The second wave of Chinese investment in Africa - Agriculture and the Service Sector

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Dear Reader,

Discussion about Chinese investment very often limits itself to the areas that are capital intensive and thus can refer to impressive figures with regard to financial volume. Indeed, the resource-seeking drive for investment in Africa is strong, not least so for Chinese investments. There is, however, more to China-Africa relations than an exclusive look at big numbers would suggest. This issue of African East Asian Affairs | The China Monitor is dedicated to the next layer of interests in Chinese investments in Africa.

The contributions to this issue of AEAA are on investments in agriculture, a culturally and politically very sensitive area of investment – with repercussions for food security in Africa, too. There is a hefty debate on the topic – with not (yet) too many examples of successful investments in this area by Chinese enterprises, as Philippe Asanzi argues based on field work he conducted in DRC. Secondly, the investment in the financial sector was explored by Vanessa Eidt and she argues that economic motives prevail over political ones with a strong business drive in the acquisition of Standard Bank shares by Chinese ICBC. As a third contribution, CCS research fellow Dr Daouda Cissé has looked into one of the growth markets on the African continent: telecommunication. He argues that Chinese companies are making some inroads in this market, not least so with tailor-made offers – and, not to forget: backing by the Chinese government.

As you can see with this issue of AEAA | The China Monitor, our publication is evolving further. We are increasing the overall weight of the publication – literally, with the insertion of a third article. In the electronic age, this should not be a physical burden for you to carry; it will, however, hopefully increase the intellectual stimulus.

I am particularly pleased that the articles of this month are all based on empirical research in African countries and thereby perfectly fit our ambition to explore Sino-African relations. I can just encourage colleagues from the African continent, China, and elsewhere, who have pieces to share that elaborate on Chinese developments and the relationship between the Middle Kingdom and the Continent. We will continue to publish a selection of our monthly commentaries in AEAA. These commentaries and other news items can also be found on our webpage (www.sun.ac.za/ccs).

We do receive comments on our editions, their topics, their layout, and points of views taken by authors in these publications. This is much appreciated! If you have any feedback on this or other publications of the CCS, please don’t hesitate to let us know (via ccsinfo@sun.ac.za). We are looking forward to your comments!

Yours sincerely,

Sven Grimm
Director

Dr Sven Grimm
Director
Chinese Agricultural Investments in Africa – Interests and Challenges
By Phillippe Asanzi
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The beginning of the 21st Century has coincided with the growth of literature on China-Africa relations. Through this, scholars and analysts have attempted to better understand the nature and dynamics of Sino-African relations as well as the manner in which these interactions are shaping the political economy of African countries. The bulk of scholarly research in the area of China-Africa relations has mainly focused on the involvement of Chinese actors in the construction-, mining-, and energy sectors. The bias toward these sectors can be explained by the increasing relevance of African natural resources, such as oil and minerals in the global commodities’ markets. That said, researchers of China-Africa relations have tended to pay relatively less attention to Chinese endeavours and activity in other sectors important to African economies, such as agriculture.

Agriculture in Sino-African cooperation – a neglected area of research
The literature on Chinese involvement in African agriculture is relatively limited. More importantly, when scholars have studied Chinese endeavours in Africa’s agriculture, they have tended to limit their analysis to the motivations underpinning Chinese agricultural enterprises in Africa. Some scholars have described Chinese ventures in Africa’s agriculture as a new approach combining business imperatives and development assistance (aid) in order to ensure the sustainability of Chinese agricultural aid projects on the continent, while at the same time enabling Chinese agricultural enterprises to seize local business opportunities (Brautigam; 2010); while other scholars have perceived current Chinese agricultural enterprises investments in Africa as part of ordinary business activities aimed at generating profits (Hairong & Sautman; 2010). Some other analysts have suggested that Chinese agricultural enterprises, with the help of the Chinese government, aim to establish extensive colonial-type farms in Africa in order to produce agricultural commodities for Chinese markets (Horta; 2008). Overall, few of the studies covering Chinese endeavours in Africa’s agriculture have sought to understand the specific challenges encountered by Chinese agricultural enterprises investing in Africa, especially the more powerful state-owned and sometimes private enterprises.

This article aims at shedding more light on the particular difficulties encountered by Chinese agricultural enterprise in the course of their investments in Africa.

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Collection of Data
The information provided in this article was mostly obtained from fieldwork research conducted in Mozambique and the Democratic Republic of the Congo (DRC). From
April to June 2011, a wide range of stakeholders, ranging from government officials and civil societies leaders to Chinese managers, were interviewed in the Mozambican cities of Maputo, Xai-Xai and Beira as well as in- and around the Congolese capital, Kinshasa. The interviews lasted on average 30 minutes and were conducted in English, Portuguese, French and Lingala, depending on the language proficiency of the people interviewed. The interviews focused on the motivations of Chinese agricultural enterprises in Mozambique and the DRC as well as the manner in which the institutional environment in the two countries affect the mode of entry and decision-making process of these corporations. The researcher encountered a few challenges regarding the interviews with some Chinese managers of Chinese agricultural enterprises. The researcher struggled in particular to communicate with some Chinese managers as a result of their low proficiency in English, Portuguese or even French. In addition to that, Chinese managers often were suspicious and unwilling to respond to certain questions.

Apart from the interviews conducted in Mozambique and the DRC, this article also relies on information obtained via desktop research.

"Despite significant increases in recent years, Chinese agricultural investments in Africa remain limited in relation to business ventures in other sectors such as mining and energy."

**Chinese agricultural investments – big business, but small scale**

Despite significant increases in recent years, Chinese agricultural investments in Africa remain limited in relation to business ventures in other sectors such as mining and energy. For instance, by 2009, agriculture, manufacturing and resource extraction accounted for 3.1%, 22% and 29.2%, of China’s total cumulative stock of investments in Africa respectively. (Lei; 2011) Chinese agricultural enterprises investing in Africa are constituted of small family- or individual businesses, and corporate agricultural enterprises. The small family business is comprised of Chinese migrants who came to Africa as business entrepreneurs. Sometimes, the Chinese investors are former employees of Chinese state-owned enterprises who later shifted to local agriculture in order to increase their personal profits.

Corporate agricultural enterprises comprise two types of entities; the newly created state-owned enterprises, which aim to expand their activities in Africa in order to capture markets or secure agricultural commodities; and the more robust and larger multinational enterprises (state-owned or private) with established operations in other parts of the world. (Hairon & Sautman; 2010, Interview in Beira, 26 April 2011, Freedman, Holslag & Weil; 2008) Amongst the newly created Chinese state-owned agricultural corporations are two enterprises from Hubei province; Hubei Lianfeng Overseas Agricultural Corporation – which was created in 2005 by Hubei state farming Agribusiness Corporation to expand its activities in Mozambique and Africa, and Hubei Dadi Corporation for Economic and Technical Cooperation, which was created in the 1990s to promote rice production in Africa, principally in Nigeria, Ghana and the DRC. (Freedman, Holslag & Weil; 2008, Interview in Kinshasa, 18 May 2011)

Another corporation specifically designed for operation in Africa, China-Africa Cotton
Development, was established in 2003 and since then has opened branches in several African countries, such as Malawi, Mozambique, Zambia and Tanzania. (Interview in Beira, 26 April 2011) Concerning the larger Chinese multinational corporations, there are the state-owned giants like China Grains and Oils Group Corporation (CGOG), which attempted to launch operations in Mozambique, and China Overseas Engineering Group Company (COVEC), which sought to establish a 100 000 hectare farmland in the DRC. (Interview in Beira, 26 April 2011 & Interview in Kinshasa, 31 May 2011) Beside the state-owned multinationals, a private Chinese multinational corporation, ZTE Agribusiness Congo – a subsidiary of China’s ZTE Agribusiness Company – has also sought to acquire large tracts of farmland in the DRC. (Interview in Kinshasa, 13 June 2011)

It is important to note here that while the newly created Chinese state-owned agricultural enterprises appear to have managed to invest in agricultural projects in various African countries, the larger and more robust Chinese multinational state-owned enterprises have found it more difficult to launch similar operations on the continent. Accordingly, few, if any, large-scale Chinese agricultural investments in Africa have been recorded to this day as most Chinese agricultural projects have been lesser than 10 000 or even 5 000 hectares.

