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China's Outgoing Foreign Direct Investment (OFDI)

Comments from the Editors

In 2009 Daniel H. Rosen, a visiting fellow at the Peterson Institute for International Economics in Washington, DC, and principal of the Rhodium Group, a New York–based research firm, and an adjunct professor at Columbia University's School of International and Public Affairs, and Thilo Hanemann, a research analyst at the Rhodium Group, pointed out in a Peterson Institute paper that China's outgoing foreign direct investment (OFDI) had reached commercially and geo-economically significant levels, had begun to challenge international investment norms and affect international relations, and was poorly understood. In 2013 we were still seeing media and academic articles speaking as if this phenomenon was a new thing. In 2009 China was a laggard in global investment, and the country faced considerable internal impediments to overcoming its disadvantaged position. Since then, the size, intent, sophistication, and sustainability of China's OFDI has expanded significantly and must be understood and considered in business and government strategic plans in order to develop effective policy responses. In this issue of *AIB Insights* we provide three discussions of Chinese OFDI in three regions, with Peter Enderwick considering China's economic impact on Oceania, Gaston Fornes and Alan Butt Philip on Latin America, and Terence Jackson and colleagues on Sub-Saharan Africa, providing insight into China's increasing global influence outside its borders.

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China's Economic Impact on Oceania[1]

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China has a strong economic presence in the South Pacific, a region sometimes termed Oceania. This region is defined to include islands of the tropical Pacific Ocean, which lie south of the tropic of Cancer, including Australia and New Zealand.

Oceania is a region of significant diversity in terms of both population and land size. Populations range from just 10,000 in the islands of Nauru and Tuvalu to the comparatively much larger populations found in New Zealand, Papua New Guinea (PNG) and Australia. Similarly, there is significant variation in land areas. Nauru and Tuvalu are two of the smallest nations in the world with total land areas of less than 30 square kilometres. In contrast, Australia, a continental scale country, comprises more than 7.5 million square kilometres. There are also marked differences in per capita income levels within Oceania. Many of the Pacific Islands such as the Solomon Islands, Papua New Guinea and Tuvalu are poor, with average incomes less than US$5,000 in purchasing power parity terms in 2012. This can be contrasted with the much larger and more prosperous nations of Australia and New Zealand, which form part of the OECD group.

There is greater similarity among the Oceania nations in the nature of their economic structures. All are resource-based economies with strengths in mineral extraction, agriculture, forestry and fishing, and to a lesser extent, tourism. None would be classified as major manufacturing centres, while only Australia and New Zealand have well-developed service sectors. From China's perspective these economies do not offer large or particularly affluent markets, but they are attractive as suppliers of key resources, particularly iron ore, copper, coal and a range of foodstuffs. They are also a part of the world that has historically attracted Chinese migrants.

Trade with China

Trade with China is extremely important for almost all economies in Oceania. This is not surprising given the fact that in 2012 China surpassed the United States to become the world's largest trading nation in terms of total imports and exports. Furthermore, since 2011, China has become the world's leading trade partner: China is the biggest trading partner for 124 countries. That pattern is strongly reflected among South Pacific countries.

China is Australia's leading trading partner for both exports and imports. In 2011 China accounted for 29.1 percent of Australian exports and is one of its fastest growing markets. Trade between Australia and China has grown more than a thousand-fold since 1973, shortly after the establishment of diplomatic relations between the two countries. One recent report estimated that trade with China was worth US$13,650 to every Australian household (Allen Consulting, 2012).

Australia's major exports to China are iron ores and concentrates, coal, gold and crude petroleum. Together these minerals account for three-quarters of all Australian merchandise trade with China. Trade in services is also highly concentrated, with export education accounting for more than 80 percent of all service export recipients. China was the largest contributor to Australia's higher education sector in 2011 with 160,000 enrollments, 40 percent of all foreign students.

In contrast, Australia's principal imports from China are manufactures: telecommunications equipment and parts, computing equipment and clothing. Because of high mineral prices in recent years, Australia enjoys a sizeable trade surplus with China. Australia is engaged in developing a free trade agreement with China; this is currently in its seventh year and follows 18 rounds of negotiation.

In 2012 China was New Zealand's second largest trading partner, after Australia, accounting for 13.1 percent of total New Zealand merchandise exports and 16.1 percent of imports. As in the case of Australia, New Zealand's trade with China has grown strongly in recent years, faster than with any other partner nation.

New Zealand's main exports to China are food products and wood logs. Primary products account for 91percent of all New Zealand exports to China. Of these, almost half (48 percent) are unprocessed. Like Australia, New Zealand's major imports from China are manufactured products, particularly electrical goods and clothing.

Services trade with China is also important for New Zealand and, like Australia, is heavily dependent on export education and tourism. China is New Zealand's largest source of foreign students and its fourth biggest tourist market.

The trade pattern between China and both Australia and New Zealand suggests strong complementarities between the partners. While China is a major exporter of manufactured products it also has a voracious appetite for imports, often in the form of raw materials and agricultural products to maintain its economic and social system. Such complementarities help to explain the strong and growing economic linkages within the region.

China's trading relationship with the island economies of the South Pacific is characterised by considerable unevenness, with a marked focus on a small number of resource rich island economies — most notably the Solomon Islands, Samoa, Vanuatu and PNG. As in the case of Australia and New Zealand, China's trade with the region is primarily resource seeking.

