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CHINA-AFRICA FDI LOCALISATION

A POLICY COMPARISON

Consultancy project by Oxford China International Consultancy on behalf of Development Reimagined

DEFINITIONS

Development Financing is here used to encompass foreign-direct investment (FDI), contracts and loans.

Localisation

Local employment creation from foreign investment.

Foreign-Direct Investment (FDI)

An investment by a firm or individual in one country into business interests in another country; generally to establish foreign business operations or acquire foreign business assets. As well as capital investment, FDI usually involves establishing management control and can include provisions of technology.

Contract Revenues

Revenues from Chinese companies' engineering and construction projects.

Loans

Financing from Chinese banks and companies to African governments, state-owned banks, state-owned enterprises, private companies, regional banks and third-country firms, including Chinese-owned firms.

Introduction

Since the turn of the century, there has been a significant increase in economic and political cooperation between China and African countries. This has taken the form of bilateral and multilateral summits, such as the Forum for China-Africa Cooperation, as well as increased trade and investment flows from state-owned enterprises and banks and the private sector. The marked increase in investment has led to a politically contentious debate surrounding 'localisation': local employment creation from foreign development financing. Firms face an efficiency trade-off between hiring local workers and using existing employees. Several factors are involved in this calculation, including primarily the relative cost of labour and skills levels. In many cases, it is more efficient in the short term for firms to use existing employees with the requisite skills for a certain role. However, the local population do not receive the income or technical and managerial skills transfer that investment can generate. In turn, national industrial development is prevented from growing through forward and backward linkages with local industry. However, national and firm level policy can alter the incentives within this trade-off, through a foreign labour policy which makes importing expatriate workers costly or which mandates the hiring of local labour and the transfer of skills. This project seeks to understand the interaction between policy and development financing. It seeks to answer the following questions:

1 **How are trends in China-Africa FDI, contract revenues and loans associated with localisation?**
2 **What are the policies in African countries affecting localisation?**
3 **Is there a causal link between development financing and policy? Is there a causal link between policy and development financing?**
4 **What lessons can be learned from firm and project level localisation policies?**

1 TRENDS

DEVELOPMENT FINANCING

How have trends in FDI, contract revenues and loans changed over time?

INDUSTRY

Which African industries receive the highest levels of FDI, contract revenues and loans?

CHINESE LABOUR

How have trends in Chinese workers in Africa changed over time?

How are levels of Chinese workers associated with FDI, contract revenues and loans?

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Between **2003** and **2018**:

China-Africa **contract revenues** increased from USD **2.6bn to 48.8bn**

China-Africa **FDI** increased from USD **500m to 46bn**

China-Africa **loans** increased from USD **1.7bn to 8.9bn**

Chinese **contract revenues** and **loans** have been **declining** since 2015, while FDI has continued to increase. This implies that China is either undertaking proportionately fewer contracts, or that the overall value of contracts available has declined.

In spite of the continued upward trend in **FDI,** the **year-on-year growth rate** has been **declining.**

SOURCE: SAIS-CARI

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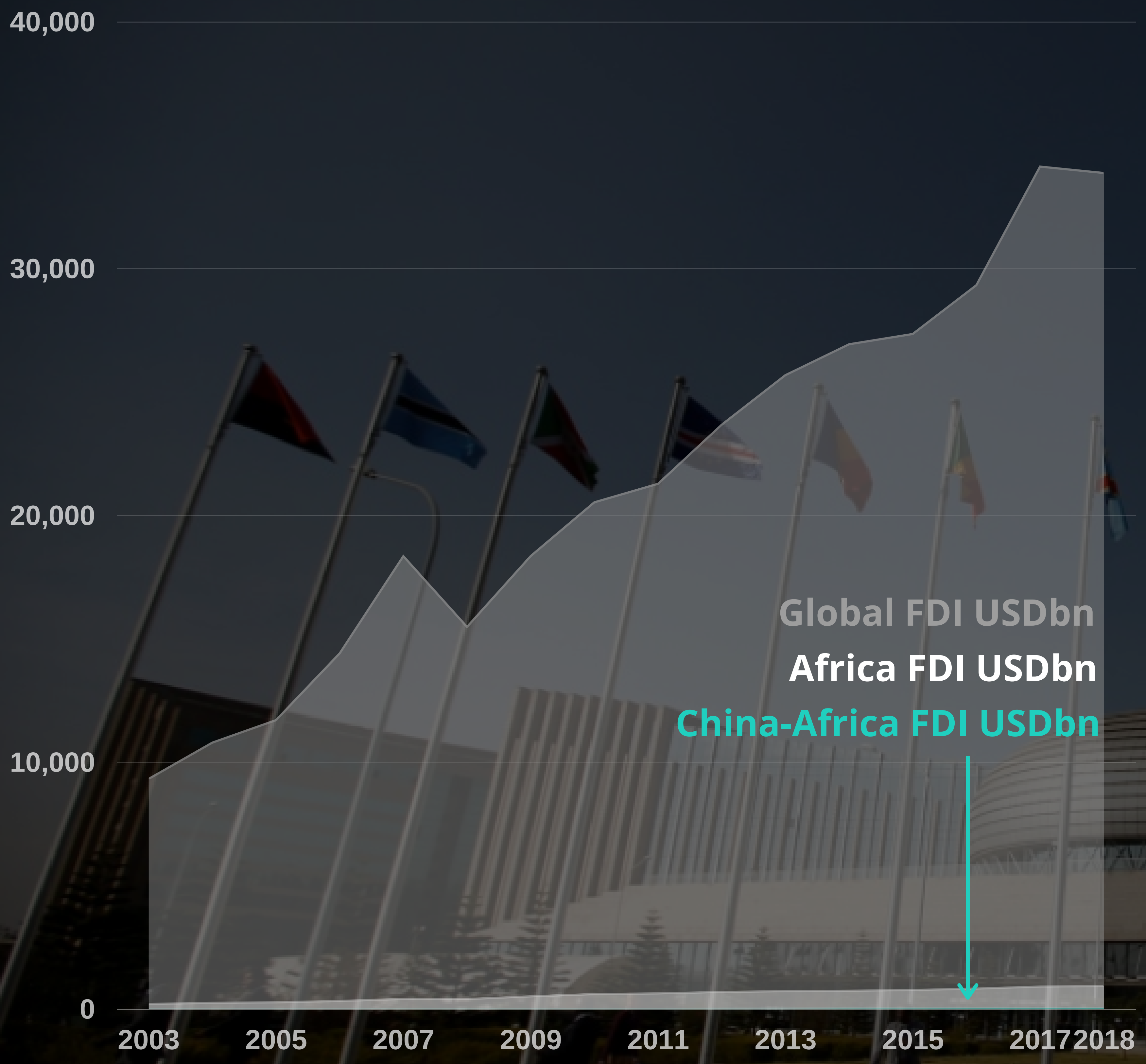

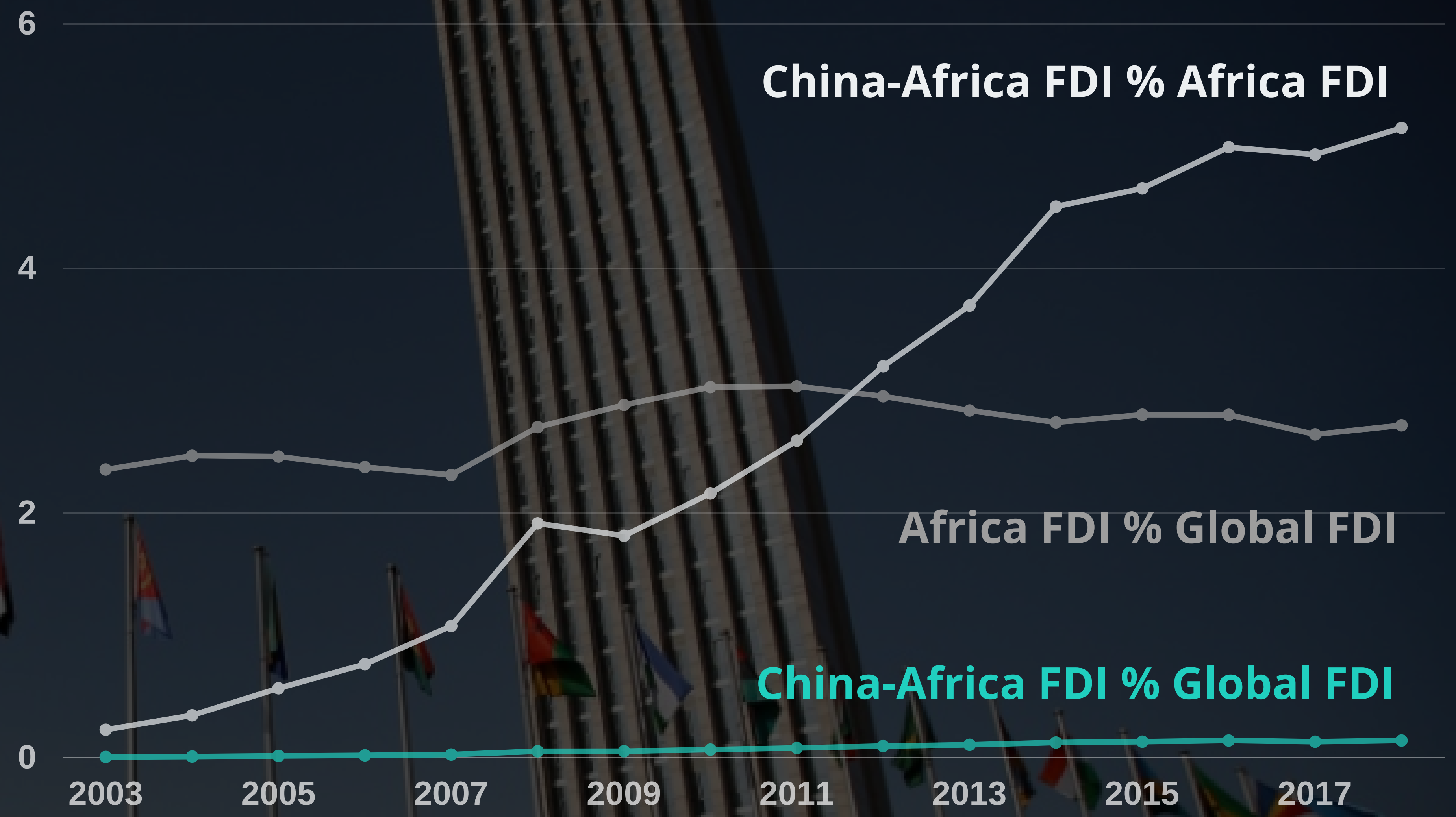

Chinese FDI to Africa has been increasing as African FDI has remained relatively stable. In 2018, **China-Africa FDI** made up around **5.1%** of total FDI to Africa.

SOURCE:UNCTAD; SAIS-CARI

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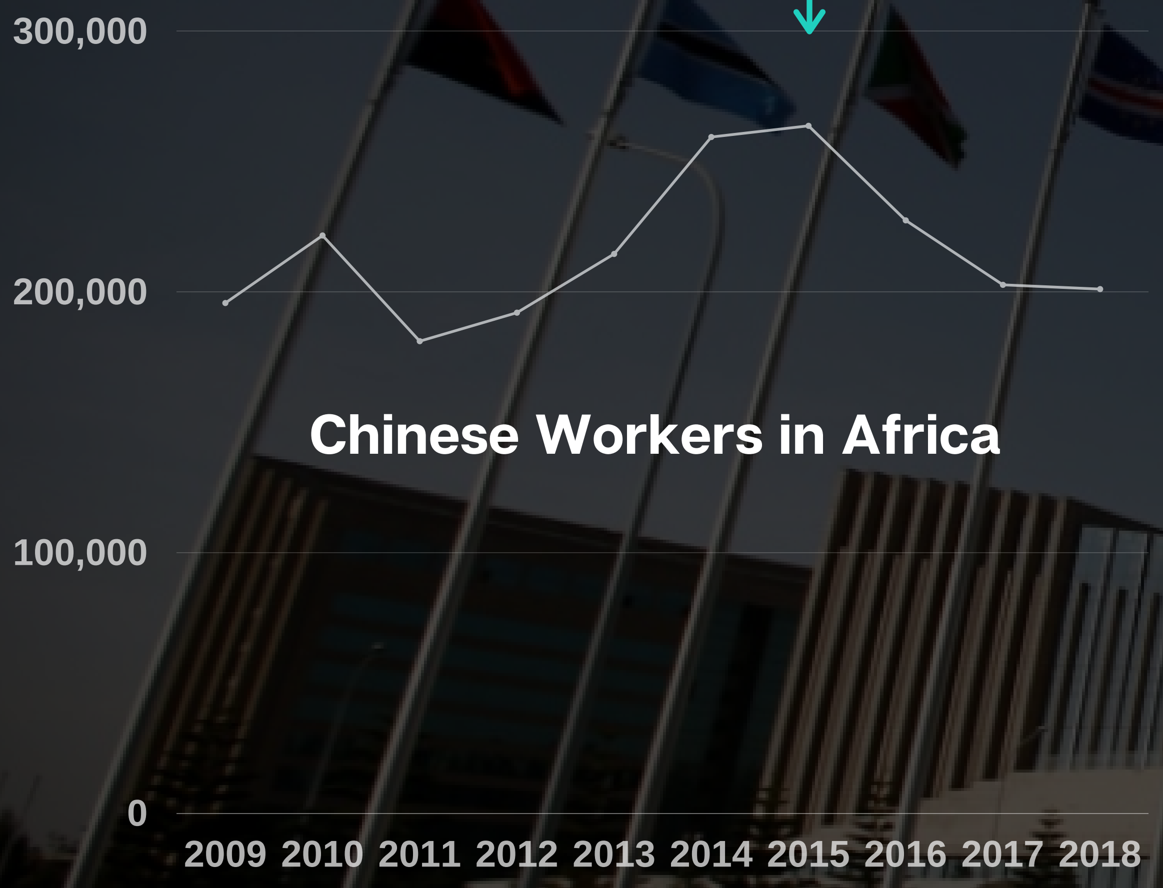
The number of Chinese workers in Africa **peaked in 2015,** reaching **263,659** workers

In **2018,** there were **201,057** Chinese workers in Africa. The largest contingent of these were in Algeria, at **60,220** workers

