Chinese Foreign Direct Investment in Africa’s Natural Resources and the Impacts on Local Communities

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ABSTRACT

This paper discusses Chinese Foreign Direct Investment (FDI) in Africa’s natural resources and its impacts on local communities. It opens the discussion by highlighting in the preamble how and why Chinese FDI has been skyrocketing especially beginning around the early 2000s with the introduction of the going global policy. The paper then zooms further to give a more nuanced understanding of the nature of Chinese FDI and the main areas of investment in Africa. Information for this write up was collected from secondary sources including published books, articles and seminar papers among others. The paper shows that Chinese FDI has impacted both positively and negatively on local communities in Africa. On the positive front, Chinese FDI has been instrumental in employment creation and infrastructure development. Notwithstanding this, Chinese FDI has been accused of engaging in socially irresponsible investments taunted with abusive employment conditions, environmental pollution etc. The paper remains skeptical on concluding whether Chinese FDI has been harmful or beneficial to the local or host communities because of the limited evidence provided in the paper. Hence, it ends by recommending possible areas for further research on the topic.

Keywords: AFRICAN COUNTRIES, CHINESE FOREIGN DIRECT INVESTMENT, AFRICA’S NATURAL RESOURCES, LOCAL COMMUNITIES.

1. Introduction

In 1978, China changed its economy from a centrally planned to a market-based economy. This transformation saw the country experience a rapid economic and social development and consequently lifting over 500 million of its people out of poverty (World Bank, 2015). This unprecedented growth in China’s economy has seen the country increase its investment across the globe. The increase in investment is mainly driven by the need to establish a supply of raw materials that are crucial for sustaining its growing economy and expanding its industrial base. As its economy expanded, there was a growing demand for raw materials, hence the need to expand its sources to overseas, and around the early 2000s, China initiated its going global policy which was aimed at promoting and expanding its investment overseas (Kabylinski, K. 2012). The ‘going global’ policy meant adjusting the development path, where the
government became the supplier of information concerning investment overseas as well as offering other incentives to encourage overseas investment (Timokhina, O. 2014).

Recently, there has been an unprecedented increase in Chinese investment on the African continent and the relationship has become so broad touching on various areas such as trade, investment, development assistance, technology transfer and training (Sutton, B. 2010). Over the past decade, China became the World’s leading consumer of most base metals such as aluminum, iron ore, copper, manganese, lead, and zinc among others (Kamwanga, J. 2009). This upsurge in natural resource needs is what has attracted China onto the African continent. Besides, China’s labor costs have over the years been rising rapidly, which eventually raised the cost of production. Within a space of 2005 to 2012, China’s labor cost has risen from US$ 150 per month to above US$ 500, and above US$600 in coastal regions, and because of this, many companies have been relocating to Africa in order to take advantage of the cheap labor (Lin, J. 2014).

Today, more than 50 African countries are now a host of Chinese Foreign Direct Investment and it is spread across different sectors ranging from agriculture, mining, construction and manufacturing. Furthermore, China has in recent times surpassed USA to become the world’s biggest importer of oil and this has ultimately seen many Chinese companies investing billions of dollars in oil rich nations such as Angola, Sudan and Nigeria as a way of securing access to the much needed oil that would feed into their fast growing industrial sector (Wan, A. 2013). Against this background, the objective of this paper is to review literature on the impacts of Chinese Foreign Direct investment in Africa’s natural resource sector with a special focus on extractive industries. The paper brings out different views and perspectives as well empirical studies that have been conducted on Chinese Foreign Direct Investment in Africa’s natural resource sector and extractive industries in particular, and the impacts that these investments have had on the local communities. For the purpose of this paper, local communities will imply the geographical area around the investment or project area. Thus, the local people those find themselves or who reside within the vicinity of the project area.