The main reason for the delays in the implementation of large-scale Chinese agricultural investments in Africa has to do with the types of challenges encountered on the ground by Chinese multinational enterprises. Although all Chinese agricultural enterprises face the same types of challenges when investing in African agriculture, the larger and more powerful multinational enterprises tend to be more vulnerable to these obstacles given their considerable ignorance of local socio-political conditions and soil pedology, and also the magnitude of their investments, which require an extensive amount of land. (Interview in Beira, 26 April 2011)

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Crops and markets sought by Chinese agricultural corporations

Chinese agricultural corporations operating in Africa seems to be interested in a variety of agricultural commodities, reflecting their individual area of specialisation. Some of them are active in the production of food crops – mainly rice but also maize and fresh meats – which are destined for local markets. This is the case for most new Chinese state-owned agricultural corporations that produce foodstuffs for local markets. As for the robust Chinese multinational corporations, these tend to be more interested in the production of cash crops or minor crops such as palm oil, cotton and soybean that are primarily destined for the Chinese market, but also for local markets. Thus, it seems that the large-scale agricultural projects of the more robust Chinese multinational enterprises tend to be associated with the cultivation of cash- and minor crops. However, given the limited number of Chinese agricultural enterprises in Africa at the moment, the trend outlined above should be seen as an initial phenomenon subject to possible modification as the number of Chinese agricultural corporations operating in Africa increases. Chinese agricultural investment in Africa is still in its early days and much remains to be learnt of the issue.
Challenges for Chinese agricultural corporations

Chinese agricultural enterprises, especially the more powerful state-owned and private ones, face various challenges in their attempt to invest in Africa. The bulk of the obstacles relate to the absence of essential information, and complications derived from the land acquisition process. As a result of these imperfections, Chinese multinational enterprises have been unable to begin large-scale agricultural projects in Africa.

Firstly, with regard to the point about absence of information; Chinese agricultural enterprises struggle to have access to correct information necessary to ensure the success of their business ventures. In a sector like agriculture, getting access to vital information such as the quality of soil, the appropriate seeds, as well as the availability of suitable machinery is of paramount importance if an enterprise desires to succeed in its business venture. (Interview in Maputo, 4 May 2011) However, in many African countries, such information is not available since governments and their specialised agencies lack the institutional capacity to collect and organise agriculture-related data. Therefore, Chinese agricultural enterprises are often left with poor soil while using inappropriate seeds and machineries and as a result, they fail to achieve positive results or in some cases, fail to become operational. (Interview in Beira, 26 April 2011) Ignorance of local conditions is the primary factor accounting for the failure of CGOG’s operations in Mozambique as the Chinese state-owned agricultural corporation lacked information on the pedology of the soil as well as the appropriate inputs and machineries for that particular type of soil. (Interview in Beira, 26 April 2011)

In a sector like agriculture, getting access to vital information such as the quality of soil, the appropriate seeds, as well as the availability of suitable machinery is of paramount importance.

Secondly, Chinese agricultural enterprises investing in Africa also encounter problems with the low level of technical skills available on the continent. A number of Chinese agricultural enterprises have attempted to circumvent this problem by importing labour from China. This is exactly what CGOG attempted to do in Mozambique. (Interview in Beira, 26 April 2011) However, such option has proven to be expensive given that most African countries require a work permit and additional costs for every foreign worker hired.

Lastly and most importantly, Chinese agricultural enterprises interested in Africa have been confronted with the problem of accessing land. In most of Africa, land ownership is with the state. Thus, in theory, the state, through its designated bodies, is the sole entity empowered to grant land concessions to local and foreign investors. However, in reality, things are more complicated.

Despite its vast landmass, Africa is not a void, as investors might mistakenly assume due to often low population density on the continent. Land usage in African societies for centuries has been associated with specific ethnic groups and clans. Consequently, local community still retain considerable power in the land acquisition process in modern Africa. Thus, African governments usually require that investors first obtain authorisations from local communities to whom the land “belongs” before they can introduce formal land demands with the relevant authorities. (Interview in Maputo, 4 May 2011 & Interview in Kinshasa, 13 June 2011) As a result of such requirement, the land acquisition process in Africa is often complex and cumbersome and gives rise to several problems.

One of the obvious problems arising is that of the identification and delimitation of the community, how can a foreign investor know which land belongs to which community?
Another problem arising from this arrangement is that of representation. Who will represent the community in the negotiation with the investor? In addition to that, there is also a problem related to language barrier. How will foreign investors communicate with members of the local community? This often requires knowledge in local languages. Finally, there is the problem of trade-offs. The negotiation process does not result in a straightforward lease agreement according to modern law. Consequently, questions arise around the type and scope of favours or goods that the community decides to demand in exchange for the granting of land to foreign investors. All these issues are big obstacles for foreign investors in general (specifically for Chinese investors) since they result in a land acquisition process that is cumbersome and costly. As a consequence, Chinese agricultural enterprises often struggle to obtain land, especially when they are seeking to establish large concessions. (Interview in Kinshasa, 31 May 2011) The complexity and burden of land acquisition is the precise reason for the failure of COVEC’s operations in the DRC. After a year of negotiation with various stakeholders in the DRC, the government and local communities, COVEC could not secure a 100,000 hectares of land, therefore, the enterprise opted to abandon its business venture in the DRC. (Interview in Kinshasa, 31 May 2011)

Furthermore, in a bid to circumvent the challenges associated with the difficulties of the land acquisition process in Africa, China-Africa Cotton Development has adopted, in all African countries where it operates, a “production structure of order-based farming”. (Investors.com; 2011) According to this model of production, the enterprise provides seeds and fertiliser to local peasants and in return, buys the cotton from them. This particular form of entry enables China-Africa Cotton Development to access African cotton while at the same time avoiding the predicaments of complicated acquisitions of land titles. (Investors.com; 2011)

**Conclusion**

In the future, it would be more advisable for Chinese agricultural enterprises, especially the big multinational enterprises, to devote more time studying the local conditions before deciding to embark on major investment projects. Proper analysis of the situation on the ground, communities concerned and risks involved is necessary. This, obviously, has an impact on the calculation of costs and benefits that the investment entails. Given the asymmetrical information and the uncertainties around the land acquisition process in Africa, perhaps it would be more efficient for large Chinese agricultural enterprises not to “go big” immediately, but rather to start operating in Africa in small-scale project. A smaller start would allow for a better study of the area, thereby offering the investor time in order to identify the challenges and envisioned solutions, before moving to large-scale projects.

