



CHINA'S EMERGING MULTATIONALS IN AFRICA

< By Lucy CorKin >

Chinese relations with Africa have grown exponentially over the past decade. During the 1990s Sino-African trade grew by 700% and many high-level visits have occurred since 1995. The *Forum for China-Africa Co-operation* (FOCAC) was established in 2000, culminating in the release of *China's Africa Policy Paper* in January 2006.

Such increased political activity has paved the way for the entry of Chinese companies of all sectors into Africa's economies. African governments are just beginning to appreciate the strength of their position in the new scramble for the Continent's resources as China presents Africa with an alternative to the West.

While there has been a general increase in Chinese business in all sectors of Africa's economies, as witnessed by the robust strengthening in trade over the past ten years, there are several sectors in which Chinese multinationals have shown a particular interest.

TELECOMMUNICATIONS

An industry traditionally dominated by British Vodafone, France Telecom, and South Africa's Vodacom and MTN, African

telecommunications have recently seen the arrival of Chinese companies such as state-owned Zhong Xing Telecommunication Equipments Company Limited (ZTE) and the private Chinese multinational Huawei.

Mundo Startel, the Angolan fixed line telecommunications utility, has signed a framework agreement with ZTE for the purchase of telecommunications equipment worth \$69 million. ZTE is to invest \$400 million into the Angolan telecommunications industry. The company's products are also used in 15 other African countries.

Indeed, although Huawei and ZTE are actually equipment manufacturers, in Africa they have been bidding for telecoms operation tenders in Nigeria, Niger, and Zambia.

SOE China Mobile has also tendered a \$4 million bid for NASDAQ-listed Millicom International, a global mobile operator with African subsidiaries in Chad, DRC, Ghana, Mauritius, Senegal, Sierra Leone, and Tanzania.

ENERGY SECTOR

The energy sector is possibly where Chinese multinationals have left their most high-profile footprint in Africa. Chinese

multinationals involved in the energy sector have received particular support from the Chinese government in overseas acquisitions. Especially since China National Offshore Oil Corporation's (CNOOC) failed bid for American Unocal in August 2005, Chinese oil companies have increasingly been looking for African assets.

In January 2006, CNOOC paid \$2.27 billion for a 45% stake in Nigeria's OML 130 oil area, also known as the Akpo field, from privately owned Nigerian company South Atlantic Petroleum Ltd. The company has since expanded in Nigeria and has also signed oil production sharing contracts in Kenya.

In March 2006 Chinese SOE Sinopec and Angolan state-owned Sonangol announced the formation of Sonangol-Sinopec International (SSI). The joint-venture involves the development of a new refinery at Lobito in Angola (Sonaref) requiring a total investment of \$3 billion. According to reports in May 2006, Sonangol held 45% and Sinopec 55%.

In Sudan, China National Petroleum Corporation, (CNPC) has begun operations at two oil blocks with annual output estimated at 10 million metric tons of crude in total, equivalent to 200,820 barrels a day.



CONSTRUCTION

Despite the heavy focus on China's oil interests in Africa, construction is possibly the sector in which China has made the largest inroads, as many Chinese companies, predominantly state-owned enterprises, have become heavily involved in road and railway rehabilitation in Africa, as well as several other large infrastructural projects. Following the "going global" strategy and dove-tailing with the Chinese government's foreign aid programs to African countries, these projects are often financed by Chinese government loans.

The Benguela and Tanzara Railways, which traverse Angola, Zambia, and Tanzania, are currently being upgraded by Chinese companies. Chinese companies are also heavily involved in post-war reconstruction of countries, most notably Angola, the Democratic Republic of Congo, Mozambique, and Sierra Leone.

WHAT MAKES AFRICA STRATEGIC?

In May 2005, there were 674 officially registered Chinese companies active in Africa. By the end of 2006, this number had increased to over 800 Chinese companies, engaged in a variety of sectors. There are several reasons behind this quiet takeover.

ENERGY SECURITY

One of the most important reasons for Chinese commercial forays into Africa is the growing need for raw materials and oil to feed the burgeoning economy. China currently imports 28% of its oil from Africa, primarily from Sudan, Congo, Angola, and Nigeria. Particularly due to its strategic importance for economic growth, the procurement of secure oil supplies are a national interest and form a fundamental part of China's foreign policy. Unsurprisingly, all China's oil companies are state-owned, and have worked in close concert with China's Exim Bank in African oil acquisitions.



China's interest in African oil has been encouraged by the established U.S. presence in the Middle East, consolidated by the invasion of Iraq in 2003. In addition, despite affirmations of co-operation with China, Russia has decided to direct the proposed East Siberian-Pacific oil pipeline to Japan and not China. While dog-leg tributary to China has not been ruled out, the oil supply that China will receive from Russia is considerably less than original expectations.

These developments in global oil dynamics have spurred China's state-owned oil monoliths to court Africa's petro-states will increased ardour, as seen above.

AN AFRICAN PRACTICING GROUND

Some Chinese multinationals not yet confident enough to attempt entry into the highly protected markets of the U.S. and Europe have adopted the approach of entering the less competitive developing countries' markets in order to gain international experience. In the wake of increased diplomatic and commercial traffic between China and Africa, the latter has become a favoured testing ground in which aspirant Chinese multinationals can cut their teeth.