1. The nature of Chinese foreign direct Investment Africa

Chinese Foreign Direct Investment in Africa takes both the form of Greenfield and takeovers. Green field investment entry implies assembling all the necessary elements from the scratch (Financial Times, 2015). In here, the investor builds and erects the entire necessary infrastructure in order to start up the process of production. On the other hand, takeovers refer to the acquisition of an already existing company (Cisse, D. 2013). Also important to note is that most of the active Chinese FDI to Africa comes in form of state owned enterprises (SOEs), though recently, with the growing competition in the domestic economy, the rise of production and labor costs and the lack of financial support for individual entrepreneurs in China, several Chinese privately owned enterprises have been seeking to penetrate the continent (Leung, D. 2014). Thus, most of the enterprises from China have more attachment to the role of the state in their expansion and, government provides these companies especially the state owned with political and financial support. The
involvement of the State political and financial agencies in Chinese enterprises that have ventured abroad has helped these companies to have an advantage and better placed to out-compete investors from other countries (Brautigan, D. 2007). Unlike other Investments from the Western countries, China seeks Africa’s natural resources but does not hide or do this on the pretext of wanting to promote human rights or democracy. China uses the strategy of engaging with the African countries or the host country in some kind of development partnership, and because of this, many countries on the continent have turned towards China as a new road for development assistance which in turn enables China to have an easy and expanded access to Africa’s resources. Also, recent statistics have shown that Chinese Foreign Direct Investment on the continent has been on the increase. Chinese FDI flows to the continent increased from about US$ 3.17 million in 2010 to US$ 2.52 billion in 2018 (Ayodele, T. 2014). As at 2012, more than fifty percent of Chinese FDI stock was hosted in South Africa, Zambia, Nigeria, Algeria and Angola, whose combined stock of Chinese FDI increased in the last decade from US$ 317.2 million in 2010 to US$ 11.2 billion in 2018. The Figures below give an overview of the recent flows of Chinese Foreign Direct Investment onto the African continent.

**Figure 1.** China’s Outward FDI Flow to Africa, 2010-2018

![China's Outward FDI Flow to Africa, 2010-2018](image)

Source: WRI Sustainable Finance, based on official figures from Ministry of Commerce (MOFCOM) 2012 Statistical Bulletin of China’s Outward Foreign Direct Investment as cited by (Leung and Zhou, 2014)
Figure 2. China’s Outward FDI Stock in Africa by Industry by the End of 2018

Source: China-Africa Economic and Trade Cooperation 2013 White Paper Note: Mining includes oil and natural gas extraction according to China’s industry classification standard (Ayodele, T. 2014).

From the Figures 1&2, it is evident that the investment has been on the increase on the continent. Figure two also brings out a very interesting picture of how important Chinese investment has become to the Africa continent. It is clear from the figure that mining, which is an extractive industry, has the highest concentration of stock of Chinese Foreign Direct Investment on the continent, which actually justifies the importance of looking deeper into the implications that such investments have on local communities.

2. The problem statement

Quoting the words of Adam as cited by Brautigan (2007) China is a new “imperial power” with a “colonialist project” who will “pretend to be the “savior of Africa” (Roe, E. (2013). The statement looks short, sounds light but it is loaded with so much meaning in it. Chinese investment in Africa has ignited intense and interesting debate among academics and development practitioners. The investment has been under scrutiny with different and opposing views emerging. Whereas others seem to be optimistic about the investment, viewing it as an opportunity that can help the continent realize value out of its natural resource endowment, others on the other hand tend to question the investment describing it as a repetition of what the western countries did to African resources decades ago when they exploited Africa’s natural resources (Javorcik, B. 2013).

It is true that investment is about profit maximization and every business person or enterprise has this objective at the back of their mind. This is the case with Foreign Direct Investment by overseas multinationals and China included. While this objective of maximizing profit is undeniable and at the heart of investment, the investment should also take into account the interest of the host country and the local communities within the vicinity of the project area. Well managed extractive industries have the ability to benefit communities but poorly run operations can result in more serious environmental and social issues (Ayodele, T. 2014).
According to Brincikova (2014), In Africa, Chinese Investors have been facing challenges and opposition as they have always been accused of focusing so much on speed and profits whilst ignoring the concern for workers and communities where they are operating (Brincikova, Z. 2014). In light of this, a question emerges as regards the impacts of Chinese Foreign Direct Investment in Africa’s natural resources (extractive industries) on local communities.

