The China Monitor

August 2006

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A Publication of:

The Centre for Chinese Studies

Faculty of Arts, University of Stellenbosch

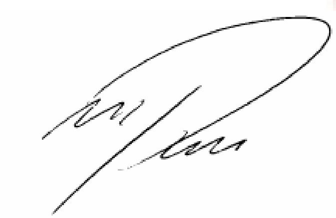
Editorial

Chinese companies are striving toward multinational status. At present, there are twenty Chinese firms ranked within the Fortune 500 list of the global economy's largest companies. Over the next two decades, it is likely that this number will increase three-fold.

The drivers of China's going global strategy include securing resource assets, capturing of market share and acquiring brands and technologies.

Chinese largest state-owned and state-invested enterprises are rapidly establishing their presence in Africa. There are now over 800 major Chinese companies at present in the African economy. Their business strategy is driven by the need to secure key commodity & energy assets as well as capturing under-tapped markets.

Key sectors for China's emerging global players in Africa are energy, mining, telecoms, construction and agribusiness. China Inc. is engaging the continent assertively and is seemingly less cognisant of risk than companies from traditional markets. Africa is an emerging market that is providing a welcoming market for Chinese capital and products. How this expanding trend will transform Africa's economic landscape will play out over the coming years. What is certain is that Africa will be a very different economic environment due to forces exerted by China.



Dr Martyn J. Davies

Director, Centre for Chinese Studies

Commentary

Chinese MNCs' Strategy and Success

By Lucy Corkin

Chinese multinationals' successes have taken most in the West by surprise. How have they managed to take on well-established MNCs and in some instances, beat them at their own game? Although heavy government support is present, strategy has played a role.

An initial strategy was to outsource Western consultants to assist with international market entry, with insistence on technology transfers from a Western firm as a joint-venture prerequisite. This however, resulted in continued dependence on imported systems and components. The Chinese copy-cat ability may produce a cheaper, faster product with short-term gains, but it retards innovation, resulting in a constant catch-up game instead of being at the cutting edge.

Some of the very first Chinese companies to appear on the international radar also did so by purchasing ailing divisions of internationally recognized brands. Grounded in trying to achieve international credibility and technology transfers, this strategy has been employed in the past by the Shanghai Baosteel Group which purchased a 46% share of Australian Rio Tinto in May 2003, whose success paved the way for a number of other Chinese acquisitions of foreign companies such as the Shanghai Automotive Industry Corporation's (SAIC) purchase of bankrupt Korean manufacturer Ssangyong in 2004.

Investors' lack of confidence in Chinese companies' management skills is often an obstacle however. When Lenovo's controversial $1.75 billion purchase of IBM's PC division in May 2005 was announced, Lenovo's share price fell by more than 20%. Developed countries take umbrage to the emerging companies' bids to assume control of their iconic brands or strategic assets. The Chinese National Overseas Oil Company's (CNOOC) much publicized and failed $18.5 billion bid (9% more than the previously accepted Chevron offer) to buy Unocal is an example. Washington voiced strong opposition to such a deal for reasons of national security. Lenovo also came up against US government opposition, the issue of national security also threatening to thwart their IBM-bid.

> **"Some Chinese MNCs are still struggling to internalize a Western-oriented approach to business"**

Human resources have also been a challenge. While management skills can be bought at a price, some Chinese MNCs are still struggling to internalize a Western-oriented approach to business. It has also been found that the pervading need to save 'face' can prevent both accurate assessments of employees and the communication of these assessments by employers to the relevant parties.

Chinese MNCs have also recognized the importance of research and development. Whereas only 0.7% of China's GDP was spent on R&D in 1990, by 2005, this had increased to 1.5%, ranking China as one of the top R&D investors in the world. This is still only 50% of what America and Japan spend annually, however. There is also the sticky problem of intellectual property rights enforcement on home soil. Chinese firms loathe spending money on innovation in an environment which does not protect this investment and remain unwilling to team up with foreign firms in China to pressure the Chinese government on this score.

Chinese multinationals have caused waves in developed countries specifically because they target their highly protected markets before entering the developed market arena, like Haier Group which targeted the US. The rationale behind this is that once a brand name has been established in the first-world, third-world countries will be hard-pressed to find reasons not to buy Chinese products. From an industrial output of $1.24 million in 1984 with a factory of 600 employees; by 2001 Haier was in the sixth largest home appliance maker in the world boasting 30 000 employees, and industrial output of $19 billion, $5.1 billion of which was profit.

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 actually stimulate demand once available. Chinese companies usually introduce one product line at a time. Once critical mass on this product is achieved, the product lines are expanded.

