Chinese Companies in the Extractive Industries of Gabon & the DRC: Perceptions of Transparency

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A research undertaking by the Centre for Chinese Studies, prepared for the Extractive Industries Transparency Initiative (EITI) & Revenue Watch Institute (RWI)

Centre for Chinese Studies, University of Stellenbosch
January 2009

Extractive Industries Transparency Initiative

REVENUE WATCH INSTITUTE

CENTRE FOR CHINESE STUDIES

The findings, interpretations, and conclusions expressed therein are those of the authors and do not necessarily reflect the views of the Extractive Industries Transparency Initiative and the Revenue Watch Institute.

Acknowledgements

The research team would like to thank:
The CCS team: Dr Martyn Davies, Hannah Edinger, Hayley Herman, Matthew McDonald, Ashley McCants, Daniel Alvarenga, Bongisa Lekezwa, Abigail Brown, Cathy Bashala; Jacobie Muller for design and Carine Kiala for front cover photograph.

Joe Bavier, Jeff Bryan, Jean Losango and Jean-Pierre Muteba for assistance and advice in the DRC; Marc Ona for assistance in Gabon; Mike Komesaroff for advice on mining technicalities; Peter Mellahn and Ian Seal for editing; and many more friends in Gabon and in the DRC for assistance and advice.

The team would also like to express gratitude towards:
The Chinese, Congolese and Gabonese government officials, academics, NGO community representatives as well as private sector representatives with whom the research team met in-country for generosity and frankness in sharing invaluable insights in the interviews;
The Extractive Industries Transparency Initiative and Revenue Watch Institute for kindly funding the research.

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List of Acronyms

AU	African Union
ASM	Artisanal and Small-Mining Sector
CADFund	China-Africa Development Fund
CAMEC	Central African Mining and Exploration
CCS	Centre for Chinese Studies, University of Stellenbosch
CDB	China Development Bank
CEMEC	China National Machinery and Equipment Import and Export Corporation
CFA	Communauté Financière Africaine (African Financial Community)
CICMH	La Compagnie Industrielle et Commerciale des Mines de Huazhou (Huazhou Industrial and Commercial Mining Company)
CNDP	Le Congrès National pour la Défense du Peuple (National Congress for the Defense of the People)
CNPC	China National Petroleum Corporation
COMIBEL	Compagnie Minière de Bélinga (Mining Company of Bélinga)
COMUF	Franceville Uranium Mines Company
CPI	Corruption Perceptions Index
CREC	China Railway Engineering Corporation
CSR	Corporate Social Responsibility
DBSA	Development Bank of Southern Africa
DGRAD	La Direction Générale des Recettes Administratives (General Office of Adminis trative Receipts)
DRC	Democratic Republic of the Congo
EIA	Environmental Impact Assessment
EITI	Extractive Industries Transparency Initiative
EXIM Bank	China Export-Import Bank
FAO	Food and Agriculture Organisation
FARDC	Forces Armées de la République Démocratique du Congo (Armed Forces of the Democratic Republic of Congo)
FOCAC	Forum on China-Africa Cooperation
GDP	Gross Domestic Product
HIPC	Highly Indebted Poor Country Program
ICBC	Industrial and Commercial Bank of China
IDCSA	Industrial Development Corporation of South Africa
IMF	International Monetary Fund
LRA	Lord's Resistance Army
MIBC	La Société Minière de Bakwanga (Bakwanga Mining Company)
MONUC	Mission des Nations Unies en République Démocratique du Congo (United

	Nations Mission in the Democratic Republic of Congo)
NGO	Non-Governmental Organisation
PDG	Parti Démocratique Gabonais (Gabon Democratic Party)
PRC	People's Republic of China
PRGF	Poverty Reduction and Growth Facility Program
SIPSC	Sinopec International Petroleum Service Company
SOE	State-Owned Enterprise
SSA	Sub-Saharan Africa
UN	United Nations
UNDP	United Nations Development Programme
US	United States

Executive Summary

This report builds on field research conducted in the Democratic Republic of the Congo, Gabon, South Africa and China through September – November 2008. The aim of the research was to ascertain perceptions held by Chinese stakeholders of African operational environments and transparency in general, and the Extractive Industries Transparency Initiative (EITI) in particular.

The research findings indicate that the majority of Chinese stakeholders currently engaged in the DRC and Gabon are not aware of EITI. However, Chinese company representatives show a willingness to comply with local rules and respond quickly to demands from local authorities. They showed a positive attitude toward the principle of transparency in general and the EITI in particular when informed about the initiative.

The findings of this study suggest that there are, in fact, few differences in the operating procedures between Chinese corporations and other international actors engaged in Africa. Discernable differences pertain to factors such as size and culture. The research shows that language barriers, cultural differences and misunderstandings arising from these are impediments to communication and interaction between Chinese, African and Western stakeholders in Africa that should not be understated.

The research also reinforces the notion that China's engagement with Africa is highly diverse and varies from country to country. It is also clear that Chinese corporations engaged in Africa are subject to an unprecedented level of scrutiny by the international community and believe they are being singled out for particular attention.

In fact, as newcomers to African markets, the Chinese companies in Gabon and the DRC do not have the pervasive market presence that is often portrayed in the media. Instead, most Chinese stakeholders are at a disadvantage in terms of market access and understanding the unique operating environments in these countries and regions in comparison to Africa's traditional partners from Western economies.

1. Introduction

Access to natural resources is crucial to the maintenance of China's growth and involves a wide range of private and public sector actors, both domestic and international. Chinese extractive industry and commodity trading firms are increasingly important players in Africa's extractive sectors as they seek resources for both domestic and world markets. Understanding the roles of particular stakeholders and the relationships between them in such a dynamic environment is challenging, and further compounded by the political and commercial sensitivities associated with this issue.

China's engagement with Africa is growing rapidly from a very low base; however, the exponential growth in the Asian nation's demand for African commodities over the past decade is projected to continue, with China expected to overtake the US in 2035 to become the world's largest economy.[1] Considering the current global financial turmoil, China's continued robust growth performance may ensure that this landmark is reached much earlier.

Chinese involvement in Africa is exceptionally broad and stretches across a range of sectors. The majority of China's public, private and entrepreneurial actors entering Africa are venturing offshore for the first time and encountering a range of very new formal and informal norms, rules and principles at local and international levels as they struggle to secure profits and/or market share. The challenge facing Chinese firms as they "go global" is to transfer their domestic competitiveness into the international realm.

The Extractive Industries Transparency Initiative (EITI) was established in 2003. The initiative seeks to support improved governance in resource-rich countries through the verification and full publication of company payments and government revenues from oil, gas and mining. The goal of EITI is to ensure the large revenues generated from the exploitation of natural resources are properly used to foster sustainable growth and reduce poverty.

Gabon became an EITI candidate country in 2005 and has produced two EITI reports: in 2005 and 2007. The Democratic Republic of Congo (DRC) became a candidate country in February 2008 and has issued an EITI work plan, but is yet to produce an EITI report.

As a result of China's growing interaction with the African continent, the country is an important partner for EITI in furthering the initiative in African nations alongside other main external actors. In order to further collaboration with Chinese stakeholders in Africa, it is important to ascertain their perceptions of transparency in general and Extractive Industries Transparency Initiative (EITI) in particular. That is the rationale for this study, and the main aims for the fieldwork were therefore to:

1) examine China's engagement in both the energy and extractive sectors in Gabon and the DRC;

2) identify relevant public and private Chinese companies and stakeholders;

3) identify other major foreign actors in the extractive industries in addition to relevant African stakeholders; and,

4) ascertain perceptions of Chinese stakeholders of transparency in general and Extractive Industries Transparency Initiative (EITI) in particular.

1.1 Structure of the report

This report comprises five sections. Section Two is a methodology section and presents a thorough discussion of the research methods used during the field research. Sections Three and Four present the results of the Gabon and DRC in market studies, and the final section comprises a concluding analysis.

The reader will note that the section on the DRC is more extensive than the section on Gabon. While the research team argues its findings with the same degree of certainty for both countries, the DRC is geographically larger and more politically unstable than Gabon. The structure of the extractive industries in the two countries also differs vastly. The extraction of Gabon's natural resources such as oil, manganese, and iron ore requires large scale investments by a few, established, large entities, while DRC's mining sector is open to a more complex array of micro, small, medium and large size investments since it harbours both large-scale projects and small scale artisanal extraction.

1.2 Conceptual remarks

This study revolves around several key concepts that are subject to a certain degree of ambiguity. This section identifies and then contextualises how these concepts have been used in this study.

1.2.1 Governance, corruption and transparency

Governance, corruption and transparency are recurring conceptual themes of this study. 'Governance' is defined as "the process of decision-making by the government and the process by which decisions are implemented (or not implemented)".[2] Klomp and de Haan further define good governance to be in place when "government is accountable, transparent, responsive, effective and efficient, and follows the rule of law, thereby assuring that corruption is minimized".[3]

Francisco and Pontara note that "[w]eak governance implies a breakdown in one or more parts of the structure created by the complex relationships between a country's institutions and traditions. One of the most harmful symptoms of such a breakdown is widespread corruption." [4] Similarly, Klomp and de Haan note that "[i]t is widely believed that poor governance causes well-intentioned spending to have no impact due to bribes, corrupt officials, and mis-procurement".[5]

In terms of corruption or non-transparency, the conceptual starting point for this study is Bardhan's definition, where corruption equals "the use of public office for private gain, where an official (the agent) entrusted with carrying out a task by the public (the principal) engages in some sort of malfeasance for private enrichment which is difficult to monitor for the principal".[6] Treisman notes that "[d]ifferent theories associate this with particular historical and cultural traditions, levels of economic development, political institutions, and government policies".[7] Corruption is not widely agreed to be an entirely negative phenomenon. Mauro notes that "[a]lthough most economists would probably agree that efficient government institutions foster economic growth, the magnitude of these effects has yet to be measured".[8]

1.2.2 Corporate Social Responsibility (CSR)

Corporate Social Responsibility (CSR) is a contested concept. McWilliams et al note that "[n]umerous definitions of CSR have been proposed and often no clear definition is given, making theoretical development and measurement difficult." [9] Husted and Allen further note that "there is no consensus definition; in fact, CSR has suffered numerous and contradictory characterizations".[10]

Popularly, CSR can be defined as how businesses manage "the economic, social and environmental impacts of their operations to maximise the benefits and minimise the downsides. Key CSR issues include governance, environmental management, stakeholder engagement, labour standards, employee and community relations, social equity, responsible sourcing and human rights".[11]

Porter and Kramer note that "proponents of CSR have used four arguments to make their case: moral obligation, sustainability, license to operate [popular and government endorsement, author's remark], and reputation".[12] Husted and Allen regard CSR as "the firm's obligation to respond to the externalities created by market action".[13]

In response to the moral argument, Friedman states that it would be wrong for corporates to engage in social activities, since these fall beyond their scope of expertise and their societal role. He notes that "[o]n the level of political principle, the imposition of taxes and the expenditure of tax proceeds are governmental functions. We have established elaborate constitutional, parliamentary and judicial provisions to control these functions, to assure that taxes are imposed so far as possible in accordance with the preferences and desires of the public".[14]

Because this study looks primarily at transparency and does not examine CSR *per se* in depth, it uses McWilliams et al's rather broad definition, where CSR equals "situations where the firm goes beyond compliance and engages in 'actions that appear to further some social good, beyond the interests of the firm and that which is required by law'."[15]

1.2.3 Enterprise categories

Many different thresholds and concepts are used to categorise enterprises. Most commonly, the variables staff headcount, annual turnover or total assets are used as basis for classification.[16] For this study, an approximation of staff headcount is deemed to be the most suitable variable to use since most Chinese company representatives interviewed did not reveal exactly the scale

of their operations. The Chinese companies discussed in this study are thus classified as micro, small, medium or large sized enterprises according to an approximate staff headcount. Micro sized enterprises are those who have ten or less employees, small sized enterprises have up to 50 employees, medium sized enterprises have less than 250 employees and large sized enterprises have more than 250 employees.

2. Research Methodology

The research for this project was conducted during field trips to Gabon (Libreville) and DRC (Kinshasa and Lubumbashi) during September-October 2008 and Beijing (November 2008). The field research team comprised Professor Wenran Jiang from University of Alberta's China Institute, Canada; Johanna Jansson and Christopher Burke from the Centre for Chinese Studies (CCS) at Stellenbosch University, South Africa; and local on-the-ground assistants with experience in extractive industries in Gabon and the DRC.

The research team engaged Chinese, local and foreign stakeholders involved in extractive industries in Gabon and the DRC as well as local African stakeholders and business representatives, diplomats and other foreign experts and investors. Interviews were conducted on a range of issues focusing on a set of pre-prepared general research questions:

- Who are the main Chinese stakeholders involved in African extractive industries?
- How aware are these stakeholders of EITI?
- What are their opinions of the EITI?
- Do these Chinese stakeholders see any benefits in the initiative?
- What is the perception amongst other relevant stakeholders in the African states, both public and private, of the EITI in relation to Chinese firms?
- What are their perceptions of Chinese firms?
- What impact has the EITI had on the Chinese businesses operating in these countries?
- How will the EITI influence the business operations of Chinese firms in each country?