3. Research Methodology

This write up was based entirely on secondary sources of information. In particular, the paper used data collected from published materials such as books, articles and seminar papers. A desk review of findings by various studies conducted in different countries across the continent of Africa was also done in order to gain a deeper and crystal-clear understanding of the impacts of Chinese FDI on local communities in Africa. This also helped in establishing patterns concerning Chinese FDI in different countries. And, the telecommunications and roads are important parts. Thus, FDI can help the host country to improve and upgrade service provisions in such infrastructure as these also have an effect on their productivity. As this improves, communities also tend to benefit. New investments will require not only setting up a production plant but also the necessary support infrastructure such as roads, electricity, water, telecommunications etc. Even though intended to facilitate operations of production in a plant, the local communities will also benefit from such infrastructure developments.

4. Impacts of chinese foreign direct investments on local communities

5.1 Theoretical Perspectives on FDI and development

There are several ways in which Chinese FDI can impact local communities. The following theoretical framework frames these impacts in main stream development view of Foreign Direct Investment on local communities.

5.1.1 FDI and employment creation

Foreign Direct investment plays a very important role in employment creation especially to the host communities in which the investment is established. According to Thorpe (2013), many governments and policy makers in the developing world strive to attract FDI into their countries mainly because FDI is seen as a source of employment or job creation for the many unemployed youths especially (Thorpe, D. 2013). Generation of new jobs for the local communities entails a very positive step towards poverty reduction in these communities. Brincikova and Dermo (2014) also substantiate this point by stressing that FDI has the potential to generate employment through hiring of people that would work in new plants (Brincikova, Z. 2014). As new investors set up new plants, a large pool of unskilled labor that remains unutilized in these local communities find its way into these plants and this in itself entails more benefits for the local communities. Related to this is the idea of skills development. As local people get employed in these
companies, they are presented with an opportunity to improve on their skills. Some companies may even go as far as sponsoring some of its workers for further training. Such can have a very positive impact on the development of a community.

5.1.2. Foreign direct investment and corporate social responsibilities

Most corporate do-gooders tend to approach their social good efforts with eyes more open towards the impacts of their activities on the communities they operate in than on the firm. In today’s world where the concept of corporate social responsibility is being emphasized so much, companies and businesses are now reorienting themselves and focusing more on the triple bottom line of people, planet and profit. By definition, corporate social responsibility simply refers to a self-regulating system or mechanism in which corporations commit themselves to following the laws of business, maintaining a high ethical standard, and following international norms, which often result in businesses committing themselves to certain social goals or even attempt to improve the environment (Balsanmo, C. (2013)).

5.1.3. FDI and infrastructure development

One of the areas in which FDI plays a crucial role in host communities is through infrastructure development (Economy Watch. 2010). One of the features of the underdeveloped world is their lack of infrastructure such as roads, telecommunications, electricity, water etc. Thus, as new investors get hosted; there is a high likelihood of improvements in such infrastructure. For these companies to operate productively there is need for effective provision of electricity, water and telecommunications and roads. Thus, FDI can help the host country to improve and upgrade service provisions in such infrastructure as these also have an effect on their productivity. As this improves, communities also tend to benefit. New investments will require not only setting up a production plant but also the necessary support infrastructure such as roads, electricity, water, telecommunications etc. Even though intended to facilitate operations of production in a plant, the local communities will also benefit from such infrastructure developments.

5. Empirical evidence on the impacts of Chinese FDI on local communities in Africa

So much has been researched, written and said about Chinese investment especially in relation to the local communities where they have invested. Evidence on the impact on Chinese Foreign Direct Investment on local communities points out too many issues.