"Chinese multinationals have also become adept at identifying so-called 'market blind spots' "

Admittedly, there are several uniquely advantageous aspects of the Chinese multinational's position. Chinese companies have consistently been able to underbid their competitors by up to 40% due to lower labour and management costs as they import their own workers and are afforded exceptionally lower capital costs from centrally-controlled policy banks, coupled with government support.

Ironically, however, considering China's land and labour advantages, some Chinese multinationals have found it more cost-effective to move their manufacturing plants to developed countries. This avoids the stringent trade barriers imposed on products 'made in China' in the US and other countries, but also from assembly plants in the US, one is better positioned to export to both developing and other developed markets, saving on transport costs. Locals are also employed at all levels of management, despite the disparity in salary relative to Chinese wages, reducing political opposition.

Consider that within China itself, regional competition is so fierce that products sold but not made in any given province are heavily taxed. Expansion into international Western markets provides more scope to become a more global product with less tax obligations.

It seems by their impact; however, Chinese MNCs are punching above their weight. While fourteen Chinese multinationals rated in the 2004 "Fortune 500", there is still a marked gap between Chinese multinationals on the list and their Western counterparts; state-owned enterprises (SOEs) dominate the list. Chinese businessmen are still struggling with the paradigm-shift needed to convert their enterprises from being insular, autocratic, and reliant on government intervention to being based on a more global outlook, with an emphasis on innovation and incentive and governed by international best practice.

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Policy Watch

Emerging Chinese Enterprises in Outward Foreign Direct Investments

By Dr. Windsor Chan

In 2005, China became the fourth largest economy in terms of GDP. The country's GDP has grown at a rate of at least 9% per year in the past 25 years and has moved 300 million people out of poverty and raised the average Chinese personal income by 8 times during the period. While the Chinese economy has a rosy picture at the macro level, the restructuring of state-owned enterprises is still lagging behind in the transformation. Distinct from its Asian counterparts, China's economic growth has been largely influenced by the small and medium size enterprises rather than domestic or multinational conglomerates as the cases in Japan, Korea and more recently India.

"..the Chinese embarked on phenomenal growth both in productivity and market expansion"

While Deng Xiaoping laid down the direction of market economy with Chinese characteristics, economic growth during the 80's was driven by small and medium size enterprises in the special economic zones. The SMEs with support from local authorities, direct investment from Hong Kong and overseas, the Chinese embarked on phenomenal growth both in productivity and market expansion. The success in the special economic zones led to further opening up of the Chinese economy into the coastal and interior regions.

In the 90's, Chinese economic developments were attributed to two major forces – domestic growth and export drive. The strong growth in the domestic economy created a fast growing middle income class. Increasing demands on various consumers' products had attracted foreign direct investment from multinational corporations (MNCs) which took the advantage of cheap production costs in China as well as the massive domestic market. The introduction of modern technology by the MNCs had further enhanced the country's productivity and competition in the market.

Since the late 1990s, the domestic market began to show signs of maturity albeit the continuing inflow of MNCs into the market that has been a challenge to Chinese enterprises seeking survival and growth strategies. On the other hand, the accumulation of huge foreign reserves has simultaneously put pressure on the Chinese Government to relax its foreign exchange policy to accommodate outward foreign direct investment as a measure to relieve the trade surplus problem. Despite the Chinese Governments' intention to promote its 'going out' policy, outward foreign direct investment is still low while China's international trade continues to grow at an unprecedented rate. This can be attributed to two major factors – lengthy application process with the government and unclear strategic direction among the Chinese enterprises.

For a Chinese company to invest overseas, it has to get the approval from the Ministry of Finance (MOF) on business viability and State Administrate of Foreign Exchange (SAFE) for funds, and then will be subjected to an annual review by both MOF and SAFE. The process is very time consuming and in most instances is influenced by the government's industrial policy. The regulatory and exchange control regulations have often been seen by most of the Chinese enterprises as a major impediment to invest aboard.

In assessing the international orientation of Chinese enterprises, most Chinese companies remain at the developing stage whereby they see international business as an extension of their domestic market. This concept has been driven by past developments whereby many Chinese companies were to provide production capacity for foreign companies investing in China. There is neither enough knowledge nor effort dedicated to understanding the foreign markets. Resource dedicated in market research was extremely limited when compared with other MNCs from its Asian counterparts, not to say from global perspective. Other obstacles for the Chinese enterprises include cultural differences, legal compliance, financial skills, risk management, corporate governance, environment appraisal skills, human resources and political interference.

"..the 'going out' of the Chinese enterprises will continue to be at a slow pace"

So far the investment strategies of Chinese enterprises tend to focus on resource procurements. Other than the export of textile products, electronic items to the host countries (some of the products are branded under the importer's trade mark), there is little direct marketing of their brand products. Unlike the Korean and Japanese conglomerates, their global activities are largely targeting growth in the overseas markets, up to now China's main growth remains focused on domestic growth. Under the circumstances, it is likely that the ‘going out’ of the Chinese enterprises will continue to be at a slow pace in the next few years.

