The China Monitor

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Contents

Editorial

Welcome to the first edition of the China Monitor, a monthly publication of the Centre for Chinese Studies at Stellenbosch University!

This past month - July 11th to be exact - China celebrated the six hundredth anniversary of the maiden voyage of China's Admiral *Zheng He* when he set sail from the port of Nanjing in 1405. His travels of exploration spanned almost three decades over which time he mapped the entire Indian Ocean coastline including that of East Africa. Indeed, it is believed that when Zheng He died in 1433, his body was buried at sea off the coast of Kenya. Zheng was undoubtedly one of the world's greatest seafarers.

China's relations with Africa pre-date those of Europe. Much publicity and debate is taking place over China's "new" relationship with the African continent. Chinese were trading with Africa six centuries ago. This is not a new relationship, rather the recapturing of a centuries old one. This is the context in which the recently created Centre finds itself.

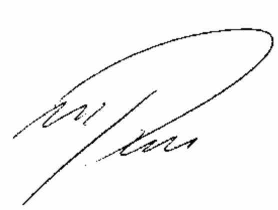
"Much publicity and debate is taking place over China's "new" relationship with the African continent."

The Centre for China Studies (CCS) is the first research institution dedicated to China in Africa. Our vision is to grow into a centre of excellence that is active in promoting the exchange of knowledge, ideas and experiences between China and Africa.

The Centre is to serve as a knowledge bank on subjects pertaining to the growing China-Africa relationship in political, economic and commercial spheres. In the coming months, the CCS will be producing the monthly ***China Monitor,*** teaching the Chinese Mandarin language, offering courses on China subjects to both government and executive audiences and conducting research on topical Sino-Africa subjects – some of which will be collaborative in nature with other African and Chinese institutions.

In the first edition we invite China's Ambassador to South Africa, Liu Guijin, to place Beijing's bilateral relationship with South Africa in context. We investigate China's strategic engagement with Africa, the recent revaluation of the Chinese Renminbi, and summarize commercial relations between both regions.

As South Africans we are only starting to build a knowledge base of China's political, economic and business terrain. The ***China Monitor*** is a good starting place. We at the Centre for Chinese Studies look forward to building the Centre into the continent's foremost resource for China.



Dr Martyn J. Davies

Director, Centre for Chinese Studies

Letter from China

Bridge-Building Indispensable for Mutual Understanding and Cooperation

Diplomats, as people say, are arguably among the best bridge-builders in the world who should always be ready to throw themselves into an endeavour to foster mutual understanding between nations and peoples. Though that is exactly what I, along with my colleagues at the Chinese Embassy, have been doing over the years, I feel that a lot still needs to be done for an even better understanding between China and South Africa. The publication of the ***China Monitor*** by the Centre for Chinese Studies (CCS), Stellenbosch University, serves this purpose well.

I was appointed Ambassador to South Africa in 2001, three years after the establishment of diplomatic relations between our two countries. In the past four years or more, I have personally witnessed the trajectory of exchange and cooperation between our two countries growing from strength to strength both in depth and breadth. The establishment of China-South Africa strategic partnership in 2004 was a culmination of the mutual trust, understanding and cooperation strengthening in various fields through all these years. The two governments have already signed scores of agreements pertaining to economic, cultural as well as scientific and technological cooperation. Last year, bilateral trade volume nearly surpassed US$6 billion, an increase of 52.8% over the previous year. China's export to and import from South Africa grew 45.5% and 60.9% respectively. The total volume of two-way investment between China and South Africa is now well above US$500 million. People-to-people exchanges are also growing day by day. The two countries share a lot of common interests in the international arena, as demonstrated by the frequent consultation on various issues and their staunch commitment to the well-being of the South.

The Chinese language is often very figurative yet incisive. Referring to the possible (and indeed often inevitable) minor bicker in an intimate relationship, one Chinese saying goes to the effect that it's only natural for upper and lower lips to touch each other. The same holds true for the bilateral relations between our two countries, especially in the two-way business activities. One recent example points to the much-debated issue of Chinese textiles. In my view, that is something quite common as a result of the fast growing bilateral trade. The two governments have been actively attending to this issue through dialogues and consultation. On the Chinese side, apart from the measures taken unilaterally to curtail textile exports, it has expressed its willingness to contribute to the upgrading and skill-training of South African textile manufacturers. I believe a resolution satisfactory to both China and South Africa would eventually be arrived at. The prospects of a win-win situation, after all, would be far more conducive to all the stakeholders than confrontation and collision.