One country where, Chinese Investment has created too much debate and then the talks are happened called Zambia. Chinese Investment in Zambia are mainly resource seeking and are concentrated in the mining sector. Chinese firms though commended for creating jobs to the many unemployed Zambians, questions have arisen as regards the quality of employment that they offer to the local people. Commenters have expressed concern over the lax work practices in Chinese firms and several reported accidents in Chinese owned mines characterized by so many strikes, which led to one mine being closed amid safety concerns.

In their study of Chinese practices in Zambian’s mining sector and also how these practices compare to
relevant domestic and international labor and human rights standards, and also how they compare with other mining companies in Zambia, the Human Rights Watch (2011) found that while Zambians and workers in these companies truly appreciate the jobs that Chinese investment has brought to the local people, there were so many negative reports concerning the kind of jobs that were created. It was reported that many employees suffer from abusive employment that tend to serious compromise with domestic and international standards. The report further reviewed the poor health and safety standards in Chinese run copper mining firms, poor ventilation, hours of work in excess of the country’s Law, and threats of being fired in you refuse to work in unsafe place. There was also a high frequency of injuries and negatives health consequences (Human Rights Watch, 2011).

Another study was conducted in Tanzania involving Chinese Foreign Direct Investment. Tanzania is rich in natural resources such as cobalt, cold, copper, iron, steel, coal, lead, zinc, uranium, nickel, platinum group metals and silver among others (Li, J. 2009). The presence of such metals in the country has made the country so attractive not only to the western but also to the Chinese investors. The recent natural gas resource discovered at Songo and Manzi Bay and the explorations of oil in some parts of the country have equally played a role in bringing more Chinese Investors into the country. According to the authors, the study that involved interviews with Chinese mining firms and selected companies from the western, some Chinese government officials and Tanzania government official revealed infrastructure development that comes with Chinese investment in the mining sector especially State Owned Enterprise (SOEs), and key to this was the role of the Chinese government.

It was found that the Chinese government made an agreement with the Tanzanian government to build infrastructure such as roads and bridges to reach the mining sites (Shinn, D. 2015). In addition, in an attempt to explore iron and steel opportunities, the Chinese government provided funds meant to upgrade the Central Tanzania railway so as to facilitate an easy and uninterrupted year-round shipment of Chinese products in Central Tanzania and its land locked neighbors like Uganda, Burundi and Rwanda (Li, J. 2009). This practice of Chinese investment tends to have a positive impact on local communities and it’s what actually distinguishes it from other investors.

The story about Chinese in Africa still continues. Recently, there was a growing concern that China would attempt to remedy its local industrial pollution by relocating its firms to Africa where Legislation and enforcement is quite weak. Thus, it was not surprising when Hebel Iron and Stell (one of the most polluting facilities) announced that they were opening up operations in South Africa where they would be producing about five million tons annually (Shinn, D. 2015). This of course entails new jobs to the local people in South Africa because a new plant is being opened and new employment opportunities would arise. On the other hand, it does not speak well as far as environmental issues are concerned.

In other countries like Chad, China’s Natural Petroleum Corporation acquired some shares related to an oil permit that was held by a Canadian oil Company, and the company began construction activities before the approval of the Environmental Impact Assessment. According to the Author, as the company started
constructing, local communities started to complain of pollution problems, and thus in 2012, the government of Chad suspended all the operations of the Chinese Company for serious violation of environmental laws and regulations. Further, it was also learned that the same Company also owns 40 percent of stake in the umbrella Organization that developed the oil fields in both the Sudanese countries, and the activities of the oil fields had several negative impacts on communities. Road construction disrupted water flows and irrigation systems were damaged, discharge of contaminated water from the oil reservoirs and the inappropriate disposal of drilling mud and other waste products, consequently leading to the displacement of several communities. In addition, in today’s world, corporate social responsibility has become an important tool in terms of corporate strategy for several enterprises. While the West has been criticizing China for its lack of Corporate Social responsibility awareness in its practices, Chinese firms are now increasingly focusing on improving it. As a reaction to several critiques of Chinese investment on the environment, labor and community, the Chinese government came up with a number of regulatory mechanisms in a bid to promote Corporate Social responsibility practices and among others of these include the Chinese Company Law which compels the Chinese firms to undertake corporate social responsibility practices both within and overseas.