Generally speaking, Chinese emerging enterprises with ‘going out’ strategy can be divided into two major groups- public and private. In the public sector, the global strategy remains resource driven while trade and investment continue to focus on the national interest. Market exploration can be seen as a drive for domestic market extension whereby the focus is on the ultimate benefit to the country. In the private sector, going offshore tends to be driven by new market exploration. Increasing competition domestically and surplus output have been key factors influencing offshore strategy.

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Business Briefs

The Business Briefs section summarises key events regarding the emerging Chinese MNCs in China’s economy during the month of August.

Sinopec Shanghai unit's stock dips on loss warning Ethylene manufacturer, Sinopec Shanghai Petrochemical, the daughter company of Sinopec, has announced considerable losses for the first six months of 2006 estimated at 27 million Yuan, dropping share prices. Losses were a result of the rising price of crude oil and sluggish selling prices, decreasing the profitability of refining. The Bank of China predicts the Petrochemical Company to incur 400 million Yuan in losses by the end of the year. This statistic however could change given that government decides to adjust the price of refined products upwards. The Bank also anticipates a drop in the oil price for 2007.

Sinopec looks home for gas State-controlled as well as China’s biggest oil refiner; Sinopec is looking to expand its exploration and production of natural gas business domestically. In this way, business risks arising from the rising price of imported oil will be reduced. It aims to exploit 60 billion cubic meters of gas finds in the North-Eastern region of China by 2008, substantially easing the country’s reliance on imports for cleaner fuel. This business opportunity has sparked the interest of PetroChina and foreign conglomerate, Shell. A 150 billion m^3 natural gas target by 2020 is anticipated according to Zhai Guangming, senior expert with PetroChina. Sinopec is expected to have a predominant role of the market in any case.

China's Sinopec, ONGC take Omimex stake Sinopec and an Indian firm, ONGC Videsh Ltd. (OVL), will together invest in Omimex de Colombia a

subsidiary of Omimex Resources, a U.S Based exploration and production company. The venture is estimated to be worth $800 million with each firm having a 25% stake in the investment. Omimex has 5 fields in Colombia but only 3 are on-stream and producing, the remaining 2 are technical discoveries with reserves of under 2 million barrels each and no production infrastructure in place.

CNOOC eyes Xinjiang for exploration CNOOC, the third largest oil and gas producer in China is looking to explore energy resources

in the country's North-West province of Xinjiang. The move will ensure expansion into Central and Western Asia and operations in oil and gas exploration, coal-to-chemical production and wind power projects are among those to be embarked upon. Slow pace exploration has been favoured by some experts to ensure conformity to the country's long-term energy security. The Tarim and Junggar basins in the Xinjiang region are speculated to hold a good amount of reserves albeit the region's complex geology.

CNOOC, Husky Oil to explore deepwater areas offshore China CNOOC and the Chinese subsidiary of Canada Husky Oil Limited will begin exploration of the deepwater

areas off the shore of China. The 3 perspective oil blocks will have a combined area of over 16,800 km^2 and CNOOC will claim 51% interest on any commercial discoveries in the blocks. Zhu Weilin, CNOOC's vice president sees this as an opportunity to further develop business opportunities with its partners. The company has already signed 10 production contracts with Husky Oil Ltd. of which 3 are deepwater based.

CNOOC looks for first refusal rights on offshore Nigeria Acreage An estimated $ 2.5 billion loan from the Export and Import Bank of China stands ready to be conveyed to CNOOC should it succeed in securing the offshore Nigerian oil blocks. In spite the possibility of large interest payments on the loan, CNOOC will have the upper-hand in matching the market value of the oil blocks according to the formula set out by the Nigerian Oil Ministry should it go ahead. Allowance will be made for other players to bid on the blocks.

Landmark deal for Huawei Vodafone Spain has chosen China's top telecom-equipment manufacturer, Huawei Technologies to supply its market with equipment to the Vodafone Group's third-generation (3G) mobile-telecom network in certain key cities in Spain. The much needed breakthrough represents a successful attempt in Europe, a region renown for tight competition in the mobile market. Two years ago, Huawei, had previously won contracts to supply 3G networks in the Netherlands and Czech Republic. The developing world had be the initial target zone for the company.

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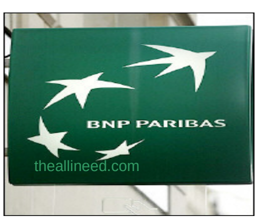
Top China PC maker Lenovo squeezes into the black Quarterly earnings from China's largest PC makers, the Lenovo Group Ltd. showed a net profit of $5 million during the first fiscal quarter which ended in June. The group's share performance has not been as rosy as the company has had to battle out trying to simultaneously make profits while aiming to forge one of the world's renowned PC brand, IBM's PC division. With competition from major players in the world market such as Dell Inc and Hewlett-Packard Co. on the rise, the year looks to be an interesting one.

