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Financing China's engagement in Africa: new state spaces along a variegated landscape

Helen F. Siu

A landscape visible and hidden

China, Taiwan and Hong Kong businesses have had a long history of involvement in the African continent. While Taiwanese and Hong Kong investors have built factories and engaged in trade, Chinese activities have grown dramatically in the last decade.[1] In this post-reform era, China's interests are shaped by volatile neoliberal energies and the aggressive reach for oil and agricultural and mineral commodities.[2] Increasingly, China's presence is felt in the form of mega-infrastructural projects committing billions, especially after the declaration of the 'One Belt, One Road' initiative by Xi Jinping in 2013.[3] The details of how the Chinese government has financed these investments are not always as visible as the concrete hardware that has mushroomed on the African landscape.

In 2007, the China–Africa Development Fund was established with a target of US$5 billion to support China's investments and to strategically build markets for its goods and skilled labour. One sees state orchestration in the high-profile visits of top Chinese leaders and in the contracts they offer to build government headquarters, transnational railways and ports. Special economic zones are positioned to link the eastern coast of Africa (Gakunu *et al*. 2015) with the Gulf and with strategic Indian Ocean coastal areas such as Gwadar Port in Pakistan (Reeves 2015; Ahmed 2016). One finds new state spaces even in luxury real estate and in speculative private businesses spearheaded by entrepreneurs from the Wenzhou region in China (Cao 2011; 2012). In 2017, Chinese companies finished one of the biggest infrastructural projects Kenya has seen since independence. With 90 per cent funded by the China Exim Bank, the rail link between Nairobi and the port city of Mombasa would be maintained by the China Road and Bridges Corporation for a decade (Miriri 2017; Al Jazeera 2018).

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[1]For an overview of the literature on China–Africa encounters over the centuries, see Siu and McGovern (2017).

[2]See the National Bureau of Statistics of China (<http://data.stats.gov.cn/easyquery.htm?cn=C01>). Statistics from China's Commerce Ministry show bilateral trade growing at 28 per cent per year over the past decade. Its value topped US$114 billion in 2008, overtaking the US as Africa's largest trading partner in 2009 (CRI English 2012). In 2014, the National Bureau of Statistics of China listed the value as US$221.7 billion.

[3]Foreign direct investment in the non-financial sector stood at US$3.2 billion in 2013 according to the National Bureau of Statistics of China.

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Today, entire cities are being built by Chinese interests with a distinctly Chinese character (Zhuang 2014; Marsh 2018).

Chinese investments in Africa have drawn both praise and criticism in academia and the media.[4] The book *The Dragon's Gift*, by Deborah Brautigam (2011), portrayed Chinese engagement with the continent in the best possible light. Official Chinese media and some scholarly discussions (Moyo 2012; Monson 2009) highlight a history of China's friendship with its African partners and shared development goals. Others focus on the failures of Western aid and investments and the fallacies of pro-Western media. Business and policy reports have echoed that the African continent – with its unique historical legacies and mosaic of human resources and governance structures – is ready for alternative sources of input and strategy (KPMG n.d.; *Economist* 2014; Dollar 2016). Since 2009, China's concession loans have been seen by scholars and the media as a win–win situation for stakeholders (Meidan 2016; Dreher *et al.* 2017; van Mead 2018).

Critics, however, argue that Chinese investments have been concentrated in countries with commodities to extract, and that infrastructural investments have aimed at facilitating China's extractive needs rather than supporting a balanced regional growth strategy (*Economist* 2011a; 2012). When China's own economy showed signs of slowing in 2015 and its overseas engagement was curbed by other policy agendas, African partners were left vulnerable (Onishi 2016; Bradsher and Nossiter 2015). Inside China, voices have been raised against the government's promises of huge sums to foreign countries while domestic societal needs are ignored (Chen 2018b).

Recently, several cases involving the politics of debt in the global South have caught the attention of the world. Officials were arrested on corruption charges soon after the completion of the rail link in Kenya (Al Jazeera 2018). Two years after the line opened, researchers are wondering if the income generated will be adequate to pay off the debt owed to the Chinese investors (GCR 2019; Chen 2019). In other countries, similar issues have been noted. Laos, a recipient of massive Chinese investment and loans, was the lone voice among the Association of Southeast Asian Nations (ASEAN) countries to oppose a denouncement of China's aggressive reclamation of coral reefs in the South China Sea. Lavish loans extended to the former president of Sri Lanka, Rajapaksa, to build infrastructural projects are seen as a 'debt trap' that resulted in the ninety-nine-year 'lease' of the Hambantota port for a Chinese state-owned group, China Merchants Port.[5] In a recent visit to Beijing, Malaysia's newly elected Mahathir not only deferred 'unrealistic' infrastructural projects with China, but also pointed to the danger of 'neocolonialism' (Doan 2018). Even problematic dealings in real-estate projects tied to Chinese residence rights near Kuala Lumpur were mentioned (*Straits Times* 2018). In Zambia, where Chinese mining corporations have worked alongside European and Asian companies,

[4]These debates can be found in more detail in Siu and McGovern (2017). I summarize them here.

[5]The *New York Times* article (Abi-Habib 2018) also noted that, although the deal makers insisted that the port would be for commercial use, analysts observe that Hambantota, situated only miles from India, has great military and intelligence benefits for China. It also cites Chinese involvement in thirty-five such port projects all over the world.

