

The role of foreign direct investment by multinational corporations in Africa: An exploratory discussion

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Abstract

Foreign direct investment in conflict-affected areas is a subject of debate within the realms of economic development and international human rights research. There exists a cohort of analysts that exhibit enthusiasm towards FDI in areas affected by security crisis, asserting that it serves as a catalyst for economic development and contributes positively to peace-building endeavours. Conversely, immense corpus of scholarships posits that FDI in regions affected by war has the potential to intensify instability and negatively impact economic growth.

The aim of this article is to investigate if foreign direct investment by multinational corporations and security dynamics in Africa have correlation. To this end, two multinational firms with Swedish and Chinese roots were examined, along with their respective investments in South Sudan and Democratic Republic of the Congo. By using exploratory research method, the analysis highlights that these companies have been the subject of allegations from local communities, international human rights organizations, and academic circles regarding their extractive operations, involvement in human rights violations, and establishment of informal relationships with local authorities.

The article suggests that to circumvent the “resource curse,” greater emphasis should be placed on the macro-level establishment of democratic maturation and political stability by non-state and state actors. Furthermore, it contends that in addressing challenges such as resource exploitation, human rights violations, and the promotion of corporate engagement in Africa’s economic progress, a comprehensive approach is more effective and functional than a fragmented emphasis on smaller-scale policy initiatives (micro).

Introduction

Foreign direct investment in fragile and conflict-affected states is one of the most complex and contentious issues in the analysis of the relationship between economic growth, security crisis, and peace-building efforts in developing countries. Since the early 1980s, researchers have attempted to investigate the investment motivations of multinational enterprises (MNEs) in conflicted affected areas, their relationships with the community and political actors, and the impact they have on the society in which they operate to fully understand this contentious issue in various geographical contexts though their findings have been incongruent (Udofia 1984; Gissinger and Gleditsch 1999; Nelson 2000; Patey 2006; Kolk & Lenfant 2012; Campbell 2015; Amusan 2018, Idemudia et al, 2022).

When it comes to the impact, there are two types of paradigms. The first one is that multinational companies have a role in promoting peace and fostering reconciliation in states impacted by war by fulfilling their corporate social responsibilities (CSR). Moreover, there is an argument that MNEs could play a crucial role in bolstering both local and national economies through the creation of job opportunities, infusion of foreign cash into national economies, mitigation of negative effects arising from wars, such as hunger and other sufferings. (Gissinger and Gleditsch 1999; Nelson 2000; Cambell 2015). Conversely, there is a line of argument that with in nations experiencing conflict,

MNEs have the potential to exploit natural resources, intensify conflict, and present a substantial risk to the security of both the host nations and neighbouring states. This is primarily the case when there is no a functioning government and other influential non-state actors who can enforce accountability and transparency in investment areas (Udofia 1984; Patey 2006; Kolk and Lenfant 2012; Chuhan-Pole et al.2017; Amusan, 2018).

The purpose of this article is not to render a definitive conclusion or answer the question of whether FDI by MNEs in states affected by war and other security crises has a beneficial or detrimental impact on those nations. Rather, the article examines the investment experiences of two multinational corporations, focusing on their investment areas, rationales for investment, interactions with local political actors, resulting impacts, and potential disparities in investment patterns between conflict-affected and non-conflict-affected regions. To achieve its aim, this article adopts an exploratory research methodology and applies the Eclectic Paradigm, also known as the ownership, location, internalization (OLI) paradigm, as its theoretical underpinning. By utilizing this trio -tiered evaluation framework, businesses can effectively gauge the potential benefits of engaging with foreign direct investment (FDI) outside their home nations. Before delving into these issues, however, it is crucial to get a comprehensive understanding of multinational organizations, their investing objectives, and the factors that shape their investment decisions from a theoretical point of view.

Multinational Enterprises and their investment: Theoretical perspectives

Franklin Root, a pioneer of international business in the early 2000s, provided a comprehensive conception of multinational enterprise. He defined the term as

“a headquarters or parent company that engages in foreign production and other activities through its own affiliates located in several different countries, exercises direct control over the policies of those affiliates, strives to design and implement business strategies in production, marketing, finance, and other functions that transcend national boundaries, becoming thereby progressively more geocentric in outlook” (Root 1990, 583).

Dunning and Lundan’s (2008, p. 3) on their part define multinational enterprise as “an enterprise that engages in foreign direct investment (FDI) and owns or controls value-added activities in more than one country”. This, according to them, is the operational definition of MNE on which numerous scholarly works concur. Similarly, Richard Caves defines Multinational Enterprise (MNE) as “an enterprise that controls and manages production establishments – plants - located in at least two countries” (Caves 2015, p.1). Caves also explains the reason why ‘enterprise’ rather than ‘company’ is used as a feasible definition of the term MNE. According to him, the term “enterprise” is used “to direct attention to the top level of coordination in the hierarchy of business decisions” between various subsidiaries of a firm (Ibid). That is why he referred multinational enterprise as a ‘multiplant firm’.

While there may be subtle variations in the formulations of these definitions, they all have fundamental elements that define a multinational corporation. These elements include factors such as geographical presence, production activities, ownership structure, and managerial control. First and foremost, multinational MNEs engage in operations that span numerous geographic regions and transcend national borders. Additionally, these companies engage in the production of commodities and provision of services inside both their domestic and foreign markets. Thirdly, transnational management structures are established between parent firms and their affiliates in the host country. Lastly, these corporations are subject to oversight by both public and private entities. Similarly, the authors provided descriptions of the elements that determine the transnational nature

of multinational businesses. Consequently, several factors such as the size, geographical location, management structures, global capital allocation, and non-business-related influences including research and development initiatives and social responsibility endeavours, together influence the internationalization of MNEs.

