

**China's Investment in Africa:  
Expanding the 'Yellow River Capitalism' and Its Implications**

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## **China's Investment in Africa: Expanding the 'Yellow River Capitalism' and Its Implications**

### **Introduction**

In recent years, China has been seen as a major investor and aid donor in Africa. Some argue that China does so to help Africa moving out of poverty (eg. Ravallion, 2008). Others contend that China intends to build 'an alternative world order' and shift the world political power from Washington to Beijing (Leonard, 2008, p. 118; cf. Alden, 2007). For the economists, China's investment in Africa seems a natural move as China demands for natural resources and energy to fuel its continuous economic growth and the resource-rich Africa is complementary to meet such demand (Goldstein et al., 2006). For the political scientists and sociologists, long term risks which impose further inequity between sectors and among rich and poor may need to be appropriately assessed when appraising the short term opportunities to boost the African economies (Posner and Young, 2007). This paper intends to shed some lights on the extent of China's investment in Africa and discuss the implications of the expansion of the 'Yellow River Capitalism' on the social, political and economic contexts in Africa at the macro-level and on the international management at the micro-level.

### **China's trade and investment in Africa**

Between 2001-2006, Africa's exports to and imports from China rose on average by more than 40 percent and 30 percent respectively, significantly higher than the growth rate of world trade (14 percent) and commodities prices (18 percent). The trade volume between two regions surged from \$4 billion in 1996, to \$10.6 billion in 2002, \$55 billion in 2006, and jumped to \$73.3 billion in 2007. Without any other constraints, it is estimated that the trade volume will likely reach \$100 billion in 2008, well ahead of the prediction by the Beijing Summit<sup>1</sup> of November 2006. China is now Africa's third largest trading partner after the USA and the EU.

The terms of trade have moved in Africa's favour. It is estimated that Africa's export prices relative the price of imports from China improved by 80-90 percent between 2001-2006. This is largely due to the rising world prices for oil and raw materials. In 2004-2006, Africa ran a small \$2 billion a year trade surplus with China<sup>2</sup>.

The composition of goods traded between Africa and China is arguably similar to that between Africa and its other major trading partner, as claimed by some scholars from China (eg. Zong, 2007). However, in real terms, oil and gas accounted for over 60 percent of Africa's exports to China in 2006. One third of China's oil are now from Africa. Of Africa's total exports of crude oil in 2007, Europe bought 36 percent and the US 33 percent (Zong, 2007). Africa's imports from China comprises mainly manufactured goods and machinery and transport equipment, accounting for about three quarters of total imports. The Chinese investment in equipment and machinery sectors have already taken up 70 percent of the African market ([www.china.org.cn](http://www.china.org.cn)).

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<sup>1</sup> The Summit was hosted by the Chinese President Hu Jintao, attended by 48 African leaders who jointly set the goal of doubling two-way trade between Africa and China to \$100 billion by 2010 ([www.China.org.cn](http://www.China.org.cn)).

<sup>2</sup> All figures illustrated in this paper are in US dollars. Statistics in this paper came from various public sources, including United Nations' World Trade Investment Report (2007); International Monetary Fund ([www.imf.org](http://www.imf.org)); Ministry of Foreign Affairs, China ([www.fmprc.gov.cn](http://www.fmprc.gov.cn)); Africa Gateway ([www.southafrica.info](http://www.southafrica.info)); People's Daily online ([www.people.com.cn](http://www.people.com.cn)); China Daily ([www.chinadaily.com.cn](http://www.chinadaily.com.cn)); [www.xinhuanet.com](http://www.xinhuanet.com); [www.China.org.cn](http://www.China.org.cn); [www.timesonline](http://www.timesonline); Reuters AlertNet ([www.alertnet.org](http://www.alertnet.org)); Asia Times Online ([www.atimes.com](http://www.atimes.com)); Online Africa Policy Forum ([www.forums.csis.org](http://www.forums.csis.org)); OpenDemocracy ([www.opendemocracy.net](http://www.opendemocracy.net)); Africa Business Pages ([www.africa-business.com](http://www.africa-business.com)).