The government of China reacted to irresponsible investment in the country following a series of scandals of environmental disasters and poisonous food around the country, and therefore, the Chinese Civil Society and the government took a step and urged all the business people to take seriously legal and moral responsibilities (Timokhina, O. 2014). Thus, there was an introduction of the Corporate Law of China which provided the legal foundation of Corporate Social Responsibility in which corporations are obliged to undertake Corporate Social Responsibilities in their activities. In addition, there have also been some guidelines for Central State-Owned Enterprises (SOEs) with respect to the implementation of corporate social responsibility and this requires SOEs to have the necessary mechanisms so as to be able to meet the requirements of Corporate Social Responsibility. Some observers however stresses that Corporate Social Responsibility by Chinese firms are still at a very infant stage and many of them still take Corporate Social Responsibility purely as Philanthropy (Centre for Chinese Studies. 2015).

A study was conducted in the Democratic Republic of Congo by an NGO called Action against Impunity for Human Rights (ACIDH) on Chinese Investment in the mining Sector and it focused on three Chinese Mines which included Jiaxing Mining, Congo Dong Fang International mining and Lida mining. In an interview with Jiaxing Mining and Congo Dong Fang mining employees in an attempt to find out the conditions of employment, the workers reported that working conditions in the company are subhuman and they pointed out a lot of things such as lack of conclusion of work contracts regularly, hygiene issues in workplaces, lack of a framework for discussion between workers and employees such as a union for the workers. An almost similar story was reported by the employees of Lida mining where the workers revealed that working conditions are almost inhuman with no regular contracts, low wages, lack of housing allowances, non-respect of human dignity of employees characterized with insults etc (Action Against Impunity for Human Rights.
In addition, some of the community members (non-employees of the companies) that were interviewed concerning Chinese investment also expressed displeasure with the investment. According to the report, the people complained that the Chinese firms are not doing anything for the communities and that only a few people from the community were employed while thousands were still unemployed. Some of them said they did not see it important to get employed in the Chinese firms as those that were employed were still suffering like them, and in the words of one interviewee as quoted in the report, “…now what I ask the company is to contribute to our development in exchange for our wealth. To give us access to drinking water, electricity, hospitals for childbirth for our wives and schools for our children…” (ACIDH, 2010: 24). This sounds to be a powerful statement and shows how unhappy some community residents are with the investors. It shows some element of irresponsibility on the part of Chinese investors especially that development promises were made to the community members both by the Authorities and the Chinese investors themselves as the report indicates.

6. Remarks

An analysis of Chinese FDI on Africa’s extractive industries reviews so many issues. From a few studies that have been reviewed, there appears to be some benefits that come with Chinese Investment to the host country, employment being one of them. However, the question that seems to arise from these empirical studies is that of the quality of employment that this investment brings. One study from Zambia has reviewed that Chinese Investments tend to seriously violates labor practices. A similar practice also seems to characterize Chinese investments in the Democratic Republic of Congo’s mining sector. The question that emerges here is whether the issue of exploiting workers is something inherent in Chinese investors or is just some self-seeking opportunists that are trying to maximize profit at the expense of the local people. It is difficult to give a direct answer to this question especially given the limited evidence in the paper. Recalling the ideas of (Lin and Wang, 2014) that Chinese investors relocate to Africa in order to take advantage of the cheap labor on the continent following a rapid increase in labor costs in their country, it becomes tempting therefore to conclude that this motivation for relocating to the Continent has made China to engage in violation of labor practices. Pelgian and Meibo (2013) bring out an interesting issue that attracts attention but difficult to answer at the same time. The authors say the west have always raised concern about the quality of Jobs that the Chinese bring to the local people in Africa (Pelgiany, R. 2013). This might be a valid suspicion which of course seems to correspond with negatives revealed from a few studies raised above. This however is difficult to support especially that it comes from the Western countries. First, the question of quality itself is not clear and it is relative. An unemployed youth in Africa who goes for so many days without a meal will definitely appreciate getting a Job even if it is a low paying one as long as it makes a difference in his life and it helps him at least have a meal fast. This does not mean supporting the labor abuses that have been associated with Chinese
investors. Rather, the fact still remains that by offering jobs to the many unemployed and poverty-stricken people in these countries, Chinese investors are in a way impacting positively on these local communities. On the other hand however, and in reference to what was revealed by some community members in DRC that even those that are employed were still suffering just like other community members not employed, it appears somehow easy to think Chinese investors do pay their employees way below the cost of living though this cannot be generalized given the limited evidence.