China's CCB eyes Bank of America (Asia)
China Construction Bank (CCB), the country's largest lender is keen to acquire Bank of America (Asia); an affiliate of the U.S based corporation offering consumer and commercial banking products and services throughout 17 of its Hong Kong and Macau branches. Newspaper sources had reported that no offer had yet been established but that CCB was reviewing the banks financials. CCB plans to expand into the overseas markets by relying on organic growth and acquisitions.

China to merge 10 city banks into one 10 city commercial banks will be merged to form a new bank which will aim to attract foreign strategic investors who are speculated to boost the banks capital base according to Xinhua news agency. China's largest state run banks have been restructured to attract investors and the China Construction Bank and Bank of China are examples of this reform.



BNP Paribas to expand China, India private banking France's biggest bank BNP Paribas, aims to expand its private banking operations in China and India to benefit from a fast-growing pool of wealthy individuals due to strong economic growth in both countries. British bank, Barclays Plc, forecasted in March 2006 that within three years, high net-worth clients in China would have assets worth $150 billion. Growth prospects have prompted institutions, like ABN AMRO, Merrill Lynch, Barclays and Citigroup, to focus increasingly on serving high net-worth individuals. BNP Paribas, which is expanding through alliances in some countries such as Taiwan and China, said it would expand its business instead of going for acquisitions.

Merchants Bank set for share sale China Merchants Bank received an approval from the Securities Regulatory Commission to raise $2.4 billion from a Hong Kong share sale which ends in September. This is part of government's initiative to encourage China's biggest banks to improve their finances and enhance corporate governance practices that are inline with international standards. Bank of China had raised $11.2 billion in its Hong Kong IPO in June and the Industrial and Commercial Bank of China (ICBC) could raise $12 billion by November if it sells 20% of its shares at the sale. The Banks' profit has averaged 49% since 2000 as it took over four of the largest state-owned banks in China.

Cherokee moves Mexican work to China
Shanghai will house the newly built power supply factory for Cherokee International Corp. following a closure from its previous Mexican base. The move is expected to increase company savings as well as profit accruing from the sale of the Mexican facility. An estimated 250 employees will be out of work once the closure commences in the first quarter of 2007. There however will also be restructuring costs that will have to be borne over the third and fourth quarters of 2007.

China Mobile Awards Huawei GSM Expansion Contract Huawei has been awarded the contract to provide mobile softswitch with a 30 million subscriber-capacity and more than 30,000 TRXs in the second quarter of 2006. The company's reputation of specialising in advanced technologies and the comprehensive network access in some of China's key markets earned it top prize. Huawei will support China Mobile in maximising profit by reducing construction costs and network operational and maintenance expenditure as it provides the future-oriented EnerG GSM solution designed by 3G technologies.

China's ZTE hits North American Shores

ZTE, a rapidly expanding Chinese manufacturer of 3G equipment, has entered North America, securing a contract with Canadian Telus, the country's second-largest telecom operator. Shipment of the first batch of equipment, including data cards and handsets, will be available in Canadian stores later this month. ZTE's multinational expansion has been triumphant at providing 3G terminal products to France Telecom and Hutchison Whampoa, but with a deal in Canada it is keen to explore North American markets.

Huawei wins CDMA contract from Nigerian operator Huawei Technologies, a leading vendor in China's telecom industry is rapidly exploring global markets. It secured 70% of the contract worth $100 million to supply CDMA equipment to Nigeria's Multi-links, a privately-owned telephone operator. Huawei will assist Multi-links to expand its network in cities such as Lagos, Abuja and Kaduna to enlarge and diversify the Nigerian company's current operations.

China orders 14 of 16 leading commercial banks to cut loan growth 14 of the 16

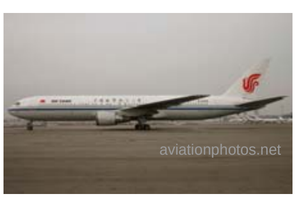
commercial banks have been ordered to reduce loan growth with the exceptions of the Industrial Bank of China and Bank of China following a directive from China's banking regulator. Full year loan growth will be limited to below 15%, the China Securities Journal reported. The first half of the year had seen the issue of new loans grow by 86% of the central bank's full year target of 2.5 trillion Yuan. In a related development, the regulatory commission which monitors two vital bank indices has cautioned banks on the credit risks that loom inline with loan growth. The commission urged them to adopt more prudent loan policy.

Highlights on upcoming China Business Summit Although a few weeks away, the WEF's 26th China Business forum will be held in Beijing on the 10-11 September under the theme "Sustainable Growth through innovation: China's Creative Imperative". The summit aims to bring together key stakeholders to discuss, rethink and reshape China's growth and industry agenda's in light of the theme.