In the DRC, a number of Chinese entrepreneurs active in exploration, extraction, processing and logistics within the mining sector were interviewed with a strong focus on small-scale private entrepreneurs as well as one large company with Chinese government support. Many of these enterprises also owned and/or ran operations in other African countries including South Africa, Zambia and Zimbabwe.

As explained further in the next section, the large Sicomines project reportedly valued at US$ 9 billion had barely started at the time of this field study. The data collected concerning knowledge of and attitudes towards transparency therefore emanate from interviews with representatives of micro, small and medium size enterprises in Katanga in south-eastern DRC and not with Sicomines representatives which are yet to begin operation.

Since this field study was conducted in September and October 2008, the situation for Chinese entrepreneurs in Katanga has changed drastically as the global financial crisis has had a serious impact on commodity prices, including copper and cobalt, threatening the viability of their projects. Several major mining houses in the DRC have put their operations on hold, a majority of copper and cobalt treatment facilities in Katanga have closed down as a result of the price falls and falling demand in the home China market, and it is estimated that around 200,000 jobs have already been lost in the artisanal mining sector.[17] (This situation is described further in section 4.)

While the situation on the ground has changed since the field research was conducted – despite the fact that it was carried out so recently – the report includes updates of the situation in December 2008. It should be noted that as the changes in the Congolese business environment do not directly relate to governance, the findings in terms of Chinese company representatives' knowledge of and attitude towards transparency and EITI, and the lessons that can be extracted, remain valid.

In Gabon, Chinese business representatives active in oil, mining and forestry were interviewed. The companies they represented were mostly medium and large-scale companies, both private and state-owned. Please see the respective case studies for more information on the Chinese business representatives consulted in each country.

In China, the research team interviewed Chinese and Western extractive industry representatives and academics and followed up on contacts established during the Africa research.

The interviews with Chinese stakeholders were semi-structured qualitative interviews and were mainly conducted in Mandarin Chinese and in a few cases in English or French. The interviews aimed to ascertain the business environment in Gabon and the DRC from the perspective of the Chinese and to identify country-specific challenges. Transparency and EITI were introduced as part of the discussion associated with the regulatory environment in the respective countries.

In view of the sensitive nature of the subject matter, interviews were conducted on condition of strict anonymity and the identities of all the respondents have been concealed. Most of the Chinese company representatives interviewed for this study were exceptionally frank. The statements of different stakeholders were cross referenced against one another and compared with information from third sources to substantiate various views presented to the research team. The results produced a definitive pattern and clearly indicated the vast majority of respondents were, in fact, sincere.

The interviews with Gabonese, Congolese, and other foreign stakeholders were predominantly conducted in French. The interviews sought information relating to the distinctive features of the extractive industries in each country, the key investors, the procedures required to invest in the country, the primary challenges for the countries' extractive industries at present, and the interviewees' observations of and experiences with Chinese actors.

This study initially focused on the extraction of oil, gas and minerals; however, during the course of the field research the extensive involvement of the Chinese in the Gabon's forestry sector

became very apparent. Several interviews conducted with representatives of Chinese forestry companies operating in Gabon offered interesting insights into their operations and obvious parallels can be drawn with the actions of Chinese actors in extractive industries in other sectors.

3. Gabon

3.1 Introduction

Gabon is a small, tropical West African country located on the Equator, with enormous natural resources. Approximately 85 percent of the country's surface (the equivalent of 200,000 km²) is covered by rainforest, making it the second largest forest potential in Africa.[18] Gabon is also rich in oil, manganese, and iron ore, and its economy is highly dependent on export of these resources.

Figure 1: Map of Gabon

Source: United Nations

Gabon was a French colony from 1885 to independence in 1960. France still maintains an important influence in the country with a considerable military and economic presence. Gabon is a member of the African Financial Community (Communauté Financière Africaine, CFA) zone comprised of former French colonies. The French embassy in Gabon has separate economic, military and political branches and the French Ambassador to Gabon is a very influential political figure.[19] Apart from France, the United States also exercises influence in Gabon, importing a significant proportion of Gabon's manganese and crude oil and exporting aircraft, machinery and heavy construction equipment to the African country.[20]

COUNTRY FACTS

Area: 267,700 km²
Population: 1.49 mn
Life expectancy (years): 54
Infant mortality < 5 years: 91/1000
GDP/capita (PPP): US$ 14,100
Real GDP growth: 5.6%
Size of government budget: US$ 3.5 bn
GINI coefficient: 0.677
External Debt to Official Creditors (as % of GDP, 2007): 28.2%
Languages: French, Fang, Meyene, Bapounou/Eschira, Bandjabi
Ethnic groups: Four major tribal groups; Fang, Bapounou, Nzembi, Obamba
Sources: *CIA Factbook; World Development Indicators; UNDP; IMF*

The country's first leader at independence was Léon M'ba. He passed away in 1967 and was succeeded by Omar Bongo Ondimba, who after 41 years still remains President and is Africa's longest serving head of state.[21]

In 1968 President Bongo declared Gabon a one-party state. Violent demonstrations and strikes for political liberalisation in 1990 forced the introduction of a multiparty system, preceding the first multiparty elections in 30 years in September-October that year.[22]

Attempts to challenge President Bongo have been unsuccessful, however. In 2003 the Gabonese constitution was amended and the President is now eligible for an unlimited number of terms. In the latest presidential elections in 2005, regarded largely free and fair by the international community, he received a 79.2 percent majority. President Bongo's party, Parti Démocratique Gabonais (PDG), won 80 out of 120 seats in the National Assembly in the 2006 parliamentary elections.

The country has relatively strong institutional capacity and enjoys relative political stability due to the strength of the executive. President Bongo has been accused of undemocratic tendencies and unfair election methods as well as corrupt practices. Freedom House rates Gabon as merely 'party free'.[23]

In Transparency International's Corruption Perceptions Index (CPI) of 2007, where 10 represents highly clean and 0 highly corrupt, Gabon ranks 84 out of 179 with a score of 3.3.[24] Freedom House rates the Gabonese press as 'not free', citing that critical reporting is often curbed by the authorities through threat and legal harassment.[25] In January 2008, twenty-two NGOs were suspended after having criticised the social and economic policies of the country. However, the ban was lifted one week later in response to protests from the international community.[26]

3.2 Economy and development

Gabon's GDP is four times the average of other Sub-Saharan countries and the country has a small population of only 1.5 million of which roughly half reside in Libreville. Despite this, the country's relatively high GINI coefficient indicates that inequality is substantial in the country. The World Bank notes that for Gabon, "social indicators are barely higher than SSA averages".[27]

Domestic Gabonese agriculture is currently a neglected sector and almost all domestic foodstuffs are imported, both from neighbouring countries such as Cameroon and from France. The revival of the agriculture sector is apparently an important priority for the Gabonese government which is currently in talks with the China-Africa Development Fund (CADFund) to start up agricultural projects. The projects would be CADFund funded joint ventures between Chinese and Gabonese entrepreneurs. Moreover, private Chinese investors have already bought farms in Gabon and have started to produce primarily for the domestic market and then, if possible, for export to neighbouring African countries.[28]

3.2.1 Oil

Oil is currently Gabon's single most important natural resource and a key driving force behind the Gabonese economy. Oil was discovered in 1926 by the French oil company Elf and accounts today for 77 percent of exports, 45 percent of GDP and 60 percent of budgetary revenue.[29]

In January 2007 estimates indicated proven reserves of 2 billion barrels and oil production in 2006 was 268,000 billion barrels a day making Gabon the sixth largest oil producer in Sub-Saharan Africa with the fourth largest crude oil reserves.[30] Gabon's oil consists both of 'sweet' and 'heavy' crude.[31] Since the country has no national oil company, it depends on foreign investors to do all the drilling. According to a senior Gabonese government official, offshore oil in Gabon is not yet well explored, particularly the ultra deep sections.[32]

Around 40 companies are currently active in Gabon's petroleum sector with the United States and France being the most important investors. Four distributors are active in distribution in the country: Total, Mobil Oil, Pizo and Shell. Approximately 30 oilfields, both onshore and offshore, are currently in operation and many more are under exploration. Furthermore, associated activities such as logistics, off-shore and on-shore construction, drilling operations, maintenance and supply in the trade hub of Port Gentil also represent a significant part of Gabon's economic activity.[33]

It is feared that the country's oil reserves might become depleted soon, and since oil production peaked in 1997 with an output of 370,000 barrels a day (18.5 million tonnes per year) it has gradually declined primarily as a result of the declining yield at the Rabi-Kounga site and an absence of new important discoveries.[34]

3.2.2 Mining

Gabon is the world's second largest producer of *manganese*. The most important deposit is located in Moanda in eastern Gabon with estimated reserves of 200 million tonnes. Annual output in Gabon's total manganese production was 1.9 million tonnes in 1997, 1.7 million tonnes

in 2000 and 2 million tonnes in 2003.[35]

New large deposits of manganese have been discovered and in the wake of declining oil output and need for economic diversification, hopes are that manganese, as well as mining generally, will become the new leading resource of Gabon. According to the Minister of Mines, Energy, Oil and Hydraulic Resources, Richard Onouviet, "900 mineral deposits and potential sites have already been identified throughout the country […] all of which bodes well for a brighter future for a mining industry undergoing profound changes".[36]

La Compagnie Industrielle et Commerciale des Mines de Huazhou (CICMH), a joint venture between the two Chinese companies Ningbo Huaneng Kuangye and Huazhou, has been awarded manganese concessions at a deposit in the Bembélé mountains close to the town of Ndjolé. Iron ore exploitation also forms part of attempts to diversify the Gabonese economy and the untapped iron reserves in the Bélinga region have been allocated to a Chinese consortium, Comibel. The Bembélé and Bélinga projects are outlined further below.

At one point, Gabon also produced *uranium*. In 1956 the French Atomic Energy Commission discovered uranium deposits in the South-eastern parts of the country. From these deposits a total of nearly 28,000 tonnes of uranium were mined from 1960 to 1999 by the Franceville Uranium Mines Company (COMUF), a joint venture between the French Government-owned nuclear group Cogema and the Gabonese government. After 1999, exploitation came to a halt as it was no longer economically viable and has not resumed since. Gabon is party to the Nuclear Non-Proliferation Treaty and signed a safeguards agreement in 1979, although there is currently no comprehensive safeguards treaty in force.[37]

3.2.3 Forestry

Forestry is a highly important sector which provides employment for as much as 28 percent of Gabon's population--second only to the public sector in providing employment. The country has over 22 million hectares of forest, of which 12.5 million has logging potential. The most important species, representing more than 25 percent of the resources, is okoumé which is a hardwood used to manufacture plywood and railway sleepers. In 2005, timber exports contributed 2.5 percent of Gabon's GDP. While this number is relatively modest, forestry remains an important sector for Gabon.

Asia is an important destination for Gabon's timber exports and currently receives over 60 percent, of which more than 80 percent goes to China. The lion's share of the wood exported to China from Gabon consists of raw wood.[38] Many foreign companies are active in Gabon's forestry sector which is dominated by French companies but also comprises companies from Lebanon, China and Malaysia.[39] Please see below for more information on Chinese forestry companies in Gabon.

3.3 Sino-Gabonese relations

3.3.1 Overview

At independence in 1960, Gabon established diplomatic ties with the Republic of China (Taiwan) which lasted until 1974. Since formal relations were established between Gabon and the People's Republic of China in 1974, more than 20 high-level visits have taken place. Having personally met several generations of Chinese during his long period in power, President Bongo has developed longstanding relations with China.[40] Gabon has received support from China in the form of clinics, schools, the National Assembly building (2003) and the Senate building (2005) in addition to medical teams dispatched from China.

