Testimony of Carolyn Bartholomew

Commissioner, U.S.-China Economic and Security Review Commission

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Chairman Smith, Ranking Member Bass, and other members of the Subcommittee, thank you for the opportunity to testify today. Before I begin, I would like to express my condolences on the loss of Congressman Payne. As with you, Mr. Chairman, his leadership has touched millions of lives, many of whom will never have had the direct benefit of knowing him or working with him. His loss is deeply felt.

The U.S.-China Commission was established by the Congress in 2000 to advise you on the national security implications of the U.S.-China economic relationship. We monitor, among other things, the implications for the United States of China's increasing global presence. Over the years, we have looked at various aspects of China's role in Africa, including our research report on the 88 Queensway Group. While I will reference some of the Commission's work, the views I express today are my own.

In 2005, in testimony before this Subcommittee, I expressed concern about the nature and implications of China's approach to its economic and diplomatic relations in Africa. In the ensuing years, as China's footprint in Africa has grown, so too have my concerns. We should expect that China, like many other countries, would have a number of interests in engaging African countries. What is troubling, however, is the way China does business in Africa, the impact it is having, and the precedent it may be setting.

China's no-strings-attached assistance undermines global efforts to make foreign aid more effective and sustainable. OECD guidelines and the establishment of new foreign aid mechanisms, like the Millennium Challenge Corporation, are designed to promote transparency, accountability, and good governance and to promote basic human rights. Much of China's investment in Africa is accomplished in violation of those principles. The deal-making is often done between corrupt government officials. The public has no access to information about those deals.

The Chinese government's support for its state-owned and state-connected enterprises, its deep pockets, and its willingness to bring to the table a wide range of incentives, has created barriers for U.S. business participation in countries across the continent. Corruption is a serious problem. We should be proud of the standard set by the Foreign Corrupt Practices Act (FCPA). Yet, when Chinese partners are willing and able to offer new palaces, military equipment, sports arenas, and a host of other "gifts," American companies cannot compete.

China invests in Africa for several reasons, including acquisition of natural resources and diplomatic influence. The Chinese government has placed relationships in Africa high in its foreign policy priorities. For the past three years, China has been Africa's largest trading partner. President Hu Jintao has made six trips to Africa. Delegations of business leaders and government officials visit the continent regularly.

Many aspects of Chinese government action are shrouded in mystery. It is, for example, very difficult to know just how much money China is providing to African countries and the mechanisms through which that assistance is being provided. According to a research paper by Commission staff, citing other sources, the Chinese government considers its foreign aid spending a state secret, in part to avoid domestic criticism. In a country with a large population still living at or below poverty, sending money to assist other countries may be quite unpopular.

On several fronts, though, there is great clarity. President Hu Jintao, in 2004, explicitly stated, "Providing African countries with aid without any political strings within our ability is an important part of China's policy toward Africa." The Chinese government does expect beneficiaries to meet some of its own standards, such as diplomatic loyalty on issues relating to Taiwan and Tibet.

As someone who has spent several decades focused on human rights in China and Tibet, I find it particularly chilling that China's official policy paper, China's African Policy, published in 2006, pledges to boost military aid and fight crime by assisting judicial and police forces in Africa.

China is also clear on the economic front. Through its series of 5 year plans, now in its 12th iteration, the Chinese government lays out its economic goals and plans, identifying national champions, which are the pillars of its economic growth and sectors in which it intends to focus many of its efforts. Its foreign assistance aligns with these plans. It is heavily focused on infrastructure development, such as railroads and ports used to ship oil and other commodities back to China; expanding access to oil, gas, and other natural resources; and increasing market access for Chinese products and services.

Many American companies, in spite of their innovation and efficiency, have trouble competing in the United States and China with Chinese companies which tend to be heavily subsidized by the Chinese government. The same competitive disadvantage arises for U.S. firms seeking to do business in Africa.

