

2nd African Banking & Financial Institutions Conference

A New Era of China-Africa Trade, Investment, and Business Partnership: Lessons and Opportunities

A presentation by

Andrew K P Leung, SBS, FRSA

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A New Africa - 'Lion on the Move'

(Lion on the Move :The progress and potential of African economies, McKinsey Global Institute, June 2010)

• Collective GDP	\$1.6T	(2008)	\$2.6 T	(2020)
• Combined consumer spending	\$860b	(2008)	\$1.4T	(2020)
• Households with discretionary income			128m– 52%	(2020)
• Total working-age population			\$1.1 b	(2040)
• Mobile phone subscribers	316 m	(2010)		
• Cities @ population > 1m	52	(2010)		
• Urban population			50%	(2030)
• Share of world's arable land	60%	(2010)		
• Companies @revenue > \$3b @>\$1b	20, 100	(2010)		

• Across sectors	GDP % share	CAGR 2002-7
Resources	24	7.1
Wholesale and retail	13	6.8
Agriculture	12	6.5
Transport and Telecommunications	10	7.8
Manufacturing	9	4.6
Construction	5	7.5
Business services	5	5.9
Tourism	2	8.7
Utilities	2	7.3
Other services	6	6.9



Internal growth drivers

- 1990's to 2000s, **cut inflation** (22% to 8%); **indebtedness** (82% to 59%) and **budget deficits** (4.6% to 1.8%)
- **Privatisation**, reduced **trade barriers** (Morocco + Egypt FTAs); lowered corporate **taxation**, legal framework (Rwanda commercial courts); world share of **regulatory systems** in credit (84%); labour market (82%); business (64%); trade policy (50%)
- **Jump in education** : 2008 Primary School Enrolment 76%; Secondary School 35% (+14% > 2009) ; Education expenditure = 5% of combined GDP, > Latin America; = 20% all government spending ~ 2x > OECD (11%); but student scores poor except Ghana and Tunisia (science)
- Improved **skills and technology**
- Rising **labour productivity** 2.7% p.a. since 2000- 8, v. minus 0.5% in 1980-90 and minus 0.2% 1990-2000
- **Nature's cornucopia** - 10% world oil reserve, 40% of gold, 80-90% of platinum and chromium metals ; surging global demand (China) **upfront payment for infrastructure**
- Demographics – **largest working-age urban population (500 m, to 1.1 b (20% world's youth) by 2040 > India or China.** ~ 20 yrs, ¾ of increase @GDP from rising working population, ¼ from higher productivity
- **As urbanized as China** : cities @1m > North America /India : 2010 China (109), Latin America (63), Europe (52), Africa (52), North America (48), India (48). Urban employment = **20-50% of productivity growth**
- **Rising middle class** – 85 million (2008) > @5,000 (threshold > 50% on food) to 128 m by 2020; more middle-class households (@\$20,000 up) > India; Top 18 cities combined spend of \$1.3 T by 2030
- **Relative political stability** despite Jasmine Revolution
- But Millennium Development Goals – **combating diseases - lost ground**



External Dynamics

- **Surging demand for energy, minerals, food, and arable land** (Asia + ME)

- **Potential Food Basket to the World** - Global food demand + 70% from 2005-7 by 2050. Africa 60% (600m hectares) of world's uncultivated land. Crop yields well < world average - huge potential (e.g. with fertilizers Malawi's maize yields > x 2 = Mexico; China's Hybrid Rice; G20's Global Agriculture and Food Security Program ; Bill & Melinda Gates Foundation.

- From 2000, **3rd fastest regional growth**: Emerging Asia (8.3%); ME (5.2%); Africa (4.9%); CE Europe (4.8%); L America (4%); World (3%); DC (2%)

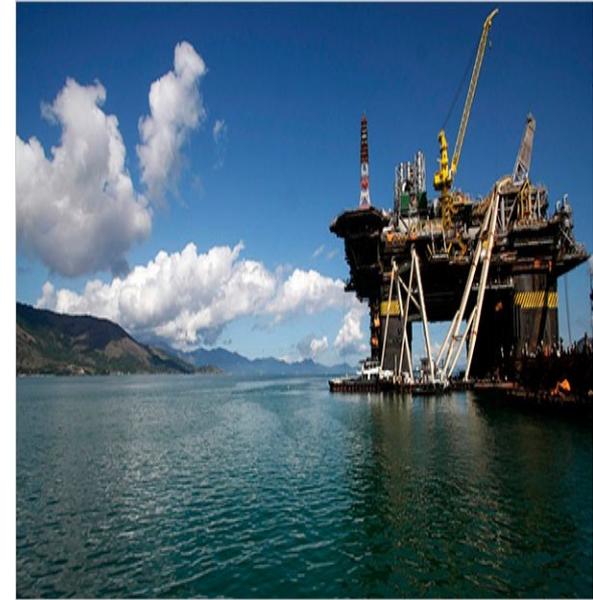
- **Only Asia and Africa economies rose during 2009 global recession**

- **Trade with other EMs > 50% African trade**: 2008, \$b – Asia (198), Intra-Africa (81), ME (41), L America (33), W Europe (196), N America (108)

- **Intra-regional trade laggard** amongst - W Europe (61%); A Pacific (39%); E Europe (31%); L America (21%); Africa (12%); ME (10%); v S A Dev Community (SADC) – **hook on resource exports, trade and non-trade barriers** v EA Community (EAC) + E C of WA States (ECOWAS)