Several economies, most notably the Solomon Islands and Samoa, are heavily dependent on trading with China. Indeed, export dependence on China is extremely high in some cases: for the Solomon Islands China accounted for 52.4 percent of exports in 2011, for Vanuatu the figure was 26.8 percent. China's trade with the Pacific Islands has grown rapidly in recent years. There is a concern that China's trade preferences encourage Pacific Island economies to restrict themselves to producing a narrow range of primary commodity exports. Such a strategy can inhibit economic diversification, may limit foreign exchange earnings if prices are low (or exchange is unequal) and can lead to depletion, as was the case with former phosphate mining in both Nauru and Kiribati.

Pacific Island economies may also struggle to develop labour-intensive manufacturing industries in the face of overwhelming competition from China, a fear in a number of developing countries (*Financial Times*, 2012). Interestingly, a recent study comparing the performance of the Pacific Islands with the Caribbean during the global financial crisis concludes that the superior performance of Pacific Island economies was due to their dependence on commodities and, most notably, the strong demand for these commodities from China (Bedamu et al., 2010).

Investment and China

Economic relations between Oceania and China extend well beyond just trade. One of the most controversial linkages is through foreign direct investment (FDI), and in particular, the rapid rise in outward Chinese investment. While China is still a relatively minor investor in the world, accounting for just 1.5 percent of the total stock of OFDI in 2010, it has grown rapidly. In 2006 China accounted for just 1.6 percent of OFDI flows; by 2010 this had reached 5 percent (United Nations, 2011).

Both Australia and New Zealand have long depended on foreign investment and are increasingly targeted by Chinese investors. Both countries share a number of similarities with regard to Chinese investment. First, in both cases the level of inward investment is low, in absolute and relative terms, but it has grown rapidly in recent years. It was really after 2005 that Chinese international investment took off, and the desire for resources explains China's strong interest in Oceania. Second, Chinese FDI has distinctive features, some of which appear to be shared by both countries, including sectoral concentration, a preference for mergers and acquisitions and the importance of state-owned enterprises (SOEs). In the case of Australia, sectoral concentration is extreme, with almost 80 percent of Chinese investment in the period 2006-2012 going into mining and a further 12 percent into oil and gas (KPMG, 2012). In both countries Chinese investors appear to display a preference for entry through mergers and acquisitions (KPMG, 2012). SOEs dominate Chinese investment in Australia. Of the 116 completed deals undertaken by Chinese investors between 2006 and 2012, 92 (80 percent) were undertaken by 45 SOEs. SOEs were involved in more than 95 percent of transactions based on value (KPMG, 2012).

> *"There is a concern that China's trade preferences encourage Pacific Island economies to restrict themselves to producing a narrow range of primary commodity exports"*

Australia and New Zealand also display other similarities with regard to Chinese investment. For example, in both cases there has been considerable media and public disquiet with such investment. A 2012 Lowry Institute poll found that 56 percent of Australians felt that the government was allowing too much Chinese investment, and a much higher level (81 percent) were opposed to any foreign investment in farmland (Laurenceson, 2012). There has also been considerable media and public opposition to FDI in New Zealand, despite the country's reliance on such funds.

Within Australia attitudes towards Chinese investment have been influenced by a number of poor experiences. In 2009 several major Chinese mineral investments including the Chinalco/Rio, Lynas/China Non-Ferrous Metal Mining Group and Oz Minerals/China Minmetals deals were either blocked or subjected to significant amendment. An Australian government decision in 2011 to exclude Huawei from tendering for the National Broadband Network project because of suspected links to the Chinese military, a position held by the U.S. authorities (U.S. House of Representatives, 2012), added to uncertainty.

China has a strong interest in the resources of the Pacific region, and its investments have tended to follow this resource-seeking pattern. This results in Chinese investment focusing on those states that possess valuable resources such as PNG, Fiji and Samoa. However, in recent years there appears to have been some diversification, with more Chinese investment targeting infrastructure, agriculture and tourism.

Chinese investment has been strongest in Papua New Guinea with its wealth of minerals, forests and natural gas. China's investment stock in PNG quadrupled between 2005 and 2009 (Brindal, 2012). One feature of Chinese mineral investment is an apparent willingness to take on risky projects. For example, Chinese businesses have visited mines in Bougainville Island which were closed in 1989 at the start of a decade-long civil war.

In recent years Chinese investments in the region have begun to focus on infrastructure and retailing. Chinese involvement in PNG's retailing sector has been controversial. Local entrepreneurs believe that Chinese businesses attempt to exclude them. The result has been a US$57 million campaign to support local retail businesses (Smith, 2012). Resentment over Chinese monopolisation of retailing has been the trigger for anti-Chinese riots on a number of occasions. A number of island states have expressed concerns regarding the terms of assistance provided by China, in particular the requirements that lead contractors must be Chinese and at least half of the project materials sourced from China (Brant, 2009).

China and migration

China has a long history of migration to Oceania which continues today. The Chinese communities in Australia and New Zealand are the largest in the Pacific region. There were more than 1.1 million Chinese in Australia in 2011, 4 percent of the total population. The New Zealand situation is similar, albeit at a lower level. Chinese New Zealanders are the fifth largest ethnic group in New Zealand, comprising approximately 3 percent of the population at the last census. With high levels of upward academic and socioeconomic mobility, Chinese Australians and New Zealanders are among the best educated groups and comprise a large percentage of the educated class in both countries.

