



Business responsibility

The China model

By Ben Schiller

As Chinese companies “go global”, campaigners are increasingly concerned about Beijing’s model of international development

In need of post-war reconstruction funds, Angola’s government was last year negotiating a new loan with the International Monetary Fund. With a long history of corruption and poor governance, the IMF was keen to include measures to cut corruption and tighten the country’s economic management. But as fund officials pushed harder for a signature, the government suddenly broke off negotiations. The Angolans had received a counter-offer: a \$2 billion loan proposed by China’s export credit agency, Exim Bank. The deal from Beijing came with minimal rates of interest, a generous payback period, and none of the IMF’s “conditionalities”. Luanda accepted China’s offer.

In February, Global Witness sent a letter to the World Bank and IMF complaining that the terms of the contract had not been made public. The UK non-governmental organisation – which has lambasted European banks for providing oil-backed loans to Angola – said the Chinese had undermined the IMF’s position. It said

there was a lack of openness in the procurement process for reconstruction work, much of it carried out by Chinese companies.

A corporate responsibility manager at a large European oil firm active in Angola says the Chinese package has effectively lowered transparency standards, making it more difficult for western companies and governments to push for anti-corruption schemes like the Extractive Industries Transparency Initiative. (Angola has signed up to EITI, but has yet to implement it.)

Others have pointed to the terms of the loan that allow Chinese companies to bid on 70% of construction contracts, fearing the money will fail to develop local skills and businesses.

Africa Confidential says some of the loan will probably be used for the government’s re-election campaign in 2006. Notwithstanding a boom in construction, the magazine says: “Spending on education, health and sanitation is way below what is needed to cut poverty.” Angola ranks 160th out of the 177 countries in the UN Human Development Index.

Broad reach

China’s Angolan loan is hardly unique. In recent months, Beijing has been extending soft credit to numerous countries in Africa, Latin America and Asia, as part of its push to secure energy supplies and develop its companies’ interests overseas. Chinese energy companies – CNPC, Sinopec, and CNOOC – have been buying up dozens of oil and gas concessions, including those in Angola. And Chinese construction firms have been building dams, telecoms networks, railways, hotels, airports and other major infrastructure projects, predominantly in Africa.

China’s aim, observers say, is not necessarily profits – at least in the short term – but rather to build influence in the developing world, undercutting western governments and companies.

Eschewing any “interference” in the internal affairs of foreign states, this model of international development is of increasing concern to NGOs, international financial institutions and Western companies trying to improve transparency and human rights, and develop “capacity” in poor countries. The worry is that Beijing will let nothing get in the way of its “go global” policy, turning a blind eye to the activities of its companies overseas, even as it tightens corporate responsibility standards – on corruption, worker safety and the environment – at home.

In turn, there are those who fear what this will mean for Western companies trying to compete with their Chinese counterparts. The concern is whether – backed by cheap loans, diplomatic pressure, arms sales and military assistance – China’s companies will lower the bar for all comers.

"The less transparent, less accountable approach of the Chinese may be a challenge if they have direct competition with other companies," says Alex Vines, head of the Africa programme at Chatham House, an international affairs think-tank in London.

Emerging norms

Chinese energy companies are only beginning to understand corporate responsibility, according to Jonathan Berman, of Development Alternatives International, which advises corporations and governments operating in developing countries. "The large Chinese energy companies currently have an approach to corporate responsibility that focuses on health, safety and environment, much like early corporate responsibility programmes at many Western energy companies," he says.

Some observers believe greater engagement with institutions like the World Bank, the need for Western capital (including stock market filing requirements), as well as the reputational benefits of corporate responsibility, will all encourage Chinese companies to begin to take the subject seriously. The question, however, as Berman says, is "not whether the norms will influence the Chinese, but rather whether the Chinese will influence the norms".

A recent report by the Organisation for Economic Co-operation and Development on corporate governance in China praised the government for instituting reforms to foster private sector activity. But it noted that many state-owned companies remained unincorporated, and have to yet to create essential governance structures such as boards. The report says Chinese corporations lack independence, operating at the behest of powerful officials, government-controlled market regulators and a whimsical judicial system.

Like companies in other post-communist societies Chinese businesses have long been responsible for swathes of social provision, building housing, clinics and recreational facilities for their workers and local communities. Mark Eadie, director of the ERM social consultancy in Beijing, says these activities are often overlooked when corporate responsibility campaigners criticise Chinese firms. He emphasises Chinese progress in recent years in cutting domestic corruption – China has recently

imprisoned a number of corrupt businessmen – and in developing environmental management programmes.

Less focus, however, has been paid to Chinese businesses overseas, probably because these companies are only beginning to venture beyond their borders.

China has yet to sign up to international anti-bribery initiatives like the OECD's Anti Bribery Convention, and the EITI. In 2003, it assented to the UN's Convention against Corruption, but that compact is seen as much weaker than the OECD treaty.

Peter Rooke, director of the Asia department at Transparency International, believes China is taking corruption seriously – TI recently launched its Business Principles programme in the country – but he sees the need for tougher standards overseas and greater oversight of China's state-owned enterprises. "As Chinese companies expand their investment into other countries, there is a need for better international standards," he says.

Fuelling investment

The weaknesses of Chinese corporate responsibility standards are most evident in developing world – where the majority of Chinese investment is now focused – and are frequently oil-related.

In Africa, CNPC, Sinopec and CNOOC have struck exploration deals in Nigeria, Angola, Sudan, Algeria, Gabon and a dozen other states. In Latin America, the "Big Three" are active in Venezuela, Peru, Ecuador, Argentina and Bolivia. In



China: impacting overseas markets

imports, and Chinese investment is said (by Human Rights Watch, among others) to be funding arms imports and a local arms industry based on Chinese technology.