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protestors put up '#sayno2China' slogans (Agence France-Presse 2018). Such rumblings might have prompted Xi to assure African leaders at the 2018 Forum on China–Africa Cooperation (FOCAC) summit in Beijing that China is ready to write off debts incurred by the least developed African countries (Sow 2018; Harris 2018; Shepherd and Blanchard 2018; van den Heever 2018; van Eyssen 2018). A military commentator quickly followed with a piece in the Alibaba-owned *South China Morning Post*, explaining that the narrative of debt trap and neocolonialism is merely 'imagined' (Chen 2018).

Looking past dichotomous ordering frames, we must ask if complex and contradictory human agencies beyond macro-geopolitical fanfare and policy blueprints have been examined adequately. By financing China's investments in Africa, well-connected individuals have been able to sail across murky political waters to broker unimaginable wealth and influence (Burgis and Sevastopulo 2014; Levkowitz *et al*. 2009). A more nuanced view may reveal hidden arenas and negotiated processes. Hong Kong, a globally connected Asian finance centre given political status as a special administrative region of China under the 'One Country, Two Systems' formula in 1997, is a natural site in which to explore these issues.

Infrastructure and the anthropology of finance in China's globalizing businesses

As Brian Larkin argues, 'infrastructures are not, in any positive sense, simply "out there"' (2013: 330). There are 'built things, knowledge things, people things' (*ibid*.: 329) that comprise layers of institutional software and cultural competence for infrastructure to function as material conduits. With this analytical mindset, I turn to the complex and often hidden commercial and financial dealings in Hong Kong that generate China's needed capital and institutional frameworks for its African businesses.[6] They are not new. From day one of Hong Kong's existence in the nineteenth century, it has often been China's window to the world. When civil war and revolution ravaged China in the twentieth century, the British colony was a safe haven for businesses, refugees, intellectuals and political fugitives. On numerous occasions of political turmoil, including the radical days of the Cultural Revolution when anti-colonial sentiments were at their height, Chinese leaders in Beijing made it clear that they had no intention of taking back the colony because Hong Kong functioned as China's lifeline for resources from the world outside (Cheng 2018). In the post-reform era, the city's financial and legal institutions have served as China's source of institutional skills and a conduit to global markets. This has remained the case since the sovereignty of the British colony was returned to China in 1997. The Basic Law, worked out during the Sino-British negotiations in the 1980s and 1990s, was to protect Hong Kong's institutions, values and way of life for at least fifty years. A clean and transparent government and professional institutions backed by the rule of

[6]A study by Meidan (2016) questions the figures from CARI (China Africa Research Initiative) as most are from government sources. The study points out that a great deal of the loans and investments are channelled through 'commercial' entities, which leads me to explore such channels in Hong Kong.

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law have been the crucial 'infrastructure' of Hong Kong's global financial prowess. The question is: in the twenty years since the changeover of sovereignty from Britain to China, how much has changed during the process of Hong Kong's closer integration with the mainland?

The question brings us to the anthropology of finance. Global flows, be they of goods, people, knowledge or capital, by definition cross cultures, societies and polities. Technological advances in the digital age have drastically accelerated these flows, creating new spaces of interaction, linking unlikely partners while excluding familiar players (Sassen 2006; Harvey 2007; Ferguson 2006; Tsing 2005; Ong 2005). When huge amounts of 'credit' are transferred in split seconds at the push of a button, business studies are preoccupied with the form and effectiveness of national and transnational regulatory frameworks that are required to facilitate such speedy flows. From an anthropological angle, we need to focus on cultural codes required by international communities to secure business, to maintain supplies and markets, and to network and enforce contracts. Bestor's fine-grained study of the Tsukiji market in Tokyo and the global production and consumption of sushi is a case in point (Bestor 2004).[7] At a micro-level of business transactions, one asks what is gained or lost in translation.

On a global scale, one sees momentum for a paradigm shift from a preoccupation with 'neoliberal' forces to a world order increasingly shaped by late socialist development strategies and institutions. The national congress of the Chinese Communist Party in October 2017 firmly established Xi Jinping's cult of leadership and the accompanying image of China's rise on the world stage. The world watches the Chinese leaders' moral and political justifications of the country's resurgence with mixed emotions. China's push to establish and lead the Asian Infrastructure Investment Bank (AIIB) highlights the country's intentions to challenge the influence of the World Bank and the Asian Development Bank (*Economist* 2008; Shepard 2017; Woo 2017; Lin 2009; Lin and Monga 2017). If globalization under these circumstances reinforces state power rather than diminishes it, what is the nature and role of various power regimes in engaging global market impulses? As the recent trade war between the US and China unfolds with ramifications for the rest of the globe, the intense reconfiguration of state, market and value has begun with a sense of urgency. How would these processes transform social, cultural and economic lives on the ground that can no longer be framed by familiar analytical scales of locale and polity (Brenner 2004; Brenner *et al*. 2010; Bender 2010)? A new vocabulary may lead us to uncharted

[7]Stressing connective processes and disjunctures in time and space, Mike McGovern and I trace centuries of 'China–Africa' encounters mediated by military conquest, the slave trade, tribute, diplomacy and religious pilgrimages through the Arab world by land and sea (Siu and McGovern 2017). In the age of empires, cultural differences in business practices were shaped not only by long distances and time, but also by multi-ethnic traders whose statuses, social networks and business practices were not defined by the priorities of political centres (Tagliacozzo *et al*. 2015a; 2015b). Reading a map of global IP networks for a broad 'Asia' region today, my mind travels back to similar routes used in the seven expeditions organized by the Ming dynasty official Zheng He. His trips traversed the South China Sea, the Indian Ocean, the Gulf and Africa between 1405 and 1433 AD. According to historian Don Wyatt, direct contact between Chinese envoys and Africans was forged during these voyages (2010). In the six centuries since then, science and technology have drastically compressed our experience of continental divides.