The experience with Chinese migration to the Pacific Islands is more troublesome. Estimates suggest that there were around 80,000 overseas Chinese in the Pacific Islands in 2006 with the heaviest concentrations in Fiji (20,000), Papua New Guinea (20,000) and Tonga (4,000). While overall Chinese make up less than 1 percent of the total Island population, their presence in more evident in places like Tonga, where they constitute 4 percent of the population and represent the main ethnic minority group.

It is worth noting that the Chinese community in the Pacific Islands is not well integrated. Communities tend to be distinct and are internally differentiated by a range of factors including place of origin, education levels and time of arrival. While business and professional connections may be developed, inter-marriage is unusual and family loyalty prevails.

The combination of poor integration and domination of small-scale business by Chinese migrants has contributed to considerable resentment and a violent backlash. The aptitude of Chinese retailers and stifled initiative that results from Island culture which dictates that profits be shared with both church and extended family has seen strong anti-Chinese discrimination and feelings.

China and crime in Oceania

China's influence on Oceania is both positive and negative. Offsetting the positive economic and strategic benefits of trade, investment and migration is the concern that closer integration with China brings undesirable activities, particularly crime.

The establishment of Chinese criminal networks in Oceania can be dated back to the 1970s when Singapore and Malaysia enacted a series of laws to control crime at the same time that Australia liberalised its immigration policy, facilitating Asian migration. In both Australia and New Zealand, Chinese gangs have been linked to human trafficking, extortion and credit card fraud.

There is growing concern about Chinese criminal activity within the Pacific Islands. Features of the Pacific Islands make them vulnerable to international crime. Economic weakness and instability make them attractive locations for criminal activity. In addition, their cultural and social diversity, sparse populations, geographical remoteness, pervasive corruption and poor governance are valuable for illegal activities (McCusker, 2006).

Chinese have been implicated in a number of areas of crime including people trafficking, drug smuggling, illegal gambling, extortion and prostitution.

There are also disturbing links between trade opportunities with China and illegal or environmentally damaging activities. In the case of PNG, which is China's foremost trading partner among the Pacific Islands, Greenpeace believes that up to 90 percent of logging in PNG is illegal, primarily because of a lack of consent from traditional landowners and poor enforcement of forestry regulations (Greenpeace, 2008). The Solomon Islands faces similar problems with its forestry industry. The strong demand for timber also encourages illegal land grabs (Winn, 2012).

Conclusions

The rise of China within the world economy has had a significant impact on the Oceania region. For many nations in the region China is now the leading trading partner, a key source of investment and a major source of migration. The economic benefits to the region of exchange with China appear substantial. This is largely the result of the considerable economic complementarities between China and Oceania. China's demand for resources – both mineral and agricultural – have sustained the region during the recent global financial crisis. Increasingly, China provides a massively important market for the products of the region. Unlike other areas of the world, much of local manufacturing does not find itself facing a Chinese competitive onslaught.

China's role in the region is evolving. The strategic and political maneuvering with regard to Taiwan and willingness to support marginal states may be a worry for the more developed powers in the region. However, there is little evidence to date that China is attempting to challenge the political situation in the region or to assume a leadership role traditionally held by the United States, Australia and New Zealand.

There is potential for broader mutually beneficial exchanges, for example in science and technology. China has expertise in infrastructure development,, which would be useful in the region; Australia has mining experience that would be useful to China while New Zealand is keen to share its agricultural technology and food quality capability. The future is likely to bring closer economic relations between China and Oceania.

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Endnote

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The China-Latin America Axis: Following the Path of the Manila Galleon

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The Manila Galleon, the first link between China and Latin America, created a strong relation between the Middle Kingdom and the then New World. The Manila Galleon (also known as "Nao de China" or "Nao de Acapulco") was the name given to the Acapulco (Mexico)–Manila (Philippines) route established by the Spanish in 1565 for the trade between the New World (America) and the East Indies (Philippines). It was the first global trade route and the longest of its time until it was closed in 1815. The route was nourished in the West by merchants mainly from Fujian (China) trading spices, porcelain, ivory, lacquerware, processed silk cloth and other valuable commodities to be sold in America and/or in Europe as the route continued to Seville (Spain) overland through Mexico (Ruescas & Wrana, 2009). These goods were mostly bought with silver mined in America, a valuable commodity in the Ming period in China when silver ingots were used as a medium of exchange. In fact, it is estimated that around one-third of the silver extracted from America during this period was shipped to Asia in the galleons (Metropolitan Museum of Art, 2013). After these 250 years of flourishing Asia–America relations, trade between the regions halted with the closure of the route.

A second link started in the 1980s after China changed its foreign policy towards Latin America and many Latin American countries recognised the People's Republic of China. This new link has become one of the fastest growing commercial relations in recent history, with trade flows growing at around 50 percent a year (bilateral trade in 1995 was around $5bn, reaching $240bn in 2011; WTO, 2012). This trade axis is bigger than that between the EU and Japan at the end of the 1990s and as such rivals the traditional axes of the Triad (USA, Japan, EU) as can be seen in Figure 1. This axis of trade is growing in both directions (different from what is being seen in China and Africa) and is based on complementary trade partners, exchanging natural resources and low/medium technology manufactures. It seems that the re-emergence of China on the world stage is not only creating a multi-polar world, but it is also bringing back ancient trade routes like the Manila Galleon or the Silk Road.