The latest development is the 10,000 m² George Rawiri Maison de la Radiodiffusion Télévision Gabonaise, the new headquarters for the Gabonese broadcaster financed by Chinese concessional finance, built by the Chinese company CMEC and inaugurated by President Bongo on the 1st December 2007. [41] China has also supported Gabon with agricultural projects, with the provision of agricultural experts as part of the UN Food and Agriculture Organisation (FAO) South-South Cooperation initiative.[42]

A Gabonese delegation headed by Jean Ping, then Gabonese Minister of Foreign Affairs and Cooperation, currently Chairperson of the Commission of the African Union (AU),[43] visited the Ministerial Meeting of the Forum for China-Africa Cooperation (FOCAC) in 2000. In December 2002 the two countries signed an agreement whereby China committed to provide Gabon with non-interest loans. Moreover, since 1975 China has provided a growing number of Gabonese students with Chinese Government Scholarships for higher education. In 2004, 13 full scholarships were awarded, in 2006 the number was increased to 20 and in 2007 it reached 31.[44]

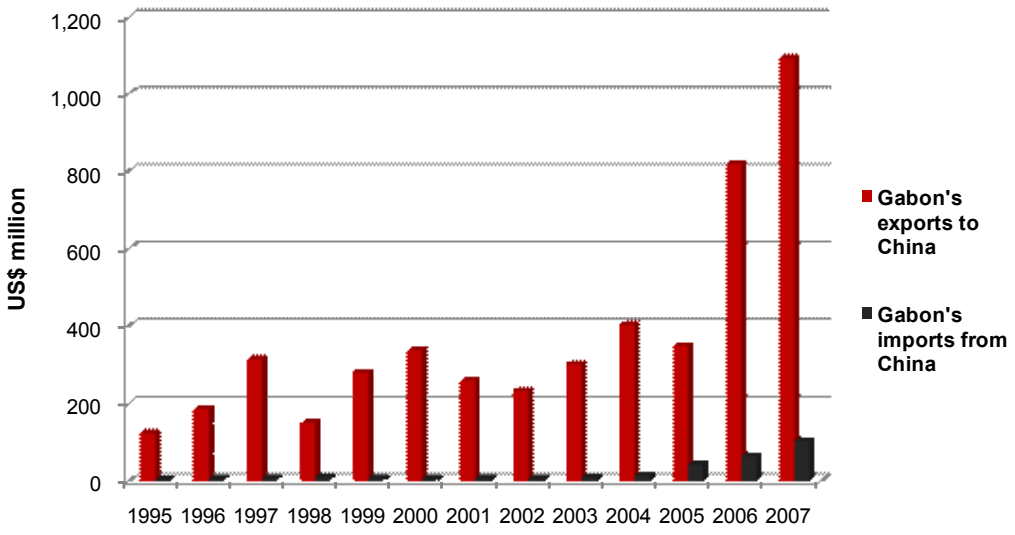
A joint committee within the Gabonese parliament is in charge of Sino-Gabonese relations. It is presided over by the Minister of Communications and each time a proposed investment project is submitted by Chinese stakeholders, it is discussed by the Committee and over the course of implementation the project is continuously monitored by the Committee. Moreover, the process is supported by a Bi-National Commission which meets every two to three years and was reinstated after the Chinese President Hu Jintao's visit in 2004.[45]

There are a variety of Chinese entrepreneurs in Libreville. The Association of Overseas Chinese in Gabon has approximately 2,000 members and around 20-30 Chinese businesses are active in Libreville; some in restaurant and retail, others are doing 'big business' in Gabon's extractive industries. As in most other African countries, there are also small scale Chinese traders in Gabon. Several Chinese small scale traders at Libreville's Léon M'Ba market consulted for this research explained that the profit margins in Libreville's markets have dropped over the past few years and competition is tough. There is also substantial competition between Chinese traders. The Chinese traders at the market had not joined the Association of Overseas Chinese as they perceived it to be more of a "club for the rich".[47]

3.3.2 Sino-Gabonese trade

China's imports from Gabon have been greater than its exports to the African country over a long period of time as the trade data below indicates.

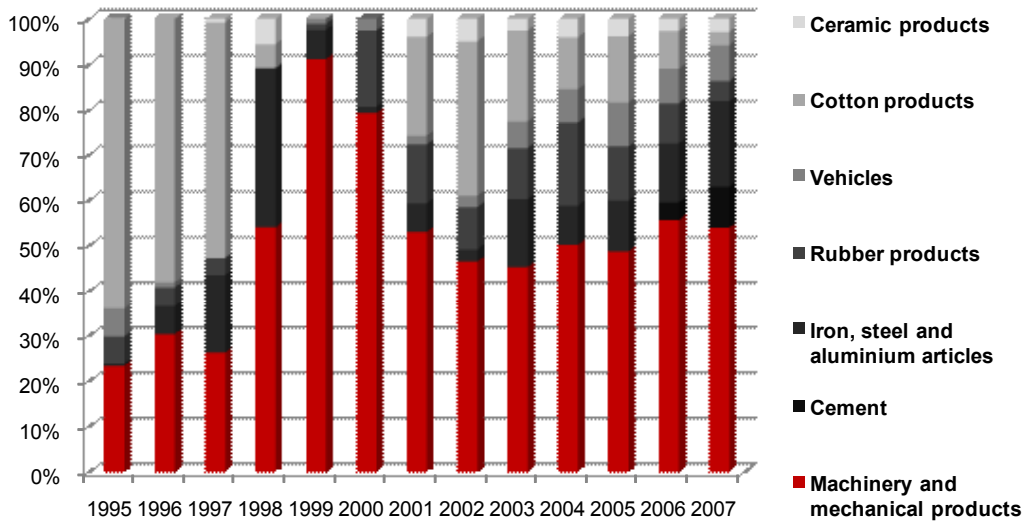
Figure 2: Bilateral trade between Gabon and China (1995-2007)



Source: World Trade Atlas/Tralac

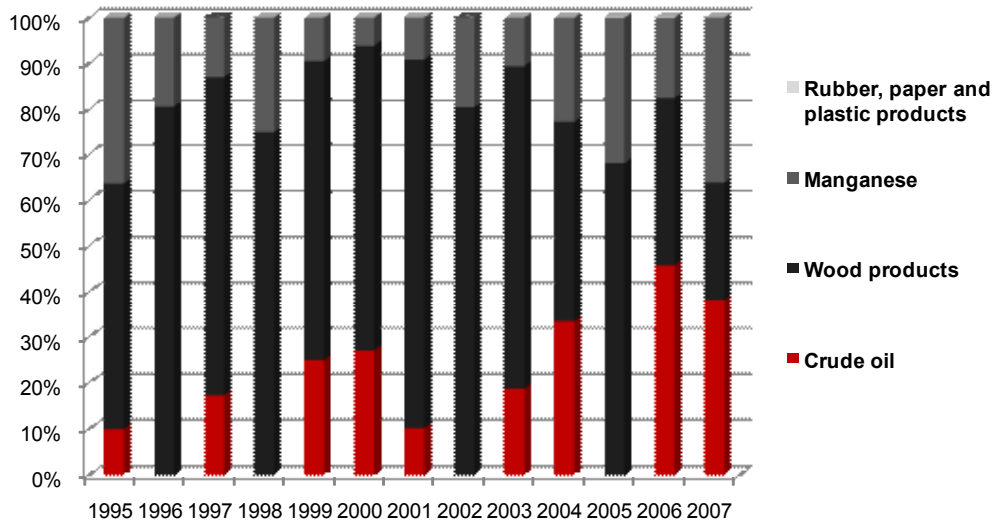
Chinese exports to Gabon mainly consist of textiles, mechanical and electronic products while its major imports comprise of timber, crude oil and manganese ore.

Figure 3: Composition of Gabon's top-20 imports (HS4 level) from China (1995-2007)



Source: World Trade Atlas/Tralac, CCS analysis[48]

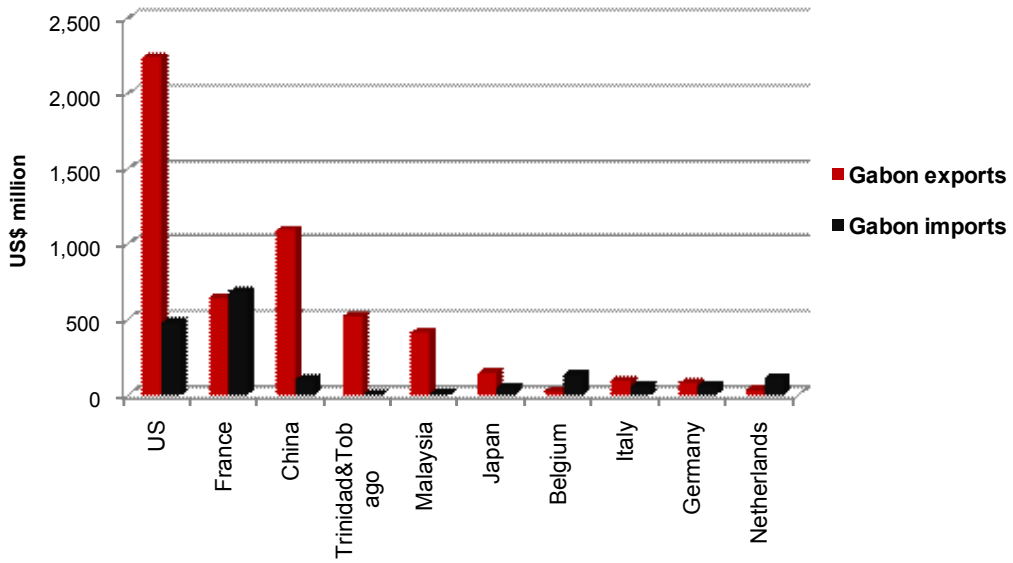
Figure 4: Composition of Gabon's top-20 exports (HS4 level) to China (1995-2007)



Source: World Trade Atlas/Tralac, CCS analysis

The most important exporter to Gabon is France, closely followed by the United States. The U.S. is also by far the most important buyer of Gabonese exports, followed by China, France, Trinidad and Tobago, and Malaysia.

Figure 5: Gabon's top-10 trade partners (2007)



Source: UN Comtrade

3.4 China's involvement in Gabon's extractive industries

Gabon's extractive industries may be divided into three main sectors; mining, oil and forestry. A number of large state-owned and private Chinese companies are active in all three sectors.

3.4.1 Oil

The main Chinese company operating in Gabon's oil sector is Sinopec. The company has fully owned exploration blocks as well as joint exploration and production blocks, as outlined below. Sino-Gabon Oil and Gas, a subsidiary of Sinopec, was established in March 2005 and is, together with Transworld, conducting the exploration of the Salsich block.[50]

Another subsidiary of Sinopec, Sinopec International Petroleum Service (SIPSC), has been carrying out exploration work for Sino-Gabon Oil and Gas.[51] A senior manager of a foreign oil company confirmed that a subsidiary of China National Petroleum Corporation (CNPC) is conducting a seismic study for the block that his company is exploring.[52] In the bid for the seismic study, SIPSC also placed a bid but came in second, suggesting that there is a certain level of competition between Chinese entities operating in Gabon.

Sinopec's own blocks are the Lotus, GT-Est and DT-Est blocks. Sinopec's experience in Loango is now well known worldwide. Having been awarded the Lotus exploration block located in the Loango National Park, Sinopec started their seismic exploration activities. The environmental impact assessment (EIA) was conducted by a Dutch company, but had not been approved by the Ministry of Environment.

The Gabonese National Park service ordered exploration to stop in September 2006. Conservation groups had pointed out that oil exploration threatened rare plants and animals and the environmental impact study had not been approved by the environment ministry.[53] Eventually the Dutch company that had conducted the original EIA redid it in conjunction with EnviroPass, a Gabonese organisation and the WWF. They have since resumed activities and are currently exploring for oil in the Loango National Park.

Several Gabonese, Western and Chinese respondents interviewed regarding this stated that the EIA that was subsequently conducted was the best ever produced in Gabon to date.[54] Communication difficulties seem to have been one of the reasons why the problems emerged in the first place. One well-placed observer told the research team that initially, government was not enforcing regulations particularly well and Sinopec were not even informed that the area they were going into was a National Park.[55] A senior Chinese government official interviewed explained to the research team that it has to some extent become a strategy for Chinese companies operating in Gabon to contract Western firms to conduct EIAs in order to improve credibility and anticipate criticism.[56]

The joint ventures in which Sinopec is a partner in Gabon are two onshore concessions, Ozigo and Awoun, both have 'heavy' crude oil.[57] Shell Gabon is the operator in both these joint ventures. In the joint venture of the Ozigo permit, Sinopec has 5.75 percent, Shell Gabon has 44.25 percent and Amerada Hess has 50 percent. Ozigo has been in production since 2005 and is currently producing at 18-20,000 barrels a day. However, these output levels are likely to

decline over the next few years according to a very well informed observer.[58]

Sinopec entered the Ozigo joint venture after oil had already been discovered. In the exploration phase, the stakes were as follows: Shell 44.25 percent, Amerada Hess 44.25 percent and the Gabonese state 11.50 percent. As the State's share was to be sold, Amerada Hess was allowed to buy 5.75 percent and the other 5.75 percent was sold to Sinopec. According to the senior manager quoted above, several other companies, including the ones participating in the exploration phase, were interested in buying the Gabonese state's share in the Ozigo permit. However, it was sold to Sinopec which had not participated in the risk of the exploration phase. A senior private sector representative respondent suggested this was a political move to facilitate China entry into Gabon's oil market in order to access Chinese capital and reinforce bilateral ties between the two countries.[59]

At the Awoun deposit, oil was discovered in 2003. Production facilities are currently being built and the concession is forecast to enter into production late 2009 or early 2010. The joint venture setup in the Awoun permit is comprised of: Shell Gabon with 40 percent, Addax with 40 percent and Sinopec with 20 percent. According to a well informed observer, Sinopec entered into the Awoun joint venture in a similar fashion to the venture with Ozigo once oil was already discovered.[60] Other companies also showed interest when the State's share was to be sold, but the share was given to Sinopec.

Chinese stakeholders, Gabonese government officials, representatives of other companies and civil society representatives all confirmed that the Chinese presence in the oil sector remains limited. The traditional actors, Shell Gabon and Total Gabon, continue to dominate, with Shell Gabon operating the country's largest deposit, Rabi-Kounga, which produces 150,000 barrels per day accounting for 40 percent of national output.[61] The majority of respondents, including the Chinese themselves, believe that Chinese firms are unlikely to gain significant market traction in the medium to long term.

3.4.2 Mining

Gabon's mining sector only recently started to become productive, with the one exception of Comilog, a French company that has been exploiting manganese in Moanda since 1953. It is currently the second largest producer worldwide, with an annual production of 3.5 million tonnes projected in 2008.[62] As the mining sector is not well developed yet, there is not much processing capacity in Gabon.

