

# The Asia Foundation

## CHINESE COMPANIES IN PAPUA NEW GUINEA

JUNE 2022

A globe with a cutout of the Chinese flag in the center. The cutout is shaped like the map of China and contains the flag's red field with five yellow stars. Several red arrows are overlaid on the globe, pointing in various directions, suggesting global engagement or movement. The globe's grid lines are visible in the background.

**BUILDING ON ASIA FOUNDATION'S FOCUS ON CHINA'S GLOBAL  
ENGAGEMENT**

# RESEARCH INTERESTS

- The Asia Foundation's Pacific Islands Strategy:
  - Pacific solutions to Pacific challenges
- Motivated by Dr. Tarcisius Kabutaulaka's article *Chinese Companies & Diplomacy*
- To map and analyze Chinese companies' operations in the Pacific Island region and their impacts on diplomacy, economy, politics, and the livelihoods of people



## THREE COMPONENTS

I

Primer on Chinese aid and investment in general

II

Country profile of Chinese aid and investment in PNG

III

Chinese company and investment mapping in PNG

- Chinese companies' current presence in PNG: size, origin, and sector distribution
- Funding: sources and trends
- Operation: issues and responses

# TYOLOGY OF CHINESE COMPANIES IN PNG



Long  
established  
local companies  
owned by  
Chinese ethnics

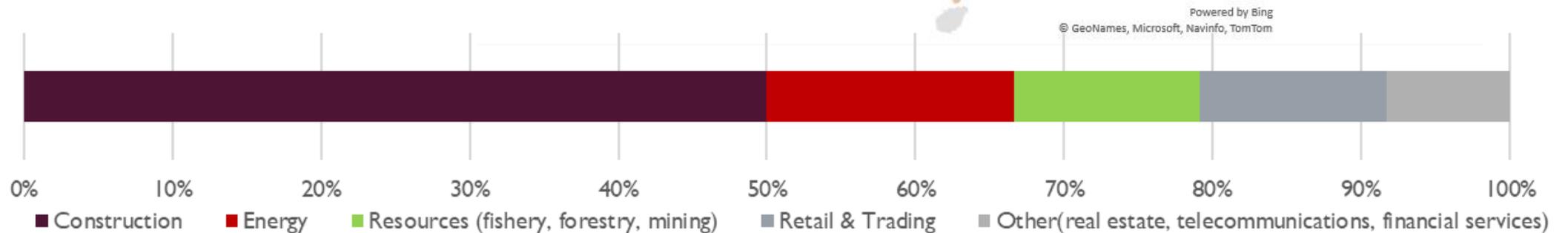
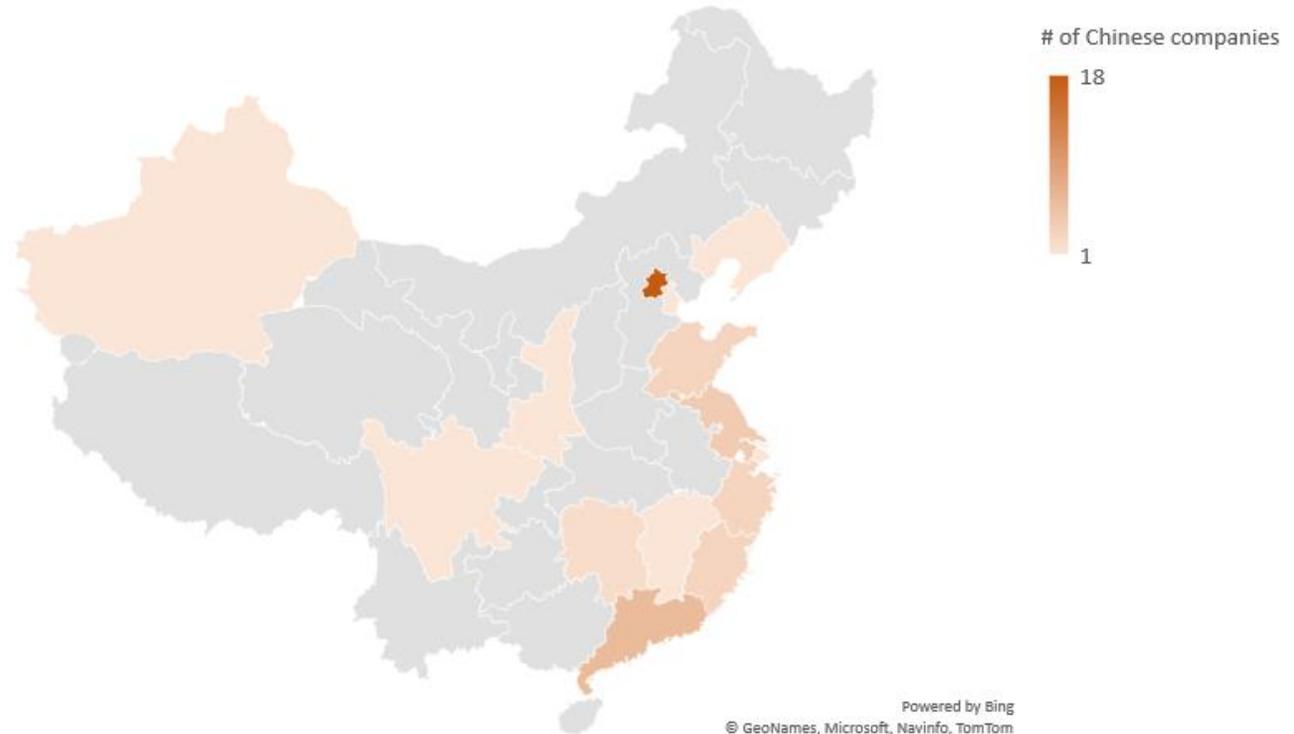
Recently  
arrived large  
Chinese  
enterprises