- Buyers **up-front payments**, royalties, infrastructure, management and tech skills; China bid for 10m tons of copper + 2m tons of cobalt in DRC exchange for \$6 b infrastructure (inc roads, railways, hospitals and schools; MOD with Nigeria - \$23 b in refineries for future access to crude reserves; **China's infrastructural commitments** in Sub-Sahara > **World Bank since 2005** (2005 – \$1.7 b > WB \$1.3b; 2006 \$7.1 b > \$1.5b; 2007 \$4.5b > \$2.5b)

- **FDI** \$9 b (2000) to **\$62 b (2008) = FDI in China** (\$100 b (2010) as % GDP; Total capital inflows (FDI, bank lending, purchase of equity and debt) increased from \$15b (2000) to \$87b (2007); FDI **extend to broad sectors** than resources e.g. banking, construction, telecommunications, textiles, tourism. (2008) ~ 20 countries @> \$500m . = **16% gross capital formation. Return to FDI highest in world since 2007**. More than capital e.g. Kenya's thriving and sophisticated horticulture sector





How different is China in
Africa?

Sorry Tale of Western Aid

- **75% of World Bank loans for infrastructure 1946-61.** African aid \$950 m in 1965. By 1970s, still not much infrastructure happened.
- **1970s oil crisis** saw loans shifted to **immediate food relief** (*US International Development Food and Food Assistance Act*) – African debt mountain began
- **Second oil-shock 1979 – monetary tightening**, floating interest rates – **widespread 3rd world defaults** - Program Aid (Washington Consensus) – **Stabilization** (fiscal tightening) and **Liberalization** (privatization)
- **End of 1980s - \$1 trillion African debt** (**Reverse cash-flow** of \$ 15b interest payments p.a. from poor indebted countries to West creditors) – **Conditionality** for **governance** reform and regime change for **democracy** – aid = 90% disbursements 1987-96
- **2000s** saw the emergence of **glamour-aid** (Bob Geldolf's Live Aid Concert 1985) – Debt forgiveness in vogue ('*Scar on the West's Conscience*')
- **2005 Paris Declaration on Aid Effectiveness** + Conditionality as norm
- **Aid for Trade (AFT)** initiative endorsed by WTO after Doha Round collapse but no credible strategy
- **Failure of Western Aid** - \$1 trillion and 60 years. **Addiction x salvation** Not just part of the problem . **It's the Problem** (Dambisa Moyo in *Dead Aid*)

What does China want?

• **Post-Cold War** (Joshua Eisenman, *China's Post-Cold War Strategy in Africa*, 2007) **(a) UN (b) One China Policy (c) Resources (d) Profits** Same for well-off countries like South Africa and Mauritius. Most loans based on commercial credit-worthiness. **Markets and international experience** for China's commercial champions

• China's % share of Africa's export of selected commodities (Martin Jacques, *When China Rules the World*, 2009)

	Crude Oil	Metals	Wood	Cotton
Angola	100			
Sudan	98.8			
Nigeria	88.9			
Congo	85.9			
Gabon	54.8		42.3	
DRC		99.6		
Ghana		59.8		
SA		46.5		
Cameroon			39.7	
Tanzania			24.3	53.8

- Africa's 3rd **trading partner** < US, France, UK
- Africa > **30%** of China's total oil imports
- **Angola** > Saudi Arabia as China's largest oil supplier (15%)
- More African **direct flights** from China > US
- Chinese African **Diaspora** = 500,000 growing
- **100m Chinese tourists to visit Africa** (Abah Ofon, *The New Sinosphere*, 2006)
- **Beijing Consensus** > **Washington Consensus**
- 2007 **PEW** Global Attitudes 10 Africa countries – China > US
- **FOCAC 2006 Beijing** (Heads of State of 48 African countries)

Principles and Problems

- **Principles** : *Friendship, Equality; Mutual Support; Win-Win* Development
- **Modalities** – *Non-interference; Non-conditionality, Non-confrontational*
- **Problems**
 - *Oil* worsening *poverty, deprivation, degradation, and violence* (e.g. Niger Delta)
 - At odds with domestic and international demand for *governance* improvements and safeguards of *human rights*; undermining *pathway to development* ? (IMF/WB)
 - *Perceived dominance* e.g. *Zimbabwe* (railways, power supply, Air Zimbabwe, ZBC); *Zambia* (‘a district’– Opposition candidate)
 - Chinese cheap products and imported labor threaten *local jobs and businesses* and their export markets
 - Chinese SMEs outcompete *local informal business sector* (90% of private sector in Africa; employ mostly Chinese except for low-end jobs (e.g. guards)
 - Blamed for growth of *biofuels* – *food prices* affecting food-deficit communities
 - Language, culture, religion, and racial *barriers*
 - Inadequate mutual *media* coverage– lack of understanding of *grass-root sentiments*
 - Lack of interaction with *local and international NGOs*
 - Lack of *institution building*

Aid, Trade and Money Flows

- China's African trade increased from **\$18.6b (2003)** to **\$106.8b (2008)** (December 2005, Premier Wen's pledged rise to \$100 b p.a. by 2010 reached by 2008). By **2013**, trade flow expected **to equal 50% of \$1 trillion African aid over past 60 years.**
- **Africa's exports** (oil and gas 62%; ore + metals 17%; agricultural raw materials 7%) **China's imports** : textiles and footwear 36%; machinery and equipment 33%; manufactured materials 18%; processed food and beverages 1%
- **Concentration** - 2006-8 , **top 5 – Angola, South Africa, Sudan, Nigeria, Egypt** -56 – 61% trade with China ; top 10 = 90-93%
- 2005-7, WB committed \$17.4b v **EximBank** \$16b. But **China's Aid** (non-LIBOR loans) **relatively small** - \$1.4b (2007) to \$2.5b (2009) v (\$b /2007) - US (7.6), WB (6.9), EC (5.4), France (4.9), UK (2.8), Japan (2.7), Germany (2.5).