It is here where the bridge issue comes up again. Given the traditional friendship between our peoples and the vast potentials in bilateral cooperation, one can never over-emphasise on the importance of mutual understanding. Geographical distance aside, both countries are distinctive and therefore different in so many ways. Continued expansion of trade and two-way investment depend very much on more and stronger bridges through which both could know better the concerns and perspectives of the other. Increased contacts between the two peoples also constitute building blocks in this regard. To a great extent, academic institutions can play a unique role in this process because they inform the society intellectually. I hope this letter of mine could serve as a modest spur to CCS's effort to cement the bridge of knowledge, ideas and experiences between China and South Africa.

With these words, I wish to conclude my letter by wishing the ***China Monitor*** and her readers every success!

Yours sincerely,
Liu Guijin
Ambassador of the People's Republic of China to South Africa.

Market Watch

IT'S SIMPLY BUSINESS

What is naturally SA's regional commercial space on the continent is fast becoming China's

China is variously described as an historical ally contributing to Africa's development and a new commercial coloniser of the continent. Wherein lies the reality of China's engagement here? With the economic reform in China since the late 1970s, Beijing's emphasis towards Africa is now commercially driven rather than politically biased.

What has surprised is the rapidity with which Chinese companies have established a presence in African economies. Now Chinese trading firms are becoming integral to the region's supply chains. Total China-Africa trade was roughly US$29,5billion in 2004, an increase of 59% over 2003. Growth since 2001 has been at an average of 31,2%/year. And pending trade liberalisation with SA, China's main trading partner on the continent, means the growth trend will remain strong.

China-Africa trade is a classic North-South model: exporting raw materials while importing manufactured goods. As a result, China runs trade surpluses with the majority of its African trading partners. This is less a reflection of China's competitiveness than of the poor manufacturing bases of African economies.

"Construction, infrastructure development, agriculture and mining are the most common sectors in which Chinese SOEs are operating."

Beijing is seeking to offset these trade deficits through encouraging state-owned enterprise (SOE) investment in Africa and offering low-cost contracting services to African governments. Construction, infrastructure development, agriculture and mining are the most common sectors in which Chinese SOEs are operating. If the promotion of these industries is what Africa desperately requires, then why the criticism?

China needs commodities and energy. Its free-trade pursuits with African economies are intended to secure strategic supply lines for China's resource and energy consumption needs. It already procures roughly one-quarter of its oil from Africa, in particular from Sudan and Angola, where it accounts for 40, 9% and 23, 2% of these economies' total exports. An export dependence has emerged that rests upon continued strong economic growth in China.

China's commercial engagement with Africa is challenging the vested interests of the former colonial powers. The displacement of the long-standing (colonial) commercial presence of France and Britain in Africa may not be a bad thing. Competition between China and

Western powers for energy assets in Africa will ultimately benefit cash-strapped African governments. But the problem lies in the support of unsavoury political regimes by outside powers that in return guarantee energy supply lines.

The US and EU powers may criticise China for not tying political conditionality to its investments in Africa, but the record of the West is little different. The hypocrisy of Western foreign policy towards Africa should not result in China being branded the continent's latest coloniser. It is unfortunate that the clash of interests over strategic energy assets between China and the West is likely to further entrench non-democratic regimes in oil-rich states. Nowhere is this more evident than in Sudan.

China's state-owned China National Petroleum Corp has invested in oil assets in Sudan and Chad. Another SOE, China National Offshore Oil Corp, has acquired energy interests in Morocco. Additional investments are in Nigeria and Gabon.

Chinese SOEs' ability to render cheap engineering and construction services is displacing foreign (and domestic) companies. If Chinese firms can deliver development to Africa at a cheaper price, then all the better. The Chinese government's financial support for its SOEs through its so-called "policy banks" extends into Africa. This has been to the detriment of SA construction firms operating in the region that can hardly compete with state-financed Chinese enterprises. What is naturally SA's regional commercial space is fast becoming China's.