Recently arrived  
small to medium  
Chinese companies



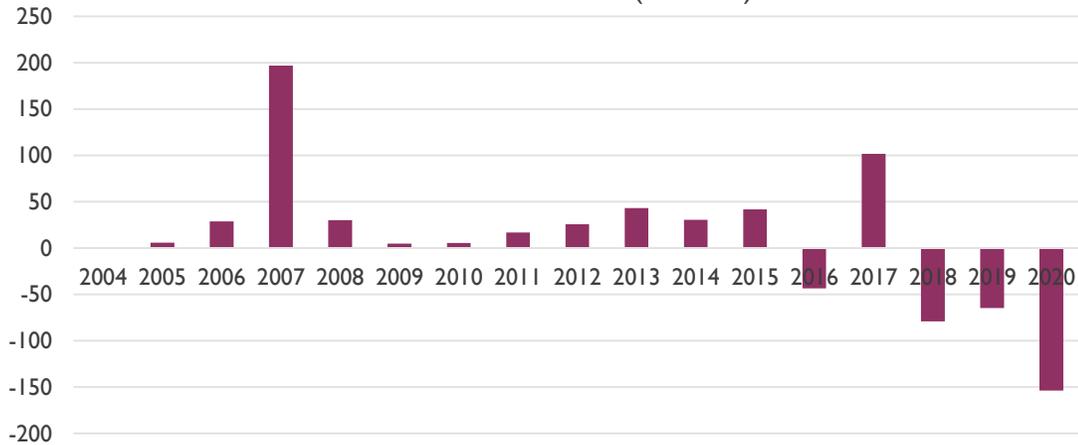
# CHINESE ENTERPRISES IN PNG: SECTORS, SIZE, ORIGINS

- 48 Chinese companies
- 19 central SOEs and 10 local SOEs
- Highly concentrated in construction, intense competition among Chinese enterprises
- Future trend: wider range of sectors; more project investment in addition to project contracting