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research territory. As suggested earlier, Hong Kong, with its ambiguous positioning between a nationalistic state and global markets, finds itself on the front line of volatility.

Numerous policy reports and analyses have focused on the ways in which China's state banks and ministries have strategically used the country's foreign reserve to gain resources and at the same time assert a powerful presence on the African continent in material and symbolic terms (RIS *et al.* 2017; Mailey 2015). But in a working paper based on scrutiny of a large collection of finance data from government sources and state-owned enterprises, Brautigam and Hwang (2016) argue that China's state financial investment in Africa over the past ten years has been overestimated. Moreover, the study argues that China's investments are not concentrated in natural resource extraction; instead, 56 per cent relate to the building of infrastructure for selected African countries. The authors estimate that, between the years 2000 and 2014, China provided US$86.3 billion for state enterprises in Africa. The top five recipients of Chinese loans have been Angola, Sudan, Ethiopia, Kenya and the Democratic Republic of the Congo (DRC). Three of these countries are also targets of investment from Western sources (*ibid.*), and they are not all resource rich.

Chinese sources also acknowledge the barriers faced by Chinese investors in Africa, pointing to common problems of gaps in cultural understanding (Tang and Song 2015), while another study highlights the multiple institutional problems of China's financial moves in Africa (Huang and Tang 2016). There is an obvious disconnect between China's goals to move quickly and massively in overseas investments and the inadequacies in financial infrastructure, including in the targeted African countries. The authors argue that, ideally, China's goals in Africa would dovetail with African needs in infrastructural, technical and financial terms, but they point to Chinese enterprises' lack of institutional support. In Africa, capital is inadequate and the capital market is weak. Chinese enterprises themselves do not have the ability to raise large-scale private capital overseas due to the paucity of their financial networks and professional recognition. Moreover, exporting capital directly from China to Africa is risky due to China's inability to stabilize currency supply, bank rates, commodity prices and repayment terms in the region.

However, these studies may have grossly underestimated the extent of Chinese investment in Africa because they have included only data from the state sector (Mailey 2015). In this article, I engage with the apparent discrepancy by focusing on a missing piece in these analyses: capital markets in Hong Kong.[8] Hong Kong's mature financial markets and institutional frameworks accumulated during the colonial era have served both Chinese and global players by offering an arena in which they can engage with one another. Since the early 1980s, when China embarked on post-Mao reforms, Hong Kong has been a major source of foreign direct investment for China's growing manufacturing sector. Supported by Hong Kong, Taiwanese and later Japanese and Korean capital, the sector, which has hired tens of millions of cheap migrant labourers, allowed China to

[8]In future, I hope to conduct nuanced ethnography on particular investments, how they are initiated and negotiated, which institutional and legal frameworks guide them, and what operational logics drive them.

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become a 'world factory' (Lee 1998; Pun 2005). Since the changeover of sovereignty in 1997, Hong Kong has also been a conduit and service centre for Chinese enterprises expanding overseas. Chinese state enterprises today maintain a dominant presence in Hong Kong's stock exchange, real estate and infrastructure construction (Gopalan 2017). Among the global companies whose market capitalization used to top the chart at the exchange, only HSBC is left on the list (Levin and Yung 2016).

Moreover, the financial hub has assumed another important role, albeit one hidden from view. An area of potential but difficult research lies in the 'underground native banks' (*dixia qianzhuang*), a term used to describe informal sources of capital that can be linked to organized crime engaged in global money laundering, human trafficking and usury (Zhao 2012). A great deal of their capital originates in Wenzhou, an enterprising region in coastal south-east China known for the global spread of its Christian-based business networks (Cao 2011; 2017). Hong Kong's historically close ties to China and the dominating presence of Chinese businesses registered in the special administrative region and/or listed on the Hong Kong stock exchange create numerous channels through which lucrative deals can be made. These networks, many based in Hong Kong, transfer billions yearly through multiple social channels. They have been the target of attacks by the Chinese government, although it is likely that many of China's state enterprises and ministries play a part in their operations. Much capital has been rumoured to come from various elite families known as 'princeling groups'. The finance market could only watch the precipitous rise of the HNA Group in 2000 and its demise (and accidental death of its chairman, Wang Jian) in 2018 with awe and disbelief. Nonetheless, its presence in Hong Kong was felt in a series of high-profile real-estate deals. Offering unimaginably high prices, it successfully outbid all the established local developers, only to dispose of its acquisitions in a clearance sale a year later (Cole 2017; Kwan 2018). Hong Kong's real-estate prices are the highest in the world and are out of reach for local families. The buying spree at unbelievable prices at the luxury end has long been attributed to a massive inflow of funds from 'buyers' in mainland China (Arcibal 2018).

In President Xi's campaign against 'corruption' and to stem the outflow of the Chinese currency to 'questionable' destinations overseas, hundreds were arrested in Hong Kong and China in 2016 (Reuters 2016; Lee and Hu 2017; Yicai Net 2017). The 2018 government attack on China's peer-to-peer (P2P) lending to rein in illegal and murky finance dealings triggered a social crisis. Due to the lack of both investment opportunities and an ability to transfer funds abroad, China's urban middle class has funnelled resources into P2P lending and to dubious real-estate acquisition overseas (Liu 2018; Ourbis and Shaw 2017). A government campaign to target these businesses has led to defaults and fraud charges, with investors suffering deep losses in their life savings. Some frustrated middle-class investors finally took to the streets in 2018 (Liu 2018; Rivers and Mullen 2018; Wildau and Jia 2018).

