the Economic and Commercial Counselor (ECC) and staffs these offices. The MOC treats the ECC office as the local MOC representatives in Africa, even though the ECC offices are located inside local Chinese embassies or consulates and are subject to the embassy's administrative authority. In addition, the MOC offices at the provincial and city levels have regulatory authority over all companies registered at that level.<sup>17</sup>

**Beijing will find itself hamstrung by what theorists call a principal-agent dilemma.**

### **MINISTRY OF FOREIGN AFFAIRS**

MOFA advises Chinese leaders on foreign policy matters and helps implement China's foreign policy abroad. MOFA divides Africa-related responsibilities across two desks: West Asia and North Africa, and sub-Saharan Africa. Given that Chinese diplomatic visits to Africa frequently encompass large business delegations and result in prominent economic agreements, diplomats responsible for Africa often work closely with the business community and MOC. MOFA also oversees all China's embassies and consulates in Africa, which are responsible for all Chinese citizens in their jurisdiction.

### **CHINESE LENDING AGENCIES AND BANKS**

The most important Chinese bank in Africa policy is the Export-Import Bank (Ex-Im Bank). The Ex-Im Bank is the sole state-owned entity that the Chinese government uses to dispense official economic aid worldwide, including to Africa. The Ex-Im Bank provides low-rate loans to African governments for aid programs and encourages Chinese firms to invest in Africa through export credits, loans for overseas projects, and international guarantees. The Ex-Im Bank coordinates with the MOC to authorize Chinese firms to bid for China's aid projects. In total, 80 percent of all Ex-Im Bank loans to Africa go to five countries: Angola, Mozambique, Nigeria, Sudan, and Zimbabwe, with 40 percent of funds in the power-generation sector.<sup>18</sup>

China's state-controlled banks also play a key role in Africa policy by making foreign capital available to Chinese corporations for investment abroad, often with political intervention or encouragement from top leaders. Access to

these funds at preferential rates has supported Chinese state-owned firms in their expansion into Africa. In December 2004, for example, the China Development Bank issued a low-cost \$10 billion loan to Huawei, a major Chinese communications technology company, to promote its international operations. Soon afterward, Huawei won contracts worth \$400 million to provide cellular phone service in Kenya, Nigeria, and Zimbabwe.

## **PROVINCIAL AND CITY GOVERNMENTS**

Local governments in China have some authority over private and state-owned firms registered at their locale, either through the local MOC or SA-SAC office. Province-level SOEs make up approximately 88 percent of all Chinese firms investing abroad, making provincial governments a key player in China's corporate engagement strategy overseas.<sup>19</sup> Major export-oriented cities, such as Shanghai and Shenzhen, often encourage local SOEs and private companies to expand their operations in Africa. For instance, the Qingdao municipal government recently used a local SOE to invest in an industrial park in Zambia, primarily aimed at exporting textiles to the United States.<sup>20</sup>

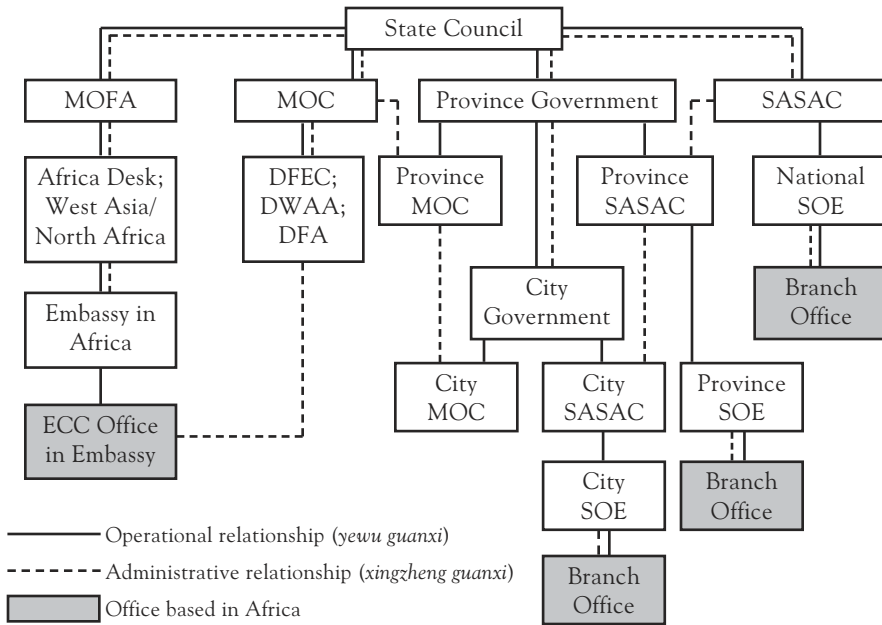
## **Rising Tensions**

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As China's engagement in Africa deepens, Beijing's strategy of relying on state-owned corporations to advance China's broad political and strategic interests is becoming increasingly problematic. This problem is best understood as a classic principal-agent dilemma. Whenever a lead actor, or principal, designates another actor, an agent, to advance certain goals on their behalf, a number of conditions can impede effective coordination and oversight.<sup>21</sup>