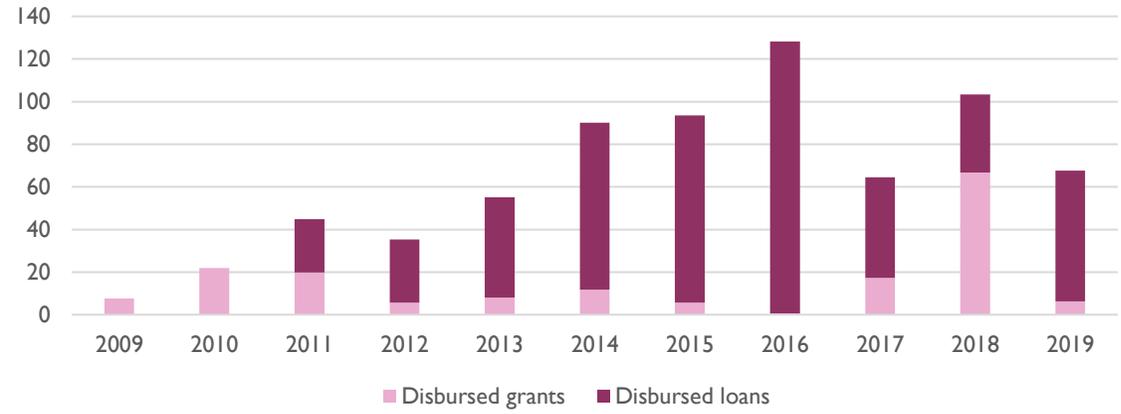


# SOURCES OF FUNDING

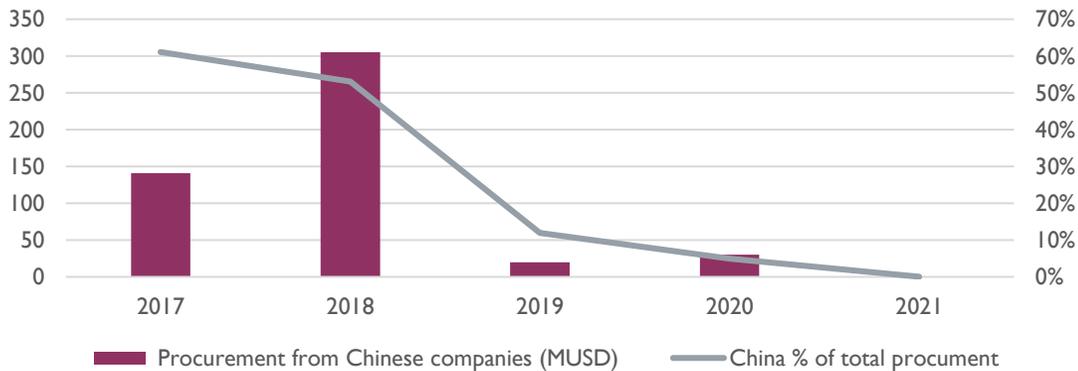
Chinese FDI flows (MUSD)



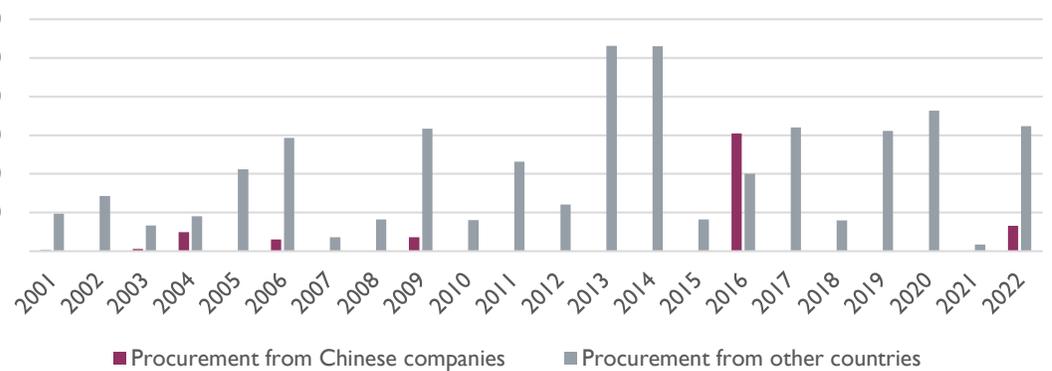
Chinese aid disbursement (MUSD)