Conversely, large Chinese agricultural corporations contemplating investments in Africa can follow in the footsteps of China-Cotton Africa Development by adopting an outsourcing model of business, which would allow them to provide inputs to smallholders (those working on their own farmland) and in return buy agricultural commodities from the latter. Insofar as this model of entry has evident benefits, especially in the institutionally troublesome rural areas of Africa, it also contains important shortcomings. Adopting an outsourcing model of business has important implications on the quality and quantities of
commodities that smallholders are supposed to produce. This is because the enterprise that subcontracts its technology and skills does not possess any leverage on the main factors of production, which are labour and land in this case. Therefore, the subcontractor cannot oblige smallholders to adopt agricultural techniques that ensure greater and superior yields, or compel them to allocate more labour on their farmland to the production of specific crops or even to increase the area of their farmland destined to the cultivation of specific crops. Thus, with the outsourcing model, the subcontractor might have to accept lower yields from inferior quality. Ultimately, as argued above, individual organisations should devote more time studying local conditions and then take the appropriate decisions suitable to their interests and needs.

References


Interview in Beira, 26 April 2011

Interview in Kinshasa, 31 May 2011

Interview in Kinshasa, 13 June 2011.

Interview in Maputo, 4 May 2011

Interview in Kinshasa, 31 May 2011


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Assessing the strategic alliance between Industrial and Commercial Bank of China and Standard Bank

By Vanessa Eidt
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Many financial experts, scholars and politicians around the world took notice in 2007, when the Industrial and Commercial Bank of China (ICBC), the world largest bank by market capitalization, announced that it would invest US$5.6 billion to acquire a 20% stake in the South African Standard Bank (SBSA). After all, SBSA is Africa’s top bank by assets with a continent-wide footprint. At the same time, the announcement of the deal set off an avalanche of assumptions that this deal “fits nicely” into China’s “go global” strategy and was therefore mainly initiated by the Chinese government. Moreover, it was assumed that the alliance underpins a new shift of China’s engagement from a resource-seeking strategy to a more knowledge-seeking and strategic-asset-seeking strategy in Africa, and that more Chinese banks would follow ICBC’s example, thereby considerably impacting Sino-African relationships in the long run.

Four years after the announcement of the deal, this study intends to evaluate these before-mentioned assumptions. Therefore, it investigates the general reasons and motivations for Chinese banks to enter to the South African banking sector. Within this context, the strategic alliance between ICBC and SBSA is used as a case study, which is studied against the above mentioned broader context to gain a better understanding for the Chinese engagement in the South African banking sector and its importance for the Sino–African relationship in the long run.

The research is based on the analysis of public documents, reports and theoretical papers as well as valuable insights from 13 interviews, which were conducted during August and September 2011 in Cape Town, Johannesburg and Pretoria with key representatives from the South African and Chinese banking industry, the South African financial sector regulatory body, the South African government, scholars, financial experts as well as the private sector.² The interviews were mainly conducted as semi-structured, mostly (11 out of 13) face-to-face interviews and some (2 out of 13) via telephone.

“According to the research conducted in South Africa, no evidence was found that the transaction was politically driven; rather, it appears to has been foremost business driven.”

Motivation for ICBC to enter into the alliance

According to the research conducted in South Africa, no evidence was found that the transaction was politically driven; rather, it appears to have been predominantly business driven in the sense that “business leads finance” (Author interview 4; 2011). With the move, ICBC was essentially following its core clients (“market-sustaining strategy”)³, big state-owned enterprises that have been demanding more global financing. This demand is, especially in the case in Africa due to the nature of business activities e.g. infrastructure and mining projects that both require large investments. In fact, ICBC’s clients had demanded ICBC to “come earlier” (Author interview 1; 2011) to Africa than ICBC ultimately did, despite the fact that after the acquisition of several smaller Asian financial companies ICBC entered the South African market relatively early in its internationalization process.

Moreover, the move fits the overall observation that Chinese companies want to cover
the whole value chain, e.g. in case of the mining business, Chinese companies do not only want to be involved in buying up mines and provide equipment to exploit the mines but also want to finance all these operations.

Additionally, from a long-term strategic-asset seeking perspective, this alliance allows ICBC to acquire invaluable information and knowledge about African markets and how to operate successfully in the African continent in the long run. Last but not least, Africa has a great potential to show significant GDP growth over a longer period due to its currently still low level of GDP per capita. Market-seeking is a long-term strategy on the Chinese side.

Taking into account that ICBC needed to partner with an African bank to enter the African market due to a lack of local knowledge and contacts, SBSA can be considered a natural target in ICBC’s search as South Africa has the most sophisticated banking system in Africa (with Kenya, Ghana and Nigeria as next alternatives) as well as South Africa being the largest and politically most stable African economy – commonly perceived as the springboard market into the rest of the continent. Choices for partners in South Africa were not abundant, however, as quite a few of the South African banks had already sought international partners. Out of the four big banks that account for almost 84% of total bank assets in the South African market as at September 2011 (Banking Association of South Africa; 2011:3) , Barclays had already bought a 56% stake in ABSA Group in 2005 and Old Mutual was a majority owner of Nedbank. Furthermore, not least from a Chinese perspective, SBSA stood out with its pan-African footprint in 18 African markets as SBSA had historically been following South African outward FDI into other African countries.

Motivation for Standard Bank to enter into the alliance

It is worthwhile to recall that the partnership was not a hostile takeover, but an alliance sought by both sides. Besides needing equity to finance its further growth, SBSA was also looking for strengthening its relationships in the Chinese market, especially in the commodities business. Africa as a continent is particularly strong in commodities and Asia is the biggest buyer in this area, i.e. the goal was to bank the whole global supply chain for commodities. Therefore, SBSA’s aim was expressed as not to enter China with a full banking license - SBSA arguably has no competitive advantage there - but rather to strengthen Africa’s links to China and other key emerging markets by, for instance, inducing and financing more investments in Africa and globally.

Deal structuring

The deal had been structured as a 20% equity injection for various reasons with a win-win situation for all parties. While SBSA needed capital to finance its further growth and the purchase price of US$5.6 billion was considered sufficient by SBSA to fulfill this goal, ICBC did not want to enter the African market by running the operations themselves as a controlling stakeholder. Rather, ICBC saw an advantage in adopting a cautious approach with a focus on learning from their South African partner how to do business in Africa. Beyond both transacting partners, it is common sense that South African politicians and the South African Reserve Bank also felt and feel the need to protect their four big banks and do not want a complete sellout of their banking system to foreign investors.
Moreover, an equity-based cooperation more successfully allows deriving synergies from the banking relationship than a contract-based cooperation. On the one hand, this is due to the fact that the investing bank has a larger incentive to transfer knowledge, superior technology and resources to the target as it also profits from the target’s higher dividends and stock price appreciation. On the other hand, through holding two seats in the board of directors, ICBC can oversee and to a certain extent directly influence the strategic direction of SBSA. In general, both parties have better access to their partner’s senior management and thereby mutually benefit.

