Business for Social Responsibility

China's Rising Influence in Africa: Is There Room for CSR?

A Report on the 2007 BSR Conference Session

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About This Report

This report is a briefing from the session, "China's Rising Influence in Africa: Is There Room for CSR?", which took place during the 2007 BSR Conference. The session was made possible through the generous support of The Rockefeller Foundation. This briefing is intended to provide an overview of the session's debate on China's business presence in Africa. It also includes perspectives that BSR collected through primary and secondary research prior to the Conference session. The perspectives provided herein are intended to foster further debate and information exchange on this emerging issue.

About BSR

A leader in corporate responsibility since 1992, Business for Social Responsibility (BSR) works with its global network of more than 250 member companies to develop sustainable business strategies and solutions through consulting, research and cross-sector collaboration. With six offices in Asia, Europe and North America, BSR leverages its expertise in environment, human rights, economic development, and transparency and accountability to guide global companies toward creating a just and sustainable world. Visit www.bsr.org for more information.

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1. Overview

Background of Conference Session

Recently, China's rising business and political influence in Africa has generated widespread interest and debate. *The New York Times*, *Financial Times*, *Washington Post*, BBC and *Christian Science Monitor* all ran in-depth series on the subject in 2007, and articles have been featured in *The Economist*, *BusinessWeek*, *Foreign Policy*, *Vanity Fair* and others. While Western press coverage has tended to be critical of Chinese activities, the African perspective has gradually become more prominent in the mass media, revealing increased complexity surrounding the issues. Many African political leaders see China as a new kind of partner that offers opportunities for African nations to take a stronger hand in their development. On the other hand, many African (and Western) civil society groups express concern about the impacts of China's non-interference approach on governance, local economic development, and environmental and human rights issues.

The Rockefeller Foundation sponsored the panel session on *China's Rising Influence in Africa* at the 2007 BSR Conference in order to foster dialogue and inform conversation about this complex topic. In this report, BSR expands on the panel's conclusion that there is indeed a role for corporate social responsibility (CSR) to play in Sino-African economic engagement. Existing Western conceptions of CSR will need to be adapted to reflect the realities of the Sino-African context. Debates on the shape and direction of CSR in the Sino-African context are presented in the pages to follow. This report was informed by the panel session, research conducted by BSR, and through BSR's China expertise and experience with CSR in other geographies.

Prior to the Conference session, BSR provided the panelists with a brief on its findings to help inform the debate. BSR performed research in three areas: primary and secondary research on Chinese perspectives, primary and secondary research on African perspectives, and a general press review. In order to gather perspectives on the impact of Chinese companies operating in Africa, BSR also conducted interviews with representatives from member companies, focusing on extractives corporations with operating experience in Africa[1]. The perspectives gathered were based on experiences in Angola, Chad, Congo and Nigeria.

Session Summary

The speakers on the panel included:

- Lucy Corkin - Projects Director, Centre for Chinese Studies at the University of Stellenbosch
- Philip Idro - former Ugandan Ambassador to China
- Hu Jieguo ("Jacob Wood") - Vice President, China-Africa Business Council
- Witney Schneidman - Senior Advisor, Leon H. Sullivan Foundation
- Moderator: Antony Bugg-Levine, Associate Director, The Rockefeller Foundation

[1] BSR interviewed representatives from African operational units of Chevron, ExxonMobil, Frontier Resources and Royal Dutch Shell. An interview was also conducted with a representative of Pact, a civil society organization with extensive experience working with extractives companies on capacity-building projects in Africa.

The panelists were selected based on their expertise and breadth of perspectives. The discussion began with each participant sharing perspectives on the reality of Sino-African economic engagement. Panelists went on to suggest how this engagement might be altered to maximize positive outcomes and mutual benefit. Panelists emphasized the need for business culture in China to develop more responsible standards and an increased understanding and uptake of CSR. African leaders' ownership of responsible business practice within their borders was also encouraged. It should be noted that some attendees of the session remarked afterwards that the panelists seemed to be in agreement that Sino-African economic engagement is an opportunity for positive change and that more debate on the downsides of this engagement should have been aired.