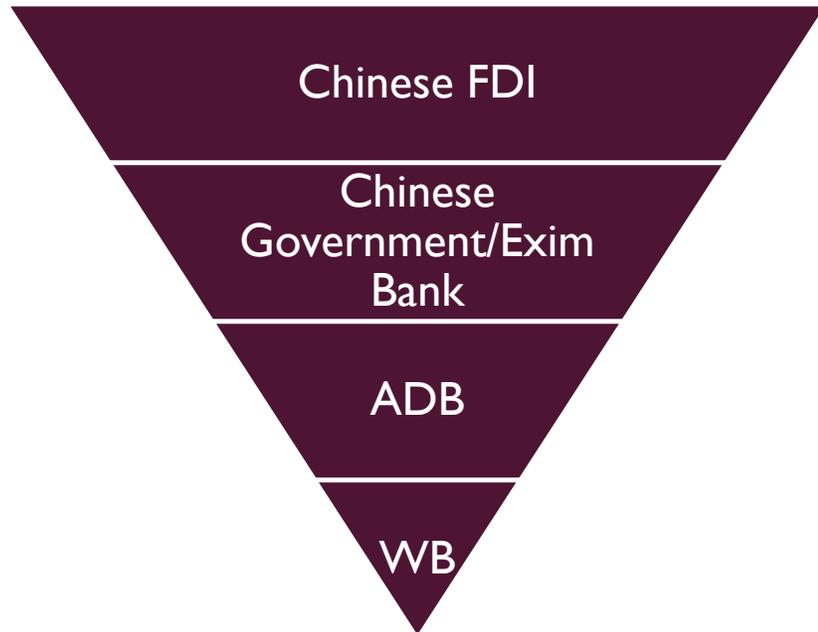
ADB procurement from Chinese companies (MUSD)



WB procurement (MUSD)



## SOURCES OF FUNDING



- Chinese companies' engagement in PNG grows along with China's global expansion since the launch of the BRI in 2013
- Yet, despite PNG's signing of BRI in 2018:
  - All four major sources of funding started decreasing prior to Covid pandemic
  - A larger proportion of Chinese companies are operating on Chinese aid projects
- Why?
  - Declined outbound Chinese investment globally from 2016 to 2019
  - Increasing business risks in PNG and growing awareness of the risks among Chinese companies

# REPORTED ISSUES RELATED TO CHINESE COMPANIES' OPERATION

Chinese company	Project	Project amount (MUSD)	Funded by	Performance				Governance					Geopolitical interventions
				Technical deficiency	Work Delay	Labour-related issues (poor treatment, conflicts)	Pollutions	Mismanagement (poor planning, corruption, conflict of interests)	Political uncertainty (change of government, government fragmentation)	Lack of funding	Disputed land ownership/settlement	Insufficient consultations	
CHEC	Lae Port Project	291.4	ADB, GoPNG	■									
China Railway Real Estate	Noble Centre	95	FDI	■									
CJI	Western Pacific University	46	GoPNG, ChinaGrant			■		■					
COVEC	Highlands Region Road	130	ADB, GoPNG		■					■	■		
CSYIC	Pacific Marine Industrial Zone	156	Exim, GoPNG				■	■	■		■	■	■
GDFC	New Enga Hospital	160	Exim, GoPNG						■	■			
Huawei	Integrated Govern Info System	53	Exim, GoPNG	■						■			
Huawei	Kumul Submarine Cable	270	Exim, GoPNG							■	■		
Huawei	National ID Project	92	Exim, GoPNG					■		■			
Jiangsu International	Kokopo Town Sewerage	35	Exim, GoPNG									■	
MCC	Ramu Nickle Cobalt	2040	FDI			■	■				■	■	■
Zijin	Porgera Gold Mine	300	FDI				■		■				
CRIG	Integrated Agriculture Park*	600	FDI									■	
Fujian Zhonghong	Daru Fishery Industrial Park*	200	FDI										■
Huawei Marine	PNG-Sol Submarine Cable **	-	-										■
PanAust	Frieda River Copper-Gold*	5200	FDI									■	■
Shenzhen Energy	Ramu2 Hydropower*	939	FDI (PPP)					■	■				