Post-deal cooperation

Generally, with all acquisitions that are meant to create synergies, the post-deal phase is important to “harvest” the intended synergies. The study finds that there is an extensive cooperation in place on three different levels, namely on a strategic, operational and project level. Strategic cooperation is based on the two seats that ICBC holds in SBSA’s board. The cooperation at the operational level is mainly linked to a strategic cooperation committee with different subordinated work streams and workshops. At the project level, discussions focus on specific clients and projects and consequently teams are built around those projects. To a certain extent, ICBC focuses on contributing the funding (especially after IPO, a lot of cash ready for investment had been available), while SBSA knows the African market better and therefore can better “mine” and evaluate projects. Although the USD 5.6 billion purchase price has been counted in the statistics as South African inward FDI, it is in fact largely outward FDI as it is mainly used for post-acquisition pan-African project financing. Third-party observers have voiced the opinion that more projects could be done if more suitable and profitable investment opportunities existed in Africa and that financing amounts up to date could be higher if the planning process in Africa was faster than it is. While both ICBC and SBSA have fairly complementary operations, they do compete for the provision of funding in some mutual projects and have to jointly agree the amount of financing each party will provide to the suggested project.

Evaluation of the alliance on the transaction level

It might still be too early to judge the final outcome of the alliance as both parties are taking a long-term view. Assessments will hinge on the level of expectations towards the partnership – and on the timeframe allowed for benefits to be reaped. However several preliminary statements can be made regarding its success. Firstly, mutual relationships between both parties seem to have developed well with extensive mutual knowledge transfer at all three levels of collaboration mentioned before. To date, ICBC has cooperated with SBSA on over 110 projects, while SBSA has been coaching ICBC in the background. In total, as part of the partnership, ICBC has provided total financing of over US$7 billion to African countries. It should be noted that the partnership focuses on Africa, but also encompasses projects outside of Africa. While ICBC has expressed its satisfaction with the general return on investment (ROI amounted to 7.7% after 18 months) (ICBC; 2009), it is also true that the alliance had been formed before the financial crisis and that those pre-crisis expectations have not been fully met as of this date. In September 2010, SBSA expressed its disappointment about the slow revenue flow from the ICBC deal.
Nevertheless, the deal is considered to be more successful than comparable transactions in the financial sector. From a credit rating perspective, the provision of additional funding by a strong Chinese investor such as ICBC is generally positive for SBSA’s credit rating and will also help SBSA to fulfill the more strict capital requirements imposed by the international Basel III banking agreement.

**Evaluation of the alliance on the macro level**

As could be read in the press, the alliance, with an investment of this magnitude, was generally seen as a ‘vote of confidence’ for the future of the African market as it represented the largest single foreign investment by a Chinese firm to date.

The alliance has not had a significant direct impact on the South African financial system, and this can be read either negatively or positively. However to a certain extent, it has led to a more diverse offering of financial products, e.g. through the market entry in 2008 of China Union Pay⁴ that offers credit card products and of which ICBC is a major shareholder and the finalization of the strategic partnership between SBSA and China Union Pay in 2010. Additionally, another outcome of the alliance is the establishment of an online banking platform, which allows Chinese companies to transfer money around Africa. (Alao, Alden et al; 2012:26)

Also, despite the great amount of public attention that the first transaction by a Chinese bank in the South African financial sector had attracted, Chinese companies have been incentivized to ‘go global’ since around 2002 (i.e. one year after China joined the WTO) and banks like China Construction Bank and Bank of China had already been present in South Africa with offices since 2000. China Export-Import Bank and Everbright Bank had already set up representative offices in 1999. (Brautigam; 2009:74-82)

> **A key concern in South Africa is job creation; yet investments in the financial sector do not lead to significant job growth.**

A key concern in South Africa is job creation; yet investments in the financial sector do not lead to significant job growth in South Africa. Consequently, local politicians focus on incentives for attracting manufacturing industries. Moreover, the first equity-based deal in the South African financial sector might have also been the last for a longer period of time due to political limitations: South African politicians feel the need to protect the financial sector and want to keep the four big banks in national hands. Furthermore, while all those four big banks might be allowed to have foreign investors⁵, South African politicians seem to want to diversify international minority shareholding; it would be unwise to put all eggs in one basket and have only Chinese minority shareholders. Besides the South African financial sector, in the future, investments in Kenyan, Togolese, and Nigerian banks could therefore become more attractive for Chinese investors; Nigeria has the largest population in Africa with an estimated 150 million inhabitants.

**Conclusion**

The deal of SBSA and ICBC has been in line with the natural progression of China’s and Chinese companies’ engagement in Africa. The transaction was therefore the next logical step in providing the “financial arteries” (Author interview 10; 2011) for the business activities of Chinese industrial and services companies – no more and no less.
Surely, even if not initiated by the Chinese government, as with all such large transactions, the deal still can be considered to have had to be approved by all responsible Chinese government bodies. Despite the direct impact of Chinese Banks on the South African financial sector being in scale, the indirect impact from providing finance for projects in Africa, i.e. trickle-down effects, might be large in scale in the long run.

As described above, due to the lack of larger players in the South African and in general in the African financial sector that have the “critical mass” to be a worthwhile acquisition target, potential targets in Africa for Chinese banks can be considered scarce\(^6\) (in South Africa also due to political constraints). Therefore, it is unlikely to see a ‘flood’ of similar transactions, especially of this size, in the nearer future in the African financial sector.

End Notes

1. The research for this study was conducted during a research stay at the CCS and was generously funded by the Heinrich J. Klein Foundation (Schott AG, Germany)
2. Due to the sensitive nature of this topic, some interviewees asked not to be named or quoted in this paper: sources and companies are thus anonymous.
3. SBSA estimates that more than 1500 Chinese companies are operating in the 18 countries where the bank has operations.
4. China’s only bank card association
5. ABSA Group is already majority-owned by Barclays, ICBC holds 20% in SBSA, First Rand has a strategic deal-based cooperation with China Construction Bank since 2009
6. A potential target in Africa for Chinese banks could be, for example, the Ecobank in Togo with a footprint in over 30 African countries. However, Ecobank already signed a co-operation agreement with the Bank of China in 2010.

References


Interview by Author no. 1. Conducted: 9\(^{th}\) August 2011
Vanessa Eidt was a research intern at the Centre for Chinese Studies in mid-2011 while she was conducting research for her Master Thesis. She completed a Master of Business Administration at Colorado State University-Pueblo and is finalizing her second Masters in Business Administration and Anthropology at the Johannes Gutenberg-University in Mainz (Germany) where she plans to graduate in May 2012. During her time at the Centre her research topic was on the Chinese involvement in the South African financial sector and specifically looked into the strategic alliance between the Industrial and Commercial Bank of China and the Standard Bank Group.
Chinese Telecom Companies Foray Into Africa

By Dr Daouda Cissé
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China’s Outward Foreign Direct Investment (OFDI) to Africa has been driven by its quest for natural resources not only to secure resources for itself but also ensure its modernisation and urbanisation (Shenkar and Luo, 2004). Like the traditional Chinese investments’ sectors in Africa (infrastructure, mining, oil; etc.), the telecommunication sector also fits into China’s central government policy rationale to boost Chinese companies ventures abroad. Beyond this, investments in the telecommunication sector illustrate a broader case of qualitative changes in China’s African investments. Chinese investment’s pattern in Africa is shifting slightly from an exclusive engagement in extractive industries to an increasing inclusion of services (finance, banking and telecommunication) and manufacturing.