With few exceptions, Africa's economies are largely resource-dependent. The continuing demand for commodities from China is contributing to African GDP growth statistics. Forecast growth for the continent this year is 4, 7%. Undoubtedly a large part of this is being driven by commodity and energy exports to China. Africa's growth is becoming inextricably linked to China's. In the event of an economic slowdown in China, African growth would be adversely affected.

The relationship holds great opportunity for African economies. The challenge lies in resource-based economies channelling export-generated income into domestic development. Unfortunately, the linkage between the two is often tenuous. China is not the new coloniser. It is an expanding global power with which Africa must pragmatically align itself.

Dr Martyn J Davies is Director of the Centre for Chinese Studies, Stellenbosch University.

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Business Review

China Revalues Yuan

Following months of speculation, and intense political pressure from the country's major trading partners, China finally announced on 21 July 2005 that it had revalued the yuan and would no longer

peg it strictly to the dollar, opting instead for a more flexible trading brand using a basket of currencies. The change in the value of the currency was marginal, with a slight increase against the dollar of approximately two-percent, valuing the dollar at 8.110 yuan, dropping from 8.277 yuan. The announcement marks a period of strained trade relations and political tensions between China and the rest of the world, particularly the United States and Europe. Some analysts tout the move as more of a political gesture than having any real financial impact.

China's revaluation coincides with similar moves by other parts of Asia, with Malaysia announcing that it would also move to a more flexible system, no longer pegging its currency, the ringgit, to the dollar. Singapore said it also planned to move to a more flexible exchange rate. China's revaluation did not come as a surprise, given the year-long pressure brought to bear by the United States and a number of European Union officials to increase the value of yuan, or to let it float freely against other currencies. This can largely attributed to China's sizeable trade surpluses with

United States and the rest of the world. Many critics had argued that the rise of China and its export-driven economy was being powered, in part, by the artificially low value of the Chinese currency against the dollar allowing markets to be flooded by the import of cheap Chinese goods. Economists predicted that the Chinese government would loosen the peg to the dollar earlier this year, but Chinese officials appeared unwilling to make such a move, with Prime Minister Wen Jiabao recently stating that the value of the currency was a sovereign matter. Additional statements from other Chinese officials stating that foreign interference would only delay revaluation, prompted the wide spread belief that China was not willing to concede to international pressure. Many critics in China argued that Chinese exports, a high driver in economic growth, would be adversely affected by any appreciation of the yuan, possibly impacting on the domestic employment growth rate coinciding with levels of social unrest throughout China.

- Reuters

Commentary:

Revaluation of the Yuan RMB

On the 21st July, Moneyweb's Alec Hogg interviewed Dr. Martyn J. Davies.

MONEYWEB: Barry Sergeant has been following international developments, but a very special one today, Barry, with the yuan, or the renminbi – I guess they can interchange, whichever you like to use. Both are related to China and its currency.

BARRY SERGEANT: Exactly, Alec. Well, the news was not completely unexpected, the timing was. It's come a little bit early. The Chinese currency of course – if you think of the British currency, sterling, the unit, when you go and pay for something, you don't pay sterling, two or three. You pay pounds. And in China, the renminbi is like sterling, and the yuan is like a pound. And that is a unit which has been fixed, pegged to the dollar for the past ten years, at a rate of 8.277 yuan to one dollar. And this, particularly in the last three years, has driven a lot of policymakers, in particularly in the US, around the bend, because during the period of protracted dollar bear markets, starting around about early 2002, the yuan has made China super-competitive. Ten years ago, when this peg started, China was exporting about 3% of the world's exports. It's now about 6.5%. And you've heard it from everybody – China's exports are just eating into everything. So there's been enormous pressure on China to revalue the yuan. And what they said today, the news came out here around about one o'clock our time, is that the peg to the dollar is being removed. And in future the Chinese central bank is going to manage the yuan to a basket of currencies. That's going to be updated on a daily basis. They haven't named the currencies, but it's going to be the dollar, the euro, the yen, and so on.

MONEYWEB: Let's bring Martyn Davies in now. He's our expert when we talk about things Chinese. Martyn, the news today – how significant is it from a longer term perspective of the whole world economy?