Re-building Africa?

(Deborah Brautigam, *The Dragon's Gift, The Real Story of China in Africa*, 2009)

- **High-profile government buildings** accused of propping up despots and dictators?
- **Lack of transparency?** January 2010, US-China Economic and Security Review Commission (USCC) expressed concern over HK-based China International Fund (CIF) involvement in 1,000-acre satellite-town project outside Harare, capital of Zimbabwe (under sanctions)
- 1970s Railway Engineering Corp (formerly owned by PLA) + Chinese Civil Engineering Corp (formerly under Ministry of Railway) built China's biggest foreign aid project – Tan-Zam Railway – now merged into **China Railway Construction Corporation (CRCC)** – 2006 \$8.3b to rebuild old 2,733 km railway between Lagos and Kano
- 2007-9, **China Railway Engineering Corporation (CREC)**, CRCC's commercial rival and Shanghai Maglev builder, secured EximBank loan \$6b to partner with Chinahydro to build/repair DRC's power and water supply systems + 32 hospitals, 145 health centres, 2 hydroelectric dams, 2 universities, 2 vocational training centres, + thousands of low-cost housing (hailed as **Congo's 'Marshall Plan'**)
- **ZTE** won tender for Sonitel in Niger, trying to acquire ZamTel in Zambia
- **Huawei** + Nortel (Canada) won \$100m CDMA (code division multiple access) provider for Nigeria's Multilinks
- **China Mobile** \$4 million bid for Nasdaq-listed Millicom International, global mobile operator with subsidiaries in Chad, DRC, Ghana, Mauritius, Senegal, Sierra Leone and Tanzania

China's money formula – accountability and sustainability?

- **State coordinated package** - Aid, Trade, Investment , and Business
- **Public-private partnership**
- **Packaged finance**: concessional loans, sellers + buyer's credits + bank guarantees used by MOFCOM and EximBank (1/2 seller's credit 1/3 guarantees) v WB almost 100% loans only
- China's loans 3% concessionary, **mostly LIBOR -linked repayable over 10 – 20 yrs** v 50% WB loans concessionary - often nil interest repayable 35 -40 yrs
- **OOF (other official flows)** v Aid e.g. **CDB (5x > EximBank) – China- Africa Development Fund** (\$5b equity investment arm) + **concessionary development finance through bonds** issued in China and overseas (2006 \$1.5b for ZTE bid for Ethiopia's millennium telecom expansion ; 2008 15yr mortgage finance for 528 Great Wall Apartments developed by China's Erdemann Property Ltd)
- Minimizing corruption? Loans guaranteed by resources – **escrow account** in BJ – Chinese enterprises – local contractors – infrastructure
- **Highly Indebted Poor Country (HIPC)** can be sanctioned by WB + IMF for taking anything but a highly concessionary loan. But **debt-distress indicators** of Angola and Sudan **improved** by China's investments and resource purchase (OECD study by *Helmut Reisen and Sokhna Ndoye*)

Forum on China-Africa Cooperation (FOCAC)

- 1st *Head of State Summit 2000*, BJ
- 2003 FOCAC adopted *Addis Ababa Action Plan (2004- 2006)* removing import tariffs for 190 products from 23 African countries
- 2006 FOCAC adopted *Beijing Action Plan (2007-2009)* \$5 b China-Africa Development Fund, \$3 b preferential loans and \$2 b export buyer's credits, cancellation of interest-free loans due by 2005, 2 x development assistance by 2009, increased zero tariff imports from 190 to 400 items, 100 rural schools, 10 hospitals and 30 anti-malaria clinics, training 100 senior agricultural experts and 15,000 other professionals, + 300 Chinese Young Volunteers Serving Africa
- November 2009 adopted *Sharm el-Sheikh Declaration and Action Plan (2010 - 2012)* – cooperation in *Sustainable Development* : regional and sub-regional organizations; financial crisis, climate change, international system reform ; Millennium Development Goals + WTO Doha round; agricultural technology demonstration centers; medical equipments and material assistance; cancel or reduce more debts; preferential loans for African SMEs; clean-energy projects, increased Chinese government scholarships, more schools, training more people, China-Africa Science and Technology Partnership Plan + China-Africa joint research and academic exchange plan

Agricultural programs

- **200 cooperation programs since 1960s** gained momentum with **FOCAC Addis Ababa Action Plan (2004-2006) + Beijing Action Plan (2007-2009)**
- With only 7% of the world's arable land to feed 1/5 of mankind, **China's yields 3 x Africa**. **China's agronomical hurdles = Sub-Sahara Africa**: fragmented small-holder plots, lack of proper tenure, want of affordable fertilizers and technology, backward infrastructure, subsistence-level competition with animal husbandry, soil erosion, drought and dearth of water management, prevalence of pests, disease and weeds, dearth of improved crop variety, workers in quest of higher urban wages, diminishing arable acreage, and inadequate financial support and R & D
- Since 1960, > **44 African countries** have **hosted Chinese agricultural aid projects** and ~ **20% of China's turn-key aid projects** have involved agriculture; 2003 - 08, > **4,000 Africans** have completed **agricultural courses in China** (3 weeks to 3 m)
- President Hu has pledged 10 agricultural demonstration centres and train 5,000 Africans p.a.
- China actively participated in **(FAO) Special Program on Food Security in Africa**
- China's African agricultural program welcome as **WB funding for agriculture plummeted** from 23% of loans in early 1980s **to 5% before 2000** and **US funding switched to food aid**

