

## ECONOMY

### China pursues a continental market

By Martyn Davies

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This past month Chinese President Hu Jintao travelled once again to Africa. He has visited 17 African states over the last ten months — more than any other head of state — including South Africa's frequent flyer president, Thabo Mbeki. China's political focus on Africa is unprecedented in Beijing's relations with any state or region. Considering the very regular visits of China's top leadership to Africa, the Chinese obviously see us as important.

Due to the frequency of senior visits from China to Africa, Chinese diplomats clamour for a posting to African capitals, as nowhere else in the world do they have such access to the Chinese leadership. The question is, why do the Chinese regard us Africans as being so important?

Almost every senior Chinese politician, provincial governor and municipal mayor has travelled to South Africa since the establishment of diplomatic relations nine years ago. South Africa has become the preferred 'political-tourism' destination of the Chinese leadership. South African cabinet ministers are also frequent visitors to China (as well as the shopping markets of Beijing and Shanghai!). With the tenth anniversary of formal relations in January next year, more high level political visits are set to continue.

#### SOE strategies

Chinese firms are trailblazing across the continent acquiring mineral and energy assets. There are now over 800 Chinese state-owned enterprises (SOEs) active in African regions. They have a presence in practically all African economies but China's largest investments to date are in the energy-endowed economies of Nigeria, Sudan and Angola — the latter is China's largest supplier of oil.

According to the Chinese government, its enterprises have already invested \$6,27bn in Africa. China's single largest global investment to date has been in Nigeria when China's oil major CNOOC acquired an oil concession for \$2,27bn.

The foreign commercial strategies of Chinese enterprises are, however, different to their Asian counterpart firms. The Japanese invested heavily abroad in Southeast Asia in the 1980s and 1990s to offshore their rising cost manufacturing sector. Korean firms invested abroad to establish footholds in new emerging markets. The Malaysians sought international telecom and oil assets in Africa. Chinese state-owned companies are purchasing brands in developed markets and commodity assets in the developing markets, in particular Africa.

China's engagement of Africa is broad-based and not only focused on commodity-endowed 'strategic partners' on the continent. Unlike traditional colonial powers whose commercial and political influence is limited to a great extent to their former colonies, China's African footprint is wider and extends into every African state. Its pervasive engagement strategy of Africa is displacing traditional players and eroding their influence in the respective former colonies.

Even in countries which still have diplomatic ties with Taiwan, China has adopted a less dogmatic stance and is extending aid initiatives to these countries in an attempt to lure them away from their political allegiance to Taipei.

#### Chinese entrepreneurs

But it is not just Chinese SOEs that are changing the economic landscape of Africa. Chinese entrepreneurs are moving to Africa en masse to take advantage of less competitive markets and grasp opportunities for business. A local Chinese leader recently told me that there are now 300 000 Chinese in South Africa. Rumour has it that up to 3 million are to move to Angola in the coming years.

Family and regional network ties are driving this migration of private Chinese capital. Beijing has no influence over this trend but it may result in an even greater developmental impact for the continent.

Small Chinese trading firms have become integral to the region's supply chains.

The emergence of clusters of Chinese entrepreneurs in Africa mimics Chinese communities elsewhere in the world. It would serve African states well to have these clusters more integrated into their local economies and not have them independently exist as "pockets of China" within Africa.

#### Welcoming investment

African governments have been generally welcoming of Chinese investment. Nigeria, Angola, Sudan and Equatorial Guinea have been the recipients of the largest inflows of Chinese investment on the continent. The nature of their economies — commodity rich, pervasive state intervention in the economy, weak commercial law, and shaky public sector institutions — all lend themselves to rapid market entry. Chinese firms have rapidly been able to gain market traction in these economies.

The Chinese have had a harder time in South Africa though. Market competition is greater, the mining sector is mostly wrapped up by the majors and differing cultural conditions have all conspired to thwart China's success in the local market.

#### Strategic drivers

But what are the strategic drivers of China's foray into Africa? The securing of energy security is first. With the possible exception of Iran, China is geo-strategically excluded from the Middle East. The US invasion of Iraq resulted in Beijing increasing the pace of its acquisition of African energy reserves.

China has also set a trade target of \$100bn with Africa by the end of 2010. This will make it the continent's largest trading partner. Africa is a new continental market for lesser priced Chinese exports. The developing world will bear the brunt of China's trade competitiveness.

But the most strategic driver of China Inc.'s venture into Africa is Beijing's long term strategy to remove its economy from international commodity markets. By acquiring commodity assets at source, negotiating prices with the recipient (African) government and securing long term supply contracts, China seeks to establish parallel markets that are removed from international commodity markets where prices are set in either London or New York. This is the underlying factor driving Chinese foreign commercial policy in Africa.

#### The 'C-Word'

Last December Thabo Mbeki used the 'C-word' when he warned against Chinese commercial engagement of Africa becoming a 'colonial' type relationship of resource extraction without much benefit to domestic African economies. The comment upset Chinese policy-makers. But surely it is up to African governments to create the favourable economic environment that will attract local and foreign investment to benefit their commodities. Chinese firms are here to purchase and trade. They have far less interest in manufacturing toward which African economies are not geared.

#### Strategic partnership

China is a key country with which South Africa needs to co-operate to promote the agenda of the developing world within multilateral organisations. There exists much potential for South Africa and China to act as strategic partners to promote the interests of the developing emerging market world.

South Africa risks, however, missing out on China's economic revolution unless our society develops a greater knowledge and understanding of the Chinese. During this century, China is in the process of becoming an economic and strategic powerhouse. But government, industry and civil society know so little about China and the Chinese. It is imperative that South Africa builds its networks and influence in China for the long-term. Learning Mandarin Chinese language is a good place to start.

It's best we quickly begin to understand the drivers of this process. I do not believe that we as Africans have even begun to comprehend the long term strategic implications of this new force.

China has become the most confident and assertive commercial player in Africa. It appears that China will over time displace Western commercial interests and political influence on the continent. But China is not the new coloniser. It is an expanding global power toward which Africa must pragmatically align itself.

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