> **"I think a 2% revaluation upwards is pretty insignificant. China has done it more for political purposes."**

MARTYN DAVIES: Alec, to be quite honest, I'm quite *under*whelmed by it. I think a 2% revaluation upwards is pretty insignificant. China has done it more for political purposes. I don't think we will be seeing too much impact domestically, and I'd counter by saying that I certainly doubt that it will have any impact whatsoever on the mounting trade deficits that China is running with the likes of the EU and, more particularly, the United States.

MONEYWEB: So if it's just a political move, why did the markets make so much of it?

MARTYN DAVIES: Well, I think it's been factored in already. I think you've seen that currencies like the Japanese yen, the Singapore dollar, have risen slightly because of it – up by 1.5, 2%-odd. But I think it's more indicative of a long-term trend in China. Yes, China's currency and monetary policy is starting to change. However, the Chinese government and Chinese policymakers certainly are putting banking reform and financial reform as a far greater priority than they are with monetary policy reform at present.

MONEYWEB: Up to this point, though, they've kicked every suggestion from the United States of revaluation into touch, saying, it's our country, we are going to make the decisions here. Why even make, as you've explained, just a token move?

MARTYN DAVIES: I think it is token or symbolic. I think China is trying to relieve some of that mounting international pressure which seems to have reached some kind of crescendo. I don't think it's going to satisfy the US Congress. Most particularly, they were talking of the Renminbi being undervalued to the tune of 40% possibly. The Chinese Bureau of Statistics was recently talking about if there was a 3 to 5% appreciation, it would certainly start to limit their export growth to maybe an annual 10% down from the current high of the mid-30%. And possibly an appreciation of 15% is what the US government was particularly pushing for. It may even result in negative export growth. But I think all these figures have been exaggerated and largely underestimate the ability of China's manufacturing economy to absorb the increase in the export cost associated with the stronger currency.

"I think China is trying to relieve some of that mounting international pressure which seems to have reached some kind of crescendo."

MONEYWEB: So from your perspective, the impact on the global trade situation is minuscule?

MARTYN DAVIES: I think Chinese manufacturers are certainly able to absorb a 2% increase in terms of cost. I think what the trend is, what the People's Bank of China has done in terms of this - has indicated to Chinese manufacturers that the trend is going to be not in their favour. As Barry mentioned, it has been for the past 10, 11 years or so. And they are going to start to rely on more manufacturing competitive processes, as opposed to an undervalued yuan for their ultimate export competitiveness.

MONEYWEB: Our thanks to Martyn Davies

Business Briefs

Significant business developments in China over the past month

A new Chief Executive for Hong Kong. Donald Tsang was inaugurated as Hong Kong's Chief Executive on 24 June. He will serve the remaining two years of the original five-year term of the former Chief Executive, Tung Chee-hwa. There will be another vote in 2007 to select a chief executive for a full five-year term.

The Sixth Asia Europe Meeting (ASEM) Finance Minister's Meeting was held on the 26th June in the northern Chinese city of Tianjin. Opening the conference, Chinese Premier Wen Jiabao called for enhanced cooperation between Asia and Europe, but the debate over the issue of the revaluation of the Renminbi Yuan dominated proceedings.

Increased oil exploration in China. Xinjian, a potentially oil rich region in China, is set to be more widely explored. The focus will be on the Tarim, Junggar, and Turpan-Hami basins. The basins, equivalent in size to France and Britain, sit on 30 per cent of China's total oil and 34 per cent of its natural gas reserves. But more than 80 per cent of the areas remain untapped. 12 percent of China's total oil output, or 22 million tons, was produced in Xinjian last year. Xinjiang is also becoming increasingly important as a frontier base for crude oil pumped in from Central Asian countries.

Haier bids for Maytag. Haier Group, China's largest appliance manufacturer, entered a bid to purchase ailing US appliance manufacturer, Maytag. This bid for the No 3 US appliance maker was made in conjunction with two US equity groups, Bain Capital and the Blackstone Group. The offer, of US$1.28 billion, or US$16 per share, trumps an earlier offer by Ripplewood, a consortium which includes Goldman Sachs and J. Rothschild Group, of US$14 per share. If the deal was successful, Haier would have had access to recognised brands such as Hoover, and the US$33 billion US appliance market. Haier Group subsequently withdrew its offer on 21 July.