Nothing that, the next question that must be addressed in this context pertains to the factors that drive multinational enterprises to engage in foreign investments. A considerable body of scholarly work has been devoted to investigate this inquiry through the identification of individual factors or multiple variables that influence the participation of multinational corporations in foreign investment. A classical but very impactful piece of literature that explores the motivations behind multinational corporations and their investments in developing nations is written by Ravi Kalia (1982), an academic in the field of History at the City College of New York. Kalia's analysis depicted the relationship between multinational corporations and developing countries as one marked by a mutual lack of trust. The underlying justification for his theory is that developing nations see multinational companies (MNEs) as organizations that meddle into the internal affairs of nations, disregarding the political and economic benefits of the host country, while prioritizing their pursuit of profit maximization. On the other hand, the reasons behind foreign direct investment by 206 Chinese multinational businesses operating in industrialized countries were investigated in recent research done by Park and Roh (2018). Their findings suggest that Chinese multinational corporations often pursue entrance into developed nations with the aim of acquiring sophisticated knowledge from the foreign host that is not readily available inside China. Corporations often use Investment Management Agreement (IMA) techniques to effectively incorporate emerging technology in developed economies and leverage the benefits of heterogeneity, including 'inter-industry mergers and acquisitions'. According to these authors, MNEs may be motivated to invest outside of their home country due to the pursuit of profit maximization through resource extraction and the acquisition of foreign expert knowledge.

Dunning and Lundan (2008) on their part provide a comprehensive analysis of the fundamental factors that incentivize global multinational corporations to engage in foreign direct investment in both developing and industrialized nations. MNEs investments in foreign nations may be classified into four separate categories, according to them. The first categories are the 'natural resource seekers.' These types of MNEs invest in foreign countries to gain access to and exploit natural resources at a lesser cost than in their home country. The second groups are 'market seekers,' that intended to invest in a foreign country to distribute their goods and services at a greater price than in their native states. The third groups are 'efficiency seekers,' that invest in a foreign country to benefit from factors such as resources, cultures, policy instruments, and economic systems, among others, that allow them to compete in global markets. The final groups are known as 'strategic asset or capability seekers.' These are multinational enterprises that are driven to invest in acquiring strategic assets of foreign firms, such as trademarks, human resources, marketing channels, and so on, to have a global outreach. In addition to these primary groups, Dunning and Lundan (2008) suggested other sorts of firms that could not fit into these groupings. These include escape investment (which seeks to circumvent restrictive legislation and other economic hurdles in their home country), support investment (which serves as a supplementary branch to the main firm), and passive investment (that engage in purchasing and selling of other firms as well as companies that invest in real estate sectors for long term profits.)

When analysing the operations of multinational enterprises (MNEs), it is also crucial to consider the factors that influence their decision to invest in a foreign country. Classical international business theories claim that multinational enterprises (MNEs) primarily base their choices on foreign investments on the trade-offs between risk and return. Nevertheless, this approach has undergone

changes throughout the course of time due to a multitude of factors that have an impact on the dynamics of international trade. The eclectic paradigm, which was developed in the 1980s by John Dunning, a prominent British economist recognized as the “father of international business,” is widely regarded as a prominent theoretical framework for analysing the decision-making process of firms in relation to their foreign direct investment. This framework encompasses three key dimensions: ownership, location, and internalization, forming a comprehensive economic and business model. Based on Dunning’s work, Agrawal and Ramaswami (1992) provided an insightful description of this model. According to them, “entry mode selection” is a crucial strategic decision in any foreign investment. Thus, the decision of an “entry mode for a target market is influenced by three types of determinant factors: ownership advantages of a firm, location advantages of a market, and internalization advantages of integrating transactions within the firm” (Ibid, p. 2).

Ownership advantage refers to the possession of “superior assets and skills” that cannot be easily acquired by local or other potential multinational enterprises in the host country. This advantage provides a foreign firm with a competitive edge over other firms because of its “size and multinational experience, and skills by its ability to develop differentiated products” according to them (p. 4). Having “superior assets and skills” however, provides a competitive advantage rather than an absolute advantage in dominating foreign markets. Language barriers, lack of familiarity with local corporate networks, and micro-level obstacles, including supply and demand trends in the host country, remain factors that may confer a competitive edge to domestic enterprises over their foreign counterparts. Notwithstanding these cultural and institutional limitations, Agrawal and Ramaswami (2008) contend that firms possessing ownership advantages may still surpass their competitors on account of the magnitude of their enterprises, which amass valuable resources, their worldwide expertise, and their prowess in creating unique products.

Location advantage refers to the spatial settings of the host country in which MNEs invest. Agrawal and Ramaswami described such markets as “attractive,” implying that they “provide greater long-term profitability to a firm” (Ibid, p. 5). Some of the ‘location advantage’ factors that influence MNE investment include the availability of easily accessible ports, the presence of low-cost raw materials and labour, as well as lower taxes and tariffs.

Internalization advantage, on the other hand, refers to a multinational corporate decision over whether to manufacture a certain product within the firm or contract it with a third party to avoid market transaction costs and maintain profit. According to Agrawal and Ramaswami, outsourcing of value chain activity to local firms may allow foreign firms to “benefit from the scale economics of the marketplace” while avoiding “bureaucratic disadvantages” that the firm may face upon market entry. However, if there is an external uncertainty that could obstruct outsourcing “sole venture modes provide better control due to retaining of the assets and skills within the firm” (Ibid, p. 6).

Among the three tiers, the analytical approach used to examine the investment activities of two multinational corporations originating from Sweden and China in South Sudan and the Democratic Republic of Congo, respectively, is centred on the theoretical framework of location advantage (L), with a special focus on the location bound effect. As previously stated, the notion of location advantage refers to the geographical positioning of the host nation, which enables quick access to cost-efficient natural resources, ample labour supply, and accessible connectivity to ports and other global trade networks. However, this does not imply that ownership advantage and internalization advantage do not play a role in the decision-making process of the two multinational corporations’ investment in the two African nations. The rationale for choosing the location-bound effect lies in Africa’s geographical positioning, which grants it abundant and untapped natural resources. Additionally, the presence of inexpensive labour, combined with the political and security instability

of African states, weakens their governing bodies and creates opportunities for the exploitation of their resources by large multinational corporations.

Research Approach

Research methodology

An exploratory research methodology has been used to investigate the investment activities of the Swedish and Chinese multinational corporations in South Sudan and the Democratic Republic of Congo, as well as their implications for security and issues related to human rights violations. A book by Elman, Gerring, and Mahoney (2020), distinguished scholars in the realm of research techniques, presents a compelling analysis of exploratory research and its potential use in social science investigations, if it is conducted with due diligence. Exploratory research is aptly characterized by the authors as “the soul of good research,” a reference to its methodological intent and potential to uncover new and captivating findings (p.17).

