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# NEGOTIATING WITH CHINA: A TOOLKIT FOR AFRICAN STATES BY ZACH M KAURAISA\*

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### **Abstract**

Domestic and Foreign investments are crucial for the economic development of any country especially those in the Global South. Whereas countries are now more focused on infrastructural developments, the countries endowed with natural resources such as renewables, oil, gas, coal and minerals are also keen to attract investments in these sectors. Taking into consideration that these projects are capital-intensive requiring massive investments often beyond the reach of any government- various countries have turned to international financial institutions and foreign investors. Consequently, China has been providing infrastructure-for-resource loans to African states since the early 2000s, to fuel its commodity needs and solve Africa's infrastructure deficit. However, these deals faced constant difficulties in their implementation; a constant critique being that the deals are too favourable to China and not favourable enough towards the host state. This trend of unbalanced deals points to a fault in the negotiation process, specifically a lack of understanding by African states of their Chinese counterparts, leading to poor negotiation outcomes for African states. This research insight therefore is intended to provide a glimpse into the Chinese-African negotiation strategy. After an analysis of the Chinese negotiation style, it is recommended that African states need to build strong relationships with China, form alliances amongst each other, and take initiative in negotiations to deliver more balanced deals.

**Keywords:** Negotiation; Natural Resources; Loans; China; Africa.



# Introduction

This paper aims to provide a clearer understanding of China as a negotiation counterpart, to improve negotiation outcomes for any business or nation engaging with it, in particular African businesses and nations. Broadly, this paper is written to do two things: First, this paper is written to orient a negotiator by providing an overview of the negotiating environment at the highest level, by highlighting the multiple countries involved in infrastructure-for-resource deals and the Chinese socio-economic climate. It is also written to provide useful information on Chinese counterparts by highlighting factors that influence their modes of thinking and negotiation objectives.

Secondly, this paper is written to be used as a toolkit for future negotiations, it achieves this by providing some clear paths that African countries can take to strengthen their negotiating position at a national level; it provides useful negotiation tactics that can be implemented immediately by negotiators, and it highlights the tactics that a negotiator in the field should beware. Lastly, it provides actionable techniques to build good relationships with Chinese counterparts and highlights common mistakes that hinder such relationships. This paper is structured as follows:

The first chapter outlines the infrastructure-for-resource deals that China has been entering into with nations across Africa since 2000. It outlines China's interests in Africa's natural resources and the interests of African nations in Chinese infrastructure and funding. The chapter goes on to highlight the pitfalls of these deals and points to a weakness of African nations in the negotiation process that is underpinned by a lack of understanding of their Chinese negotiation counterparts.

The second chapter allows the reader to gain an understanding of a Chinese counterpart by analysing Chinese culture. It provides brief insights into China as a nation by highlighting some unique economic and political features that play a role in negotiations. This section then goes on to focus on Chinese individuals by giving insights into how Confucianism influences their modes of thinking and how the so-called 36 stratagems form the core of Chinese negotiation tactics.

The third chapter outlines the impact of Chinese culture on the negotiation process. It takes insights about China and its people as discussed in the previous chapter and highlights how



the traditional negotiation process is altered when negotiating with China. It also illustrates exactly how Chinese negotiation tactics are applied. This chapter is broken up into the prenegotiations, negotiation and post-negotiation section.

The fourth chapter outlines what African nations can do to achieve more favourable negotiation outcomes. It outlines how African nations can build alliances to increase their negotiation leverage, how they can take initiative at the negotiation table and how they can build stronger relationships with their Chinese counterparts to improve negotiation outcomes. The paper then provides concluding remarks.

# 1. Background

# 1.1. The China-Africa match-up

Africa is endowed with natural resources. For example, it boasts massive oil production in countries such as Nigeria as well as large coal deposits in countries such as Mozambique. Additionally, Zimbabwe is among the top platinum producers and South Africa is a leading producer of manganese. Further, there are copper and cobalt deposits in Zambia and large iron ore deposits across Gabon, Guinea and Liberia<sup>i</sup>.