The minerals extracted by Chinese companies in the country are processed in China, according to the Chinese respondents interviewed. Interestingly, this is the case also for the French company Comilog, who has two processing factories in Guangzhou province.

Over the last few years, several Chinese companies have entered Gabon's mining sector. The Chinese company Sinosteel is currently exploring for manganese but that has not yet entered production.

The joint venture CICMH (Compagnie Industrielle et Commerciale des Mines de Huazhou) has been awarded manganese concessions at a deposit in the Bembélé Mountains, located 36 km

from the town of Ndjolé. CICMH originally comprised the two Chinese companies Huazhou, China's most important manganese producer with offices in Guangzhou, Beijing and Shanghai, and Ningbo Huaneng Kuangye. In August 2008, Hong Kong-listed CITIC bought a 51 percent stake of the joint venture.[63]

The deposit is estimated to hold 30 million tonnes of manganese with a mineral purity ranging between 30-40 percent, considerably lower than the mineral purity of the manganese extracted by Comilog in Moanda.[64] At the time of the field research for this study in September 2008, CICMH had finalised their feasibility study for their concession and was about to start production to become the first Chinese company to move into production of manganese in Gabon.

Their production facility has a 500 tons annual capacity and a 30 year exploration span. Huazhou appears to be aiming at hiring high skilled Gabonese workers and the research team was shown photos by a senior Gabonese government official of Gabonese graduates visiting China for management training before taking up positions in Huazhou.[65]

The iron ore concessions of the Bélinga Mountains in north-eastern Gabon, 500 km east of the capital of Libreville, have been allocated to a consortium named Comibel (Compagnie Minière de Bélinga, Mining Company of Bélinga) for 25 years of exploitation. The concession was awarded to Comibel in September 2006 after they won a controversial and opaque bidding process against the Brazilian company Companhia Rio do Vale Doce (CVRD).

The Comibel consortium comprises the Gabonese state, China National Machinery & Equipment Import & Export Corporation (CMEC) and Panzhihua Iron & Steel Group. The mine will be operated by CMEC, the main contractor of the project, and when the mine reaches full production its yearly output of iron ore is expected to be 20-30 million tonnes.[66] The total value of the project is US$ 3 billion and the project is financed in its entirety by China Export Import (EXIM) Bank. Burke et al notes that "[t]he project was welcomed by the Gabonese government because a fear that most of their oil fields were maturing precipitated a pressing need to diversify the economy".[67]

The award of the contract to Comibel has been hotly debated and speculations range from rumours of millions of CFA francs delivered every week to Gabonese government officials and intervention by former French President Jaques Chiraq on the side of the Chinese, to the Gabonese official version that the Chinese offered more infrastructure in their bid and that access to Chinese Government backed capital was perceived as more reliable as it remains unaffected by fluctuations in the capital market.[68]

The Bélinga deal is designed according to the barter trade format for which China has become known in Africa – the so-called concessional finance model.[69] Comibel will invest in infrastructure developments necessary for the exploitation of the iron ore deposits as they are located in a remote area where a lack of infrastructure has inhibited their exploitation ever since 1955 when they were discovered.

According to the agreement, Comibel will build a special purpose deep-water port at Santa Clara, a 560 km railroad from Bélinga out to the coast, and a hydro-electric plant.[70] Through its subsidiary China Harbour, China Communication and Construction Company will build the port,

for which the feasibility study should be finished by December 2008. China Railway Engineering Corporation will build the railway which is due to be finished next year, 2009.

The feasibility study for the hydro plant was almost finished by November 2008.[71] In addition, it was announced in January 2008 that China will extend a US$ 83 millon loan on concessional terms to Gabon to extend their Grand Poubara hydroelectric dam scheme linked to the Bélinga project.[72] The foundation stone for the power station was laid by President Bongo on the 14th November 2008.[73]

The site selection for this hydro project has been heavily criticised by NGOs because of its potential environmental impacts,[74] and in response to the criticism a delegation in charge of monitoring the Bélinga project was established by government to which NGOs were also invited. However, the NGOs have argued that the meetings of the delegation were held in the absence of the NGO representatives and thus did not fulfil its purpose.[75]

The final agreement, "Mineral Property Right Agreement on the COMIBEL Iron Ore Project of Gabon" which signals that exploration will start, was signed on the 24th May 2008 between Comibel and the Gabonese government.[76] Gabonese NGOs were critical, arguing that the agreement had been signed without proper participation or consultation with civil society, particularly with regards to the above mentioned delegation initiated by government where the NGO community had been invited to joint monitoring of the project.[77]

3.4.3 Forestry

According to a senior Gabonese government official, the total number of companies operating in Gabon's forestry sector is approximately 80. Only about 30 are active in logging with the remaining 50 companies active in wood processing. One third of the logging companies are Chinese companies, both privately-owned and subsidiaries of Chinese parastatals.

Other companies in the sector are of Indian, Lebanese, Moroccan and French origin, amongst others. Chinese influence has according to the respondent grown exponentially over recent years. French companies, which have traditionally had a very strong position in Gabon's forestry industry, are now facing strong competition from Chinese companies. Some smaller French companies have reportedly been annexed by Chinese entities. The respondent also confirmed that a number of Chinese companies are definitely among the most advanced companies with regards to environmental standards and general operational behaviour.[78]

3.5 Chinese companies' experience of operating in Gabon

All respondents - Chinese, Gabonese, Western and others - agreed that Western companies, predominantly the French, have a firm grip on Gabon's extractive industries, particularly in oil. This is simply due to long standing historical ties and cultural similarities. Chinese companies have started to gain market inroads in recent years and their market share in forestry has increased markedly. However, their involvement in Gabon's resource extraction sector remains very small. The widely held perception that China is somehow "annexing" Africa's resources seems to have little basis in reality, at least in the case of Gabon.

The Chinese respondents were relatively content with Gabon's operating environment. Gabon was seen by the respondents as a good place to operate and many suggested it was probably one of the best in Africa. The Gabonese state and the relevant government ministries were considered by the Chinese respondents to be highly accommodating to foreign investors, particularly the ministries that deal with extractive industries (oil, mining and forestry). These were seen as more internationalised and considered efficient.

The extraction of Gabon's natural resources, particularly oil, manganese and iron ore, require large scale investments and long term plans. Accordingly, most of the Chinese company representatives interviewed for this study represented medium and large companies determined to create sustainable businesses with long-term visions for the future in stark contrast to many of the smaller operators interviewed in the DRC who sought quick profits for minimal investment.

All of the company representatives consulted stated that part of being competitive is to comply with all legal requirements and regulatory initiatives and explained that they are more than willing to abide by these. In fact, complying with the rules as well as possible was seen as a way to gain a competitive advantage. The commitment of Chinese company representatives to comply with local rules and regulations was confirmed by a cross section of Gabonese government representatives from the departments of mining, petroleum and forestry.[79]

The latter stated that in their experience, Chinese companies are very serious in their endeavours in Gabon and the Chinese companies who have made mistakes in their operations have rectified these as soon as they were alerted to them by the Gabonese authorities. Both Gabonese and Western respondents agreed that in situations such as in the Loango National Park (see section 3.4.1) and other similar incidents, the Chinese stakeholders have been swift in their response to the critique and improved their practices noticeably. The Chinese are thus seen by the respondents as agile actors with a strong willingness to learn from their mistakes and to operate correctly.

Generally speaking, the overall findings from the Gabon field research suggest that Chinese companies are seen by the Gabonese respondents as no different *per se* than other corporate actors in Gabon; they are looking to secure fair return on their investments. The differences that were brought up instead relate to culture. The Chinese were often quoted as being meticulous and "suspicious" with the result that business negotiations drag out for an unreasonably long time before the Chinese party is satisfied. However, this was merely attributed to cultural differences and language difficulties and was not seen as a major problem.[80]

The Chinese respondents were well aware of the attention devoted to their activities in Gabon. They stated that it becomes a challenge to learn about an operating environment whilst competing with far more established actors in the market and at the same time being particularly scrutinised for being Chinese. A manager of one of the more successful Chinese companies stated that their compatriots who try and make a quick buck by cutting corners ruin the reputation for the other, more serious Chinese companies.[81]

The vast majority of Chinese company representatives reported that they feel genuinely welcome in Gabon, but at the same time they must live with being in the spotlight. All the

Chinese respondents interviewed were aware of Sinopec's Loango debacle and how that has fuelled suspicion towards the Chinese, but the spotlight directed towards them is perceived to be unfair at times. "Western companies are not exactly models themselves", one Chinese respondent stated.[82]

A number of respondents, both Chinese and Gabonese, suggested that the operations of Chinese companies in Gabon are often misunderstood. They explained that the reason why Chinese companies are so competitive is that they integrate production, but that this is often overlooked. One Chinese respondent pointed out that the fact that not all Chinese companies active in Gabon are successful is often forgotten. Depending on management, some companies thrive while others develop more slowly or even fail.[83]

None of the large private company representatives interviewed had any state support for their activities. It was either not available or the procedure when applying for it was too complicated, making it difficult to access funds.

3.5.1 Governance: Western advantage

The Chinese respondents stated that they, as newcomers in Gabon, are still learning how to operate in the country. One Chinese company representative explained that since Gabonese laws are based on the French legal system, French and other Western actors have a competitive advantage in terms of negotiating contracts. According to this respondent, all other actors come in after the French in terms of ability to master the Gabonese regulatory environment.[84]

The French were also cited to have operational advantages in other ways. Even though a functioning statutory system is in place, Gabonese regulations are definitely seen as negotiable. All Chinese company representatives interviewed stated that there are parallel 'unspoken' local rules which one also has to know in order to operate. Local connections are imperative in this regard; the more high-level within government the better. Several Chinese and Gabonese respondents argued that because the French know the Gabonese system the best, they also have the best ability to operate in the existing environment.

Several Gabonese respondents suggested that most probably there are no differences *per se* between Chinese and Western actors when it comes to the matter of corruption. Instead, it comes down to a difference in method – Chinese actors may not have the cultural competency to operate in a covert fashion in situations where Western companies would know how to manoeuvre in a 'smooth' and discrete way.[85]

One Chinese respondent with considerable experience operating in France explained that he definitely sees the difference between himself with his knowledge of the French system, and other Chinese operators that have recently arrived.[86] Interestingly, a representative of one Chinese company, confirmed by the relevant Gabonese government counterparts to be something of a 'model company', stated that one of their strategies is to fill all management positions with French expatriates born in Gabon.[87] Thus, a major strategy for success that Chinese companies in Gabon uses seems to be learning from the French.

A cross section of Chinese respondents in Gabon reported that the only illegitimate payments

they are requested to pay are by local officials at the border; however, several respondents stated that these petty bribes can be avoided once they become familiar with the situation and that not everyone is approached. Overall, the governance situation in Gabon was not cited by the Chinese respondents as an impediment to operating in the country.

3.6 Chinese companies' perceptions of EITI

Gabon became a candidate to the Extractive Industries Transparency Initiative (EITI) in 2005. The country has produced two country reports (in 2005 and 2007) and the initiative enjoys support from the Presidency. EITI in Gabon currently covers oil and mining, while forestry – which continues to be the country's most economically important industry – has not yet been included in the EITI report.

In Gabon's oil and mining sectors, the Chinese actors interviewed were well aware of EITI, welcome it, and comply willingly. This was confirmed by representatives of EITI in Gabon who stated that no company, Western, Chinese or other, has displayed any resistance to participation in the EITI.[88] One Chinese respondent stated that his company was happy to participate since they have nothing to hide. However, the Chinese representatives from these two sectors stated that the whole initiative is very new, they do not have much experience of participating in it yet and they do not really know what it will mean in the long run; they are part of it, but thus far it is driven by government.

Only some of the Chinese forestry company representatives in Gabon were aware of EITI, as the initiative is yet to be implemented in this sector. The research team explained the principles of EITI to those not acquainted with it and all the respondents involved in the forestry industry, without exception, whether previously aware or not, stated that they were willing to participate if the initiative was extended to forestry.

For these Chinese respondents, EITI does thus not represent a demanding obligation and would merely be another regulatory requirement among others they are already fulfilling. One respondent of a medium sized forestry company suggested that if EITI could help them to be perceived as a serious company and thus benefit their business, it would be an added rationale for them to participate.[89] Overall, the Chinese respondents did not seem to regard participation in EITI as anything more than simply a part of the general regulatory environment in Gabon.

Most of the Chinese respondents suggested they have been singled out for unfair and biased attention by the Western media on China's engagement with Africa. In some cases this perception may have coloured and negatively affected the perceptions of Chinese stakeholders toward CSR initiatives such as the EITI – one of the respondents explained that such initiatives come across as mainly targeting Chinese companies.[90]

There is thus considerable support for the EITI among Chinese company representatives in Gabon, although most respondents suggested their knowledge of the initiative is limited simply because it is so new.