China's fiscal revenue increases. China's Finance Minister, Jin Renqing, announced on 28 June that China's **fiscal revenue for 2004** reached 2.64 trillion yuan (US$320.7 billion). This is an increase of 21.6% over 2003. Mr. Jin also announced that an estimated 800 million farmers will be free from agricultural taxes in 2005. Though this is good news for China's policy on rural and agricultural tax reform, issues and unrest over land ownership in rural areas continues to grow.

Growing interest in China's banking industry. June was an eventful month in China's banking industry. The Bank of America announced plans to invest US$2.5 billion in the China Construction Bank (CCB). It has also set aside an additional US$500 million for when CCB goes public later this year. This will give Bank of America roughly a 9% stake in the China's largest property lender. This offer is also linked to an option for the Bank of America to increase its stake over the next few years to 19.9% at the price of the shares in the CCB's initial public offering. UBS is also in advanced stages of buying a stake of between US$500 million to US$1 billion in Bank of

China. Currently, both Dutch bank ING Group and HSBC have stakes in Bank of Beijing, while Citigroup, the Commonwealth Bank of Australia, Standard Chartered and the Bank of Nova Scotia also own shares in Chinese firms.

China Construction Bank (CCB) moves to tackle fraud. In preparation for its public offering later this year, CCB has begun taking measures to root out fraud. It recently uncovered 31 cases of illegal activities at its branches, preventing losses of up to 36.39 million yuan (US$4.38 million). China's banking industry has huge potential for growth, but fraud and corruption continue to cause problems. The activities at CCB are some of the measures being taken by the Chinese government to prepare its banking industry for competition from foreign banks set to enter the market at the end of 2006.

China's Internet usage on the rise. According to China's Ministry of Information Industry, by June 2005 the number of Internet users in China passed 100 million, while the number of **broadband** users had increased by 5.336 million between January and May this year to 30.183 million. At present, China is the worlds second largest Internet-market. While the number of Internet users is on the increase, the Chinese government has clamped down on "politically incorrect" statements and phrases on China-based websites and webportals. Websites and portals had until the 30th of June to remove unsuitable content, register with the government, and provide complete information on their organisers. Those not complying will be declared illegal.

Hisense develops frequency processing chip. Hisense announced on the 26th of June that it had managed to independently develop Hiview, the video frequency-processing chip for colour television. This should remove the need for Chinese manufacturers to use foreign designed and made chips for colour televisions.

China looks to Hainan for a fourth satellite launch site. A preliminary feasibility report released by the provincial government of China's southern island province of Hainan indicated that the province is a likely site for China's fourth satellite launch centre. China's three existing launch sites are in the western and northern regions of Jiuquan, Xichang and Taiyuan, sitting between 28 and 41 degrees north latitude. Of all the sites, Hainan is the closest to the equator, and should be safer and cheaper to launch satellites from.

On 13 July Saudi Aramco, ExxonMobil Corp and Sinopec signed a US$3.5 billion deal to expand a refinery in south China. This deal is part of China's efforts to expand its refining capacity in order

to meet growing domestic demand. Saudi Aramco and ExxonMobil have used this deal to secure a foothold in the Chinese market, currently dominated by Sinopec and PetroChina.

China's trade in high-tech products grows. China's Ministry of Commerce announced on 14 July that for the period January to June this year, China's foreign trade in high-tech products grew faster than its foreign trade as a whole. In January the difference was 2.2%, and widened to 4.7% by June. China's imports and exports of high tech goods reached US$180.26 billion in the first half of this year, which was 26.2% higher than the same period last year.

China places restrictions on city and provincial broadcasters. Following its move to restrict the use of certain words and search terms on the Internet, the Chinese government has now also banned city and provincial broadcasters from cooperating with foreign firms. The restrictions, as posted on the website of the State Administration of Radio, Film and Television in July, specifically cite that radio and television stations may not rent channels to foreign firms, cooperate in funding and operating radio and television channels with foreign firms, or cooperate with foreign firms on programming. These restrictions come as a blow to local broadcasters, many of whom have been looking for foreign investment to improve their service, and foreign investors, who have been trying for years to enter the Chinese market. However, these regulations do not apply to central media.