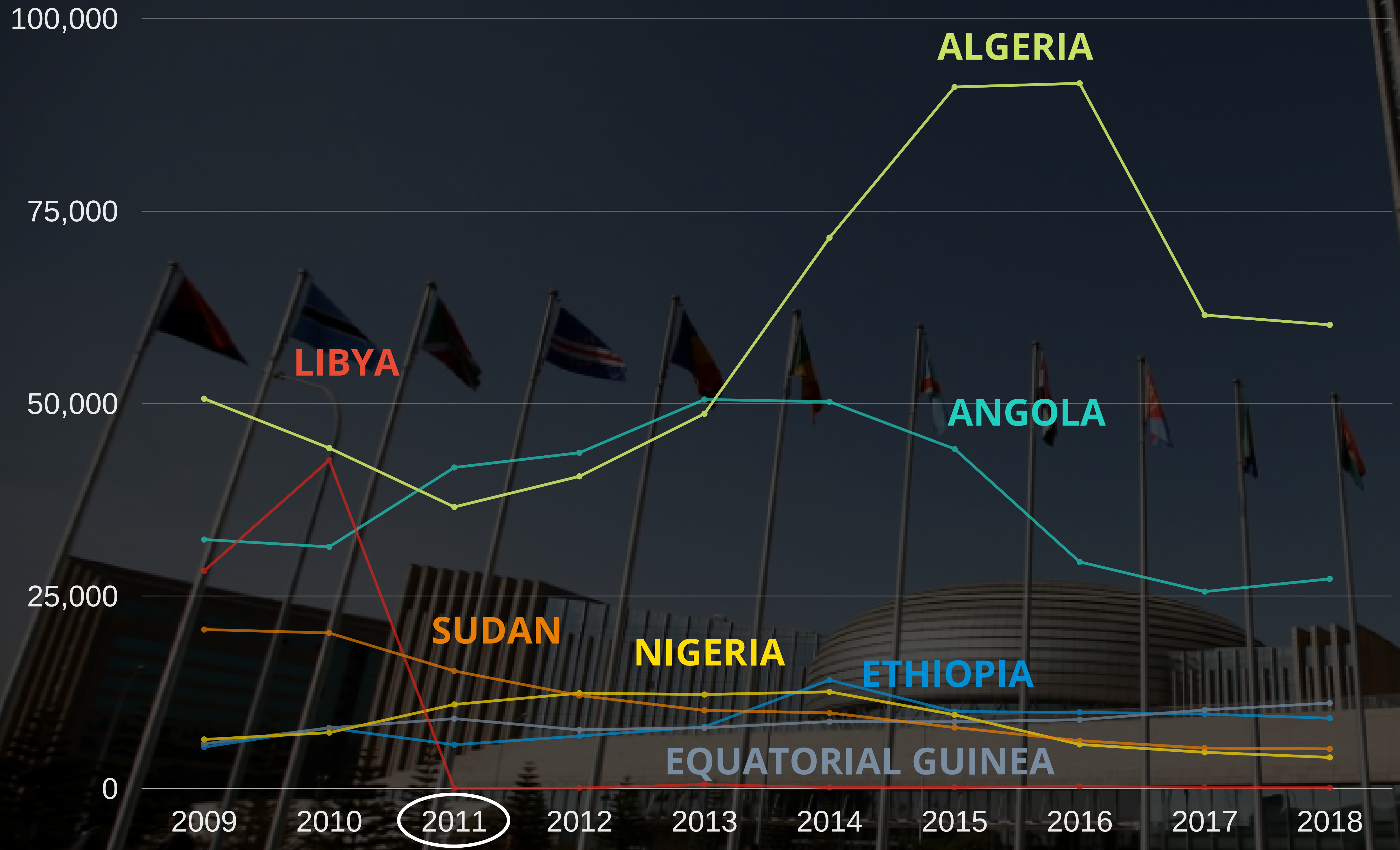


Chinese Workers in Africa

Chinese Workers in Africa 2018

SOURCE: SAIS-CARI

Trends in Chinese Labour



February 2011: First Libyan Civil War

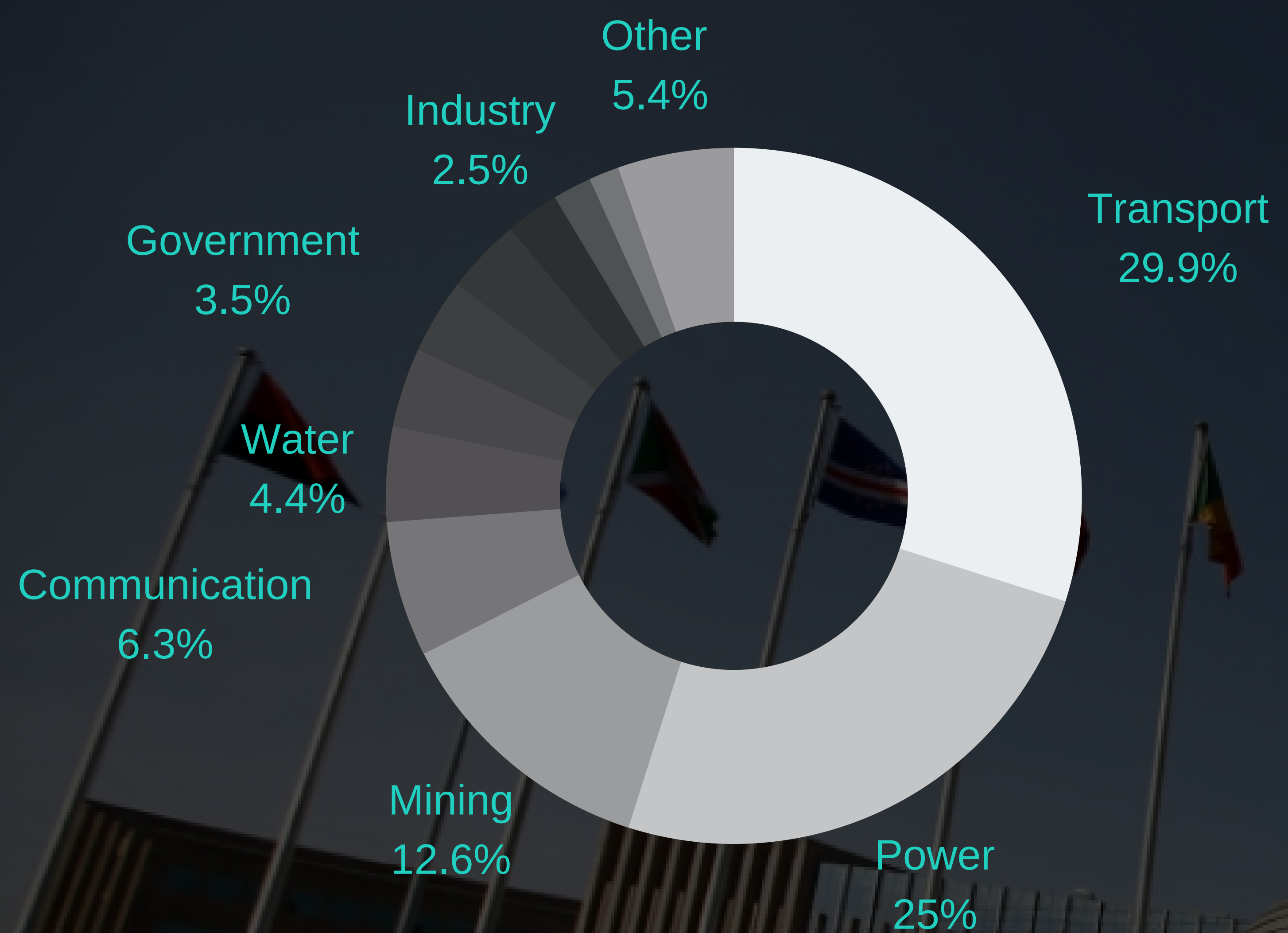
July 2011: South Sudan independence from Sudan

Algeria has overtaken **Angola** as the country with the **highest number** of Chinese workers

Political developments in **Libya and Sudan** have led to a decline in workers from initially high levels

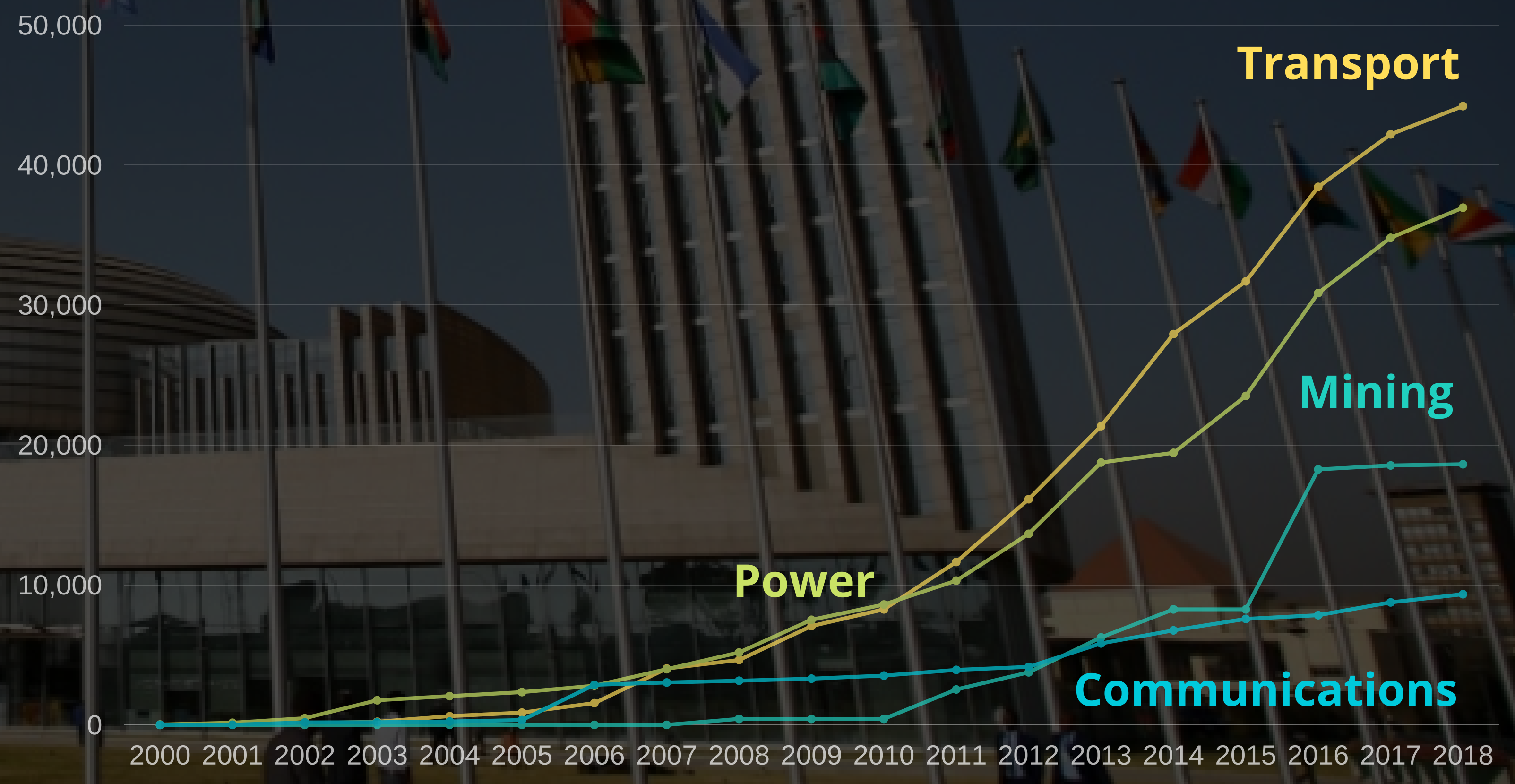
SOURCE: SAIS-CARI

Industries Receiving China-Africa Loans USDmn 2000-2018



The dominant industries receiving Chinese loans in Africa were **transport, power, mining and communication.**

Top 4 Industries for China-Africa Loans USDmn 2000-2018

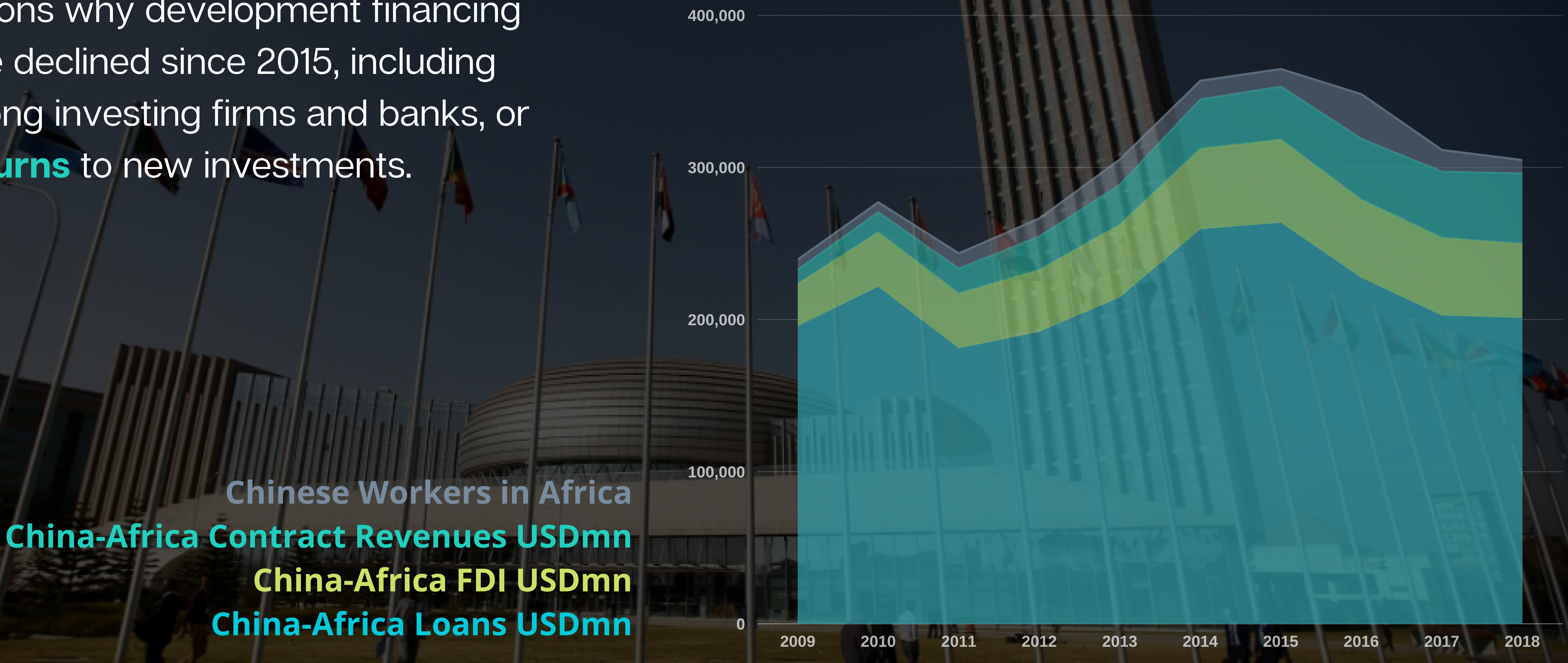


Transport overtook power as the dominant industry receiving Chinese loans in **2011**.