China building agri-businesses in Africa

- **September 2008**, Premier Wen - **to build 30 agro-technology demonstration centres worldwide to promote hybrid rice** (Bayer also announced plans to expand hybrid rice operations in China)
- **Yuan Longping High-Tech Agriculture Company** (Father of Hybrid Rice (cross-breeding Asian and African varieties and **Winner of 2004 World Food Prize** (with Dr. Monty Jones of Sierra Leone); **US patented**; developing centre at Central Agriculture Research Institute (CARI) in Bong County, **Liberia**. following **footsteps of Pioneer, Monsanto, Syngenta and Bayer Crop Science** in marketing hybrid maize in E and S Africa)
- **China State Farm Agribusiness Corporation (CSFAC)** - JV with **Guinean Ministry of Agriculture** for centre at Koba. Yield increased from 1.5 to 9 tons p hectare. 80% owned by the Chinese, **Koba is now a thriving diversified agri-business**
- 2007, **Mozambique** hosted **14 Chinese demo centres** with a 3-yr time-limited grant from MOFCOM
- **China National Agric Development Corporation**, CSFAC parent - centres in **Benin + S Africa**
- Hainan Island **Chinese Academy of Tropical Agricultural Sciences** - centre in **Congo, Brazzaville**
- **Chongqing Seed Corporation** - 300 hectares in **Tanzania** in partnership with local out-growers
- November 2006, **Ministry of Agriculture + CDB** promote land + water intensive projects overseas
- **China Agricon** (China Agriculture, Livestock, Animal Husbandry, Fisheries and Engineering Service Cooperation Corporation), **owned by Ministry of Agriculture** - businesses in **Rwanda, Uganda, Madagascar and Libya** (e.g. fish ponds and paddy fields with other aid donors)
- In **Zambia**, **15-23 state-owned and private Chinese farms** by 2009. In **DRC**, **ZTE** obtained **oil palm concession** of 100,000 hectares in August 2007. In **Uganda**, a 500 sq-km concession near Lake Victoria was granted to Liu Jianjun, a Baoding native in Hebei Province, to develop a **private multifunctional 'East Africa Free Trade Zone'** with **over 600,000 hectares allocated to farming**

Chinese SMEs and labour relations

- Chinese migration to Africa started *as early as 1821* in *Mauritius, Madagascar and South Africa*
- 2006, *> 1,000 active Chinese enterprises* in Africa with *1 m Chinese running small businesses* in the formal and informal sectors
- African Development Bank suggests that *informal sector represents > 90% private business, 50% of employment and GDP* in most African countries
- *Chinese household merchandise* (e.g. wall clocks, watches, cheap jewelry, handbags, garments, food containers and pancakes) abounds in the streets of Nairobi and Kampala
- Better networks in China, business savvy and efficiency *threaten local traditional businesses*
- *Tradition of family businesses hiring mainly kith and kin*, especially for higher-paid jobs. For every Zambian in a Chinese firm, there are ~ 15 Chinese, with only 10,000 local jobs created over the past 13 years.
- *Sub-standard goods, low wages, armies of imported Chinese manual labour, lack of corporate social responsibility* (land rights, pollution etc)

Human Rights, Governance, & Democracy

- *Non-Chinese oil companies* also involved e.g. US in Equatorial Guinea, BP (Block 18), Total, Eni, Petrobras in Angola; US' HiTech and Saudi's Qahtani in Dafur. French bank loan to Zimbabwe for nickel ; South African mining company loaned Zimbabwe \$100 m for platinum; 2008 Anglo-America \$400 m for Zimbabwe chromium at Unki.
- *Other countries e.g Russia and Ukraine also sold arms* to Sudan and Zimbabwe. Supply of arms, construction of roads and hiring of army to protect oil concessions **no legal but moral responsibility**; sale of arms by China and Russia to Sudan **violated UN Security Council Resolution 1591** (on which China abstained), Chinese weaponry did not appear to have been used in any of the atrocities **in Zimbabwe. Doubtful that China's support necessary for keeping regime in power** or that China can change Zimbabwe (*China's Role in Human Rights Abuses in Africa*, Stephen Brown and Chandra Lekha Sriham, Brookings Institution Press, 2008)
- Against embargoes, President **Mugabe** announced a '**Look East**' (read '**China**') **strategy**. Now, China becoming suspicious of Mugabe's propensity to destroy the Zimbabwe economy and ability to ever repay China's loans. Nationalization of foreign assets did not help. August 2007, Chinese officials signaled **Beijing's intent to limit future Chinese involvement to humanitarian assistance** e.g. food aid, Zimbabwe becoming an economic and diplomatic liability.
- By rendering assistance to unsavory regimes, China risks becoming morally tarred with the same brush, or as the **Chinese saying goes, 'getting tainted with the same colour'**.
- China has contributed proactively to the betterment of agricultural production, health, education, and poverty relief in Africa. Much remains open for assistance in **UNDP agenda - Peace, Local Government, Economic Diversification, Social Service and Inclusion, Sustainable Livelihoods, and Integrated Approach to AIDS/HIV**. Priorities to include promotion of **Extracting Industries Transparency Initiative. law and order, work safety, environmental protection and human rights** across the continent. Cooperative opportunities await China with **G8 Summits**, New Partnership for Africa's Development (**NEPAD**), the **African Union**, Africa's **sub-regional bodies**, and international and local **NGOs. Permanent FOCAC Secretariat?**
- 'Democracy is not the prerequisite for economic growth.' 'On the contrary, **it is economic growth that is a prerequisite for democracy.**' (*Dead Aid*, Dambisa Moyo, 2009). **Better governance** can proceed in the absence of immediate democracy.