4. The Democratic Republic of the Congo

4.1 Introduction

The vast central African country of the Democratic Republic of the Congo (DRC) is the third largest country in Africa after Sudan and Algeria. It is home to one of the world's largest reserves of untapped natural resources including copper, cobalt, diamonds, platinum, gold, oil and gas. Up to 62 percent of the country is covered with tropical forests.[91] The DRC has experienced protracted conflict associated with these resources and is ravaged by poverty, ranking 168 out of 177 countries included in UNDP's Human Development Index.[92]

Figure 6: Map of the Democratic Republic of the Congo

Source: United Nations

COUNTRY FACTS

Area: 2,345,000 km²
Population: 66.5 mn
Life expectancy (years): 54
Infant mortality < 5 years: 91/1000
GDP/capita (PPP): US$ 300
Real GDP growth: 6.30%
Size of government budget: US$ 700 mn
GINI coefficient: 0.411
External Debt to Official Creditors (as % of GDP, 2007): 28.2%
Languages: French, Fang,Lingala, Kingwana, Kikonga, Tshiluba
Ethnic groups: >200, the four largest are Mongo, Luba, Kongo and Mangbetu Azande
Sources: *CIA Factbook; World Development Indicators; UNDP; IMF*

After 52 years as a Belgian colony, the Belgian Congo gained its independence on the 30th of June 1960.[93] The first leader of the independent Republic of the Congo, Patrice Lumumba, ruled the country for only a short while before being assassinated in 1961.[94] His successor, the US-backed Mobutu Sese Seko assumed power in 1965 and became an important Cold War ally for the United States.

Mobutu remained Congo's leader for three decades. His one-party state is widely seen as having ruined his country's socioeconomic and administrative capacity as he plundered and practically ran the economy, including the mining sector, into the ground.[95] During the 1960s, China provided limited support to some of the rebel groupings that were seeking to overthrow Mobutu. For more info on this, see the next section on the history of Sino-Congolese relations.

In 1997, Mobutu was toppled by Laurent Kabila in what is known as 'the First Congo War'. The country's name was then changed to the current 'Democratic Republic of the Congo' (DRC). Shortly after Kabila was instated, relations between the President and his allies in Rwanda and Burundi deteriorated rapidly. The expulsion of Rwandan troops in 1998 triggered a series of events that eventually led to the reigniting of war, a conflict that has been termed 'the Second Congo War' or 'Africa's World War.'

The conflict lasted from 1998 to 2003, involved armies from six African countries and claimed the lives of around 5 million Congolese. It has been argued that access to and competition over natural resources for personal enrichment and military funding prolonged the conflict vastly. The involvement of Rwandan, Ugandan, Zimbabwean and Congolese army officers, various militias, rebel forces and Western corporates in illicit extraction is well documented.[96]

Unrest currently plagues the eastern parts of the DRC. The North Kivu province is particularly violent since the launch of a new offensive in August 2008 by the Congolese Tutsi rebel leader General Laurent Nkunda, who claims to be defending the right of the Tutsi minority in the DRC from Rwandan Hutu militants.[97] Fighting between Nkunda's CNDP forces and the poorly trained FARDC (Forces Armées de la République Démocratique de Congo, the Congolese army) has displaced more than 250,000 civilians since the resumption of hostilities, many of whom have been displaced several times before.

At the time of writing, Kabila's government had finally agreed to meet Nkunda's rebels for talks in Nairobi. The UN Security Council decided on 20 November 2008 to reinforce MONUC, the overstretched UN peacekeeping force in the DRC, with nearly 3,000 additional troops, until the end of 2008.[98] There is also unrest in the north eastern parts of the DRC where the Ugandan

rebel movement the Lord's Resistance Army (LRA) is operating - raiding towns and abducting children, resulting in loss of lives and large scale displacement.[99]

4.2 Economy, development and governance

After so many years of war and exploitation, the Congolese economy has little momentum to develop and relies mostly on subsistence agriculture. In 2006, approximately 70 percent of the population was dependent on agriculture for their livelihood.[100] Artisanal mining is a key area of informal economic activity, often described as 'the backbone of the Congolese mining economy.'

Before the economic crisis hit the artisanal mining sector in the second part of 2008, approximately 67,000 people were working as collectors of cobalt and copper-infused stones in Katanga Province alone.[101] Countrywide, a total of up to 2 million Congolese were working as artisanal miners, digging for minerals including gold, tin and diamonds. Approximating five dependants per worker, it is estimated that 12.5 million Congolese or 20 percent of DRC's population depend upon artisanal and small scale mining for their livelihood.[102] It is widely reported that their working conditions are appalling. For example, Clark et al note that child workers are commonly present in the mines.[103]

However, with the downturn in the global economy and the drop in commodity prices (the effects of this on the mining sector is outlined further below), the opportunities for artisanal miners to eke out a living have been reduced drastically. At the time of writing, up to 200,000 jobs may have already been lost in the artisanal mining sector.[104] The socioeconomic effects of the economic downturn is expected to be devastating, with state revenues coming down and unemployment rates rising rapidly.

The lack of infrastructure – in terms of roads, railways, and electricity – poses a major challenge for Congolese reconstruction and economic development and in particular, the country's resource extraction industries. Many Congolese mines currently generate their electricity from small scale diesel generators, a solution which is unviable with ever-increasing fuel prices. Large scale hydroelectric power generation is a solution, especially since the mighty Congo River has vast potential in that area. However most of the country's hydroelectric generation capacity is in ruins following decades of neglect.[105]

In April 2008, the African Development Bank signed a US$ 58 million grant agreement with the DRC government for the rehabilitation of the Inga power station on the Congo River, as well as the Kinshasa electricity distribution network.[106] Later, in June 2008, it was reported that MIBA, the DRC's diamond parastatal, would finalise negotiations within two months for a US$140 million loan with South African lenders - the Industrial Development Corporation of South Africa (IDCSA) and the Development Bank of Southern Africa (DBSA). The loan will finance the start of mining operations and infrastructure refurbishment.[107]

In terms of governance, the situation in the DRC is bleak. Problematic patterns of large scale corruption were perpetuated during the Mobutu years and patronage is still a very important feature of Congolese economic and societal life. Curtis notes that "[t]he economic sector is

highly personalised and closely linked to politics and security issues." [108] Garrett notes that "[i]n the DRC, patronage networks continue to provide social cohesion and economic opportunity, but they also create difficulties for those in official employment, who have to take care of their extended circle of relatives". [109]

In Transparency International's Corruption Perceptions Index (CPI) of 2007 (where 10 represents highly clean and 0 highly corrupt), the DRC ranks 168 out of 179 with a score of 1.9.[110] The country is ranked as 'not free' in the Freedom House's Freedom Index,[111] and according to Human Rights Watch, political repression occurs in the country.[112]

Accordingly, the business environment in the DRC is judged as among the worst in the world. In the World Bank's *Doing Business 2009* report, covering the period of April 2007 to June 2008, the Democratic Republic of Congo's regulatory environment and its enforcement was the least conducive to the operation of business of all countries assessed worldwide.[113]

Curtis notes that "[t]he DRC's banking sector is unreliable, the judiciary is not independent, and key local, regional and international actors benefit from continued uncertainty and insecurity".[114] Yet, since the end of the country's 1998-2003 civil war and particularly after the country's democratic elections in 2006, foreign investors have been flocking to the country's mining sector. A Chinese owner of several medium sized mining operations in southern and eastern DRC expressed that the DRC is the "last piece of virgin land" in terms of natural resources.[115]

However, as mentioned the situation has changed rapidly in recent months as the global financial crisis has hit copper and cobalt prices hard, particularly since the demand from China has dropped. Several major mining operations in the DRC such as Central African Mining & Exploration (Camec), Katanga Mining, Anvil and First Quantum have put their operations temporarily on hold. Camec has announced that it will restart its operations again early 2009, and Anvil has stated that its 90 percent owned copper concession in Dikulushi will be on a care-and-maintenance programme until market conditions improve.[116]

Katanga's provincial Minister of Mines, Barthelemy Mumba Gama, has even expressed that the much-needed revival of DRC's mining industry "is in jeopardy due to the slump in global copper prices, coupled to the continued process of reviewing mining licences."[117] The insecurity in the east of the country has also been cited as an impediment for investors to access capital.[118] The Congolese government has introduced emergency measures to ease the pressure on foreign investors in the country's mining sector. On the 10th December, it announced that it will "reduce mineral export taxes and slash royalties owed to state coffers in an effort to save a struggling mining sector hit by falling prices and waning demand".[119]

4.2.1 Governance in the mining sector

The main legal frameworks guiding DRC's mining sector are the Mining Code (*Code Minier*), the Mining Regulations (*Règlement Minier*) and the Investment Code (*Code des Investissements*). The current Mining Code and Mining Regulations were established in 2002 and 2003 respectively with the help of the World Bank, initiating a transparent and efficient permitting process.

In 2006 a new mining plan was introduced. Following this, the DRC reportedly became more attractive for international mining industry as a destination for investment. However, the new mining code has received criticism for catering only to concessions which actors need substantial financial resources to obtain. One of the reasons for this may be that small actors with little financial capacity to stake a claim may have problems developing the concessions, since smaller players may lack the technical and financial capacity to optimise developments.[120]

The gap between statutory law and actual mining activities is vast in some parts of the mining industry. Garrett notes that "[t]he Congolese institutions involved in the governance of the [artisanal and small-scale mining] ASM sector suffer from limited institutional capacities, which compromises their organizational efficiency and leaves them vulnerable to corruption".[121] While the ASM sector has been labelled by some observers as 'chaotic,' it is in fact meticulously organised on the micro level by means of multiple-rule systems comprising of both statutory and customary law.[122]

A review of major mining contracts signed between the DRC and foreign investors is currently underway. In 2004, a special parliamentary commission, the Lutundula Commission, was established to examine mining contracts signed during the war years, and delivered its final report in 2006.[123]

In June 2007, the Congolese government created an Inter-Ministerial Commission for the Review of Mining Contracts and initiated a review of mining contracts signed during the country's civil war.[124] The work of the Review Commission was finalised in October 2007,[125] published in March 2008[126] and in June 2008 it was announced that the re-negotiation of approximately 60 mining contracts signed during the two wars, 1996-1997 and 1998-2003, as well as during the transition period from 2003-2006, would be initiated.[127] Six of these contracts involve Chinese partners.[128]

In November 2008, it was announced that results from the review process shall be made public by the end of December 2008.[129] Accordingly, on the 21st December 2008, the Deputy Mines Minister Victor Kasongo announced that the review was finished for all but six companies; First Quantum, Banro, AngloGold Ashanti, Gold Fields, Mwana Africa and Freeport-McMoRan.[130] The protracted insecurity surrounding the mining contract review has become a major concern for many of DRC's large foreign investors, who cite this as a contributing factor as to why many of them have put their operations on hold.[131]

4.3 Sino-Congolese relations

4.3.1 Overview

Following Belgian Congo's independence on the 30th June 1960, the newborn Republic of Congo and the People's Republic of China established and subsequently severed diplomatic ties twice before 1972.[132] During periods of non-recognition, Mao Zedong provided limited material to support rebels fighting to overthrow the 'Western'-backed postcolonial government.[133]

Since 1972, when the then Republic of Zaire restored diplomatic ties with China, bilateral relations have been stable.[134] President Mobutu visited China five times [135] and during his rule

eight Chinese leaders visited Zaire. Diplomatic ties remained intact as Mobutu was toppled by Laurent Kabila in 1997. Kabila visited China during his first year in power. The same year an 'Agreement on Mutual Protection and Encouragement of Investment' was signed by the two countries.[136]

In 2000, a Congolese delegation attended the Beijing Ministerial Meeting of the first Forum for China-Africa cooperation (FOCAC). The same year China Zhongxing Telecommunications Co. Ltd, in collaboration with the Kabila government, established the China Telecommunications Co. Ltd in the DRC, funded by China EXIM Bank preferential loans. After President Kabila was assassinated in 2001, he was succeeded by his son Joseph, who paid his first state visit to China in 2002.[137] In August 2008, he attended the opening ceremony of the Beijing Olympics.[138]

Over the years, Chinese loans have funded the construction of buildings of symbolic importance: the National Parliament, the People's Palace, and the DRC's largest outdoor venue, le Stade des Martyrs (The Martyrs' Stadium).[139] China also has provided economic aid for the construction of an agricultural tool plant, a sugar-refinery, a rice-planting technique demonstration centre, a trade centre and a mail distribution centre in Kinshasa.[140]

Chinese companies and government institutions are currently active in a range of projects in the DRC. In July 2008, the DRC government and China Development Bank (CDB) signed a cooperation agreement and several projects are currently being planned in the areas of agriculture and infrastructure. Among these, the highway and airport of N'Djili, Kinshasa, are already in the process of being reconstructed. In addition, the CDB is planning to support the production of palm oil, soya and maize and finance the exploration and exploitation of mines in Kolwezi and in Potopoto in the Katanga province.[141]

Huawei Technologies Corporation Ltd. is currently implementing the second phase of their modernisation project of the Congolese Post and Telecommunications Offices through which landlines, fax lines and internet connections have been installed. Reportedly, Huawei has thus far provided 400 local workers with job and training opportunities.[142]

Moreover, it was reported in mid-2008 that China EXIM Bank was in negotiations with the DRC's MIBA, the diamond parastatal, to extend a loan for the rehabilitation of a US$ 25 million power station. The engineering and construction firm China Gezhouba Group Company Limited had reportedly submitted a tender for the project.[143]

Moreover, through a US$ 9 billion agreement signed on the 22nd April 2008 that will be discussed at further length below, Sicomines – a joint venture between Chinese and Congolese companies – are to carry out infrastructure refurbishment and extraction of copper and cobalt.