China's Ministry of Commerce puts China's direct investment to Africa for 2000-2006 at \$6.6 billion, excluding the foreign direct investment (FDI) by private Chinese enterprises (Xinhua, 2007). With no available data, it is believed that many Chinese private enterprises have also heavily invested millions of dollars in Africa, most obviously in textiles and mining but also in services, agriculture, processing and manufacturing. The Chinese government's policy 'Going Global Strategy' is also encouraging private investment and trade in Africa (Wang and Bio-Tchane, 2008, p. 6). Notwithstanding, the government-aided loan and investment stands for the large proportion of FDI in Africa. For example, in 2007, the Industrial and Commercial Bank of China purchased 20 percent of Standard Bank Group of South Africa, the largest bank in Africa with \$5.6 billion on that one investment alone (Wang and Bio-Tchane, 2008, p. 6).

In 2007, the China-Africa Development Fund was formerly established with \$5 billion initial investment injected by the Chinese government to promote economic cooperation between China and Africa, and further \$5 billion promised to advance Africa's economic development (Leonard, 2008). According to the African Development Bank, Chinese investment in Africa amounted to \$11.7 billion in 2006 (Berger, 2007). Most of China's investment in Africa has been channelled to the fields such as natural resources, infrastructure, architecture, textile, transportation and power. The fund is also aimed at building the China's model of 'Special Economic Zones' and facilitating the establishment of industrial parks by Chinese enterprises in Africa (Leonard, 2008).

### **China's enterprises in Africa**

By the end of 2007, there are about 800 Chinese enterprises doing businesses in Africa. According to the Import and Export Bank of China, among them, over 100 enterprises are medium to large state-owned enterprises (SOEs). Over 200 trading companies or distribution centres had a presence in Africa and over 100 processing centres have been set up since 2000 (Xinhua, 2007). Table 1 lists, with currently available information, some giant Chinese enterprises present in Africa.

In addition, China Engineering Group has invested \$528 million since 1995 to renovate 4,000km railway lines in Nigeria. The whitegoods giant, China's Haier Group has opened a number of factories in Tunisia; whilst Geely, Chery and Huawei – all big firms in China have also started their operation in Egypt. Huawei is China's largest telecom company. It holds contracts worth \$400 million to provide mobile services in Kenya, Zimbabwe and Nigeria (Eisenman and Kurlantzick, 2006). In 2006, Huawei provided services and products in more than 40 African countries and regions with sales totalling at \$2.1 billion (Xinhua, 2007)

We have witnessed quite an unprecedented rapidly transfer of China's capitalism with 'socialist characteristics' to Africa. Use of the expression by Leonard (2008), the so-called 'Yellow River Capitalism' seems currently transforming the landscape of Africa. What does such a large scale of Chinese investment and business activities in Africa mean to the existing social order, political power and economic development in Africa and beyond? How successfully have Chinese managed their offshore enterprises and what does it mean to international human resource management for Chinese managers and local African employees? These implications will be discussed next.

### **Economic implication**

There is no doubt that the increased volume of trade and investment between China and Africa, as earlier discussed, has boosted the economies in both regions. China is hunger for Africa's rich natural resources to fuel its continuous economic growth; whilst at the same time, many Chinese companies have taken Africa as their newly-found market to sell its massive manufacturing goods. Africa, for the first time after decades of dropping prices, has seen its

commodity prices soaring as a result of huge demands from China for oil, gas, copper, cobalt, zinc, uranium and gold; whilst consumers in Africa enjoy inexpensive goods such as clothing, shoes, white goods and even computers from China (Fazeer, 2008; Swain, 2008). China's trade with Africa contributes to 20 percent of its economic growth. The rapid growth of economic ties between China and Africa has improved trade conditions in Africa and increased its foreign exchange income (Zong, 2007). This close economic tie is seemingly a positive story for Africa and may offer a promising future for the continent.

Quite likely, African nations want to establish a strong relationship with China for a number of economic reasons. First, the poor continent may learn from China whose startling example to rise from poverty within a generation and become a dominant player on the global scene is rather appealing (Ravallion, 2008). China perhaps could serve as an economic role model for the troubling continent and help lifting Africa out of poverty as it has quite successfully achieved itself domestically in the past two decades (Ravallion, 2008). Leonard (2008) reported that many African countries are actively copying Beijing's economic and industrial policy that uses public money and foreign investment to build capital intensive industries such as public utilities, energy and agricultural production (p. 121). African nations may have quite different conditions under which China has successfully implemented their agricultural and industrial reforms (see Ravallion, 2008 for more comprehensive analysis of the differences). Nevertheless, many African nations are currently eager to copy the China's model of 'Yellow River Capitalism' (Leonard, 2008).

