

Playing the Long Game: China's Investment in Africa

David Line
Managing Editor, Asia
Industry & Management
Research

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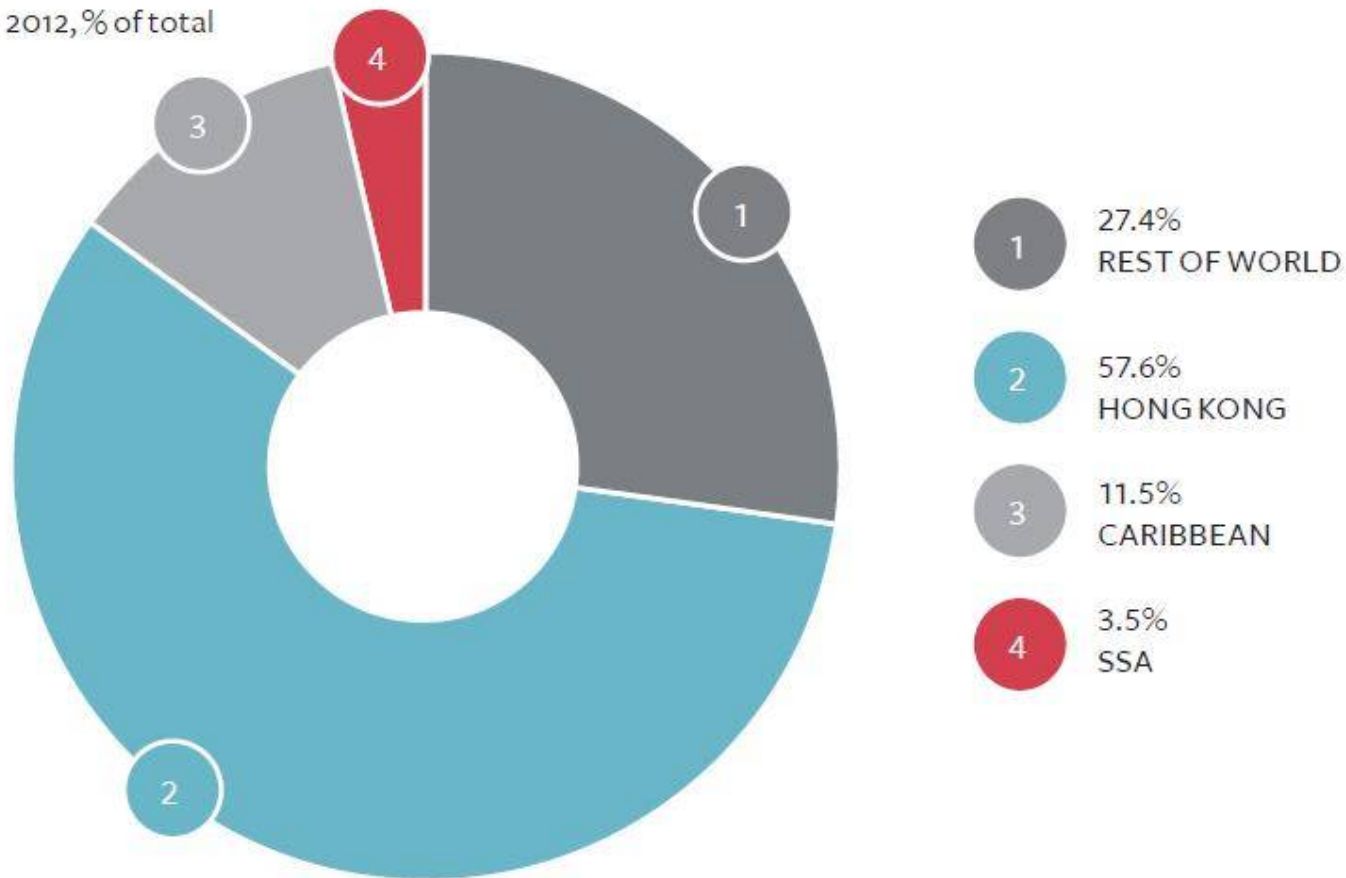
Key Findings

- Africa is China's largest investment destination
- China's investment in the region is a well-considered, long-term strategy
- Energy and mineral resources attract the most Chinese FDI, but the activities of China's construction companies and service providers in developing Africa's physical infrastructure is underestimated
- There are indications that the appetite for riskier projects is subsiding; however, the trajectory remains positive due to the potential of Africa's untapped resources and its growing markets
- China invests in Africa "just like everyone else" – but Chinese companies need to improve their local image through better diplomacy and sensitivity to community requirements.