The authors divided the various styles of exploratory research methodology investigation into two distinct forms. According to them, one approach focuses on investigating issues that have not been extensively examined before or topics that are completely new. In contrast, the second strategy places emphasis on the production of new discoveries and ideas pertaining to a well-established topic, without necessarily providing empirical evidence to support the underlying facts, as other research methodologies would subsequently do after an initial breakthrough. Based on the comprehensive institutional coverage of the two Chinese and Swedish companies in the Democratic Republic of Congo and South Sudan by numerous human rights organizations, multilateral institutions, and government-sponsored institutions (albeit in a distinct fashion), this article adopts a methodological inclination towards the second approach. By employing an exploratory research approach, the article attempts to examine the reports of multiple institutions and derive logical conclusions concerning the relationship between FDI by multinational enterprises MNEs and the subsequent human rights repercussions, with a particular emphasis on the African context.

Data sources

Due to the significant financial and temporal commitments required to collect primary data in the Democratic Republic of the Congo and South Sudan, however, this study solely depends on secondary data sources. However, the article endeavours to analyse the abundance of reports from academic institutions, government-sponsored organizations, human rights organizations, and independent human rights organizations regarding the consequences of the investments made by two multinational corporations in those African nations. To ensure the reliability of the secondary data sources, a comprehensive compilation and comparative analysis of institutional reports derived from significant field research have also been conducted.

Data analysis

While exploratory studies predominantly depend on qualitative analyses of unprocessed data and facts, augmenting them with quantitative data would enhance their credibility and precision, as exemplified in this article. Therefore, in conjunction with the comprehensive qualitative analysis (particularly for the Democratic Republic of the Congo through the risk = impact x probability approach), a substantial amount of quantitative data (particularly from South Sudan’s perspective through graphical analysis) has been presented to demonstrate the extent of the damage inflicted by Chinese and Swedish multinational corporations in relation to their involvement in security crises and subsequent human rights abuses. By integrating qualitative and quantitative data analysis, a

valuable understanding of FDI by multinational corporations and their repercussions in Africa has been achieved in a modest but nonetheless insightful manner.

Multinational Enterprises in Africa: foreign investment, resources and security issues

In this article, two case studies have been chosen to better understand the connection between multinational firms, their investments, and security concerns in the African context. The first case study is Lundin Energy, a Swedish oil and gas exploration and production company, and its oil exploration history in South Sudan. The second one is the Chinese high-tech company Huayou Cobalt, which is engaged in cobalt mining in the Democratic Republic of Congo. The rationale for selecting the two case studies is based on three major factors. To begin with, both South Sudan and Democratic Republic of Congo are African countries with abundant natural resources. In their 2018 detailed report to the World Bank, Brooking members Ivailo Izvorski, Souleymane Coulibaly, and Djeneba Doumbia placed Sudan and the Democratic Republic of Congo among the top 10 Sub-Saharan African countries with aggregate natural resources endowment. Second, both countries had been ravaged by civil war and political instability during the past two or three decades. Even though the active wars appear to be coming to an end especially in South Sudan, there is still political instability, insurgent movements, and displacement of people. Because of their political instability and security crisis, the 2021 Fragile States Index ranks South Sudan and Democratic Republic of Congo fourth and fifth, respectively, behind Yemen, Somalia, and Syria. Finally, global resource extraction corporations are actively engaged in foreign direct investment in both nations due to their abundant natural resources.

Lundin Energy

From 1983 until 2005, Sudan was torn apart by a civil war and political instability between the then-Sudanese central government and the Sudan People's Liberation Movement (SPLM). Numerous scholarly studies have shown a correlation between the beginning of the conflict and the presence of oil and petroleum reserves. Arbetman-Rabinowitz & Johnson (2008) attribute the conflict related to oil in Sudan to the allocation of power among various groups. In a similar manner, Basedau and Wegenast (2009) established a connection between the matter of wealth distribution resulting from natural resources and the occurrence of intercommunal conflicts in regions where these resources are extracted. Patey (2010) asserts that the discovery of oil reserves in the former Sudan has been widely seen as a detrimental factor, attributing its adverse effects on peace and stability. In a similar vein, Paine (2016) conducted a study which revealed that the presence of oil revenue did not serve as a deterrent against the occurrence of civil war in Sudan, a finding consistent with observations made in several African nations.

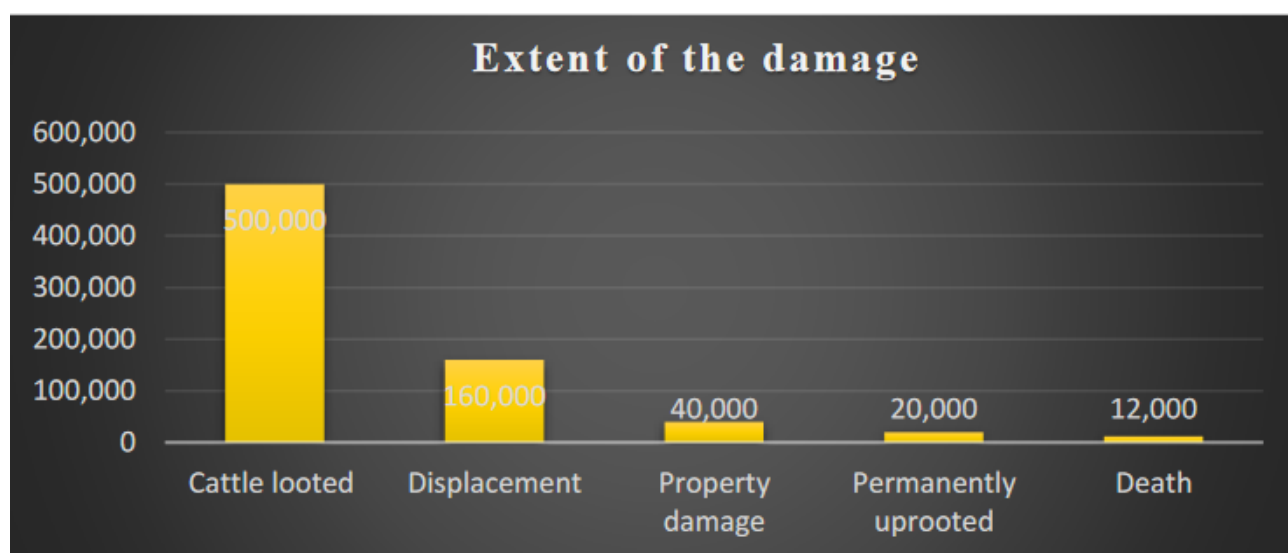
Following the discovery of oil and petroleum reserves in 1970s, global companies from all over the world raced to the east African nation and started producing oil in areas that straddled in today's Southern and Northern Sudanese border lines. Companies such as AGIP even began exploring in the 1960s. In the 1970s, companies like Union Texas, Texas Eastern, and Chevron began exploration and production. Chevron Overseas Petroleum, based in California, was the first to be granted a license for onshore oil exploration in Sudan in 1974, and it operated extensively until 1984, before it left and other Canadian, Indian, Malaysian and Chinese oil production companies such as Arakis Energy Corporation, China National Petroleum Corporation, Petroliaam Nasional Berhad (Petronas) Oil and National Gas Corporation Limited took over the production share.