\* To be implemented \*\* Rejected

■ Chinese side ■ PNG side ■ Multi-country

# IMPACT ON CHINESE COMPANIES' OPERATION

## Performance issues

- Remedial measures lead to extra costs, undermining project profitability
- Performance subjects to strong media scrutiny, affecting company's global reputation and competitiveness

## Governance issues

- Frequent changes in political leadership, and transfer of project between departments cause lack of coherence in public policies and national investment plans
- Lack of counterpart funding and local community interventions (esp. about land-using rights) cause prolonged project delay, increasing supply chain coordination and personnel arrangement difficulty

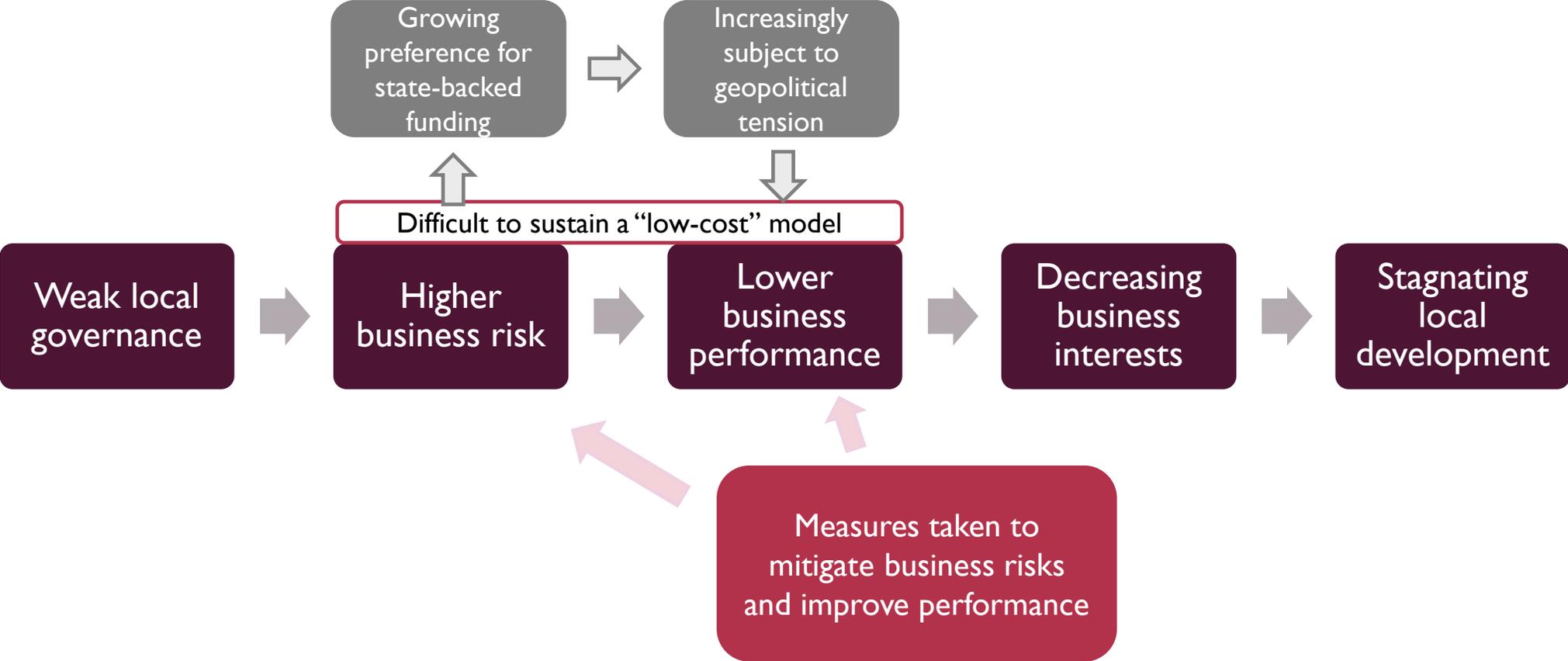
## Geopolitical interventions

- China-Australia geopolitical competition complicates project contracting process and contributes to negative media coverage about Chinese companies

## Other non-reported issues

- Payment risks concerned about PNG's high debt level, foreign exchange rationing and local banks' strong market power
- Heightened costs resulted from lack of input materials locally, poor social security and law enforcement
- Difficulty to acquire and retain local talents for complicated tasks and senior positions

# WHAT IS BEHIND THE DECREASING ENGAGEMENT?



## RESPONSE TO ISSUES AND CHALLENGES: REMEDIAL MEASURES



### Correct problems

- [Lae Port] CHEC corrected the slope defect at its own expense.
- [Highlands Road] COVEC subsequently improved time management under close supervision of PNG DOW.



### Compensate local community

- [Ramu Nickel] MCC contributes locally by procuring from locals, creating spin-off business opportunities, providing development assistance, and paying royalties.
- [Frieda River Copper-Gold] PanAust holds Community Leaders Forum to provide project updates, discuss policies and plans.



### Improve labour treatment

- [Ramu Nickel] MCC promised to improve working conditions in the production phase; published its safety management targets in 2016; and signed agreement with Eamu Nico Allied Worker Union in 2022.



### Take legal action

- [Porgera Gold] BNL filed lawsuits locally and requested conciliation at ICSID against GoPNG's refusal to extend mining license.
- [Noble Centre] China Railway litigated the claim at a domestic court.

