

# Discussion Paper

STATE-DIRECTED MULTI-NATIONAL ENTERPRISES AND  
TRANSNATIONAL GOVERNANCE:  
CHINESE INVESTMENTS IN AFRICA, CORPORATE  
RESPONSIBILITY AND SUSTAINABILITY NORMS

Daouda Cissé, Sven Grimm, Andreas Nölke

Stellenbosch | January 2014

1/2014

**AFRASO**  
AFRICA'S ASIAN OPTIONS

## ABSTRACT

Africa clearly needs foreign investments for its development. But such investments in extractive industries and hydropower projects should not cause ecological degradation and threaten the livelihoods of many Africans. Sustainability comprises economic, social and environmental dimensions and is thus a broad concept, rather describing a balancing act and a process of continuous improvement than an achievable target. The emphasis of this paper is on the environmental dimension of sustainability and how it sits with the other dimensions, particularly in Chinese investments in African states. The discussion is embedded into the general context of the rise of non-triad multinational enterprises and its implications for transnational regulation.

### **The authors:**

*Dr Daouda Cissé* is a research fellow at the Centre for Chinese Studies. His research interests are: China-Africa trade relations, China-Africa economic cooperation. Dr Cissé speaks French, English, Spanish, Mandarin and some Senegalese local languages such as Wolof, Mandinka, Bambara, and Peul/Fulani.

*Dr Sven Grimm* is the Director of the Centre for Chinese Studies. He is a political scientist and has worked on external partners' cooperation with Africa since 1999. Dr Grimm's research interests include: The comparative perspective on external partners in Africa; Chinese development cooperation with Africa; European Africa policy; African perspectives on development and discussions around cooperation between Europe, China and African states.

*Prof Dr Andreas Nölke* is a political scientist. He mainly works on issues of the global political economy, in particular on comparative capitalism, financialisation, the BRICS and multinational enterprises.

CCS discussion papers aim to contribute to the academic debate on China's global rise and the consequences thereof for African development. The CCS therefore explicitly invites scholars from Africa, China, or elsewhere, to use this format for advanced papers that are ready for an initial publication, not least to obtain input from other colleagues in the field. Discussion papers should thus be seen as work in progress, exposed to (and ideally stimulating) policy-relevant discussion based on academic standards.

The views expressed in this paper are those of the authors.

# CONTENTS

ABSTRACT .....	2
1. THE EMERGENCE OF NON-TRIAD MULTINATIONALS AND THEIR IMPACT ON TRANSNATIONAL NORM-BUILDING .....	4
2. THE CHANGING NATURE OF CHINESE INVESTMENTS .....	5
3. DEBATES ON THE ENVIRONMENTAL IMPACTS OF CHINESE INVESTMENT IN AFRICA.....	6
4. STANDARDS AND NORMS IN POLICIES .....	9
4.1 REGULATING STATE-OWNED ENTERPRISES.....	10
4.2 GUIDELINES FOR PRIVATE BUSINESS .....	11
5. REGULATIONS THROUGH FINANCIAL INSTITUTIONS.....	12
5.1 SUSTAINABILITY AND LENDING POLICIES.....	12
5.2 ENVIRONMENTAL IMPACT ASSESSMENTS.....	13
6. CONCLUSION .....	14
BIBLIOGRAPHY .....	17

# 1. THE EMERGENCE OF NON-TRIAD MULTINATIONALS AND THEIR IMPACT ON TRANSNATIONAL NORM-BUILDING

During the last years, we have witnessed a surge in multinational enterprises from outside the traditional triad (Japan, North America and Western Europe). This development has become one of the most interesting topics in the study of North-South relations in the international political economy. In contrast to earlier times, foreign direct investment is no longer an activity of triad enterprises alone. More and more, companies from the former periphery are expanding, increasingly also by acquiring assets within the triad.

As of 2013, five of the top twenty largest global companies as established within the FT Global 500 are based outside the triad, most notably from China (4: PetroChina, 11: ICBC, 14: China Mobile, 19: China Construction Bank) and from South-Korea (13: Samsung). Other non-triad multinational enterprises (NTMNEs) within the top 200 come from Brazil (Ambev, No. 41), Russia (Gazprom, No. 57), Taiwan (Taiwan Semiconductor Manufacturing, No. 70), Saudi Arabia (Saudi Basic Industries, No. 83), India (Tata, No. 134), Mexico (AMX, No. 144) or from Singapore (Singapore Telecom, No. 170). Many of these companies have expanded strongly over the last years, also reflected by the fact that there are nine NTMNE newcomers on the list, mainly from China, but also from Indonesia, Thailand and Turkey, bringing the total number of non-triad companies in the 2013 FT Top 500 to 121.

As in previous years (Nölke, 2011, 2013), China is the top source of NTMNEs. A sector break-up demonstrates that natural resources clearly are among the most typical focus on NTMNEs in China and elsewhere as indicated by the leading role of companies such as PetroChina, Petrobras, Sinopec, Gazprom, Vale or CNOOC. While NTMNEs originally have become famous for their take-over of established Western companies (e.g. Mittal/Arcelor, Lenovo/IBM PC division, Tata/Jaguar), more recently their potential impact on environmental conditions in their target economies have come to the fore, in particular with regard to investments in Africa. Given the long-standing concerns with regard to the regulation of the conduct of multinational corporations, the question arises whether Chinese multinationals are any better or worse than companies based in Europe, Japan or the US. In order to address this question, the paper will first explain the background to Chinese outward FDI, before turning to recent debates about the environmental impacts of Chinese investments in Africa (section 2). The core of the paper deals with the regulation of these investments. It then proceeds in two steps. First, the general approach of the Chinese state with regard to the environmental conduct of state-owned, as well as private companies will be discussed (section 3). Second, the paper deals with the procedures with regard to the environmental sustainability of Chinese investments in Africa, including lending policies by Chinese financial institutions and environmental impact assessments (section 4).

