Draft EBCAM Position Paper

European companies and Chinese companies in Africa: Competitors or partners?

Following the recent EU-China 21st Summit of 9th April 2019 in Brussels, and conscious of the need to rebalance its relations with China, the European Union has drawn up 10 measures related to the country, considered both a partner for cooperation but also a "systemic rival". These measures demonstrate Europe's eagerness for China to join the community of nations in the WTO's framework by accepting and applying the rules of global trade, which Beijing has treated rather ambiguously since its accession to the organisation in 2001.

On the occasion of this summit, the European companies called on the EU to take a firmer stance against China's perceived unfair competition practices, notably its opaque public aid, and the explicit or subtle forced technology transfers often required by the Chinese government when allowing access to its market.

After this summit, the two blocs finally adopted a common declaration whereby the two parties would engage to pursue their efforts to conclude the bilateral investment treaty in 2020, which has been under discussion for the last six years. According to the joint declaration, the treaty should result in "*substantially improved market access, the elimination of discriminatory requirements and practices affecting foreign investors and the establishment of a balanced investment protection framework"* within the WTO framework.

The clear desire to have greater influence in the WTO international negotiations, in order to develop multilateralism with stronger rules against unfair competition, should therefore inevitably lead to the EU also <u>putting on the table the issue of the distortion of fair competition, frequently operated by Chinese companies to the detriment of European companies operating in Africa.</u>

The overall objective for European companies is not to question in principle the presence of Chinese companies actively engaged in African emerging economies. From an economic development perspective, China's presence in Africa is often advantageous for the latter in many respects. Chinese industry need for commodities boosts the global prices for these, which in turn improves the terms-of-trade and the export income of the African countries.

Furthermore, enhanced Sino-African relations are contributing to the integration of Africa into the international formal multilateral trading system, which is long overdue.

There is clearly a need to look beyond the general preconceptions and biases. There should also be recognition that behind the often apparently opposing views, the interests of Chinese actors and those of their European counterparts are motivated by similar perceived economic benefits (notably access to Africa's natural resources and to the continent's increasingly affluent markets).

However, it is equally clear that there are differences in economic policy cooperation which do not allow a level playing field for European companies.
For example:

- **Tied aid**. Western donors have generally agreed to untie their financial aid (OECD Consensus). This has yet to be followed with regard to economic relations between China and Africa. Projects financed by the Chinese government primarily rely on Chinese companies and their workforce for implementation, often to the detriment of the local African workforce (who are starting to express their dissatisfaction increasingly strongly). Moreover, the financing of infrastructural projects (roads, bridges, dams, hospitals, etc) or for prestige projects (stadiums, presidential palaces) is often "tied" to the granting of oil or mining concession (see recent example of DRC) or even the assets themselves being used as collateral (ports, railways). Furthermore, Chinese operators tend to operate more easily in the most difficult, less well-structured regulatory and administrative environments, where informal arrangements often prevail (in terms of procedures, standards, etc.) and where western foreign investors are generally less present.
  The OECD Arrangement on Officially Supported Export Credit (in Chapter III. Provision for Tied Aid) acknowledges the role of strictly-regulated tied aid for the development of eligible projects which are financially non-viable in certain countries and this is not opposed in principle by OECD member-states.
  China is not a member of OECD and has therefore not committed to follow the rules of the Arrangement. The EU should be more critical of the Chinese practices and should urge China to apply the OECD rules as much as possible in its tied aid policy.

- **The debt-trap diplomacy used by China.** According to OECD parameters, only 43% of the Chinese financing can be defined as "development aid". The rest is considered to be commercial loans, which has little to do with any kind of development. It is often claimed that China establishes itself strategically in Africa by encouraging its partners to borrow money with loans that they will never be able to repay, thus allowing Beijing to claim ownership of the infrastructures of the countries in question at a later date.

- **The lack of conditionality of Chinese aid.** Contrary to Europe, China does not impose any conditions for its aid in political terms nor in terms of economic policy. Nor does it have any requirements from its partners in terms of democracy, transparency in the use of the funds, or the fight against corruption. The aid provided often comes via package deals, barter contracts negotiated between States, combining public, semi-public and private investments, direct aid and donations, concessional or non-concessional loans, technical or financial assistance or Chinese and African enterprise support. The negotiation process for the financial assistance being given is often pretty opaque and non-transparent.