An equally high-profile case directly exposed Hong Kong's role in China's development manoeuvres in Africa. In November 2017, the US government arrested Patrick Ho, a former home affairs secretary in Hong Kong and executive of CEFC (China Energy Fund Committee). He was charged together with an ex-foreign minister of Senegal for channelling bribes to political figures in Chad and Uganda in return for favourable contracts for the Shanghai-based energy

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company CEFC China Energy. Like HNA, CEFC and its chairman, Ye Jianming, emerged out of nowhere in recent years, with aggressive global expansions and buying sprees in Eastern Europe, the Gulf States and Africa (Agencies and *Asia Times* 2017). The conglomerate, named in US court documents, is rumoured to be a front for military intelligence interests in China (Weinland and Lockett 2017; Lum 2018).

It would be hard to question the significant role the city has played in facilitating China's global investments, but as capital is closely tied to cultural, institutional and social codes, this 'world city in Asia' finds itself pulled in contradictory directions; this is because China has emerged as an economic powerhouse, and is nudging market logic towards one in which unmediated bureaucratic state power is intertwined with a contentious, nationalistic agenda. In the following sections, I examine several high-profile examples of China's global investment strategies that have involved Hong Kong as a crucial player, and specifically those related to financing China's African businesses. The unfolding of these examples has serious implications for the positioning of Hong Kong in infrastructural hardware and in cultural-political imaginaries.

The China–Africa Development Fund: heading out to the world

Most analysts would agree that China's official policy in the last few years has been to use its foreign reserves to engage in world markets. Its investments in Africa are state-financed and orchestrated. With its scale and political visibility, the China–Africa Development Fund is a key actor. According to the press, the equity fund was one of eight measures announced by Chinese President Hu Jintao at the Beijing Summit Forum on China–Africa Cooperation in November 2006. China Development Bank, its major shareholder, put up the first US$1 billion in 2007 with a target to build the fund to a total of US$5 billion. The state-owned China Development Bank, established in 1985, has had a long history of supporting financial institutions in Africa, including the African Development Bank. Xinhua, China's official media outlet, states that 'the fund will be used to support African countries' agriculture, manufacture, energy sector, transportation, telecommunications, urban infrastructure, resource exploration, and the development of Chinese enterprises in Africa' (Ministry of Commerce of China 2007). President Xi Jinping's 2015 African tour reinforced this commitment. For South Africa alone, Xi pledged US$6.5 billion in twenty-six projects aiding rail and transport, the automotive industry and electricity. He signed similar deals with neighbouring Zimbabwe before arriving in South Africa (Wild and Mbatha 2015).

With the support of China Development Bank, the fund has increasingly turned to agricultural projects. Since the end of 2008, the fund has invested US$400 million in twenty projects (in Malawi, Tanzania, Zambia and Mozambique, with plans for Sudan) with the intention of enabling Chinese companies to invest up to US$2 billion. With representative offices in Zambia, South Africa, Ghana and Ethiopia, there are plans for the fund to extend to North Africa (Xinhua 2012). However, little is known about the nature and personnel of this bureaucracy, its shifting priorities and strategies. In line with Xi's Belt and

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Road initiative in 2013, the financing of recipients' infrastructural needs has emerged in official media as a priority but the initiative has posed difficulties (Ho 2017).

While observing the dramatic increase in trade and joint ventures between Africa and China, Hong Kong-based economist Lawrence Lau warns that channels for raising and transferring capital are few and far between (Liu *et al*. 2012). The China–Africa Development Fund will not be able to meet demand, he argues. He proposes the establishment of more *yuan*-denominated bonds in Hong Kong, backed by China Development Bank, to diversify the ways of obtaining credit (*ibid*.). It is clear that his recommendation is based on the belief that Hong Kong has a mature finance market supported by professional know-how and robust legal and regulatory institutions. However, twenty years after the changeover of sovereignty, Hong Kong has seen another wave of emigration by professional middle-class families. Declining economic and educational opportunities might partially explain the trend (Tian 2013), but China's direct interference with Hong Kong's media, legislature, legal and education institutions over the past few years has also generated unprecedented economic and social turmoil, as seen in the Umbrella Movement of 2014 and its political aftermath (Levin and Yung 2016).[9] The round of prosecutions against activists in 2017 and the heightened censorship of public opinion have revealed the depth of disaffection among the young rather than resolving it (Wong 2017; Bradsher and Nossiter 2015). The denial in November 2018 of a work visa for Victor Mallet, vice president of the Foreign Correspondents' Club and *Financial Times* journalist, is seen as a sign that worse is to come in the area of press freedom and freedom of information (Ramzy 2018). Talk of the reintroduction of national security legislation that is designed to curtail freedom of information is now in the air. The controversial bill was shelved in 2003 after half a million people took to the streets amidst worries within the business community. Would such turmoil diminish the effectiveness of Hong Kong as a vital capital market for China? How would Hong Kong maintain its flexible positioning with regard to the demands of China on the one hand and global market logic on the other?