In the case of China's Africa policy, three such conditions stand out. First, China relies heavily on coordination among a complex array of corporations and government bureaucracies to achieve its policy objectives in Africa. These companies are ranked at city, province, and national levels and are responsible to different bureaucracies, impeding effective government oversight. Furthermore, given the limitations of bureaucratic capacity, geographical distance, and companies' incentives to hide information, government regulatory and implementing agencies are likely to have difficulty in accessing timely information sufficient for oversight. Finally, the interests of Chinese corporations and their supporting bureaucratic agencies of the Chinese government may conflict with the interests of other Chinese government bureaucratic actors also engaged in Africa.

The following chart illustrates the conflicting lines of bureaucratic authority and interests embedded in China's Africa strategy.<sup>22</sup> Three powerful bu-

**Figure I. Oversight and Implementing Agencies in China's Africa Policy**

Source: *Africa in China's Global Strategy* (forthcoming).

reaucratic agencies—the MOC, provincial governments, and the SASAC, the actual owner of the enterprises—have authority over China's SOEs. All three agencies prioritize enterprise profit-making. To ensure that Chinese enterprises also advance China's overall strategic and diplomatic interests in Africa, MOFA and regulatory agencies rely on low-ranking embassy staff in Africa in the ECC office. As figure 1 demonstrates, the ECC office does not have direct authority over SOEs in Africa, undermining its ability to compel compliance from powerful corporations in Africa.

Peeling back these layers of bureaucratic complexity reveals that the "China Inc." model may be far less monolithic or efficient than outside observers often assume. Recent evidence from Africa suggests that the Chinese government is now struggling to address tensions arising from these internal contradictions.

### CHINESE COMPANIES GENERATING LOCAL RESISTANCE

China's policy of promoting the expansion of Chinese companies into Africa assumes that this is a win-win situation, yielding economic benefits for both sides and a diplomatic payoff for China. Chinese companies' pursuit of profits, however, may lead them to operate in ways that generate local resistance, potentially undermining China's broader diplomatic and economic objectives.

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Instances of Chinese business practices giving rise to African indignation are certainly mounting. In October 2006, Gabon ordered the Chinese energy firm Sinopec to halt exploration in Loango National Park after a U.S. conservation group accused it of desecrating the forest and operating without an approved environmental impact study. In Zambia, mine workers rioted at a Chinese-run

mine over poor working conditions and a failure to pay wages. Concerns have also been raised over the environmental impact of various Chinese-run mining operations in Africa, including copper mines in Congo and Zambia, as well as titanium sands projects in ecologically sensitive parts of Kenya, Madagascar, Mozambique, and Tanzania. Chinese businesses have also been implicated in ivory smuggling, notably in Sudan and Zimbabwe.<sup>23</sup>

One problem is that Chinese firms, new to Africa, are rarely familiar with local customs, laws, or institutions. Furthermore, Chinese firms are sharply competitive with one another, forcing them to cut costs by reducing wages, working conditions, and safety standards. One impact has been frequent strikes at Chinese construction and manufacturing firms in Africa. The MOC recently admitted that Chinese workers in Africa frequently protest at local Chinese embassies or in the streets and are even getting into conflicts with local African police. In response, the MOC established an office to address grievances by Chinese workers and passed new regulations protecting the rights of overseas Chinese workers.<sup>24</sup>

Large Chinese SOEs involved in resource extraction also generate fears of Chinese dominance among some African and international leaders and among international organizations. Mid-level Chinese manufacturing and construction firms generate tension with African businesses in which their market shares are eroding, and individual Chinese entrepreneurs and low-cost workers are criticized for taking African jobs and undermining traditional markets and goods.<sup>25</sup>

One of the most visible cases of a negative backlash against Chinese businesses was in Zambia, where on April 20, 2006, an explosion at a Chinese-owned copper mine killed 51 Zambian workers. Although Chinese firms had invested more than \$300 million in Zambia and employed more than 10,000 Zambians, a presidential candidate for the October 2006 elections, Michael Sata, made an anti-China message the centerpiece of his campaign. The Chinese ambassador initially threatened to sever relations with Zambia if Sata won, but Beijing later distanced itself from the ambassador's remarks, and Sata lost the election.<sup>26</sup>