Vast swathes of the Chinese economy and the businesses in key sectors are either State-owned enterprises (SOE's) or State-controlled companies. The State-owned Assets Supervision and Administration Commission (SASAC) companies operate in the defense, communication, transportation and utilities, natural resources, construction, and other industrial sectors. Most of China's major investments in Africa fall into those categories. The Chinese government supports its companies by employing its varied and deep resources – infrastructure development, arms sales, telecommunications, among others – to land business deals which allow it to acquire the natural resources and consumer markets it seeks.

While it is difficult to know how much the Chinese are providing to Africa through development assistance, foreign direct investment, concessionary loans, and other mechanisms, it can also be difficult to determine who the players are, who they are representing and whose interests they are serving. In 2009, three Commission professional staff members embarked on a research project to investigate whether investments in Africa by Chinese companies were state directed and made for strategic purposes or commercially oriented and profit driven. They focused on Angola, both because of its recent emergence from three decades of civil war and its wealth of natural resources.

During their initial research, they discovered a consortium of Chinese investors nominally located in Hong Kong. A handful of Chinese individuals control over thirty companies located at 10/F Two Pacific Place, 88 Queensway, Hong Kong. For simplicity we named this consortium the 88 Queensway Group. The Group's origins are opaque, the source of its start-up capital is unknown, and its power structure and relationship to the Chinese state remain unclear. The Group's companies are often classified as private, but there is evidence that several of its key personnel have ties to Chinese state-owned enterprises and government agencies, including China International Trust and Investment Company (CITIC) and China National Petrochemical Corporation (Sinopec) and, possibly, China's intelligence apparatus.

While Chinese official state-controlled lines of credit for the financing of construction and resource extraction projects in Angola are provided through the Export-Import Bank of China, the 88 Queensway Group has also provided a significant amount of financing and investment there. One of their companies, the China International Fund Limited (CIFL) finances and manages construction projects and has promised at least $2.9 billion to Angola for infrastructure development. Another of their companies, China Sonangol, is a joint venture with Sonangol, Angola's national oil company. China Sonangol has also established a joint venture with Sinopec, a Chinese state-owned enterprise, for oil exploration in Angola.

The 88 Queensway Group companies conduct public works-for-resources deals in countries around the world including Guinea, Tanzania (including a project in which 1,300 families were evicted from their homes and compensated only 50% of the value of their former homes, all for a project that has since been abandoned), Zimbabwe, Venezuela, and Indonesia. They may also be active in Cote d'Ivoire, Mozambique, Nigeria, North Korea, and Russia. And closer to home, the consortium has bought buildings in the United States, including the JP Morgan Chase Building on Wall Street.

The lack of transparency and public accountability surrounding the 88 Queensway Group should be a major concern to the U.S. While it claims to be a private firm, it has an exceedingly complicated organizational structure that makes it impossible to know whether or how it is connected to the Chinese government, particularly the intelligence community.

The deals it makes in developing countries are shrouded in secrecy and conducted at the highest levels of government. According to Judith Poultney, of Global Witness, "This is the new face of competition for natural resources…African elites are using complex offshore structures to cut themselves a personal slice of resource deals with Asian entrepreneurs…And like the old scramble for Africa by the West, it is the ordinary African citizen who loses out."[1] An August 13, 2011, article in the Economist[2] is illustrative:

> *"The terms under which China Sonangol buys oil from Angola have never been made public. However, several informed observers say that the syndicate gets the oil from the Angolan state at a low price that was fixed in 2005 and sells it on to China at today's market prices. The price at which the contract was fixed is confidential, but Brent crude stood at just under $55 a barrel in 2005; today it is trading above $100."*

Additional research by outside groups has raised a number of serious questions about the 88 Queensway companies, their connections, including Robert Mugabe and Eduardo dos Santos, and practices in countries such as Guinea, where China International Fund Ltd. signed a deal with Guinea's mining minister just 12 days after the Guinean military opened fire on a peaceful protest against the regime, at which 150 people were killed, over 1,200 wounded, and hundreds of women were raped. While that deal ultimately fell through, according to the Economist, "the 88 Queensway syndicate was so pleased that it reportedly gave Guinea's military ruler a helicopter as a present." Similarly, a joint venture was created between an 88 Queensway company and the government of Madagascar after the coup there.