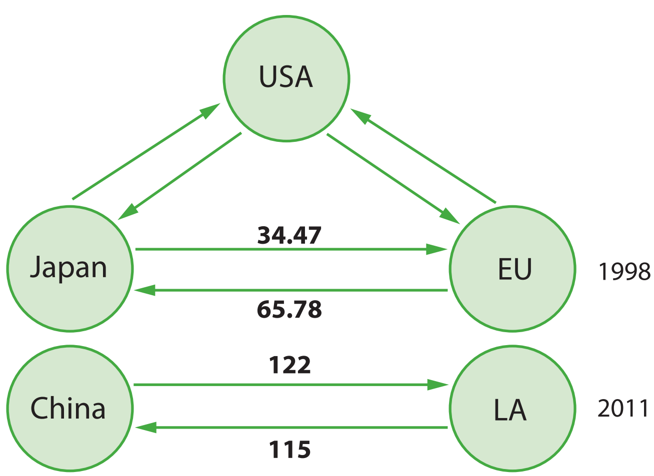

Figure 1: China–Latin America in context — billions of US$ (Eurostat, 2006; WTO, 2012)

An ancient trade route in a multi-polar world

Different from the Manila Galleon that was led by a European centre, the new China–Latin America axis is changing the dynamics of world trade by developing a strong South–South link of investments and trade that for the first time advanced economies "do not see." In addition to the increased trade, the new axis is having an impact on the following areas: (1) Latin America relations with the US and the EU, (2) regional integration in Latin America and (3) international expansion of both Chinese and Latin American-based MNCs.

Latin America's commercial relations with the US and the EU

Projected Latin American imports from the US show a substantial decrease from around 33 percent in 2010 to 26 percent in 2020. They also show that China will overtake the EU as the second largest source of imports for Latin America as soon as 2014 or 2015, reaching a 16 percent share in 2020 (14 percent for Europe). Similarly, projected exports also show a substantial decrease of the US's share from around 38 percent in 2010 to 28 percent in 2020 with an increase in China's share to 19 percent in 2020 taking the second position from the EU (13.5 percent in 2020) in the same period. In addition, currently both China and Latin America represent less than 10 percent of trade for each other; it is expected that this share will increase to 18–20 percent in the next 5–8 years (Barcena & Rosales, 2010; Fornes & Butt Philip, 2012; WTO, 2012).

In terms of investments, since the beginning of the century Latin America has been one of the main destinations of Chinese ODI after Hong Kong. In this context the PRC has committed investments of around US$100 billion in the region by 2015; and with another $10 billion to $20 billion of projects announced every year China will overtake Spain (with a stock of around $140 billion) as the second largest foreign investor in the region in the coming years (ECLAC, 2011; MOFCOM, 2012; UNCTAD, 2012). There are different reasons for these investments, such as controlling assets, securing the supply of natural resources, getting access to the market (of almost 600 million people and a $4 trillion economy), using tax havens as a stopover in their onward journey or basing listing vehicles (Fornes & Butt Philip, 2012; Shixue, 2007).

As a result of this trade and investment, China will acquire substantial soft power, politically as well as economically, as it settles down to be the major development partner of most Latin American states over the next decade. New roads, bridges, ports, factories, telecoms infrastructure, financial services, refineries, mines, quarries, etc. will be the iconic results. The relationship with China for many Latin American states will be transformative, a source of "concern" for the US as well as for some of the Latin American states who are themselves beneficiaries. The concerns are that such developments will meet the needs of China and Chinese investors, but will potentially also set back the more balanced development strategies of Latin American governments.

Regional integration in Latin America

Regional integration has been the ambition of almost all Latin American states for many decades. There have been initiatives such as the Free Trade Area of the Americas (FTAA) agreement of 1994, which covered almost all of America, North and South, the Andean Pact of 1969, and above all Mercosur in 1991; the latter two formally became a part of the Union of South American Nations (UNASUR) in March 2011. However, this integration is still an elusive achievement; the history of the subcontinent helps to explain why. Colonisation confined Latin America to being an exporter of primary products and an importer of manufactured goods. The result was a low diversification of production between the bloc's members, impelling a stronger orientation towards the industrialised countries of the northern hemisphere rather than any forging of trade or other economic links with their neighbours. Thus the economic motivation for regionalism at the outset was far weaker in South America than, for example, in western Europe (Mukhametdimov, 2007).

> *"The relationship with China for many Latin American states will be transformative, a source of "concern" for the US as well as for some of the Latin American states who are themselves beneficiaries."*

The regional integration efforts that brought into being the UNASUR in the 2010s seem to be weakened by the arrival of the new Chinese traders and investors in the region. This new Chinese dimension strengthens the bilateralism which already characterises most Latin American states' foreign and external trade policies, and that in turn undermines efforts to strengthen integration. Such has been the growth of this trade and investment with China since the 1980s that any improvement in intra-regional economic interdependence seems insignificant by contrast. In this context, it is possible to surmise that over time China, by adopting a similar strategic approach to the region of Latin America as a whole, could achieve by accident rather than by design some of the regional economic integration that Latin American states are seeking, perhaps by pressing for measures at the regional level that might simplify or make more efficient its own economic activities or operations. So far there is no evidence that this is happening, and the verdict on China's impact on regional integration in Latin America so far is in the negative.