These events sparked the MOC into action. Citing the Zambian mine incident as an example of how Chinese business practices in Africa are feeding “anti-Chinese sentiment” in Africa, the MOC promulgated new regulations calling for Chinese companies to act responsibly in Africa “to protect [China’s] national interests.”<sup>27</sup> The regulations urge companies to practice “localization,” such as hiring local workers, respecting local customs, and adhering to African and international safety standards. During his eight-nation African trip in early 2007, President Hu Jintao made a special point of meeting with Chinese businesses in Nigeria, where he stressed the importance of corporate responsibility in their dealings at a local level.

The MOC regulations stress the role of the ECC office based in the local Chinese embassy, but reliance on local ECC staff in Africa to ensure the timely flow of information and rigorous enforcement of regulations on Chinese corporations in Africa may prove difficult in all but the most egregious incidents. The ECC has no direct lines of authority over Chinese corporations in Africa (see figure 1). Low-ranking ECC staff officers in Africa would have little clout to monitor and challenge the operations of major Chinese SOEs. Because the MOC has only operational authority over the ECC office rather than administrative authority, the ECC has additional leeway to skirt MOC regulations.<sup>28</sup>

In addition, the MOC itself does not have direct authority over any of the SOEs operating in Africa (see figure 1). As previously noted, the SASAC at the national, provincial, or city levels is in effect the “owner” of these SOEs. The SASAC interest is exclusively in maximizing the economic performance of these companies. Given that the SASAC bureaucratic ranking is equivalent to the MOC, state-owned corporations can likely turn to their SASAC bureaucratic allies to resist direction from MOC officials.

The MOC also has conflicting internal interests, given its dual responsibilities to support Chinese corporations going overseas and to regulate these companies. With China’s overarching priority on promoting overseas economic development, robust enforcement of the new MOC regulations in all but the most egregious cases seems unlikely.

Finally, Chinese corporations often have powerful bureaucratic allies within provincial or city governments, which may further impede local enforcement in Africa. The large telecommunications company Huawei, for example, is registered with the city of Shenzhen, which gives Shenzhen city leaders an interest in Huawei doing well abroad. If a local Chinese embassy official tries to challenge Huawei in Africa, the company’s powerful bureaucratic allies in Shenzhen are likely to provide sufficient backing for the company to ignore the local embassy.

In sum, Chinese corporate behavior is beginning to give rise to backlashes in parts of Africa, a trend that will continue as China’s engagement in Africa

deepens. In such instances, the combination of China's priority on economic development, the dizzying array of government principals and corporate agents in Africa with different bureaucratic rankings, and the scarcity of reliable and timely information will likely undermine effective government control over Chinese companies in Africa.

### **IMPLEMENTATION OF CHINA'S AID PROJECTS**

Second, China's foreign aid policy is constrained by conflicting priorities of key actors. MOFA and China's top leaders view China's aid program as primarily a diplomatic tool designed to improve China's bilateral relationships, often to secure access to natural resources. The MOC prioritizes the economic benefits for China in implementing aid programs: jobs for Chinese workers and contracts for Chinese firms. Chinese firms prioritize completing projects as quickly and cheaply as possible, which can result in lax safety and labor policies. Such firms are usually affiliated with different city or provincial governments in China, which encourage them to establish a foothold in China's foreign aid projects in Africa.

The combination of multiple oversight bureaucracies, competing companies, and their conflicting interests suggests that Chinese firms are likely to act in ways that undermine the diplomatic objectives of the aid program. Indeed, in October 2006 the MOC formulated new regulations for Chinese firms implementing aid projects abroad, indicating that this problem is already emerging. The regulations prohibit the practice of transferring aid contracts to another firm and only permit subcontracting to a firm already approved by the MOC.

The new MOC regulations also require the ECC office in the local Chinese embassy to report incidents of worker deaths to the MOC quickly. Any corporation involved in a safety incident leading to the death of workers is barred from participating in a Chinese aid project for two to four years.<sup>29</sup> The MOC also recently required local ECC staff to certify the Chinese firms approved to use Chinese overseas labor, in an effort to enhance the MOC's monitoring capacity of China's booming labor-export industry. Although MOC's standards appear rigid and comprehensive, enforcement of these rules at the local level is likely to be spotty.

### **AN UNFAIR PLAYING FIELD**

Finally, by providing government support for Chinese companies and asking them to implement projects with political rather than purely economic objectives, the Chinese government is setting up a classic moral-hazard problem.