II. Synthesis of Key Themes

The themes presented below on China's engagement in Africa are general and do not capture country-by-country complexities. These themes are supported by perspectives gathered from the Conference panel and from BSR member perspectives.

1) ***While the absolute size of the Sino-African business relationship is still relatively limited, the pace of growth and the involvement of the Chinese government are attracting international attention.***

Claims of China's centrality in Africa's economic affairs are generally exaggerated. Total trade between China and Africa still lags below African trade with the United States and France. However, trade has exploded in recent years – from a base of only US$3 billion in 1995 to a reported US$50 billion in 2006 – and an overall growth of 20 percent to 40 percent per year.[2] This growth, along with the involvement of the Chinese government in business investment, is likely driving global attention to this issue. During the BSR Conference session, former Ambassador Philip Idro emphasized that the Chinese government's widespread involvement leads to questions about possible political motives.

Lucy Corkin and Idro both emphasized potential benefits of this international attention, arguing that it offers an opportunity for African countries to define an economic relationship with China that is supportive of African development. Corkin emphasized that with Africa "back in the spotlight" and with surging commodity prices, African countries' negotiating power has improved and should be leveraged.

2) ***Misunderstandings of the various types of Chinese enterprises involved in Africa obscure the debate; Chinese businesses in Africa are not all proxies for Chinese political interests and cannot all be easily influenced by the Chinese government.***

[2] "China and Africa: Harnessing Engagement for Mutual Benefit," Antony Bugg-Levine, Associate Director of The Rockefeller Foundation, *BSR Weekly*, Vol.10, No. 42, November 13, 2007.

Media stories regularly refer broadly to Chinese businesses in Africa without specifying types of business actors. This simplification ignores the differing business practices and objectives of state owned enterprises (SOEs), large, non-state-owned private companies, and small and medium private enterprises (SMEs). There also exists a disparity in government influence over SOEs, large private companies, and SMEs — small-scale enterprises owned by Chinese entrepreneurs often operate autonomously from Beijing's political control.[3]

"There is a problem with defining Chinese business actors as one big monolith. There is a lot of diversity among them, and responsible business is one aspect of the differences."

- Lucy Corkin

Several BSR interviewees pointed out the differences between the professionalism and long-term strategic approach of SOEs and large private companies, and the inferior business conduct of many small independent operators, who are seen as limiting their engagement objectives to short-term gains. One BSR member noted that there are many small Chinese mining operators in eastern Congo that are reputedly contributing to corruption and an insecure business climate.

In order to elevate responsible business in the Sino-African context, the differences between Chinese SOEs and SMEs must be taken into account. If Beijing were to pursue stronger CSR in Africa via national-level reform or voluntary standards, SOEs and large private companies with strong government ties would exhibit the highest impact. This method of influence has already been demonstrated by the release in April 2007 of a code of environmental conduct by China's Exim Bank to be followed by all companies undertaking projects financed by the bank. However, it may prove more difficult for Beijing to exert influence over the conduct of Chinese SMEs operating in Africa — even a change in China's national policy could not guarantee immediate on-the-ground changes amongst SMEs. SME activity regulation could perhaps be better targeted by African governments and civil society organizations on the ground. Nevertheless, if Beijing were to endorse a CSR framework, it could potentially serve as a powerful platform for engaging SMEs on CSR.

3) Labor rights and other CSR practices of Chinese business operations vary in Africa.

The panelists confirmed BSR's research finding that although responsible conduct exists amongst Chinese companies operating in Africa, it is inconsistent and does not always extend to smaller Chinese operators. According to Corkin, many Chinese companies that are taking short-term approaches to their investments in Africa "are not regulated by the Chinese government, and are much less beholden by CSR standards." Corkin also argued that Chinese state-owned companies are realizing the shortcomings of China's non-interference policy and that contributing to sustainable development may be in the best interests of their long-term investments.