Lundin Energy, a Swedish oil and petroleum production corporation, is one of the many global companies that made investments in Sudanese oil exploration. According to a report by the European Coalition on Oil in Sudan (ECOS, 2010), the company formed a consortium with Malaysian Petronas,

Austrian OMV and Sudanese state-owned oil company Sudapet Ltd. to enter the Sudanese oil market in 1997 and operated until 2003. In February 1997, the Lundin Consortium inked an agreement with the Sudanese government to explore crude oil in a relatively peaceful region known as Block 5A, which is now located in the independent South Sudan. During those six years of exploration and production in this area, the company is alleged to be part of the serious human rights violations in the country in collaboration with warring parties in the Sudanese civil war (HRW 2003; ECOS 2010; Swedish Prosecution Authority 2021). All the three investigations claimed that Block 5A was not under complete government control and was not a war zone when Lundin consortium signed the agreement. However, when the company began oil production, the comparatively tranquil area and strategic significance location became the centre of brutal civil war between 1998 and end of 2005 as Sudanese central government and Sudan People Liberation Army backed armed groups were engaged in bloody conflict for control of the oil fields.

The chart below depicts the extent of the damage wrought by the civil war in the area, as well as the suffering that resulted between 1997-2003.

Figure 1: Extent of Damage



Source: Adopted from European Coalition on Oil in Sudan, 2010 report

According to the chart, ECOS discovered that there were 12 000 fatalities due to hunger, exhaustion, and conflict-related diseases. The number of people who were displaced from their original locations totalled 160,000, while those who were permanently uprooted and never returned to their villages numbered 20,000. On the other hand, 40,000 homes and livestock shelters were demolished, while 500,000 cattle were looted. Churches, schools, marketplaces, and medical institutions were also damaged. The psychological trauma and squandered possibilities in education, employment, and social benefits are also included in the report, which reveals the extent of the devastation caused by the war in that oil-rich region between 1997-2003.

What was the role of Lundin Consortium in the alleged war crimes in the former Sudan?

In November 2003, Human Rights Watch published a comprehensive 581-page report titled "Sudan, Oil, and Human Rights." The report extensively examined how the race for oil resource control fuelled the Sudanese civil conflict and turned it into a source of major international human rights violations such as war crimes, crimes against humanity, and genocide in the east African nation. The investigation delved deeper into Lundin's investment and its role in the deadly conflict. Similarly, in

2010, the European Coalition on Oil in Sudan (ECOS) published a detailed account of oil exploitation in Sudan and South Sudan since the 1980s. The report, titled "Unpaid Debt," goes into extensive detail about Lundin energy's involvement in the devastating conflict, as well as the need for retribution and restitution for those who were "complicity" in war crimes during the conflict. Based on the two extensive reports and its own investigations, the Swedish Prosecution Authority, for its part, issued an 80,000-page report in 2021, charging the company with "complicity in grave war crimes". The proceeding, which is currently ongoing in Stockholm, accuses the consortium's chairman, Ian Lundin, and director, Alex Schneider, of being "suspected of having been complicit in war crimes committed by the then Sudanese regime with the purpose of securing the company's oil operations in southern Sudan" (SPA 2021).

The prosecutor stated that until 1997 the "area had been relatively spared from the effects of the civil war, which had been going on for several years, but until 2003 it became one of the worst affected areas". (Ibid). According to the trial, the Khartoum Peace Agreement was signed in April 1997 between the Sudanese government and SPLA-backed militant groups from the southern states, stipulating that the responsibility for maintaining peace in Block 5A was exclusively assigned to the SPLA - backed military forces rather than the Sudanese military. However, after Lundin Oil discovered the oil in the area in 1999, the Sudanese military launched a series of aggressive military operations to seize control of the area and lay the groundwork for Lundin Oil's oil exploration. According to the trial, after the Sudanese military took Block 5A in violation of the KPA agreement between the two warring parties, the consortium "changed its view of who should be responsible for the security around the company's operations. The company then requested from the Sudanese government that the military should now be made responsible for the security". As per Chief Public Prosecutor Krister Petersson, the company's request necessitated a military occupation of Block 5A through the use of military force. Complicity in this context is then defined as the act of making these demands while either recognizing or remaining indifferent to the military and militia operations of the conflict in a manner that violated international humanitarian law (SPA, 2021).

It may be deceptive to consider the detailed study by the Swedish Prosecution Authority as a conclusive statement about the involvement of Lundin Energy in perpetrating human rights crimes in South Sudan. Nevertheless, by incorporating the report into a broader academic context and using it as a basis for theoretical analysis, the trial would become more coherent. To conceptualize the correlation between natural resources and civil conflicts, Ross (2004), a professor of political science at the University of California, put forward a compelling elucidation of this phenomenon. After conducting a comprehensive analysis of 14 cross-national econometric research, the professor has derived four distinct results on the link between natural resources and civil wars. Notably, one of these conclusions asserts that the presence of oil significantly augments the probability of conflict, particularly in the context of separatist conflicts. He asserted that "both quantitative and qualitative studies suggest that the production of oil is associated with the onset of conflict, particularly separatist conflict" (Ross, 2004, p. 342).