China taps Tibetan waters Beijing prepares a controversial plan to divert water from Tibet to the parched Yellow River in the country's west. Director of the Yellow River Water Conservancy Committee, Li Guoying, said the project was vital because the Yellow River's flow is being used up by development demands in western China. The project would be launched when economic and social development in the northwest reaches a certain level and water saving efforts are no longer efficient enough.

China, Japan, WB, ADB pledge $7.4 billion for infrastructure The Philippines government has received pledges worth $7.4 billion for infrastructure development projects. About $6 billion was from the Chinese government, to be channelled through China's export-import bank. According to Romulo Neri, Director-General of the National Economic and Development Authority the financial support from China would be released over the next three years at about $2 billion a year. The funds are concession loans with an annual interest rate of 3% and to be paid in 20 years. Japan Bank for International Cooperation agreed to give $1 billion worth of official development assistance and The World Bank and the Asian Development Bank will each give $200 million.

Air China sells stakes to expand Sinotrans Air Transportation Development, PICC Property & Casualty and five other Chinese companies plan to buy 350 million shares in Air China. The Beijing-based carrier is selling 2.7 billion Yuan-denominated shares (a 22.25% stake). Air China is expanding its fleet and cooperating with Cathay Pacific Airways as growth in China's economy increases demand for air travel. China's largest air cargo company, Sinotrans, plans to buy 80 million Air China shares. PICC Property, China's biggest non-life insurer, will buy 50 million shares. China Shipbuilding Industry will buy 50 million and China Yangtze Power will buy 35 million. Sinotrans and the other investors will have to hold their Air China shares for at least 18 months.

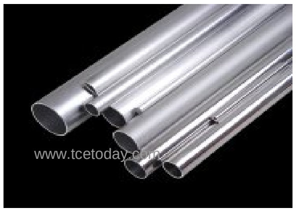


Air China cuts IPO issue on weak demand The Company took a knock on its initial public offerings performance that was initially aimed to raise one billion A-share sales, scaling back by almost half of that target. Analysts attributed the weak investment to rising fuel costs, timing of Air China's IPO's as well as the company's weak profitability. Alan Lam, Analyst with Guotai Junan Securities said that the A-share market performance and interest rate in the industry hadn't been favourable. The year long ban on IPO's was lifted in May and issues resumed in June. Air China has since listed on the Shanghai Stock Exchange, with 1.639 billion A-shares for issue at 2.80 Yuan raising 4.51 billion Yuan from the share sale.

China raises jet fuel prices to airlines by 5% China Aviation Oil Supply Corp. (CAOSC), the country's monopoly jet fuel distributor, raised fuel prices by $37.64, to airliners from July 21. This will help limit the state-run company's losses. CAOSC is forced to raise imports of costly aviation fuel because state refiners cut back production to boost diesel. It might however, prompt airliners to increase fuel surcharges or fares. A new pricing system approved by the National Development &

Reform Commission, uses the weighted average of administered domestic ex-refinery prices and import costs, instead of using only ex-refinery rates. Ex-refinery jet fuel prices, like those of gasoline and diesel, will remain regulated by the government.

China's Chalco to reduce alumina prices as rivals boost supply The Aluminium Corp. of China (Chalco) will be forced to cut its alumina price following surge in domestic supply. Production of aluminium had increased as local competitors increased their capacity by building new plants in the Henan, Shandong, Shanxi provinces and Chongging city. This will reduce Chalco's market share in domestic output to 47% by 2008, a substantial decline from 92% last year.



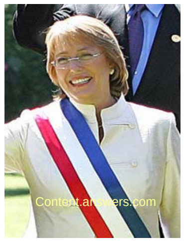
China coal market faces oversupply as stocks rise The oversupply of coal stocks in China is putting downward pressure on prices as stocks rose for the sixth month in a row, China business news reported. Coal is China's main source of fuel and accounts for almost two-thirds of its energy supply. Government has been keen on promoting the use of cleaner alternatives such as nuclear and wind power for fuel. Many smaller mines have had to be closed down on safety grounds and to prevent the exploitation of the natural resource inline with promoting the country's goal of ensuring the sustainable use of energy.

China targets Europe and South America as new export markets for Autos The first 6 months of the year alone show auto export increases to the two regions of 520% and 117% respectively ranking Europe and South America second and fourth in China's total automobile exports around the globe. Statistics from China Chamber of Commerce for Import and Export of Machinery and Electronic Products (CCCME) show that although 21.5% of China's total auto exports were channelled to Europe, Asia and Africa had grown to 34.6% year on year, an increase slightly lower than the counterparts but still significant.