Africa: China's Largest Investment Destination?

FIGURE 1A: CHINA FDI STOCK, INCLUDING OFFSHORE CENTRES

2012, % of total



Source: UNCTAD, based on data from the Ministry of Commerce (MOFCOM)

Africa: China's Largest Investment Destination?

FIGURE 1B: CHINA FDI STOCK, EXCLUDING OFFSHORE CENTRES; SELECT LOCATIONS

2012, US\$m

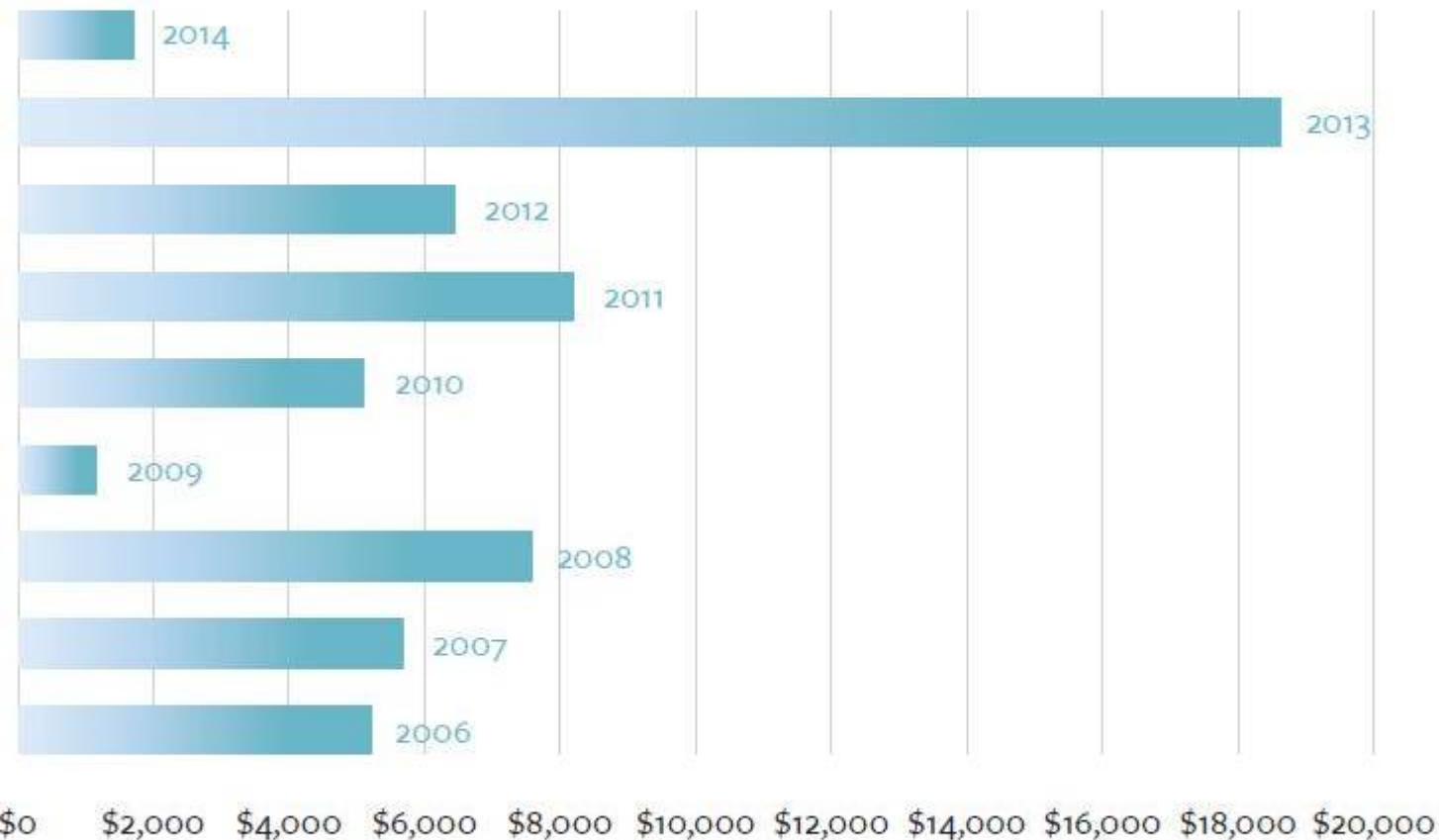


Source: UNCTAD, based on data from the Ministry of Commerce (MOFCOM)

Africa: China's Largest Investment Destination?