It can also be noted that there is substantial indirect Chinese presence in the banking sector of the DRC. The Industrial and Commercial Bank of China Limited (ICBC) holds a 20 percent stake of South Africa's Standard Bank, which has branches in 19 other African countries including two branches in the DRC: one in Kinshasa and one recently opened in Lubumbashi.[144]

China is now recognised as an important development partner for the DRC. In August 2008, China took part in a meeting organised by President Joseph Kabila with the DRC's most

important development partners; besides China, representatives of the Bretton Woods institutions, the United Nations, Belgium, the United States, Canada, Japan and South Africa, among others, were present at the meeting, at which the development projects and goals of the DRC where discussed.[145]

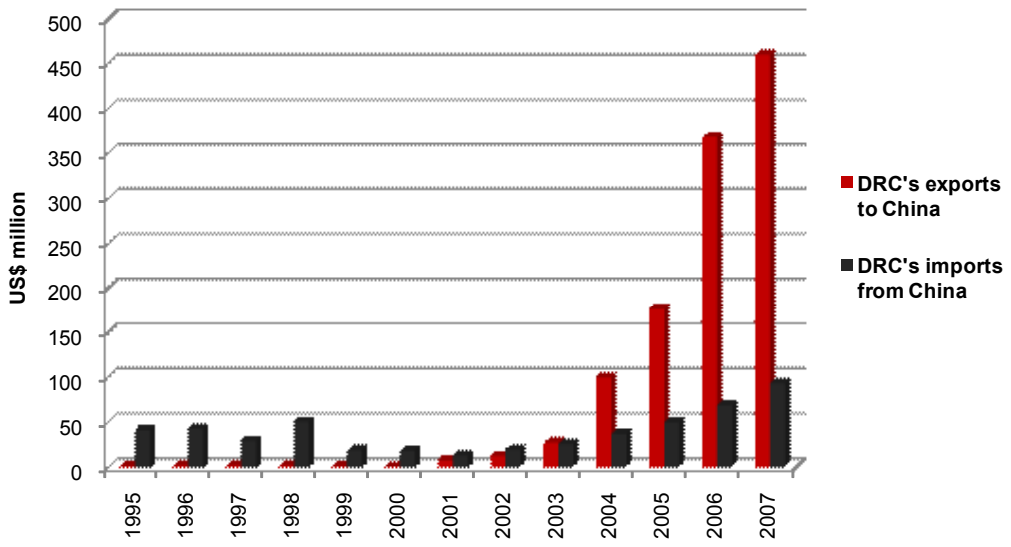
China also provides Congolese students with Chinese government scholarships every year so that they can study in China. From 1985 to 2003, 5-8 students were sent every year. During 2004-2006, 11 Congolese students were sent to China per year, in 2007 the number was 23 and in 2008 it reached 32.[146] China has over the years dispatched numerous medical teams to the country and is currently planning to establish two training centres, one in Kinshasa and one in Lubumbashi, for workers in the construction sector.[147]

As elsewhere on the African continent, there is also a substantial presence of Chinese small-scale traders in the DRC. Popular Congolese perceptions of the difference between these Chinese small-scale traders and the state-owned partners to the recent US$ 9 billion Sicomines deal (outlined further below) appears blurred. One taxi driver in Kinshasa exclaimed that 'we have let the Chinese in to build roads, but now they doing *n'importe quoi* [nonsense] all over the township, selling water, all those things that Congolese should be doing.'[148]

4.3.2 Sino-Congolese trade

Trade between China and the Democratic Republic of the Congo has increased substantially over the last decade and China's imports from the DRC have seen a remarkable boost.

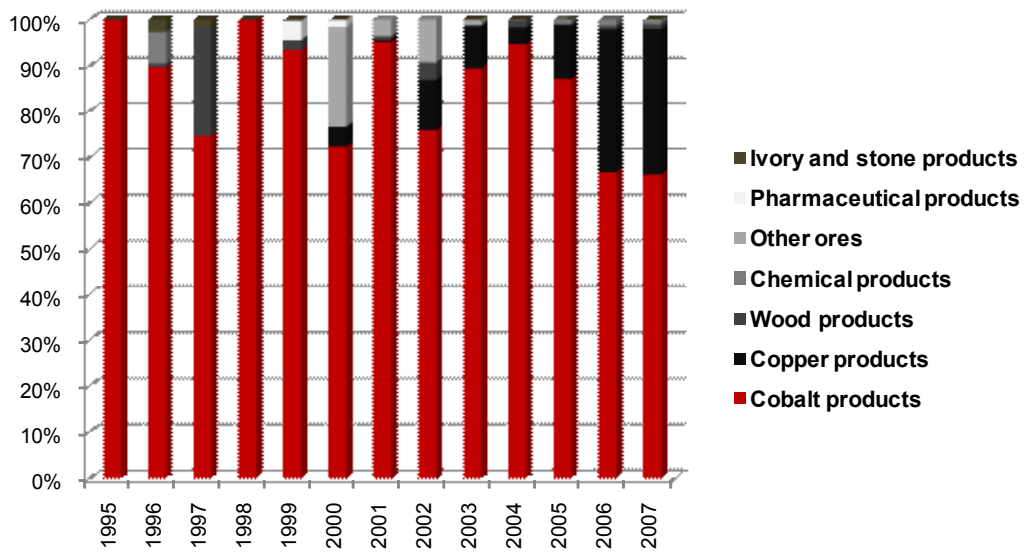
Figure 7: Bilateral trade between the DRC and China (1995-2007)



Source: World Trade Atlas/Tralac

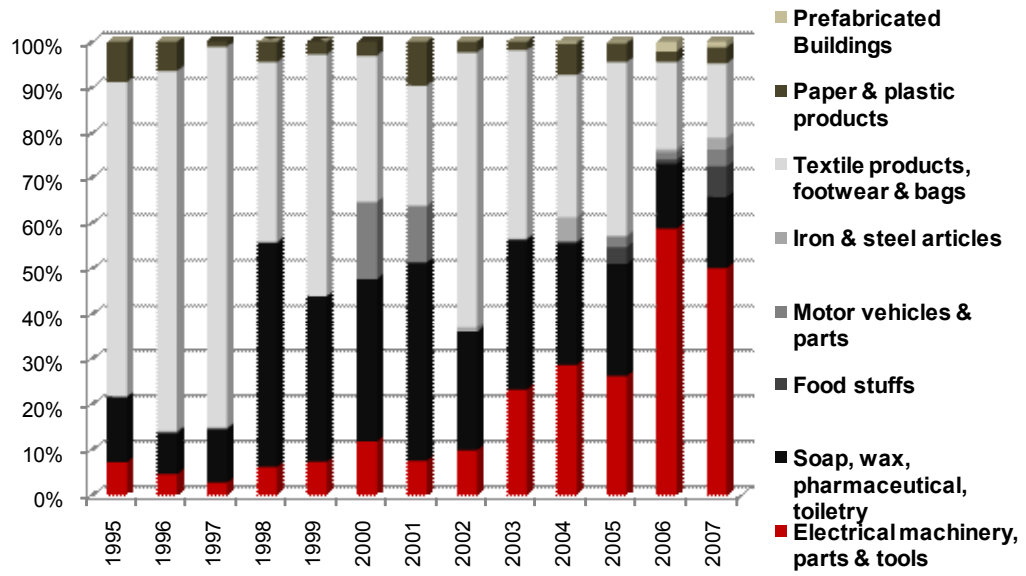
China's exports to the DRC are mostly consumer and capital goods such as light industry products and machinery,[149] whereas China's imports from the DRC largely comprise raw materials; copper ore, cobalt and zinc.[150]

Figure 8: Composition of DRC's top-20 imports (HS4 level) from China (1995-2007)



Source: World Trade Atlas/Tralac, CCS analysis[151]

Figure 9: Composition of DRC's top-20 exports (HS4 level) to China (1995-2007)

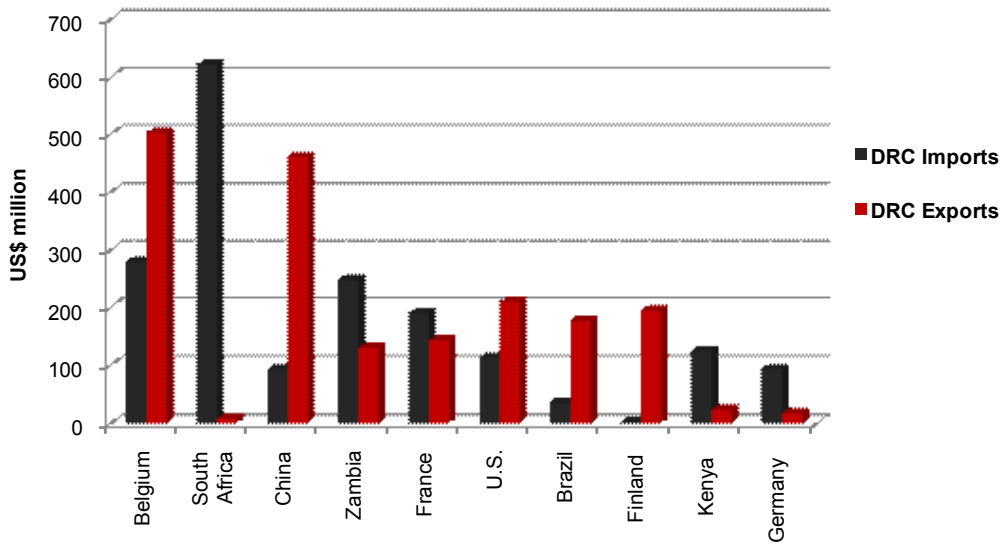


Source: World Trade Atlas/Tralac, CCS analysis[152]

While China's share of DRC's trade has increased significantly lately, it is still not the country's largest trading partner. China is the second largest importer of Congolese goods after Belgium,

but in terms of exports to the DRC, China is only the seventh largest trading partner after South Africa, Belgium, Zambia, France, Kenya and the United States.

Figure 10: DRC's top-10 trade partners (2007)



Source: UN Comtrade

4.4 China's involvement in DRC's mining sector

Chinese investments in the DRC's mining sector comprise a range of micro, small, medium and large scale companies. Among Chinese investments in the DRC, the deal struck on the 22nd April 2008 worth a reported US$9 billion (outlined in detail below) is the most well-known as a result of the enormous media attention generated by the agreement, both internationally and domestically. Thanks to this attention, China's interest and presence in the DRC's mining sector is now renowned all over the world. However, the presence of Chinese micro, small and medium sized enterprises in the DRC has generated far less attention, and the character of their activities is therefore less well known.

As mentioned in the methodology section, the data collected concerning knowledge of and attitudes towards transparency emanate from interviews with representatives of micro, small and medium sized enterprises in Katanga and not with Sicomines representatives since they are not yet operational. The following two sections outline the activities of large, medium, small and micro sized Chinese companies in the DRC.

4.4.1 Sicomines – the US$ 9 billion deal

Under this agreement a Chinese consortium is to provide infrastructure to the value of US$6 billion and make US$3 billion worth of mining sector investments, funded by China EXIM Bank. In exchange, the consortium is awarded rights to extract 10.6 million tons of copper and 626,619

tons of cobalt from the Dima, Dikuluwe and Mashamba concessions in the Katanga province. Of these, 6.8 million tons of copper and 427,000 tons of cobalt are confirmed mineral deposits. The remaining 3.8 million tons of copper and 200,000 tons of cobalt are probable findings that are currently being evaluated in the feasibility study due to be finalised in March 2009. The concessions are subsequently due to come into production in 2013.[153]

The US$ 6 billion worth of infrastructure investments include the construction of new roads totalling 3,600 km and the rehabilitation of another 3,000 km. Also included in the comprehensive package are refurbishment of the Goma and Bukavu airports and ring roads in Kinshasa in addition to the construction of several hospitals and two universities.[154] The material that the Chinese consortium will import for the infrastructure project (bulldozers, trucks, tractors, forklifts and such equipment) is exempt from import tax.[155]

When the CCS research team visited Kinshasa in late September 2008, the infrastructure refurbishments were well underway. Most of the building material had arrived in Kinshasa as well as in Katanga. In July 2008 the CEO of CREC, Li Chang Jin, visited Kinshasa to take part in an inaugural ceremony for the infrastructure works.[156]

The same month Safmarine Andisa, a 140 metre long ship designated to carry building material and machinery between China and the DRC, was launched.[157] The reconstruction of the road from southern DRC to Kasumbalesa on the border with Zambia was finalised at the time of the research visit and the key priority at that point was the construction of a road to the north east of Lubumbashi; another road running from the town of Beni in the North Kivu province, a hospital in Kinshasa and a ring road south east of Kinshasa.[158]

The extraction of minerals and the delivery of the infrastructure investments will be carried out by the mining joint venture, Sicomines. Originally, Sicomines was set to comprise of China Railway Group and Sinohydro Corporation on the Chinese side with a 68 percent stake in the joint venture and the DRC's state-owned Gécamines and Congo Simco on the Congolese side holding 20 percent and 12 percent respectively.