THE NEED FOR NEW MARKETS

Decades of an industrially led command economy have resulted in gross oversupply in many sectors, driving down prices. Regional competition between companies is consequently so fierce that products sold but not made in any given province are heavily taxed. Expansion

into international markets provides more scope to become a more global product with less tax obligations. Such domestic circumstances have made finding new markets a matter of survival for many Chinese companies.

African countries, for their part, have been experiencing the highest rates of economic growth in several decades, fuelled in no small part by China's appetite for African oil and raw materials. Consequently African markets have become more promising as there is a larger market of Africa consumers more able to afford the kinds of products that Chinese companies can produce.

In searching for niche-markets, the Chinese multinationals have also become adept at identifying so-called 'market blind spots,' market areas that have essentially been neglected and under-capitalised. These are typically cheaper product lines that may not seem to be money spinners, but which would actually stimulate demand once available.

Examples of these are Haier's smaller refrigerators and Lenovo's C100 laptop, targeting small and medium enterprises. Huawei provided the international market with low-end routers that were 40% cheaper than other products, capturing 3% of the global market by 2002.

This is particularly effective within the context of the African market, as African consumers typically cannot afford the high-end products of their European counterparts. Huawei for example has been lauded for introducing telecom products at prices which are affordable to the African consumer. By way of illustration; in Kenya, the price of a fixed line has dropped by 65% following Kenya Telecom's procurement of digital equipment made in China.

IMPLICATIONS FOR AFRICA

In a remarkably short space of time, Chinese multinationals are emerging to claim their share of the increasingly

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promising African market. Such expansion is not without its challenges. Despite the lack of affluence amongst African consumers, some still shun the cheaper Chinese products under the misconception that they are always of inferior quality. In fact, the quality among Chinese companies is variable. Many Chinese firms have however shown their mettle and are overcoming the stigma attached to the label 'made in China.'

Chinese multinationals' engagement in Africa has the potential to benefit both African countries and Chinese commercial interests. Africa will benefit by receiving cheaper goods and services than it would from traditional market players, as well as the possibility of technology transfer. The advantage for Chinese companies is that they can realize their global aspirations in

Africa, having been less successful in the more developed markets of America and Europe. However, there are several issues, which will need to be resolved in order for this potential to be realized.

The influx of Chinese workers and businessmen into Africa is potentially a serious social issue in the context of a continent ravaged by high unemployment levels. Michael Sata, the opponent to President Levy Mwanawasa in Zambia's September 2006 presidential elections, achieved great popularity for his anti-Chinese rhetoric and campaign promises to expel Chinese nationals living in Zambia. Although unsuccessful in his presidential race, Sata's popularity is indicative of the rising anti-Chinese sentiment in some African countries, where Chinese workers are perceived to

be taking jobs away from locals.

In addition, there is the concern that a lack of institutional regulatory frameworks and government capacity to monitor and encourage direct investment in terms of local skills development and technology transfer will limit the positive knock-on effect of Chinese companies' activity in African economies.

If left unaddressed, these issues will cause China's multinationals to have their international reputations needlessly tarnished and African economies will miss out on much needed infrastructural rejuvenation. •

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LUCRATIVE NEW BUSINESS MODELS: ARE U.S. COMPANIES LOSING OUT IN AFRICA? *Continued from page 17*

Shoprite has set up an extensive support and development program aimed at assisting farmers and suppliers to achieve the required standards. Shoprite's fresh produce supply network already comprises more than 60 local suppliers and about 70 farmers in five states. The suppliers and farmers for the most part remain informal, but the networks and programs set up by Shoprite and its affiliates have enabled these informal operators to obtain benefits such as credit and contracts. The demand by investors such as Shoprite for a more favorable regulatory environment and better infrastructure has also led governments in Zambia and other countries to undertake necessary reforms of the business environment and to invest in roads and other essential infrastructure. Zambia's government, for example, decided that every province should have at least one Shoprite store for the benefit of both consumers and farmers, and facilitated the company's investments, particularly by making it easier for it to acquire land in the provinces.

CONCLUSIONS

More than ever before, FDI in Africa is motivated by a quest for markets that offer exceptional challenges but also the potential to reap exceptional profits. Investment success, however, depends on developing domestic and regional supply chains. Consequently, many of the companies that have achieved the greatest successes in such investment are from other developing or emerging economies, in which they have acquired experience building domestic supply chains involving informal enterprises.

Foreign investment in services and other non-resource industries often brings with it a demand for governments to improve their investment climates and invest more in physical infrastructure and human resources, which can lead to more investment and a greater willingness and ability of small businesses to enter the formal sector, where they can become even more competitive and enhance the

competitiveness of the foreign investors they supply.

U.S. businesses, most of which lack experience dealing with informal enterprises, may be deterred by these conditions, possibly fearing that dealing with the informal sector could violate U.S. laws or their own ethical standards. This need not be the case. Nevertheless, to succeed in most African markets U.S. companies will have to adopt new ways of doing business that recognize that many business relationships cannot be governed by formal and enforceable contracts and that such relationships will require much greater involvement by investors in the affairs of their suppliers. To do otherwise is to leave much of the planet's last frontier market to others. •

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