However, for all its resources, many of them remain underdeveloped. Africa has an infrastructure deficit and endemic scarcity of capital to develop the infrastructure, which has resulted in African states ranking at the bottom of many infrastructure indicators<sup>ii</sup>.

On the other hand, China currently has the world's second-largest economy at over \$13 trillion and is predicted to become the world's largest economy by 2033<sup>iii</sup>. China is the world's largest manufacturing economy and exporter of goods<sup>iv</sup>. It has also been one of the world's fastest-growing consumer markets and economies for several decades.

To sustain the fast growth of its economy in the 1990s, China began to look outside its borders for the provision of key commodities. China, through its One Belt One Road (OBOR) initiative, has invested billions of dollars in new rail, shipping, and airport infrastructure in African nations like Egypt, Djibouti and Kenya, for the purpose of improving trade routes<sup>v</sup>.



As a result, Beijing has become a net importer of copper, nickel, iron ore, petroleum and several other commodities<sup>vi</sup>. Over a third of China's oil comes from Africa<sup>vii</sup> and its reliance on imported mineral metals has been growing, even in commodities in which it is a top producer, such as tin and lead.

China has a strong reliance on the import of strategic commodities. As a result, the state encouraging local firms to make investments abroad and to exploit natural resources through cooperative agreements in emerging markets<sup>viii</sup>.

There was an intersection of interests between China and African countries at the start of the 21<sup>st</sup> century. On one side, there was a rapidly developing China, equipped with financial resources, a growing construction industry, and in need of commodities to support its rapid growth<sup>ix</sup>. There was the African continent, endowed with largely unexploited natural resources, but lacking the infrastructure and capital to turn this advantage into wealth. This lack of infrastructure and capital created the space for China to grow into the single largest financier of infrastructure projects in Africa<sup>x</sup>.

## 1.2. Infrastructure-for-resource deals

To grant concessional loans, China requires a sovereign guarantee, which is problematic in African countries because of their typically low creditworthiness. Funders like the European Union progressively disengaged from providing financing in countries like Benin as a result<sup>xi</sup>.

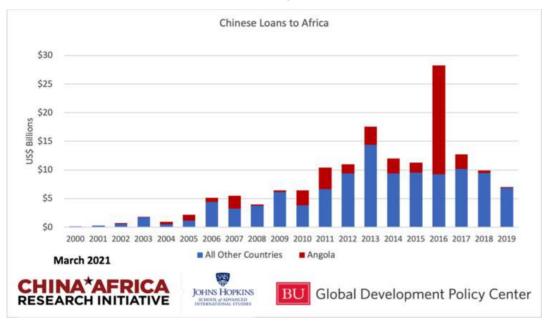
However, in resource-rich countries, China opts to retain the off-taker rights or lock-in proceeds from the sale of commodities from the borrowing country to secure the loan (the commodity is typically sold to a Chinese State-Owned Enterprise)<sup>xii</sup>. In return, countries like Benin offer China preferential tax exemptions and contractor preferences on road and administrative infrastructure projects<sup>xiii</sup>.

In Angola, China provided a \$2 billion oil-backed loan for infrastructure projects in 2003<sup>xiv</sup>. The China Petroleum & Chemical Corporation acquired its first equity stake in the Angolan oil industry promptly after that loan extension<sup>xv</sup>. Additionally, a sixth of South Sudan's



total daily output being sent to the Export-Import Bank of China, in exchange for infrastructure funding<sup>xvi</sup>.

Typically, these loans are structured mostly as an export credit facility<sup>xvii</sup>. These loans come with minimal interest rates, 25 year repayment periods with 5-7 year grace periods, and technical assistance. There has been a steady increase in the amount of loans that China has extended to African countries since the year 2000.



These loans are provided with conditions to procure services, materials and labour from China (at least 50%), leaving very little room for local content in the host country<sup>xviii</sup>. These loan conditions present China with an opportunity to reduce its massive overcapacity by using infrastructure projects in Africa as outlets for Chinese steel.<sup>xix</sup>

### 1.3. Flaws of the infrastructure-for-resource deals

Several of these deals have never come to fruition. This section discusses how deals have been delayed or called off due to factors such as insufficient capacity, detrimental terms of the deal, unsound planning, and regime changes.