The boom of Africa’s telecom industry, which is today one of the world’s fastest growing, the liberalisation of the telecoms sector in many African countries and the willingness of their respective governments to improve the telecom environment have attracted more foreign investors. Chinese telecom companies’ venture into Africa follows Beijing’s “go out” strategy that wishes to see Chinese companies (State-Owned Enterprises (SOEs) at the central or provincial level as well as private companies) operating overseas. Chinese telecommunication companies’ presence in the world market has been favoured by Beijing’s policies for its companies to enter new markets, to acquire foreign technology and reinforce China’s space and satellite programme (Executive Research Associates, 2009).

The paper explores the political economy of Chinese companies with more focus on telecommunication companies. It looks at the globalisation of Chinese companies, the Chinese telecommunication companies’ — mainly ZTE and Huawei — “go out” strategy and their presence in Africa.

Chinese telecommunication companies’ presence in the world market has been favoured by Beijing’s policies.

Globalisation of Chinese companies

Through their internationalization, Chinese companies are building high profiles in overseas markets. Most scholars looking at the motivations of Chinese enterprises to go international agree that classical motivations play a key role in Chinese companies’ investments abroad. Chinese multinational companies are to various extents resource-seeking, market-seeking and strategic asset-seeking (Buckley et al., 2007). Over the last years, China’s economic growth has mainly relied on its export-driven policy which has focused on the search for new markets to sell Chinese manufacturing products to the world’s market. The logical consequence of such policy is market-seeking motivations.

The poor availability of resources within China contrasts with the country’s need for modernisation and resources. Chinese companies have thus developed activities in
resource-seeking foreign direct investment (FDI) and basically implement them according to the targeted country or region. African and Central Asian countries are the main recipients of China’s OFDI in natural resources such as oil, copper, coal. Due to the strategic importance of OFDI, a large number of Chinese multinational companies overseas are SOEs. But in recent years the fierce competition that prevails in China doubled with the rise of labour and production costs has driven many private Chinese companies to relocate overseas. According to Jing Gu (2009), strategic asset motivations play a key role for Chinese investors abroad. Compared to Western multinational investing abroad, these aspects (resource-seeking, market-seeking and strategic-asset seeking) give different characteristics to Chinese multinational corporations (MNCs). Besides, Chinese companies’ operations abroad are supported by the Chinese government, be it at the central or provincial level. Such political, financial and diplomatic support gives Chinese MNC’s a unique particularity in the global market and may arguably put them in a better position than non-Chinese companies. Chinese SOEs are supported by the government through financial aid and political influence to “catch up” with their relative late-coming to the international market (Alden and Davies, 2006). Competition in China’s large and complex market is not only the key push factor for Chinese MNC to go overseas. The “go out” strategy undertaken by Beijing’s central government in the late 1990s has contributed a lot to China’s OFDI.

"Chinese SOEs are supported by the government through financial aid and political influence to “catch up” with their relative late-coming to the international market."

The ‘go out’ strategy – not least including telecommunication enterprises

During these last few decades, China’s telecoms sector has experienced an unprecedented growth. Thus, following China’s economic rise which was accompanied by the competitiveness of Chinese companies in global markets, a number of Chinese telecom firms have rapidly expanded their activities overseas to compete with foreign multinationals such as Ericsson, Alcatel, Nokia; etc. Beebe et al. (2006) argue that Chinese companies’ motivations to go global are: to search for new markets to export their products, to acquire advanced management and technology skills and to secure China’s natural resources. Chinese companies’ foray into the international market is motivated by the search for new markets for growth.

Backed by their government and benefiting a high profit potential due to their price competitiveness, Chinese telecom companies ease competition by going global. However, to be internationally competitive, Chinese telecom MNCs need to learn foreign management styles and technology and build innovative brands. Innovation remains essential for Chinese companies to be accepted abroad and survive the global market’s competition. Therefore building global brands is one of the centrepieces of China’s 12th five-year plan, while focusing on research and development are Chinese telecom companies’ challenges and eyeing new trends on international markets. In fact, even if a large number of Chinese companies pave their way into overseas markets by developing and improving their management and technological abilities in order to improve their competitiveness, others build strong relationships with foreign enterprises and acquire foreign businesses via mergers and acquisitions (Beebe et al., 2006; Bonaglia et al., 2007; Salidjanova, 2011).
The Chinese government’s role in supporting its companies going overseas through the “go out” policy is visible and constitutes an important aspect in the internationalisation process of Chinese telecommunication companies. Through its agencies, organisations and financial institutions (China Exim Bank, China Development Bank and China Africa Development Fund) the Chinese government brings important support to Chinese companies overseas (Beebe et al., 2006). The Ministry of Commerce (MOFCOM), the National Development and Reform Commission (NDRC) and the State Administration of Foreign Exchange (SAFE) have all developed strategies and policies to assist Chinese companies going abroad. According to Xinhua (2006), Chinese premier Wen Jiabao reaffirmed the Chinese government’s commitment to encourage globalisation by offering various types of support and including new policies and services to coordinate overseas investments and manage the risks. Preferential loans and buyer credit are thus provided to Chinese telecom companies operating abroad. For instance, in 2009, China Development Bank proclaimed, through a five-year cooperation framework agreement, it would provide ZTE with a US$ 15 billion credit line including ZTE’s overseas projects financing and credit limits (Brown, 2009).

As Chinese telecom companies wanted to go global and expand their business over China’s borders, their global ambition was not a secret. During the past decade, Huawei established its research and development (R&D) centres abroad. Li Cheng (2006) states that Huawei and ZTE are globalising faster and are determined to stay the course. Chinese companies’ presence in the global telecom industry is changing the trend in this sector by creating competition and reshaping management strategies. Their participation in overseas market has taken different forms including R&D, joint ventures, project contracting, M&A, telecoms management and operation.

As Chinese telecom companies wanted to go global and expand their business over China’s borders, their global ambition was not a secret.

**Chinese telecommunication companies in Africa**

Africa, an important and thriving market for telecom industry, plays a key role in Chinese telecom companies’ activities across the continent, allowing them to gain partnership and collaboration among local telecom operators. The telecom sector in Africa has experienced important growth during recent years and has attracted an increasing number of investors. The willingness of African governments to modernise and develop their telecoms industry, telecom policies’ liberalisation in some African countries in the 1990s and in early 2000 have made the African telecom environment favourable to foreign investors (Berg and Hamilton, 2001). For Chinese telecom companies (ZTE and Huawei), the lack of network coverage, the high costs of establishing landline networks across vast and often sparsely populated territory are among others the main motives to tap into Africa.

China’s increasing presence in Africa’s telecommunication sector is part of a multi-dimensional engagement in the continent to serve its broader strategy to enhance its global standing, counter western influence and to obtain resources and new export markets to feed its rapid economic expansion (Executive Research Associates, 2009). Beside construction, as well as mining and energy, telecommunication represents a
key investment sector for China and participates to the Chinese economic development policy (Executive Research Associates, 2009). Investments in telecommunication goes hand in hand with the strategic policies of China’s interests abroad to find new markets to export its manufacturing products, develop its technology and acquire foreign expertise. With its strategic political considerations, the primary objective of China is to see Chinese international competitive enterprises (Dumbaugh, 2008).