SOURCE: SAIS-CARI

Chinese development financing in Africa **peaked in 2015.** This followed the 6th Forum on China-Africa cooperation in Johannesburg. There are numerous reasons why development financing rates may have declined since 2015, including **debt risks** among investing firms and banks, or diminishing **returns** to new investments.

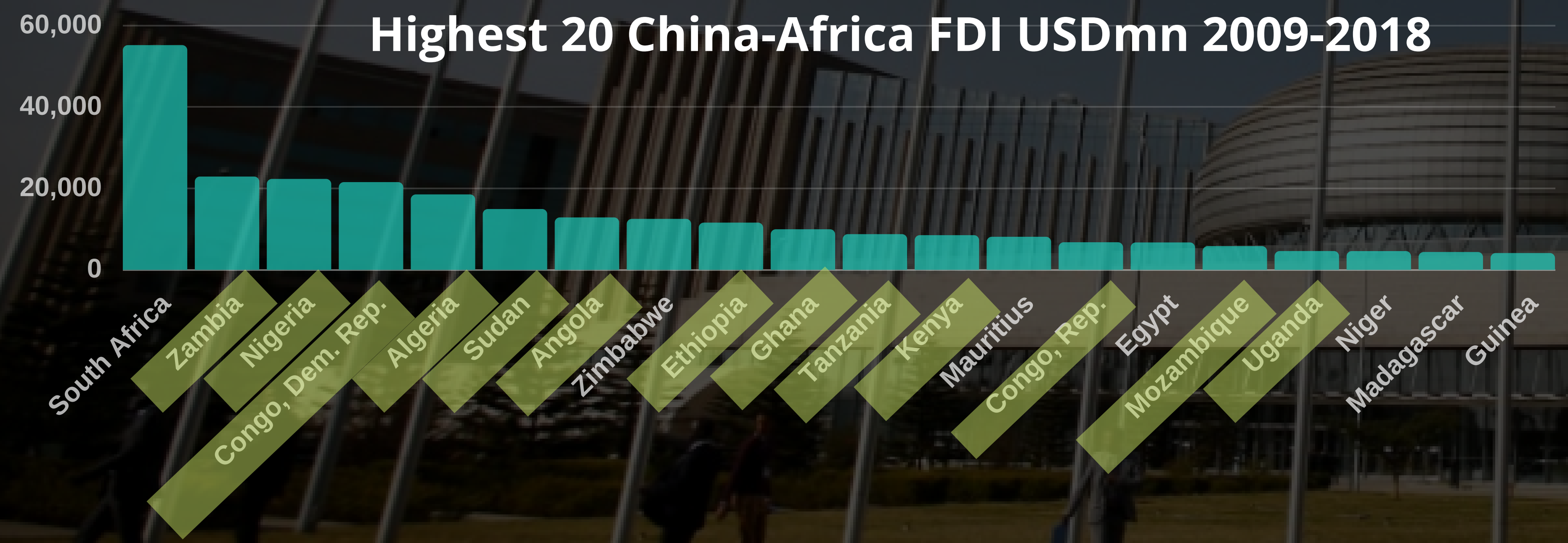
There is a strong **association between trends** in Chinese labour, FDI, contract revenues and cumulative loans in Africa



SOURCE: SAIS-CARI

There is a **strong association** between the countries with high levels of **FDI, contract revenues, loans** and **Chinese workers**

Countries present in the highest 20 of every category



SOURCE: SAIS-CARI

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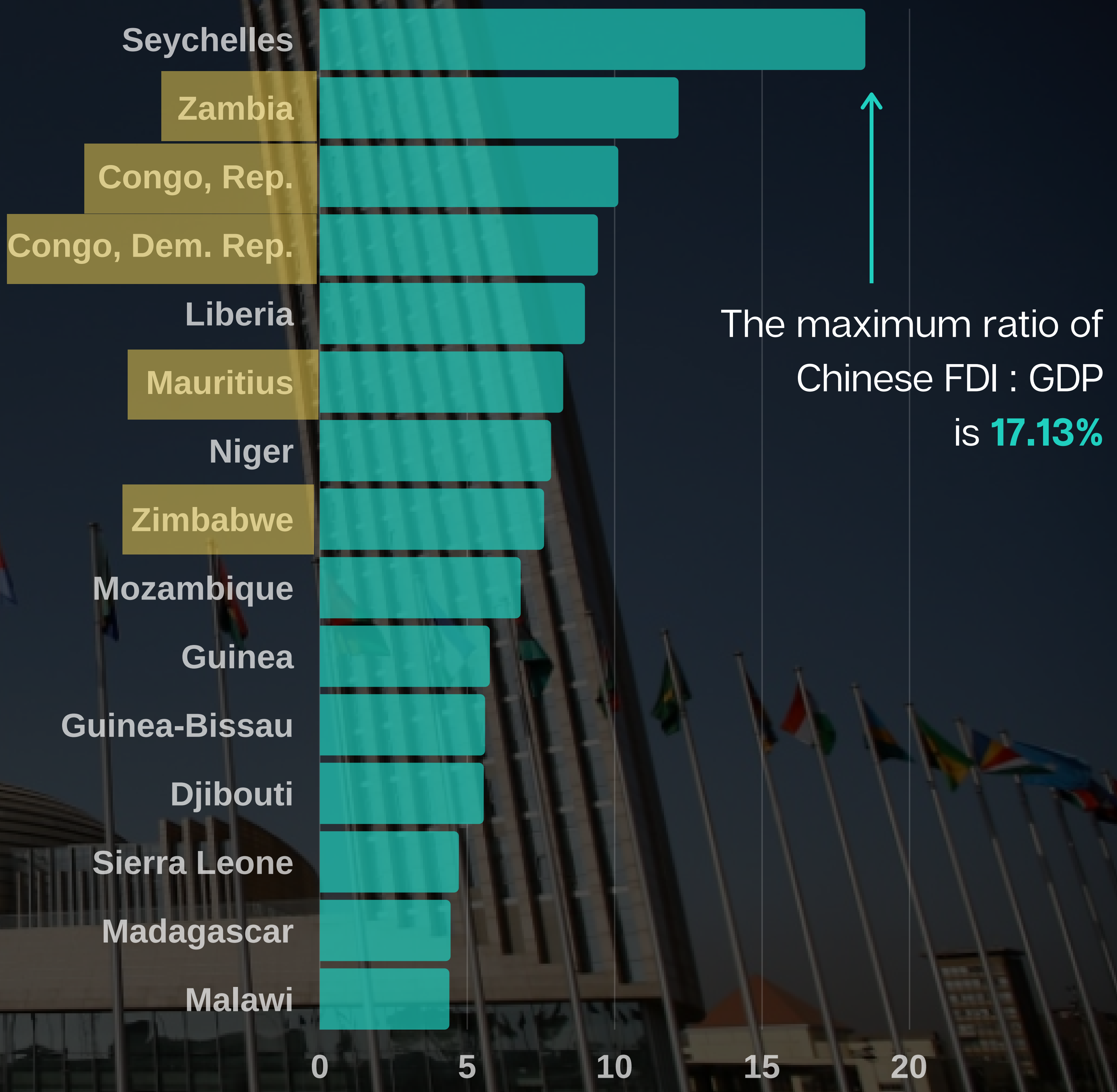
Highest China-Africa FDI 2003-2018 USDmn

The **economic contribution** of FDI depends on countries' **economic size**



Highest China-Africa FDI as %GDP (4-Year Average)

SOURCE: SAIS-CARI; WORLD BANK DATA

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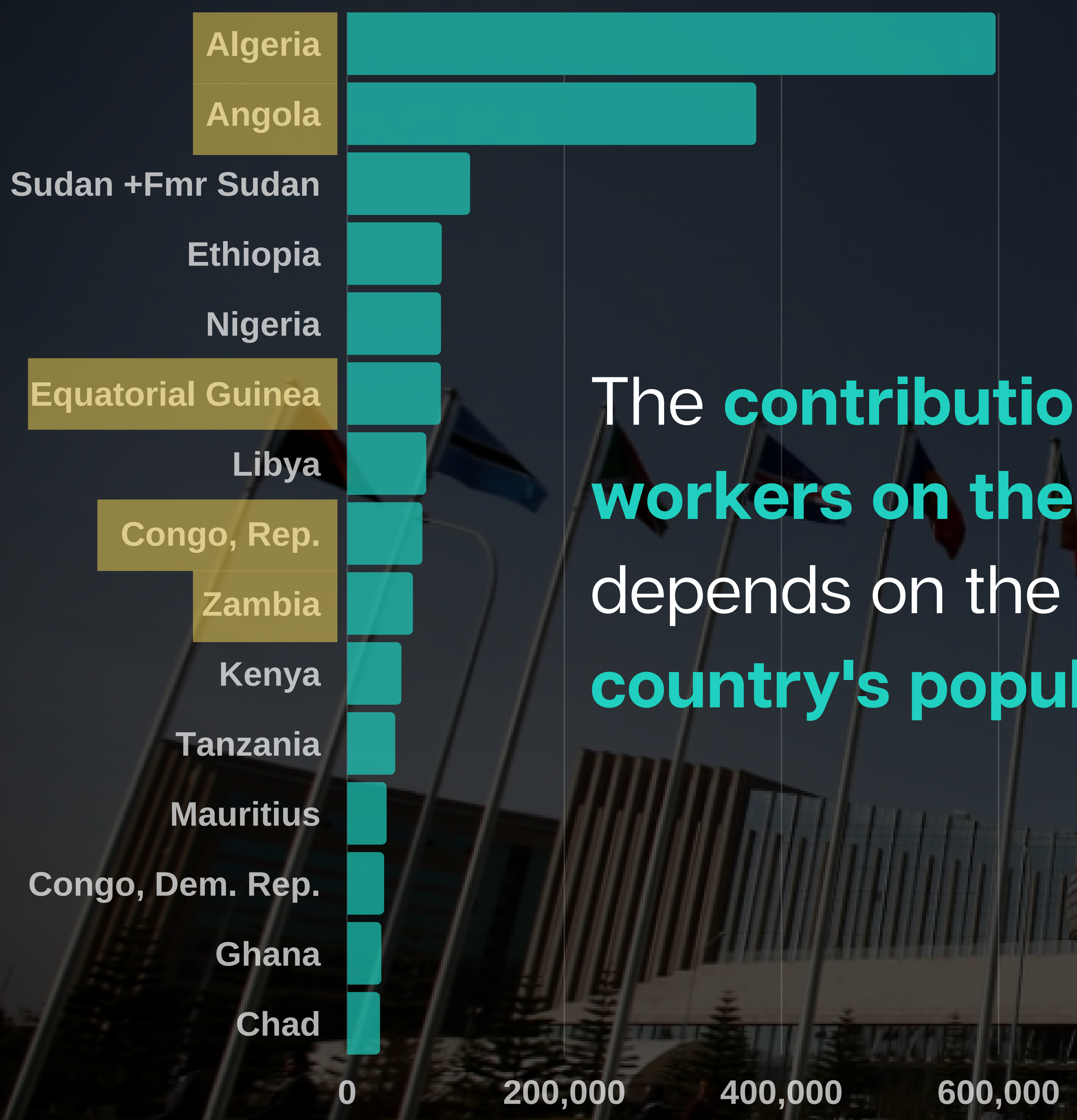
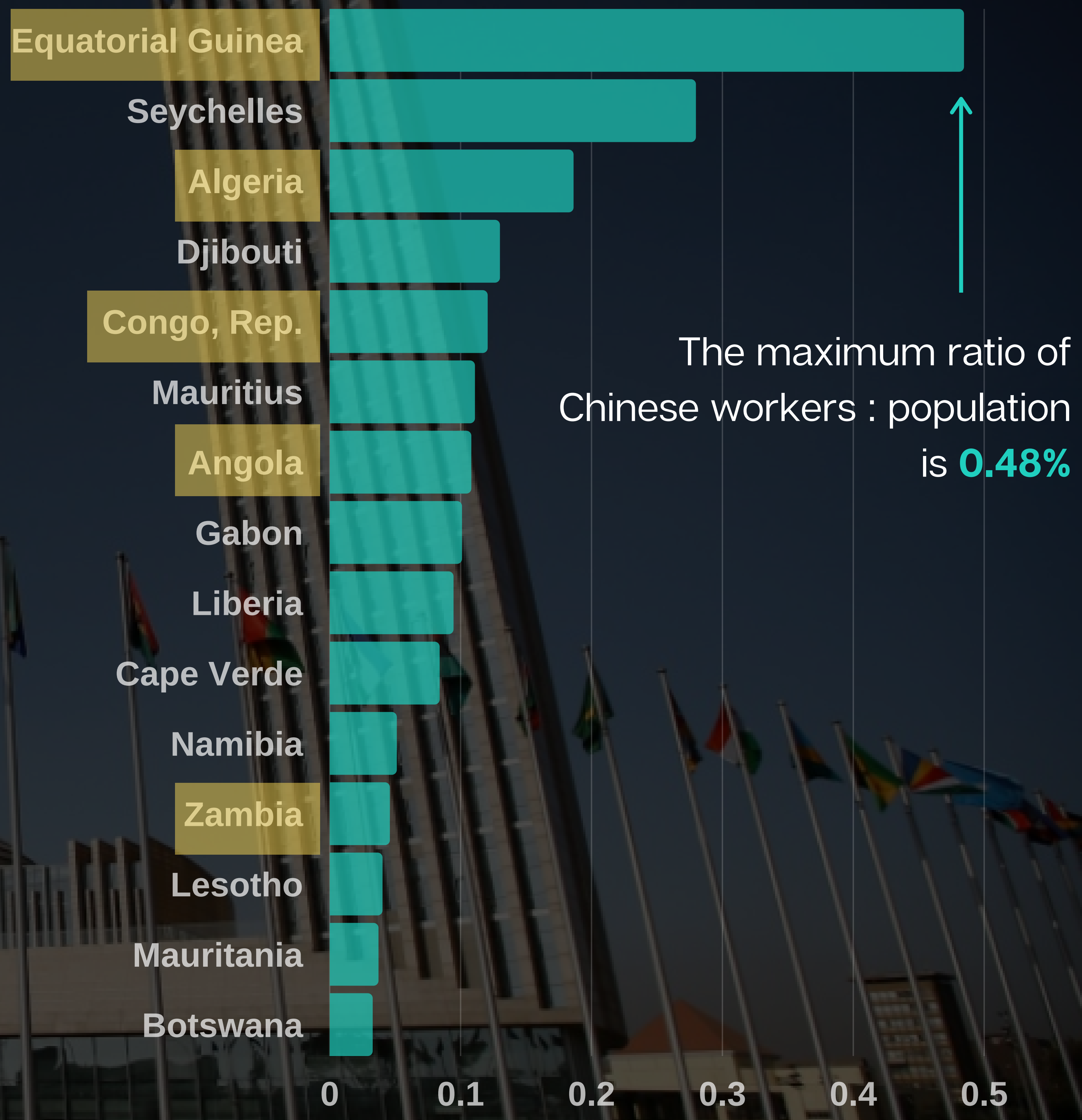