FIGURE 2: CHINESE FDI FLOWS INTO SUB-SAHARAN AFRICA

2006-2014 (July), US\$m, investments only

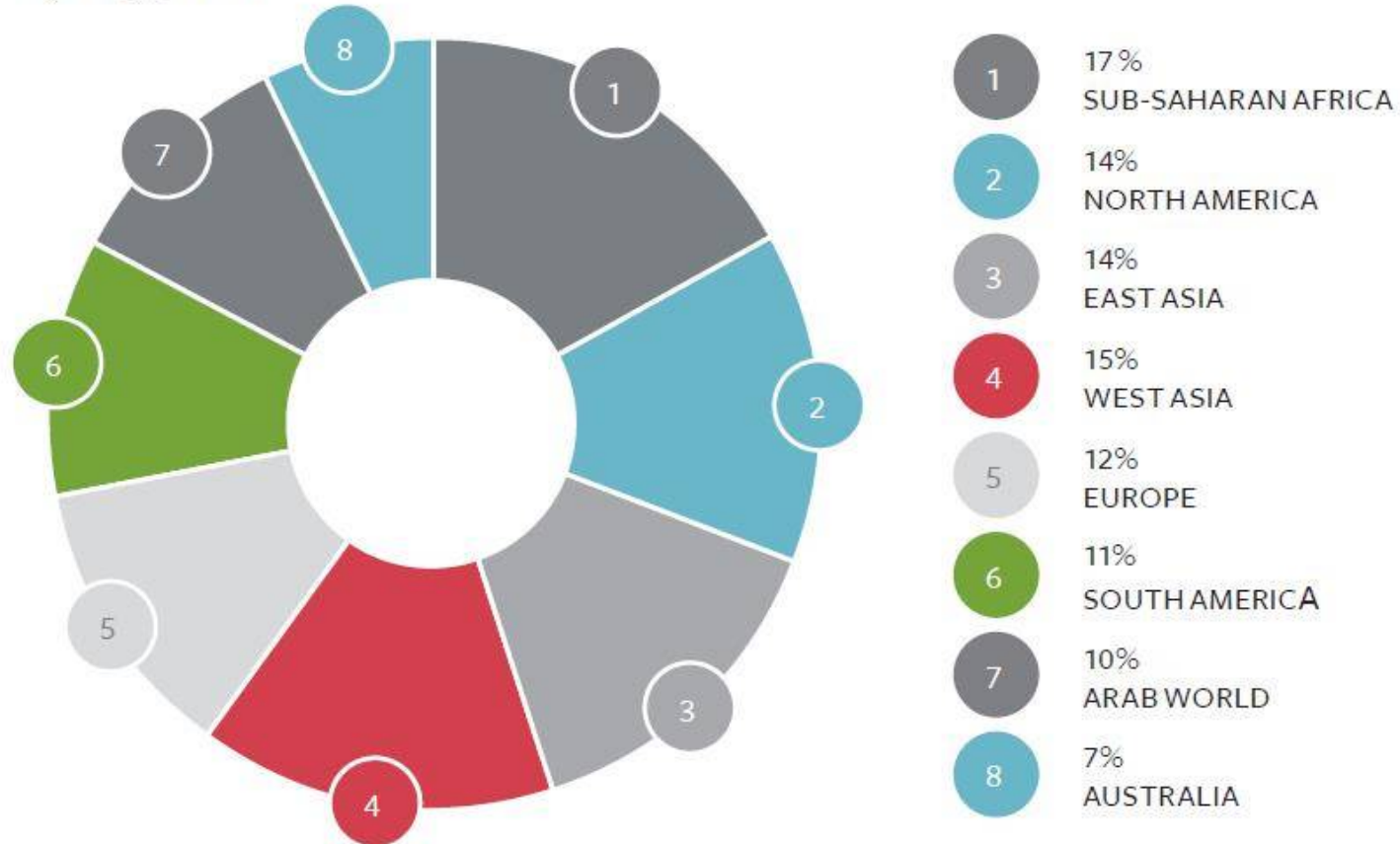


Source: The American Enterprise Institute and The Heritage Foundation, China Global Investment Tracker

Africa: China's Largest Investment Destination?

FIGURE 3: CHINESE GLOBAL INVESTMENT SINCE 2006 (INCLUDING CONTRACTS)

July 2014, % of total



Source: The American Enterprise Institute and The Heritage Foundation, China Global Investment Tracker