**Aggressive market mechanisms in Africa**

The two largest Chinese telecom companies (ZTE and Huawei) play an important role in the expansion of Chinese investments abroad and in China’s political economy strategy overseas. Focused on the great and growing demand in mobile phone business in Africa, Chinese multinational telecom companies operate in the continent and are changing the telecom industry hierarchy by putting pressure on their main competitors in this area with their low cost mobile handsets and telecom equipment. According to Raushan Sagalbayeva (2011): “not only is Huawei closing in on Ericsson in terms of worldwide revenues (US$ 28.1 billion and US$ 28.4 billion respectively in 2010), but Ericsson also saw a steady decline in the volume of sales it generates in sub-Saharan Africa in 2010”. Improving technical capacities, low production costs, access to state funding sources and state political support provide Chinese telecom companies with a competitive advantage not available to independent telecom companies.

In order to stay competitive in the African telecom market, Chinese companies have developed specific strategies. While investing in Africa, Huawei and ZTE are more focused on customers’ needs and requirements. Customer-oriented strategy is the main element of both companies’ success in Africa. A better understanding of local population’s needs and rapid responsiveness to satisfy such needs, competitive prices, intra-governmental relations and partnership with local telecom operators help Chinese telecom companies in Africa to win trust and reliability among African customers. Pricing strategy remains important for Chinese telecom companies in Africa. Their foreign counterparts have already complained about low Chinese prices for bidding (European Metalworkers’ Federation, 2011). According to Wilson Yang, Huawei’s former head of operations in West Africa mentioned in a University of Pennsylvania Wharton school case study regarding the company that Huawei manages to achieve tremendous margins pricing itself only 5 to 15% lower than its international competitors (Chang et al., 2009). On the other hand, ZTE prices 30 to 40% below European competitors. Rapid responsiveness of the personnel and high customer service are also key elements in Chinese telecom companies’ strategies to operate in Africa. ZTE and Huawei always operate with their local telecom partners to establish and control if the base stations placed in rural areas satisfy local populations’ needs. After providing customers with telecom network equipment, Huawei and ZTE offer long term maintenance services to ensure the reliable operation of local networks (Yan Weijuan, 2011).
No shying away from troublesome environments…

Besides, Chinese telecom companies draw political advantage, economic advantage and political diplomacy while operating in Africa. According to Alden and Davies (2006), based on the concept of “non-interference” in domestic affairs of any state, China is willing to invest in African states regardless of their international standing. In the case of Chinese telecom MNCs, they operate in remote and rural areas in Africa which are sometimes difficult to access due to bad road infrastructure, unreliable and even dangerous to invest in, by building telecom network equipment and base stations to allow local people the benefit of wide network coverage contrary to their western competitors. Economically, the low cost of product development, taking into account R&D, manufacturing, distribution and sales have allowed ZTE and Huawei to win more markets than their competitors. For instance, Huawei deserves more credit in Africa by not elevating its customer service to a high priority but also considering its pricing strategy in the continent. Chinese telecom companies are able to transfer savings in labour and other resources to low price and use it as leverage in emerging markets like Africa. Low cost bidding has always been a non-negligible aspect in Chinese companies’ strategy.

"China’s engagement in Africa’s telecom industry has been substantial if we consider the improvement and the growth noticed in the ICT sector across the continent in recent years."

…– with a little diplomatic help

Diplomatically, not only telecom companies but also Chinese MNC’s are strongly backed in their overseas operations by Beijing’s central government. The diplomatic attention paid to African countries by the Chinese government helps to support big projects and development assistance and constitutes an important feature for Chinese telecom companies bidding process. Chinese telecom companies develop political capital in Africa. Huawei and ZTE have not only political ties with China’s government but also with host countries’ government. When Chinese government leaders visit other developing countries, they are often accompanied by the senior management team of Huawei and ZTE (Fang Lee Cooke, 2011; p.12). Both companies take opportunities during these visits to build political and diplomatic relationships with host countries’ policymakers in order to gain influence and reliability and have more important business operations. Public diplomacy in Sino-African relations has become essential in order to rebuild traditional mutual relations and trust.

Conclusion

China’s engagement in Africa’s telecom industry has been substantial if we consider the improvement and the growth noticed in the ICT sector across the continent during recent years. By leveraging their expertise and experience in their home and overseas markets, Chinese telecom companies contribute to bridge the digital divide and offer people the chance to join the information and communication era despite their location.

In recent years, China’s outward FDI pattern in Africa has shifted from heavy industries to services (telecommunication, banking, finance; etc.). Chinese telecom companies in Africa and their contribution to the improvement of the continent’s
telecom industry is obvious. This new trend of investment in services has probably been driven by China's inward FDI. In China itself, the change from an export-driven to a consumption-driven economy which was initiated by Chinese policymakers in order to avoid the country's economy fully relying on exports has attracted investments in the services sector.¹

China's investment in Africa's services sector remains important. However, such increased presence in different sectors, mainly in the African telecom industry, has already brought difficulties. The competition from Chinese telecom companies to win tenders has already been denounced by African telecom providers and vendors. Although China's investment in the continent is diversifying, attention should be paid not to exclusively involve Chinese companies in sensitive services sectors. In China itself, although foreign investments in services have been welcomed by the government, sectors such as insurance and consumer banking still remain closed to foreign investors and entirely controlled by Chinese.

It is important to mention that Chinese investments in the telecom sector in Africa came with preferential loans to governments in order to acquire Chinese telecom equipment and infrastructure. The Chinese financiers provided African governments with loans in order to only buy equipment from Chinese telecom companies so they could develop their telecom equipment and services. Also called vendor-guaranteed loans, such loans were offered directly to Chinese telecom companies which already benefited from credit lines. Even if Huawei and ZTE investments in Africa have been welcomed by African governments, problems arise with the presence of both companies in the continent's telecoms sector. In Kenya for instance, contracts between local telecom operators and Chinese companies have been cancelled because of delays in equipment- and infrastructure supply. Besides, telecom investors in African countries mention that Chinese telecom companies have access to markets by using intra-governmental relations between China and Africa. Chinese telecom MNC’s should show less suspicion about their activities in Africa and also allow policymakers, organisations and academics to better engage with them, as well as consider better interactions with the public and media through their public relations department. By doing so, they will help reduce the perception of a lack of transparency that surrounds their engagement in Africa, which is not always a positive outcome. Clearly, more transparency is also needed in allocating tenders to telecom companies operating in Africa.

End Notes

¹ The retail business has become very important for foreign investors in China's cities. For instance, global clothing brands such as H&M, C&A, GAP, ZARA, UNIQLO; etc. have opened stores in cities like Shanghai, Beijing, Shenzhen, Guangzhou, Wuhan to target consumers whose purchasing power is increasing.

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After his stay in China and his PhD thesis, his research interests are: China-Africa trade relations, China-Africa economic cooperation.
Kidnapping of Chinese in Africa – What can and what should Beijing do?

By Sven Grimm
Director, Centre for Chinese Studies, Stellenbosch University

The year 2012 began with more news on kidnapping of Chinese workers in African states, the latest and highest numbers being in Sudan and in Egypt. As our Weekly Briefing reported, Chinese road workers were kidnapped by rebels in Southern Kordofan, an oil-rich, rebellion-racked state of Sudan. China’s Vice Foreign Minister, Xie Hangsheng, expressed that he was “deeply shocked” by the abductions and China sent a Foreign Ministry-led working group to Sudan to assist the rescue of the 29 workers. Another group of 25 Chinese taken hostage in Egypt was freed the same week. The hostage-taking was not directed against Chinese actions. Rather, conflict groups used international hostages that they could easily get hold of. It is more than likely that we will see more incidences of kidnapping or other dangerous situations for Chinese in the nearer future. What does this mean for Chinese investments and Chinese policies?