The other interesting issue is the question of how responsible Chinese investment is to the local communities. Taking this from a corporate social responsibility perspective, the question becomes even more complicated. Borrowing from Utting (2008), the underlying assumption of Corporate Social Responsibility is that companies should extend beyond both law and Philanthropy which are also considered important drivers or features of CSR (Utting, P. 2008). ACIDH (2010), reports that Article 69g of the Mining code of the Democratic Republic of Congo requires that everyone applying for an operating permit should attach to their request the plan of how the project will contribute to the development of the surrounding communities. Despite this, it was reported that the community did not see any developments that they were promised by the Authorities and the Investors themselves at the beginning of the investment. Based on this, one can ask a question as to what extent Chinese Investment engages in social practices that extend beyond Law and Philanthropy. It appears the community is not benefiting from the investments, which implies an element of irresponsibility on the part of investors to the communities. Of course, these are opinions of the people that were interviewed and should not necessarily tempt one to arrive at a conclusion based on this. But one thing which is clear is that there is a link with one of China’s motivation for going global and that is to meet’s growing demand for raw materials that would feed into the industrial sector and not necessarily to engage in community development initiatives. This is of course the objective of every investor, but it is important that as those objectives are pursued, the right balance must be established so that that the communities also benefit from their resources rather than just exploiting their resources.

7. Way forward
This literature reviewed here brings out so many lessons to be learned as regards Chinese investment in Africa. So many gaps still remain however as this paper just laid a foundation for further explorations. One key issue that arises out of this paper is the extent to which Chinese investment can be considered an opportunity or exploitation to the local communities. The paper seems to have portrayed more of an exploitative picture especially in labor terms. This however cannot be generalized to all the countries given the limited evidence presented in this paper. Perhaps it would be interesting to go deeper into country case studies to explore the extent to which Chinese Investment in the extractive industries can be considered an opportunity or exploitation to the local communities and also what this investment means in labor terms. In addition, one can also ask whether these exploitative practices mentioned in these studies is something specific to Chinese investors or it is just a common practice by all investors on the continent. This is difficult
to answer for now, hence it would also be interesting to make a comparison of the Chinese investment practices with those of the Western Investors on the continent in terms of their practices and impacts on local communities.

8. Conclusion

In conclusion, the study has brought out a lot of issues concerning Chinese Investment in Africa’s natural resources and its impacts on local communities. The picture of this investment seems not to be very clear as there are mixed feelings about it. While benefits appear to be realized out of this investment, much remains to be desired. Most of the studies and reports reviewed in this study tend to be pointing more in the same direction, and this is the direction of viewing Chinese investment as being more exploitative in nature. It is true Chinese investment just like other investments wants to maximize benefits from Africa’s extractive industries. However, this must not be done at the expense of local communities. Businesses must always try to balance profit maximization, the environment and the communities where they are operating. Whether this exploitative nature of Chinese investment in Africa’s natural resource sector carries more weight or not, it is worth giving attention. One thing that should be clear to the business people is that these resources belong to the local communities and therefore they have the right to benefit from them. Thus, in addition to avoiding harming society, companies should also help these communities to realize value and benefits out of their resources. One cannot however conclude from this paper as to whether Chinese investment is more exploitative or beneficial to the local communities especially given the limited evidence presented herein. Perhaps it would be more interesting to do more detailed country case studies to dig deeper into Chinese investment practices and the communities around them.

References


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