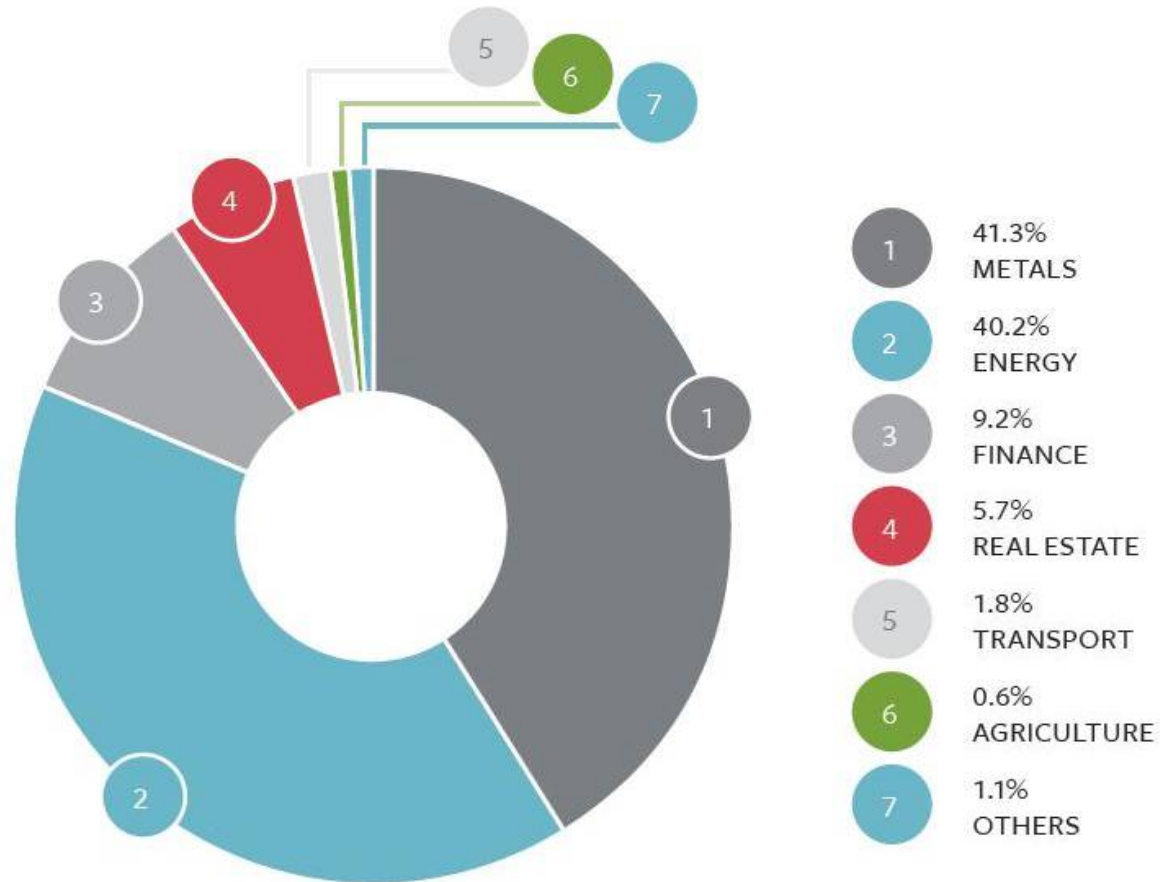
Behind China's Africa Strategy

- Chinese analysts divide the six decades of Sino-African economic relations into three stages.
- First, from 1949 to 1979, China was motivated by a political agenda, providing economic aid to newly independent African countries to build diplomatic relations and establish legitimacy.
- Second, from the start of reforms in 1979 to the mid-1990s, China's focus shifted to supporting domestic economic development, which led to forging mutually beneficial economic cooperation with Africa and the promotion of service contracts, investment and trade.
- Third, the introduction of the "Going Out" strategy in 1996 by the then president, Jiang Zemin, emphasised utilising both domestic and international markets and resources to boost growth.