Mittal Steel invests in Hunan Valin. Mittal steel received approval from the Chinese government on 15 July to purchase a US$ 300 million stake in Hunan Valin, one of China's largest, and most profitable, steel companies. This will give Mittal a 37% stake in the company, making it the second largest shareholder.

China scraps export tariffs on clothing and textiles. China's Ministry of finance announced on 26 July that it will scrap export tariffs on 17 types of clothing and textiles, as from the 1st of August, in response to import restrictions imposed by the European Union.

China's first budget airline launches maiden flight. "Spring Airlines", China's first budget airline, launched its first flight from Shanghai this July. Ticket prices for its maiden flight, from Shanghai to Yantai, were almost a quarter of those of competitors, at 199 yuan (US$25). This follows the worldwide trend, and success, of low-cost airlines.

Google establishes R&D centre in China. In an indication of the potential of the Chinese internet market, Google announced on 19 July, plans to establish a R&D centre in China.

China currently has over 100 million internet users, the second largest number behind the US. Somewhat controversially, Google appointed the former vice president of Microsoft's Interactive Services Division, Dr. Kai-fu Lee to head up the centre, which is expected to be operational by October. Google has subsequently sued Dr. Kai-fu Lee for violating non-competitive promises made while working for Microsoft.

China issues first policy on iron and steel sector. On 20 July China issued its first policy on the iron and steel sector. This policy has raised the industrial thresholds for foreign investors and imposed tighter controls on market access. Provisions of the new policy include that foreign steel companies must have full intellectual property over their own products, and that their output of steel must reach at least 10 million tons per annum. According to the new policy, foreign steel companies who plan to invest in China must have full intellectual property rights on their iron and steel products. Their output of common steel in the previous year must reach at least 10 million tons. That of high-alloy steel must reach one million tons. An important aspect of the new policy is that foreign investors can not set up new conglomerates in China. This policy is intended to guide foreign investment in China, and to put the right emphasis on development of the industry.

Economic growth in second quarter greater than expected. The Chinese economy in the second quarter grew by 9.5% from a year earlier to 6,742.2 billion yuan (US$ 812.3 billion). This was higher than market expectations of around 9.3%.

Air China purchases 20 Airbus A330-200s. Air China, China's flagship carrier, signed a deal to purchase 20 Airbus A330-200s this July. This complements its existing fleet of 16 A319s, 5 A320s, and 6 A340s. Airbus presently has nearly 300 aircraft operating in China, Hong Kong and Macau.

Nanjing Automobile purchases MG Rover. China's oldest carmaker, Nanjing Automobile, secured the ownership of MG Rover on 22 July. This comes after an extended three-month battle, with another Chinese company, SAIC, being the frontrunner for control.

China & Africa

The latest updates on Chinese activity on the African continent.

China signs agreement to bolster Kenyan coffee exports. China signed an agreement with Kenya on 27 June 2005 in an attempt to bolster the country's coffee exports. The Kenya Planters Cooperative Union (KPCU) are set to send a delegation and technical team to China to meet with Chinese cooperatives, on ways of increasing Kenyan coffee sales by improving the value of the beverage.

Zimbabwe's Leythem merges with ZTE. In Zimbabwe, Leythem Investments (Private) Limited of Zimbabwe has merged with a Chinese firm, Shenzhen Tozed Communication Company Limited, in a deal worth more than US$40 million. Leythem will be the official agent for Shenzhen's African markets and has been granted the right to use the brand name Voltac for these phones. In addition, the Chinese company has offered training to Leythem staff in assembling and maintainence of the phones. The first batch of phones was set to hit the Zimbabwean market in July 2005.

China pays for Namibian presidential residence. The Chinese government is expected to pay for the building of the new presidential residence in Auasblick, Namibia. Construction will begin early next year. The project is estimated to cost N$90 million, but officials are unwilling to comment on how the 'generous' Chinese grant would be spent. The value of the Chinese grant is unknown.