In Nigeria, most contracts and loans signed under President Obasanjo were frozen by his successor. These arrangements remained uncertain under the ongoing regulatory revision in the oil industry<sup>xx</sup>.

In Gabon, the Belinga iron ore project has repeatedly faced postponement. This is due to disagreements over environmental and labour issues. There have also been calls for a renegotiation of the contract because the public believed it to be too favourable to China, which owns 75% of the joint venture and the offtake rights<sup>xxi</sup>.

In Benin, the diverse tax exemptions granted to Chinese contractors allows them to build large reserves of stock. This allows Chinese contractors to win subsequent tenders by providing low prices, winning even the tenders financed with Beninese public funds<sup>xxii</sup>.

The infrastructure-for-resource loans provide value for African states that need them. However, the results have varied, and the benefits are skewed towards China. These problems arise from missteps in the negotiation process, be it lack of involvement by the public and key players, one-sided deals that future regimes refuse to enforce, or a lack of consideration for the broader impacts of a deal in the host state. It appears that African states continuously end up with deals that make little practical sense for their context, such as a lack of local participation in projects taking place within the borders of the state. When issues of this fashion arise across the continent, one must look away from the pitfalls of any African nation and understand that there exists a more fundamental misunderstanding of China as a negotiating counterpart.

However, by developing a clearer understanding of the economic needs of China, an understanding of the philosophies that underpin the behaviour of Chinese counterparts and an understanding of the main negotiation tactics used by Chinese counterparts, African negotiators can strike more balanced deals. The following chapter outlines Chinese culture and gives insights on the points above.

## 2. Chinese culture

To assess the factors that shape a Chinese negotiator, a contextual understanding is necessary. The following is a brief overview of the role that the condition of the Chinese state, Confucianism, and the 36 strategems, play in shaping the Chinese negotiation style.



# 2.1. The People's Republic of China

China is ruled by the Communist Party of China in a framework of a socialist republic run by a single party. As far as the private sector is concerned, the largest businesses are not viewed as entirely independent operators with completely self-governed objectives, but rather as extensions of the government and its objectives. There is a centralised economic structure with strong government involvement in all sectors. This results in a strong bureaucracy that favours the government's agenda<sup>xxiii</sup>.

China is equipped with the world's largest population. As a natural result, China has developed a large workforce that can provide large production capacity and it also has a large market size made up of hundreds of millions of consumers. These factors provide China with strong bargaining power in business negotiation<sup>xxiv</sup>.

Conversely, the state is plagued with high-income inequality, with many people living below the United Nations (UN) poverty level. There exists high pollution due to carbon emissions and overcapacity in the industrial sector, particularly steel and iron<sup>xxv</sup>.

It is factors such as China's overcapacity in steel and iron that influence its involvement in infrastructure development in Africa, as it needs countries to offload the excess materials. Understanding this information allows a negotiator to anticipate the negotiation objectives of their Chinese counterpart and the deal structure that the Chinese counterpart is likely to suggest. The impact of the above factors is further discussed in chapter 4.

# 2.2. Confucianism

Confucianism is a 2500-year-old Chinese philosophical tradition that has a core influence on Chinese modes of thinking and ways of behaving. It has 5 core values. \*\*xvi\* The 3 values that are particularly relevant for the purposes of this paper are:

- i. Importance of interpersonal relationships This value encourages the development of *guanxi* (the Chinese term for relationships, connections, or contacts).
- ii. Respect for hierarchy and need for harmony There is also a strong appreciation for the honouring of hierarchies.



iii. Concept of Chinese Face (*mianzi*) – Although the concept of maintaining/saving face (status) in the eyes of others is universal, it is particularly important in Chinese culture.