Behind China's Africa Strategy

FIGURE 4A: CHINA'S FDI IN SUB-SAHARAN AFRICA BY SECTOR

2006-2014 (July), % of total, investments only

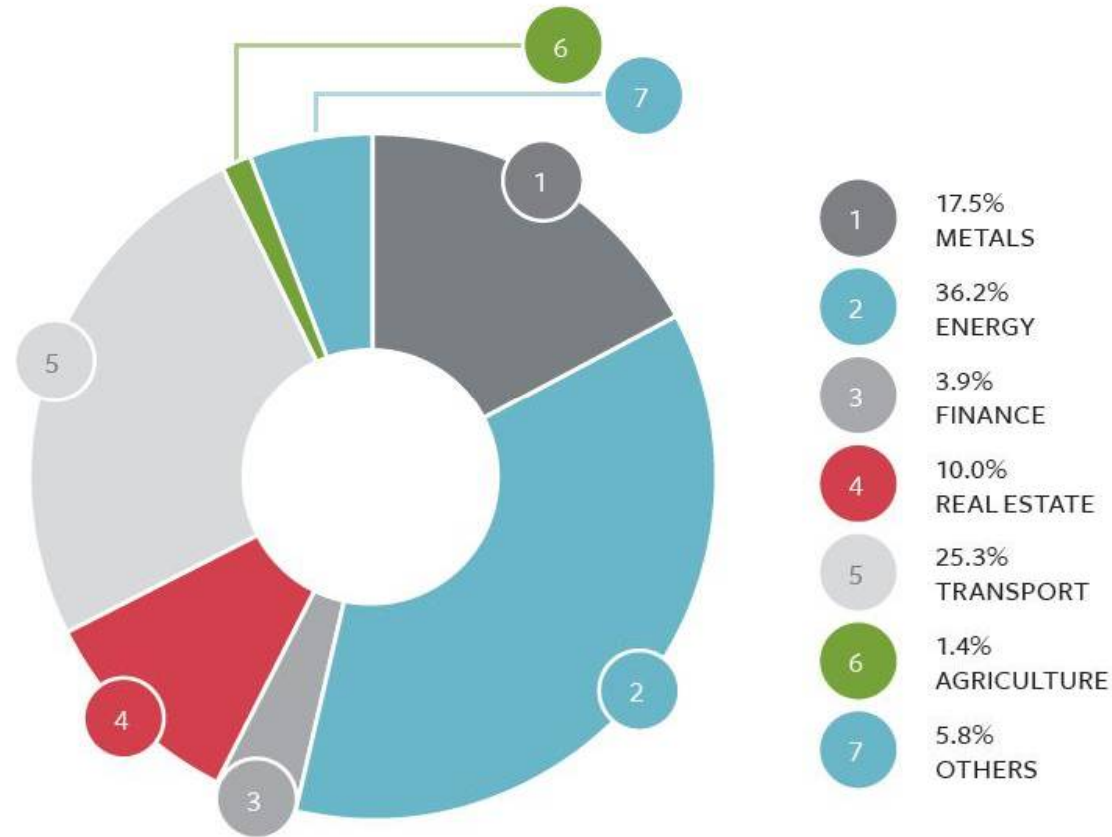


Source: The American Enterprise Institute and The Heritage