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China's enterprises in Africa: Market entry strategies, implications for capacity building, and corporate social responsibility

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Abstract. The quest for Africa's natural resources can be traced when the Portuguese set foot on African soil some 600 years. This was followed by Western Europeans and now China. Africa is endowed with huge reserves of mineral and natural resources. These have been the constant attraction to foreign countries seeking to control these natural resources and trading. Globalization further made the new scramble for Africa eminent. New players including China are developing and employing new strategies on how to enter and control these new markets. Chinese enterprises employ the One Belt, One Road (OBOR) and the Belt and Road Initiative (BRI) market entry strategies to penetrate the African Market. This has alarmed the West.
Keywords. China's enterprises, Corporate social responsibility, Africa, Markets, natural resources, Export-import bank, London inter-bank offered rates, Entry strategies, One belt, One road (OBOR), Belt and road initiative (BRI), UN, West, EU, ILO.
JEL. C32, C53, E44, G21.

1. Introduction

On the heels of World War II (WW2) and with the creation of the United Nations Organization (UNO), European powers began to create the necessity to terminate colonial rule over most of Asia and Africa. The United Nations Trusteeship Council (UNTC)—an arm of the UNO was established to accomplish this decolonization objective, and to prepare these trust territories (former colonies) for independence. This move towards decolonization coincided with the start of the Cold War—the ideological conflict and rivalry between the West and the East, championed by the United States in the West and the Soviet Union in the East—that led to the renewed demand for natural resources and economic dominance. This renewed demand for natural resources and markets quickly diminished the goal of decolonization to a possibly questionable

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failure, thus giving rise to neocolonialism—indirect economic and political control and influence over former colonies. Based on these competing interests and objectives of the superpowers and Europe, the exploitation of Africa has continued under the guise of business partnerships and other forms of partnership within a global economic and political system.

Africa has experienced exploitation of its resources by outside powers to serve self-interest spanning lengthy periods in history (Anyu & Afam, 2008). The forerunners of colonialism—Portuguese were first to set foot on the continent around the 15th Century for exploration of gold; thereby, supporting the fact that Africa for a period of almost 600 years has been the subject of contentious periods of exploitations. This alleged objective of seeking to trade or engage in business in Africa led to "relegation of Africa to a peripheral role in the global economy" (Anyu & Afam, 2008, p.92).

African nations have not been able to negotiate deals that are mutually beneficial with European nations because they rely on these former colonial masters to continue to model agreements that have inevitably stunted development within the continent. Failure by the former colonial powers to deliver on their undertakings, has left Africa today with only one option — China, who has visibly supported developmental projects in return for *good business*. In this article, we examine Chinese immersion into African Markets with keenness on the entry strategies, implications for capacity building, and sensitivities to issues surrounding social responsibility. China developed friendly relations with most African nations and encouraged the migration of some of its nationals to Africa. These Chinese operated businesses, mainly in the informal sector, began to compete with the less skilled local business operators. China's need for natural resources and agricultural products matched Africa's need for modernizing its infrastructure (roads, railways, transportations, public amenities, hydropower), and for developing its human capital. To succeed in this economic environment and for the local African communities to acknowledge their presence, the Chinese government has encouraged its citizens in Africa to pay attention to ethical standards and any ethical issues that may be encountered. CSR in today's business atmosphere is unavoidable and has become an integral part of business activities; environmental soundness and social progress (Cheng & Liang, 2011) to achieve economic growth.

2. Market entry strategies

The Sino-African relations emerged as a spin-off from Chinese geo-political policies in Asia. The historic silk Road Economic Belt (SREB) and the 21st-century Maritime Silk Road now termed One Belt, One Road (OBOR) presented internationally as the Belt and Road Initiative (BRI), guided Chinese policies towards this geographic periphery. BRI was geared towards strengthening Beijing's economic leadership through engagement in vast infrastructure building (Swaine, 2015). The *belt* refers to the overland interconnecting infrastructure corridors. The Sino-African

relations refers to historical, political, economic, military, social and cultural connections between China and the continent of Africa."The 65 or so countries that have so far signed on to the program (including approximately 20 from Africa) account for 30 percent of the world's GDP and 75 percent of its energy reserves. Some 50 Chinese state-owned companies are implementing 1,700 infrastructure projects around the world worth about US $900 billion." (Nantulya, 2019, p.1).