Four groups of African economies

- **Diversified economies** (*Egypt, Morocco, South Africa, Tunisia*); Services 70% of growth; export lags behind other EMs (higher labour costs, cross-border barriers, education)
- **Oil exporters** - *Angola, Algeria, and Nigeria* earned \$1 T from 2002-8; Need to diversify. Manufacturing + services = 70% for Indonesia similar quantities of oil since 1970s. **Nigeria already diversified -Resources 35%, Agriculture 27%, Services 37% but manufacturing 1%**. Need to **maintain reform momentum** and **avoid over-spending**; oil prices may not last.
- **Transition economies** (*Ghana, Kenya, Senegal*) - agriculture 2/3 of exports but **manufactured exports room to grow more**. **Potential for domestic services e.g. telecom, retail and banking** (Kenya, Senegal and Tanzania)
- **Pre-transition economies** (@GDP 353) (*DRC, Ethiopia, Mali*), **still growing 7% p.a.** since 2000; Earn hard currency through **mineral and agricultural exports plus foreign aid**. **Need to focus on basics**. High growth potential in **resources**: DRC has 50% of world's cobalt and 25% of world's diamonds; Sierra Leone 5% diamonds. Ethiopia and Mali has 22 m and 19 m hectares of uncultivated land;



Four Golden Sectors

Consumer \$1,380 b (2020) + \$520 b (08) + 4% p.a.



Agriculture \$500 b (2020) + \$220 b (08) + 5% p.a.



Resources \$540 b (2010) + \$110 b (08) + 2% p.a.



Infrastructure \$200 b (2020) + \$130 b (08) + 9% p.a.



'2.6 Trillion Business Opportunity'

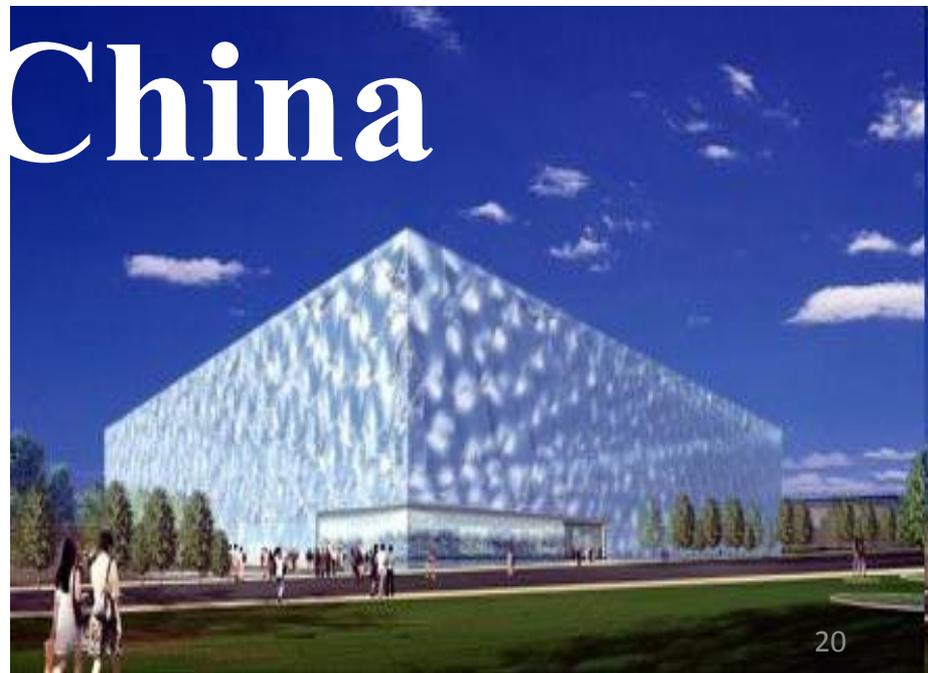
- **Total : \$2,620 b (2020) + \$980 b (08) + 4% p.a.**
- **Consumption - \$860 b (2008) > India /Russia;** food + beverages largest but *non-food items to grow faster e.g. banking services* (+ 6.2% p.a. 2008-20); by 2020 *Alexandria, Cairo, Cape Town, Johannesburg, Lagos @\$25b* (= Mumbai, New Delhi); *Casablanca, Durban, Khartoum , Luanda, Pretoria, Tripoli @ \$15 -25 b; Dakar, Nairobi, Kano, Rabat @\$10 b*; Local conditions – lack of formal retail and distribution outlets/channels; Kenya – M-PESA mobile phone money transfers; over 400 m mobile phone subscribers in 2009
- **Agriculture** – Potential to increase revenue by 2030 *from \$280 b (2010) to \$500 b (baseline) or \$880 b ('Green Revolution' scenario)*; impact on *upstream* products e.g. fertilizers, seeds, pesticides and machinery; *downstream* products e.g. bio-fuels, grain-refining, food processing; 3 growth drivers – *new cultivated land, higher yields, high-value crops*; *bio-fuels* potential \$11 b by 2030, = 50% of Africa's gasoline or 10% of Africa oil demand; *75% of growth potential comes from coastal countries* – *Angola, Cameroon, Cote d'Ivoire, Ethiopia, Ghana, Kenya, Madagascar, Mozambique, Nigeria, Sudan and Tanzania.*
- **Resources** – Continual growth (2-4% p.a.) especially *Oil and Gas, Iron and Coal. 23% of resource deals now have an infrastructural element*, up from 1% in the 1990s *e.g. China Railway/Sinohydro \$2.9 b copper/cobalt deal with DRC* in exchange for 3,200 km of railways, 31 hospitals, 145 health centres, and 2 universities; China single largest contributor to African oil export growth , but only 13% of Africa's total oil export (Europe 37%), US (30%) and Others (19%); *China set to overtake Europe as no.2 destination for African oil by 2020.*
- **Infrastructure** – only *½ to 1/5 compared with BRIC*; Funding 65% governments, 25% private sector; *Transport, Telecom, Energy , Water and Sanitation*; Chinese investment in Africa increased 46.1% 2000-08; Private investments in Telecom 62% of total (BRIC 48%); power 39% (BRIC 84%); water- 63% (BRIC 89%) .