Highest Levels of Chinese Workers 2009-2018

The **contribution of Chinese workers on the labour force** depends on the **size of the country's population**



Highest Proportion of Chinese Workers % Total Population (4-Year Average)

SOURCE: SAIS-CARI, WORLD BANK DATA

Angola, Republic of the Congo and Zambia stand out as the most impacted by Chinese FDI

They are consistently among the top 10 recipients of:

- FDI (absolute and relative)
- Contract revenues
- Loans
- Chinese labour (absolute and relative)

Algeria, Ethiopia, Kenya, Nigeria and Sudan are also very highly impacted, frequently among the top 10.

Despite these commonalities, **labour policies** in these countries vary.

SOURCE: SAIS-CARI; WORLD BANK DATA

SECTION 1: CONCLUSIONS

How have trends in FDI, contract revenues and loans changed over time?

- China-Africa FDI and contract revenues have increased proportionally between 2003 and 2018, with the year-on-year growth rate in FDI declining.

Which African industries receive the highest levels of FDI, contract revenues and loans?

- The dominant industry receiving Chinese loans is transport, which overtook energy from 2011. Transport in theory has stronger linkages with local industry, which would point to higher levels of localisation.

How have trends in Chinese workers in Africa changed over time?

- Trends in Chinese labor reveal significant fluctuations. In some cases, this can be explained by political developments (Sudan, Libya). In others (Algeria, Angola), they could be indicative of changes in levels of investment or localisation policy.

How are levels of Chinese workers associated with FDI, contract revenues and loans?

- There is a strong association between China-Africa FDI, contract revenues, loans and Chinese labour. They have moved proportionally over time and the majority of countries with the highest levels of Chinese labour also have the highest levels of FDI contract revenues and loans. This suggests that localisation is low at the continental level.
- It is important to consider that the impact of FDI and Chinese workers on economies and labour markets depends on the size of the economy and labour market. This means that those countries 'most affected' by Chinese development financing and workers are not necessarily those with the highest total levels.

2 LABOUR POLICY

POLICIES

What are the policy areas affecting foreign labour?

CATEGORIES

What policies have been adopted by African policymakers?
Is there a causal link between development financing and policy choices?
How does the political and economic context (GDP, unemployment, political noise) affect policy choices?
Is there a causal link between policy choices and levels of development financing?
How do other factors (ease of doing business, security risk) affect levels of investment?

POLICY AREAS

WORK VISAS AND PERMITS

Duration, cost, process

LOCAL LABOUR REQUIREMENTS

Explicit priority for locals, often as a condition of visa approval

OTHER

Eg Punitive measures, local language requirements

QUOTAS

Designated ratio of local and expatriate labour for firms

TRAINING

Mandatory training for locals when expatriates hired

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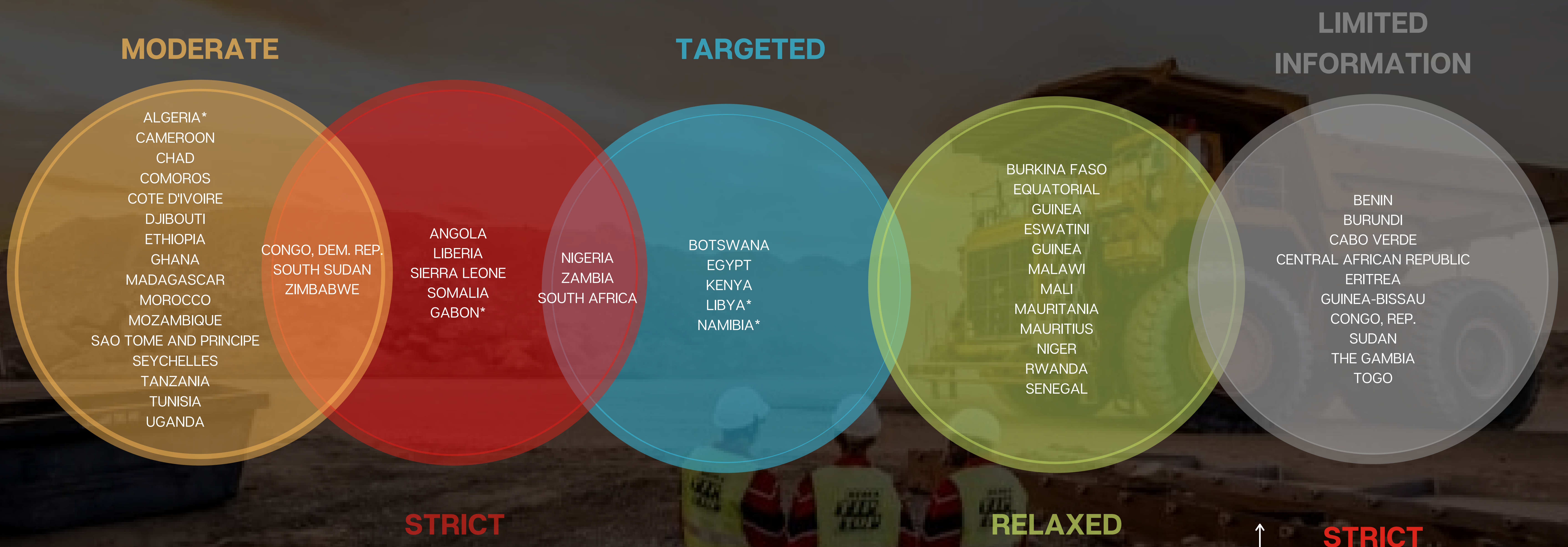

Increasing strictness

STRICT
TARGETED
MODERATE
RELAXED
LIMITED INFORMATION

*Denotes evidence that a policy has low enforcement

SOURCE: SLIDE 45

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Increasing strictness

STRICT
TARGETED
MODERATE
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SOURCE: SLIDE 45

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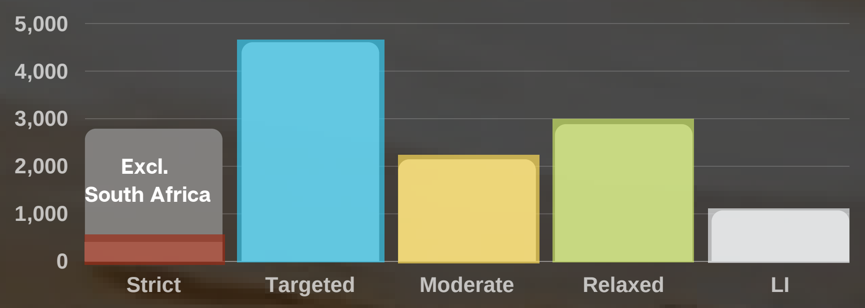
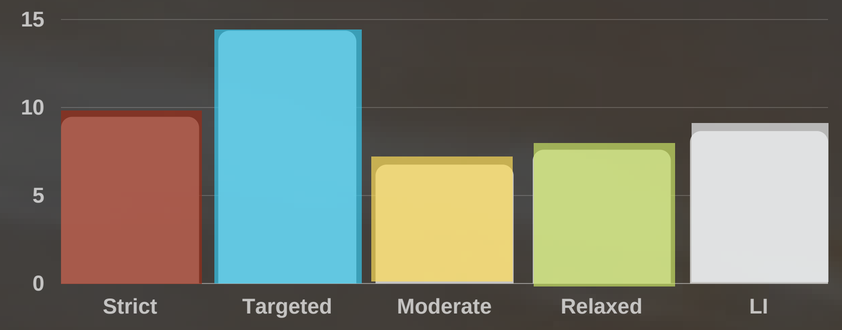
ECONOMIC CONTEXT