Beijing has also turned a blind eye in Zimbabwe, another pariah-state. President Robert Mugabe, whose palace is said to be clad in midnight-blue Chinese tiles, has promoted something of a Chinese cult, encouraging his followers to eat Chinese food and learn Mandarin. The state-owned China International Water and Electric has built a 250,000 acre maize farm, and Beijing has supplied fighter jets and military trucks. This summer, running out of friends elsewhere, Mugabe obtained Chinese loans as part of an agreement to sell off his country's mining concessions to Chinese companies.

The environment

China's environmental practices have also come under fire. A report from the International Rivers Network and Friends of the Earth in July criticised Exim Bank for

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Central Asia, CNPC recently acquired PetroKazakhstan, while CNOOC operates in Burma. In October last year, China agreed to invest \$100 billion in Iran's oil and gas.

Because much of the world's prime oil supplies are already locked up, China is turning to countries that, for reasons of human rights or ideology, are currently out of favour with Washington. Chinese oil companies have invested at least \$2 billion in Sudan, despite US sanctions, the genocide in Darfur and a full-scale divestment campaign by NGOs. Sudan now accounts for at least 5% of China's oil

funding projects such as the Yeywa Dam in Burma, the Merowe Dam in Sudan, and the Nam Mang 3 Dam in Laos. It says Exim has failed to sign up to the environment guidelines adopted by many export credit agencies from OECD countries, including South Korea and Turkey. Known as the Common Approaches, the guidelines compel ECAs to subject projects to environmental review. In late 2004, Exim adopted environmental guidelines of its own, but as the NGOs point out, they are not available to the public or to commercial banks that arrange funding on Exim's behalf.



China's economy: oil, oil, oil

jobs because much of the continent is inhabited by young people. The Chinese are bringing in their own people, and they are paying lip-service to employing Africans."

Flooding markets

With such an aggressive push in Africa, Chinese companies are beginning to draw fire from local people, and some local businesses.

In South Africa, for example, textile manufacturers are enraged by a recent World Trade Organisation ruling that has led to a flood of Chinese clothing imports (they call it China's "textile tsunami"). As a result, local factories have been forced to close in Kenya, Lesotho, Swaziland, Uganda and Madagascar, causing thousands of job losses.

For this and other reasons, Chris Alden, a lecturer in international relations at the London School of Economics, says there is growing unease about Chinese investment in parts of Africa.

"The nature of its closed society and relative wealth may breed resentment and even conflict, as it has in parts of South-east Asia," he says.

Whether Chinese companies will be able to reverse this trend is an open question.

Martyn Davies, director of the Centre for Chinese Studies, in Cape Town, says Chinese companies need to work harder building relationships with local groups, believing some of the tensions come down to cultural misunderstanding. "A lot of it comes down to a lack of trust. The Chinese are not doing enough to build relationships with civil society," he says.

Certainly Chinese companies will have to work harder in the coming years if they are to establish themselves as good corporate citizens, seen not only as "can-doers", but also as responsible actors on the world stage. Judging by the first chapter of Beijing's "go global" campaign, China's nascent corporate behemoths will need to be watched in the months and years ahead. ■

Useful links:

www.csr-asia.com

www.chinasite.com

<http://app1.chinadaily.com.cn/focus/ceo/11/good.htm>

Ethicalcorp.com keyword searches:

China, Chinese companies, Chinese oil demand

The report notes that Exim also has no apparent policy on human rights, despite loaning to countries, such as Burma and Sudan, with poor human rights records.

Meanwhile, concerns have been raised over the environmental impact of various Chinese-run mining operations in Africa, including copper mines in Zambia and Congo, and titanium sands projects in ecologically sensitive parts of Mozambique, Kenya, Tanzania and Madagascar.

And China is a major importer of illegal timber from forests in Indonesia, Cameroon, Congo and Equatorial Guinea.

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Though accurate figures are hard to come by, the website globaltimber.org.uk says up to half of all timber imported by China in 2004 was illegal.

Chinese businesses have also been implicated in ivory smuggling, notably in Sudan and Zimbabwe. According to Care for the Wild International, an environmental group, Chinese companies buy up to 75% of Sudan's ivory.

White elephants

In its rush to expand, development experts say China is reinvigorating an older, crude style of development, re-establishing an era of "white elephants" and "prestige projects" with little benefit to local people.

In Ethiopia, the state-owned Jiangxi International built \$4 million worth of new housing, after a flood left hundreds destitute. But instead of accommodating the homeless, the blocks ended up being used by military officials. A Jiangxi manager later told the Wall Street Journal: "It was a political task for us and so long as Ethiopian officials are happy, our goal is fulfilled."

Another feature of Chinese investment overseas is the use of Chinese rather than local workers. Thousands of Chinese labourers and engineers have been

brought in to build Ethiopia's \$300 million Takazee Dam, for example. In Sudan, Chinese workers have constructed an oil pipeline; 74,000 Chinese remain in the country, 10,000 employed by CNPC. Chinese workers are also being used in Namibia, Zimbabwe and a host of other African states.

Ross Herbert, Africa research fellow at the South African Institute of International Affairs in Johannesburg, believes recruiting from China provides little long-term benefit to local people. He says: "You end up with a stadium, but there's no knock-on effect, no financial benefit. It all goes back to China."

Alex Vines, at Chatham House, says: "One of the biggest demands in Africa is for