The paper concludes by highlighting the specific environmental challenges of Chinese investments in Africa. Of particular concern are the very close ties between the Chinese government, Chinese multinationals and African states. The expansion of Chinese multinationals, not only state-owned, but also the formally private ones, is strongly based on a close cooperation with Chinese state institutions (Nölke, 2014). If this type of state capitalism interacts with African state authorities that make private use of resources, it is very difficult for civil societies to make sure that the fruits of inward foreign investments are widely shared. In this way, Chinese investments in Africa pose a particular limit to forms of private transnational governance such as the Equator Principles (Graz and Nölke, 2008). However, state capitalism also has its potential advantages for limiting the negative environmental effects of foreign direct investments. In line with other recent studies (Compagnon and Alejandro, 2013; Maurin and Yeophantong, 2013), we highlight that growing concerns of the Chinese government with regard to the (environmental) damage caused by Chinese overseas investments. While the implementation of the

relevant Chinese regulations in African economies still is somewhat uneven (to say the least), it still may even lead to a more forceful form of guidance of multinational corporations with regard to environmental protection than the voluntary frameworks predominant in the established economies.

## 2. THE CHANGING NATURE OF CHINESE INVESTMENTS

From being one of the world's largest FDI recipients since the late 1970s after its "open door" policy which led to entrepreneurial and industrial reforms, China from the late 1990s has become an emerging FDI provider particularly in developing countries in Southeast Asia, Latin America and Africa. Political and economic reforms undertaken in China have led the country towards a more liberal economy and played a key role in China's overseas political economy. In China's growing engagement with Africa, shifts have been noticed despite rhetorical consistency. China-Africa relations which were mainly based on aid-driven relations are now economy-driven with investments and trade underpinning the economic cooperation between China and African countries. From 1949 to 1980, only limited number of Chinese companies were present in Africa and their activities focused particularly on governments' development projects. From the late 1990s, through its "go out" policy, China has motivated its companies; first State-Owned Enterprises (SOEs) and later private enterprises to venture abroad also at times driven by different reasons, as to be explored in this text. The dimension of sustainability of FDI (still often narrowed to *economic* sustainability in the debate) and linked with that the strife for corporate social responsibility is a more recent debate with regard to Chinese FDI in Africa. The debate in China, however, has longer roots, not least so in state owned enterprises (and their *danwei*, the work units) and their *social* responsibilities such as the provision of health care and other services. The *environmental* dimension, however, seems to be more a function of substantial environmental destruction in China herself and increasing international pressure with regard to global environmental impact. Consequently, environmental issues are increasing in relevance in China's international relations, not least in its stance on climate change (see, for instance, Wei Liang, 2010), but also in debates about standards applied in cooperation. The environmental standards are the most recent dimension in discussion.

Sino-African relations have been at the centre of political and economic debates since the beginning of the 2000s fuelled by the establishment of the Forum on China-Africa Cooperation (FOCAC) in 2000 and the release of a white paper on China's Africa policy in 2006. Investments and trade constitute the backbone of China-Africa relations. China's FDI stock in Africa has drastically increased over the past years: from US\$ 56 million in 1996, it is at US\$ 15 billion in 2012. Trade and investment drive more curiosity about China's engagement in Africa and economic, social and environmental impact and political responses.

Besides the vast opportunities for Africa, and much like any other outside assistance and co-operation, the Chinese contribution to development comes with challenges that need to be managed and mitigated. The challenges evolving from the engagement of Chinese actors, however, will be specific to China and have a lot to do with the development paths chosen in the "Middle Kingdom". Much discussed are the governance challenges that China might or might not present to African states and societies (Taylor, 2006; Hackenesch, 2011; Hodzi *et al.*, 2012). Environmental challenges are discussed to a lesser extent. They are often discussed as linked to the type of Chinese investment in rather environmentally hazardous investments in mining or timber logging in Africa (cf. Bosshard, 2008; Conservation International, 2011). Yet, environmental challenges are part and parcel of development through industrialisation and will also impact on the long-term development prospects of African states. The rapid pace of Chinese investments flows in Africa and their expansion to various sectors (resources, infrastructure, services; and so forth.) lead us to question the various political and economic actors in China's presence in Africa, the role of the Chinese government in the Chinese multinational companies' expansion in Africa and the aspects of incentives and regulation for environmental sustainability in China and in the business expansion into the African market.

### 3. DEBATES ON THE ENVIRONMENTAL IMPACTS OF CHINESE INVESTMENT IN AFRICA

Since the turn of the century, Africa's economic growth is supported by Chinese investments in the continent. China has gained and changed the political economic strategy in Africa, not least so by explicitly not attaching political conditions (no strings policy) to its overseas operations other than the fundamental recognition of the One China policy (in other words, the non-recognition of Taiwan/Republic of China). China's political strategy thereby contrasts with the western policies on human rights, good governance, environment and sustainable development. Beijing's policy is centred around not interfering in internal affairs of countries where it is operating or investing (Brautigam, 2011). Presence of Chinese actors in Africa based on a strict hands-off policy in political and environmental standards has raised debates and discussions about the social, environmental and sustainable development impacts of Chinese investments in Africa (Bosshard, 2008). While this initially could also be understood as reassurance to other powers that a highly interventionist/ideological policy of the type of Maoist foreign policy was over, in a post-1990 world, Chinese investors and extractive companies are accused of undermining good governance, environmental and sustainable policies in Africa.

Chinese investments in natural resources are concentrated in remote areas, inaccessible zones and sensitive extractive industries. These were the niches for an emerging China to engage without having to take on Western competition heads on. Operating in such remote areas and in sensitive sectors and industries clearly involves social and environmental risks. China's growing presence in extractive industries aggravating environmental degradation and accelerating the exhaustion of non-renewable resources has attracted the world's attention (Gonzalez, 2011). Chinese investments in sensitive sectors raise the debate on sustainable economic development for Africa. Concerns around China's environmental challenges linked to extractive industries in Africa have been voiced. In the long run, African governments that have welcomed Chinese investments (over political, social, environmental issues) in ecologically sensitive sectors with weak governance and control systems will endure the environmental impacts that extractive industries involve without enjoying the economic benefits expected for their growth (Gonzalez, 2011). In this regard, Africa is clearly a different investment environment than, say, Australia, where extractive industries play at least equally high an importance.