# RESPONSE TO ISSUES AND CHALLENGES: PREVENTIVE MECHANISM

## ■ Business risks management

- Improved market research and project budgeting through accumulation of experience and information exchange among Chinese companies
- Risk mitigation using insurance products and protective clauses in project agreements
- Preference of undertaking aid projects backed by Chinese State funds and multilateral banks
- Close engagement with Chinese embassies/authorities throughout project lifecycle



## ■ Impact management

- Increasing emphasis on corporate social responsibility and local community engagement
- Cooperation with third-country organizations in monitoring environmental and community impact
- Programmatic responses to accusations and disputes through official or legal channels

## ■ Labour management

- Dedicated management resources to care for employee/contractor health and safety
- Increasing engagement with local unions
- Localization: talents and scholarship programs



## PROBLEMS IN RESPONSE

### Slow and passive

- Strong tendency to avoid public attention
- Preference to solving issues in private and reaching agreement with authorities

### Lacking transparency

- Generally, no detail or explanation revealed on standards that Chinese companies follow
- Lack of public evidence to support denials to accusations

### Unable to address root problem – PNG's poor governance

- Most measures are only tentative responses to issues caused by poor governance, rather than solutions
- Require self-discipline to set and comply with standards while pursuing and defending commercial interests

### Costly

- Resulted in more pre-contract scrutiny and higher required profitability to cover higher risks
- Undermine Chinese companies' investment interests in PNG

## KEY TAKEAWAY

- While often blamed for poor performance, Chinese companies are subject to local governance issues and geopolitical interventions, which largely affect their performance
- Many Chinese companies have responded to the issues and challenges with remedial and preventive measures
- Yet, those responses are problematic themselves and are unable to solve the problems
- With increasing business risks and growing awareness of those risks, Chinese companies' investment interests in PNG started declining even before Covid
- Therefore,
  - In principle, Chinese companies' engagement in PNG are motivated by commercial profitability
  - It is in Chinese companies' interests to enhance PNG's governance to maintain a nonfraudulent and sustainable rule-based business environment