Discussionsrelating to Africa's market entry strategies often focus on the ambitious foreign and economic policies that are disguised as development strategies. OBOR has gained significance as Chinese foreign policy (Nantulya, 2019), but more importantly, it is the bedrock of the policy developed with African nations under their international aid architecture. China' said policy followed two main market-oriented reforms; first, diversification of sources of funding through collaborative activities and joint ventures, and by issuing low-interest loans through the Export-Import (Exim) Bank of China. Human capital development, technical training, and capacity building are assisted by structures like the Forum on China-Africa Cooperation (FOCAC), (Cheng, Fang, & Lien, 2012). The West continues to view this aggressive Chinese policy towards Africa with skepticism and in some cases has described it as exploitative and opportunistic (Anyu & Afam, 2008) in approach. Benjelloun (2015) adds that while Africans viewed the visible Chinese economic presence on their continent as laudable, the West has strong critical impressions of the agreements, and consider them unfair.

China's entry strategy into the African market is primarily focused on infrastructure building. .Described herein are examples of agreements that include railway construction or rehabilitation projects. In the case of the Democratic Republic of Congo (DRC)—which was ranked second on the list of African nations GDP growth thanks to Chinese foreign direct investment between 2003 and 2009 (Weisbrod & Whalley, 2011)—in 2007, it entered into an agreement with two Chinese construction firms China Railway Engineering Corporation (CREC), Sinohydro, and Metallurgial Group Corporation (MCC) to complete road pavement and railway construction or rehabilitation projects, health centers and hospitals, low-cost housing, and universities. DRC offered copper-cobalt mining ventures to China's Exim Bank as security for infrastructure loans. The two successive tranches of financing were US $3 billion each. The concession by DRC was for the Chinese to maintain 68 percent ownership.

In 2007, Nigeria as well entered into an agreement with China Exim Bank for a US $2 billion line of credit, offer at what the African nation perceived to be very competitive commercial rate in order to finance infrastructural projects in connection with a preferential access to oil blocks. Separate from this agreement, the Chinese government offered a line of credit in the amount of US $500 million with a preferential line of export credit. Though not followed through, this line of credit at one time was slated for rebuilding of the Lagos-Kano railway.

China issued several oil-backed loans for infrastructure development projects in Angola in 2003 at London Inter-Bank Offered Rate (LIBOR) plus 1.5 percent. Specifically, Sinohydro invested about US $900 million in 30 projects in which over 8,200 local workers were employed (Cheng & Liang, 2011). These rounds of loans issued were for rebuilding of war-ravaged infrastructure (agriculture, electricity, hospitals, irrigation systems, railways, schools, telecommunications, and water treatment systems (Bräutigam, 2010), and financed at non-concessional rates. On keener examination of the three agreements described here above, the contention about opportunism and exploitation becomes a theme worth exploring further. What is obvious in these agreements is that none of the offers made by China to these African nations seem to have amounted to foreign aid (Official Development Assistance), rather, they involved credit for future investments.

In regard to the entry strategies by China into Africa, it is imperative to understand migration trends and patterns. Chinese migration to Africa can be categorized under the following three types: (1) temporary labor migration linked to public works and infrastructure projects executed by Chinese enterprises; (2) entrepreneurial migration flow made up of merchants native to mainland China some of whom come from the different diaspora communities; (3) proletarian transit migration flow consisting of people trying to sell their labor in western countries while waiting in Africa for opportunities to enter those countries (Mung, 2008). The total number of Chinese living in 38 select African nations were 129,605 in 2001 and estimated to grow to about 820,050 between 2003 and 2008 (Ohio University database, 2001, 2003–2008). With the exponential growth trends in the migration of Chinese to Africa, the number today surpasses one million; in contrast, there are an estimated 200,000 Africans working in China. According to the China-Africa Business Council several thousand Chinese farmers migrated to Kenya, Uganda, Ghana and Senegal most from Hubei Province (Monson, 2005), and others in Zimbabwe, Zambia and South Africa (Sautman, 2006). According to Zadek, *et al.*, (2009):

> The Chinese are largely successful in international trade because as part of their entry strategy, they seek understanding and respond to "environmental, social and governance risk[s], maintaining their formal and informal 'license to operate' through productive relations with government bodies, neighboring communities, workers and suppliers, and helping to secure sustainable development in the region through both their products and services and their influence on the local business environment"(p.8).