Secondly, for Africa, China is also a major market, financier, investor, contractor and builder (Wang and Bio-Tchane, 2008). Besides huge amount of investment in various sectors and industries in Africa, discussed previously, China has removed tariffs on 196 imports from 28 least developed African countries since 2005. In 2007, China further expanded the coverage of African exports exempt from tariffs to 454 items. Chinese enjoyed the duty-free imported sesame, copper products, sheepskins, cocoa and other products from Africa, and paid \$350 million in 2006 (Fazeer, 2008). China also encourages tourism in Africa. Whilst many see the poor and ugly side of Africa with many years of drought, war, disease and poverty, Chinese media purposely portrays the continent as a paradise for wild lives – a beautiful and exotic tourist destination<sup>3</sup>. In 2005, there were 110,000 Chinese tourists visiting Africa (Eisenman and Kurlantzick, 2006). Furthermore, Chinese contractors and builders bid for African national infrastructure projects and many companies also set up local businesses. These could provide potential job opportunities for local people, even though some of jobs may have been crowded out by 750,000 Chinese immigrants currently working across the continent (Alden, 2007).

Thirdly, Africa needs China's investment and aids to build its agricultural and industrial infrastructure which were not conceivable under the previous Western colonisation. China intends to help Africa to build a series of industrial hubs with tax incentives that will link African rail, road and shipping lanes to the rest of the world. According to Leonard (2008), three key hubs perhaps have more benefits to China than Africa. Nevertheless, their spillover effects on the continent's economy is quite significant. The hubs include: 1) *the metals hub* based in Zambia, which will provide China with copper, cobalt, diamonds, tin and uranium; 2) *the trading hub* based in Mauritius allows 40 Chinese businesses preferential access to the 20 member states of the Common Market of the South and East Africa; and 3) *the shipping hub* initially built in Dar es Salaam, Tanzania in the East coast, possibly will extend to the West coast, with Nigeria,

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<sup>3</sup> Luo Hung, a famous Chinese photographer who has been wooing fellow Chinese to Africa with photographic exhibitions in the big Chinese cities. 'The landscapes, animals and human beings there create a harmonious and beautiful picture' advocated Luo as reported by Swain (2008). Also reported by Eisenman and Kurlantzick (2006), Beijing has approved 16 African countries as outbound destinations for Chinese tourists (p. 221). Recently, this approved list increased to include 25 countries (Xinhua, 2007)

Liberia and the Cape Verde Islands competing for the tenders. China, through its own experiences in the past decades appears to be helping Africa to build the very infrastructures they have built domestically which were required to attract massive foreign direct investment and boost economic growth.

Positive outcomes may have been achieved from both sides. Nonetheless, Africa might be expected to bear the blunt of the long term risks of dwindling its development of manufacturing sector to give preference to boosting the resource industry. As argued by Goldstein et al (2006), the sustained economic growth can only be achieved by focusing on increased diversification of the economy to provide more export goods. Currently, the ten less diversified African countries are all oil exporter. Unless they are able to use their resource wealth to diversify their economies, the African countries may be further left behind in the world economic race. The ‘Dutch disease’<sup>4</sup> may also affect Africa significantly, as it emphasises on developing the resource industry and neglecting the balance of the national economy by leaving the important manufacturing sector behind.

According to some anecdote evidence, the African own manufacturing sector has since been crowded out by Chinese burgeoning investment in textile, clothing, cement, electronic and mining sector. Wilfred Collins Wonani, a representative of local commerce association in Zambia commented: ‘it seems we go back to the beginning of the European colonisation, we send raw materials to China, and get the cheap end products. This is not the progress, but new colonisation by China’ (translation from Huaxia Digest, 21 August, 2007). The African manufacturing industries are not able to compete with Chinese who often deploy labour directly from China, this is another crowding effect on local employment. Many locals starts resenting Chinese who appear in many places in the African streets. In addition, cheap manufacturing goods plus the presence of many Chinese businesses may well crowd out the domestic-made African products, pushing the non-competitive sectors and industries to ‘dire straits, even bankruptcy by Chinese competition’ (Swain, 2008).