In Africa, many examples illustrated the environmental impacts linked to Chinese investments in extractive industries. In Gabon, Chinese oil company, SINOPEC, operating in the oil industry in Loango National Park has been ordered to stop its exploration project in September 2006.<sup>1</sup> The Gabonese ministry of environment did not approve the environmental impact study and oil exploration in the park which threatened animals (Bosshard, 2008). In 2010 in Gabon, an environmental NGO (Brainforest) also campaigned against a Chinese iron ore development project for hydropower with poor environmental guidelines and threatening the Ivindo National park (International Rivers, 2010). In Zambia, officials urged to close down Chinese mining company Collum Coal Mine Industries for establishing low standard working conditions and failing to implement environmental and safety regulations. Due to these complaints about and questions around the environmental impact of Chinese investments in Africa, African governments (Sierra Leone, DRC, Zambia) are becoming more assertive in dealing with Chinese companies about environmental standards and corporate social responsibility (Mol, 2011). On the positive side, according to Mol (2011), a number of Chinese projects in extractive industries (oil, mining, copper, coal and so on) in Africa following criticism and complaints on environmental pollution have been closed.

---

<sup>1</sup> See, Centre for Chinese Studies: China's engagement of Africa, Preliminary scoping of African case studies, November 2007, pp94.

Other than extractive industries, Chinese activities are often in large scale infrastructure projects, including energy generation. Energy is in dire need for Africa's households and in order to unfold any industrial potential. Infrastructural shortcomings were identified as major obstacles to further development time and again, starting with NEPAD (the New Partnership for Africa's Development, a socio-economic programme of the African Union) in 2001 and emphasised time and again since, including during the World Economic Forum (WEF) in Cape Town in 2013. Lack of adequate infrastructure has led to an increasing Chinese presence in the energy sector, at times worryingly an environmentally sensitive sector in the continent. In the large-scale hydropower sector – particularly under scrutiny for environmentally harmful effects – Chinese dam construction companies' forays into Africa in order to expand their markets and improve infrastructure building have raised a number of concerns regarding the negative impacts they create in communities where dams are built.

Many African countries in their hydropower projects to satisfy their population needs for water or electricity have failed to attract foreign traditional investors. Western investors are concerned about economic viability and about the environmental and social impacts such investments will have on host communities and the zones where dams will be built, and thus impose *ex ante* conditions that have to be met before funding is made available. To avoid these conditionalities regarding the dams projects' environmental and social assessments, African countries such as Sudan with the Merowe Dam or Ghana with its Bui Dam have turned to China Export and Import Bank with less environmental and social conditions than its Western counterparts to finance their projects. Unlike Western financiers in the different investment projects in Africa, China's assistance comes with few strings attached – and with social and environmental challenges.

In 2003, China Export and Import Bank has approved loans worth US\$ 519 million to Chinese companies for the construction of the Merowe Dam in Sudan. The dam will ultimately displace 50 000 people from the fertile Nile valley to desert locations and for which the Sudanese government failed to attract funders for many years (Bosshard, Brewer and McDonald: 2009). Because of its strategy of non-interference in African countries' domestic affairs, China's activities have been accused of leading to environmental degradation and of lacking respect for the right of people to be displaced where dams are constructed (Hensengerth and Scheumann, 2011). In Ghana, the contentious Sinohydro's Bui Dam project will flood part of the Bui National park (Bosshard, 2008). As the Bui Dam project was environmentally and socially sensitive, Ghanaian authorities had difficulties to find potential investors (Hensengerth and Scheumann, 2011). To meet their political agenda which prioritises the provision of energy for development, Ghana's authorities attributed the project to Sinohydro.

Supported by finance made available via China Exim bank, Sinohydro is playing a leading role amongst dam builders around the world. According to Bloom and Poplak (2011), Sinohydro has 240 projects globally, with 100 in Africa, many of them in ecologically endangered areas. Although Sinohydro's contributes to infrastructure building, water access and hydropower generation, the Chinese giant company causes environmental and social issues to the host communities where the dams are built, as activities in Africa are concentrated in sensitive areas.

Five of Sinohydro's dam projects, for instance, are located in Botswana. As an arid and landlocked country, demand for water in Botswana continues to rise at a high rate and the country faces serious water shortage. The building of the Dikgatlong Dam, was thus consequential, but mired with challenges. Once completed in late 2011 (according to the project's forecasts), the dam will supply 400 cubic meters particularly in eastern parts of the country (Bloom and Poplak, 2011). The construction of the dam at the confluence of Shashe and Tati rivers will certainly allow Botswana to benefit from clean water access and power generation. Yet, environmental issues are extremely important in Botswana, specifically those relating to environmental degradation, water scarcity, the depletion of mineral resources, wildlife resources, and the sustainability of economic activities in rural areas (United Nations System in Botswana,

2007). Consequently, the Dikgatlong Dam in Botswana, one of the biggest projects for industrial development under Sinohydro has been a concern for the local communities living around the dam's zone. To many locals, Dikgatlong, has been an environmentally dubious project that will not create sustainable development for host communities. "Dikgatlong Dam contributes to Botswana foremost environmental emergency: deforestation caused by free-grazing livestock", as Bloom and Poplak (2011) argue.

Dam construction by Chinese companies has more often than not been to the detriment of host communities and areas. Africa's dams have done considerable social, environmental and economic damage, often with complete disregard for the human rights of dam-affected communities, and have left a trail of 'development-induced poverty' in their wake (International Rivers-Africa Program, 2010). Large hydro dams in Sudan, Senegal, Kenya, Zambia, Zimbabwe and Ghana have brought considerable social, environmental and economic damage to their societies and have left a trail of development-induced poverty in their wake (Hathaway and Pottinger, 2010). Sadly, these projects have not led to progress in electrifying the huge proportion of African populations currently without electricity. China's engagement in Africa is driven by diplomatic, political and economic interests, and contrasts with Western investors regarding higher social and environmental standards. And often, the accusations of lack of standards is a reflection of inadequate or insufficiently implemented standards in China domestically; Chinese dam builders are yet to become more socially and environmentally responsible *within* China.