Chinese investment group shows interest in Mozambique. A group of Chinese businessmen, headed by casino magnate Stanley Ho, is interested in purchasing shares in HCB, the company operating the Cahora Bassa dam in the western province of Tete. The Chinese group has already approached the Mozambican and Portuguese governments, and is waiting for the outcome on the latest round of negotiations between the two governments on the transfer of a majority holding in HCB to Mozambique. There is also the outstanding matter of HCB's debt, estimated at US$1.8 billion to the Portuguese treasury. In addition, the Chinese group has indicated that it is interested in investing in the development of the entire Zambezi Valley. Chinese interests are in agriculture, and in exploiting coal for producing energy in thermal power stations, in addition to their interest in hydropower, with three million hectares that could potentially be irrigated in the Zambezi Valley. HCB is currently 82 per cent owned by the Portuguese state, with the Mozambican state owning the remaining 18 per cent.

Coal miner Hwange Colliery Company (HCCL) and China North Industries Corporation (NORINCO) are negotiating a proposed barter trade of commodities.

HCCL will provide coke and coal in exchange for haulage trucks and earth moving equipment from NORINCO, to be used to increase the company's production output of coal and coke. HCCL and NORINCO signed a memorandum of understanding in 2004. HCCL is listed on the Zimbabwe Stock Exchange, London Stock Exchange and JSE Securities Exchange.

Chinese company set to construct ferrochrome smelting plant in Zimbabwe. A Chinese company is set to construct a multi-billion-dollar high-carbon ferrochrome smelting plant in Selous, Zimababwe. The project has been approved by the Export Processing Zones Authority (EPZA), is expected to be complete by 2008. The company has been granted a licence and is registered with the Registrar of Companies, and has already secured substantial chrome ore reserves in Mutorashanga and Shurugwi. The construction of basic infrastructure has begun and the company is likely to become one of the biggest ferrochrome processors in Zimbabwe. As an incentive, the company will be granted a five-year tax holiday and also be allowed to bring in outside technical expertise for the construction of the furnaces.

FAMEM shows interest in Zambia's tourism industry. A Chinese group from the Federation of African and Middle East Merchants (FAMEM) has declared an interest to invest in Zambia's tourism industry. The FAMEM paid a visit to the country in 2004 to assess Zambia's potential to accommodate Chinese small and medium scale enterprises. The FAMEM has also entered into a memorandum of understanding with the University of Zambia to establish a school of Chinese to facilitate the learning of Chinese language and culture, in an attempt to bolster relations between the respective countries. The Zambian authorities estimate on average, 10,000 Chinese tourists on a daily basis, and would have to restructure and improve current tourism facilities to accommodate the influx of tourists.

Tru-Cape gets production rights for Chinese fruit. South Africa's largest fruit-marketing company, Tru-Cape Marketing, has entered into an agreement with Chinese government agencies to produce some of the world's best varieties of apples and pears locally. The company was awarded the exclusive rights to produce six apple varieties of the Fuji strain in the country for the next 20 years by the Shaanxi province agricultural research agency. The company, which is the marketing arm of major producers Ceres Fruit Growers, Kromco and Two-a-Day, said the deal could also open up new export markets. The company has also struck a similar deal with the Hebei provincial agricultural research agency to produce four varieties of pears such as Ya Li pears. Phytosanitary regulations in China and SA currently prohibit trade in apples and pears between the two countries. Tru-Cape is optimistic that discussions by the two governments to eliminate these barriers will soon be concluded.

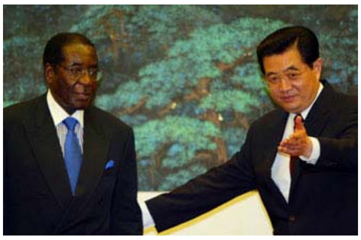
FAW considers establishing vehicle assembly plant in Zimbabwe. Chinese automobile manufacturer First Automobile Works (FAW) is considering establishing a vehicle assembly plant in Zimbabwe, where it has found a niche market for its range of buses. The Chinese government is set to sign a Memorandum of Understanding with the Zimbabwe United Passenger Company (ZUPCO) this month. ZUPCO, whose fleet has been severely depleted owing to poor maintenance levels and lack of recapitalisation, has announced plans to increase its fleet to about 1200 buses, with the Chinese emerging as preferred suppliers in line with the government's 'Look East' policy that has also seen national airline Air Zimbabwe procuring three aircraft from China.