Furthermore, the increase of commodity prices likely also put the pressure on inflation and rise of food prices – a real side effect of the ‘Dutch disease’, which have affected a number of African countries. According to Donald Kaberuka, President of the African Development Bank Group, ‘given the large share of food in the consumption basket of the poor in many of our countries, there is a big risk of unwinding progress made by these countries, especially the likelihood of pushing millions back onto poverty’ (Keynote address to the African Perspective Forum, July 2008).

To solve the problem, Africa needs a long term solution that is focused on boosting agricultural production, increasing investment in rural infrastructure, providing assistance in developing manufacturing sector and taking ride of advanced information technology to develop their diversified economies, as modelled by China’s ‘Yellow River Capitalism’.

There have been more critics in media on how China uses Africa to balance its economic and political power in the world stage and cause more social disorder in Africa, which will be discussed next. Less serious research has been conducted to examine the effect of China’s investment in Africa. Like it or not, it seems that most of African nations have embraced the China’s economic development model, hence both positive and negative effects of the Chinese economic model implemented in the African soil need to be further assessed.

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<sup>4</sup> The term ‘Dutch disease’ originated in the Netherlands after its discovery of the North Sea gas is now commonly used to imply the potential close-down of the manufacturing sector as a result of a resource boom (see Goldstein et. Al, 2006, pp. 69-70 for further explanation)

## **Social implication**

China's increasing engagement with Africa has been seen to create a wider social gap among many African countries. Certainly the 'Yellow River Capitalism', when transferred, carries its specific characteristics. A couple of them are worth noting here. First, the tension among rich and poor within Africa is heightened. The gap between rich and poor in China has been widening since the economic reform started 30 years ago, so it seems normal for China to have some people to become rich first before others as Deng XiaoPing, former Chinese paramount leader advocated. China has been more than happy to provide big dollars for those African elites and it knows well that 'tangible assets and large scale infrastructure projects are very important for African leaders because they want to show their people that they are doing something' (Soehendro, 2007). Besides, China's non-interference policy in the domestic affairs of states and the promotion of sovereign integrity appeals greatly to many African elites. African autocrats also like 'the China model, which enabled rapid development to occur without challenging the single party rule' (Alden, 2007, p. 122). As a result, it is seen that many investment projects were signed under great secrecy and lacked transparency; transactions between China and Africa are kept confidential and little is known about their terms (Juma, 2007). Local people tend to see the presence of China only further enriches the African elites, making rich and powerful more extravagant whilst leaving poor unattended. The uprising activities against the rich and disturbance on the oil and metal mining fields involved by Chinese have been more frequent since 2000. For example, Beck (2007) reported a raid by local Ethiopia rebels on an oilfield early in 2007, killing 74 people, including 9 Chinese. Harman (2007) reported that whilst Sudan probably sold oil worth \$2 billion a year to China, 'locals still live in meagre huts, eating peanuts with perch fished out of the contaminated Nile. There is no electricity' (p. 5). Locals blame their lot on oppression by African governments, but they also start blaming the Chinese, who have seemingly taken away their jobs and rich resources, without reciprocate returns (Harman, 2007).

Hence, secondly, the relationship between Chinese migrants and local people has been more stifled and tensed than ever before. According to Swain (2008), an African official repeatedly criticised that 'China has no friends, only interests' in Africa. Chinese enterprises are only interested in making money, rather than caring about local people and engaging in community capacity building. The Chinese firms working on big construction projects tend to insist on importing their own workforce from China, instead of employing local people (Swain, 2008). Currently, there are nearly a million Chinese migrants working and living in Africa<sup>5</sup>. Most of these Chinese neither know much about African culture, nor they speak English or local languages, so they tend to live by themselves, instead of integrating into the African society. Local resentment toward Chinese has often arisen because many businesses are unwilling to employ indigenous workers. Even the unskilled labour was filled by the Chinese (Swain, 2008). Resentment sometimes escalated to physical attacks through kidnapping and burning down the facilities and plants (Beck, 2007).

Furthermore, the 'Yellow River Capitalism' has also exported China's corruption practices to Africa, the very act the Chinese government attempts to discipline at home. According to Fazeer (2008), Chinese enterprises tended to approach African governments offering reserve financed low interest loan infrastructure projects on conditions that contracts were awarded to specified Chinese enterprises. Chinese firms, many of them owned by the state, also have been known to submit the bids far below the costs in an effort to break into the market (Eisenman and Kurlantzick, 2006, p. 224). There are numerous other stories that underscore

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<sup>5</sup> The exact number of migrants is not clear. The official statistics sits at 780,000 in 2007 (Xinhua, 2007). Other media reports tend to regard that the actual figure is much higher.

such concern and emphasise how the Chinese uses the incentive to conduct business under the lax accounting standard jurisdiction in Africa (see Fazeer, 2008; Swain, 2008).