International expansion of both Chinese and Latin American-based MNCs

Chinese and Latin American MNCs found in their counterpart a market with relative low entry barriers in comparison with those in the EU and the US. This is the result of free trade agreements signed with Chile (2004), Peru (2007) and Costa Rica (2010), of trade and investment agreements with Brazil (2004), Argentina (2004) and Venezuela (2007), and of China's Policy Paper on Latin America and the Caribbean (Gov.cn, 2008[1]). In addition, and more importantly, governments are finding quick and friendly responses to any dispute they are encountering in their relation; evidence of this is the lifting of trade barriers for Brazil to sell more processed agricultural goods to China in 2011. This environment means that Latin American companies can sell their goods in China (especially agricultural products where they have comparative and competitive advantages) when they are not allowed to compete freely in the EU due to the Common Agricultural Policy (CAP) or in the US due to the agricultural subsidies; it also means that Chinese companies can find in Latin America a growing middle class for their low and intermediate technology manufactures (Fornes & Butt Philip, 2012; Williamson, Ramamurti, Fleury, & Leme Fleury, 2013).

In this context, the main challenge for Latin American MNCs (the so-called Multilatinas) is that in general they still suffer from a problem of competitiveness when compared with Asia as their rates of accumulation of physical and human capital are relatively low resulting in a low productivity of factors and less innovation capacity (Maloney & Perry, 2005). For this reason, the Multilatinas need to continue diversifying their offer (from the traditional commodities like iron, oil, soya, etc.) as they have been doing in the last two decades (when the commodities' share of total exports was reduced from 50 percent to less than 30 percent) if they want to continue growing sustainably (Cuervo-Cazurra, 2008). However, the demand from China, mainly for natural resources, seems not to be helpful for this purpose. China has replaced the US as the main destination for Brazilian oil and is also a leading destination for Brazilian soybeans and chemical wood pulp, but the demand for passenger cars, Brazil's main manufactured export, seems to be small in the Asian country.

On the other hand, Chinese MNCs (the so-called Dragons) have followed two main stages in their investments in Latin America (Fornes & Butt Philip, 2012). The first stage, from around 2001 to 2007, was dominated by Chinese SOEs looking for natural resources, presumably with strong support from the government, creating a trade surplus for South American countries. The second stage, from 2007 onwards, is the result of efforts made by small, medium and large companies mainly in the manufacturing sector that have been successfully exporting their products to Latin American markets. These companies are taking the next steps in their internationalisation process in the short- and medium-terms, going from exporting, to contracting, and now FDI. This means that Chinese MNEs are acquiring strategic assets and capabilities extending their value chains to Latin America with, for example, the acquisition of local brands, distribution channels or retail services to market their products. These companies are facing the following challenges in Latin America: (1) they are operating in a region where the presence of ethnic Chinese networks is still low (South America may be one of the few places in the world where it is difficult to find Chinatowns!); (2) Latin America presents an important psychic distance with China; (3) trade and investments are geographically dispersed in a large continent where communications are not easy; and (4) Chinese companies operate in a relatively centralised fashion which could eventually prevent them from making decisions locally and adapting smoothly to changes in the business environment.

Samba with the dragon?

The new relative position of China in the world has led to a big temptation to dance with the dragon, but this has also led to a difficult question: where can the dragon take you? In the case of Latin America, the relationship with China seems to have benefited most of the region so far, but it is not benefiting all players equally. Flows of trade and investment from China are likely to continue at similar levels, which will surely unveil Latin American firms' weaknesses. At the same time China's companies are strengthening their competitive position in the region. In addition, China's bilateralism can hinder Latin American efforts to increase their economic integration and gain more weight on the world stage. In other words, China is in Latin America to stay, and it is not clear how internal (Latin American countries) or international (mainly the US, the EU and Japan) players will react, or more importantly, if they have the strength to react and compete with China.

In addition, the new trade axis has flooded the treasuries of Latin American countries with US dollars coming from an increased economic activity and especially from the big jump in the price of commodities. This has led most countries to run fiscal surpluses, which are then used to increase the welfare of citizens. But, in general, this positive economic wave has not been enough to effect a change in the Latin American economic and development model; this has been mainly due to political reasons and the short-sighted vision of many of the governments. The only exception may be Chile, which has set up a sovereign fund based overseas with the excess income coming from the high price of copper, which will be invested in the long-term development of a new economic model; Brazil is attempting to do something similar. This raises the question about the model Latin Americans want for the growth and development of their region. Do they want to continue relying on the exports of primary products? Or are they going to use this opportunity to add more value to the abundant resources in the region?

Similar questions on the future development model could be raised for the Multilatinas. They have enjoyed a decade of growth fuelled by high commodity prices and low cost of capital, and some of them are starting to go international. But this process is still far from being a strong trend. The future competition for markets will be in emerging economies, but what is not yet clear is where Multilatinas are placed for this battle. While deciding what to do, Latin American managers need to recognise that Chinese firms are more than low cost manufacturers; they have the economic muscle of the Chinese government, they have access to the financial markets and they also have a set of capabilities that are becoming stronger as they grow.