Financing key projects through bank acquisitions

Another high-level financial move in China's 'going out' strategy was the Industrial and Commercial Bank of China (ICBC) – one of the world's largest banks by market capitalization – buying a 20 per cent stake in Standard Bank of South Africa in 2007. With a functioning finance infrastructure and economy, South Africa is China's entry point for supporting its investments in other regions. Standard Bank had established an operational base in Hong Kong; as it notes in its company profile:

> Hong Kong is a leading financial trading and business centre and one of the largest exporters of services in the world. As the largest banking group in Africa with

[9] See also *Raise the Umbrellas*, a 2016 film by Evans Chan (available at <https://www.ipasskhcc.tw/home/grades/265>, accessed 23 October 2017).

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> specialisation in the sectors that drive real growth and development in Africa, Standard Bank Group provides corporate finance advisory services and facilitates trade and investment flows between Asian markets and Africa. With increasing global demand for commodities and resources, we maintain a strategic focus on business between Asia and Africa.[10]

Nonetheless, a 2009 statement from Standard Bank with regard to a close partnership with ICBC was telling. Eyeing China's thirst for natural resources for its growing economy, the bank maximized its presence in emerging markets, and especially across the African continent, in order to secure closer business ties with Chinese banks. In 2007, Standard Bank accepted a bid from ICBC to buy a 20 per cent stake for US$5.5 billion.

With a Chinese state bank now a major shareholder, Standard Bank changed its global strategies almost immediately by cutting its direct operations outside the continent. In August 2011, ICBC entered into an agreement to buy a controlling share of Standard Bank Argentina for US$600 million with the goal of helping Chinese enterprises gain market exposure in Latin America. Standard Bank also sold its assets in Russia in 2011 and downsized its operations in Hong Kong to make room for expansion in Beijing, indicating that it was retuning its global strategy in order to serve China's growth goals. In an interview with the *Wall Street Journal* on 8 March 2012, Deputy Chief Executive Sim Tshabalala confirmed the bank's intention to benefit from 'the burgeoning Sino-Africa trade and investment relationship'. The year before, the bank had advised on 30 per cent of China's US$5 billion merger and acquisition activities. Benefits to the bank seemed to be immediate. The same *Wall Street Journal* report highlighted Africa–China deals advised by Standard Bank, including the sale of Africa-focused mining company Metorex Ltd to Chinese nickel company Jinchuan Group Co. for US$1.3 billion, and the sale of a 25 per cent stake in South Africa's Shanduka Group to China's sovereign wealth fund China Investment Corporation (worth US$263.4 million). The bank's net profit for 2011 jumped 23 per cent to 13.27 billion rand.

The relationship between the two banks deepened in 2014 when ICBC bought 60 per cent of Standard Bank's UK global market subsidiary for a sum of US$690 million (Noble and Rice 2014). However, the final transaction was scaled back by US$75 million due to an apparent aluminium fraud case in China that involved a large impairment cost for Standard Bank's UK-based subsidiary. The leaderships of both banks see the partnership as mutually beneficial, involving Standard Bank's local expertise and ICBC's scale, but progress has been slow. Consultants have attributed this to bad timing in the wake of the global financial crisis, but business wisdom pointed out that 'the two banks with different cultures tied the knot after a whirlwind romance and needed time to get to know each other' (*Economist* 2014).[11]

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[10]See <https://corporateandinvestment.standardbank.com/CIB/Country-profiles/Europe-&-Asia-Pacific/Hong-Kong>, accessed 24 October 2017.

[11]See the 2017 annual report of ICBC Standard Bank (2018), which shows what the board sees as its accomplishments since the merger and its remaining issues.

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Engaging with capital markets in Hong Kong

A breaking financial news item in June 2012 was the Hong Kong Stock Exchange's agreement to buy the London Metal Exchange (LME) for an extraordinarily high price of £1.388 billion (Farchy and Cookson 2012). In defending the deal, the CEO of the Stock Exchange, a Chinese national who had worked in the US, pointed to the favourable loans offered by China Development Bank to come up with the necessary capital (HKEJ 2012; *Futures* 2012). As the world's largest consumer of industrial metals, China intended to use the Hong Kong bourse to acquire a leading role in shaping the market for industrial metals and to further globalize the Chinese currency.

The transaction was completed on 6 December 2012, with the public announcement by LME reported in all the major global financial media. The successful acquisition was seen to work well with China's efforts to secure commodities in Africa, although it created unease among the country's competitors (Grant 2012). Business critics continued to question the business sense of the Hong Kong bourse paying such a hefty sum for a rather unprofitable enterprise (Yiu 2014), and some saw it as another political attempt by China to exert control over global markets. Almost three years after the proposed acquisition, a report in the *Financial Times* remained sceptical (Hume 2017). The introduction of RMB-based metal futures contracts was not successful in attracting investment. In August 2019, HKEx (Hong Kong Exchanges and Clearing Limited) decided to launch six US dollar-based metal futures contracts to be traded in Asia to test market enthusiasm (Yiu 2019).

Overt and covert operations: business, politics and intelligence

The Queensway 88 Group, which has its headquarters in Hong Kong's central finance district, has captured public attention since the US government published a review of its dealings in 2009 (Levkowitz *et al*. 2009).[12] According to the review, a search for Chinese companies in Angola revealed several companies that were traced to one address in Hong Kong. The group is controlled by a handful of individuals, and although the companies are classified as 'private' and based in Hong Kong, key personnel are linked to powerful government agencies and publicly listed state corporations such as CITIC (China International Trust Investment Corporation) and Sinopec (China Petroleum and Chemical Corporation), and probably to the intelligence and public security apparatus in Beijing. The report also cites that, during the previous five years, the Queensway 88 Group had created over thirty holding companies with investments not only in Angola but also in other sub-Saharan African countries, Latin America, Southeast Asia and the United States. A few projects include: building an airport terminal in Tanzania and acquiring 49 per cent of Air Tanzania in 2008; buying the J. P. Morgan Chase building; acquiring a 49 per cent stake in the former

[12]It is interesting to note that the Hong Kong operation of Standard Bank of South Africa, of which ICBC acquired a large share in 2007, has its office in the same building as the Queensway 88 Group.