The amalgamation of these values creates the 'Confucian Gentleman'. This is the ideal strived for by individuals and the ability of a negotiator to for example build enough of a personal relationship (*guanxi*) with their Chinese counterpart has a greater impact on the negotiation than it would in negotiations with a different counterpart. The same can be said for respecting a hierarchical structure such as age or allowing a counterpart to save face in embarrassing circumstances. These factors allow a negotiator to build favour or avoid missteps that may turn their Chinese counterpart hostile.

Although the components of the Confucian tradition are easily overlooked by those that do not engage in the practice, they form a core component of understanding a Chinese counterpart. The impacts The 36 Stratagems

The 36 stratagems (Ji) refer to a long-lasting Chinese cultural tradition that shapes the strategic Chinese business behaviour. The Stratagems do not have a particular author but have been in existence as early as the 1600s. These stratagems are deeply engrained in Chinese culture and are taught from childhood<sup>xxvii</sup>. They are schemes that exist to deal with various kinds of situations, to gain a psychological and material advantage over one's adversary using cunning<sup>xxviii</sup>.

The stratagems are grouped into six categories depending on one's position<sup>xxix</sup>:

- 1-6 When being superior
- 7-12 For confrontation
- 13-18 For attack
- 19-24 For confusing situations
- 25-30 For gaining ground
- 31-36 When being inferior

In practice, any of these stratagems can be used flexibly in any situation. More specific examples of these stratagems will be addressed in the next chapter.



These three factors, namely, the climate of the Chinese state, Confucian philosophy, and the 36 stratagems, all play a vital role in the approach taken during negotiation. The impact of each of these factors is discussed below. The following section focuses on the negotiation process and outlines how the traditional negotiation process is impacted by the above-mentioned factors in the pre-negotiation, negotiation and post-negotiation phases.

# 3. Impact of Chinese culture on the negotiation process

There is substantial literature on negotiation, mostly from western nations, and the processes, techniques and theories presented in this literature have permeated into the negotiation world at large. The amalgamation of all of this literature has developed a traditional negotiation process with common themes, stages and strategies<sup>xxx</sup>. This section will analyse the manner in which each stage of the traditional negotiation process is altered when engaging a Chinese counterpart.

# 3.1. Impact on the pre-negotiation phase

The overarching effect of Chinese culture on the pre-negotiation phase is that, with Chinese counterparts, this phase is often longer than what a negotiator may encounter with a different counterpart. Several factors create this extended pre-negotiation phase:

The Chinese will only do business with those they trust and have *guanxi* with xxxi, and thus, time is required to build trust. Rapport is built through dinner parties, cultural events, and tours. It is common to spend several days partaking in these activities and informal discussion, particularly at the start of a business relationship xxxii.

Furthermore, due to government involvement in commercial activities, there is a significant amount of lobbying. This process will include visiting government authorities, technical seminars, advertising in professional journals and at dinner parties<sup>xxxiii</sup>.

Foreign parties should also be prepared to make several presentations. This is a mechanism used to test sincerity. Foreign parties will often have to repeat presentations to multiple parties, often asking the same questions. This exists not only to make sure all parties are informed of the details of a transaction but also to exhaust the counterpart<sup>xxxiv</sup> and to examine the transaction from various professional disciplines.



# 3.2. Impact on the formal negotiation phase

Within the formal negotiation phase, Chinese culture finds ways to shape the priorities and approaches taken. The climate of the state, Confucian philosophy and the 36 stratagems manifest in the following ways:

When negotiating with China, the Chinese counterpart will prioritise management control – particularly of the finance and administrative departments<sup>xxxv</sup>. This is an extension of the socialist ideals of centralised control and a means to ensure its objectives are met.

China can produce goods at a large scale and at a low cost, due to their large population<sup>xxxvi</sup>. As a result, it is difficult to argue that the production of goods or equipment should happen in another country. China also insists on the use of Chinese manufacturers for goods, for the aforementioned.

Confucian philosophy prioritises good relationships and harmony. There is an underlying assumption of good faith between the two parties and thus, discussing disputes or requiring performance guarantees assumes failure to perform. Therefore, the negotiating party should expect to be met with some resistance when introducing discussions on dispute resolution provisions or similar topics<sup>xxxviii</sup>.