European Coalition on Oil in Sudan also conducted similar investigations to determine how the consortium was complicit in war crimes. According to the research group "in February 1999, Dr. Riek Machar met with Sudan's Minister of Defence, who insisted that the Sudan Armed Forces had to guard the oilfields, including Block 5A, from any threat. Dr. Riek Machar disagreed, insisting that his forces had guarded the Lundin Consortium since 1997 and should continue to do so". (ECOS 2003, 32). Following the disagreement, ECOS (2003) claimed that Sudan government "moved a convoy of 15 trucks with almost 400 troops and heavy weapons south from Bentiu into the Ryer/ Thar Jath areas and on to the Ler (Payak) garrison, flanked by over 1,000 of Maj. Gen. Paulino Matiep's troops. Dr. Riek Machar's SSDF were ineffective in protecting their territory in Block 5A from attacks

by Paulino Matiep's militia". Human Rights Watch (2003) also affirmed these reports stating that Paulino Matiep forces (backed by the Sudanese military) "looted most larger villages and towns and burned down the main structures, including clinics run by NGOs. Residents, unused to any fighting in their area, fled to the toic during the wet season to wait out the fighting; many died of malaria there" (p. 137-138).

In 2014, Penelope Simons and Audrey Macklin, two Canadian law professors, published an intriguing book titled *'The Governance Gap: Extractive Industries, Human Rights, and the Home State Advantage.'* Simons and Macklin were part of the Canadian Assessment Mission to Sudan, which was established in 1999 by the Canadian Minister of Foreign Affairs and International Trade to investigate human rights allegations made by Talisman Energy, another Canadian global corporation producing oil in South Sudan. According to them

"Following a three- week investigation in both Khartoum and the Upper Western Nile region, we were able to substantiate many of these allegations and we concluded that oil extraction and development was, in fact, fuelling the war and, further, that the infrastructure of the GNPOC was being used for offensive bombing and gunship raids against civilian populations. We also found that these raids, conducted with Antonov bombers and helicopter gunships, were followed up by ground troops consisting of government-sponsored Arab militia. The militia would enter villages on horseback with the aim of inciting terror. They murdered, raped, abducted women and children, looted possessions including livestock, and then set the villages alight, burning them to the ground (Simons & Macklin, 2014, p. 1).

Thus, Human Rights Watch (2003), ECOS (2010), Simons & Macklin (2014), and the Swedish Prosecution Authority (2021) all draw similar findings about how oil companies were engaged in human rights violations throughout Sudan's deadly civil war. However, it is equally critical to examine how the firm responds to those allegations. After the Swedish Prosecution Authority filed the indictment against the company, its management rejected all the allegations in a press released on November 11, 2021. The company said that "none of Lundin's representatives committed or were complicit in any violations of international humanitarian law by the Government of Sudan or associated militia and we know that Lundin did nothing wrong." (Lundin 2021). The company has also accused international NGOs such as Human Rights Watch and ECOS that have investigated on the allegations of lacking the "fairness, reliability, and legal basis of the investigation." Furthermore, the company's chairman Ian H. Lundin denied the accusation stating that "this is an incomprehensible decision by the Swedish Prosecution Authority since it is not supported by any evidence in the investigation, a situation that has not changed for the last eleven years" and emphasized "I know that we have done no wrong and that we will ultimately prove this in court". (Ibid).

As stated above, this article presents both the allegations of war crimes levelled against Lundin Energy and the company's denial of the accusations. Since the trial is still proceeding in Stockholm, it is beyond the scope of this article to certainly pronounce that the company was complicit in the war crimes. However, the history of multinational corporations investing on the African continent, particularly in war-affected and fragile states like Sudan, backs up the allegations and can demonstrate that the company was indeed involved in Sudan's conflict. This assertion is supported by an investigative report by Luke Patey of the Danish Institute of International Studies. The expert concluded that "oil companies engaged in exploratory and production activities in the Southern Sudan have long been connected to the recently ended North-South civil war between the Government of Sudan (GoS) and the Sudanese People's Liberation Army/Movement (SPLA/M)" (Patey 2006, 2). He also furtherly noted that "the presence of oil companies in the country prompted several high-profile NGO reports implicating these MNCs as further deterrents to peace in the long-standing and devastating civil war" (Ibid).

Such kind of empirical conclusions are also supported by a plethora of theoretical frameworks generated by various scholars. In his influential article regarding "corporate complicity", Wettstein (2010) for instance, pointed out that while multinational corporations may not be directly involved in host countries' conflicts and strife, they may be complicit in the conflicts through various "kinds of support, participation, or assistance in the human rights violation" (34). Furthermore, he noted that " a large part of human rights violations with business involvement is not committed by the corporation itself, but by a third party which relies on or benefits from the direct or indirect support of the company" (34). According to him, 'corporate complicity' in human rights violations can take multiple forms such as direct, indirect, beneficial, or silent and have varying degrees of intensity depending on the situation in the host country. In a similar vein, Vadlamannati, Janz & de Soysa (2020) also state that "if firms decide to invest in—or remain in—repressive host countries, they may become complicit in wrongdoings because they provide revenue to such governments" (4). Based on these and other theoretical and empirical insights, it is reasonable to conclude that Lundin Energy was complicit in war crimes in Sudan; nevertheless, waiting for the final judgement of the Swedish Prosecution Authority may be necessary to reach a conclusive judgment.

Huayou Cobalt

Democratic Republic of Congo (DRC) is the world's largest cobalt producer, accounting for 60% of global cobalt output, followed by Russia and Australia (Nkulu et al. 2019). Despite having the world's largest cobalt deposits as well as other mineral resources, the country is however, still plagued by civil war, intercommunal conflict, unemployment, and corruption. Scholarly works, institutional reports, and independent researchers correlate Congo's brutal civil wars and recurring inter - communal conflicts to the country's abundant natural resources. Competition over resource, ownership among Congo's indigenes, mineral exploitation by armed groups affiliated to neighbouring nations such as Rwanda and Uganda, as well as multinational corporations, are thought to have fuelled the conflict.