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[1] Judith Poultney quoted by Beth Morrissey, Himanshu Ojha, Laura Rena Murray and Patrick Martin-Menard, "Incomplete promises of public works cast doubt on Chinese firms" *Center for Public Integrity iWatch News*, November 9, 2011.

[2] "The Queensway syndicate and the Africa trade" *The Economist*, August 13, 2011.

Although 88 Queensway has benefited handsomely from its deals, its performance in building the public works projects it promised in many countries is abysmal. Because so many of the national leaders in countries in which it works are financially benefitting from the transactions, there is little recourse for the people there.

One thing the 88 Queensway research demonstrated is the increasingly complicated set of actors involved in China's "going out" strategy. In Angola alone, Chinese government agencies, state-owned enterprises, and private investors are active in Angola's energy and infrastructure sectors. Angola has received loans from three Chinese policy banks and investments from numerous Chinese state-owned companies. In addition, the 88 Queensway Group has created a financing structure for projects in Angola's construction sector comparable to, but separate from, the China Ex-Im Bank credit lines.

In our 2011 reporting cycle, the Commission examined the many actors in China's foreign policy. We wanted to understand better who is in charge of foreign policy. Overall, the Chinese Communist Party's elite, the party's Politburo Standing Committee, continues to exert overarching control. However, there are many other party and government entities, including the Ministry of Foreign Affairs, the Ministry of Commerce, and the People's Liberation Army, which are involved.

In terms of China's policies toward Africa, there is a tangled web of players. The Ministry of Foreign Affairs has the official responsibility of overseeing policies, but the Ministry of Commerce (MOFCOM) has the most influence. MOFCOM guides investment, manages foreign aid projects and handles economic cooperation. MOFCOM is also responsible for screening Chinese companies, most of whom are large state-owned enterprises, bidding for concessional loans to finance projects. MOFCOM oversees grants and zero interest loans, while China Ex-Im Bank and the China Development Bank provide the bulk of overseas finance.

As China's state-owned enterprises stretch their wings on the global stage, the tension between investing for profit and investing for other purposes will only become more difficult for the central government to manage. Already, problems are visible. This past Saturday, the Washington Post carried a fascinating article by Sudarsan Raghavan and Andrew Higgins about China's difficulties in managing its relations with Sudan and the new nation of South Sudan. According to that article, the state-owned China National Petroleum Corporation (CNPC) has a huge stake in most of the biggest oil concessions in the two countries. Essentially, though, the Chinese government bet on the wrong horse in the war between Sudan and South Sudan, supporting and arming Sudan's president Omar Hassan al-Bashir, an indicted war criminal, in his crusade to stop the south from seceding. Officials in South Sudan are looking to see if Beijing will realign itself with their proud new nation. If not, they have indicated that they will open up opportunities for U.S. and other western oil companies.

Among the incentives China uses to sweeten the pot and close a deal are arms sales, including to repressive regimes. From 2006 to 2010, according to the Stockholm International Peace Research Institute (SIPRI), China was the largest source of arms imports for sub-Saharan Africa, accounting for 25% of the region's total. China has sold arms to, among others, Benin, Burundi, Chad, Gabon, Equatorial Guinea, both Eritrea and Ethiopia, Kenya, Namibia, Niger, Nigeria, Republic of Congo, Rwanda, Sierra Leone, Sudan, Tanzania, Uganda, Zambia and Zimbabwe. China is the largest foreign supplier of arms to both Sudan and Zimbabwe. According to news reports, China provided 20,000 AK-47 assault rifles and 21,000 handcuffs to Zimbabwe in the period leading up to elections. This equipment is in addition to deliveries of ammunition, mortars, and rockets, in violation of sanctions on Zimbabwe. During the Libyan conflict in 2011, Chinese state-owned weapons manufacturers were suspected of making arrangements to sell $200 million in arms to the Gaddafi government in violation of sanctions then in place against the regime.