- **A strategy of exporting Chinese low-cost overcapacities, undermining industrialisation efforts in African countries.** The massive import of cheap Chinese products is causing failures in the industrial sectors of certain African countries where they could develop (for example, bankruptcies in Zambia, South Africa, Cameroon, Gabon and Nigeria). In just a few years, Chinese exporters have dealt a death blow to the African textile industry. 80% of the companies in Nigeria and 50% of those in South Africa have closed, because the Chinese sell their products at a lower price than the ones made in Africa and sometimes even at raw material costs.

- **The lack of respect by certain Chinese companies operating in Africa with regard to international standards on social and environmental issues. There have been numerous instances of violations which have not been conducive to the creation of a healthy, sustainable private sector business environment in many African countries.**
  The social rights of African workers employed by Chinese companies are regularly violated (underpayment, non-recognition of trade unions, etc.) and they often tend to operate with very limited corporate and social responsibility.
  <u>China is not particularly bothered by social standards and even less by environmental ones,</u> both of which are systematically neglected in the search for natural resources and the building of infrastructure projects (roads, bridges, railways, dams). Often investing in polluting fossil solutions in the energy sector, these serve the Chinese economic interest, allowing the export of Chinese coal and associated technologies.

- **The large-scale use of natural resources, which raises the issue of longer-term "sustainability"**. This is particularly true in the forestry sector, in which 60% of African wood exports are already exported to China. Often accused of practicing illegal cuts, Chinese companies operating in Cameroon, Gabon, Equatorial Guinea and Congo are already responsible for much of the rampant deforestation that is occurring in these countries. The responsible good practices developed and practised by the European organisations in this sector are disappearing with the arrival of the new Chinese and Indian operators, who tend not to follow the numerous rules and regulations (fiscal, customs, social and environment). Given the resources depletion, the European operators are unable to counter the ongoing deregulation or operate competitively within this low-cost social, environmental and economic model for the new African forest-wood sector.

China's policy in Africa does not have to be demonised nor idealised. Nevertheless, it is difficult to envisage current Sino-African relations as being equitable or mutually beneficial cooperation. The unbalanced economic flows between the two continents and the often structurally flawed nature of Chinese investments could both have potentially severe adverse consequences for Africa.

However, from a purely pragmatic perspective, Europe is still Africa's largest trading partner, with 36% of the exchanges, far higher than China (16%) and the USA (6%). The European private sector represents more than 40% of the FDI in Africa (291 billion Euros), against 7% for the USA and 5% for China. **Therefore, EBCAM calls on the EU to pursue its dialogue with China, to add the concerns of the European Industry in the agenda of future dialogues, and to exert pressure for fairer competition in African markets that will truly benefit the continent's development and foster the continent's integration into the global trading system.**

In the framework of a possible rebalanced relationship, Euro-Chinese competition must not hinder the reconciliation of interests, whenever possible, and these should be mutually beneficial. Triangular cooperation projects amongst African, European and Chinese partners are certainly being developed. This is an efficient means to improve alliances, to share knowledge and potentially profit from the investment capacities of the Chinese public banks.

In order to do this, EBCAM calls on the European Commission to:

1. Review **international financing processes,** to facilitate good practices (fair competition, corporate and social responsibility, local content, environment), ensuring this is an eligibility condition to access donor financing. In the case of a consortia, all members should have the same obligations, without exception.

2. **Develop an action plan for European investments in Africa**, with fixed targets and deadlines for the short, medium and long term. Clarify the European vision and emphasise the traditional principles of respect for the rule of law, support for established international standards, reciprocity principle and transparency/governance rules. Plan concrete actions to promote such investment.

3. Building on this action plan, **establish a Euro-Chinese trade platform** to streamline the relations between European and Chinese companies. Seek to guarantee the legal certainty and clarity, sector by sector, for cross investments. Identify the barriers to be removed for a successful trilateral cooperation in Africa, such as:
   - Protection of intellectual property
   - Establishment of rules for dispute arbitration
   - Protection of IT data
   - Management of State presence within Chinese companies