Panelists agreed that problems exist in Chinese business operations in Africa, particularly with regards to labor rights and standards. Reports of poor worker treatment and labor strife surround Chinese-operated mining facilities and factories, and first-hand accounts have confirmed cases of irresponsible business conduct. "The alleged ill-treatment of workers in a Chinese-owned mine in

[3] "China and Africa: Harnessing Engagement for Mutual Benefit," Antony Bugg-Levine, Associate Director of The Rockefeller Foundation, *BSR Weekly*, Vol.10, No. 42, November 13, 2007.

"As a businessman, working with local populations is getting better and better."

- Hu Jieguo

Zambia in July [2006] led to a violent protest in which several workers were shot."[4] In interviews, BSR learned that working conditions for African workers in Chinese enterprises can be dangerous due to a widespread lack of protective clothing distribution. In 2007, Cheng Siwei, Vice-Chairman of the Standing Committee of the People's Congress, appealed to Chinese companies to be more conscious of their social responsibility, including in their international investments.

Chinese companies are also viewed to have a poor track record on local hiring and integration into local culture. Research by BSR's Beijing office revealed a tendency by many Chinese businesses to bring Chinese management styles and customs to operations in Africa, rather than adapting to local norms. In addition, some firms were viewed to be operating in isolation from local needs and expectations, in some cases drawing hostility from local populations. Idro noted some improvements: he spoke of an incident when a Chinese construction company with a high ratio of local workers demonstrated success, thereby encouraging other Chinese companies to use more local labor.

At the same time, there have been reports of professional and responsible corporate behavior. A BSR interviewee noted that China National Petroleum Corporation (CNPC) is taking a pragmatic and strategic approach to developing its concessions and appears to be proactively pursuing an approach to negotiations with the government in which CNPC is seen as legitimate and transparent. Another interviewee stated that the conduct of large Chinese companies and state-owned enterprises — more strategic and professional than commonly perceived — would lend itself to the development and implementation of CSR voluntary standards.

4) New models may be needed to shape Sino-African economic engagement so that it is genuinely supportive of African development.

The current Chinese method of business involvement in Africa is based on non-interference with government, export market expansion and investment in infrastructure. The first characteristic (non-interference) offers a new non-conditional approach to foreign investment and development aid in Africa. African governments seem to appreciate the opportunity to take control of their development; critics point to an accountability gap. Critics argue that the Chinese government is not going to proactively encourage governments to reduce corruption, improve transparency or hold elections — all factors that are critical to national development.

The second aspect of the Chinese model — increasing its exports to the African market — also creates positive and negative impacts. While the growing availability of reasonably priced goods means many Africans can buy more than they could before, increased Chinese imports have also challenged domestic manufacturing industries, resulting in factory closures and job loss. Panelist moderator, Antony Bugg-Levine, pointed out that the implications of low-cost Chinese exports may be a more salient development problem than direct Chinese investment in Africa. African-based manufacturing businesses face great difficulty achieving the productivity levels needed to compete

[4] "Never Too Late to Scramble: China in Africa," *The Economist*, October 26, 2006, http://www.economist.com/displayStory.cfm?story_id=8089719.

with Chinese exports. As a result, Bugg-Levine sees a competitive barrier for African countries seeking to use a low-skilled manufacturing path to development.[5]

"Investments need to be genuinely supportive of Africa; not just building the road, but training the people who can maintain the road in 20 years."