Chinese and Iranian banks to finance power projects in Zambia. In Zambia, Chinese and Iranian banks will finance two power projects, with an estimated cost of US$ 720 million. The China Import and Export Bank will provide 85% of the US$ 600 million Kafue Gorge Lower power project, and the state power utility Zesco has partnered with Chinese state-owned firm Sinohydro Corp Ltd. to construct the power station. The Export Development Bank of Iran will separately provide 85% of the financing for the $120 million Itezhi-Tezhi power station project. The Kaufe Gorge Lower power project is expected to commence in early 2006.

PetroChina signs deal with the Nigerian National Petroleum Company. PetroChina, one of China's state-owned oil companies, signed an US$ 800 million deal with the Nigerian National Petroleum Corporation on 18 July, to import 30 000 barrels per day from Nigeria for five years.

Chinese Deputy Minister of foreign Affairs visits Angola. The Chinese Deputy Minister of Foreign Affairs, Lu Xinhua, on a visit to **Angola** this July, reaffirmed the Chinese government's continued support for the country's national reconstruction programme. The Foreign Minister said steps were being taken in the form of encouraging Chinese public and private sectors to invest in Angola, mainly in the area of infrastructures. He stated that the current economic co-operation between Angola and China had mutual benefits, explaining that his visit was a follow up to the one made by Chinese deputy Prime-Minister, Zeng Peiyang, to Angola, last February, aimed at bolstering levels of bilateral economic relations and investment. Notably, the previous Chinese delegation to Angola signed several co-operation agreements that have as basis a loan of two billion dollars granted by the Eximbank China/Angola, for the reconstruction process of the country.

President Mugabe visits China. Zimbabwean President Robert Mugabe was in China for a six day visit from 23 July, to meet for talks with senior leaders, among them Chinese President Hu Jiantao.



Following sanctions and isolation by Western countries over the political crisis in the country, Zimbabwe adopted a 'Look East' policy, fostering new relations with Asian countries, particularly China, Malaysia and Singapore. Mugabe has won backing from China with Wu Bangguo, chairman of the Standing Committee of the National People's Congress of China, voicing support for his controversial land reform program on a visit to Harare last year. Mugabe last visited China in 1999.

China and Zimbabwe sign economic co-operation agreement. Chinese President Hu Jintao and Zimbabwean President Robert Mugabe signed an agreement on economic cooperation on 26 July 2005, aimed at improving bilateral ties. The details of the economic and technical cooperation agreement are still not clear. Arising from the six-day visit is Chinese interest in investing in Zimbabwe's mining, transport and road sectors. A delegation is expected to visit Zimbabwe in September to finalise deals, mostly in the form of joint ventures, which would see Chinese companies revive copper mines, enter into iron ore mining, supply more buses to the Zimbabwe United Passenger Company (Zupco), commuter and inter-city trains to the National Railways of Zimbabwe and participate in the ongoing dualisation of the country's major roads. Mugabe secured China's veto in the United Nations Security Council report on Zimbabwe's demolition blitz. He did not, however, procure the economic aid package that he had asked for. Mugabe only received US$6 million from the Chinese government.

The China Forum

The Centre for China Studies has created the "***China Forum***", a platform for discussion on matters of topical interest. The China Forum will bring together Africans, Chinese and others to communicate and share knowledge and insight on subjects relevant to their interest areas.

Upcoming events

China Business Seminar

The Centre for Chinese Studies is to co-host a business executive seminar with WESGRO and business consultancy Emerging Market Focus on the 13th October 2005. The seminar will be hosted at the head offices of WESGRO in Cape Town. The guest speakers will be from a variety of industries based in the Western Cape, including shipping, jewelry manufacturing, textiles/garments, agribusiness, banking, steel and the media.

WESGRO The Official Trade and Investment Promotion Agency of the Western Cape

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For more information please contact Thomas Bevan, Projects Manager at the CCS, at tbevan@sun.ac.za

Our Services

The Centre for Chinese Studies offers its services to the both the public and private sector. These services are provided by our “China team” of qualified personnel and experts in the realm of advisory, research and business strategy assistance. Our full suite of service offerings include:

- ✓ Market intelligence
- ✓ Political risk analysis
- ✓ Economic research
- ✓ Business strategy planning
- ✓ Strategy execution assistance

For greater detail into our service offering to clients, please contact Laroushka Reddy, Research Manager at the CCS, at lreddy@sun.ac.za

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