China Mobile soars 25.5 % on new users China Mobile's first-half earnings grew 25.5%. Profit margins widened from expansion in lower-cost rural regions of China, and sales of higher-margin data services increased. Net profit increased to 30.2 billion Yuan from 24 billion a year ago. A change in accounting policy meant that the result was lower that it could have been. The company shortened the depreciation cycle of its older second generation (2G) equipment from seven to five years, increasing depreciation costs. Net profit still beat the estimated 30 billion Yuan forecasted by Bloomberg. The company will pay out special dividends to make up for the impact of its accounting change on its dividend payout and has pledged another special dividend pay out at year end to compensate for the loss of earnings incurred by increased depreciation charges in the second half. China Mobile is the world's largest mobile operator by market valuation.

Bachelet Signs China-Chile Free-Trade Agreement China has committed to a free-trade agreement - the first of its kind outside of Asia - with the world's number one copper producer. The FTA signed with Chilean

President Michelle Bachelet will increase copper, fruit and fish oil exports to Beijing. Chile already has trade agreements with the US, its largest trading partner, and the EU. However the deal with Beijing is expected to influence the Latin-American country the most.



China issues new threshold for entry of foreign insurers Stricter requirements await foreign insurance companies wanting to do business in China according to new government regulations that took effect beginning of this month. A proven track record of at least 20 years, no prosecutions, industrial and commercial registration certificates and good performance are among the criteria the China Insurance Regulatory Commission (CIRC) demands from the potential investors. The regulations are also applicable to insurers from Hong Kong, Macao and Taiwan and a violation of three administrative penalties or any serious violation would lead to a closure of their operations in the country.

China tightens scrutiny of foreign acquisitions The Chinese government is aiming to slow the pace at which foreign investment is increasing in line with cooling down the country's high economic growth rate. The strategy embarked upon will be to ensure that capital inflows are limited and the control of strategic overseas industries is prevented. Hence, China will have to adjust the current bias prevailing in the management of foreign exchange, which favours inflows and restricts outflows. The Ministry of Commerce is among the government agencies tasked with the duty of approving all foreign takeovers and purchases of domestic assets by offshore shell companies.

Rankings from *Fortune's Global 500* 2005/2006 show how 20 of China's corporations have faired as shown below.

RANK		NAME	REVENUES	PROFITS
2005	*2004*		*($ mil)*	*($ mil)*
23	31	**SINOPEC**	98784.9	2668.4
32	40	**STATE GRID**	86984.3	1073.5
39	46	**CHINA NATIONAL PETROLEUM**	83556.5	12950.0
199	229	**INDUSTRIAL AND COMMERCIAL BANK OF CHINA**	29167.1	4113.5
202	224	**CHINA MOBILE COMMUNICATIONS**	28777.8	5053.8
217	212	**CHINA LIFE INSURANCE**	27389.2	25.0
25	339	**BANK OF CHINA**	23860.1	3851.6
259	347	**HUTCHISON WHAMPOA**	23474.8	35.8
266	316	**CHINA SOUTHERN POWER GRID**	23105.0	367.1
277	315	**CHINA CONSTRUCTION BANK**	22770.6	5748.8
279	262	**CHINA TELECOMMUNICATIONS**	22735.8	2376.3
296	309	**BAOSTEEL GROUP**	21501.4	1395.2
304	287	**SINOCHEM**	21089.0	260.2
377	397	**AGRICULTURAL BANK OF CHINA**	17065.6	127.4
441	-	**CHINA RAILWAY ENGINEERING**	15293.7	82.7

463	343	COFCO	14653.8	198.6
470	448	CHINA FIRST AUTOMOTIVE WORKS	14510.8	116.1
475	-	SHANGHAI AUTOMOTIVE	14365.2	21.4
485	-	CHINA RAILWAY CONSTRUCTION	14138.9	53.2
486	-	CHINA STATE CONSTRUCTION	14122.4	166.4

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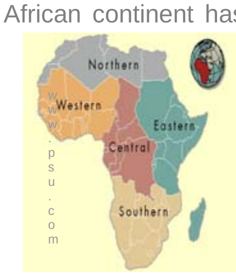
China & Africa

The latest updates on Chinese activity on the African continent.

Seychelles hopes to see more investment from China The Seychellois government wants to encourage more foreign investment, while China is in the process of building relations with Africa. China has assisted Seychelles with development of infrastructure, training, education and health. Seychelles also aims to promote the country as a destination for Chinese tourists.

Africa Exports to China Grow Trade growth between China and the African continent has been expanding over the last decade to trade volumes of $40 billion in 2005. This is a ten fold increase from figures reported in 1995. Trade expansion fuelled by Africa's exports to China increased by 72% in 2005 and exports destined for Africa have overtaken volumes to Europe according to Standard Chartered Bank. South Africa is a leading trade partner on the continent, making up 20.8% of the Sino-African trade flows. Even though Africa imports mainly machinery and electronics from China, the continent has been reaping benefits from exporting raw materials to a resource-hungry giant. Beijing also scrapped tariffs on 190 products imported from over 20 least developed nations in Africa. This had reversed Africa's trade deficit with China to a surplus of $900 million by 2005.