Average GDP Per Capita 2003-2018 USD



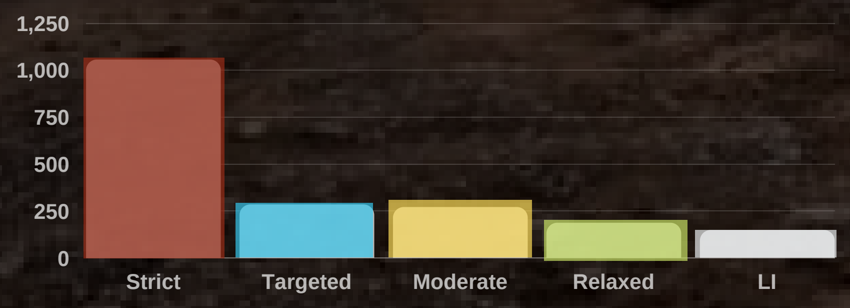
Average Unemployment 2003-2019



Average Chinese Contract Revenues 1998-2018 USDmn

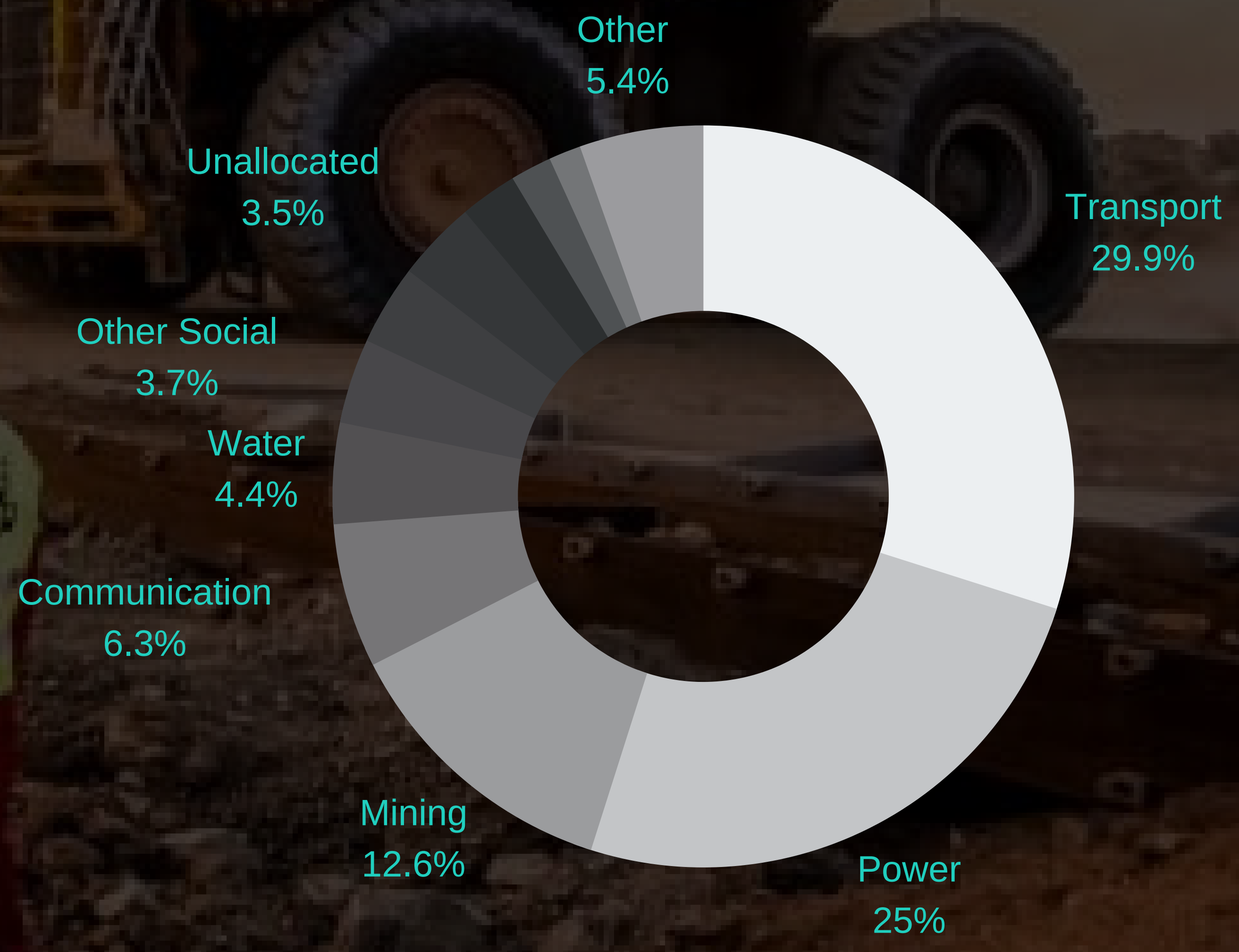
Average Chinese Loans 2000-2018 USDmn

Average Chinese FDI 2003-2018 USDmn



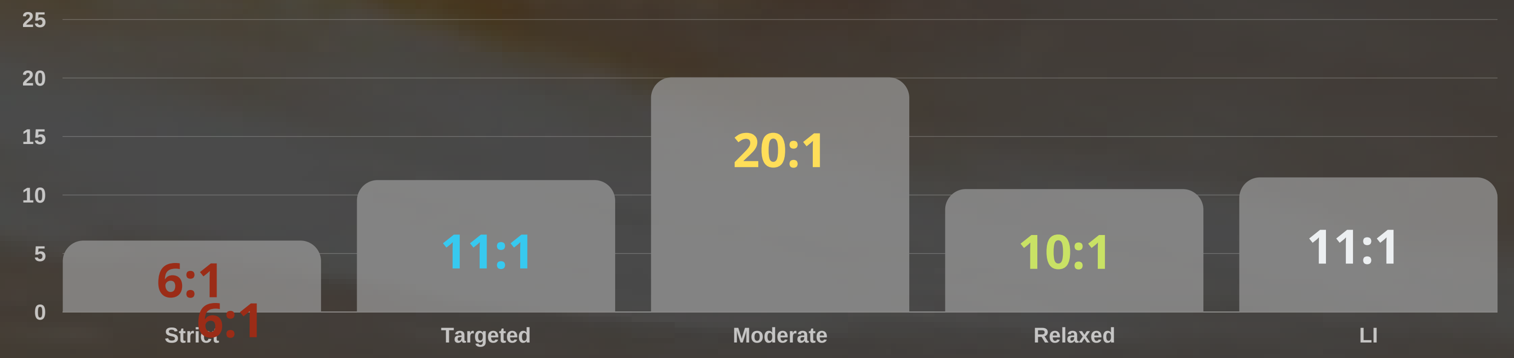
Average Chinese Workers 2009-2018

Industrial Split of Chinese Loans in Africa 2000-2018

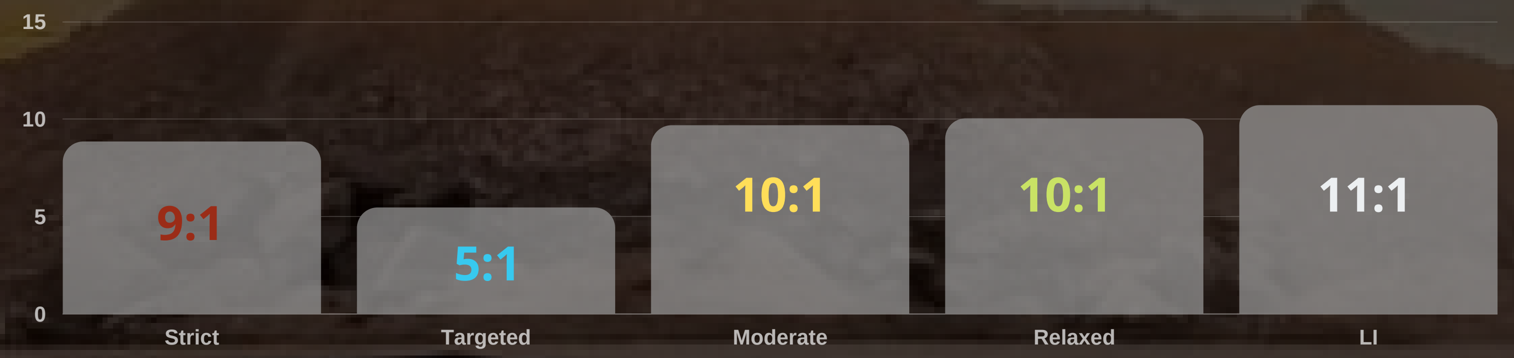


SOURCE: SAIS-CARI; WORLD BANK DATA

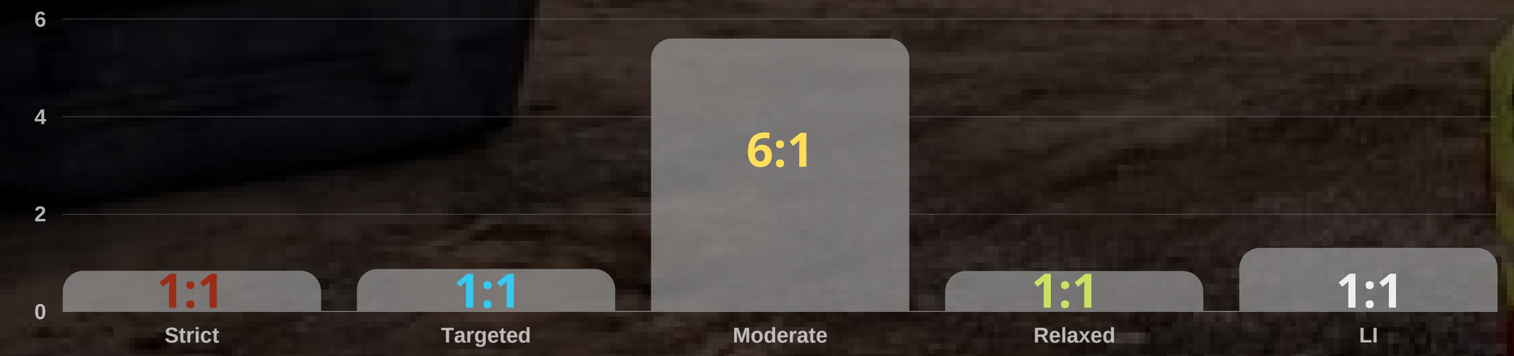
Average Chinese Workers : USDm Average FDI



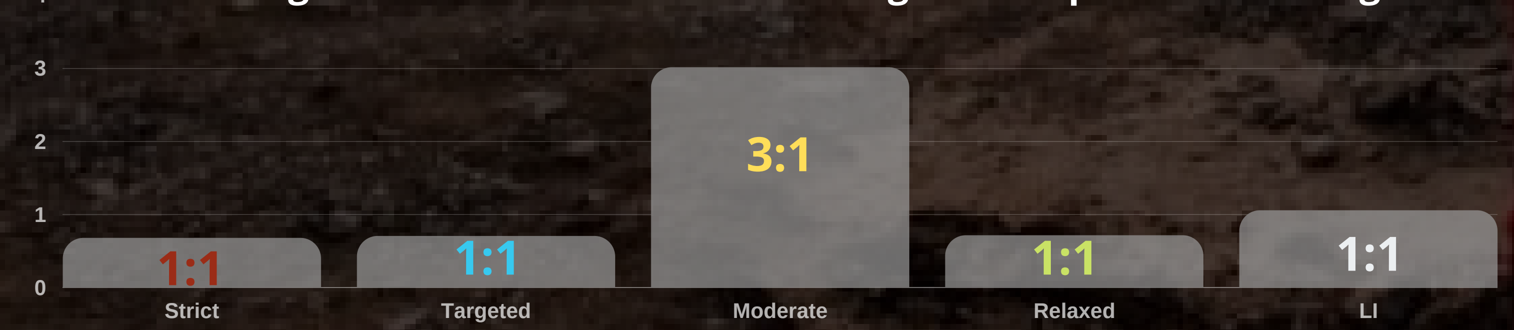
Average Chinese Workers : USDm Average Contract Revenues



Average Chinese Workers : USDm Average Loans



Average Chinese Workers: Total Average Development Financing



ECONOMIC CONTEXT

When the level of workers is adjusted as **ratio per dollar of Chinese development financing**, the strictest policies are no longer associated with higher levels of Chinese workers. Instead, the Moderate category has the highest level of Chinese workers per USDm of FDI and loans. This suggests **two possible findings:** the level of workers is not as strong a causal factor in influencing stricter policy and/or stricter policy causes a higher level of localisation from Chinese development finance. However, this cannot be a definitive conclusion, as the effects of stricter policy may not have yet influenced the level of localisation, and the level of workers could be influenced by factors other than policy such as the dominant industry.

SOURCE: SAIS-CARI; WORLD BANK DATA

STRICT

ANGOLA
CONGO, DEM, REP.
GABON
LIBERIA
NIGERIA
SIERRA LEONE
SOMALIA
SOUTH AFRICA
ZAMBIA
ZIMBABWE
(CHINA)

POLICIES

Restrictive visa/permit conditions
- Generally high costs (Angola, Gabon, Zambia) including recent increases (Zimbabwe)
- Entry visas, work visas/permits, residency permits often required separately
- Extensive administration often required
- Visas/permits generally short-dated, around 1-2 years

Strict quotas
- Quotas ranging from 20%-90% local labour
- Quotas generally higher at managerial level
- Expatriate Quotas on application (Nigeria)
- Fines for companies violating quotas (Nigeria)

Incentives
- Imprisonment, deportation and fines (employee and employer) for illegal labour (Sierra Leone, Somalia, Nigeria)
- Fines for violating local labour requirements common
- Local currency requirements (Angola)
- Preferential treatment for companies with national equity (Sierra Leone)
- Evidence of low enforcement (Gabon)
- Increase in Chinese workers' salaries (DRC)

Local labour requirements
- Visas subject to no local competition
- Requirements at multiple levels including managerial level
- Requirements for local advertising before hiring expatriates (Zambia)
- Industry-specific competition restrictions (Liberia)
- China-specific measures eg 2015 threatened arrest of Chinese business owners in locally-reserved sectors (Zimbabwe)

Mandatory training with punitive measures
- 'Understudy' requirements (Zambia, Nigeria)

(China would also fit into the Strict category due to a stringent three-tier points-based system and punitive measures including fines of between 5,000 and 20,000 RMB for illegal employment and/or detention in serious cases)

SOURCE: SLIDE 45

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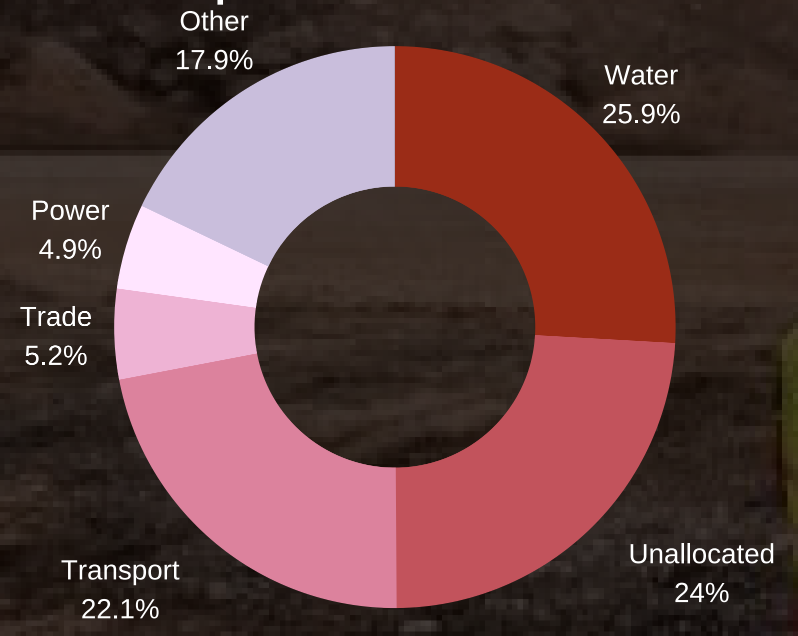
STRICT

ANGOLA
CONGO, DEM, REP.
GABON
LIBERIA
NIGERIA
SIERRA LEONE
SOMALIA
SOUTH AFRICA
ZAMBIA
ZIMBABWE
(CHINA)

POLICY CONTEXT

- Low GDP per capita compared to other categories, particularly excluding South Africa
- Second-highest unemployment of all categories
- Highest levels of Chinese FDI, contract revenues, loans and labour
- Lowest labour: development financing ratio, suggesting potential high localisation compared to remaining categories
- Dominant industries receiving Chinese loans are water, 'unallocated' (including infrastructure), transport, trade and power
- Localisation is a political issue, often relating to China

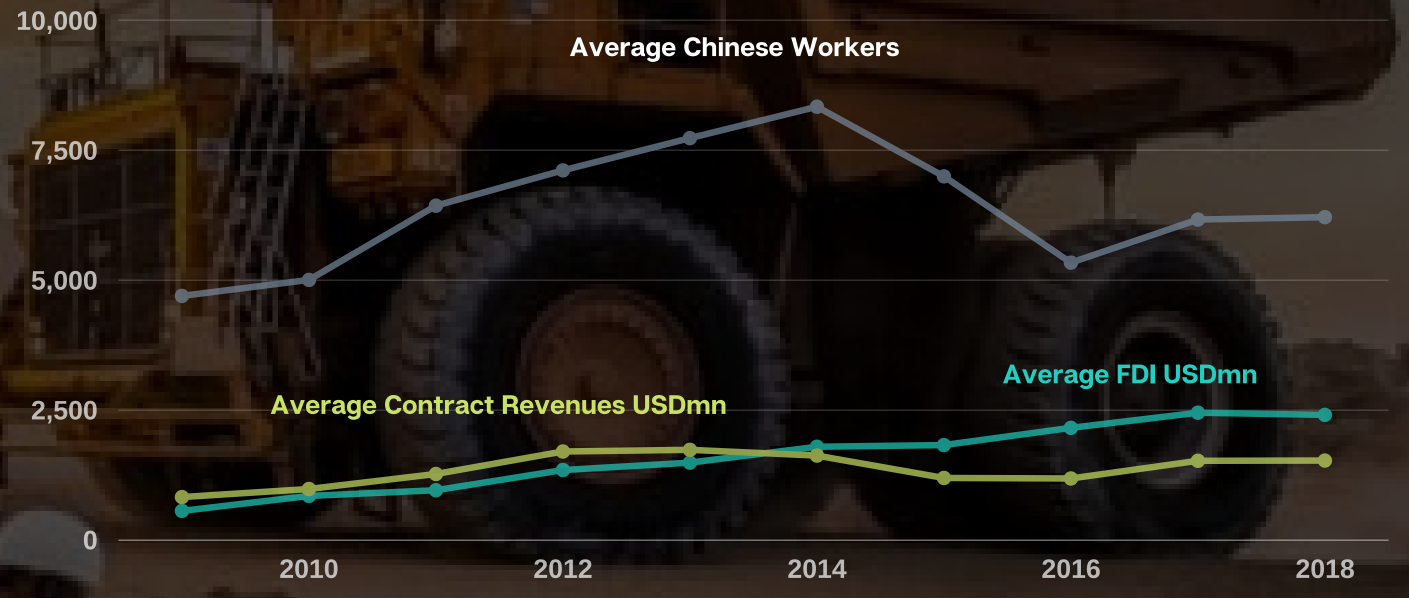
Industrial Split of Chinese Loans 2000-2018



Overall, strict policies may be a response to very high levels of FDI, contracts, loans, and labour, low existing levels of localisation, and political pressure over Chinese investment given limited positive effects on local incomes.