- Witney Schneidman

Finally, the third aspect of the Chinese model is an emphasis on infrastructure projects as part of a broad and long-term commitment to the African continent. Donald Kaberuka of the African Development Bank points out that infrastructure development builds national investment attractiveness. "A lot of companies are going to Vietnam from here and in Vietnam, the real wage is certainly higher than Africa but it has healthy infrastructure … We need to resolve the roads and power plants."[6] Currently, about 50 percent of public works projects in Africa are being executed by Chinese contractors.[7] These projects seem to present a unique win-win situation: they serve the needs of Chinese businesses while offering potentially sustainable contributions to the African countries in which they operate. Critics point out that infrastructure development is not always implemented in ways that address the needs of the population and that projects can be liable to corruption.

In summary, the three aspects of current Chinese involvement in Africa described above offer new approaches to economic engagement and development on the continent, which have had both positive and negative results. BSR's research and findings from the Conference panel indicate that additional aspects of corporate responsibility should be expanded in the Chinese model of African economic engagement:

- Chinese companies are increasingly realizing the benefits of local employment; this shift should be emphasized.
- Improved labor and environmental standards and increased stakeholder engagement seem to be missing from the CSR agenda; this should be prioritized.
- Insuring infrastructure projects make sustainable contributions will also require an adjusted model: Chinese companies need to think more holistically about ongoing community needs (for example, training and increased local hiring).
- African and Chinese civil society should increase pressure for more responsible business practices in ways that are pragmatic. The budding Chinese civil society sector should continue to "develop good knowledge of Chinese financial institutions' international policies and their impact[s]" so that it can provide perspectives on lending policies, such as those issued by Exim Bank.[8] African civil society can play more of a watchdog role in monitoring the behavior of Chinese businesses on the ground.

[5] "China and Africa: Harnessing Engagement for Mutual Benefit," Antony Bugg-Levine, Associate Director of The Rockefeller Foundation, *BSR Weekly*, Vol.10, No. 42, November 13, 2007.
[6] Interview, Donald Kaberuka, *Financial Times.*
[7] Ibid.
[8] "Chinese Activists Looking to Africa," Peter Ford, *Christian Science Monitor,* http://www.csmonitor.com/2007/0521/p01s02-woap.html?page=4

III. Recommendations

Based on the Key Themes introduced above, and discussion in the Conference panel session, BSR offers the following Recommendations for moving forward in Sino-African economic engagement:

1) ***Stakeholders should capitalize on the current Chinese policy flux and increase dialogue on how Chinese business engagement in Africa can integrate responsible practices.***

Panelists confirmed recent media reports that Beijing appears to be softening on its non-interference approach, as evidenced when China used its influence in Sudan to encourage Khartoum to allow a UN Peacekeeping Force in Darfur. The recent evolution of China's attitude indicates that **now may be the time for engagement on issues surrounding business in Africa**. Schneidman posited that the Chinese national government feels it needs more time to study global CSR standards and to develop its own brand of corporate responsibility. He added that the Sullivan Foundation has created a working group — a tripartite dialogue with China, U.S. and African delegations — to increase knowledge and dialogue on the subject of Chinese engagement in Africa. He said, "At every turn all sides underscored that what was happening in Africa was not a zero-sum game — it could be if there aren't proper rules set up and then Africa would be the biggest loser — but we found that people believed that space could be found where people could work together and cooperate."

BSR Recommendation:

Convene stakeholders to define a framework for Chinese CSR in Africa. Stakeholders should include African and Chinese policy makers, business leaders, civil society representatives and CSR experts. American and European stakeholder involvement could lend lessons from CSR experience.

Chinese companies are realizing the shortcomings of the non-interference policy on business strategy; they are made weary by increasingly hostile reactions against it in South Africa, where local jobs have been devastated by an influx of Chinese imports, and in Zambia where there have been protests about labor conditions in mines.[9] In this climate, it makes sense to create a CSR framework for investment that supports sustainable development and community benefits. Creating the groundwork for a Sino-African CSR framework will require the involvement of the Chinese government, African stakeholders and CSR experts. Such cooperation is crucial for making Chinese business involvement in Africa occur in a positive way. Stakeholder engagement will help to elicit major concerns, identify priorities and the most relevant components of a CSR framework, and inform the design of solutions that are broadly acceptable. This sort of stakeholder convening could be led by BSR China in partnership with an African NGO counterpart.