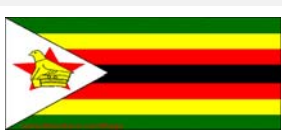
African countries urged to benefit more from China link A research study compiled by researchers of the Universities in Nairobi, Cape Town and Sussex advise sub-Saharan African economies to boost and strengthen their capacities in order to keep up with Chinese demand and benefit from the increased ties with the Asian giant. Many of SADCs member countries have abundant supplies of primary resources, which, through rising demand and prices, have created incentives for exploitation. But countries are urged to implement capacities to manage the exploitation process of these resources to ensure that benefits and advantages of the resources are sustainable in the long run.

SA tour guides learn Mandarin South African tour guides have gone to Beijing after finishing courses in Mandarin Chinese. They will spend at least two months receiving language training. The programme is part of a partnership between the Department of Environmental Affairs and Tourism and the Chinese government. The project is a development for the tourism sector gearing for the 2010 Football World Cup. South African Tourism has identified China as an investment market.

Chinese automaker exports a thousand vehicles to Angola Dongfeng Nissan, a partnership between China's Dongfeng Motors and Japan's Nissan, was reported to have exported one thousand passenger cars valued at $13.589 million to Angola from the port of Guangzhou. As an exporter of vehicle parts to mainly Japan, Russia, Thailand and Mexico, this is Dongfeng's first export of fully assembled cars. Chinese government claims the vehicles are only part of an official project aiding Africa.

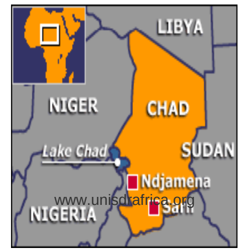
China's investments in Nigeria increase by $3 billion Over the last three years, Nigeria has witnessed a $3 billion rise in Chinese investments. Chinese Ambassador for Nigeria Wang Yongqiu praised the efforts by leaders of the oil-rich country and China's engagement aimed to deepen trade relations and "mutual trust". During 2002-2005 Sino-Nigerian trade volumes nearly tripled from $1.1 billion to over $3 billion.

Zim Firms invited to participate in China's Trade Fair The 10th China International Fair for Investment and Trade (CIFIT) is due in September this year focusing on Foreign Direct Investment



(FDI) attraction and the "Going Global" strategy of potential multinationals. ZCBC, the Zimbabwe-China Business Council strongly supports the event and has urged domestic businesses to participate in order to develop stronger links and increase FDI between the nations.

Chad chooses China for cash, power Chad, a deprived African country, has refurnished diplomatic ties with China to achieve economic



gains. After breaking a 25 year link with Taiwan this year Beijing will be taking up the projects left behind by Taipei and provide aid funding for road, water supply and educational developments. Currently Chad and the World Bank are at loggerheads as Ndjamena did not live up to the contractual agreement of saving a share of its oil revenue for future consumption. It has been speculated that this revenue was spent on arms purchases. Cut off from World Bank financing Chad now has the option of turning to Beijing for alternative funding without strict conditionality. The relationship between China and Chad enables Chinese oil companies to become actively present in oil exploration.

Niger, China sign pact on ethanol production A Memorandum of Understanding between a Chinese company and the Niger government to construct an ethanol plant at a cost of $90 million has been inked. 85% of the funds will be supplied through a soft loan at 3% interest from China and the remaining 15% from Niger's state government. The ethanol plant is estimated to process 150 000 metric tons of cassava and convert this into cheaper energy fuel relative to other petroleum products available domestically. This agreement will mark the beginning of a mutually beneficial relationship between the residents of China and Niger.

Nigeria to encourage China oil firms to invest in Delta region

Nigeria has indicated that it is hoping to attract more FDI from mainly China to boost investment in its resource abundant Delta region. China is expected to pay more attention to the persisting setbacks in the oil sector of the African country, and to local communities. Beijing has already agreed to the development of a free trade zone and to assist with the construction of power plants, roads and manufacturing plants.

SA's Woolworths profits up, sees slower growth Woolworth's earnings per share as at the end of June indicated a 17.4% rise attributed to increases in food sales and store expansion. The company has been opening branches in townships as a means of targeting SA's growing black middle class and will be launching a beauty product line aimed to diversify its business interests. However, recent interest rate hikes and the restrictions on imported cheap goods from China are expected to impede profit growth as the year ends.