Linked to the incidences described above, the Chinese Foreign Ministry warned Chinese nationals and overseas companies to be more wary of safety risks, strengthen preventative measures and contact China’s diplomatic missions in emergency situations, reported China Daily. In fact, in the Chinese publications monitoring China-Africa relations, we have seen a number of more cautious statements after the civil war in Libya led to the evacuation of around 34,000 Chinese, which was, in the first place, a scary experience for those directly affected. It also, however, was a costly exercise with presumably included great losses of investments, too. In other words: There are two dimensions in this increasing number of incidences: the individual and the political.

The individual and the political dimension of security

First, the notably increasing presence of Chinese in Africa, increases the exposure to criminal or terrorist activities in Africa. In very crude terms: more people simply increase the likeliness of something to happen to them. Chinese workers often live in special compounds, so abductions are likely to concern groups of Chinese nationals, unless Chinese companies live up to their responsibility for the security of their staff and have security measures stepped up. A tightening security, however, will further distance Chinese from their host environments – and is likely to have negative repercussions on the image of Chinese in African states. Company security measure, additionally, will not cover the thousands of Chinese individual traders that have started businesses in African states. This aspect is much about the personal dimension – which is not unlike that of other foreign nationals in Africa; some risks have to be taken when engaging in foreign countries and individuals will have to take their own precautions. This is something to be concerned about – and can
presumably only be addressed by an ever more active role of the embassies on the ground, informing Chinese citizens about risks in the respective countries. The role of Chinese diplomacy is thus undergoing changes.

Secondly, Chinese investment is often taking more risks than other foreign investments, not least so because it is in higher risk environments that Chinese entrepreneurs can play their advantages as coming from a developing country. Constructions in remote and at times risky areas are a key shaper for the Chinese image in African states.

Investment in risky countries is actually encouraged by Chinese banking and other institutions – precisely for the reason of establishing Chinese businesses in a fiercely contested world market and to explore new economic frontiers. A number of countries in which Chinese businesses operate are unstable. Instability does mean that the government does not exercise full control of the territory (no monopoly of power, as the social consensus on this is lacking). Consequently, security in some cases is ‘privatised’ through security companies, instead of fostering the state monopoly on power. In other instances, the government tries to keep tight control of the population, which can result in an eroding social consensus. This erosion of state legitimacy can lead to violent reactions in the long run if complaints are not addressed and disenchanted groups continue to be marginalised.

New challenges for Chinese policy

More investments and more citizens in Africa will mean that China will increasingly have to deal with insecure situations, despite its declared wish to stay out of domestic conflicts. Indeed, one might argue, the orthodox understanding of ‘non-interference’ becomes more and more outdated. China will have to engage with African societies. Engagement will have to happen not because China wants to impose an agenda, but rather because it is in the Chinese interest. When conflict breaks out in Sudan or Libya or, say, possibly – in the future – unrest against unpopular regimes elsewhere, Chinese interests are affected.

Preventive and engaging diplomacy is needed, as the means of engagement for China will certainly be non-military - if we exclude participation in UN missions from the picture (China is already very active in these). In some instances, Chinese will have to act as mediators between conflict parties. This can be international crisis like (since recently) in the case of Sudan and South Sudan. Judging from past situations, however, it is more likely in Africa that crisis emerges from internal strife in a country. This challenge means that more substantive research on and engagement with the ‘inner-working’ of African states and social fault-lines is needed. A proper risk analysis for bigger investments will also have to systematically include the internal political dimension.

With regard to political activities, it might actually become a point of contact with the Western discussion on ‘governance’ – with a Chinese understanding of the term, of course. Political solutions for conflicts require that they can be addressed within the system, preventing them from turning violent. Beyond the ‘hard infrastructure’ that is surely needed for development, the ‘soft infrastructure’ in the shape of a capable administration is also needed for development, including the balancing of conflicting social demands.
South Africa’s Special Economic Zones – Inspiration from China?

By Dr Daouda Cissé
Research Fellow, Centre for Chinese Studies, Stellenbosch University

Special Economic Zones (SEZ) have become investment- and industrial hubs for developing countries seeking economic growth and development since China successfully established its first economic zones in its southern region, mainly in Shenzhen, Xiamen, Shantou and Zhuhai in the 1980s. The ‘model’ is sought after for application across Africa. Recently, South Africa, through its Department of Trade and Industry (DTI) has issued a draft bill which considers creating SEZs. What is the experience with SEZs in China and Africa and what are lessons from other such zones for South Africa?

Special Economic Zones are designated geographic areas with specifically designated liberal commercial and economic policies aiming at attracting more foreign investments. China for many African countries is seen as an economic growth model; the ‘middle kingdom’ ranks as the world’s second largest economy. The increasing density of Sino-African relationships over the last decade has boosted investments and trade in Africa, and it has contributed to China’s modernisation and its rise on the international scene. For example Shenzhen, which was a small village, has rapidly become a modern city right next to Hong Kong. With its Special Economic Zones, China has attracted outward Foreign Direct Investment which has enhanced the creation of employment, generated investments and technology transfer. Such success was achieved through economic reforms following the “open door” policy in the late 1970s, namely trade liberalisation and market openness, as well as extremely liberal labour regulations.

Many African countries have also developed industrial spaces or hubs to enhance entrepreneurship and competitiveness of the manufacturing sector in the 1990s. Industrial Development Zones (IDZ) or Zones Franches Industrielles were de rigueur in economic policy. In South Africa, four IDZs were established: Richard Bay, Coega, East London and OR Tambo International Airport which is the only one not yet operational. Such zones in many countries on the African continent have not lived up to the expectations. Lack of transport, communications and ICT infrastructure have been the main constraints for African countries to develop businesses.

As partnership and cooperation in trade and investment between China and Africa are growing, Chinese Special Economic Zones have in recent years caught the eyes of many African leaders. During FOCAC III in Beijing in 2006, China approached a number of African states with the suggestion to establish SEZs on the continent. In Africa, attempts are made to replicate the successful Chinese experience with SEZs – the most successful in the last three decades. Countries such as Zambia (with SEZs in Chambishi and Lusaka), Nigeria (SEZs in Lekki and Ogun), Ethiopia (in Oriental, near Addis), Mauritius (Jinfei) and Egypt (Suez) have welcomed China-driven SEZs.

Where are the benefits? For China, such SEZs in specific African countries can create markets for manufacturing industries that nowadays face fierce competition and rising costs of production and labour in China itself. Targeted African countries hope to see
the Chinese-initiated SEZs generate technology and skills transfer that will benefit local companies in order to be competitive in regional and global markets. However, these results are not automatically achieved, nor are gains evenly distributed, even if the Chinese SEZs in Africa can alleviate the infrastructure gap, attract investments and create jobs respectively for local entrepreneurs and people. As for investments for instance, local entrepreneurs in African SEZ-host countries have complained about not being allowed to invest and develop their businesses in the zones. Besides, modernisation and urbanisation around the regions that host the SEZs can create social and spatial inequalities between these hubs and other parts of the country. People who were living in the areas where the zones are built have been displaced – sometimes without compensation – and lost their livelihoods. Chinese Special Economic Zones in African countries currently do not really appear to involve local entrepreneurs and populations’ needs in term of investments and employment. National policies around the SEZ therefore have to be strategic and well managed.