Currently, the major components of Chinese-defined responsible business conduct in Africa are infrastructure development and technology transfer. Donald Kaberuka, President of the African Development Bank, argues that infrastructure development will provide long-term contributions to economies and local populations: "Walk into an African village," he said, "and if there is anything that can dramatically improve the ability of children's health and education it is the availability of

[9] "The Chinese in Africa: Still Scrambling," *The Economist*, November 22, 2007, http://economist.com/books/displaystory.cfm?story_id=10170440.

light and water."[10] Schneidman pointed out that infrastructure "[i]nvestments need to be genuinely supportive of Africa; not just building the road but training the people who can maintain the road in 20 years." Panelists also confirmed that technology transfer is seen as one of the benefits of the Chinese business presence in Africa. Idro emphasized that African businesses were benefiting from Chinese-sponsored training and "Chinese technology — their tendency is to decompose American and European technology and recompose them so they require high levels of labor."

Despite these developments, aspects of Chinese CSR that are yet to be well-defined or implemented in Africa include: environmental and labor standards, local hiring and community partnerships for development. Infrastructure development and technology transfer are elements the existing in a Sino-African CSR framework, but alone, they are inadequate. A multi-stakeholder dialogue forum could identify and prioritize what components need to be added to the current approach in order to create a more holistic Sino-African CSR framework.

2) Chinese SOEs should carry out pilot/demonstration projects in cooperation with companies with CSR experience in Africa and other stakeholders in order to develop the business case and to gain experience in applying CSR in the Sino-African context.

One of the most significant obstacles in integrating CSR into Sino-African economic relations lies in building the business case for CSR. In a context where the Sino-African economic relationship is already seen as a "win-win" business exchange, defining a compelling business case for investing in CSR is of utmost importance. Some representatives from Chinese companies, as well as from the African political and economic elite,[11] perceive **CSR as a high cost "add on"** that distracts from the simplistic "win-win" business relationships already established. Others — including BSR — see **CSR as an investment that brings long-term business, community and environmental, and reputation benefits**. As Beijing begins to define CSR with Chinese characteristics, it could prove particularly important for altering Chinese SOEs' behavior abroad. Such a top-down approach will take time, however, and in order to ensure its ultimate success, efforts to demonstrate the business case for CSR will prove valuable. This could be accomplished through the creation of pilot or "demonstration" projects in Africa through the collaboration of various stakeholders.

BSR Recommendation:

Execute CSR pilot projects with state-owned Chinese extractives operations that demonstrate CSR makes a difference to the business and creates benefits for local communities and the environment. Foster collaboration between Chinese and Western companies operating in Africa, international donors and local civil society in order to implement successful pilots. Use pilots as "proof points" and as opportunities to incubate models of Sino-African CSR.

The first step would be to identify a Chinese state-owned company operating in Africa, likely in an extractive industry, which would be willing to engage in a CSR pilot project. With assistance from the African Institute for Corporate Citizenship and the Centre for Chinese Studies at University of Stellenbosch in South Africa, a local partner organization could then be identified to carry out a community needs assessment. Given the results of the assessment, an organization such as BSR could work with the company to formulate

[10] Interview, Donald Kaberuka, *Financial Times*.
[11] "China's Engagement of Africa: Preliminary Scoping of African Case Studies," Centre for Chinese Studies at the University of Stellenbosch, November 2007, http://www.ccs.org.za/downloads/RF_Paper_Final.pdf.

a CSR strategy and associated business case. Such a strategy may include social investments, training and capability building, and job creation. The goal of such a pilot project would be to assist the Chinese business in creating benefits that improve the livelihoods of Africans in its immediate sphere of impact, which in turn would endow the company with an improved social license to operate and a "partner of choice" competitive advantage.