There have been several case studies of how the 36 stratagems have been used in the negotiating environment<sup>xxxviii</sup>. Persuasion, deliberate impasses, and forced deadlines are all tactics that can be used. The following are more popular stratagems<sup>xxxix</sup>:

- Beat the grass to startle the snake (Stratagem 13) Large Chinese negotiation teams made up of individuals from different backgrounds will engage in a barrage of questions to startle a negotiator, with the hopes that that negotiator will reveal key information that they otherwise would not have.
- Clamour in the East but attack on the West (Stratagem 6) Misleading adversary by creating a distraction in an area that is not important. This can be done with false accusations, misinformation, or prioritising an issue that is not of importance to China to distract from something crucial.
- Toss out a brick to get a jade gem (Stratagem 19) This involves making demands, in the early stages of the negotiation, that are not of actual interest so that once



negotiations reach the concession stage, the Chinese negotiator can concede these fake demands to pressure the counterparty to make legitimate concessions.

Many of these stratagems are not used in isolation and can be chained together<sup>xl</sup>. For example:The CEO of a foreign company is requested to fly to Beijing to complete a contract. This is done so that the Chinese counterpart can gain 'home advantage' (Stratagem 15: Lure the tiger down the mountain). The CEO is picked up from the airport by a beautiful woman/man to keep the CEO preoccupied and distracted (Stratagem 31: Stratagem of a beautiful woman). The CEO is then invited to a dinner by a negotiating team with a lot of liquor. However, the next morning is the start of hard negotiations with a separate, well-rested, negotiating team (Stratagem 10: hide a dagger behind a smile). It is advised to memorize all 36 Stratagems.

# 3.3. Impact on the post-negotiation phase

Generally, the Chinese honour their agreements. However, there have been cases of non-fulfilment and a new round of negotiations was necessary, because of disagreements<sup>xli</sup>.

A Chinese counterpart may agree to a contractual arrangement that is favourable to a negotiator, for the sole purpose of creating last-minute pressure to renegotiate once the deal is made public and it would be embarrassing for the negotiating nation to cancel the project. After agreeing to the aforementioned favourable arrangement, the Chinese counterpart may also enforce harsher terms at a renegotiation several months or years later once Chinese involvement in the project is crucial to the operation (Stratagem 28: *Remove the ladder when the enemy has ascended to the roof*).

The Chinese attitude toward contracting is based on problem-solving, as circumstances change instead of remaining bound to a fixed contract. Thus, if external conditions change, the contract may be modified. Signing a contract is not closing the deal but rather substantiating the established relationship<sup>xlii</sup>.

The negotiation environment with a Chinese counterpart is crucially different from what most negotiation literature will teach, and understanding how the negotiation environment is changed makes all the difference. That difference exists in how African states can respond.



### 4. What can African states do

Due to the current economic climate, African states have less bargaining power in these negotiations. Thus, it is useful to understand the tactics that a party with less bargaining power could use in a negotiation<sup>xliii</sup>.

# 4.1. Building alliances

Building alliances with similar or more powerful parties will increase power in a negotiation. The narrowest application of the principle exists in the building of a large, multidisciplinary negotiation team. There is value to be found in information being shared by different state departments about projects. Broad governmental involvement, as well as private sector and public cooperation, will always surpass the capabilities of a small unidisciplinary team<sup>xliv</sup>.

On a broader scale, it is crucial that African states not only have strong relations with other superpowers to influence negotiations, xlv but they also need to build stronger alliances among themselves to share knowledge on China relations xlvi. This will allow African states with large reserves of the same natural resources to join forces and, assuming they form a majority stake of world supply (or Chinese supply), exert control over the supply of a commodity. This is sure to change the power dynamic within the negotiation, but collaboration and trust are necessary.

