

Why SA is China's Africa favourite

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THE acquisition late last year by Larry Yung Chi Kun, the son of former Chinese vice-president Rong Yiren, of an \$800m slice of the South African company Anglo American sent shock waves through the international business community. Suddenly, as Kun became the fifth-richest man in SA, the world realised that China's communists had become the most voracious capitalists on the African continent.

Analysts looked around Africa and saw Chinese everywhere, getting to places in Africa where traditional western companies dared not tread. More than 30 Chinatowns, each housing 2000 or more Chinese workers, were discovered to have been established in various parts of Africa. Martyn Davies, director of the Centre for Chinese Studies at Stellenbosch University, observes: "In key countries, China's Exim Bank — the state-owned Export-Import Bank of China — is becoming the new International Monetary Fund of Africa with different strings attached, relating only to China's national and commercial interests."

But while alarm grew at China's penetration of Africa, one African country, SA, was itself quietly but determinedly penetrating China and its huge and potentially lucrative market. South African investments in China far exceed those of China in SA.

Anglo American itself has established an office in Beijing and is vigorously pursuing investments in coal and limestone developments, platinum exploration and zinc smelting.

Anglo American has entered a major partnership with the Shaanxi Coalfield Geological Bureau in a coal-chemicals project in China's Shaanxi province. The Anglo American-Shaanxi Coalfield enterprise is building "clean" coal-fired power stations that utilise Anglo American technology that captures polluting carbon at source, before it is pumped into the atmosphere.

The role being played by Anglo American is strategic because unless China controls its burgeoning carbon emissions it faces an environmental catastrophe. China consumes 2-billion tons of coal each year and that will grow to 4-billion tons by 2016. There are 28000 coal mines in China.

Anglo American has also invested \$150m in China's Shenhua Energy Company, China's biggest coal mining group. Tony Redman, chairman of Anglo American's coal division, says: "The benefit of the investment in Shenhua is that it is the largest coal producer in China and the fifth-largest in the world based on its 2004 production. It is also the largest export coal producer in China, exporting 26,6-million tons a year in 2004, approximately 37% of China's total thermal coal exports."

Desperate for technology that will provide power, China has also turned to Sasol to help develop a \$6bn coal-to-liquid fuels industry for the Shenhua Company. "Negotiations are tough," says Pat Davies, Sasol's CEO. "But we are committed and we are making progress. China has all the energy it needs in the form of coal and Sasol can provide the means of turning this coal into valuable transportation fuel to replace imported crude oil," Davies says.

The Chinese projects, which seem likely to be launched before the end of this year, will comprise two plants, each with a capacity to deliver 80000 barrels a day of liquid fuels.

China illustrated just how intensely it wants to obtain SA's coal-to-liquid fuel technology with the announcement in March by the Shaanxi Golden Nest Investment Company that is co-operating with the University of the Witwatersrand in coal-to-liquids research, with a pilot plant planned for construction in China this year.

Unlikely as it may seem, Beijing's largest daily newspaper, the Beijing Youth Daily, is part-owned by a South African company, Naspers.

"No other foreign company anywhere has been as successful as Naspers in investing in China," said Davies. "It has beaten and outwitted other huge international companies, such as Rupert Murdoch's

News International, in getting into the difficult and paranoid Chinese media market. Naspers has hired very competent Chinese executives and carefully developed relations with the Beijing government

Naspers has a major stake in Tencent, a popular Chinese internet company that has more than 260-million clients.

Antonie Roux, a top Naspers executive based in Bangkok, says experience in the less-developed parts of Africa taught company executives a style of patience and deference to local expertise that eased the transition to China.

Roux said that in the first five years after Naspers arrived in China, the company lost \$100m there. The company gradually reduced its expensive expatriate staff in China by 80% and relied more heavily on Chinese staff. The main contribution from the Naspers head office became strategic planning, technical expertise and the supply of capital.

The businesses have boomed in recent years. "For us as a South African-based company, we've always worked in a developing environment," said Roux. "It's not easy for westerners. But we're not westerners. We're Africans."

SABMiller, one of the world's biggest brewers, has established a major presence in China through its joint venture with China Resources' Snow Breweries. SABMiller part-owns 55 Chinese breweries and is expanding its interests. The SABMiller-Snow Breweries venture last year beat Tsingtao to become the nation's biggest brewer by sales.

SABMiller, the world's second-largest brewer, began moving into China in 1994 and now has more than 15% of the country's beer market. Its latest purchase this year was of Blue Sword, which owns breweries in Sichuan and Guizhou provinces in the southwest of China. SABMiller and Snow together paid \$320m for the Blue Sword group. China now accounts for about 18% of SABMiller's beer volumes, but less than 5% of profits due to much lower margins than in the firm's traditional western markets.

"South Africans are now trailblazers in China," said Stellenbosch University's Davies. "The investments being made by South African companies are significantly large and they are growing. The totals far exceed the investment by Chinese companies in SA."

Davies estimated the total of South African investment in China at more than \$2bn, but that could soon grow to \$8bn, when the Sasol project negotiations are concluded.

Other companies with a foot in China's door include SA's two biggest gold mining companies, AngloGold Ashanti and Gold Fields. AngloGold, the world's biggest gold mining company, is investing \$7m this year in exploring for gold in China. Gold Fields has bought a \$25m share in Sino Gold, part-owned by Australian investors, which owns China's second-largest gold mine.

While SA remains the world's largest gold producer and China is the fourth-largest, SA's production is decreasing and China's is increasing. But China's more easily accessible gold reserves are only now being properly exploited, following the liberalisation of China's gold sector in 2002 with the establishment of the Shanghai Gold Exchange, which allowed for trading in gold. "China is a key strategic region," says Gold Fields CEO Ian Cockerill. "The strategic alliance represents the next logical step in the developing relationship between Gold Fields and Sino Gold."

Meanwhile, one of Anglo America's top strategists, Clem Sunter, former head of the company's gold division, has been lecturing at the elite Chinese Communist Party academy, the Central Party School outside Beijing, on a strategic plan for the Chinese economy until 2040.

Sunter, one of only three westerners invited to the academy, says: "What is the current game? Simply put, the Chinese are doing deals around the world in order to secure natural resources for at least the next 10 years. Africa is their number one continent of choice and SA is their leading nation on the continent."

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