Paradox of a



Rising



China

A China Century?

(When China Rules the World, Martin Jacques, 2009)
Ranking of economies (*Goldman Sachs, 2007*)

2025	2050
1. US (~\$20T)	China (~\$70T)
2. China (~\$18T))	US (~\$38T)
3. Japan (~\$5T)	India (~\$38T)
4. India	Brazil
5. Germany	Mexico
6. Russia	Russia
7. UK	Indonesia
8. France	Japan
9. Brazil	UK
10. Italy	Germany
11. Mexico	Nigeria
12. Korea	France
13. Canada	Korea
14. Indonesia	Turkey
15. Turkey	Vietnam
16. Iran	Canada
17. Vietnam	Philippines
18. Nigeria	Italy
19. Philippines	Iran
20. Pakistan	Egypt
21. Egypt	Pakistan
22. Bangladesh	Bangladesh

Pendulum of Global Growth

(*The Next Asia, Opportunities and Challenges for a New Globalization*, Stephen Roach, 2009)

- Centre of **global manufacturing value chain**
- Already has EU's and Japan as **largest trading partner**; leading in SE Asia and Africa; Latin America's 2nd largest trading partner by 2010
- Overtaken Japan as **2nd largest economy**
- Savings-short US needs to borrow \$3b @business day with China the **biggest creditor**
- China set to **become world's largest luxury market** (President of LVMH)
- **Nominal GDP growth to exceed US** by 2027 and both US plus Europe by 2035
- Leading influence in whole of **Africa**

Reality Check

- **Global Realities, Risks and Constraints –**

- **Internal –**

- *Inequalities, 5 Imbalances, Corruption, Rule of (> by) Law, Governance, Checks and Balance, Environment, Ethnic Harmony*
 - *Population Burden* – now @ GDP < 100 countries, 2025/50 @ GDP => Turkey; 2050 5.4% (86.4m) of projected 1.6 b population still in farming; , *Aging (4-2-1)*

- **External –**

- Global *military reach, energy and resources, technological gap, creativity and innovation, financial expertise, ideas and values, global institutions*, conflict with *Western norms*
 - Dangers and Opportunities of *Power Transition: Institutionalized International Order > Security Dilemma - China's Ascent – Power, Security, and the future of International Politics*, Robert S. Ross & Zhu Feng (Editors, Cornell University Press, 2008); *China's Rise – Challenges and Opportunities*, Bergsten, Freeman, Lardy, and Mitchell, Petersen Institute and CSIS, Washington DC, 2008

- **Grand Design nationalism,** (Unhappy China, 2009)

- *Deng's 28-word caution*: 冷静观察，稳住阵脚，沉着应付，韬光养晦，决不当头，有所作为 (in line with conclusions of 大国崛起 Study Project + '*Neoliberal Defensive Realism*', Tang Shiping, in *China's Ascent*, Cornell University Press, 2008)

- **China's Core Interests** (a) fundamental system and state security (b) sovereignty and territorial integrity and (c) economy and society (*State Councillor Dai Bingguo*, Yale Global, 5 April, 2010)

China's Paradigm Shifts (1)

Urbanisation

- **Global urbanization to jump from ½ to 70% by 2050. Mega Urban Regions** (1) HK-SZ –GZ (120m) (2) Nagoya-Osaka-Kyoto-Kobe (3) Rio de Janeiro - Sao Paulo (4) **West Africa linking Nigeria, Benin, Togo and Ghana** (5) Mumbai and New Delhi (*State of the World's Cities 2010-2011*, UN, 2010)
- **China's largest urbanization in human history: 1 b urbanites by 2025, + 350 m in 221 new or expanded cities @ > 1 m population (EU=35); 15 super-cities @ > 25 m population; 11 hub-and-spoke conurbations @ > 60 m population** (*Preparing for China's Urban Billion*, MGI, March 2008). Supported by **world's largest and fastest-growing transport infrastructure** (expressways second to US interstate only; largest railway expansion since 19th C including many high-speed rail systems). Therefore **continuing to demand resources around the world**.