Another example is the claims by local unions of low wage employment of local workers on the continent by Chinese enterprises. If China itself does not treat their own people well, how could one expect it to treat African well? According to Li (2007), over the past three decades, the Chinese government paid little attention to their own labour issues because of its fear of losing foreign direct investment if applying strident labour regulations. Hence, many foreign companies, for a long period of time, did not adopt reasonable labour practices in China. Millions of Chinese floating population working in the foreign factories suffered long working hours and miserable working conditions. Domestic Chinese enterprises, including both state-owned and privately owned were neither subject to the strident labour laws nor the industry codes of practices. Hence, those Chinese enterprises going offshore would be quite unlikely to have developed the social and legal consciousness essential to the standard labour practices acceptable to the African society and beyond (Wang and Bio-Tchane, 2008).

Lastly but not the least, Chinese enterprises are also less likely to have developed corporate social responsibility in terms of protecting the local environment. According to Swain (2008), authorities in Congo have been investigating the circumstances in which nearly 18 tons of radioactive minerals from primarily Chinese-owned mines were dumped in a river, poisoning the water supply to a big mining town. Additionally, Chinese companies generally lack good corporate governance (Eisenman and Kurlantzick, 2006). With the encouragement from the Chinese government to go global, Chinese companies may have diluted the domestic pressure on pollution, economic overheating and high youth unemployment rate and shipped those to overseas. A Chinese scientist told Swain (2008) that 400 out of 600 rivers in China have been polluted by industrialisation. One can hardly expect that Chinese companies operating in Africa would be off hands, not muddling the African environment.

To address these social issues, there is a greater need for China and Africa to work together on increasing the transparency of all state-sponsored transactions. A number of scholars have already called for China and Africa to implement the Extractive Industry Transparency Initiative and similar international initiatives which will help foster sound governance and ensure efficient use of Africa's valuable resources and protect the Africa environment (Eisenman and Kurlantzick, 2006; Goldstein et al., 2006; Wang and Bio-Tchane, 2008). The international institutions (eg. ILO), NGOs and other donor countries, and of course academics and scholars need to keep close eyes on the development and management of Chinese companies in Africa to ensure that they are adhering to the standard labour practices and ensuring employee safety and security especially in the mining sector. It is difficult to foresee how the Chinese expatriates and migrants can be integrated into the African society. However, if China intends to stay in Africa for a long haul as some suggested (see Soehendro, 2007), there is a greater need to encourage migrants to learn African culture and languages and promote the contribution to building the local community. However, given the unpredictable traits of China, one may not expect it to go that direction. In fact, China may be using Africa as its balancing scale in shifting international political power. Thus, we now turn to discuss political implication of China's investment in Africa.

### **Political implication**

As claimed by Alden (2007) in the opening of his new book 'China in Africa', 'nowhere in the world is China's rapid rise to power more evident than in Africa' (p.1). China has used multi-billion dollar investment in oil and mineral sectors in addition to sending tens of thousands merchants, labourer and military officials in the UN peacekeeping forces to redefine Africa's traditional ties with the international community. Alden (2007) describes the differences

between 'Washington Consensus' and 'Beijing Consensus' to explain the reasons behind China's attraction to many African nations and its marvellous ability to shift the world power from the West to the East. The similar view was echoed by Leonard (2008), who explains how China has skilfully used three pillars – 'Yellow River Capitalism', 'Deliberative Dictatorship' and 'Comprehensive National Power' since the millennium to build – brick by brick – an alternative world political order (p. 118). How has China done it? I will largely rely on Leonard's (2008) analysis with support from a few others to illustrate how China uses Africa to achieve its political dream in the world stage.