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New York Times building; and acquiring 49 per cent of the Clock Tower in Manhattan. The group procured a US$200 million stake in a gas and oil operation in Indonesia and a 9.1 per cent stake in a major construction and civil engineering firm in Singapore. The Export-Import Bank of China has also extended over US$4.5 billion in oil-backed loans to the Angolan government for 'reconstruction', with the condition that contracts will be completed predominantly by Chinese companies.

A report in *The Economist* on 13 August 2011 (*Economist* 2011b) detailed some of the murky connections and deals associated with what it termed 'the Queensway syndicate'. It argued that owners of the key components of the syndicate – China International Fund and China Sonangol – have close ties to powerful 'princelings' and military families residing in China and Hong Kong. The owners have colluded with various juntas and autocratic rulers in Angola, Zimbabwe, Guinea and Mozambique, and they have amassed huge wealth by extracting oil, minerals and diamonds through illegal and immoral means, with promises of aid and infrastructure that are rarely ever delivered. To the annoyance of some Chinese companies and ministries, the syndicate also reaps unimaginable profits by securing favourable (but secretive) terms from its African suppliers and charging Chinese oil companies market prices. The report argues that:

> all this means that the syndicate taints China's 'going out' policy, a cornerstone of the country's rise in recent years. When the policy works, African resources are swapped for aid, commercial financing and payments in kind such as public infrastructure. But with the syndicate, billions of dollars meant for schools, roads and hospitals have apparently ended up in private accounts. Rather than fixing Africa's lack of infrastructure, Chinese entrepreneurs and Africa's governing elites look as if they are conspiring to use the development model as a pretext for plunder. (*Economist* 2011b)

To gain an understanding of these global finance and business networks, the personnel involved, and the strategies of these Chinese enterprises, it is worth reassessing Hong Kong's legal and institutional integrity and its ability to provide a professionally trustworthy environment. However, the increasingly self-censored media and the shaky autonomy of the courts in Hong Kong since 1997 have allowed the 'going out' strategy of many Chinese enterprises to escape close scrutiny. Leads followed by the *Financial Times* have revealed that there is a well-connected operator behind these murky deals in Hong Kong (Burgis and Sevastopulo 2014; Burgis 2015; Ledgard 2015). Multiple money-laundering channels for corrupt officials and powerful political families in China have continued to erode the city's reputation as a global finance hub and legal enforcer/arbitrator. The Queensway syndicate is a case in point. More has become known about the syndicate due to public revelations about offshore companies and legal firms and some of the dubious players involved (Ren 2015), but critics believe that this is just the tip of the iceberg (Mailey 2015).

Global markets, legal jurisdictions and politics: Congo versus FG Hemisphere Associates LLC

Another high-profile case entangling markets, politics and legal jurisdictions across the global finance landscape involves a series of controversial judgments

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by the Hong Kong law courts over a dispute between the DRC, an American vulture fund and a Chinese state corporation. It also reveals the vulnerability of Chinese businesses even when they can maximize Hong Kong's capital market and back channels to pursue their deals. Moreover, a legal journalist, Debra Mao in Hong Kong, argued that the political resolution of the case caused a crisis for Hong Kong's mini constitution, the Basic Law. According to her report:

> FG Hemisphere Associates LLC, a New York-based vulture fund which buys distressed debt, has sued Congo in jurisdictions around the world seeking to seize assets to enforce two arbitration awards. In Hong Kong, its attempt to collect payments owed to Congo by state-owned China Railway Group Ltd., places the financial center's judicial independence at stake.
>
> 'The Hong Kong courts are taking the line that it's one country two systems – that whatever the views of Beijing, the Congo government can be sued,' said Tony Carty, a public law professor at the University of Hong Kong. 'That could cause a constitutional crisis.'
>
> China's foreign ministry has filed three letters to Hong Kong's judiciary in this case stating no foreign government can be sued in the city's courts. 'China considers that the issue of state immunity is an important issue which affects relations between states,' the ministry wrote according to an excerpt from a May 21, 2009 letter published in court documents.
>
> Hong Kong's Court of Appeal in February 2010 allowed FG Hemisphere's lawsuit to proceed. Arbitrators in Zurich and Paris had ruled that Congo must repay a total of $34.25 million to Energoinvest d.d., an engineering company based in Sarajevo, Bosnia and Herzegovina, for construction projects in the 1980s. The debts, including interest, now amount to more than $100 million, according to the Hong Kong court judgment.
>
> Apart from deciding whether the case should be referred to the Standing Committee of the National People's Congress in Beijing, Hong Kong's Court of Final Appeal could rule directly on whether Congo and other foreign states can be sued in Hong Kong. The five judges could also decide whether governments relinquish any claims to sovereign immunity when they agree to arbitrate a dispute.
>
> Congo's assets in Hong Kong are tied to Hong Kong-listed China Railway Group Ltd. (601390[13]) and its related companies, which according to Barlow in 2008 entered into joint-venture agreements with the Congolese state-mining company, Gecamines, as part of a $6 billion minerals-for-infrastructure agreement between China and Congo. (Mao 2011a)

These entangled issues are noteworthy for several reasons. First, the vulture fund could sue to have funds intended for a commercial deal for the DRC frozen in the Hong Kong courts. Second, it turned out that the fund in question, promised to the DRC by a Chinese state firm listed on the Hong Kong Stock Exchange, was an 'entry fee' to gain the right to build infrastructure in the DRC (railways, in this case). Third, it tested the power of international arbitration against Chinese state enterprises in Hong Kong. The DRC claims that it enjoys total sovereign immunity and that the courts of Hong Kong do not have jurisdiction over the country. The Hong Kong Court of Final Appeal sought legal interpretation from the Standing Committee of the National People's Congress (NPC). On 26

[13]This is the company's stock code on the Shanghai stock exchange.