Chinese companies engaged in business in Africa increasingly are seeking local labor (Benjelloun, 2015). This reliance on local labor explains in part the need to address local training needs for sustenance of future engagements.

3. Implications for capacity building

Since its announcement, BRI has forged intertwining economic, political, and security ties between Africa and China, essentially advancing Beijing's geopolitical interests. OBOR directly supports many elements of China's national security strategy. At a macro level, OBOR sought to reshape the world economic order in ways only favorable to Beijing's drive for greater power status.

OBOR has two components: (1) The Silk Road Economic Belt establishes six land corridors connecting China's interior to Central Asia and Europe; including railroads to Europe, oil and gas pipelines from the Caspian Sea to China, and a high-speed train network connecting Southeast Asia to China's eastern seaboard. (2) The Maritime Silk Road that establishes three Blue Economic Passages knitted together through a chain of seaports from the South China Sea to Africa, also directing trade to and from China.

According to the International Labor Organization (ILO), Africa has the highest unemployment rate in the world. In many cases, the high unemployment rate is a result of lack of training rather than lack of jobs (Weisbrod & Whalley, 2011). Development of human capital may be achieved through training partnerships and targeted jobs creation. Knowledge sharing or transfer from Chinese expertise to local African communities is critical to transform partnerships from dependency to collaborative (Dzekashu & McCollum, 2014).

Another strategy to transfer knowledge has been through production platforms. In this light, the Huajian Group, a Chinese company, established a shoe manufacturing factory in Ethiopia where it hired 3,500 Ethiopians; thus, relocating jobs thousands of jobs to Africa (Hamlin, Gridneff, & Davidson, 2014).Considering the challenges associated with "encouraging …knowledge [sharing, which] is not a particularly easy task because of the prevalence of the *knowledge is power paradigm."* (Dzekashu 2015, p.105), these Chinese companies have a herculean task of sharing business secrets as a way of building and maintaining bilateral cooperation.

The rise of China possibly challenges the priorities and plans of the West, while undermining the sincerity of their advice (Humphrey & Dirk, 2016). Impact of Chinese business influence in Africa is felt in power and governance structures of Bretton Woods institutions—aimed at rebuilding shattered postwar economy and promoting international economic cooperation. These institutions constitute the dominant philosophies and directions that currently shape developmental policies and strategies; and changing standards in ethical concerns such as the environment and human rights (Anyu & Afam, 2008).

Much of the activities China has undertaken in Africa have been viewed with suspicion or seen as profit-centered rather than ideologically based. Labor support programs provided by China to Africa, were originally linked to temporary worker migration. Examples include; 15,000–20,000 medical personnel sent to Africa to assist in development of hospitals and clinics; 10,000 agro technicians sent to work on about 200 agricultural

projects that included establishing farms, and agricultural, training stations (Park, 2009).

Another initiative lunched by the Chinese in 2009 was the 20+20 Cooperation Plan; in which 20 higher education institutions in China and Africa partnered with the goal of facilitating academic exchange. The United Nations Education and Scientific and Cultural Organization (UNESCO) joined this initiative that was aimed at facilitating university partnerships (Benjelloun, 2015). Additional initiative that demonstrates China's *goodwill* to engage in capacity building is the creation of the China-Africa Think Tank forum. These Chinese African think tanks organized under FOCAC such as the 10+10 Partnership Plan was implemented by selecting 10 think tanks each from China and Africa.

4. **Corporate social responsibility**

While many companies in the West have moved some of their production and marketing operations to the emerging economies where they have perceived businesses to be more profitable, and less risky, China on her part has been and continues to invest in Africa against a background of closer economic ties. For China to succeed in creating economic opportunities that are mutually beneficial, it is imperative for its multinational businesses to address environmental and social challenges, opportunities, and risks that arise. Chinese companies will need to act responsibly. Among other things, they must ensure that provisions to safeguard the environment and health of African workers are considered. Benjelloun (2015) affirms that while calls by the international community; predominantly by the West, for corporate social responsibility practices by Chinese companies started in 2007, their uncertain record has left the impression that Beijing's influence over corporate practices is limited. African countries should therefore put in place the appropriate regulatory mechanisms to ensure environmental protections, and especially pursue green growth pathways (Benjelloun, 2015).