For instance, in 2001, a UN panel of experts investigated the link between illegal exploitation of resources and conflict in DRC. The panel concluded that "the role of the private sector in the exploitation of natural resources and the continuation of the war has been vital. Several companies have been involved and have fuelled the war directly, trading arms for natural resources. Others have facilitated access to financial resources, which are used to purchase weapons" (UN 2001). Ayo Wheto (2014) on his part, classified multinational corporations operating in Congo into two groups in his extensive analysis on the relationship between multinational corporations and conflict transformation in the country. The first group consists of resource extraction companies [engaged in the exploration and exploitation of natural resources through mining concessions acquired either through joint ventures or subsidies with Congolese companies]. The second group are resource trading companies, which do not engage in direct mineral exploration and exploitation in but acquire resources from other corporations or intermediaries. Wheto revealed that more than 85 multinational corporations were actively engaged in mineral exploration, production, and trading in the country during his study in 2014. And, according to him, these firms were either involved in or encouraged violence in the country in one way or another. He stated that "corporate actions in the DRC highlighted the intricate links between natural resources and conflict in a manner that generated international concern and response." (2014, 204).

Huayou Cobalt is just one of several global mining corporations that have been operating in the DRC since 2006 and have been accused of participating in human rights violations. Zhejiang Huayou Cobalt, or simply Huayou Cobalt, is a Chinese high-tech corporation that is headquartered in Tongxiang, Zhejiang province of China. The company is one of the world's top suppliers of cobalt products, including but not limited to cobalt tetroxide, cobalt carbonate, cobalt hydroxide, cobalt sulphate

and cobalt monoxide. These minerals are used in the high-tech industries to produce rechargeable batteries that power mobile phones, tablets, laptop computers, and even automobiles. Huayou Cobalt supplies cobalt products to the global market by acquiring semi-processed cobalt from its Congolese subsidiary, Congo DongFang International Mining (CDM).

CDM was founded in 2004 and began mining operations in the south-eastern DRC in 2006. The company mostly acquires cobalt products from small traders who buy directly from miners, the majority of whom are artisans. "CDM then smelts the ore at its plant in the DRC before exporting it to China. There, Huayou Cobalt further smelts and sells the processed cobalt to battery component manufacturers in China and South Korea. In turn, these companies sell to battery manufacturers, which then sell on to well-known consumer brands" (Amnesty International 2016, 8). The brands include giant electronic and vehicle corporations such as "Apple, Dell, HP, Huawei, Lenovo, LG, Microsoft Corporation, Samsung, Sony and Vodafone, as well as vehicle manufacturers like Daimler AG, Volkswagen and Chinese firm BYD" (Ibid).

By investigating its investment profile, Amnesty International produced an extensive report in 2016 about how the company and its subsidiary CDM engaged in human rights violations in Democratic Republic of Congo. A similar report by the South Korean based auditing firm, DNV GL, was also released in 2018 "to assess the extent of implementation of the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas (hereinafter addressed as 'OECD Due Diligence Guidance')." Both findings are quite alarming. The table below shows DNV GL's auditing report on two cobalt supply chains in south-eastern DRC.

Table 1: DNV GL's auditing report on two cobalt supply chains in south-eastern DRC

Risk rank	Risks	LSM Supply Chain (Unlikely X Due Diligence Risk Level)	ASM Supply Chain (Unlikely X Due Diligence Risk Level)
1	Worst forms of child labour	5(1x5)	25(5x5)
2	Systematic or widespread human rights abuse associated with the extraction, transport or trade of cobalt	8(2x4)	12(3x4)
3	Direct or indirect support to non-state armed groups or public or private security forces	8(2x4)	8(2x4)
4	Bribery and fraudulent misrepresentation of the origin of cobalt	4(1x4)	16(4x4)

Source: DNV GL Business Assurance Korea (2018)

The first groups are the supply chains for large-scale mining (LSM) carried out by the Congo's Minière de Kasombo (Mikas) and PE527 (CDM), both of which are subsidiaries of Zhejiang Huayou Cobalt. The second categories include supply chains in the Kasulo, Twiluzembe, and Shabara mining sites that are controlled by Chinese traders, who obtain cobalt from artisanal and small-scale mining (ASM) operators, the majority of whom are local Congolese. According to Verzuh, Eric, and American Psychological Association (2017) companies commonly used **Risk = Impact x Probability** equation to assess and estimate risks. Thus, risk is calculated by multiplying the impact by the probability. The intensity of the damage that could result if the risk happens is referred to as the **Impact** in this scenario. **Probability**, on the other hand, is the possibility that a given risk will arise in a business. As a result, the larger the aggregate ratings, the higher the score and, hence, the risk level. The scale

may differ depending on the auditing firm, but the 1-5 scale is the most common, as seen above. 1 denotes a low level of risk, whereas 5 denotes a high level of risk.

According to this model and the audit report, the artisanal and small-scale mining (ASM) supply channel contains the 'worst forms of child labour,' which is one of an international human rights violation, with a probability of (5) and an impact of (5) and a score of 25. The level of due diligence risk in large scale mining (LSM) is also considerable. The systematic or widespread human rights abuse associated with cobalt extraction, transport, or trade' is likewise higher in ASM with a score of $3 \times 4 = 12$, whereas it is relatively low in LSM. Companies' participation in 'direct or indirect support to non-state armed groups or public or private security forces' is the same in both LSM and ASM, but the due diligence risk levels are higher than the unlikely of the infractions. 'Bribery and fraudulent misrepresentation of the origin of cobalt' are two further human rights violations that, according to the auditors, are common in the ASM with a score of $4 \times 4 = 16$ and, to a lesser extent, in the LSM. When comparing the results, the greatest value is 25 and the lowest is 4. The highest figure, 5×5 , indicates the most heinous kind of child labour in artisanal and small-scale mining, which is dominated by Chinese traders and Congolese miners. The lowest figure, $1 \times 4 = 4$, shows bribery and fraudulent misrepresentation of cobalt origin, which is evident at large-scale mining areas, as would be expected given the level of accountability in a corporate facility.

Similarly, in 2016, Amnesty International and African Resources Watch (Afresource) published a comprehensive investigation titled "This is What We Die For" to expose the connection between resource extraction, human rights violations, and profit-seeking behaviour by global corporations in the DRC's cobalt mining industry. According to the joint report, "chronic exposure to dust containing cobalt can result in a potentially fatal lung disease. Inhalation of cobalt particles can also cause "respiratory sensitization, asthma, shortness of breath, and decreased pulmonary function", and sustained skin contact with cobalt can lead to dermatitis. Yet researchers found that most miners, who spend long hours every day working with cobalt, do not have the most basic of protective equipment, such as gloves, work clothes or facemasks (Amnesty International & African Resource Watch 2016, 5). The investigation also revealed that "several children said that they had been beaten, or seen other children beaten, by security guards employed by mining companies when they trespassed on those companies' mining concessions. Security guards also demanded money from them." (6). The combined investigation uncovered a variety of child labour violations, including low salaries, hazardous working conditions such as heavy rain and extreme temperatures, accidents, and forceful bribes.