Chinese corporations may feel free to act in a fiscally irresponsible manner because they can rely on China's state-controlled banks for financial support regardless of their economic performance.

In Ethiopia, for example, some Chinese construction firms have been instructed by their provincial governments to make unprofitable bids to get a foot in the door for future undertakings. Such practices may secure market access but can also lead to long-term financial dependency on the Chinese government. Similarly, industry analysts believe that Chinese firms have purchased overvalued shares in African national petroleum companies in order to secure a market position. This may also be true for the newly privatized industries that Chinese investors have bought in Mozambique and Zimbabwe.<sup>30</sup>

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It is worth recalling that China's newly crowned national champions leading the go-out strategy are the same large-scale, inefficient, highly subsidized SOEs that have resisted previous reform efforts in China. It is unlikely that they have suddenly become models of efficiency simply because they are operating abroad, particularly given the political interests involved, the SOEs' lack of experience, and the moral-hazard problem. Indeed, the World Bank recently reported that one-third of Chinese enterprises had lost money on their foreign investments and that 65 percent of their joint ventures had failed.<sup>31</sup>

## **Beijing's Growing Dilemma**

Although China's corporate engagement in Africa has yielded an impressive slate of strategic, economic, and diplomatic successes in recent years, a closer inspection suggests a fundamental underlying problem. China's primary oversight agencies do not enjoy direct lines of authority over Chinese corporations overseas. Although the Chinese government is now busily passing regulations aimed at controlling Chinese corporations in Africa and elsewhere abroad, this bureaucratic muddle suggests that they are unlikely to be rigorously enforced. This poses not only a risk for China's reputation but also raises a host of concerns in Africa and the international community regarding worker and product safety, fraudulent goods, unfair trading and investment practices, and lax environmental standards.

China's implementing and regulatory agencies will need a stronger hand to oversee and enforce newly developed rules at the local level. The Chinese government should also do more to encourage Chinese embassy officials and

firms to engage with local partners, including African and international non-governmental organizations (NGOs), to implement best practices for worker safety and environmental protection.

One promising place for this kind of activity would be membership by the Chinese government and extractive companies in the Extractive Industries Transparency Initiative (EITI). This NGO has the support of governments, including 14 in Africa; multinational corporations; international organiza-

tions; other NGOs; business associations; and institutional investors. EITI's aim is to "ensure that the revenues from extractive industries contribute to sustainable development and poverty reduction."<sup>32</sup> Participation by Chinese governments and businesses in regional and local chambers of commerce, as well as in other corporate social-responsibility programs and public-private partnerships, should also be further encouraged.

**Beijing's ability to rely on corporate agents to advance its interests will further erode.**

At an official level, MOC and MOFA representatives in Africa should be more deeply engaged in existing multilateral donor consultations in order to bring greater transparency and accountability to Chinese aid programs. The Chinese government should also engage with its counterparts at an official level, including such regional organizations as the Common Market of Eastern and Southern Africa, the Southern African Development Community, the Economic Community of West African States, and the West Africa Economic and Monetary Union, to help African countries improve their trade capacity through export-promotion programs.

Implementing these types of steps will not guarantee an end to the principal-agent dilemma. As China becomes more deeply embedded in Africa, the tension between stated national objectives and corporate interests on the ground will likely increase. Moving in these directions, however, will help ensure that China's expanding corporate presence in Africa unfolds in a way that develops greater coordination with African and international interests, improves transparency and accountability of Chinese businesses, and minimizes harmful corporate practices.

Taking such steps would have broader positive implications beyond Africa. Beijing's Africa policy is a kind of early test for China's burgeoning global role. Regional and international expectations for the emergence of a peaceful and responsible China will be shaped for better or worse by Chinese actions in Africa. Beijing's international image has already been tarnished, however, by its official and corporate relationships in Sudan, with calls for boycotting what has been termed the "2008 genocide Olympics" picking up steam. The

United States, the European Union, and other key partners of considerable importance to Beijing will gauge their future engagement with China in part on how its Africa policy converges or diverges with their substantial interests on the continent.

## Notes

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15. Broadman, *Africa's Silk Road*, p. 343.
16. See Chinese State-owned Assets Supervision and Administration, Commission of the State Council, <http://www.sasac.gov.cn>.
17. See Chinese Ministry of Commerce, <http://www.mofcom.gov.cn>.
18. Export-Import Bank of China, "Nianbao" [Annual report], 2005, <http://english.exim-bank.gov.cn/annual/reportall.jsp>. See Broadman, *Africa's Silk Road*, pp. 272–275.

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