The Three Gorges Dam at Sandouping in Yichang-Hubei province, is one of the most dramatic examples with severe consequences for millions of people living around it. The experience of the Three Gorges Dam with regard to environmental and social impacts has been a scary symbol among academics, Non-Governmental Organizations, policymakers for the expansion of Chinese dam builders overseas. According to Mara Hvistendahl (2008), the Three Gorges Dam —the world's largest — had the potential of becoming one of China's biggest environmental nightmares. Besides being plagued by corruption, high costs of construction, environmental, human rights violations and resettlement difficulties, the Three Gorges Dam's project has displaced more than 1.2 million people and flooded 13 cities, 140 towns and 1350 villages (International Rivers, 2010). People are forced to leave flooded areas for poor lands with unsatisfactory conditions and few job opportunities. The massive hydroelectric dam may be triggering landslides, altering entire ecosystems and causing other serious environmental problems—and, by extension, endangering the millions who live in its shadow.

Complaints from International NGOs towards Chinese financial and banking institutions arose, much of it from Western actors, calling for consideration of environmental and sustainable development issues in Chinese operations in Africa. In the 2000s, after China's accession to the WTO following China's 'go out' strategy which motivates Chinese companies to go global, Chinese banks also followed the path to expand their activities abroad. Brautigam (2009) states that China EXIMBANK and Everbright Bank had already set up representative offices in South Africa in 1999.<sup>2</sup> Chinese banks are criticized for not applying higher ethical and environmental standards while financing Chinese companies venturing abroad (Financial Times: 2 August 2007). The accusation of inadequate environmental and sustainable development policies in Chinese financial institutions' projects overseas do not only cause environmental consequences in their specific projects but also raise questions on their environmental standards in general. It is only since the 2000s that banking regulations increasingly take environmental standards into consideration, both domestically and in international lending operations.

---

<sup>2</sup> Prior to that, Bank of China was already present in Africa in 1997.



## 4. STANDARDS AND NORMS IN POLICIES

In the early 1980s, multilateral development banks adopted policies regarding the social and environmental impacts of their projects, the so-called Equator Principles. Based on determining, assessing and managing environmental and social risks in financing projects, the Equator Principles are used to fund the development and construction of major infrastructure and industrial projects. The guidelines of the Equator Principles should serve as the framework for each adopting institution in its own environmental and social policies, procedures and standards related to its project financing.

The World Bank, the International Monetary Fund and several European and US financial institutions complained that Chinese banks apply lower environmental and ethical standards in their loans for foreign projects. Criticism from Paul Wolfowitz in October 2006 then World Bank president was directed to Chinese banks not to apply the Equator Principles while financing projects.<sup>3</sup> According to the Financial Times, the President of the European Investment Bank Philippe Maystadt criticized Chinese financial institutions: “The competition of the Chinese banks is clear. They don’t bother about social or human rights conditions” (Financial times: 28 November 2006). Such complaints about Chinese financial institutions arguably reflect not only moral indignation and environmental consciousness but also fear from Western traditional partners to lose their preferential position and sphere of influence in Africa. Lower standards result in lower immediate project costs and give a competitive advantage to Chinese banks over their foreign counterparts. The US trade structure, however, is not much less resource based: 80 per cent of the U.S. imports from sub-Saharan Africa are resource-based (Mol, 2011).

Concessional loans from China are directed to numerous economic sectors. More than half of all projects until 2009 went into public facilities and industrial investments. Some of these projects had immediate linkages to environmental concerns, including water conservancy (17 projects), wells and water supply (72 projects) timber processing (10 projects), and coal extraction (7 projects). Yet, all projects would have to stand the test of how they contribute to sustainable development. Both the diverse actors in provision of funding on the Chinese side as well as the rules and regulations on how and for what funding is given will have to consider sustainability throughout. <sup>4</sup>

Although Beijing’s priority for economic growth and development is linked to less environmental protection both at home and abroad in those cases where Chinese companies are operating, recently China’s focus on addressing environmental policies for better sustainable development has become more visible in Beijing’s central government’s policies. In November 2011, at the Asia-Pacific Economic Cooperation meeting in Hawaii, Hu Jintao clearly stated that ‘shifting growth model for better sustainable development’. Interestingly, China has strengthened and improved its domestic regulations on both the protection of the environment and resettlement planning following internal opposition and criticism (Hensengerth, 2010). Through China’s 12th Five-Year Plan, increased emphasis was placed on pollution control, energy efficiency and carbon reduction (Li Wanxin, 2011). Although the Chinese government has recently published a white paper on environmental policies and emphasizes that it has put in place protective environmental and sustainable development regulations, the effects of these regulations are limited.<sup>5</sup>

---

<sup>3</sup> In Les Echos, 24 October 2006

<sup>4</sup> This discussion does not even consider climate change as an important factor which is not sufficiently considered by African states, particularly in their high quest for energy. Many African countries often are almost totally dependent on hydropower in improving power distribution and yet many areas have experienced droughts. Renewable energy for power access should be the main focus for African countries to avoid vulnerability to climate change by building hydropower dams (Hathaway and Pottinger, 2010) and would rather seek gains in solar or even wind energy.

<sup>5</sup> See Elizabeth Economy, *The Great Leap Backward?*, in: Foreign Affairs September/October 2007, for a good summary of China’s environmental problems and their link to inadequate governance structure

The international and African debates and discussions on the environmental consequences of Chinese operations overseas are finally starting to have an impact. After a series of (at times violent) protests in African countries and the closure of Chinese oil, mining, copper, coal businesses in Africa (Gabon and Zambia), the Chinese government is increasingly aware of social and environmental issues that Chinese projects create in the continent. The Chinese government, financial institutions and SOEs operating in Africa are aware of the threats faced by their investments' interests due to complaints and discussions regarding environmental issues.

#### **4.1 REGULATING STATE-OWNED ENTERPRISES**

In China's willingness to protect its national interests while investing abroad, measures and regulations regarding environmental protection became more important with increasing criticism from African partners. Their implementation would need to be checked by the Chinese financial institutions which support companies for foreign investments. To prevent themselves from being accused of colonial style exploitation and taking advantages of weak environmental policies in Africa and to meet Beijing's focus on improving sustainable development and environment policies at home and abroad, they started to implement voluntary and self-regulatory measures (Mol, 2011).