In early July 2008 a state-owned company with significant resources development expertise, China Metallurgical Group, announced that it had taken a 20 percent stake in the project. Accordingly, China Railway Group lowered its stake in the joint venture from US$ 4.04 billion (43 percent), to US$ 2.64 billion (28 percent) and Sinohydro reduced its stake from 25 percent to 20 percent.

In September 2008 the stakes changed again as China Metallurgical pulled out of the joint venture. In its place Zhejiang Huayou Cobalt Company entered the joint venture and took a 5 percent stake. Zhejiang Huayou is already involved in the DRC's mining sector as it runs a smelter in the DRC's Katanga province. As Zhejiang Huayou entered the joint venture, Sinohydro and China Railway Group raised their stakes from 20 to 30 percent and from 28 to 33 percent respectively.[159]

While a potentially great development opportunity for the DRC in terms of post-conflict restructuring, the deal struck with China has attracted a large measure of controversy. The DRC currently has interim status – between decision and completion point – in the World Bank

Group's Highly Indebted Poor Country (HIPC) debt relief program, which means that the country must fulfil several performance criteria related to IMF's programmes before qualifying for debt relief.[160] In this context the International Monetary Fund (IMF) has raised many question marks with regards to the agreement with China EXIM Bank.

Delegations from the Fund visited Kinshasa several times during 2008 aiming, among other things, to establish clarity on how the agreement with China EXIM Bank might impact the overall the economy and the country's debt position. The Congolese and Chinese parties argue that the agreement does not add to the Congolese state debt since, as stated in article 10.1 of the contract, the borrower is the joint venture, Sicomines, and not the Congolese state.

However, according to the IMF, the agreement between China and the DRC can be regarded as state debt since the agreement was signed by Pierre Lumbi Okongo, the Minister of Infrastructure, Public Works & Reconstruction and more importantly since the Congolese government guarantees the repayment of the loan in articles 10.3, 13.2 and 13.3.3 of the contract.

The IMF has further argued that even if the Chinese loans will not form part of the Congolese state debt, they will have to be taken into account when the sustainability of foreign debt, contracted both by the state and by the private sector, is calculated.[161] Even if the debt is to be paid with copper and cobalt, the IMF's concern is that if for some reason the mineral supply stipulated in the contract cannot be guaranteed, the Congolese state will be obliged to repay the loan because of the guarantee clauses mentioned above.

A new three-year program with IMF's Poverty Reduction and Growth Facility (PRGF) is a necessary step towards debt relief since the policy conditions and targets of the PRGF programs form the basis for judgment for the granting of debt relief.[162] However, at the time of writing, discussions between the IMF and the DRC regarding a new PRGF are on hold until the feasibility study for the concessions allocated to Sicomines is concluded in March 2009 and a more accurate approximation of the value of the concessions, and thereby the contracted debt, can be made.[163] This is a very contentious issue and requires further research and dialogue between the various parties.

A senior representative of an international mining company claimed that the Chinese parties to the Sicomines deal are, against the backdrop of current global financial turmoil, growing increasingly wary of their engagement with the DRC.[164] The respondent suggested Chinese engagement generally is likely to slow down as the Congolese government is reportedly becoming increasingly demanding in the negotiations and as political unrest and insecurity in the eastern parts of the country increases.

Laurent Nkunda, the rebel leader in the eastern DRC involved in the current unrest, voiced objections to the Sicomines contract in October.[165] He reportedly stated that the deal would "line the pockets of a few politicians while the Congolese people would see no benefit" since the concessions were allocated to the Chinese consortium "without any calculation." [166] While the Sicomines deal has very little to do with the rebel leader's actual agenda and could be seen as a far-fetched populist attempt to raise attention for his cause in the international community, Nkunda's statement has become another problematic factor for the Chinese stakeholders to

consider in the light of the already volatile security situation.

This tendency has been confirmed by reports that Chinese companies are now redirecting investments from early stage investments in emerging markets where large scale infrastructure refurbishments are a necessity, to advanced stage mining projects in developed countries since majority stakes in the latter have become more affordable as a result of the economic crisis.[167]

4.4.2 Chinese micro, small and medium sized enterprises in the DRC

In the Katanga province, and to some extent in the North and South Kivu provinces, Chinese entrepreneurs active in the mining sector can be divided into three main subsections: *mining, processing and trading*. A number of Chinese nationals are also running micro sized service companies, providing Chinese mining and processing companies with supplies and logistical support.

In *mining*, a number of micro, small and medium sized Chinese companies have mining licences in the DRC, mainly in the south-eastern province of Katanga and to a smaller extent in the eastern South and North Kivu provinces. The great majority of these are still in the exploration phase and have not yet started with full-scale extractive operations. Often, the Chinese investors have formed joint ventures with Congolese that hold mining permits but that do not have the resources to carry out exploration and exploitation.[168]

In *processing*, a large number of Chinese micro, small and medium sized enterprises ran operations at the time of the field research. Following a ban against the export of raw ore in March 2007[169], more than 70 processing companies (Chinese, Lebanese, Indian, Pakistani and Western ownership) established operations in the south-eastern Katanga Province, around Lubumbashi, the unofficial capital of the central African copper belt, as well as in Likasi and Kolwezi. These firms are buying minerals (largely copper and cobalt) from the region's artisanal miners, the *creuseurs*, which are then smelted, treated and sold onto the market.

Whilst 2003-2005 were good years for operations in Katanga according to the Chinese respondents interviewed, the operating environment for the processing companies has drastically worsened with the global economic downturn. In September 2008, at the time of the field research, many of the Chinese processing companies were suffering supply shortages as they did not extract their raw materials themselves and the competition for what the artisanal miners extract was fierce. Many larger Western companies were shielded to a greater extent from these supply problems since they often run both mining and processing operations and are thus able to secure the raw material supply needed to keep their furnaces going.

The micro, small and medium sized production companies' particular vulnerability has indeed been confirmed by the DRC's Minister of Mines, Martin Kabwelulu, who stated that most of the companies that have closed are those that buy their raw ore supply from the artisanal miners in Katanga since they do not own mining concessions.[170] In October 2008, Katanga's exports of copper cathode decreased 70 percent and during the whole of 2008 no new significant investments have been made in the province.[171]

Since July 2008, most processing operations have scaled back, at least 45 of them have

closed due to high costs of production, and the Chinese private players have certainly not been spared.[172] In December, a mere five Chinese processing companies were still operating in the whole Katanga province. In Lubumbashi itself, only one remained open while the rest have closed down.[173] Workers have reportedly been showing up at the doorstep of several Chinese factories in the morning to find that the owners have packed up and left.[174]

According to a well informed Chinese observer in Lubumbashi, around 80 percent of the Chinese staff in the Chinese companies have left the country while around 20 percent of them have stayed to look after the processing plants. Among the Chinese factory owners, some have left the country and some have chosen to stay. In terms of company closures, no discernable difference in vulnerability has been noted between small and large scale operations – all companies without exception have been severely affected.[175] Many of the Chinese investors in Katanga now find themselves in a position where they have investments in the country that have lost a great part of their value as a result of the economic downturn and difficulties in securing raw material supply.

In *trading*, some Chinese investors run *comptoirs* (the trading and exporting companies that buy minerals from middle men and sell onto the market[176]), for example trading tin in Goma, the capital of the North Kivu province. Also, on both sides of the border between DRC and Zambia, Chinese middle-men buy or from the local artisanal miners and sell them to the big Chinese-run smelters, both of which are reportedly more comfortable dealing with the Chinese middle-man than directly with each other. Indeed, the location of the Chambishi Special Economic Zone (SEZ) in Zambia is ideal because of its proximity also to DRC's copper deposits.

Contrary to popular perceptions of Chinese firms active in Africa, very few companies receive support of any kind from the Chinese Government. Only one of the respondents of this study, the owner of a medium sized company with both mining concessions and recently awarded rights to open a *comptoir*, said that his company gets support in the form of loans from the Chinese state. All of the other companies interviewed stated that they receive support neither from the Chinese banks nor from any of the Chinese funds allocated to private sector initiatives in Africa. For most of the Chinese privateers interviewed for this study, this was their first business venture in Africa

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While the research team secured access to certain registers and data pertaining to Chinese companies active in the region, including their activities and the number of mining concessions awarded to Chinese companies, the data is not comprehensive. The trade union association La Nouvelle Dynamique Syndicale lists 21 Chinese companies that have invested in joint ventures with DRC's state-owned Gécamines.[178] The exact number of processing operations run by Chinese is not known, but estimations range between a confirmed 12 companies to 70 companies.[179]

4.5 Chinese companies' experience of operating in the DRC

All the Chinese privateers interviewed for this study are struggling to keep their operations running in the DRC. The current market conditions and the extremely challenging operating environment are conspiring to force these firms out of business.

Several of the respondents also have operations in Zimbabwe, Zambia and South Africa, and they all stated that the DRC definitely has the worst operating environment of all these countries. Although there is a formal legal system based on traditional Belgian legal structures, many Congolese officials interpret and apply the rules arbitrarily according to the respondents and all rules and regulations are negotiable if the right amount can be agreed to.

All foreign respondents argued that it is a necessity to bribe the local officials for each step when establishing a business in the country, having a dossier approved or getting anything at all moving through the bureaucratic system. The payoffs were termed as "structural requirements" by one of the Chinese company representatives.[180]

Running a business operation in the country is no less challenging as corrupt petty officials sanction companies with heavy, random and often illicit fines and demand payouts on a regular basis in order to extend the business' necessary permits. Several blatantly illicit fines issued and signed by local authorities, termed "phantom fines" by the respondent, were displayed to the research team. One of these fines required payment of over US$ 1 million, which in the end had been negotiated down to US$ 80 000 according to the respondent.[181]

None of the Chinese entrepreneurs interviewed expressed any reluctance to abide by rules and regulations of the host country. Indeed, several Chinese respondents mentioned that corruption of the scale that is seen in the DRC would be unthinkable in China where corruption is often punished severely.

Procedures for taxation and customs payments were also described as arbitrary and opaque. Central records of companies' profits and expenses are reportedly limited and the majority, if not all, of micro and small scale Chinese operations are run on a cash basis due to a lack a lack of confidence in the Congolese banking system. As a result, tax payments are calculated according to ad hoc estimations.

Several Chinese company representatives explained that when these estimations are being made, Congolese officials from the Direction Générale des Recettes Administratives (General Office of Administrative Receipts, DGRAD) regularly take their share and give the company an invoice of a smaller amount for deposit to the Central Bank. Local Congolese taxpayers also confirmed this to be a common practice by DGRAD applied to everyone, not just the Chinese.[182] These practices represent a major challenge for EITI implementation in the country, since it is difficult to ascertain what amounts the companies really pay to the Congolese state in royalties and taxes.

Bribing practices are related to the need to a bureaucratic process managed in a timely manner. Several Chinese and Western respondents argued that it is possible to completely refuse to pay bribes, but in that case, anything that needs to be done takes longer – time that private business can ill afford to waste.[183] Therefore, most of the foreign respondents were adamant that no company – Western, Chinese or otherwise – can operate in the DRC without having to resort to bribe paying, and insisted that those who claim they do not indulge in such practices are simply not telling the truth.

The observations made during this field study indicate that there seem to be little to no

differences *per se* between Chinese corporations and other international actors operating in the DRC. Instead, the factors size, time perspective and vision have been identified as more important independent variables determining operational behaviour and capacity. It was mentioned above that the larger companies are expected to be much more likely to survive the current economic crisis without having to close their operations in the DRC.[184]

Moreover, both Western and Chinese larger companies have often been able to establish extensive personal and cultural connections locally; contacts that enable them to better operate in the opaque Congolese environment. The larger the operation, the better connected the management is likely to be, and with the help of an influential network it is possible to navigate in a business environment rife with corruption without having to interact with low-ranking officials seeking to extract rent whenever possible. One of the Chinese respondents with large scale processing operations in and around Lubumbashi explained that he nurtures his connections with senior levels of the Congolese government very carefully in order to safeguard his operations.[185]

Even though size may be a determining factor for operational behaviour that is irrelevant to country origin, it also highlights a distinct difference between Western companies on the one side and Chinese, Indian, Pakistani and Lebanese operations on the other, since most of the Western companies are larger entities while the others more often than not are micro, small or medium sized enterprises. As such, the Western companies are generally more likely to be well established and connected.

Furthermore, Western actors and companies may have advantages since many of them have relations with Congolese elites established decades ago. The Chinese companies have only started to enter the DRC over the last decade and the majority have been present for less than five years. While this may not automatically be the case, Chinese investors in the DRC may therefore be less experienced than their Western counterparts in dealing with situations and working through the government bureaucracy. They may therefore be more vulnerable to harassment by rent-seeking officials.

Language and culture are two other factors that may also help newly established Western companies without long standing relations and give them operational advantages relative to their Chinese counterparts in the DRC. Western and Indian actors have the language in common with the African stakeholders – both French and English are common languages for which interpreters are readily available.

In addition, Western actors have a cultural frame of reference more in common with the Congolese, which, according to both Chinese and Congolese respondents, prevents misunderstandings and assists in relationship building. Differences in culture and ways to operate a business can, according to many Congolese and Western respondents, often create a considerable distance between Chinese and other actors in the country.