"The future competition for markets will be in emerging economies, but what is not yet clear is where Multilatinas are placed for this battle."

In the meantime, history repeats itself. The relationship between China and Latin America that re-started in the 1980s is following the path of the Manila Galleon. Natural resources are going to China to feed the pillars of its economic development, while Latin American markets are being flooded with consumer products manufactured in the Middle Kingdom. Latin America is as economically fragmented as in the past, with integration being a moving target weakened by the pursuit of bilateral relations with China. And Multilatinas, although in a better shape than some years ago, still need to demonstrate their weight in the international arena by moving up in the value chain. The only difference is that now this is happening in a multi-polar world, and as such no Western economy is involved.

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Endnote

1 This was the first ever white paper on the region and one of the first to appear on China's relations with international actors in recent decades.

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Chinese Organizations in Sub-Saharan Africa: New Dynamics, New Synergies[1]

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Sub-Saharan Africa has long been neglected by international management scholars, while China has been the subject of extensive study. Up to recently the focus on China was as a large potential market for the West: management scholarship tends to follow the blue chip companies. Yet this has been changing over the last few years, to focus on China in the world, to look more closely not at international joint ventures in China, not at Western corporations working with Chinese partners in China, but at Chinese MNCs operating across international markets.

The neglect of Africa as a suitable focus of study for international management scholars has meant that the key role that China now plays in Africa, the implications for Africa's development, the relationship with Western international institutions and the huge potential impact on management scholarship itself, has largely gone unnoticed and unstudied (Jackson, Louw, & Zhao, 2013).

Management studies unfortunately tends to trail behind the other social and behavioral sciences in terms of applying critical theory. Such an example is the recent interest in Postcolonial Theory by more critical international and cross-cultural management scholars such as Jack and Westwood (2009). This theory focuses on North–South (or West–East) relations, where globally dominant modalities are not just accepted but are also internalized by societies in the global South (inferiority of institutions, culture, organizations and management practices are assumed), and the modernizing trajectory of Western management thought and practices proceeds unabated.

Yet we no longer live in a postcolonial world. China's presence in Africa is changing all that, as is its presence in many other markets of the global South, as is India's presence in these markets. Connell (2007), for example, writes about an emerging "Southern Theory" centered on geographically non-globally dominant ideologies. The extent to which management scholars may now have to sit up and take notice of these theories in order to understand South–South interaction may be changing, as we are introduced to new geopolitical dynamics that our extant international management theories are not able to deal with: critical theories notwithstanding, as those scholars who are now playing with Postcolonial Theory, which has been around in the humanities and the social sciences for many decades, may well be focused on a period of time now gone.

So, what of the apparent accusation that China is merely the new imperialist in Africa? If this is the case, then our argument above that new South–South dynamics are coming to the fore is clearly false. This accusation is also combined with an assumption that we cannot lump China under the "global South" heading. We will deal with the latter first.

The emerging global South

In political science and international relations the concept of a global North–South divide, which arose after WWII, was consolidated in what has been referred to as the Brandt Line, conceptualized by the former West German Chancellor Willy Brandt in 1980 as an imaginary line delineating the boundary between the industrial North and the poorer South, a political geography that had mostly eclipsed the divide between East and West. With countries such as China and India, which were placed at the South of this divide, Lees (2011) argues that despite considerable growth in the economies of both these countries, the concept of a North–South divide is still relevant today when considering both economic inequalities within nation states and political and military inequalities in international relations. Connell's (2007: 212) concept of an emerging Southern Theory in social science is also premised on the persisting relevance of this conceptual global divide, which she says constitutes an expression of "the long-lasting pattern of inequality in power, wealth and cultural influence that grew historically out of European and North American imperialism." That China and India are emerging as major geopolitical and geo-economic players is not a reason to deny historical circumstance and reclassify them as "Northern" states.

A new imperialism?

To assess the claim that China is the new imperialist in Africa, it is necessary to first look at the West's history of involvement in Africa, which is quite different to that of China.

It could be argued that the motives for Western colonialism, the need to subjugate periphery countries, the motive to impose a "civilizing" religion and more recently the neo-colonial motives to impose a Western liberal democratic governance structure and universal human rights all add up to a pejorative portrayal of local knowledge and values that appears reflected in the modernizing project in management and organization.

Modernization Theory in its various guises has over the last decades underpinned the West's policies on international development. This has become largely institutionalized through the prominence of economists from the "Chicago School" (emanating from Milton Friedman and his neo-liberal philosophy) in the IMF and World Bank. Aid from these two organizations has been conditional on the countries' governments implementing structural adjustment programmes that required them to restructure their economies and societies in line with neo-liberal theory (Ritzer, 2011). This has of course included many African countries. This theory of development became known as the "Washington Consensus" because it was so closely linked to the economic and political position of the US, as well as the location of these supranational organizations in the US's capitol. This Consensus has been underpinned by a view that "unimpeded private market forces were seen as the driving engines of growth" (Cavanagh & Broad, 2007: 1243), and an absence of "any concern for equity, redistribution, social issues, and the environment" (Ritzer, 2011: 39).