It is important to form stronger ties, not only within regional economic communities like the Southern African Development Community (SADC) or the Economic Community of West African States (ECOWAS), but to further form stronger ties between these economic communities. China's ability to offload its steel overcapacity on a continent-wide scale will then be in the hands of African nations collectively, thus shifting the power dynamic even more.

The African Continental Free Trade Area (AfCFTA) Agreement<sup>xlvii</sup>, that became operational on 1 January 2021, is a step in the right direction. This agreement is set to not



only boost trade but also attract long-term investment by expanding and stabilizing the market. Although not all African states have ratified the instrument, its influence is projected to strengthen the position of African states in international negotiations.

# 4.2. Taking initiative at the negotiation table and away from it

Often the weaker party in the negotiation does not take meaningful control of a negotiation, sometimes because they cannot do so, but other times because they do not try<sup>xlviii</sup>. African states must endeavour to control the pace and structure of negotiations, employ large human resources, and influence the course of negotiations by making proposals<sup>xlix</sup>.

African states can also benefit from clarifying 'dealbreakers' and then specifically outlining them in model contracts or local laws. Placing minimum requirements for local content or environmental practices within the legal system makes them difficult to derogate from and thus, ensures a minimum standard for any deal.

One of the most effective ways to increase the power of a party in a negotiation is by having them develop alternatives to the current deal or counterparty. It is beneficial for African states to keep open channels of communication with other potential financiers and buyers of their commodities; if not to take the best deal then simply to be used as leverage.

# 4.3. Building relationships

African states can endeavour to build strong relationships with their Chinese counterparts and find commonalities<sup>1</sup>.

# 4.3.1. Successful strategies for relationship building

When it comes to building a successful negotiation environment, it is advised to get to know one's counterpart (using a translator to bridge the language barrier) through dinner meetings or invitations to one's home country. Learning basic Chinese phrases is also a welcomed gesture<sup>li</sup>.

When unsure of topics for conversation, one can always find safety in discussing China's rising role in the global economy. One can express respect for historical achievements or



Chinese cuisine. Showing pictures of the family and telling stories in private life is another way of developing relationships<sup>lii</sup>.

# 4.3.2. Unsuccessful strategies for relationship building

There are a few pitfalls to look out for in negotiating with the Chinese. The refusal of business dinners and private invitations is a wasted opportunity to build *Guanxi*. A strong focus on technical issues or an overall rush to receive a final decision during the negotiation phase are not successful strategies for a final agreement.

Another pitfall would be directly contradicting one's counterpart in the middle of the negotiation, which would lead to them losing face in front of everyone in attendance. A smarter alternative would be to approach them privately and correct them. A grateful counterpart is much easier to negotiate with. liii

## 5. Concluding remarks

There is value in China-Africa relations and infrastructure-for-resource deals are one facet of that. However, regardless of which way this value is unlocked, if an African state is going to strike better deals with Chinese counterparts, then an understanding of the cultural forces at play is necessary.

A socio-economic understanding will allow for African states to understand that the natural resources in their land are important to the function of the modern Chinese economy and that these commodities are solving a crucial problem for China.

Equipped with this understanding, African states must take initiative in enticing the "Confucian Gentleman" in their counterparts and in preparing defences against, and effective use of, stratagems. Initiative in building internal and external alliances that allow for knowledge sharing and leveraging relationships, and initiative in building strong



relationships with the Chinese that will survive the imposition of minimum foreign direct investment requirements by African states.

This foundational understanding of China should help in bridging the gap in negotiations and should assist in creating better prepared African negotiators. This situation would in turn result in the crafting of deals that will survive changes in governance and be widely accepted by key local stakeholders. It is still unclear whether a misunderstanding of China is the only issue plaguing negotiators, or whether there are more pertinent problems with African states' approach to negotiation. Further research will be needed to develop a more comprehensive toolkit for more effective negotiations in Africa.



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The two additional core values are:

- i. Time orientation This emphasizes a high quality of life.
- ii. Family and group orientation Family is the most basic and important social unit in China. Danwei ("work unit") are used at work and operate like a family unit. The trust within this unit is high and the trust is very low outside of it.

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