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Inventive South Africa Firms Thrive in Booming China

Companies Apply Lessons Learned in Expanding to Poor, Complex Markets on Their Own Continent

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JOHANNESBURG -- As China extends its reach ever more deeply into Africa's economies, one country has quietly but aggressively moved in the opposite direction, with its companies becoming major players in booming Chinese industries.

Companies with roots in South Africa, the largest and most sophisticated economy on the continent, have eagerly expanded beyond national borders since the end of apartheid-era sanctions in 1994. Few of these new markets have proved as lucrative as China, where lessons learned in poor, complex African markets have given the companies an edge against U.S. and European competitors, South African business executives say.

Beijing's largest daily newspaper is part-owned by a South African company. China's largest brewer is operated and part-owned by SABMiller, formerly South African Breweries. And two coal-to-liquid-fuel plants under consideration by South Africa's Sasol would, if built, make the energy giant the single-largest foreign investor in China, analysts say.

Mining and financial services companies are also moving to China, eager to gain a foothold in a market far larger than South Africa, which has 46 million people. China's population tops 1.3 billion.

"South Africans are actually trailblazers in China," said Martyn Davies, director of the Center for Chinese Studies at Stellenbosch University, speaking from Cape Town. "These investments are big, and they're building."

Davies estimated the total of South African investment in China (including SABMiller, which maintains stock market listings in London and Johannesburg) at nearly \$2 billion, and that number could grow several times over if either of the two Sasol projects goes forward, at price tags the company now estimates at \$5 billion to \$6 billion each.

These totals far exceed the investment by Chinese companies in South Africa, where established firms have resisted major inroads even as they have become dominant players in other, less developed countries across the continent.

The imbalance has not strained the relationship between China and South Africa, which have moved steadily closer since South Africa withdrew its recognition of Taiwan in 1998 and formed formal diplomatic ties with China.

President Hu Jintao stopped last week in Pretoria, where he signed new deals opening China's market to South African agricultural products. Hu, on an eight-country tour of Africa, made a point of saying that China has no plans to become a new imperial power.

Analysts say Chinese leaders are wise to deepen trade ties with South Africa, which as the continent's diplomatic and economic powerhouse has the clout to interfere with Chinese plans for Africa -- a crucial source of oil, copper and other raw materials for keeping its economic boom alive. South Africa's two-year term on the U.N. Security Council adds to its importance for China, which often is at odds with Western powers on votes there.

"The Chinese would like to have South Africa on board, have us work in partnership rather than opposition," said Peter Draper of the South African Institute of International Affairs in Pretoria. "The nuts and bolts of trade is used to serve geopolitical ends."

SABMiller, which became the world's second-largest brewer with its 2002 acquisition of U.S.-based Miller Brewing Co., began moving into Chinese markets in 1994. It followed a business plan honed in Africa, company officials said, by buying up breweries and upgrading them while continuing to sell beer under local labels. It brews Kilimanjaro in Tanzania, Laurentina in Mozambique and Nile Special in Uganda.

In its joint venture with a quasi-governmental agency in China, SABMiller has won 15 percent of the market, becoming the largest brewer without offering its South African flagship, Castle, or its American one, Miller Genuine Draft. Instead, the joint venture has dozens of breweries and brands. Taken together, this financial year the venture will produce 50 million hectoliters -- 1.3 billion gallons -- of beer in China, more than double the entire South African beer market.

Andre Parker, SABMiller's managing director for Africa and Asia, said the skills needed to compete successfully in China were born in apartheid-era South Africa, when the brewer struggled to get new equipment and parts because of sanctions. Instead, it had to make breweries run more efficiently and profitably.

The company learned from operating in less-developed African markets how to use radio, billboards and corporate sponsorships to promote its products. That gave it an edge against European brewers that came to China with expansion plans based on building new breweries and advertising mainly on television.

"We were better at that stuff," Parker said.

The company also avoided costly expatriate workers, relying instead on Chinese employees to manage breweries, deal with the government and organize distribution systems. SABMiller once had as many as 15 expatriate employees living in China; now there are two.

Media company Naspers, with headquarters in Cape Town, has followed a similar model of relying on local expertise and bare-bones staffs of expatriates -- an approach first developed in expanding its satellite television business across Africa.

In China, Naspers has a major stake in the Beijing Youth Daily and also Tencent, an Internet company with a popular instant-messaging business.

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

It was still rocky. In the first five years after Naspers arrived in China, the company lost \$100 million there, he said.

Gradually, it cut back its expensive expatriate staff in the country, from about 25 to about five, and leaned 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," Roux said from Bangkok. "It's not easy for Westerners. But we're not Westerners. We're Africans."