Conditionality has been fundamental to Western countries' development programmes in Africa, hence their concern with China's apparent different approach. Campbell (2008: 92–93) reports a spokesperson of the World Bank and IMF saying that China has "undermined years of painstaking efforts to arrange conditional debt relief," and that the then head of the World Bank Paul Wolfowitz argued that "China would weaken the hold of the IMF and World Bank over Africa and accused it of fostering corruption," going on to report that "this was before the head of the World Bank was himself removed because of corruption."

Western involvement in Africa can be traced back further than colonial times, to the ultimate "human resource" project: the transatlantic slave trade. China's engagement with Africa can be traced back to trade during the Han dynasty (206BC–220AD), and the 1950s and 1960s in modern times. This appears qualitatively different from European involvement in the wake of the slave trade. Following the China–Russia split in 1956, much of the anti-colonial struggles in the Third World had ideologically allied themselves with China, as a result of its "apparently disinterested substantive support to liberation movements or hard-pressed front line … states, particularly in Mozambique, South Africa, Southwest Africa, Zambia and Zimbabwe, its populist orientation towards the peasantry and the need for an agrarian revolution, towards struggle from below, and its emphasis on guerrilla warfare and armed struggle against imperialism" (Young, 2001: 188). Its role in the decolonization of Africa was therefore significant.

Unlike the trajectory of the Western modernizing project, which informs much of the management literature on Africa, underpinned by centuries of colonialism, and critiqued among others by Postcolonial Theory, the coming to Africa of China has been quite different. One could logically expect the outcomes of Chinese organizations in Africa also to be different. In addition, the way this relationship and these dynamics are critically theorized would also, correspondingly, have to be different. If the Europeans' coming to Africa was motivated by what David Livingstone, the 19th century British missionary-explorer, termed the three Cs of Commerce, Christianity and Civilization (Pakenham, 1991), what is China's motivation?

"Unlike the trajectory of the Western modernizing project . . . the coming to Africa of China has been quite different."

China's motive in Africa

Certainly China's motive has been commerce rather than stressing a need for Africa's political and economic reform (Mohan & Power, 2008) in contradistinction to the West that sought to introduce a neoliberal ideal (Carrier & Miller, 1998). It appears not to have been a "civilizing" nor a proselytizing motive. Yet there has been an emerging line within the international relations literature that alludes to a nationalist perspective and a Chinese perception of superiority of Chinese culture: that it is the patriotic duty of China's elites to spread Chinese values and culture around the world (Nyiri, 2006; Callahan, 2008). This may well manifest itself in the funded Confucius Institutes attached to a number of the continent's universities.

However, support for the contention that there is a lack of a "civilizing" or modernizing mission appears to manifest itself in China's apparent disregard for governance and human rights issues in countries such as Sudan and Zimbabwe. Marafa (2007) also alludes to there not appearing to be a disparaging attitude towards African cultures in China's engagement. Despite also the large numbers of Chinese immigrants in Africa, Brautigam (2011) finds no empirical evidence of a "land-grab" that would indicate a colonizing intention.

Modernization Theory, which as mentioned appears firmly embedded in much international management scholarship, is firmly entrenched in a belief in the benefits of the spread of global capitalism in modernization, whereas China's professed policies have been founded in a Marxist-Leninist-Moaist tradition that has been fundamentally anti-capitalist and anti-colonialist (Thiam & Mulira, 1999; Young, 2001).

The first author of the current article has already been accused, in a recent submission to a scholarly management journal, of being too pro-Chinese. Yet the purpose of the above potted history lesson is to offer the perspective that international management scholars need to begin any analysis of Chinese management and organizations in Africa by attempting to understand the motives for the Chinese being there, and not assuming it has the same motivations as the West.

Its current-day motives for being in Africa, which Gill, Huang and Morrison (2007) describe as resources-seeking to fuel China's development goals, market-seeking to sustain its growing economy and political-seeking to support its aspirations to be a global influence, must be seen within this recent historical context. It may also be possible that Gill et al.'s (2007) three types of motives may be too restrictive in terms of hypothesizing the connection between the reasons for China's being in Africa and the approach that Chinese MNEs have towards people policies and practices. Also there may not be a direct relationship between wider strategic motives professed by Chinese government policies and their manifestations in inter-governmental relations with African governments and actions at organizational level, as we discuss below. Yet just as the way that the West's resource-seeking motives for being in Africa may have been modified by a civilizing and proselytizing ethos, so China's resource-seeking motive may be moderated by the nature of its socio-political engagement.

This appears different from the socio-political interventionist development programs of the West premised on the civilizing missions of previous centuries. Rather, according to Nyiri (2006: 104) it involves concepts of modernization and productivity together with community harmony, which are demonstrated by, for example, entrepreneurial success, rather than "educating or 'reforming' natives."

What do Chinese organizations bring to Africa?

China's motives have got to be considered in association with how wider geopolitical relationships are conceptualized and how these are changing. What Chinese organizations bring with them to African countries are a function of such motivations and rationales discussed above, but also a product of previous and current geopolitical relations. The way people are managed in China is a product of such relationships. Of these principles and practices, what is then brought to Africa is another such product. Whether or not Chinese managers come to Africa to impose, instruct, teach or learn is yet another product of geopolitical relations both historic and current.