Complementary to these efforts, a pilot project could involve industry collaboration with Western peer companies with decades of experience implementing social and environmental standards in their African operations. At the BSR Conference plenary, Cynthia Carroll, CEO of Anglo American, offered to engage Southern companies on Anglo's approaches to community engagement and development (via its SEAT tool), health and safety, and climate change. In response to a question on this commitment and on the role Western companies can play in assisting Chinese companies, Schneidman responded, "[t]his is precisely the type of issue I would hand back to Anglo — what kind of relationships are they ready to pursue with Chinese actors? Are they willing to convene a group of Chinese firms to talk about worker safety? If they're not ready to engage on global standards, why not? We need to make progress here. This is very important."

The community assessment and industry collaboration would need to be carefully monitored and evaluated in order to gauge impacts on both the wellbeing of community members and on the business' ability to achieve its strategic objectives. By demonstrating on-the-ground wins, the pilot projects could have a multiplier effect, encouraging the uptake of CSR practices in a number of Chinese businesses operating in Africa. The pilots should be well-documented and assessed so they can serve as proof points for Chinese CSR in Africa and be used for presentations and dialogue at public forums (such as the presentation at the FOCAC meeting in Cairo in 2009).

3) *African leadership and civil society should leverage the opportunity to shape Chinese economic engagement so that it contributes to sustainable development.*

In order to ensure that Chinese economic engagement targets African development priorities, African political and business leadership should use their positions of leverage to negotiate social and environmental parameters of Chinese investment. Corkin noted: "From an African perspective, the fact that the US and China are both keen on investing in Africa is an opportunity for Africa to get back in the spotlight, and [it] gives Africa some leverage."

African leaders must collaborate with the Chinese government and Chinese businesses on social and environmental guidelines that meet the needs of communities and nations. Success in this area will encourage Chinese economic engagement to become more supportive of local development agendas. For instance, it has been asserted that "Nigeria insisted that Chinese companies respect its new anti-graft measures, and the latest bidding round for oil blocks in Angola has been the most open so far."[12] Chinese businesses may not proactively implement CSR practices, but appear to be responsive when pressure is applied.

Corkin noted that there are lots of activists in Africa who feel very strongly about issues surrounding Chinese and other foreign engagement in natural resources and that these groups are a force to which the Chinese government is beginning to respond. For example, the Chinese Exim Bank's

[12] "Never Too Late to Scramble: China in Africa," *The Economist*, October 26, 2006, http://www.economist.com/displayStory.cfm?story_id=8089719.

BSR Recommendation:

African civil society, business and government leadership should continue to leverage their negotiating positions to ensure Chinese business presence is more responsive to African sustainable development needs. African governments and civil society may require greater capacity to understand and navigate the challenges and opportunities that China's trade, aid and investment packages offer.

recent release of environmental regulation is a move widely viewed as a reaction to the pressure of activists.

This sort of push-back helps to align Chinese investment with African strategies and visions for development. Idro underlined the importance of African leadership development in saying, "We must redesign ourselves. We cannot respond with the old design." Idro emphasized that African leaders will need to use ingenuity and creativity to force Chinese involvement in Africa to be more beneficial. In addition, African civil society will need to continue to push to define the "rules of the game" in order to ensure that Chinese economic engagement translates into sustainable development.

In summary, the Rockefeller Foundation-sponsored panel session helped to elucidate three concrete steps that could be taken to encourage responsible business practices amongst players in China's economic engagement in Africa:

1) Stakeholder engagement could lead to the definition of a mutually acceptable and mutually beneficial framework for Chinese CSR in Africa.
2) CSR pilot projects could foster South-South collaboration and be used as "proof points" that demonstrate the value of CSR to both business and society. These projects could also serve as opportunities to incubate and develop models of Sino-African CSR.
3) African governments and civil society require greater capacity to understand and navigate the challenges and opportunities that China's trade, aid and investment packages offer. Stakeholders should collaborate to determine the best approaches to building this capacity.