POLICY IMPLICATIONS

- Chinese labour and contract revenues declined around 2015 in line with continent-wide trends
- FDI has continued to increase despite a downward trend continent-wide



Overall, it would appear that FDI has not been adversely affected by strict policies. Chinese labour and contracts have declined; their peak is just before the continent-wide peak, which could point to an impact from localisation policies. However, it is difficult to judge the impact of policies at the category level, due to continent-wide trends and the recent implementation of policies.

SOURCE: SAIS-CARI; WORLD BANK DATA

TARGETED

BOTSWANA

EGYPT

KENYA

LIBYA

NAMIBIA

POLICIES

Moderate visa/permit conditions
- Work permits/visas required
- Points-based system (Botswana)
- Charges for renewal (Kenya)
- Visas available on arrival (Namibia)

Local labour requirements
- Priority for locals required (Botswana, Egypt, Kenya, Libya)
- Local advertising required (Botswana)

Quotas
- High 80-90% quotas (Egypt, Libya), specific to local companies (Egypt)

Training
- Localisation plan required including understudy (Botswana, Namibia)
- Understudy requirement for position (Kenya)
2:1 assistants to local experts with annual progress report (Egypt)
- Mandatory annual training (Libya)

Other
- 20% limit on foreign salaries : total salaries (Egypt)
- Evidence of low enforcement due to competitiveness of foreign workers (Libya, Namibia)
- Immiration policy stricter since 2013 (Kenya)
- High minimum wage since 2013 (Kenya)

SOURCE: SLIDE 45

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TARGETED

BOTSWANA

EGYPT

KENYA

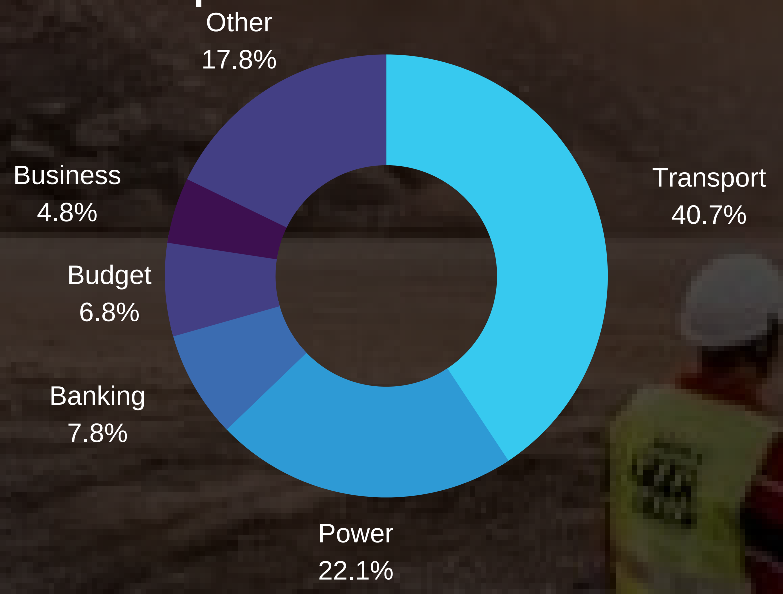
LIBYA

NAMIBIA

POLICY CONTEXT

- GDP per capita highest of all categories
- Chinese FDI, contract revenues and loans are the second highest of all countries, but significantly lower than Strict countries
- The level of Chinese labour is third highest, lower than the Strict and Moderate categories
- Unemployment highest out of all categories
- The dominant industrial category in this policy is transport, followed by power. This reflects continent-wide trends, but higher value-added sectors with strong linkages to the local economy, such as banking and business, receive a signfiicantly larger share of investment compared to other categories, reflective of more diversified economies
- Lower levels of political noise surrounding localisation

Industrial Split of Chinese Loans 2000-2018



Overall, the countries in this category tend to have diversified economies with high income levels. They attract significant investment from China, but the amount of Chinese labour is not correspondingly as high. This reflects the dominant industries receiving investment, which are better integrated in the local ecnomy, and potentially high levels of skills in the local labour force for lower value-added activity. This explains lower levels of political noise surrounding localisation. These countries experience high levels of unemployment, particularly among the youth. Evidence suggests that skills mismatch in these transitional economies is a signficant reason behind such unemployment and the necessity of foreign labour. This explains why foreign labour policy tends to emphasise skills transfer to the local labour force, while still incentivising high levels of foreign investment.

POLICY IMPLICATIONS

- Sharp decline in Chinese labour around 2011 represents Libyan Civil War; Chinese labour peaked in 2015 alongside continent-wide trends
- As contract revenues and labour peaked, FDI declined in 2015 in line with continent-wide trends, increasing slowly since then

Overall, the peak in Chinese contracts and labour was relatively flat compared to Strict and Moderate countries, while the recovery in FDI, loans and labour has been modest compared to a rebound in Strict and Relaxed countries and a continued decline in Moderate and Limited Information countries.

SOURCE: SAIS-CARI; WORLD BANK DATA

MODERATE

ALGERIA
CAMEROON
CHAD
COMOROS
COTE D'IVOIRE
DJIBOUTI
ETHIOPIA
GHANA
MADAGASCAR
MOROCCO
MOZAMBIQUE
SAO TOME AND PRINCIPE
SEYCHELLES
SOUTH SUDAN
TANZANIA
TUNISIA
UGANDA

POLICIES

Moderate visa/permit conditions

- Costs and administrative process unrestrictive
- Short-term visas often required before longer-term residency issued
- Some countries do not limit visa/permit duration

Local labour requirements

- Priority for local labour often specified
- Proof of no local competition required for work visas (Mozambique, Tunisia)
- Mandatory local advertising (Sao Tome and Principe)

Quotas

- Some incentives offered for high firm-level localisation (Cote d'Ivoire)
- Quotas assigned for certain sectors (Ghana, Morocco, Seychelles)
- Local labour quotas 30-80% (South Sudan, Tunisia)
- Emphasis on start-ups (Tanzania, Tunisia)
- Managerial-level quotas (Tunisia, Tanzania, Morocco)

Other

- No explicit punitive measures found
- Plans to restrict foreign workers halted in 2014 (South Sudan)
- Local language requirements (Tanzania)
- Evidence of low enforcement (Algeria)
- High minimum wage (Ethiopia)

Training

- No skills-transfer policies

SOURCE: SLIDE 45

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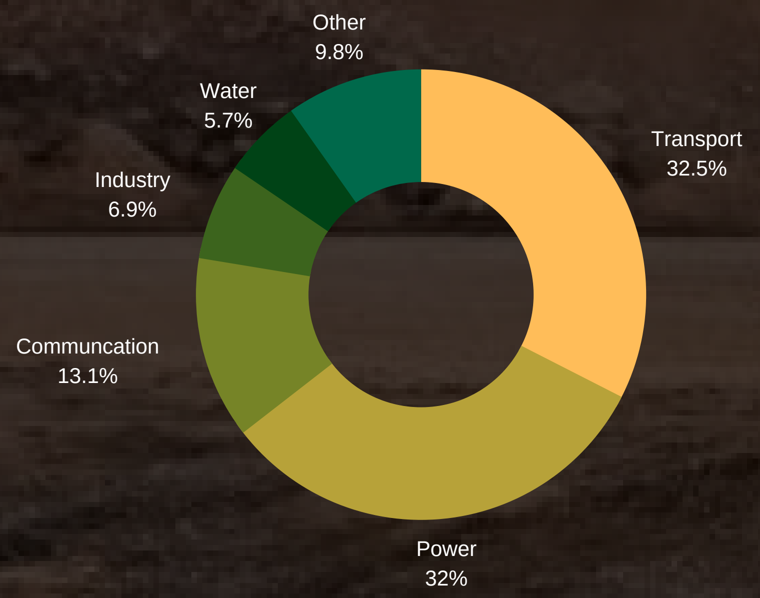
MODERATE

ALGERIA
CAMEROON
CHAD
COMOROS
COTE D'IVOIRE
DJIBOUTI
ETHIOPIA
GHANA
MADAGASCAR
MOROCCO
MOZAMBIQUE
SAO TOME AND PRINCIPE
SEYCHELLES
SOUTH SUDAN
TANZANIA
TUNISIA
UGANDA

POLICY CONTEXT

- GDP per capita higher than strict and limited information categories
- Chinese FDI, contract revenues and labour below strict and limited information categories
- Highest labour: development finance ratio, suggesting lower localisation than remaining categories
- Unemployment lowest of all categories
- Dominant industries are transport, power, communication, industry and water
- Little political noise surrounding localisation relating to China

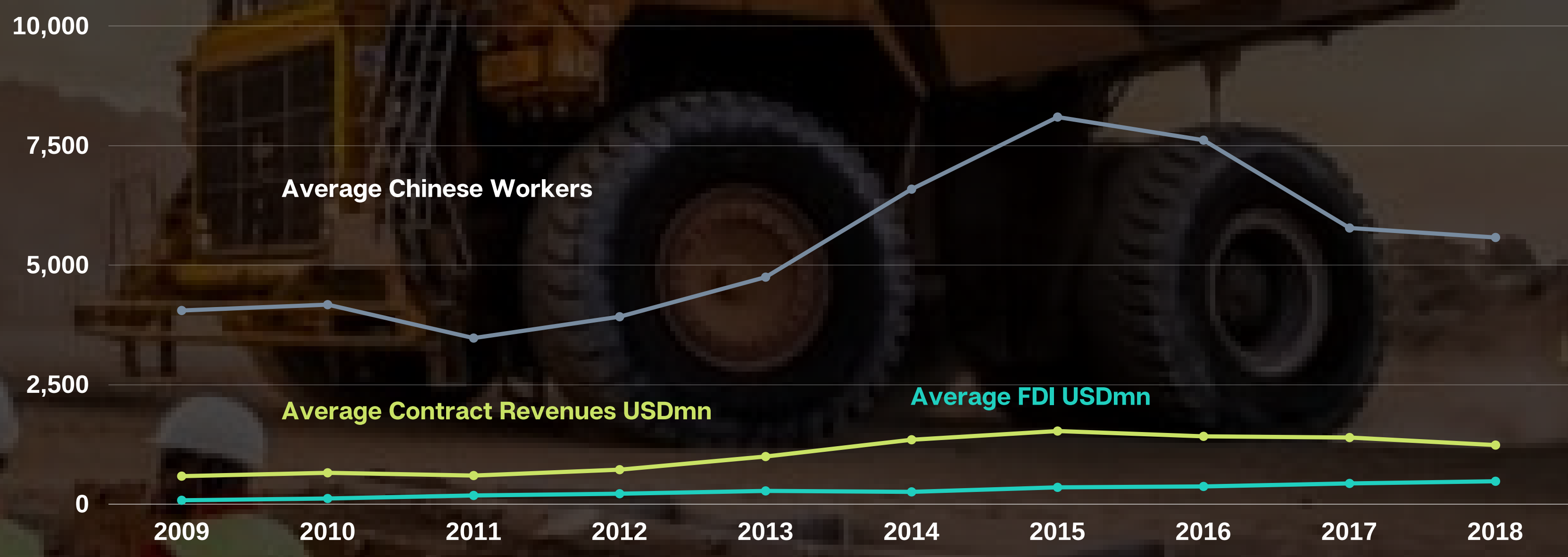
Industrial Split of Chinese Loans 2000-2018



Overall, moderate policies are associated with high levels of Chinese FDI, contract revenues and labour. Linkages to local industry are likely higher than the Strict category due to the prevalence of loans in the transport sector, but a high proportion of power investment relative to the continental average will likely limit spillovers overall. Policies could be less stringent than countries in the strict category due to relatively higher GDP per capita, low unemployment, and lower political noise associated with localisation

POLICY IMPLICATIONS

- Chinese labour and contract revenues declined around 2015 in line with continent-wide trends
- FDI has continued to increase modestly despite a downward trend continent-wide



Overall, moderate policies may have led to a smoother decline in contract revenues and Chinese labour around 2015 due to more permissive policy (for example, work visa limits). However, the relative strictness of policies overall could explain the stalled recovery of Chinese workers and loans. The modest increase in FDI compared to other countries could also be attributed to policy, although other factors are likely at play.