First, whilst Washington was busy in dealing with terrorism since 2001, China has used the combined approach of sending aids, commercial investments and debt cancellation to garner its African alliances. With available data, China's official aids to Africa amounted to \$1 billion in 2006 (Wang and Bio-Tchane, 2008, p.5). In 2007, this amount increased to \$1.8 billion, accounting for 44 percent of all overseas development assistance funds received by Africa (Alden, 2007, p. 122). China also cancelled the debts worth 10 billion RMI (US\$1.2 billion) for 33 African nations; provided thousands of scholarships for African students and intended to build schools and hospitals across the continent. These efforts have won the hearts of Africa, especially those elite groups (Eisenman and Kurlantzick, 2006; Leonard, 2008). In addition, China also train some 10,000 Africans per year. These potential African future leaders once might have been trained in London or New York are now in Beijing or Shanghai, devoted to China studies and Chinese language training (Eisenman and Kurlantzick, 2006, p. 221).

Secondly, the difference between Washington consensus and Beijing consensus is that the later promotes the deliberate dictatorship that is much welcome by many African leaders who have been tired of the western donors imposing a string of restrictive conditions. As Leonard (2008, p. 121) states:

*.....Whereas the Washington Consensus is against state intervention in the economy and in favour of privatisation, strong property rights and economic 'shock therapy', Yellow River Capitalism encourages the use of public money to drive innovation, a push to protect public property, and the gradualist reforms of Special Economic Zones....*

Beijing's non-interference in the domestic affairs of states and the promotion of national sovereignty has great appeal to many African leaders. The African governments, with China's support, have now been able to reject the offers from the World Bank, International Monetary Fund (IMF) and donors such as USA who likely request the aids-receivers to abide by the rule of transparency as well as democratic values. China now has assets of \$1.3 trillion 'dwarfing the IMF's shrinking loans portfolio of \$35 billion. In 2006, the Angolan government rejected the conditional offer set by IMF, and gladly secured a \$2 billion soft loan from China (Leonard, 2008). Many autocrat regimes have been happily sourcing the alternative loans from China when other sources were cut off. China is one of the few countries supporting the Robert Mugabe's dictatorship government in Zimbabwe and is the largest arm supplier to Sudan, fuelling the Darfur conflict (Harman, 2007). In addition, China sits at the United Nations Security Council and has offered its friendly regimes in Africa political support, vice versa, African nations has gathered their support around their 'No. 1 Friend', as called by Mugabe (Eisenman and Kurlantzick, 2006). For example, in 2005, African countries were encouraged by China to demand their own seat with a veto which killed off Japan's bid for a permanent Security Council seat (Leonard, 2008).

Third, as the world is seemingly becoming more and more alike as a result of globalisation, China appears more able to master 'the psyche of people with different races who somehow fear of losing their own identity in the converging world' (Havel, 2003, cited in

Clinton, 2003, p. 358). Instead of pursuing the establishment of a common 'International Community' as phrased by the former British Prime Minister, Tony Blair, China is pushing 'Comprehensive National Power' (Leonard, 2008). This agenda was promoted through China's multilateralism instead of US's unilateralism (Alden, 2007). It has proved to be very effective as other nations see Beijing 'reassuring its peaceful intent and creating a new community of interest that excludes the USA'. Consequently, 'Beijing is not only changing the balance of power in many parts of the world, but also ensuring the importance of respect for national sovereignty' (both quotes from Leonard, 2008, p. 129). The idea is most welcome by African and some South East Asian countries.

Banerjee and Prasad (2008), in their recent introduction to the analysis of neo-colonialism in the context of those colonised nations, state that in view of postcolonial perspective, the previously colonised nations should emerge 'from colonialism to "decolonize their minds" and to contest the unquestioned sovereignty of Western epistemological, economic, political and cultural categories' (p. 91). The worry is that whilst African nations are trying to decolonise themselves from the Western power, they may well be falling into another trap of 'new colonisation' by the Eastern Power of China. As well said in a Chinese proverb, one may have been trying hard to run away from the Tiger's cave but not expected to easily fall into the Wolf's den (*zhu hu kou, jin lang wo*).

Lucy Corkin, lecturer from the Centre for Chinese Studies at Stellenbosch University of South Africa warned: 'China is very clear about what it wants from Africa and it knows how to do it... Africa has absolutely no idea what it wants from China' (cited from Soehendro, 2007). Politically, perhaps, African nations need to be clearer about how they could act in balancing the world power between East and West. Most importantly, Africa needs to avoid being victimised again by global competition or the conflicting strategies of rising and established powers (Berger, 2007).