Foundation, China Global Investment Tracker

Behind China's Africa Strategy

FIGURE 4B: CHINA'S FDI IN SUB-SAHARAN AFRICA BY SECTOR

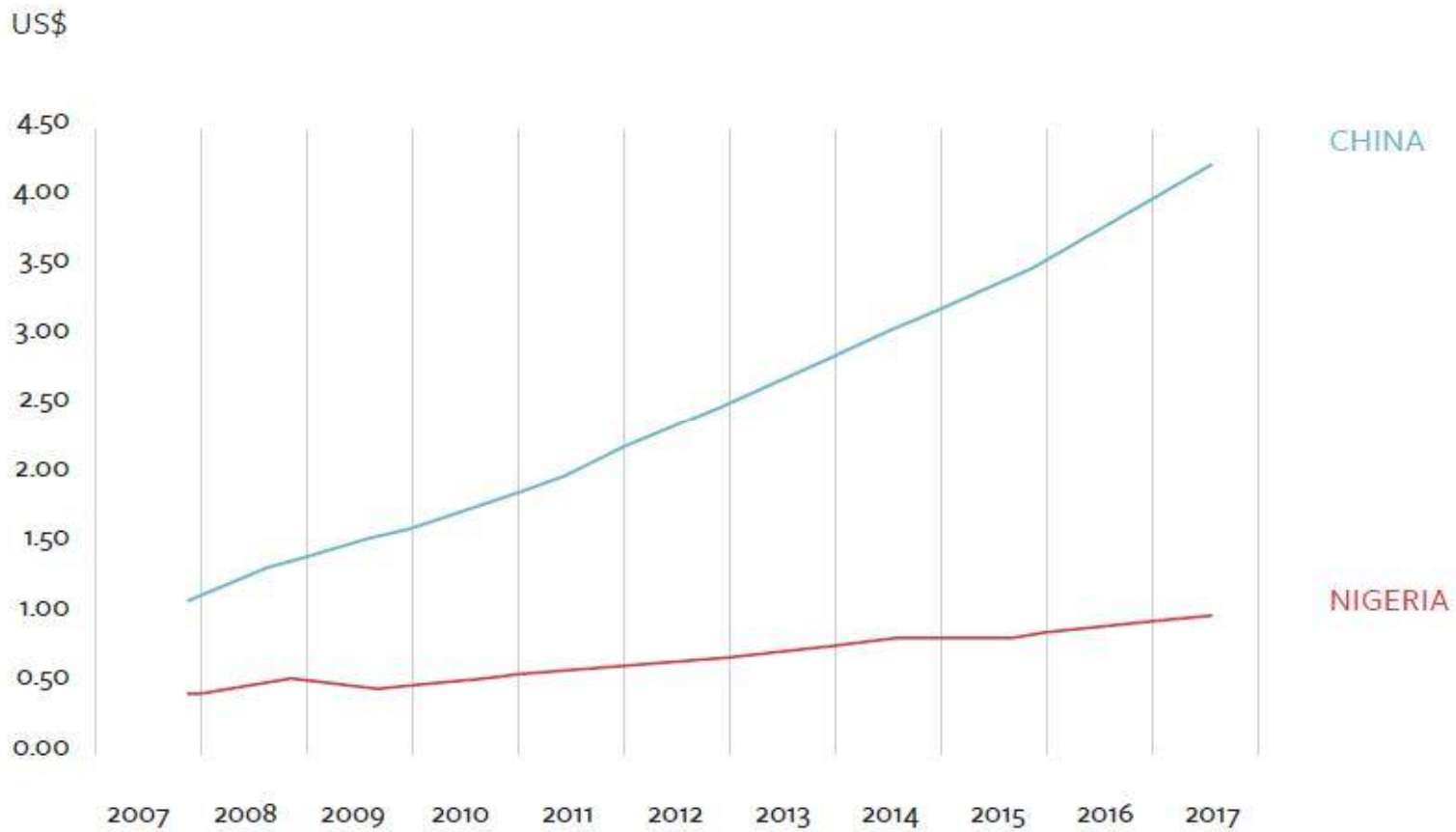
2006-2014 (July), % of total, investments and contracts