With the aim to improve respect of countries social and environmental policies, Beijing has set guidelines for workers' rights, community relations and environmental impacts in its government-to-government projects in Africa (Alden and Alves, 2009; Bosshard, 2008). The Chinese Ministry of Commerce which is one of the Chinese offices involved in supporting Chinese overseas investments has the responsibility to ensure that Chinese OFDI needs are met and is also concerned about Chinese companies reputation abroad. Thus, in August 2006, MOFCOM issued recommendations to urge Chinese companies to improve their workers' safety, respect local policies and adjust to the international environmental and safety standards in their overseas investments projects. These reporting standards are specifically respected by international enterprises, not least those that are listed at Shanghai or Hong Kong Stock exchanged.

The Chinese government both at the central or provincial level has always been involved in the country's economic development and still has an influence on the large Chinese companies operating in China and overseas even though entrepreneurial and industrial reforms have enabled the country to move towards a more liberal economy. To mount challenges (late arrival in the world market, lack of high technological, entrepreneurial and managerial skills) they face in their expansion process, Chinese State-Owned Enterprises (SOEs) and big MNCs take into account the government's role even though Beijing claims for more internationally competitive companies as stated in the 12th Five-Year Plan (2011-2015). Through the 12th Five-Year Plan China seeks to refine China's economic development by pushing forward the development of emerging strategic industries, expanding independent innovation, and pursuing sustainable economic development alongside social harmony and stability (Fung and Peng: 2012). China aims at greatly enhancing the competency of Chinese enterprises, transforming them from followers into leaders on the global stage, and drivers of global growth (12th Five-Year Plan).

In its objectives to have its MNCs globally competitive, China's central government is slowly giving its companies more autonomy in order to enable them accumulate economic benefits which are the basis of their activities. This enables the companies to focus more on their major goals while operating within and outside China according to their strategies. Compared to the Western, Japanese and Korean governments, however, which have progressively pulled out from the companies' activities to enable their internationalisation and competitiveness in the global market, the Chinese government still has a control on the big Chinese enterprises. This somewhat clarifies the mutual influence between political and economic factors in China's "going out" strategy. Chinese multinational companies play a strategic role in Beijing's political economy; particularly in developing countries where they are heavily involved in

different sectors. At the same time, the Chinese government relies on the economic interests of its companies which operate abroad to promote China's economic development. With its financial and political means, China's central government influences Chinese companies' expansion; hence the political factors. The Chinese government's footprint in Chinese companies' activities can be seen through the linkage between Official Development Assistance (ODA) and Outward Foreign Direct Investment (OFDI) where the companies receive finance from the Chinese state financial institutions to build infrastructure in developing countries.

Chinese state agencies, SOEs and private companies developing their activities and operating overseas need to be directly aware of Chinese regulation. In January 2008, the State-owned Assets Supervision and Administration Commission (SASAC) with ministerial status issued Corporate Social Responsibility for more than 150 Chinese State Owned Enterprises including the three major oil companies SINOPEC (中国石化), CNOCC (中国石油) and CNPC (中国海洋) operating abroad.<sup>6</sup>

The commitment of Chinese State Owned Enterprises to Corporate Social Responsibility has grown in recent years. China National Petroleum Corporation for example issued environmental guidelines and adopted the ISO 14001 Environmental Management System and began publishing a Corporate Social Responsibility Report in 2006. The ISO 14001 standard which is one of a series of emerging international environmental management standards aimed at promoting continual improvement in company environmental performance through the adoption and implementation of an environmental management system. It defines an overall environmental management system and covers the following key elements: establishment of an appropriate environmental policy, a planning phase and the implementation and operation of the environmental management system (Global Environmental Management Initiative, 1996). Since 2012, reporting is on sustainability rather than corporate social responsibility, for instance in the Huawei Annual Report or the Annual Report of CNPC. Huawei, however, is a private enterprise, despite its strong links to the military establishment of China and thus leads us to the discussion on regulating private business.

## **4.2 GUIDELINES FOR PRIVATE BUSINESS**

Chinese private investment without direct state involvement is substantial and growing in Africa. Over the last years, the lack of the Chinese government's financial support to Chinese private and Small and Medium Enterprises (SMEs) to develop their businesses in China to some extent has pushed many individual and private entrepreneurs to go abroad for economic opportunities. Therefore Chinese small scale and private investments overseas are increasing drastically. Estimates go as high as over 80 per cent of projects in Africa from Jiangsu and Shandong province and more than 90 per cent of projects in Africa from Zhejiang province are privately owned (Shen, 2013).

For all investments abroad, thus including by private companies, *Guidelines for Environmental Protection in Foreign Investment and Cooperation* were published by China's Ministry of Environmental Protection and the Ministry of Commerce in April 2013. These guidelines are relatively close to the OECD standards. For instance, they call onto investors to "respect the cultural heritage of the local communities" (Art. 3) and they encourage to regularly release environmental information (Art. 18). Further, planning for waste management and contingency planning for emergency situation is called for, as well as environmental surveys of the local area of an investment. These voluntary guidelines do, however, not make reference to community or individual rights and do not state whether projects can go ahead if they do not live up to the defined standards (cf. Mang, 2013).

---

<sup>6</sup> In 2008 major multinational Sinosteel became the first Chinese enterprise to release a sustainability report on its African operation ([http://en.sinosteel.com/Culture/Sustainability/index\\_1.shtml](http://en.sinosteel.com/Culture/Sustainability/index_1.shtml))

China's government introduced a Green Credit Policy in 2007, aiming at applying the standards also in their overseas' operations. These guidelines led to a green credit loan portfolio of overall US\$ 200 billion by 2011, combining China Development Bank and the Industrial and Commercial Bank of China (ICBC), for projects in waste treatment, renewable energy, and pollution control. China's Banking Regulatory Committee (CBRC) has announced that it would setup performance indicators for this lending facility; it is also working on sector specific guidelines with the Ministry of Environmental Protection. While the existing guidelines are voluntary, CBRC is requesting reporting on them (IFC, 2013).

