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Hong Kong’s Role in Sino-African Trade Relations: A Tripartite Coalition

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August 25, 2017
I. Introduction

Trade relations between African countries and China are documented to have begun as early as the 10th Century BC when Egyptians in Alexandria traded with the Chinese Empire.\(^1\) Formal Sino-African diplomatic relations, however, began in or around 1956 in Egypt, during the Cold war.\(^2\) Initially, the relationship was a strategic political alliance between two former colonies of the Western emerging into their own independence but it progressed in the following years into deeper economic and commercial ties.\(^3\) By the 1960s, China was allied with many African countries and donated foreign aid to spur their economic growth and promote rapid industrial development.\(^4\) For a while during that era, there was deep rivalry between the People’s Republic of China (“PRC”) and Taiwan for prominence on the continent.\(^5\) As the PRC’s strength grew in international circles, it sought assurances from African leaders that they would recognize the One-China policy and accept the PRC as the only sovereign Chinese nation.\(^6\) Today, Taiwan has very few diplomatic ties on the continent but the tradition of renewing those assurances continues.\(^7\)

When China adopted an open-door policy in 1979, the government’s outlook overseas changed and focused on developing economic interests outside of its borders.\(^8\) President Jiang Zemin in 1996 adopted a “going-out” policy that encouraged Chinese businesses to pursue

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2. Id. at 331.
3. Id. at 332.
4. Id.
5. Id.
6. Id. at 333, 339.
commercial interests in other countries, and he personally visited countries in Africa.\textsuperscript{9} Since then, Chinese companies have invested heavily in Africa, primarily in the infrastructure, energy and mining sectors, although not exclusively so. Measuring the amount of foreign direct investment coming from China into Africa is difficult because some of the investment funds are mixed with foreign aid for infrastructure development.\textsuperscript{10} Overall, trade between both parties grew exponentially in between the 1970s and 2000s from about $121 million to more than $200 billion.\textsuperscript{11} Outside of trade and FDI, China also provides a significant amount of foreign aid through preferential loans to infrastructure projects.\textsuperscript{12}

China’s motives in Africa, beyond running a profitable enterprise, have been widely discussed and criticized in Western media outlets.\textsuperscript{13} Some of the criticism levied at China includes dumping goods in African markets, exclusive hiring and labor practices and a disregard for the environmental impacts of resource mining. Loans to infrastructure projects have also come under immense scrutiny because they are primarily secured by the natural resources of the destination countries in Africa, many of which are too dependent on crude oil and rare metals and minerals for survival.\textsuperscript{14} Three cases in point are Angola, Nigeria and South Africa where Chinese companies have a significant commercial interest. Research reports by U.S. Congress

\textsuperscript{9} Id.
\textsuperscript{10} Id. at 8 (explaining that it is difficult to distinguish between foreign aid and foreign direct investment).
\textsuperscript{12} See Yun Sun infra
\textsuperscript{14} Jianjun at 340-41.
have also found that popular opinion in Africa is that loans from the Chinese banks and investments from Chinese companies are “non-concessional” unlike loans from Western financial institutions, which come with heightened international scrutiny and political conditions.  

Despite criticism, some supporters of Chinese investment on the continent maintain that China has provided much needed assistance in infrastructure development and labor training programs that have significantly improved the quality of life on the continent. As Mainland China’s economic growth slows down, a timely question is whether Hong Kong will seize an opportunity to play a greater role in the investments space on the African continent or whether it will continue to play a facilitator’s role in Sino-African trade relations. This article will examine the role that Hong Kong has played thus far in facilitating bilateral investment and trade between countries in Africa and China and subsequently comment on how that role might change in the future given the limitations of the “one country-two systems” form of government in China.

II. Hong Kong’s Role in Sino-African Trade Relations

Hong Kong is a vibrant global financial center and metropolitan city with individuals and companies from around the world. It is an attractive business destination for many because of its low corporate tax rate, busy ports which serve as a gateway into South-east Asian markets, a strong rule of law and limited government intervention in business operations; this is why Hong

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Kong is ranked as the freest market in the world.¹⁷ This stands in contrast to Mainland China next door, which is a more heavily regulated market. Investors in Hong Kong, however, have become wary recently of Beijing’s growing influence over Hong Kong’s politics and economy. The worry is that pervasive government control will be transposed from the mainland to Hong Kong. The recent pro-democracy protests in Hong Kong spurred by the Umbrella Movement are a sign of the rising tensions between the two regions.¹⁸

As a special administrative region of the PRC, governed under the one country-two systems rule, Hong Kong can have independent trade relations with other countries and develops its own tourism and investment policies but it must yield to the PRC on issues of foreign policy, diplomacy and security. The sharing of powers is not as clear cut as this language drawn from The Joint Declaration of the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of the People's Republic of China on the Question of Hong Kong might suggest. In fact, the sharing of authority is a subject of great debate because Beijing is the final arbiter of Hong Kong’s Basic Law, which is the highest body of law in Hong Kong.¹⁹ Trade is intrinsically intertwined with foreign policy and as the government in Beijing encroaches on Hong Kong’s already limited autonomy, it will be important to examine how Hong Kong could be used to implement China’s foreign policy in Africa.