### **Management implication**

Whilst China might have played quite successfully in scaling back a bit of its political power after many years of humiliation and acting as an underdog in the world political battlefield, Chinese enterprises, especially those medium and large multinational companies, on the other hand have not yet gained a good reputation in the Forbes or Fortune 500 list, let alone the enterprises operating in Africa. Wang and Bio-Tchane (2008) argue that the majority of Chinese companies are new to international businesses, hence very inexperienced in international management. Swain (2008) contends that Chinese companies use Africa as a training ground, to develop their international management skills before entering into more tough markets such as Europe and America. Juma (2007) encourages Chinese companies to use the opportunities to cultivate 'a good image of corporate citizenship' and involve Africa to be part of the global economy. To do so, Chinese companies have a lot to learn in their international human resource management in the context of African operation. Apart from many other lessons, three pressing management issues Chinese companies need to deal with are: international management training; skill development of local workforce and managing international labour relations.

The Chinese know well in the 1980s, many foreign companies brought in their own middle and junior managers where locals did not have such skills. Now talented Chinese rose to high positions in the foreign companies operating in China, after many years of education and training programs often offered by foreign companies. The similar lesson should be learnt by Chinese enterprises operating offshore. Initial expatriation of managers and professional staff from home office is seen as reasonable and acceptable for the time being whilst African locals lack such skills. It is important that China engages Africa in developing education and training

programs particularly in development management and governance in general (Juma, 2007). International cross-cultural training for Chinese managers and local managerial and professional training are essential and critical for enhancing local subsidiary's performance and sustaining growth of Chinese enterprises in Africa.

In July this year, Donald Kaberuka, President of the African Development Bank Group outlined the importance of skill development in Africa, and called for the contribution of the private sector to train especially the African youths. In the keynote address, Kaberuka painfully reiterated,

*'....Africa has a billion population, almost half of whom are below the age of 15. The Youth is sure to be the key to its future economic development. The skill development system remains constrained by the inadequate quantity and quality of teaching staff. The disconnection between higher learning institution and the private sector has created the twin problems of high youth unemployment and shortage of middle to high skills...The private sector should respond to improve education and train and upskill the workforce...'*

Would Chinese companies take up the challenge and be willing to contribute to the skill development of African workforce? We would hope so, and it is also to the benefits of Chinese companies that they must do so. As commented by Juma (2007), Africa's capacity to develop and become a major player in the global economy will depend largely on the extent to which it is able to train a large section of its population in science, technology, engineering and mathematics. Skill development and talent management is the challenge to both China and Africa. To sustain the economic growth and maintain the social order, Chinese companies need to make significant contributions to this area of the international management. Although the official Chinese government have hosted various training courses<sup>6</sup>, the private sector – majority of Chinese companies need to allocate resources into skill training and development of local workforce. Even though in the short term, this might consume more resources (time and money), the long term benefits could outweigh and social costs as outlined in the previously section could be minimised.

One of the biggest challenges for the Chinese enterprises in Africa, as the official China's website indicated, is the management of labour relations ([www.china.org.cn](http://www.china.org.cn)). To help Chinese enterprises in Africa, the China government has done the feasibility studies which have so far mapped out political, economic, social and cultural variations across 53 African nations. They found that most African nations have labour laws that are far more stringent than that in China. This has caused several strikes or labour disputes for Chinese companies in Africa. However, with the habit of leaving this issue of labour relations management to officials at home, Chinese companies tended to fail addressing the importance of managing local and international labour relations effectively. It would require Chinese to have a comprehensive understanding of African local labour laws and industry code of practices worldwide to ensure that they abide by the law and uphold the best practices. Given many African nations are nonetheless not overwhelmingly under the actual rule of the law (Eisenman and Kurlantzick, 2006), it is important that firms develop a set of customised human resource and labour management policies to suite local contexts. For this end, Chinese expatriates and managers are particularly required to learn African local customs, habits and values which could greatly help them understand local

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<sup>6</sup> These include advanced studies on management personnel and training course for young and middle-aged African diplomats and established an African Human Resource Development Fund to dispatch medical personnel and teachers to Africa (MFAT, 2003) (of course, including military and police trainers as reported by Leonard, 2008).

employees' work behaviour and attitude and better come up with motivational techniques and tools to manage the complex labour relations and enhance cross-cultural performance.