The South African SEZs are meant to improve the performance of the existing Industrial Development Zones. According to the DTI, South Africa’s IDZs have generated investments in the range of ZAR 11.8 billion, resulting in 33,000 jobs. For the South African government and policymakers, the SEZs will contribute to industrial and economic decentralization by creating new hubs in the country – beyond the current economically strong provinces of Gauteng, the Western Cape and KwaZulu-Natal. The establishment of the special economic zones aspire to accelerate industrial development, economic growth and employment outside current established hubs in order to make South Africa an attractive destination for foreign direct investment. This, it is hoped, will also help the country address its economic development challenges and disparities between different provinces.

South Africa’s SEZs aim at favouring domestic investments, expanding access for business opportunities to previously marginalised citizens and regions. In the South African context, zones will have to guarantee access of local companies and will need to train local workers. Furthermore, infrastructure development is crucial for South Africa’s zones success. Road construction, access to water, energy, modern ICT infrastructure, port facilities will have to be provided. Having a closer look at the regulatory and legal framework in order to include social and environmental issues that challenge the Special Economic Zones in Zambia, Nigeria, Ethiopia, Egypt and Mauritius can contribute to the development of the zones in South Africa.

In any case, strong coordination – often across perceived political fault lines – is needed to make South Africa’s SEZs a success. This coordination will crucially have to include policymakers, financial and business planning actors, and will need to be accompanied by social and environmental policies. Inspiration can indeed be taken from China, but policies will have to be adapted to the local context; the result, therefore, might in detail look very different from Chinese practices.
A change of staff has taken place in China’s diplomacy towards Africa. Beijing’s new special representative for African affairs is Zhong Jianhua, former ambassador to South Africa. Even if only five years his predecessor’s junior, his style is likely to differ. While Liu Guijin came to the task as a trouble-shooter, Zhong’s task seems to be a normalisation of further China-Africa relations. Trouble might await him, nevertheless, as one would expect for this position. Chinese diplomacy has become much more deeply engaged in Africa and also more routine than they would probably have predicted themselves only ten years ago.

Liu Guijin, China’s first special envoy for Africa, was called into this trouble-shooter position in May 2007. His very nomination illustrated tensions between China’s orthodox non-interference policy and the expanding expectations towards a global power in the making. In Sudan, China’s ally Omar al-Bashir was not willing to stop the conflict in Darfur – and not only in the eyes of non-governmental organisations, China increasingly became accomplice to the crime by continuing economic engagement with what they labelled as a ‘rogue regime’. The approaching Olympics in Beijing in 2008 created a sense of urgency in Beijing as negative news coverage threatened to overshadow the millennium event in Beijing. Even if (in Chinese understanding) business was business and sports were sports, and bloody politics in Sudan’s Darfur were something different altogether, Darfur was a crystallisation point for an overly-cautious Chinese approach towards African conflicts. The official hands-off approach to anything and everything that happened in Africa was understood as cynical in the West. Contrary to the very rationale of China’s non-interference doctrine, China was increasingly perceived as party to the conflict in Darfur. The orthodoxy in non-interference diplomatically backfired and Chinese pragmatism was called for in search of a solution. The solution was a diplomat gifted with dexterity and experience on the African continent.

Liu Guijin, born in 1945 in China’s eastern Shandong province, is an apt diplomat who had to balance conflicting Chinese priorities. His comments were not always to the gusto of the media. Yet, he is one of the few Chinese old-hands in Africa with previous postings in Kenya and Ethiopia and looking back on heading the embassies in Harare, Zimbabwe, and Pretoria, South Africa. Before becoming “Mr Africa” to the outside world, Liu had already been the head of the African affairs department in China’s Ministry of Foreign Affairs. Liu apparently managed to twist some arms in Khartoum with regard to Darfur. Yet, he admittedly was not the miracle end to all troubles for Chinese diplomacy in Africa, as more recent abductions of Chinese workers in Sudan and Egypt illustrate. But then, it is already a Herculean task to be “China’s voice on Africa” in the best of situations situation: the situations are often so complex, with an increasingly broad set of Chinese actors and with the Foreign Ministry not being the strongest actor in China’s Africa policy in the first place.

The new “Mr Africa” is only five years’ Mr Liu’s junior. His career, however, was quite
different to date, more so than the common feature of a last posting in South Africa might seem to suggest. In his career, Zhong Jianhua has had more exposure to Western settings than experiences in Sub-Saharan Africa. Yet, he has participated in setting up the “Comprehensive Strategic Partnership” between China and South Africa and was on post while South Africa’s President Zuma became increasingly interested in exploring the China-linkages. Zhong is as soft speaking and charming as Liu Guijin. And Zhong also shows a sharp intellectual interest in African development and its internal challenges, coupled with a down-to-earth perspective on China’s Africa expertise.

A number of yet unknown challenges will be on Mr Zhong’s plate in his new position. A few, however, can already be imminent. First, one of the tasks will be continuing mediation between South Sudan and Sudan – also for the sake of continuous flows of Sudanese oil and Chinese investments. Further, the upcoming fifth Forum on China-Africa Cooperation (FOCAC) casts its shadow ahead. To some degree, the erstwhile honeymoon between China and Africa is turning into ‘ordinary life’, with an increasing number of disappointed expectations on both sides. The sustainability of the relationship will have to be better taken care of, while new businesses aspire to enter and develop African markets. The ‘blessings’ of Chinese business activities might not always be to the liking of those ‘blessed’ with them. In the least of cases, as China well knows herself, new opportunities come with new risks, e.g. those of increasing inequalities between the haves and have-nots in partner countries. While this is, indeed, an internal affair of African states, it does have repercussions on Chinese investments and possibly also on Chinese citizens living in these societies in increasing numbers (see the abduction problem, but also xenophobia). More proactive engagement is thus needed.

Zhong Jianhua’s postings in London and as consul general in Los Angeles, will certainly have sharpened his senses for engagement with a critical (if not, at times, openly hostile) public opinion. He might thus be expected, probably more so than his predecessor Liu, to be open to the necessity and pitfalls of an engagement with the wider public. This awareness and personal quality in public diplomacy is certainly a needed one in the China-Africa relations in 2012. For the better of Africa – and China: Good luck, Mr Ambassador!
Recent Events at the CCS

CIRD visits CCS – 13 February 2011

On Monday 13 February 2012, a delegation from the China Institute for Reform and Development (CIRD) visited Stellenbosch University to meet and hold discussions with the CCS. The CIRD delegation was led by Prof CHI Fulin, the President of CIRD.

The delegation approached the CCS with questions related to their work in China-Africa studies, and their insights with regard to key issues related to China’s political- and trade profile in Africa. In return, the CIRD representatives shared their own work in sustainability and economic reform issues related to policy discourse in the Chinese context, as well as issues related to trilateral co-operation between Asia, Europe and African nations.

The CCS looks forward to productive co-operation in the future with this consortium.

CCS welcomes Italian visiting scholar, Nicola Cabria

Nicola Cabria is a Master’s student in “Peace Studies: Development Cooperation, Mediation and Conflict Transformation” at the University of Pisa. He is writing his thesis on: “Planning and Evaluation in the Experience of Development Cooperation of China in Africa. The purpose of his thesis is to understand and analyse the methods and criterions used, by the Chinese system, in the field of planning and evaluation of the cooperation projects abroad.”