Through the Western literature, we know a lot about Chinese management in China, yet we know so little about what happens when Chinese firms go abroad, and even less about what Chinese firms take to Africa, and the synergies between Chinese management philosophies and practices and their African partners, staffs and communities. Notably, the literature on management in Africa has long decried the lack of appropriateness of Western organizations in Africa (Jackson, 2004). Are Chinese approaches any more appropriate to the local contexts?

In China there is a tradition of absorbing foreign influences, but with Chinese characteristics. Even though companies have been adopting apparent Western HRM practices such as linking performance with pay, the reward system is still by and large based on equality, with employees exerting extensive control over the distribution of pay, with income inequality still being seen as potentially disruptive to group harmony and social adhesion (Cooke, 2004). Indeed, Warner (2010) asserts a much bigger emphasis in today's China on harmony and Confucian values, and a turning away from simply economic efficiency. On the face of it there seems a potential synergy between the humanistic values of Confucianism, and perhaps Buddhism, and the African humanistic values of *ubuntu*.

The concept of *ubuntu* management was popularized in the late 1990s in South Africa by, among others, Mbigi (1997) and experimented with in some of the larger corporations and public enterprises, amidst a focus on empowerment and employment equity (Jackson, 1999). This represented an emphasis on the humanity of people working in organizations, and a move away from seeing people as resources in an instrumental (Western) perspective. This embodies a view that African communities' values may be different from the Western focus on the individual and what he or she achieves. It views people as having an intrinsic value, a value in their own right, for who they are as part of a collective (Jackson, 2002).

The possible synergies between Chinese and African approaches still need to be explored through empirical research (a task that is underway by the present research group). For the time being we can examine what we currently know about how Chinese firms (with the recognition that these may be from diverse sectors, state-owned and private, large and small) operate in Africa. There are indications that there may be a disjuncture between strategic intent and actual firm operations.

A strategic-operational split

Jackson (in press), drawing on the sparse empirical research already undertaken (most notably a study by the African Labor Research Network: Baah & Jauch, 2009), concludes that although at governmental levels there are many projects to enhance human capacity, such as teacher training, funded by China, and that community development as well as huge infrastructure projects are contributing to Africa's development, at the individual organization level, Chinese firms are definitely contributing to employment in a situation where the failure of African markets to create jobs in the formal economy has led to an excess of labor. For example Africa Monitor (2010: 7) reports in Zambia that because of China's policy of diversification from the extraction industries towards manufacturing, infrastructure and agriculture, "FDI pledges in the other three sectors are substantial at around US$625mn combined, and are directly responsible for the creation of around 13,000 jobs." Brautigam (2011) points out that it simply is not true that China takes its entire workforce from China. Yet the working conditions and salaries are often not good (although often on a par with local firms, yet often worse than Western firms).

It does seem that many Chinese firms do take their managerial and skilled technical staff to Africa, with less skilled or unskilled jobs given to locals. Yet there is little evidence of upskilling of local staff.

Much of the interaction of Chinese staff with local communities at the firm level appears to remain with recruiting local staff. Strategically it appears that China is engaging with the needs of African communities in providing important infrastructure, contributing to agricultural projects in response to needs filtered through government. Yet there is lack of research on Chinese MNEs' direct engagement with local communities. It is unlikely from the available evidence that there is any deliberate attempt of Chinese managers to engage directly other than for recruitment. Chinese expatriates tend to live in compounds in a frugal way and appear not to have much connection with the local community (Brautigam, 2011).

So while at strategic policy levels there are intentions and projects addressed toward friendship, mutual cooperation, community and human capacity development, this appears not to be directly translated to what state-owned and private organizations do, and how they operate.

Mutual learning

Mutual learning may also be a contentious issue. While the strategic intent may be there, the African Labour Research Network study reports that "Unions identified language barrier as one of the factors hampering smooth labour relations in Chinese companies. Chinese managers find it difficult to communicate in English, which is the official language in all the countries where the study was conducted" (Baah & Jauch, 2009: 74).

If language is an issue among Chinese expatriates in Africa, then it is not too far a stretch of the imagination to ponder that if cultural synergies do exist between Chinese and African approaches, it may be the case that neither the Chinese nor the Africa partners know this or understand how this may be utilized to benefit the relationship between the two. This is an area ripe for research, and for future management development.

Future research

China's engagement in Africa has not sufficiently captured the attention of international management scholars. This is certainly not the case for Western governments and the Western press. The former appear challenged by China's presence, and the latter appear entranced by the very newsworthy and negative snippets that can be extracted. It is often these negative connotations that influence perception in management studies where Modernization Theory is so entrenched and has provided either an aversion to studying sub-Saharan Africa, or provides this study with such a negative inflection that it is difficult to identify it as scientific research. While China in Africa may generate in time more interest from international management scholars, there is a danger that these pejorative perceptions may not provide a balanced view from those pursuing a modernization perspective, and that the full implications of a changing geopolitical dynamics may not be realized by the more critical scholars still trying to work within postcolonial dynamics. The premise that geopolitics (such as the dominance of the United States economy after WWII and the rise of management studies as an area of academic study) has major implications for knowledge and the transfer globally of that knowledge, is the starting point of the project currently funded by Sandisa Embewu at Rhodes University, and led by the authors of the current article. We are in the process of investigating those and other issues outlined above. We hope that this work will encourage other management scholars to follow suit, and indeed that they will contact us if they wish to become involved.

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Endnote

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