SOURCE: SAIS-CARI; WORLD BANK DATA

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RELAXED

BURKINA FASO

EQUATORIAL GUINEA

ESWATINI

GUINEA

MALAWI

MALI

MAURITANIA

MAURITIUS

NIGER

RWANDA

SENEGAL

POLICIES

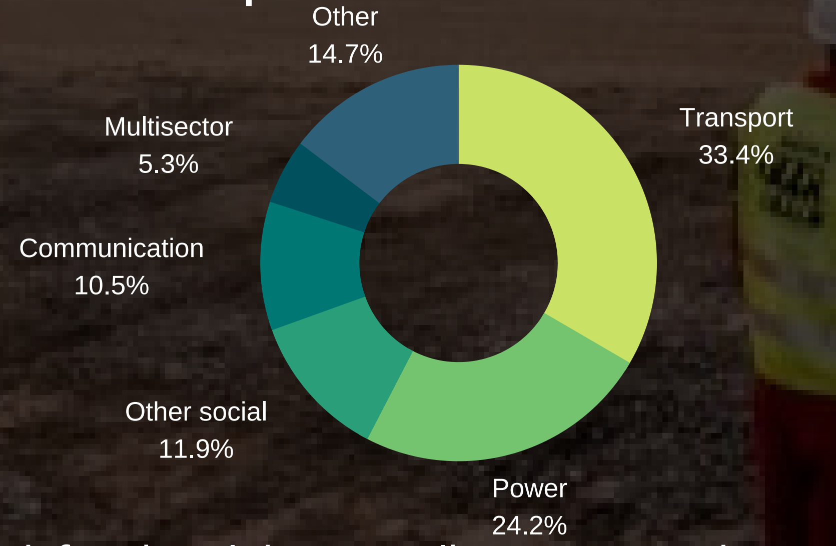
Moderate visa/permit conditions

→ Work and residency permits required

POLICY CONTEXT

- GDP per capita is the second highest of all categories; althogh many countries remain LDCs
- Chinese FDI, contract revenues and loans workers are the lowest of all categories; loans are second-lowest
- Unemployment is the second lowest of all categories
- The dominant industrial categories reflect continent-wide trends
Political noise surrounding localisation is not significant

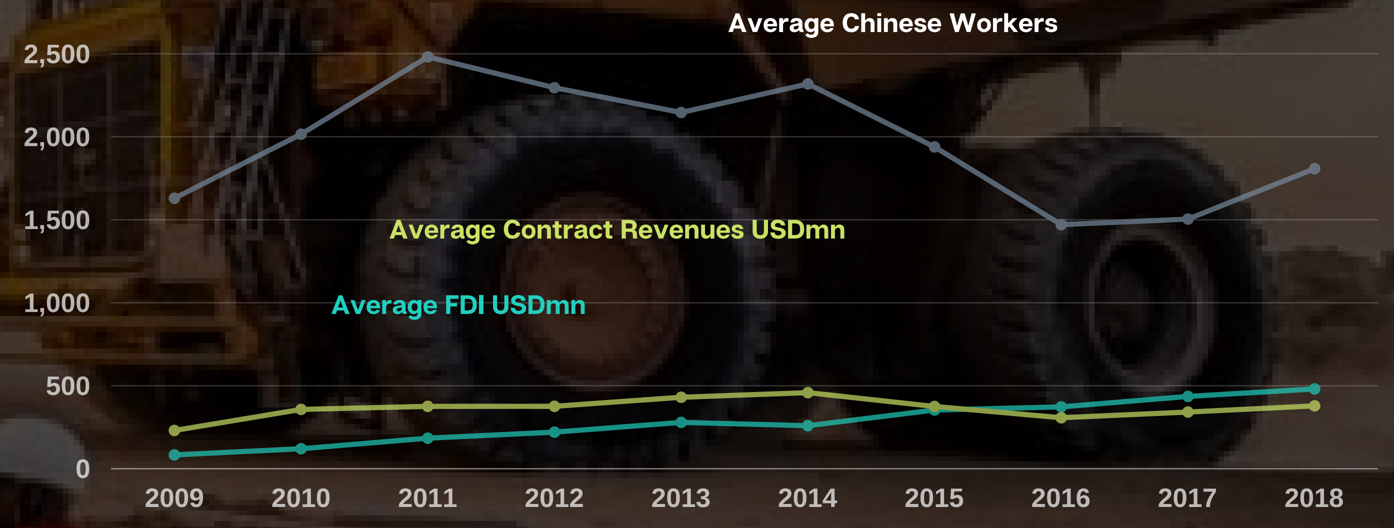
Industrial Split of Chinese Loans 2000-2018



Overall, relaxed foreign labour policy among these countries may reflect relatively high incomes and relatively low levels of Chinese labour. Relaxed policies may be designed to attract more foreign investment, of which Chinese investment in FDI, contracts and loans is relatively low.

POLICY IMPLICATIONS

- There is an association between trends in Chinese labour and contract revenues, with a sharp rebound since the peak around 2015
- FDI has continued to increase and overtake contract revenues, as in the Strict category



Overall, these trends suggest that relaxed policies are associated with a free flow of Chinese labour and contract revenues, and strong FDI growth. The sharp rebound in Chinese labour and strong growth in FDI compared to Moderate and Targeted policies could reflect relatively relaxed policies.

SOURCE: SLIDE 45; SAIS-CARI; WORLD BANK DATA

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LIMITED INFORMATION

BENIN

BURUNDI

CABO VERDE

CENTRAL AFRICAN REPUBLIC

ERITREA

GUINEA-BISSAU

LESOTHO

REPUBLIC OF THE CONGO

SUDAN

THE GAMBIA

TOGO

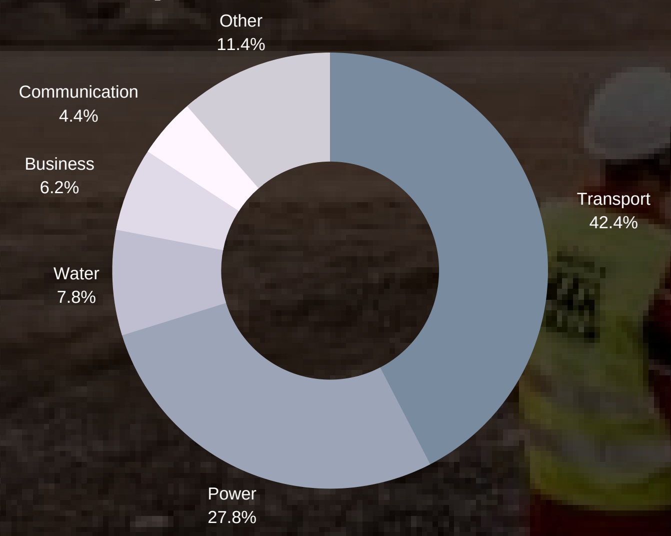
POLICIES

- Little policy evidence found

POLICY CONTEXT

- GDP per capita is the lowest of all categories (apart from when South Africa is excluded from the strict category)
- Chinese FDI, contract revenues and workers are the lowest of all categories
- Chinese loans are the second-lowest of all categories
- Unemployment falls in the middle of all the categories
- The dominant industrial categories reflect continent-wide trends
- Political noise surrounding localisation is not significant

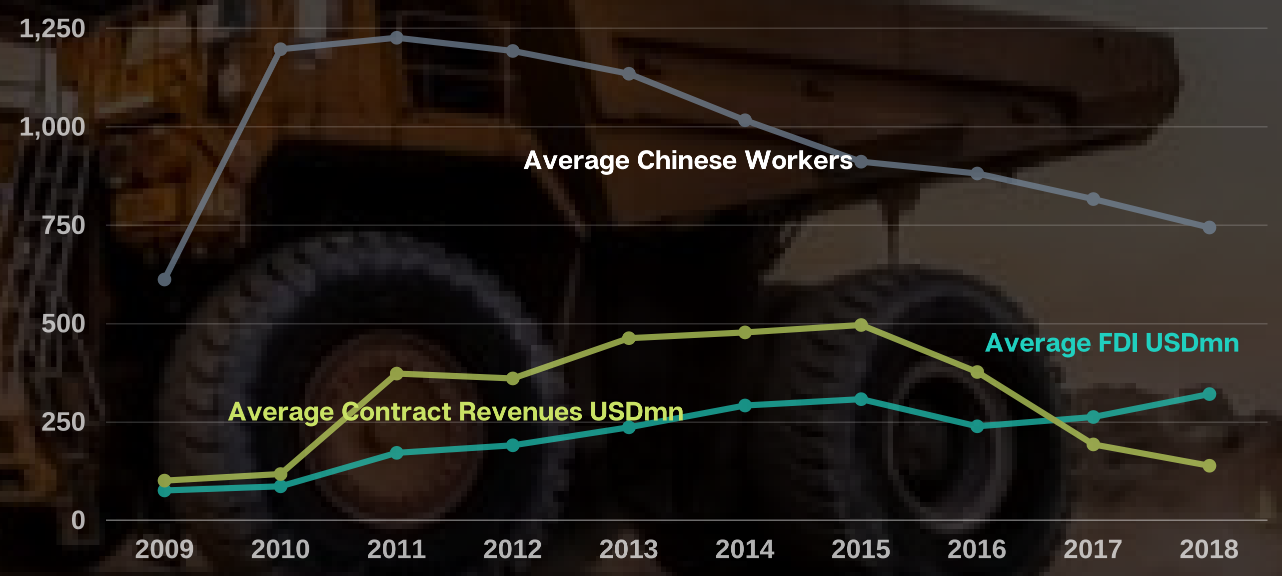
Industrial Split of Chinese Loans 2000-2018



Overall, a lack of readily available information on labour policies could reflect the state of instiutions in countries with low GDP levels. Low levels of Chinese investment could reflect the low profitability of less diverse and resilient economies. It could also reflect conflict (Sudan), sanctions (Eritrea) or unstable politics (Guinea-Bissau).

POLICY IMPLICATIONS

- Chinese labour and contract revenues have bee in decline in recent years
- FDI has recovered modestly after a brief decline in 2015



Overall, in spite of limited information surrounding foreign labour policies, investment and therefore Chinese labour has not singificantly increased. This suggests that the impact of permissive policy environment is outweighed by low profitability high political risk.

SOURCE: SLIDE 45; SAIS-CARI; WORLD BANK DATA

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DIVERGING CONTEXTS: ALGERIA AND ANGOLA

Algeria and Angola have **similarly high levels of Chinese FDI and labour**

	Angola	Algeria
Chinese FDI	$12.7bn	$18.3bn
Chinese labour	376,082	596,588

But Angola's policy is **stricter** than Algeria's

This is due to divergence in **political and economic context**

Angola	Algeria
Lower income: Average GDP per capita $3,515 **Less resilient economy:** Economic Complexity Ranking 132	**Higher income:** Average GDP per capita $4,179 **More resilient economy:** Economic Complexity Ranking 103
Fewer linkages in dominant industry: Oil Exploration Construction	**More linkaged in dominant industry:** Construction Automobiles
Lower unemployment: Average 5.9%	**Higher unemployment:** Average 12.5% Evidence of skills mismatch
Fewer spillovers likely: Energy 49.6% Real Estate 44.9%	**More spillovers likely:** Real estate 47% Energy 20.8% Tourism 16.5%

SOURCE: SLIDE 45; SAIS-CARI; WORLD BANK DATA; AEI CHINA GLOBAL INVESTMENT TRACKER

SECTION 2: CONCLUSIONS (1)

What are the policy areas affecting foreign labour?

- Common policy areas affecting foreign labour are work visas and permits, local labour requirements, quotas and training.

What policies have been adapted by African policymakers?

- Countries can be separated by their foreign labour policy type into 5 categories: Strict, Moderate, Targeted, Relaxed and 'Limited Information'. A number of countries are not easily classified and overlap between categories.

Is there a causal link from development financing on policy? What other factors influence policy?

- Overall, there is a strong association between levels of development financing and policy, which suggests a causal link could be possible. Broadly, stricter policies are associated with higher levels of Chinese FDI, contract revenues and Chinese labour. It is notable that when labour is adjusted proportionately to development finance, the Moderate category has the highest ratio, and the Strict category the lowest, which could suggest the level of workers is not as significant a factor influencing stricter policy. However, a number of other political and economic factors also appear to be associated with policy. Countries with stricter policies were associated with sectoral investment with fewer linkages to the local economy, and lower GDP per capita. This could contribute to the political significance of foreign labour policy in stricter countries. Higher unemployment in higher income and more diverse economies is associated with policies targeting skills mismatch rather than deterring investment entirely. Relaxed policies reflect a willingness to attract investment, while unstable institutions or conflict lead to limited information surrounding policy and a low appetite for risk among investors.

Is there a causal link from policy on development financing? What other factors influence development financing?

- FDI, contract revenues and labour within each country show a mixed picture, and it is more difficult to point to a causal link in this direction. There is a strong association between trends in Chinese labour and contract revenues. FDI does not have a clear association with labour trends. Loans have not been included in this analysis as they do not necessarily have implications for labour. Moreover, when labour is adjusted proportionately to development finance, the Moderate category has the highest ratio, and the Strict category the lowest, which could suggest some localisation impacts from strict policy across development finance as a whole. There are a multitude of other factors affecting willingness to invest, including profitability of local industry, countries' sovereign credit risk, security risk, and other factors affecting ease of doing business. Ongoing strong development financing in both the Strict and Relaxed countries suggest that these factors may influence investment appetite more strongly than foreign labour policy.

SECTION 2: CONCLUSIONS (2)

Can countries adopt stricter policies to maximise local jobs and still attract Chinese contract revenues?

- It is difficult to determine how far declines in Chinese labour and contract revenues around 2015 are the result of stricter policy or a broader continent-wide trend. However, countries in the Strict and Relaxed categories both saw sharper declines in labour and contract revenues than countries in the Moderate, Targeted and Limited Information categories. Recovery in the Strict and Relaxed category has been relatively strong; the Limited Information and Moderate categories have not seen a recovery since 2015, while recovery in the Targeted category has been relatively slow.
- This suggests that targeted and moderate policies may have had an impact on reducing the amount of Chinese labour and contracts. While it might be assumed that the Strict category would lead to a similar decline in these variables, their relatively strong recovery could reflect a continued appetite for investment in these economies. Moreover, the relatively recent implementation of some strict policies means their effect may not be felt for some years. The Relaxed category's strong recovery is an indication that a relaxed foreign labour policy could improve willingness to invest.
- Taken together, this implies that stricter policies may be associated with a reduction in Chinese contracts and labour; apart from in cases where very strict policies have been recently implemented in response to ongoing high levels of investment, and have yet to impact the high investment appetite.

Can countries adopt stricter policies to maximise local jobs and still attract Chinese FDI?

- FDI does not move in parallel to Chinese labour, suggesting that contracts with Chinese companies are characterised by lower localisation than FDI. However, it is possible to notice stronger levels of FDI in Relaxed and Strict categories, compared to Moderate and Targeted categories. While a number of factors could contribute to this, it could again reflect a permissive business environment in the Relaxed category, and a high willingness to invest in Strict countries, whose policies have yet to have an impact. The relatively low FDI growth in Moderate and Targeted countries could reflect the relative strictness of their foreign labour policy, or a lower appetite for investment. Therefore, FDI appears less affected by foreign labour policy than contracts with Chinese companies; however, stricter foreign labour policy may still be a deterrent to FDI.