Source: The American Enterprise Institute and The Heritage Foundation, China Global Investment Tracker

Africa's Appeal is Obvious – for More Than Just Resources

FIGURE 5: AVERAGE MANUFACTURING LABOUR COSTS PER HOUR



Source: EIU estimates/forecasts

Reinforcing the Commitment — or Pulling Back?

- According to the China Global Investment Tracker data, FDI to the continent amounted to just US\$1.9bn in the first half of 2014.
- Some see this as a short-term trend and predict the growth trajectory of Chinese investment in Africa will continue. But this is less certain than a year ago.
- Drop-off may be explained partly by a moderation of China's appetite for resources as economic growth slows.
- Total outbound investment in the first six months of 2014 fell to US\$39bn from US\$64bn in the same period in 2013.
- Also an increase in risk-aversion among national resources and energy companies due to the anti-corruption campaign that has ensnared some high-profile executives.
- Another reason could be that for all the promise the continent holds—and the funds committed so far—Chinese firms have often struggled when it comes to making their investments in Africa a success.

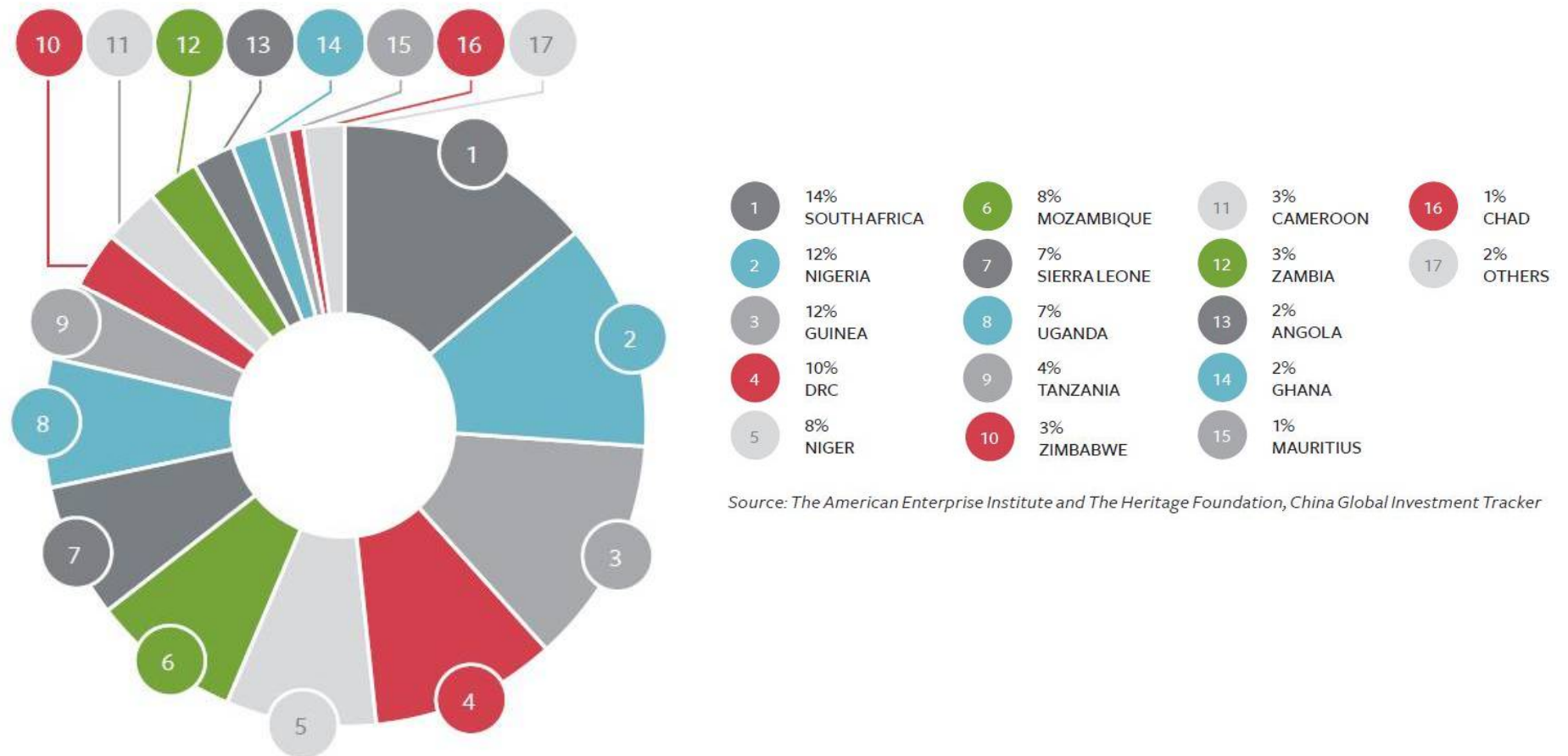
Progress and Problems

- ✓ Chinese investment is seen to have several advantages. Availability of finance is the key success factor, with funding commonly provided to contractors and investors through export credits from China Eximbank.
- ✓ Chinese companies also have a “time advantage” over Western firms that may depend on financing from the World Bank, or a commercial lender such as Citibank, which tie loans to cash flows generated by a project. There is less immediate pressure on Chinese firms to produce revenue to service debt, so they can bide their time before mobilising resources.
- ✗ Chinese investors are often confronted with inadequate mechanisms, staff levels or organisational structures to move from intention to implementation—which is bewildering for Chinese companies used to operating in a country where the government can make things happen.