Also according to SIPRI:

> *"…arms sales to Africa are likely to be part of broader policies for gaining access to natural resources in the recipient countries. This is particularly true for China…some observers have argued that Chinese arms transfers to Nigeria, Rwanda and Zambia have been an instrument to improve relations in order to ensure China's access to oil, tin and tantalum in these countries."*

SIPRI goes on to use as an example NORINCO (China North Industries Corporation), one of China's leading arms exporting companies, which has cited the “spillover” effect of military trade in efforts to get contracts in Angola for its subsidiary, Zhenhua Oil Company.[3]

No discussion of China in Africa would be complete without mentioning the new African Union headquarters in Addis Ababa. The $200 million building was fully funded by the Chinese government, designed by Chinese architects, built of material mostly imported from China, built in part or mostly by Chinese laborers, and will be maintained by Chinese workers. Think of all of the lost opportunities in this project. There are qualified African architects; there is good African construction material; there is a plentiful African labor force. When projects are built by Chinese labor in Africa, they deprive local people not only of wages, but also of the skills and experience they would garner working on the projects.

Some African leaders think China’s provision of the AU headquarters is a good thing. Ethiopian Prime Minister Meles Zenawi has gone so far as to suggest that adoption of China’s state-led economic model is preferable. AU Chairman and President of Equatorial Guinea Teodoro Obiang is quoted as saying that the new headquarters was “a reflection of the new Africa.”

Fortunately, not everyone is as smitten. An anonymous delegate to the AU said, “This should be a symbol of Africans pulling themselves up. But instead it looks like China is doing it for us.” The delegate likened the headquarters to a new form of colonialism. And, a Nigerian scholar wrote, “It is an insult to the African Union and to every African that in 2012 a building as symbolic as the AU headquarters is designed, built and maintained by a foreign country.”[4]

There is hope. While many African leaders like China’s no-strings-attached investment policies, those policies may not be as popular with African people. Public skepticism of China’s increasing presence has resulted in the growth of opposition movements in some countries. There are regular reports of local discontent with Chinese projects. These reports, documented in the Commission staff’s research paper on Chinese foreign aid, include complaints about Chinese laborers displacing local workers; lax safety regulations and frequent workplace accidents; cheaper Chinese

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[3] Pieter Wezeman, Siemon Wezeman and Lucie Beraud-Sudreau, “SIPRI Policy Paper 30: Arms Flows to Sub-Saharan Africa,” December 2011

[4] Chika Ezeanya, “Tragedy of the new AU headquarters,” *Pambazuka News*, January 26, 2012.

products displacing locally made goods; shoddy building standards and corrupt deals between Chinese officials and local officials.

Human Rights Watch released a report late last year documenting labor abuses in Chinese state-owned copper mines in Zambia. In addition to the complaints listed above, Zambian miners spoke of being forced to work long hours in excess of Zambian law and Chinese efforts to break labor unions, which have been a strong part of Zambia's mining tradition. In a surprising move, the China Non-Ferrous Metals Mining Corporation (CNMC), has responded to a letter sent by Human Rights Watch about the abuses documented in the report, perhaps providing an opening for improvement. Only time will tell. China's companies are in a difficult position. If they improve the working conditions in their facilities in Africa, they may face questions from their workforce in China about their own working conditions.

I encourage the Subcommittee to work with the Administration, the development community, and the U.S. private sector, to recommit the U.S. to a strong presence in Africa. If we do not do so, we will continue to lose ground to the Chinese economically and diplomatically, and we will be doing a disservice to the vast majority of Africa's people whose natural resources are being exploited while their entrepreneurial talent is still untapped and whose aspirations for good governance and basic human rights are still unmet.

Thank you for the opportunity to testify today.