A. Trade

Currently, Hong Kong serves as a port of entry and exit for imports by Chinese companies from African countries e.g. South Africa, and for re-exports from China to Africa. Hong Kong’s port also serves as a port of entry and exit for goods shipped to and from other

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¹⁷ Hong Kong, 2017 Index of Economic Freedom, available at http://www.heritage.org/index/country/hongkong
¹⁹ Id.
ASEAN countries. China is South Africa’s biggest trading partner and most of South Africa’s imports come through Hong Kong. These imports are mostly re-exports from Mainland China and the exports from South Africa to Hong Kong are also re-imported into Mainland China. South Africa has long positioned itself to increase its trade relations with Hong Kong and to increase its business presence there. Hong Kong and South Africa have traded with one another since the British occupation of both territories. When Hong Kong reverted back to China’s control in 1997, South Africa negotiated with Beijing to retain its trade ties with Hong Kong while recognizing the One-China policy. Today, South African companies have established five regional offices and ten local offices in Hong Kong. These companies include Standard Bank, South African Airways, Macsteel (a steel supplier), Metspan (a fruit company), Sappi Trading (a paper company), Sasol Chemical Pacific (an energy company), Safin Asia (a financial services company), and SAB Miller (a brewery company). South African companies primarily import mechanical parts and consumer goods from Mainland China through Hong Kong while Mainland Chinese and Hong Kong companies import rare metals, foodstuffs, wine and some consumer goods from South Africa.

In 2016, trade between South Africa and Hong Kong contracted significantly compared to 2015 when it expanded, but it remains to be seen if this is the beginning of a downward trend. The South Africa Business Forum–Hong Kong is a medium for greater cooperation on

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21 Id. at 17.
22 Id.
23 Id. at 7.
26 See footnote 24 above.
investment and trade activity between the two parties and is housed within the consulate office of the South African government in Hong Kong.27

Angola is another prominent trade partner of the PRC. In or around 2002, when Angola had just surfaced from decades of civil war, China’s Construction Bank (“CCB”) and the China Export-Import bank (“China EXIM bank”) provided the government with a $150 million loan for infrastructure development projects.28 Since then, China’s EXIM bank and the China Development Bank (“CDB”) have opened lines of credit for Angola secured by the country’s oil reserves.29 The two countries regularly trade crude oil for consumer goods and China is also Angola’s largest trading partner.30

Nigeria, similar to Angola mostly trades crude oil with China in exchange for most consumer goods and manufacturing components. Nigeria was formerly China’s second biggest trading partner on the continent but it is now the fourth largest.31

B. Foreign Direct Investment by Chinese Companies

Many Chinese companies that invest in Africa incorporate or have their principal place of business in Hong Kong. Several of these companies are subsidiaries of holding companies listed on the Shanghai Stock Exchange who take advantage of Hong Kong’s financial service networks and logistics hubs to conduct business in Africa. For example, the largest real estate deal by a Chinese company in Africa was by Shanghai Zendai, a Hong Kong-listed real-estate company that develops and manages projects in China. The company purchased real estate in

28 See Levkowitz above at 12
29 Id.
Modderfontein, Johannesburg and announced plans to develop the area into a vibrant commercial district similar to Manhattan in New York.

Chinese FDI in Africa, though nominally large, reportedly accounts for just 3-5% of China’s total FDI outflows. China has trade relationships with about fifty countries out of the fifty-five on the continent including but not limited to South Africa, Nigeria, Angola, Ethiopia, Tanzania, Zambia and Rwanda. Some reports state that the FDI outflow statistics are understated because subsidiaries of Chinese holding companies incorporated in Hong Kong are not calculated as part of the official figures for China’s FDI in Africa. Given the size and value of existing projects, and the plethora of private Chinese companies operating in Africa, this is a plausible argument; the percentages are, however, not likely to be significantly higher.

The government of China also created a China-Africa Development Fund intended to reach a capitalization of $5 billion to support Chinese companies investing in Africa. The fund has managers and specific investment criteria and African companies partnered with a Chinese companies who meet the criteria can submit proposals for funding.