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August 2011, the NPC Standing Committee adopted an interpretation of Paragraph 1, Articles 13 and 19 of the Basic Law of Hong Kong, clarifying that the DRC enjoys total sovereign immunity in Hong Kong and the vulture fund cannot sue (Xinhuawang 2011). It stated that the case involved affairs between two countries and was therefore in the realm of diplomacy. The Hong Kong courts and common law have no jurisdiction to deal with the case (Hong Kong SAR Department of Justice 2012).

Public opinion was divided over the Congo case. Pro-China legal experts sided with Beijing to argue that these matters involved total diplomatic immunity, because Hong Kong was part of China. Elsie Leung, a former Secretary of Justice in Hong Kong, wrote to remind legal scholars that China's interpretation of the Basic Law was politically appropriate, as the case involved issues relating to a state, and only Beijing's political apparatus could handle the dispute. Hong Kong courts had no right to apply the common law and to judge on the argument of partial state immunity. But two out of the five judges in the Court of Final Appeal publicly raised issues with that argument. Many professionals in the liberal democratic camp saw it as another example of the erosion of Hong Kong's rule of law and freedom of information, which had been crucial to the city's status as a financial centre (Mao 2011b).

Ben Giaretta of Ashurst Singapore, a business consultancy, highlighted serious implications for business. Since the case confirmed that states can have immunity against claims relating to their assets in the Hong Kong courts, that argument might be extended to a broad range of state enterprises. However, he did not see it as a death knell for the effectiveness of international arbitration on commercial assets involving state entities. He pointed to the wariness of state enterprises using such sovereign immunity because it might discourage international businesses from seeking partnerships with them (Giaretta 2011).

Whatever the financial outcome of the case, the larger political implication was serious for Hong Kong. Since 1999, the NPC in Beijing has 'interpreted' several controversial cases, overriding the judgments of Hong Kong courts. These interpretations, challenging the legal authority of the Hong Kong courts, have continued to generate protests from the city's legal professionals and liberal democrats who are concerned with judicial independence and the rule of law. In 2014, a Chinese government ruled in the midst of widespread protests over Hong Kong's electoral reforms and required Hong Kong judges to be 'patriotic'. This triggered one of the strongest statements from a well-respected former Chief Justice, Andrew Li, who stated that judges must serve no political masters but the law (So 2014). An established economist and public affairs commentator, Yi-zheng Lian, pointed to the dangerous political manoeuvres of the Beijing regime since the Umbrella Movement in 2014, which shut down the business districts of Hong Kong for seventy-nine days. In the two years following the Umbrella Movement, the increasingly hard-line Chinese government used its political representatives in Hong Kong to bring the judiciary under administrative control. Its blatant political interference in Hong Kong affairs further reduced the confidence of the general public in the ability of the Hong Kong government to provide a reasonably open environment for work and life under the 'One Country, Two Systems' formula (Lian 2016; 2017b; 2018). One must ask if China, in its confident global march, has killed the goose that lays the golden egg.

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Mega-projects for One Country, Two Systems

The year 2018 was challenging for Hong Kong's political positioning. Two landmark infrastructural projects accelerated Hong Kong's physical integration with China. The Hong Kong–Zhuhai–Macau bridge links Hong Kong via the coast to south and south-western China (*Asia Times* 2018). The high-speed railway from downtown Hong Kong to the rail system of China shortens the travel time to Beijing to a few hours. Both projects, however, are seen as white elephants, costing taxpayers billions without having any convincing impact. From planning to construction, the processes have been marred by corruption scandals, technical errors and delays (Chen 2018a; Bland 2018). Their ultimate use is in doubt, and consumer interest has been lower than government estimates so far. More important are the political issues involved. In tune with the nationalistic stance of leaders in Beijing, the Hong Kong government and a legislative council controlled by pro-China interests steamrollered through the bill and funding allocations for the projects against all dissenting voices. The most sensitive issue involves the stationing of Chinese public security officers at the entry/exit areas of the high-speed rail terminal in Hong Kong. This, according to pro-democracy forces, is a gross violation of the Basic Law, which was to protect the autonomy of the special administrative region for fifty years (Lian 2017a). The terminal was eventually built at great public expense and Chinese officers placed there, despite some opposition from pan-democrats. In 2018, the government and pro-China businesses launched massive media campaigns to support closer physical links, with an institutional blueprint for the Greater Bay Area drawing Hong Kong further into China's orbit (Ji and Mak 2018; Sabine 2018). Scepticism remains. The controversial proposal to reclaim an enormous area near Hong Kong airport to link with the Zhuhai–Macau bridge, and supposedly to build middle-class housing, has met with further massive protests.