Another troubling aspect of Huayou Cobalt's investment in the Democratic Republic of the Congo is the involvement of local officials, networked with the company, in human rights violations. Instead of promoting accountability and transparency investment in DRC, investigative studies show that officials at all levels are both part of the problem and beneficiaries of the extractive industry. Amnesty International's direct observation of the interaction between officials and the mining sector backs up this assertion. Their criminal activities vary from taking kickbacks to owning illegal mine fields and attacking miners to create a favourable environment for CDM and other firms. According to the institute, "officials from a range of different government and security agencies control access to unauthorized mining sites and demand illegal payments from artisanal miners." (2016).

When it comes to human rights violations in the DRC's extractive industries, Huayou Cobalt isn't the only culprit. Other companies that explore and produce various minerals face the same accusations. An OECD (2014) investigation on gold mining in Mukungwe, South Kivu province, for example, reached a similar conclusion against the Canadian mining companies Banro, Leda, and Anvil, as well as the British gold exploration company Casa Mining. According to the investigation, the "FARDC [Armed Forces of the Democratic Republic of the Congo] and non-state armed groups have principally

profited from artisanal gold mining by taxing diggers, traders and transporters. FARDC commanders have also made money by 'owning' specific pits in mines. Non-state armed groups and the FARDC have in addition generated income by selling goods and services to artisanal mining communities, and more generally by imposing taxes on local economies in which artisanal gold mining plays a role" (OECD 2014, 22).

'Resource curse' and the broader context: What do the findings suggest?

As stated in the introduction, the purpose of this article is to examine at multinational corporations' investments in conflict-affected and fragile states, particularly in South Sudan and Democratic Republic of Congo and the alleged involvement of the companies on human rights violations. The article is based on Lundin Energy of Sweden, which was actively exploring and producing oil during the Sudanese civil war from 1997 to 2003, and Huayou Cobalt of China, which has been trading cobalt products in the Democratic Republic of Congo since 2006. As previously stated, Dunning and Lundan (2008) classified multinational corporations' investment motivations outside their homes into four categories using Jack Behrman's (1972) classical classification of MNE activities. One of them are a natural resource seeker that are "prompted to invest abroad to acquire particular and specific resources of a higher quality at a lower real cost than could be obtained in their home country" (p,68). Based on this perspective, it can be stated that both Lundin Energy and Huayou Cobalt are natural resource seekers since they invested in South Sudan and Democratic Republic of Congo to acquire oil and cobalt minerals, respectively.

Another resemblance between the two multinational corporations is the allegation of human rights violations in the areas of their investment. The article combines Human Rights Watch (2003), the European Coalition on Oil in Sudan (2010), and the Swedish Prosecution Authority (2021) investigations to demonstrate Lundin Energy's involvement in human rights violations during the Sudan's civil war between 1997 and 2003. Similarly, the article examines Amnesty International and African Resources Watch's joint investigation with the South Korean auditing firm DNV GL to explore Huayou Cobalt's involvement in human rights violations in Democratic Republic of Congo.

As indicated previously in the discussion regarding Lundin Energy, this inquiry is not an endorsement of the claims made by these numerous human rights organisations and state institutions, as the firm is currently on trial in Stockholm and waiting for the court's final verdict is more plausible. However, based on the evidence presented against Huayou Cobalt and the fact that the company has not acknowledged or denied the charges, it is possible to conclude that the company is indeed playing a negative role in human rights violations in Congo's extractive mining industry. It is also worth noting that human rights breaches are frequent in the extractive sectors and Huayou Cobalt can't be exceptional. The transgressions could range from child labour abuse to resource exploitation, environmental degradation to excessive pollution, or direct and indirect participation in armed conflicts.

By using the "location-bound effect" paradigm of foreign direct investment, Vadlamannati, Janz and de Soysa (2020:23) concluded that "extractive FDI is associated with more human rights abuse". They further emphasize that this problem is particularly prevalent among "extractive firms in the oil and mining industries where the resources are located and are bound to such investment, which creates a status quo bias among them when it comes to supporting repressive rulers" (ibid.). This has been the tendency not only in Sudan and DRC, but throughout Africa.

A comprehensive investigative report on extractive industries and their impact on human rights violations in Africa was just released by the African Commission at the end of 2019. The study is based on field trips taken across the continent between 2013 and 2019. The findings illustrate the

negative consequences of extractive industries in Africa. The findings of the paper were based on several case studies. The first case study is the investments of western oil companies such as Mobil, Texaco, Agip, Chevron, Exxon, and Royal Dutch/Shell in Nigeria's Niger Delta and its environmental impact on the life of Ogoniland people. Their ecology and land have been damaged, their fisheries have been harmed, and their water resources have been contaminated, according to the finding. The second case study covered by the report is the uranium contamination caused by AREVA, the French multinational company specializing in nuclear power, in Niger and Gabon. The report accused the company of "negligently exposing its employees and other populations living in the mining areas to a very high radioactivity rates through a lack of due care." (African Commission 2019, 20). Other case studies examined extensively in the report include Ghana arsenic pollution, South Africa's Blyvooruitzicht mine environmental impacts, the DRC Kilwa case (violations included arbitrary arrests, looting, massacres, summary executions, and bombings), and worker discrimination in Sierra Leone's extractive industries (p. 25-29).

These and other case studies show that the problem is widespread, leading us to the conclusion that extractive industries, particularly in Africa's weaker states, contribute to human rights violations on the continent. Thus, Human Rights Watch and ECOS reports on the relationship between Lundin Energy's chief executives and the then Sudanese politicians regarding the protection of their refinery fields, as well as Amnesty International and African Resources Watch's accusation of "state officials extorting illegal payments from artisanal miners" and their huge influence in securing the mining fields in DRC should not be dismissed lightly.