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CASE STUDY

ZAMBIANISATION POLICY

ZAMBIANISATION POLICY: POLICIES

Zambia is one of the **most impacted** countries from Chinese FDI and labour

The **Zambianisation Policy** is a response to perceived low levels of localisation

Lower unemployment rate

Increase local skills

Make locals managers

Zambianisation Committee forms part of Zambia's Ministry of Labour, and overseas localisation policy

- Work permits subject to succession plans with named **Zambian understudy** to fill expatriate position
- Permit duration limited beyond agreed point
- Processing **fees doubled** March 2017

New positions must be advertised in at least 2 leading newspapers for 14-30 days

Zambian Immigration Permits Committee (IPC) and Ministry of Labour conduct **quarterly audits** to ascertain ratio of local:expatriate labour

Succession plan developed with relevant industry body

SOURCE: SLIDE 45

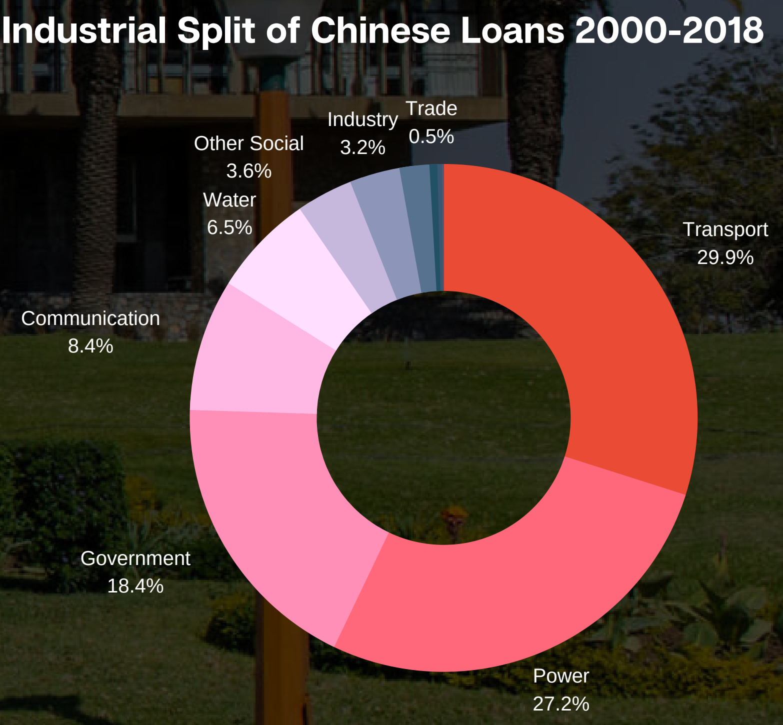
ZAMBIANISATION POLICY: CONTEXT

Among all African countries, Zambia ranks:

- **9th** for levels of Chinese workers
- **12th** for levels of Chinese workers : population
- **2nd** for Chinese FDI and FDI : GDP
- **3rd** for Chinese loans
- **7th** for Chinese contract revenues
- The dominant industries in Zambia receiving Chinese loans are **transport** and **power**
- Zambia has had an **average GDP per capita of $1,291** (2003-2018), just within the top half of African countries
- Zambia's **average unemployment rate of 11.32%** (2003-2018) is high for the continent

Chinese investment has featured particularly heavily in Zambian **politics:**

- In 2006 and 2011, President Michael Sata campaigned on the basis that Zambia had **'sold itself out'** to international interests
- The media continues to scrutinise **conditions** of Chinese investment projects such as the Lusaka-Chirundu road, perceived erosion of **job opportunities and local markets**, and the appointment of Chinese nationas into the police force



The levels of Chinese workers has declined recently, despite an ongoing upward trend in FDI and contract revenues. However, it is **too early to judge** whether this is a natural fluctuation or an impact of policy changes.

SOURCE: SAIS-CARI; SLIDE 45

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3 LESSONS LEARNED: FIRM AND PROJECT LEVEL LOCALISATION POLICIES

FIRM LEVEL: LOCAL AND SOE

How can local firms improve local employment and skills transfer?

How can investing firms improve local employment and skills transfer?

PROJECT LEVEL

How can local employment and skills transfer be achieved at the project level?

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FIRM LEVEL: CONSTRUCTION SECTOR GHANA

The **managerial localisation programme** was initiated by the firm to improve:

Employment **Training** **Retention**

Financial and Technical Costs
Training
Social events eg team retreats

Strategic and Managerial Costs
Planning and managing training
Handover process

Social and Emotional Costs
Communication skills
Understanding of local working culture

Policies:
- Tailored technical training and professional development for relevant workers
- Social and team-building activities

Benefits to Firm
Decreased labour costs from local vs expatriate labour
Increased price competitiveness
Improved communication and strategic negotiation within firm

Benefits to Economy
Stronger interorganisational linkages with eg suppliers and clients

Ghana has **MODERATE** national foreign labour policy featuring:
- **Priority** for national over foreign labour
- Sectoral local labour **quotas**

Chinese labour has continued to grow since contract revenues - including construction contracts - peaked. This suggests that, despite these national policies, **localisation has been low.**

Firm-level policy can be an effective way to **target localisation** where national policies are less specified.

SOURCE: SAIS-CARI; AUFFRAY AND FU (2015)

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FIRM LEVEL: MANUFACTURING SECTOR ETHIOPIA

Low profit margins in manufacturing

Efficiency is crucial to firm success

Systematic and intensive training programmes are commonplace in Ethiopia, using experienced supervisors vs laissez faire approach

- Technical skills
- Behavioural skills eg punctuality, target compliance, performance monitoring

Benefits to Firm
Lower managerial and resource requirements
Increased company profits
Improved intra-company mobility

Benefits to Economy
Improved labour market mobility via qualification

Ethiopia has **MODERATE** national foreign labour policy featuring:

- **Priority** for local over foreign labour, with work visas subject to proof of necesstity

Chinese labour has continued to move in conjunction with contract revenues, suggesting that despite these moderate policies, **localisation has been limited.**

Firm-level policy can be an effective way to **target localisation** where national policies are less specified. Where national policy is constrained, firm-level policy can be encouraged as **good practice** to promote aggregate localisation effects.

SOURCE: SAIS-CARI; OYA AND SCHAEFER (2019)

FIRM LEVEL: STATE-OWNED ENTERPRISES

77% China's FDI comes from State-Owned Enterprises (Maylie 2014)

Xu (2014) finds no clear distinction between SOEs and private firms in localisation:

- Private firms have economic incentives
- SOEs also have political incentives

Localisation has become best practice (Auffray and Fu 2015)

- **Economic pressures:** Expatriate managers are more expensive than locals
- **Rising opportunity costs:** Localised firms are more price-competitive, have stronger local linkages, and negotiate better deals with suppliers, subcontractos and clients
- **Corporate Social Responsibility:** Localised firms have a better corporate image

China State Hualong Construction Engineering Co Ltd

6% localisation due to **local skills gap** in technicians and engineers

Locals trained to operate Chinese machines (Kernen and Lam 2014)

Huawei Technologies Tanzania

50% localisation

Training programme for young and future IT professionals

Programme for **schools** and free training at **university** (Kernen and Lam 2014)

China Geo Engineering Corp Ghana

Scholarships for African students

Ghanaian managers and technicians sent to management and professional construction **training courses** (Kernen and Lam 2014)

Sinohydro

Announced intention to recruit **local managers** (Auffray and Fu 2015)

These policies are adopted **despite subsidies** for SOEs and private companies for using Chinese workers abroad. For example, in Hunan Province, subsidies for companies conducting foreign investment and foreign-contracted projects are eligible to receive subsidies for insurance and training for oversees personnel. Similar subsidies are available for certain sectors in Guangdong, Zhejiang, Tianjin, Fujian, Shandong, Yunnan, Beijing, Chonging and Hainan.

SOURCE: SLIDE 45

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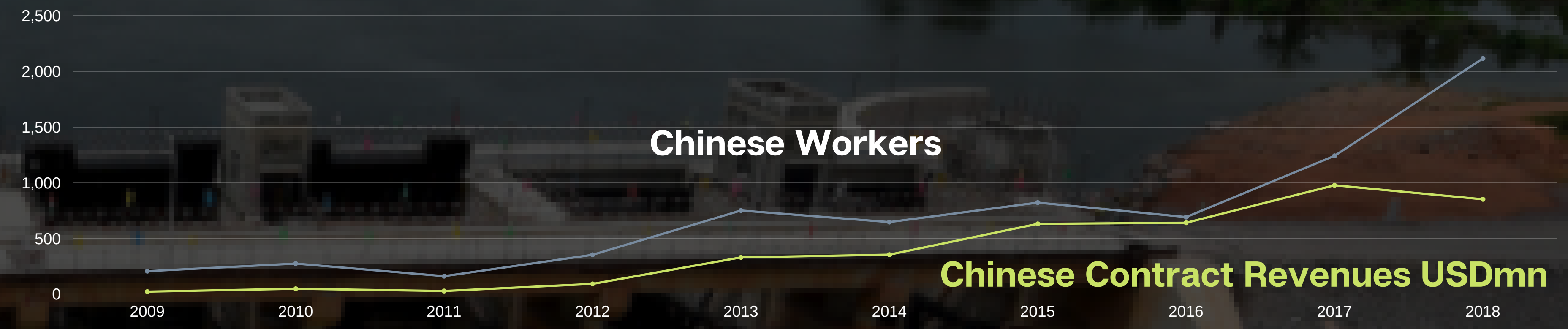
PROJECT LEVEL: SINOHYDRO SOUBRE DAM COTE D'IVOIRE

Cote d'Ivoire has **MODERATE** national foreign labour policy featuring:

→ **Incentives** to foreign employers with **80% local management**



2017

Ivorian government awarded $580m contract for Cote d'Ivoire's largest **hydropower dam** to **Sinohydro**

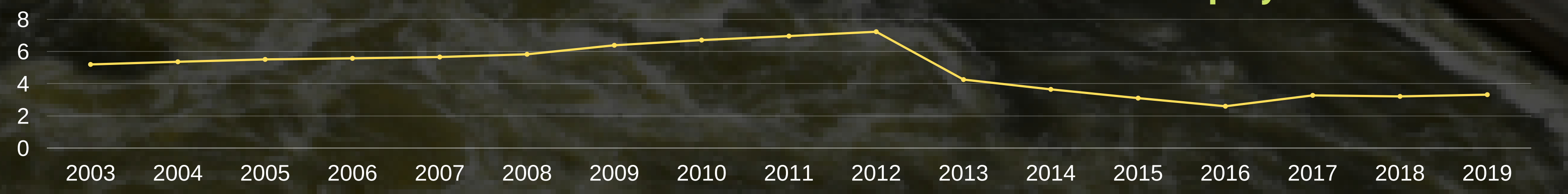
Ivorian officials set **conditions** at an eary stage:

20 : 80

Ratio for Chinese : local labour

Majority of **building materials** like cement had to be bought locally

Growth in Chinese labour has outstripped growth in contracts, even as contract revenues have declined. This suggests that, despite these national policies, **localisation has been low.** Cote d'Ivoire's **unemployment** rate is relatively low by continental standards, and has **declined** in recent years to **3.32%.**



Including labour quotas and other localisation requirements at the project level is an effective way to set **national standards of best practice**. Project-specific conditions are also arguably easier to **enforce** than national policy, and can be a complement to national policy in securing localisation.

SOURCE:World Bank Data, SAIS-CARI: SLIDE 45

SECTION 3: CONCLUSIONS

How can local employment and skills transfer be achieved at the firm level and project level?

- Local firms, investing firms and project stakeholders can implement policies to improve localisation beyond the national level. Evidence suggests that such policies bring benefits to firms as well as the local economy.
- These policies may be easier to enforce than national policies, since they involve commitment by firm and project-level stakeholders. They may also be better suited to the relevant industry and local jobs market than national policies, which do not always tailor foreign labour policy by industry.
- Firms remain bound by incentives to reduce labour costs and improve efficiency, the reason for high levels of expatriate labour. Therefore, regulation in the form of localisation policy at the firm level is best practice to safeguard localisation.
- Moreover, where national policy reduces investor appetite, firm-level policy may help to achieve significant localisation effects while continuing to invite development financing at the national level.

CONCLUSIONS

CONCLUSIONS

1 How are trends in China-Africa FDI, contract revenues and loans associated with localisation?

There is a strong association between China-Africa FDI, contract revenues, loans and Chinese labour. They have moved proportionally over time and the majority of countries with the highest levels of Chinese labour have the highest levels of FDI contract revenues and loans. This suggests that localisation is low at the continental level.

2 What are the policies in African countries affecting localisation?

Common policy areas affecting foreign labour are work visas and permits, local labour requirements, quotas and training. Countries can be separated into by their foreign labour policy type into 5 categories: Strict, Moderate, Targeted, Relaxed and Limited Information. A number of countries are not easily classified and overlap between categories.

3 Is there a causal link between development financing and policy? Is there a causal link between policy and development financing?

Overall, a strong association can be identified between development financing levels and policy. This suggests a causal link between higher development financing and stricter policy. However, a number of other political and economic factors also appear to be associated with policy, including the dominant industry receiving investment, GDP per capita and employment. The association between policy and development financing is less strong. Therefore, it is more difficult to determine a causal link in this direction.

Strong association suggesting causal relationship

Levels of Chinese Development Financing → **Foreign Labour Policy**

Levels of Chinese Development Financing ← **Foreign Labour Policy**

Weak association; difficult to determine causal relationship

CONCLUSIONS

Is there a causal link between development financing and policy? Is there a causal link between policy and development financing? (cont)

Overall, there is a strong association between trends in Chinese labour and contract revenues, but not FDI. Analysing these trends by category points to the possible associations between policy and investment. Stricter policies may be associated with lower contract revenues and levels of Chinese workers. However, the strictest policies are associated with higher ongoing levels of investment, as are relaxed policies. This suggests that other factors associated with investment have so far been more important in these cases, such as the profitability of local industry, countries' sovereign credit risk, security risk, and other factors affecting ease of doing business. Nevertheless, it may take time for the strictest policies' effects to be felt. This suggests that there are different policy implications both between and within categories for maintaining high levels of development financing while ensuring maximum local employment.

4 What lessons can be learned from firm and project level localisation policies?

Local firms, investing firms and project stakeholders can implement policies to improve localisation beyond the national level. Evidence suggests that such policies bring benefits to firms as well as the local economy. Moreover, where national policy reduces investor appetite, firm-level policy may help to achieve significant localisation effects while continuing to invite development financing at the national level.

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