## **5. REGULATIONS THROUGH FINANCIAL INSTITUTIONS**

Chinese financial flows to Africa have increased steeply, particularly over the last decade, through investments and cooperation projects. These increasing financial flows from China to Africa – in the form of investments and publicly subsidised project funding – present an opportunity for the continent, if managed cautiously and strategically. One element to consider is the sustainability of investments, which includes looking at environmental sustainability in development projects. Regulations are both at the levels of direction of projects and in the lending policies of institutions. Secondly, process can be prescribed through policies, such as environmental impact assessments.

### **5.1 SUSTAINABILITY AND LENDING POLICIES**

Specific policies regarding environmental issues in Chinese expansion overseas have been developed through financial institutions (China Export and Import Bank, China Africa Development Fund, China Development Bank) supporting Chinese companies to venture abroad. Chinese development finance includes grants, loans (of varying degree of concessionality) and investments. By the end of 2009, China had provided a total of RMB 256.29 billion (USD 37.39 billion in 2009) in aid to foreign countries, of which 45.7 per cent was to African states, as China's Aid Policy states. Since, new and substantial commitments have been made. At the 5<sup>th</sup> meeting of the Forum on China-Africa Cooperation (FOCAC) in July 2012, Chinese President Hu Jintao announced an additional USD 20 billion in development finance for Africa between 2013 and 2015. And business relations are further broadening: During the Conference of Chinese and African entrepreneurs held in Beijing at the fringes of FOCAC V, 20 projects between Chinese and African companies were signed with a reported total investment of US\$ 341 million. During the same conference the China-Africa Development Fund (CADFund), a Chinese government equity fund to support investments in Africa, committed to investing US\$ 2 billion in 60 Sino-African projects across 30 African countries which include an economic and trade zone in Egypt, a cement factory in Ethiopia and a power plant in Ghana (Grimm and Schickerling, 2013). International NGOs, such as the World Wildlife Fund (WWF) office in China, in collaboration with local organizations including the Ministry of Commerce, the Ministry of Environmental Protection and the National Development and Reform Commission try to improve the environmental responsibility and sustainability of Chinese foreign economic activities (Schorn, 2009).

Key actor in Chinese development finance is the Ministry of Commerce, working with state-owned lending institutions such as China EXIM bank and other national ministry departments. The China Development Bank, despite its name, is a commercial bank, but hosts the China-Africa Development Fund, as an equity fund. The Ministry of Foreign Affairs is consulted for funding decisions, but overall it has a rather weak role. Obviously, the Ministry of Finance is also important in providing funding lines. Chinese funding usually comes in a package deal, comprising grant projects, concessional loans for infrastructure projects, and trade arrangements, such as access to resources as barter for credit lines. These packages are agreed during meetings of a bi-national commission or at the occasion of high-level visits.

Contact points in partner countries are the Economic and Commercial Counsellors who are staff of the Ministry of Commerce (MOFCOM) and are based at the Chinese Embassy (albeit not always in the same

building). Short-term expert missions explore the feasibility of projects. Special financial institutions such as EXIM Bank or the China Development Bank (CBD) provide concessional loans or export buyer credits, while grants are directly provided by the Ministry of Commerce, the Ministry of Foreign Affairs (for humanitarian assistance) or the Ministry of Finance (for multilateral engagement).

Foreign investment rules and the process of foreign assistance have repeatedly undergone changes, trying to adjust to market principles, but increasingly also taking on board environmental concerns. Besides economic viability, environmental impact has become one criterion to assess projects that are presented for funding. Given the relatively recent embrace of environmental policy at national level, the concept of sustainability does not feature prominently in mandates operating abroad. EXIM Bank, for instance, which aims as “to facilitate the export and import [...], assist Chinese companies with comparative advantages in their offshore contract projects and outbound investment, and promote Sino-foreign relationship and international economic and trade cooperation,” has clear guidelines for project procurement (e.g. “no less than 50 per cent of total procurement shall be made in China”). Environmental aspects, however, do not feature in the process description on government concessional loans on EXIM’s website.

As regards assistance projects, the procedure is as follows: (1) Projects are agreed upon by the partner government and the Chinese Ministry of Commerce (MOFCOM), often via communication with the Economic Councillors at the Chinese embassy; (2) MOFCOM has the project assessed by an expert group in the field; (3) various Chinese government departments are consulted on the project; (4) China State Council can take the ultimate decision; (5) after agreement, funds are made available by the Ministry of Commerce to the respective implementing line ministry or via a bidding process for project implementation; (6) projects are contracted to enterprises or are executed by specialised entities such as research institutions. These stages are only applicable for official projects funded by the Chinese government; private investments follow an individual path and sometimes also operate through subsidiaries in African countries (registered there, not in China).

China has no specialised aid implementation agency; implementation rests with teams sent by provincial or municipal entities, e.g. for agricultural demonstration centres or vocational schools, or with enterprises that win tenders for specific projects. Overall responsibilities are with a unit in MOFCOM. It has to be noted that none of the financial institutions’ activities are dedicated solely to Africa, with the notable exception of the China-Africa Development Fund (CADFund). However, activities in Africa have gained more importance. According to the African Development Bank (AfDB), funding to Africa accounts for a third of China EXIM bank’s total global assets. China Export and Import Bank is the main financier for Chinese companies investing abroad; in 2004, it developed its own environmental policy and impact assessments. Through such policy, the Chinese State financial credit agency urged Chinese companies venturing overseas to comply with host country’s policies regarding sustainable development and environmental protection.

## **5.2 ENVIRONMENTAL IMPACT ASSESSMENTS**

In Africa, environmental and social impacts of Chinese investments have received the attention of African Non-Governmental Organizations, policymakers and academics. In September 2006, in an effort to make governments pay more attention to the environmental impacts of China’s presence in Africa and establish strong environmental regulations, the African Union urged all actors to ensure that China is concerned with the protection of the environment in its investments practices in Africa.<sup>7</sup> International Rivers and World Wildlife Fund offices in the continent work closely with Chinese companies present in many countries, especially in critical areas such as dam construction and resource extraction sectors such

---

<sup>7</sup> African Union meeting of the task force on Africa’s Strategic Partnership with Emerging Powers: China, India and Brazil, September 2006, pp5



as mining and forestry to adjust environmental policies and make China-Africa economic relations more sustainable.