Consumption

- **China to consume more and save less**: annual household income cohort of RMB 100,001 to 200,000 to jump from 9.8% 2005 to 36.4% by 2025 (*The Value of China's Emerging Middle Class*, McKinsey Quarterly, 2006); middle-class families to reach 100 m by 2012 with average assets of RMB 600,000; **consumption rate may rocket to 71% by 2020 (= US rate)**
- **US (world's largest consumer market) to consume less and save more**; US saving rate rose from 1% 2008 Q3 to 4% March 2009, going for 7.5 -10% (*The Next Asia*, Stephen Roach, 2009)
- **Japan (world's second largest consumer market) going more for value instead of luxury**, spending time to save money, shopping online, staying at home (*sugomori* – 'chickens in the nest'), more health and environment conscious (*The New Japanese Consumer*, McKinsey Quarterly 2010 No.2)

China's Paradigm Shifts (2)

Global capitalism

- **3(4) of world's top 5(10) (market cap)** - PetroChina (US\$1T, 2 x ExxonMobile), ICBC (World's largest bank), ChinaMobile, Sinopec
- **4 of Big 5 SCBs** (60% of all loans and deposits) **embrace foreign equity**: HSBC 19.9% of BoCom (2004); BoA 10% of CCB, RBS 10% of BoC; Goldman Sachs 10% ICBC (2005)
- **Local incorporation of foreign banks** –Citibank, HSBC, SCB, BEA
- **Controlled capital outflow (reducing RMB imbalance)** - US\$10b (estimated by Deutsche Bank); Liberalizing QDII -50% overseas investment quota for approved equity funds
- **Outbound M & A** - CNOOC for UNOCAL, Nanjing Motor for MG Rover, CIC10% in Blackstone, CDB 3.1% in Barclays, ICBC 20% South Africa's Standard Bank, Chinalco 9% of Rio Tinto for \$14b; Ping An Euro 1.81b for 4.18% of Fortis (expandable to 4.99%)
- **RMB internationalization** - currency swaps, international settlements, RMB bonds (HK initially)
- **3 transnational high-speed (200-350 km/hr) rail links by 2025** (a) Kunming to SE Asia (Vietnam, Thailand, Myanmar, Malaysia, Singapore) (b) Urumqi to Kazakhstan, Uzbekistan, Turkmenistan, -Germany?) (c) Heilongjiang –Siberia –W Europe) (*SCMP 8 March 2010*)

Going Green

- \$200b to increase **renewable energies** from 8.3% to 10% by 2010 and **15% by 2020 (IEA)**
- **Leading** the world **in hydro, solar and wind**
- **Recycling Economy Promotion Law** 29.8.08
- **Eco-cities, towns and villages**
- **Green cars** of the future - **BYD – Warren Buffet 10% stake**

Building sustainable growth – China's 11th & 12th Five –Year Plans

11th Five Year Plan (2005-2010)

Social provision milestones (Morris Goldstein and Nicholas Lardy, *The Future of China's Exchange Rate Policy*, Petersen Institute , Washington D.C., July 2009, pp.36-37) :

- (a) ***Partial reimbursement (~30%) of healthcare costs*** 20-fold increase, ***covering 730 m people***, 4 x 2005;
- (b) Additional health insurance ***(2009-2011) extends coverage to 90% population*** by 2011. ***Government pays half*** , up from 16% in 2001;
- (c) ***Old Age Pensions*** for retirees now ***averaged RMB 1,173 in January 2009 > national average wage***, but well below urban wage ;
- (d) ***Minimum living standard guarantee program*** with dramatically-increased monthly payments from RMB50 in 2002 to RMB140 by 2008.



12th Five Year Plan (2011-15)

- ***More balanced, sustainable, and equitable society*** with greater economic equality, social justice, technological upgrading, innovation, ecological conservation, agricultural productivity, regional balance, and domestic consumption.
- ***Re-distribution*** including wage increases and hardship subsidies.
- More impetus will be given to promoting ***energy-saving and environmental protection, new energies, new materials*** and new-energy (electric) cars; new-generation ***informatics, bio-technologies, and high-end manufacturing***.