Chinese companies have also formed joint ventures with state-owned Angolan companies. Sonangol Asia Ltd. is a joint venture between China Beiya Escom International Ltd. and the Angolan state-owned oil company, Sonangol Ltd. The company is listed in Hong Kong and maintains a portfolio of energy and construction projects in Angola. It has primarily funded construction projects through China International Fund Ltd. (“CIFL”) and energy projects

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33 Id.
34 Yun Sun above at 7.
35 Id. at 4.
36 Id. at 7.
38 Id.
through the China Sonangol International Holdings Ltd.³⁹ CIFL funds the largest construction projects in Angola and has an impressive list of corporate partners, most of which operate out of Hong Kong offices.⁴⁰ A principal feature of CIFL loans is that they are usually backed by oil reserves.⁴¹ The disbursement of CIFL funds and many other project development loans in Angola is controlled and monitored by the Gabinete de Reinstrução Nacional (“GRN”), an office that has reportedly been managed without much transparency.⁴² The GRN is heavily criticized in the Angolan media for corruption and reports state that most of the contracts for construction and energy projects tacitly provide for preferential selection of Chinese firms in the construction bids and hiring of Chinese workers over African workers.⁴³

A research report on Sino-African relations conducted by the U.S.-China Economic and Security Review Commission (“US-China ESRC”) found that two prominent individuals, Mr. Xu Jinghua a.k.a. Sampa, and Mr. Ju Lizhao who serve as directors of CIFL have ties to the People’s Liberation Army (“PLA”) in China and to Russian individuals who were involved in Angolan civil war, respectively.⁴⁴ Such findings have caused discontent among Western reporters and the PRC has been pressured to distance itself from CIFL funded projects.

Another prominent joint venture operating in Angola and incorporated in Hong Kong is Endiama China International Holdings Ltd, which is a joint venture between Endiama EP, the state-owned diamond mining enterprise, and CIFL. The company develops, assesses and exploits diamonds in Angola.⁴⁵

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³⁹ *Levkowitz* at 14.
⁴⁰ *Id.* at 15.
⁴¹ *Id.*
⁴² *Id.*
⁴⁴ *Lefkowitz* at 16.
⁴⁵ *Id.*
C. The 88 Queensway Group

The U.S.-China ESCR conducted a case study in 2009 of Chinese investors in Angola and in other African countries with particular focus on a group referred to as 88 Queensway Group. The 88 Queensway Group refers to a cluster of privately held companies located in Two Pacific Place, 88 Queensway Road, Hong Kong, whose key personnel are believed to have political ties to the government in Beijing, which they have leveraged to gain political favors from high level officials in Angola and elsewhere in Africa.46

According to the case study, the 88 Queensway Group companies have not been publicly linked as belonging to the same corporate family but some evidence suggests that they are affiliated with each other and with Chinese state-owned enterprises and high-level government officials in the Ministry of State Security.47 Specifically, five persons, Ms. Lo Fung Hung, Ms. Veronica Fung, Mr. Wang Xiangfei, Mr. Xu Jinghua, Mr. Kwan Mai Fai and Mr. Wu Yang serve as directors and shareholders in the same ten or more companies in the 88 Queensway Group building and there is scant public information on their professional backgrounds and credentials. These individuals have been linked with the China Everbright Group (which has been affiliated with Chinese military intelligence), China International Trust and Investment Company (“CITIC,” a state-owned company), China Petroleum and Chemical Corporation, the Ministry of State Security and the Ministry of Public Safety.48 Companies within the group such as Dayuan International Development Limited, in 2003, owned majority shares (99% common stock) in CIFL, which as mentioned above funded a majority of the projects in Angola.

Most reports that discuss the 88 Queensway Group’s subsidiaries refer to a $2.9 billion to $9.8 billion oil-backed line of credit that it supplied to the government of Angola through CIFL

46 Id. at Executive Summary (i).
47 Id.
48 Id. at 5-7.
but the U.S.-China ESCR study goes more in-depth to analyze the corporate structure under Hong Kong law. The concern for U.S. foreign policy makers and security experts is that the group is a front for powerful Chinese state officials who are acquiring assets in Africa. Evidence collected by the US-China ESCR suggests that outside of Angola, the group has also circumvented regular business protocol and negotiated directly with government officials to secure the construction and financing bids for large projects such as crude oil exploration in the Republic of Congo, airport rehabilitation in Tanzania and various construction projects in Mozambique.