In 2007, China Exim Bank issued guidelines for social and environmental impacts assessments for its loan projects. Such guidelines were to improve the 2004 environmental policy. The guidelines were developed in accordance with the China's Environmental Impact Assessment (EIA) Law, Environmental Protection Law, and Environmental Management for Construction Project Ordinance, and with reference to regulations and procedures for environmental and social assessments of other international financial organizations (China Exim Bank Environmental Protection policy, 2007). China Exim Bank through its environmental protection policy (at least on paper) pays a high level of attention to its funded projects' environmental impacts. The environmental policy enhances environmental monitoring and management before, during and after project implementation.<sup>8</sup>

Before the project, China Exim Bank makes environmental impact assessment, one of the basic requirements and elements during the project review. Funded projects are required to conduct environmental impact studies and obtain endorsement or approval from the recipient country's environmental administration. Projects harmful to the environment and which do not have approval from the environmental administration will not be funded (China Exim Bank Environmental Protection policy, 2007). During the project examination, China Exim Bank examines the project's implementation which takes into account environmental impacts. During the implementation of the project, if any unacceptable negative environmental impacts result, China Exim Bank will require the implementation unit to take immediate remedial or preventive measures and will discontinue financial support (China Exim Bank Environmental Protection policy, 2007).

After the project, China Exim Bank will make a post-project review in project implementation and completion status, and its impacts. The post-project review allows China Exim Bank to revise the measures taken before and during implementation for similar projects. If necessary, the related requirements and policies will be fully revised (China Exim Bank Environmental Protection policy, 2007).

Environmental Impact Assessments (EIA) take a varying degree of thoroughness and comprehensiveness. In some instances, timelines might be rather driven to get fast approval to a project rather than thoroughness of the analysis. While speed might be good for 'doing business' scores, one can doubt the quality of an assessment if done in a too short time. If impact assessments are taken as the linchpin instead of international good practice, effects might be a race to the bottom. Furthermore, EIAs come with own limitations, for instance with regard to trans-boundary effects and long-term assessments.

## **6. CONCLUSION**

The practical reconciliation of environmental protection and conservation with economic and social development remains a challenge for developing and developed countries alike. It is an interesting – and extremely relevant – question whether environmental awareness and key concepts of sustainability can only thrive in more developed societies, i.e. in societies in which basic needs are being taken care of. The conflict points with investments in Africa (here: by China) clearly indicate that environmental thinking is not an issue for wealthy societies only. Environmental awareness in the public and in policy making might, however, be following a V-shaped curve in the development process. Thus far, development is fundamentally understood as being about human control over the environment. The very concept of development is that humankind is shaping the environment, making people less subject to natural hazard. In this rationale, it is logical that in many societies, a “natural state” is perceived as the situation to be overcome. While non-industrialised, agrarian societies base their livelihood on a life dependent on natural cycles and thus sensitive to environmental factors (which are sought to be somewhat managed,

---

<sup>8</sup> 中国进出口关于中国的环境保护政策/About China's Environmental Protection Policy (English translation).

nevertheless), early industrialisation seems to come with a “can do” attitude that rather sees environmental issues as yet another managerial challenge, thus posing problems with policies and perceptions (Hong Jiang, 2010). In the debate on Chinese investments in Africa, much of the perceptions and differences in development levels come to play.

In China’s engagement in Africa, the close ties between the Chinese, African states and companies drive the largest part of Chinese investments in the continent. Enjoying political and financial support from state institutions relevant to their activities in African countries, Chinese MNCs and SOEs expand their businesses in various sectors of Africa’s economy. The Chinese government through its state institutions build strong political and diplomatic relationship with African governments to secure investments and markets. Even though China’s central government is increasingly loosening its hold on its companies’ activities to enable them to become more competitive in the global market, measures of control still exist. Backed by Chinese state banks, Chinese multinational companies have a comparative advantage compared to their foreign competitors to invest overseas mainly since the ongoing 2008 financial crisis which has made it more difficult for the Triad MNEs to remain the dominant traditional investors in Africa.

The changes related to the arrival of Chinese companies (and other NTMNEs) in Africa come along with challenges to regulate the business environment in many African countries; particularly those endowed with resources in which China is increasingly interested for its own resources-security. Issues related to transparency, corruption, poor governance, human rights, environment and sustainable development need to be tackled; mainly in the authoritarian or pariah regimes where opaque deals are sealed between officials and Chinese investors. With the political elite making private use of the available resources in several African countries through non transparent delivery of exploitations’ licenses, allocation of mining projects or oil concessions to only benefit their families and probably their political parties, the long-run implications of China’s drive in Africa’s extractive industries are uncertain.

Even though the lack of adequate infrastructure in various sectors drives African governments to seek more foreign investments not only from the traditional but also emerging investors, the resources versus infrastructure development model should be carefully addressed. Resources management by African countries to yield considerable revenues out of the resources’ exploitation and production should be beneficial to the majority of impoverished Africans, contribute to skill and technology transfer and aim at developing high-added value industries. In addition, they should not sell below the world commodities’ market prices either. It is critical to have strong governments with thoroughly elaborated policies and regulations by competent people in charge of the extractive industries’ management in African countries to control local and foreign investments.

China’s investment in Africa should be based on a strategic plan for development that considers communities’ needs. High pressure due to demands for delivery on social and economic development has so far left limited space for environmental concerns both in China and in Africa – and in their growing relation. This, together with a general lack of public information, threatens to taint China’s image in Africa, as long-term ecological costs are likely to be associated with Chinese investments. There are clear roles to play to change this situation at all levels of decision-making and involvement of civil society, together with wider engagement with the public, has many benefits for the enterprises, for China’s government and certainly for the African societies.

Increasingly, Chinese investments in Africa are expanding from resources and infrastructure building to services and involve new actors (private small and medium-sized companies) whose investments according to a recent World Bank report account for 55 per cent of Chinese FDI in African countries. It becomes relevant to keep an eye on these new developments which will become difficult for host countries’ economies. China’s expansion into Africa’s services sector; particularly into the financial sector to secure financial assets and provide funds for already existing investments by Chinese companies or

create new investments projects should be carefully questioned by African governments. This diversification of investments holds new opportunities for aspects of sustainability norms, as the dominance of (environmentally hazardous) resource extraction is somewhat reduced, which might reflect in a more nuanced approach by the Chinese government.