- ✗ Going it alone versus joint ventures: the former strategy has sometimes failed (CNPC in Chad and Niger vs CNOOC/Total and Tullow in Uganda)
- ✗ “[Chinese investors] are also less equipped than Western firms to carry out the essential preliminary work to assess the viability of a greenfield project and prefer the assurance of an already productive site.”

A Diverse Continent with Diverse Issues

FIGURE 6: CHINA'S FDI IN SUB-SAHARAN AFRICA BY COUNTRY

2006-2014 (July), % of total, investments only



Source: The American Enterprise Institute and The Heritage Foundation, China Global Investment Tracker

Perceptions of Chinese Investment

- China invests in Africa “just like everyone else”. Western firms are hardly paragons.
- But there is a general sense among some African people that Chinese projects suffer from lower standards, a lack of CSR in business practices, poor labour conditions, and a failure to hire enough local workers, as well as sometimes competing with import substitution industries, such as textiles.
- The “Angolan model” has been criticised, but for countries like the DRC that lack the resources and the governance to build urgently needed infrastructure themselves, such investment can have a dramatic multiplier effect on the economy.
- Transparency can also be an issue: in October 2013, Transparency International awarded CNOOC and Huawei a zero score for organisational transparency in Africa.
- Chinese firms, including EPCs [engineering, procurement and construction groups], can tend to alienate African communities and local governments, through what is perceived to be an insensitive approach that sensitive Africans interpret as showing a lack of respect.
- European investors (and increasingly US investors) have more success than the Chinese in closing deals on greenfield investments—they have a different investment style and process, focusing on capacity-building, working with NGOs and UN agencies operating on the ground that have know-how and connections, and which produce social and environmental studies.

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Thank you