Opportunities and Rules of Engagement in China



Rules of Engagement in China

- **Technical feasibility** – product, equipment, technology, training, infrastructure, environmental protection
- **Financial viability** – market and sale projections, exports, pricing, sources, production inputs, financial projection and statements
- **Policy compatibility** – market, expertise, technology and growth v ‘squeezing out’ domestic enterprises – Carrefour’s former strategy of stealing a march on the central government unlikely to work in future
- **Key success factors** –
 - **Top commitment** (CEO GM pledged \$1b with SAIC – Shanghai GM (Buick model) now > Shanghai VW)
 - Solid **feasibility** study and **training**
 - Good **partnership match** and **mutual trust**
 - **Patience** and perseverance (**Contract x Marriage**)
 - Effective **HRM** including **cross-cultural management**
 - **Brand compatibility** – Unilever later dumped 1912 Maxam brand bought back by Chinese partner; Danone v Wahaha
- **Potential pitfalls** –
 - **Goal conflict (Same Bed Different Dreams)**
 - Incompatible or **inappropriate management teams** (style, skills, quality) – Earlier Morgan Stanley sent in a team headed by a Chinese Ming historian supported by student and relative – ended in litigation
 - **Disagreements** e.g. asset valuation = equity contribution (independent 3rd party opinions)
 - **Under-estimation of competition** (local and foreign rivals) (Carlsberg early 1990s had to abandon Shanghai beer production to rival Tsingdao Beer; Zhejiang brand overtook Omo of Uniliver and Tide of P & G; Coke v Pepsi and Uniliver v P& G);
 - Failure to anticipate **rapidly changing demand** - conservative Peugeot lost out by sticking to old models
- **Adaptation and Evolution**
 - **Proactive lobbying** (e.g. successful in getting the State Council to reverse decision in 1995 of abolishing tax exemption for imported production equipment); leading CEOs as advisors to municipal governments (Beijing and Shanghai); greater involvement in community e.g. donation to fighting SARS
 - **Localization of production content** – Shanghai VW 100% local content – dominating the market for 10 yrs with old model (no new technology); later newer Passat with lower local content but minimum technology transfer
 - **Localization of top management** with CEOs with Mainland background but overseas education (Successive Chinese CEOs turned Microsoft China from ‘Problem kid’ to favoured corporate citizen (e.g. R & D centres in China)
 - From **JVs to WFOEs** since 1990s - more JV experience + rapidly expanding national scope – Panasonic 50 local operations nationwide; but Uniliver in 14 JVs in 3 major areas: personal care, food + drinks, ice-cream
 - **M & A** e.g. BYD with Warren Buffet, China majority take in Maganese Bronze to produce London taxis for export
 - Tax evasion through **transfer pricing** - Lucent Technologies China CEO indicted by parent company for local bribery

China's African Special Economic Zones (SEZs)

- November 2006 FOCAC, BJ – **5 SEZs (out of 50 around the world)**
- To be **built and operated by Chinese enterprises** as profitable ventures (**both manufacturing and services**); winning proposals selected on **competitive market principles**
- Company-centred and business-based; **each zone < 3 key industries**
- **MOFCOM** to provide up to **\$25 m grants and \$250 m long-term loans** + export tax rebates, access to foreign currency, and promotional support
- **Chinese embassies** to help with negotiations with host governments on land, tax, permits
- China's '**Grand Plan for Africa**' (Martyn Davies, University of Stellenbosch)
- **Mining Hub – centred on Chambishi, Zambia** with **China Nonferrous Mining Group**, holder of copper-belt concession – to generate 60,000 local jobs
- **Indian Ocean Trading Hub – Mauritius**, Member of South African Development Community and Common Market for Eastern and Southern Africa; **CDB** to open first African branch; 210-hectare commenced construction 2007. **Shanxi's Tianli Group** to build '**i-Park**' with 'intelligence, innovation, incubation, and interaction' for high-value-added investors
- **East Africa Logistics Hub – Dar-es-Salaam, Tanzania** + host SEZ to link Zambia via 1,860 km **TanZam Railway**
- **West Africa Manufacturing/Assembly Hub - \$500m Free Trade Zone in Nigeria**. MOU signed with **GD Xinguang International Group, UBA, First Bank and Ogun State government**. **CDB** to invest in UBA. Nigeria to become 7th largest economy 2050 (Goldman Sachs)
- **MENA Regional Export Hub – 20 sq.km zone in Egypt near Suez Canal**, to be managed by **Tianjin Economic Technological Development Area (TEDA)** to attract \$2.5b FDI + 100 Chinese firms for ME and EU. China to become Egypt's largest trading partner

China-Africa Investment Opportunities

- **China's 5 SEZs in Africa** (e.g. Africa as global food basket – *food processing*, *canned meat*, *fruit juices*, *bio-fuels from non-food plants and waste*)
- China's *telecom expansion in Africa*
- **Banking and financial services** (China's Standard Bank equity a pan-African strategy; **ICBC, CDB, CIC**)
- **Mobile banking** (*Capturing the Promise of Mobile Banking in Emerging Markets*, McKinsey Quarterly, February, 2010) – 1b with mobiles but no ready access to banking; for 10,000 people, average 1 bank branch but 5,100 mobiles; **annual \$5b market** initially; SmartMoney and GCash (Philippines) + **M-Pesa (Kenya)**)
- **i-Trading and Business Platform** linking *African SMEs with suppliers in China* (cf Alibaba)
- Money Beyond Aid (*Dead Aid*, Dambisa Moyo, 2009)
 - Exploding **China-Africa trade**
 - **Micro-finance**
 - **Africa's global Diaspora remittances** reached **\$17b p.a. (2000-3) > FDI \$15b**; \$1 – 3 b p.a. could be raised by reducing the cost of remittances (**mobile technology**); \$5 – 10 b by issuing **African Diaspora Bonds**; and \$17 b by **securitizing future remittances** - '*Beyond Aid: New Sources and Innovative Mechanisms for Financing Developing in Sub-Sahara Africa*' (World Bank, April 2008)
 - Leveraging **capital locked up in personal savings**
 - **Long-term Debt Market**- September 2007, Ghana issued a \$750 m + Gabon \$1 b 10-year bond. **Ghana, Kenya, and the West African Economic and Monetary Union + Monetary Community of Central Africa most likely candidates in coming years.** (*Financial Institutions Debt Issuance is Likely to Increase in Sub-Sahara Africa*, Rating Direct, 30 April 2008)
- **Chinese M & As with large African enterprises** (e.g. energy and resources, banks and financial institutions, telecommunications, airlines, railways, shipping, ports etc)
- **JVs between mid-caps Chinese/African companies** linked to China/Africa (e.g. in imports, exports, distribution, logistics etc)

Thank you

Andrew K P Leung, SBS, FRSA

www.andrewleunginternationalconsultants.com