UN Advisor Says China Can Help Africa Escape Poverty Director of the UN Millennium Project and special adviser to UN Secretary General

Koffi Annan, Jeffrey Sachs, believe that China's development aid and expertise can really help African nations out of poverty. Speaking at a forum in Beijing sponsored by the UN and the China-Africa Business Council, Sachs said that more practical results have been achieved because China does not attach conditions to its aid. Not everyone at the seminar agreed however, saying Chinese arms sales have increased conflicts in African nations and criticising China for ignoring human-rights abuses and international labour standards on its quest for raw materials. The delegation would meet the Chinese communists to discuss international developments within the global left and socialist camp.

China's Africa scramble finds welcome in Kenya

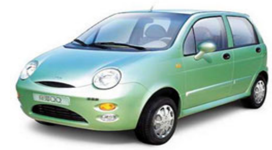
Raphael Tuju, Kenya's foreign minister, ascertains that it is in Kenya's interests to strengthen relations with China. Critics are concerned that China will support conflict-ridden countries to gain access to raw materials, helping prop up dictatorial regimes, reducing the leverage of the west and its attempts to link development aid to good governance. The foreign minister accuses the west of hypocrisy, arguing that developed nations from the US to Germany trade openly with China. Kenya's relations with western donors has deteriorated since the new government took office after 2002 elections, due to corruption scandals and a raid by security forces on a leading media company. Chinese President Hu Jintao visited Kenya in April this year during which Beijing agreed to grant $13.5 million to Nairobi. An agreement was reached with China's state-controlled CNOOC to conduct oil exploration in North and

South Kenya. China's influence is not limited to raw materials. Kenyan universities are developing Chinese language programmes and Ministry of Information officials also attend exchange schemes.

China willing to further cooperation with Kenya: top legislator China is keen to expand ties and mutually beneficial cooperation with Kenya, a key partner on the African continent. Diplomatic engagement between the two nations has been developing since 1963 and Sino-Kenyan trade reached $ 475 million in 2005. Kenyan president Mwai Kibaki visited China last year and in April 2006 his Chinese counterpart Hu Jintao was welcomed in Kenya. After a visit from a top legislator from China, the National assembly speaker of Kenya will visit Beijing this month. With increased relations Kenya is hoping for more investment from China.

COMESA to seek help from China for railway construction For the augmentation of trade in the COMESA (Common Market for Eastern and Southern Africa) region Chinese assistance could be required for the construction of a railway network in the Great Lakes region of Zambia. Support from Beijing has been considered after Chinese companies have proved themselves by reconstructing Angola's Lobito rail line. Further discussions on this project that will link Zambia to Angola through the transport route of the Benguela railway will commence next month.

Chinese cars invade Algerian market China Cherry Automobile is steadily finding its niche in the Algerian market able to accommodate 300,000 new cars per year. Although doubts about Chinese cars were thought to downplay the incoming fleet, the firm's representative in Algeria, Marwane Halabi was optimistic about the new flock of cars for a number of reasons; some of which were based on quality, comfort, space and affordability. About 1000 Cherry cars were sold in the Algerian market last year.



Chinese president pledges to enhance cooperation with Benin The governments of China and Benin will enhance cooperation to improve their bilateral friendship started 34 years ago. China will help develop the recipient country's agriculture sector, telecommunications and energy sector and general infrastructure. In addition it will encourage Chinese companies to take an active part in Benin's economic progress through trade cooperation. President Thomas Yayi of the Benin Republic was glad to engage in this type of agreement and regarded China as an important cooperative partner. Sino-Beninese trade was valued at $1.09 billion last year, up 58.65% year on year.

Sourced from: Elkhabar, Reuters, Xinhua, International Business times, Macauhub, BuaNews, allAfrica, BusinessinAfrica Online, The Tide Online, AFX News Limited, Sudan Tribune, VOA news, Financial Times

The China Forum

Recent Events

CCS welcomes Sanusha Naidu

On 1 August, Sanusha Naidu joined the team at CCS as a Research Fellow. Previously a Research Specialist at the Human Sciences Research Council (HSRC), Sanusha has also worked as a Senior Africa Researcher at the South African Institute of International Affairs (SAIIA).Sanusha has made several presentations to, inter alia, government, civil society organisations and the research community as well as co-authored a number of articles in accredited journals on the political economy of Africa's development and international relations. Sanusha is an invaluable addition to the CCS research team.

CCS China Forum Lecture

On 17 August, CCS arranged for guest Professor Dr Ian Taylor, from University of St Andrew's, to present a lecture entitled "Business is business: China's Oil diplomacy in Africa". The lecture was well-attended and after the lecture presentation, a lively debate followed.

CCS completes DFID Study

At the end of August, CCS will present the final report on a study of China's engagement in Africa's construction industry to DFID China. The report, comprising the four case studies of Angola, Tanzania, Zambia and Sierra Leone, highlights important findings of field research conducted over several months earlier this year.

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