There has been very limited research on the international human resource management of Chinese enterprises offshore (some exceptions from Shen, 2006; Tung, 2007). The literature gathering information about Chinese management practices largely focuses on the comparison of Western and Chinese practices, we ended up learning more about the Western, especially predominate US management literature, hence the American management styles, instead of really knowing the Chinese management model (see Zheng and Lamond, in press). Further research into the management practices of those Chinese enterprises in Africa may mirror what we learnt about American management practices in China, so we can really understand the inherent Chinese management ethos and further develop management theory that could explain the aspect of China's international business activities. This will lead to more enriching research and move a step up to gain a comprehensive global management knowledge from the lens of Chinese enterprises in Africa.

## **Conclusion**

This paper has described the scale of China's investment and business activities in Africa in recent times. The economic, social, political and managerial implications are discussed. We've seen some positive and negative effects of expanding 'Yellow River Capitalism' to Africa. The short term opportunities of China's ascendancy and the concomitant effects on the South-South trade may outweigh economic costs for Africa (in particular for its raw materials and energy exporting economies). However, there might be serious long term risks involved. These risks could be related to inadequate institutions and governance systems which may lead to misallocation of revenues from higher raw material prices and from disincentives for investment in the manufacturing sector and other non-traditional sector which are required in order to distribute more equitably between sectors the benefits of the global trade (Katseli, 2006, cited from Goldstein et al., 2006, p. 9). The long term risks are also associated with high social costs generated from a wider gap between poor and rich and social unrest caused by the resentment of local African toward elite groups, including many Chinese rich entrepreneurs roaming in African streets.

Africa, as well as the rest of the world need to watch out the new world power order and make sure that neither Africa nor China should become new victims while the existing power groups such as US, Europe and Japan engage in identifying new strategies to balance the world political power.

Meanwhile, Chinese enterprises operating in Africa should take the opportunities to learn from African indigenous people and develop sound international management strategies that can be useful and perhaps applicable for other multinational companies who are likely to be expected to involve Africa in the global economy for this century and the centuries to come.

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**Table 1 – Large Chinese Enterprises in Africa**

<b><u>African nation &amp; Firm name</u></b>	<b>Chinese firm</b>	<b>African firm</b>	<b>Investment US\$</b>
<u>Angola:</u> Telecom Co.	Shanghai Bell	Angola Telecom	\$60 million
<u>Cape Verde:</u> ?	China Building Material Industrial Corporation	A cement factory	\$50 million
<u>D.R.Congo:</u> ?	?	Cobalt and copper	Not known
<u>Ethiopia:</u> Takazze Hydropower St.	Ge Zhou Ba Water Conservancy and Power Engineering Co.	Ethiopia Electric Power Co.	\$300 million <sup>i</sup>
<u>Mozambique:</u> Sun & Sea Co Ltd.	China Sun & Sea Co.	Not known but involved in building a shopping centre; a soya processing plant and a facility processing prawns	\$34 million
<u>Nigeria:</u> Cangshi Co	The Cangshi Co.	Five branches	\$162 million <sup>ii</sup>
<u>Sierra Leone:</u> ?		A luxury hotel	Not known
<u>South Africa:</u> Hisense Group	The Hisense Group	Local enterprises (not known)	Earlier investment not known <sup>iii</sup> , 3 million
<u>Sudan:</u> ?	China National Petroleum Corporation	Oil industry	\$6 billion <sup>iv</sup>
<u>Uganda:</u> ?	China Pharmaceutical firm		Not known
<u>Zambia:</u> Copper Mines	China Nonferrous Mining & Construction Corp. Ltd.	Zambia Consolidated Co.	\$160 million
?	Chinese investors	A hydroelectric plan <sup>v</sup>	\$600 million

<sup>i</sup> Sourced from Eisenman and Kurlantzick (2006, p. 224).

<sup>ii</sup> Initial \$12 million in 2000; \$100 million to build a cement plant; \$25 million to build a woven bag factory and another \$25 million to set up a sugar factory.

<sup>iii</sup> Initial investment not known, but additional \$2.95 million was injected in 2001.

<sup>iv</sup> Beijing sells weapons to Sudan and buys two-thirds of Sudan's oil and has invested \$6 billion in its industry in the 2007 estimate (Leonard, 2008).

<sup>v</sup> Eisenman and Kurlantzick (2006, p. 222) indicated that 'in Zambia, Chinese investors are working on a \$600 million hydro-electric plan at Kafue Gorge'.