In terms of corporate behaviour in relation to the countries of origin of the two firms, Sweden is clearly a welfare state, whereas China is an autocratic regime with an emerging economy. However, their multinational firms' behaviour, particularly their investment portfolios in Africa and other developing regions, differs little. This is not simply a problem for Chinese or Swedish multinational enterprises; it is an issue for most western and non-western companies in extractive situations. Accusations levied against Canadian, Dutch, French, Australian, and other companies and their investments in Africa have the same outcome as it is discussed previously. As a result, their countries of origin of the two companies have no significant impact on corporate decisions to invest in Sudan and DRC. Minor disparities may be attributable to their governments' reactions to allegations of human rights violations rather than the investment itself. Whereas there is no attempt to address the allegations of human rights violations by Chinese corporations by Chinese government, governments in Sweden, Canada, and other welfare states, even if they lack the ability or are reluctant to influence their corporations' investments in Africa, at least strive to hold those accused accountable. The Swedish Prosecution Authority's trial of Lundin Energy and Ottawa's case against Talisman Energy could be taken as examples here, despite their final verdicts.

Another issue that should be addressed here is whether the two companies' investments in conflict-affected areas differ from those in non-affected areas. Looking at the company's portfolio, Lundin Energy's previous investment in South Sudan and currently in Norway are similar i.e., resource extraction. According to the company's website, Lundin Energy is "an experienced Nordic oil and gas company that explores for, develops and produces resources economically, efficiently and responsibly." (Lundin Energy 2021). The company's track record in Libya, Russia, and Scandinavian countries demonstrates that it is completely focused on oil and petroleum exploration. When it comes to Huayou Cobalt, the corporation is divided into three business divisions. The resource development division is primarily concerned with research and development, as well as the "manufacturing and marketing of ternary precursor products for lithium battery cathode materials." The new material manufacturing sector, on the other hand, is mainly engaged in "the deep processing business of cobalt and nickel new material goods." The third division is the new energy manufacturing, which

is operating “primarily in the mining, selection, and primary processing of nonferrous metals such as cobalt, nickel, and copper.” (Huayou Cobalt 2021). While the new energy manufacturing division invests in resource extraction such as in Democratic Republic of Congo, the rest of them operate in China and distribute their products to global firms in the United States, Europe, and Asia.

There is also a difference between the two companies regarding ownership of their investment in Sudan and DRC. According to the eclectic paradigm of international business theory, ownership of FDI is a crucial determinant in MNE entry decisions. Lundin Energy’s investment in Sudan was primarily a consortium with other global firms from China, Indonesia, Austria and Sudan, with a 40 percent stake. As a result, its investment focused on direct resource extraction through offshore oil concessions. Huayou Cobalt, on the other hand, invested in DRC through its subsidiary firm, CDM. As a result, it can be categorized as a resource trading corporation, acquiring resources not directly from the mining fields but via an affiliate company. Regarding CDM, as a subsidiary of Huayou Cobalt, its executive board is made up of members from China and Congo. While the Chinese national Zai Yang and Chen Hongliang are chief executive officer and manager respectively, the Congolese nationals Crispin Kakunda and N Ning are personnel director and director of the firm respectively (DNV GL, 2018). This joint ownership can be regarded as one aspect of the problem since the members of the management whose nationality is DRC, have no significant freedom to prevent the company from being implicated in the allegation crimes.

Conclusions and policy recommendations

In summary, this article conducts an analysis of the relationship between extractive foreign direct investment (FDI) and the patterns of violence in Africa. This analysis incorporates theoretical frameworks and empirical evidence, using two case studies. Drawing upon an examination of the extractive industries in Africa from a macro perspective, as well as the comprehensive inquiries conducted by various institutions pertaining to the investments made by two multinational corporations, namely Lundin Energy and Huayou Cobalt, it is reasonable to assert that these companies may have been implicated in human rights transgressions in South Sudan and the Democratic Republic of Congo, respectively. Nevertheless, given the current allegations against Lundin Energy, a conclusive response may only be ascertained by patiently awaiting the ultimate judgment.

Furthermore, although an in-depth and comprehensive study is required to fully understand the subject matter, the author anticipates that this article will provide insight into areas including the nature of foreign direct investment, allegations regarding MNEs and human rights, and ownership concerns in fragile and conflict-affected areas such as Africa. As such, it will serve as a foundation for future scholarly works that explore these and other associated topics. In light of the research article’s emphasis on policy issues, it is also equally imperative to consider the potential solutions that may be adopted by both governmental and non-governmental entities in South Sudan, the Democratic Republic of Congo, and the broader African context. This is essential to ensure that the continent’s resources are utilized as drivers for hope and development, rather than perpetuating conflict, warfare, hunger, displacement, and intercommunal violence on the continent.

As demonstrated in the discussion section, the prevailing academic discourse predominantly presents a pessimistic perspective on the correlation between foreign direct investment carried out by multinational corporations and the challenges faced by African nations in managing their natural resources and utilizing them for the welfare of their populations. As such numerous policy recommendations have been proposed by both academic and non-academic research groups regarding the subject matter. These recommendations encompass a range of areas, such as transparency of investment policies in host countries (Ayadi et al., 2014), institutional accountability (Yeboua, 2021), prevention of corruption (Egger & Winner, 2006; Reiter & Steensma, 2010), enhancing

community participation and civil society organizations (Mate, 2002), and the establishment of clear land ownership policies (Idemudia et al, 2022). This paper does not intend to refute these policy proposals that prioritize solutions at the micro level. However, it diverges from previous studies by firmly believing that the foundation of all institutional strengths, which would alleviate the adverse consequences of foreign direct investment by multinational enterprises, is rooted in the fundamental concepts of political stability and democratic maturity in Africa at a macro level.

Political stability and the establishment of a democratic system are fundamental requirements for the formation of a functioning government. These factors are crucial in addressing issues such as corruption in investment, fostering community participation, implementing sustainable land ownership policies, ensuring accountability and transparency, and developing a robust investment strategy across the continent. African countries that exhibit better levels of political stability, such as South Africa, Ghana, Botswana, Namibia, Mauritius, Seychelles, among others, demonstrate a more pronounced capacity to address the challenges associated with the resource curse phenomenon. In contrast, nations experiencing political instability, such as the Democratic Republic of Congo, Nigeria, Niger, South Sudan, Libya, and others, face greater difficulties in mitigating these challenges.

Conflict of interest

The author declares that he has no conflict of interest regarding this article.

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