In Africa, collaboration between governments—over their political and economic interests—and Non-Governmental Organizations should work together to better plan particularly in extractive industries and dam building projects to adjust environmental and sustainable development concerns. To save rural areas where most of Chinese investments in extractive industries and environmentally sensitive zones take place, African governments will have to strengthen governance and public accountability (Hathaway, 2010). Governments and civil society together should put in place guidelines and work towards their implementation through different actors involved in sensitive investing sectors, not least so as many effects are trans-boundary. Transparency and public participation from civil society, Non-Governmental Organizations, governments and companies could contribute to working towards sustainable development. Populations' lives, environmental and economic will have to be taken into account for a better sustainable economic development; Chinese political actors seem to be increasingly aware of the challenge both domestically but also in their international engagements. The instruments for implementation of policies, however, will have to be improved and will need to continuously adapted.



## BIBLIOGRAPHY

- Alden, C. and Davies, M. 2006. "Chinese Multinational Corporations in Africa", *Africa Institute of South Africa*, Issue 3-4: 1-11.
- Alves, A. C. 2010. "A Brief Analysis of China's Oil Interests in Angola", *The China Monitor*, Issue 54. August 2010: 4-10
- Bosshard, P. 2008. "China's Environmental Footprint in Africa: China in Africa Policy". China in Africa Project of the *SA Institute of International Affairs (SAILA)*, N<sup>o</sup>3, April 2008.
- Bosshard, P; McDonald, K. and Brewer, N. 2009. "Exporting dams: China's hydropower industry goes global", *Journal of Environmental Management*, 90 (3): S294-S302.
- Brautigam, D. 2009. *The Dragon's Gift. The Real Story of China in Africa*. Oxford University Press
- Chang, C., A. Cheng, S. Kim, J. Kunh-Osius, J. Reyes and D. and Turgel. 2009. "Huawei Technologies: A Chinese Trail Blazer in Africa", *Knowledge@Wharton Strategic Management Article*, Wharton University.
- Cissé, D. 2012. "Going global" in growth markets – Chinese investments in telecommunications in Africa. *CCS Policy Briefing*, April 2012, Stellenbosch: Centre for Chinese Studies.
- Compagnon, D. and Alejandro, A. 2013. "China's External Environmental Policy: Understanding China's Environmental Impact in Africa and How It Is Addressed in: *Environmental Practice*, 15 (3), 220-227.
- Fung, E.; Peng, Y. 2012. "Forces driving China's economic growth in 2012: New thoughts, new strategies, new initiatives", *KPMG Global China Practice*, February 2012: 1-14.
- Graz, J.-C. and Nölke, A. (eds.) 2008. *Transnational Private Governance and its Limits*, Routledge: London.
- Grimm, S. and Schickerling, E. 2013. "The China-African Development Fund (CADFund) as a sovereign wealth fund for Africa's development?" *Centre for Chinese Studies (CCS) Policy Briefing*, July 2013.
- Gu, J. 2009. "China's Private Enterprises in Africa and the Implications for African Development", *European Journal of Development Research*, (21) 4: 570-587, September 2009.
- Hathaway, T. and Pottinger, L. 2010. "Big dams: Bringing poverty, not power to Africa", *The Sustainable Development Quarterly*, May 11: 38-42.
- Hensengerth, O. 2010. "Sustainable development dams in China between global norms and local practices", *DIE Discussion Paper* 4/2010.
- Jiang, J.; Sinton, J. 2011. "Overseas investments by Chinese National Oil Companies: Assessing the drivers and impacts", *International Energy Agency (IEA)*, February 2011: 1-52
- Lin, E. 2013. "China's great leap into Africa", *The mining industry weekly newspaper*, 25 January 2013. Available: [http://www.mining-journal.com/supplements/mj-indaba-supplement-0113/Chinas-great-leap-into-Africa?SQ\\_DESIGN\\_NAME=print\\_friendly](http://www.mining-journal.com/supplements/mj-indaba-supplement-0113/Chinas-great-leap-into-Africa?SQ_DESIGN_NAME=print_friendly) [2013, April 30].
- Mang, Grace 2013. Beijing's a Signal to Chinese Overseas Dam Builders, *International Rivers Blog*, 23 April 2013 [2013, April 29].
- Maurin, C. and Yeophantong, P. 2013. "Going Global Responsibly? china's Strategies Towards "Sustainable" Overseas Investments, in: *Pacific Affairs*, 86 (2): 281-303
- Mol, Arthur P.J. 2011. "china's ascent and Africa's environment", *Global Environmental Change* 21 (2011): 785-794.

- Nölke, A. 2011. "Non-triad Multinational Enterprises and Global Economic Institutions" in: Dag Harald Claes and Carl Henrik Knudsen (eds.) *Governing the Global Economy: Politics, Institutions, and Economic Development*, London: Routledge, 277-291.
- Nölke, A. 2013. "Der Aufstieg multinationaler Unternehmen aus Schwellenländern: Staatskapitalismus in besonderer Form", in: *Der Moderne Staat*, 6 (1): 49-63.
- Nölke, A. 2014. "Private Chinese Multinationals and the Long Shadow of the State", in: Andreas Nölke (Hrsg.) *Emerging Markets Multinational Corporations: State Capitalism 3.0*. London: Palgrave Macmillan.
- Shen, X. 2013. "Private Chinese Investment in Africa: Myths and Realities", *World Bank Policy Research Working Paper No. 6311*.



## Editorial Team

Harrie Esterhuyse  
Wilondja Mubangu



**CENTRE FOR  
CHINESE  
STUDIES**  
STELLENBOSCH - SOUTH AFRICA

## Contact Us

### Centre for Chinese Studies

Stellenbosch University

T: +27 21 808 2840

F: +27 21 808 2841

E: [ccsinfo@sun.ac.za](mailto:ccsinfo@sun.ac.za)

W: [www.sun.ac.za/ccs](http://www.sun.ac.za/ccs)