With respect to market forces, Cheng & Liang (2011) suggest that the Chinese government has played a critical role in encouraging companies to invest in Africa. The process to facilitate these ventures of Chinese businesses in Africa has been through improvement of investment climate, development of China Africa

Development Fund (CADF), and encouragement of carving out Special Economic Development Zones (SEDZ) in the host nations (Cheng & Liang, 2011). However, the future success of these endeavors is going to be determined by adherence of the Chinese business community to its legal and moral responsibilities.

Chinese government has taken the position of joining the civil society in putting pressure on their business partners to play critical roles and for these entities to incorporate CSR in their business strategy. These development and enforcement of governmental regulations seemingly became necessary because of the non-stop scandals of environmental

disaster and poisonous food around the country that rocked China (Cheng & Liang, 2011). In 2009, Shanghai Stock Exchange announced its CSR Index; subsequently entering a partnership with China Business News in 2011 to launch an Index for reporting Socially Responsible Investment (Cheng & Liang, 2011). This move was significant in adopting CSR as part of the Chinese business model in Africa.

In terms of academic initiatives, China–Africa co-operation should be reinforced in education, research, and business management to support human resource development needs in Africa and to help local economies develop. Joint research laboratories need to be established in African nations to develop fields necessary to face future challenges such as nanotechnology and materials science, biotechnology for health and agriculture, informatics, alternative sources of energy and the social sciences (Benjelloun, 2015).

Examination of Chinese involvement in African markets discussed herein barely exemplifies the issues surrounding their ventures within the continent. To make the relationship between China and Africa durable and productive (profitable to both parties), China must commit to training the Africans where there is active Chinese investment and an utter lack of African expertise at the managerial as well as the skilled, and semi-skilled workers' levels (Benjelloun, 2015) by transferring maintenance and support contracts to local communities. Failure to genuinely transfer intellectual capacity to the African markets would result in continuous dependence on Chinese support for rehabilitation of systems into the future, therefore, maintaining Africans as "willing partners in their own exploitation" (Anyu & Afam, 2008, p.3).

CSR poses opportunities and challenges for development in Africa. There are lessons to be drawn from the ineffective development policies of the past decades by Europeans in Africa. Though for the most part China has fulfilled its social responsibility obligations in Africa, Chinese companies continue to face major challenges in delivering outcomes mainly in bridging the gap between knowledge of CSR and implementation mechanisms. The gap mostly is due to lack of experience engaging with the local communities—resulting from cultural, linguistic, and ideological barriers—and nonparticipation in setting international standards (Cheng & Liang, 2011).

5. Conclusion

With the West *crying foul*, about China's intentions in Africa, there is an ongoing concern about how the suspicion may affect US-China relations. In effect, the U.S. sees itself as a viable alternative to China, as evidenced by the U.S. Assistant Secretary of Stata for African Affairs utterance that the African countries would benefit greatly from an increased investment by U.S. companies, and the creation of development projects that would create jobs and maintain higher environmental and business standards. In his

own words the Assistant Secretary said to the U.S. House Foreign Affairs Committee that:

> One of the things that really, really irritated me during my trips to Africa is you go to an African city and there is a stadium invariably built by the Chinese… We must remain a positive alternative and make clear that engaging with the United States will mean greater prosperity and security for Africa… Our potential in Africa is limitless… Africa is facing a demographic tsunami (The Associated Press, 2019, p.1).

Competition for African resources between China and the West, chiefly, the United States could if not replaced with healthy cooperation, result in future conflicts (Anyu & Afam, 2008). The burning question Africa wants answered is: What tangible development have members of the European Union (EU) and the U.S. accomplished since the wave of independence in Africa in the 1960s?

The EU and China can join hands to improve the capacity of Chinese investors in Africa on the question of CSR, especially in training senior management in implementation, evaluation, and collaborative partnership building for CSR. On its part, the U.S. enacted the Africa Growth and Opportunity Act (AGOA) in 2000 to encourage the exporting of African textiles and other products to the U.S. Unfortunately, only few African nations benefited from this Act prior to its elapse in 2005.

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