Issues for future research

To facilitate business expansion overseas, China has relied on the economic resources amassed by state-owned enterprises and government ministries. Up until the 1970s, Chinese overseas investments were strategically dictated by the political concerns of the Cold War – breaking China's diplomatic isolation by exporting socialist friendships and aid. The post-Mao decades saw China introducing market-driven reforms and allowing foreign direct investments and joint ventures. It has utilized upwards of 200 million migrant labourers to become a world factory. China's vastly improved manufacturing capacity and the rising expectations of its consumers have propelled the government's aggressive acquisitions of raw materials to sustain its manufacturing sector. In the face of the prolonged economic crises of the US and Europe, China is well aware of the unreliability of overseas markets and the necessity to spur domestic consumption. However, entrenched state interests continue to strengthen against a weak and vulnerable private sector, especially in the politically sensitive areas of finance, telecommunications, heavy industries, infrastructure and defence technologies. The country's banking sector, mainly state-controlled, is a major player. Between the Asian financial crises of 1997 and the global financial tsunami of 2008, China was

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able to shield its economy from global volatilities by making heavy state investments, but its efforts exacerbated the structural imbalances between the state and private sectors, rural labour and urban consumers, and central and local governments. Such domestic dynamics have largely shaped China's overseas engagements, which remain dominated by state priorities, be they commercial or political. Is the nation still on a fast track to expand its presence on the global stage? Or are there bumps in the road (Peters 2018; Anwar 2018)?

Hong Kong has thrived on having a free market economy, relatively clean government, an independent judiciary, international human resources and transparent institutions. It has played a crucial role in China's business expansion overseas. Over the past twenty years, since the city became a special administrative region under Chinese sovereignty, China has juggled its dependence on Hong Kong as a conduit to world capital markets with its anxiety over the territory being a volatile source of subversive influences. Although China is trying to tighten its control over the governance of Hong Kong, societal sentiments have not been entirely compliant. In the past five years, an increasingly nationalistic and aggressive Chinese presence and the hard-line political manoeuvres of a China-supported chief executive in Hong Kong have generated unprecedented grief among its extremely divided citizens. None of this is conducive to a favourable institutional environment, or, in particular, to a healthy financial market for Chinese business. The front-page report on the National Day fireworks on 1 October 2018, entitled 'Day of celebration and protests', sums up the unsettled mood (Cheung *et al.* 2018).

The sudden explosion of dissent and turmoil on the streets of Hong Kong in the summer of 2019 finally attracted world attention. The million-plus protestors from across a wide spectrum of professions, businesses, ages and classes who repeatedly marched against the government's proposed extradition bill highlight the deep distrust of Hong Kong citizens towards China's increasing presence in the special administrative region (BBC 2019).

The chief executive of Hong Kong finally declared a complete withdrawal of the extradition bill on 4 September 2019. However, most consider the decision too little too late. Millions who have marched have been incensed by what they see as excessive use of force by the police, inflicted indiscriminately on protesters and ordinary citizens, unjustified arrests and intimidation, uneven application of the law, and the inability of the Hong Kong government to act with any degree of autonomy from the dictates of Chinese officials. In their minds, the 'One Country, Two Systems' formula is dead, as articulated by singer/activist Denise Ho at the United Nations Human Rights Council in Geneva on 8 July 2019.[14] They blame the government for having eroded the freedoms, institutional integrity and rights promised by the Sino-British Joint Declaration in 1984. 'Restore Hong Kong, Revolution of the Times' is now the battle cry. Those who have experienced the massive use of tear gas and borne the brunt of police actions seem determined to stand their ground. 'If we burn, you burn with us,' they say. Can Hong Kong remain China's window to the world?

To understand the evolving Beijing–Hong Kong–Africa nexus in China's overseas investments, further work needs to be done to mine financial archives and to

[14]See <https://unwatch.org/deniseho/>, accessed 15 September 2019.

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conduct in-depth interviews in Hong Kong, Beijing, other Asian finance hubs, and Africa. It will be necessary to talk to policymakers, bankers, lawyers and the executives of Chinese, Hong Kong and foreign corporations to identify key players and explore questions about the rules and operational complexities of this opaque world. Hopefully, these research directions will add a much-needed ethnographic understanding of the cross-regional connections and disjunctures of the financial landscape outlined in this article.

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Abstract

Recent studies on Chinese investment in Africa have particularly focused on the hardware of development – infrastructure – and its impact. China's vision to forge a new global order was made explicit when Xi declared his 'One Belt, One Road' policy in 2013. Underlying the grand infrastructural schemes and political posturing are hidden financial manoeuvres, the soft side of power, unspoken sociality and value contestations. This article focuses on the variegated landscape of China–Africa trade/finance infrastructure centring on Hong Kong. It highlights top-down state orchestration but also explores historical contingencies that have shaped the strategies of those whose footprints unexpectedly straddle continental divides.

Résumé

Des études récentes sur l'investissement chinois en Afrique se sont intéressées aux aspects matériels du développement (l'infrastructure) et à leur impact. La vision de la Chine de forger un nouvel ordre mondial a été rendue explicite lorsque Xi a annoncé son initiative « la Ceinture et la Route » en 2013. Derrière ces grands projets d'infrastructure et les proclamations politiques se cachent des manœuvres financières, un pouvoir d'influence, une socialité inexprimée et une contestation des valeurs. Cet article met l'accent sur le paysage bigarré de l'infrastructure commerciale et financière sino-africaine centrée sur Hong Kong. Il souligne l'orchestration descendante de l'État, mais explore également les aléas historiques qui ont façonné les stratégies de ceux dont on trouve inopinément l'empreinte de part et d'autre de lignes de partage continentales.

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