D. The Standard Group deal.

The sale of a 20% stake in Standard Group to the Industrial and Commercial Bank of China (“ICBC”) for $5.5 billion was the largest financial services transaction between a company owning significant banking assets in Africa and a Chinese company. Standard Bank was the biggest bank in Africa by number of total assets with operations throughout Africa, Hong Kong and London. ICBC bought a 60% stake in Standard Bank Plc. to establish a foothold in London markets and better serve investors looking towards Africa. Standard Bank is based in Johannesburg, South Africa and now provides its clients with a range of transactions using the RMB currency of China.

49 See footnote 6 below.
50 Id. at ii–iii.
51 Id. at 2.
E. Tourism and the Airline Industry

Tourism between Africa and South-east Asia is a huge growth area and airlines are beginning to leverage Hong Kong as a transit point into both continents. Mainland Chinese tourists frequently fly out of Hong Kong to connect to cities in Africa. Airlines are crucial in facilitating human connectivity between Africa and Mainland China. Kenya Airlines, for example, recently signed a code-sharing agreement with Hong Kong Airlines to boost ticket sales between both regions.  

III. Hong Kong’s Future in the Tripartite Coalition

Hong Kong’s value proposition thus far to the tripartite trade coalition with Mainland China and Africa remains its ability to provide a strategic access point to both continents, both financially and logistically. Cities like Guangdong and Shenzhen are rapidly growing as source regions for trade and are raising their prominence as go-to cities for trade inside of Mainland China. Hong Kong excels in providing sophisticated professional and financial services and has an economy that is primarily driven by the services sector. It should leverage its strengths to appeal to African companies to solicit its services and perhaps try to develop independent trade relationships with African countries. Hong Kong has been on receiving end of trade activity between Beijing and Africa but has not developed its own trade policy in Africa. Understandably, Hong Kong does not have the “reserves” strength that Beijing does and needs to be more circumspect with overseas exposure especially in politically and economically volatile regions like Africa.

Mainland China is one of Hong Kong’s biggest trading partners and both parties enjoy the benefits of a free trade zone under the auspices of the Mainland–Hong Kong Closer Economic Partnership Agreement. The agreement gives Hong Kong companies a competitive edge in accessing China’s robust consumer market, which in turn benefits foreign companies with Hong Kong subsidiaries or affiliates seeking access to Mainland China. African companies should explore setting up affiliates and subsidiaries in Hong Kong that can benefit from this agreement.

Hong Kong has a well-developed stock exchange and could work with African companies to develop trading platforms for their securities. Hong Kong could be a pioneer destination for African companies branching into lines of business unrelated to commodities such as crude oil e.g. agricultural products. Africa is still limited by its reliance on primary trading in natural resources and needs to build capacity for secondary market trading while diversifying away from crude oil. Hong Kong companies, whether affiliated with Chinese companies or not, have the potential and expertise to invest in diverse sectors.

Energy, nonetheless, remains a lucrative industry for African and Hong Kong companies alike. With Africa moving into a period of exponential growth in population, the energy demands are predicted to more than quadruple. China’s investments in the energy industry on the continent of Africa are already well entrenched and poised to capture the returns when the time comes. Energy trading should, however, not be restricted to commodities like crude oil but should include renewable energy sources such as solar and hydroelectric power, which are fast gaining ground in Africa. Investors around the world have shown a healthy appetite for

investments in renewable energy in Africa especially in countries like South Africa, Kenya, Uganda, Nigeria, Rwanda, Tanzania, Ethiopia, Ghana, Malawi and Zambia.\textsuperscript{58} Reports predict that the amount of capital needed to meet capacity of this burgeoning industry requires private investments and cannot be limited to government-backed state-owned enterprises of the nature seen in traditional Sino-African trade relations.\textsuperscript{59}

Creating an alliance with Hong Kong without China’s involvement may prove challenging in the future because of the tightening grip of Beijing on Hong Kong politics and the blurring of powers between the two. In local parlance, the pro-Beijing supporters have stated that the “heart of Hong Kong needs to turn back to the motherland.”\textsuperscript{60} Though South Africa is trying to strengthen its economic relations and diplomatic alliance with Hong Kong, the one country-two systems model of government may restrict such a relationship and keep it multilateral. South Africa will nonetheless still be able to enjoy the benefit of moving its goods through Hong Kong into Mainland China and the rest of the ASEAN region.

Finally African companies should begin to take advantage of Hong Kong’s free economy and set up a presence in Hong Kong as South African companies have done. The investment and trade relationship thus far has been too one-sided and balance needs to be restored so that African business owners are empowered to enter into lines of business unrelated to natural resources and become more integrated with their allies in Southeast Asia.


\textsuperscript{59} \textit{Id.}

\textsuperscript{60} Quote taken from interview with a prominent government leader in Hong Kong.
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