Some evidence from the field research contradicts the above. Several of the Chinese respondents argued that since Western companies have a more mature regulatory approach to doing business, Chinese companies have a competitive advantage since they get faster 'into the game' and make decisions based on both statutory law, customary law, personal understanding

of the local context and personal contacts with officials.

Another interesting observation made by the research team is that the Chinese stakeholders may be equipped to deal with the Congolese environment to a varying extent depending on where in China they are from. One of the Chinese respondents was from Hong Kong, an internationalised environment where traditions are still of importance. Such a combination – cosmopolitan and yet traditional – seems to make the respondent's business more successful than those of stakeholders with purely mainland PRC origins.

The Chinese embassy in Kinshasa is located a distance, both psychologically and geographically, from the Chinese nationals operating businesses in the Katanga province. A majority of the Chinese respondents interviewed for this study claimed that they get no support whatsoever from the Chinese embassy in Kinshasa. Several examples were brought up in which the respondents had been in trouble, called the embassy and received no support. This was compared by the Chinese respondents to situations where ethnic Chinese colleagues of Western nationalities call their embassies for help and receive timely assistance.

The Chinese ambassador to the DRC, Wu Zexian, confirmed that the embassy would indeed like to be able to extend more help to Chinese nationals active in southern DRC.[186]

Another example of rules and regulations affecting particularly micro, small and medium sized companies raised by the respondents was the Katanga Provincial Government's suggested rise in export taxes from 1 to 3 percent or even 10 percent for companies that only process and that do not mine their mineral supply themselves. In response to this, the Chinese companies that run processing plants around Lubumbashi have established a Chinese chamber of commerce whose president is the CEO of one of the major private copper smelters outside of Lubumbashi. According to several Chinese respondents, this is the first time collective action such as this has come about.

Another response to the planned rise in export taxes being considered by the Chinese business community was to simply stop their operations to demonstrate that they are actually contributing to the employment of local workers. If they can no longer operate due to rising export taxes, these locals will lose their jobs and their income.

An interesting possible collaboration opportunity with considerable potential for synergies between transparency initiatives and an existing Congolese institution was identified as the research team met with a senior representative of a Congolese chamber of commerce.[187] The respondent, whose organisation had no Chinese companies among its members, described at length the problems experience by his members whilst operating in the DRC. The problems described were virtually the same as those described by the Chinese company representatives.

The respondent explained that because his organisation knows the mining regulations, they can help their members to deal with challenges facing them. The respondent furthermore argued that it would be advantageous for all involved if the Chinese companies wanted to join their chamber of commerce, but that there had been severe difficulties in reaching out to the Chinese companies. There is thus an interest on all sides to get organised to respond to challenges facing all companies operating in the DRC, and there should therefore be considerable scope for

contact building and joint efforts between Congolese, Chinese and Western companies.

The Chinese company representatives interviewed are struggling to operate in the local DRC economy. They are all very aware of the massive attention devoted by Western media and policymakers to the Chinese presence in Africa, and in the light of the challenges with operating in the DRC, many of the respondents expressed resentment over accusations that their ventures are the major sources of non-transparency and corruption in Africa. In their view, Western prejudiced perceptions of Chinese activities in Africa have little to do with their own reality in the DRC. A manager of a small processing company described the journalists and researchers that write these things as "fairytale researchers".[188]

4.6 Chinese companies' perceptions of CSR, transparency and EITI

The implementation of EITI in the DRC has been at a standstill for an extended period of time as a result of blockages in the process of nominating a Secretary General for the EITI in the DRC.[189] As a result, the implementation of the initiative including the necessary dissemination campaigns directed towards companies operating in the country's extractive industries has not yet been conducted. Consequently, none of the Chinese respondents had heard of the EITI and its guiding principles.

When the research team explained the EITI principles to the respondents, all of them suggested that they would be very interested in taking part in the implementation of such an initiative. They were, however, highly sceptical of its implementation under current local operational conditions with the low standards of governance in the mining sector. A claim made by all respondents was that there are no short-term remedies for the corruption and the lack of overall transparency in the DRC.

In the previous section, it was argued that there seem to be little differences *per se* between Chinese and other companies active in the DRC. The differences instead lie in factors such as size, long-term vision and cultural factors. This was confirmed by a high ranking official in the Katanga provincial government, who stated that most foreign companies – Western, Chinese or other – are disinterested in following up on their responsibilities in terms of CSR. According to the respondent, one larger Chinese company is among a handful of companies that are active in CSR programmes.[190] This was confirmed in an interview with a manager of the Chinese company in question.[191]

Regarding attitudes to and perceptions of CSR and issues of transparency, the size factor is, as mentioned above, of clear relevance. Medium and large Chinese companies with a long-term strategy for their presence in the DRC are according to the observations in this study more likely to be open to CSR issues including worker's rights, transparency and the implementation of environmental regulations simply because they know that these things are necessary in order to run a sustainable business.

Small actors that seek to make a quick profit without committing to long-term investments might seek shortcuts to avoid local regulations. Most of the micro and small sized companies that the research team met with did not intend to stay long and establish sustainable operations. The tendency in these cases seemed to be to try to set things up as quickly and as cheaply as

possible.

In this process, small-scale actors might tend to pay bribes both to avoid cost (by avoiding expensive implementation of regulation) and because they are targeted by local corrupt officials. However, the research team observed that this seems to be the case also for non-Chinese foreign micro and small sized operations. One operator of a Western micro sized diamond venture in the country explained that the best, and only, way to operate in the remote area where they were exploring for diamonds, was to keep US$100 bills available to keep local officials off their case. According to this respondent, 25 percent of the value of the minerals extracted goes to the operators. Much of the rest goes in informal "tax" to various local officials.[192]

Another tentative observation from this field research is that the better educated the leaders of a firm are (regardless of the firm's size), the brighter the prospects of that firm's commitment to CSR and transparency. However, the sample for this study was too small for any conclusions to be drawn.

The research team's overall conclusion, taking into account the respondents' views on the matter and the other observations made during the in-country research, is that voluntary initiatives such as the EITI are ambitious in their scope given the operational reality of foreign companies operating in the DRC. The findings indicate clearly that while seeking to promote transparency in the country, engaging foreign companies is merely one of several necessary steps. It may be difficult to motivate foreign companies to implement initiatives from a moral perspective if the country they are operating in is corrupt. Thus, if one seeks to genuinely promote sustainable transparency, domestic Congolese social and economic development has to be improved.

5. Analysis

5.1 Chinese companies no challenge to transparency in Gabon and DRC

All of the Chinese company representatives consulted for this study in both Gabon and the DRC expressed great interest in the notion of an overarching transparency initiative. This finding is a crucial starting point when engaging with Chinese stakeholders in the DRC and Gabon with a view to implementing any initiatives supporting transparency. In Gabon, where EITI has been implemented in the oil and mining sectors since 2005, the respondents expressed support, but stated that they do not know very much about it since the initiative is still relatively new.

None of the respondents knew about EITI in the DRC where it is yet to be implemented. The Chinese respondents suggested that they would truly welcome and appreciate a transparency initiative as poor governance is the single biggest challenge to their operations in the DRC. However, most respondents expressed scepticism regarding the prospects for success of a transparency initiative in a governance environment as opaque as the DRC.

On that note, it has not escaped the Chinese stakeholders' notice that Western policymakers generally perceive the Chinese presence in Africa as a challenge to transparency, a notion that is reinforced by negative reporting from the Western press. The overall opinion amongst the Chinese actors is that a great deal of what is written in the English and French language press is poorly informed and as a result, there is a strong feeling of alienation among Chinese stakeholders. In some cases this has also coloured Chinese stakeholders' perceptions of CSR initiatives like the EITI in Africa – as mentioned, one of the respondents explained that such initiatives come across as spotlighting Chinese companies only.[193]

The issue of transparency is, however, extremely complicated, and it would be overly simplistic to argue that Chinese entrepreneurs could possibly have a decisive impact. In the case of the DRC, Curtis argues that that "Congolese patterns of political authority and networks are notoriously resilient, and there are no signs that Chinese involvement is going to have a transformative impact on the nature of the Congolese state."[194]

As previously mentioned, some Chinese investors believe they are at a disadvantage operating in both Gabon and the DRC in comparison to established Western investors who have been operating in Africa for long periods. Chinese companies have only started to enter the extractive sectors in Gabon and the DRC over the past decade and many have been present less than five years. African and Western stakeholders have a long history of association and have language and other cultural frames of reference in common that reduce opportunities for misunderstanding, facilitate cooperation and promote smooth relations.

Many of the respondents suggested that differences in culture and business operating procedures between Chinese and other actors in both Gabon and the DRC give rise to considerable distance. Moreover, Western actors and those from other countries such as India have a clear language advantage – both French and English are common languages for which interpreters are readily available. The Chinese respondents on their side described themselves as disadvantaged as a result of culture. Certainly in the DRC, private Chinese companies face serious challenges as their lack of experience and their limited local networks make them easy targets for corrupt officials.

Chinese companies in Gabon did not have problems with corrupt officials to the same extent as the respondents in the DRC, but they did acknowledge that they are still newcomers and must compete hard to establish a position in the economy. In Gabon, most Chinese company representatives interviewed argued that Western companies are the ones that have the best oil and mineral concessions available. The common impression that China is moving in to take over Africa's resources is thus, according to the findings of this study, incorrect.

It is therefore imperative that an EITI strategy seeking to engage Chinese stakeholders in Gabon and the DRC creates a sense among the Chinese stakeholders that they are not being 'singled out' as such an approach is likely to lessen their interest considerably.

5.2 'China Inc' in Gabon and the DRC?

The notion of China Inc – that there is a coherent "going global" strategy for all Chinese actors venturing abroad in the global economy – is not supported by the case studies in this research.

Instead, the findings suggest that Chinese engagement with Gabon and the DRC is fragmented, and uncoordinated in a policy sense. As such it would be very difficult to implement a uniform strategy designed to reach all Chinese stakeholders in support of transparency. It is important to consider the factors determining behaviour and attitude while considering how to encourage transparency among Chinese stakeholders active in African countries. Three main observations underpin this position:

First, only a small minority of the Chinese company representatives interviewed in both Gabon and the DRC stated that they receive Chinese government support in some form. Instead, the vast majority of Chinese companies interviewed stated that they had chosen to invest in Africa on their own initiative and have no relationship with the Chinese government. In the DRC, all but one of the Chinese respondents active in the south eastern Katanga Province said that they receive no support at all from the Chinese government representatives. This was confirmed by the Embassy where a senior representative explained that they would like to establish a consulate in Katanga, to be able to have more contact with and assist the Chinese companies operating there, if Beijing decided to do so.[195]

Second, the unique characteristics of each African economy appear to have a decisive impact on the nature of its engagement with China. Gabon on the one hand is a small and (under President Bongo) politically stable country endowed with commodities that require large scale investments for extraction. Accordingly, the Chinese investments in the country are mostly large private or state-owned companies with long-term strategies, good relations with Gabonese authorities and

a mostly positive impression of the operating environment.

The DRC by contrast is a large, generally ungoverned country where natural resources are mined both by small scale local artisanal miners and large scale mechanized operations. Consequently, the Chinese investments in the country range from micro, small and medium sized companies trading and/or processing raw ore on the ground, struggling to survive in a challenging operating environment, to the recently announced EXIM Bank financed concessional finance project through which large copper and cobalt concessions have been awarded to a Sino-Congolese joint venture.

Third, the size and degree of establishment in the country were identified as important factors which may determine operational behaviour of companies to a greater extent than the company's country of origin; whether Chinese, Western or otherwise. The research team found a clear correlation between the size of the firms and the quality of the operations in the areas of transparency, labour treatment, environment protection and long-term planning for cooperation with local government – the larger the size of the firms (both private and public), the higher the operational standards in these areas. The larger Chinese companies have often established extensive personal and cultural connections locally, contacts that clearly enabled them to better operate in the local environment.

Medium sized companies that had not committed to long-term investment and were not very well connected locally were struggling to a greater extent, suggesting that they might be more inclined to pay bribes to avoid harassment from local petty officials and/or circumvent local regulations. This observation is supported by Francisco and Pontara noting that "[e]conometric evidence on the propensity and intensity of bribes suggests that medium-size firms suffer the most from corruption in Mauritania. Larger firms are more established and connected, do not fear exiting the market, and are less likely to be harassed. Smaller firms are less visible and may be able to escape the control of public officials by operating largely in the informal sector. Medium-sized firms are the most likely to pay bribes and to pay the highest amounts as a percentage of their total annual sales, which places a heavy burden on their ability to grow."[196]

5.3 Concluding remarks

The field research conducted for this report clearly highlights two defining characteristics of Chinese companies engaged in Gabon and the DRC. Firstly, Chinese companies are generally very receptive to improvements in transparency concerning revenues and financial transactions related to the extractive sector and expressed strong positive sentiments toward EITI.

Secondly, there is wide diversity among the Chinese companies engaged in extractive industries in Gabon and the DRC. In addition to the more prominent state-owned and private large scale enterprises there are also many small market vulnerable ventures. It is imperative to take these two key themes into account in creating a successful and mutually beneficial strategy to create awareness of and promote EITI among Chinese stakeholders in Gabon and the DRC.

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