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BI-MONTHLY INFORMATION - STRAIGHT FROM THE SOURCE

3|05

May/June 2005 Published By **German Industry & Commerce China** | Shanghai www.bfchina.cn

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Sino-African Relations - a Booming Trade

Between 2000 and 2003 the number of Chinese-funded enterprises in Africa grew from 499 to 638, spread over 54 African countries and regions[1]. The Chinese Customs Bureau showed a total contracted investment of USD $ 1.17bn in 2003, a 56.4 percent increase from USD $ 660m in 2000. These companies are involved in a range of projects, from light industry to highly technological projects, petro-chemicals, power plants, transport, and information and communications. Trade is also increasing - in China's favour: from USD $ 10bn in 2000 to USD $16.64bn in 2003, a year-on-year increase of 48. 4 percent. From 2003 to 2004 trade went up by a further 53.9 percent, totaling USD $20.5bn in the first 9 months of 2004, according to the Chinese government. Chinese exports to Africa are mainly communication equipment, textiles, electric generators, machinery, hand-and-electric tools, shoes, motorcycles, bags, suitcases, clocks, wrist-watches, toys, children's goods, small household electrical appliances, etc. Imports comprise crude oil, unprocessed agricultural goods, wood, different ores, as well as some manufactured goods from South Africa.

How did China develop 'special ties' with Africa?

Chinese-African relations have been built up over a long period of time. Although Chinese companies have only really had a major presence in Africa since the early 1990s, government cooperation has been going on since as early as the 1950s. This special relationship has become a very profitable one for China. A 2004 speech by South African Deputy Minister of Communications shows that Africa sees business with China in a more positive light than trade with the West. At the Ministerial Consultation Workshop on Telecommunications in Beijing, 9th December 2004, Mr. Padayachie said that Sino-African trade was founded on "historically-based co-operation among (the) countries and ... commonly cherished principles, not on the mere strategy and tactics for the immediate pursuance of narrow economic goals, for the moment."

Case Study: Nigeria and Guangdong Province

This feeling of mutually beneficial strategic cooperation rather than exploitation is the result of longstanding Chinese educational and investment projects in Africa. A typical market-entrance strategy is the one used by the Guangdong Province. The Province started trade relations with Africa in the 1960s, providing aid and helping some African countries build up their infrastructure. With this positive background, the Province, and indeed the entire China, has had a good standing with Africa and was offered projects and incentives not given to other countries or companies, including the home industry. The Guangdong government furthered this by offering Chinese manufacturing companies tax- and other incentives to encourage them to invest in Africa. The result has been very positive. Over 15 projects are now underway between Guangdong and Africa, including a garment manufacturing plant in Egypt, an ethyl alcohol plant in Benin, a motor plant in Angola, a sewing-machine plant in South Africa, and a battery plant in Mozambique. Major trading partners are South Africa, Egypt, Nigeria, Morocco, Algeria, Gabon, and Zimbabwe.

Trade Benefits to China

China is nurturing trade developments to the African continent for several reasons. Undoubtedly they see Africa as a common historic ally, but as the 2000 speech by Minister Guangsheng Shi of MOFTEC shows, China's interests go beyond that. "China is willing to work with African countries to expand common views, deepen cooperation and speed up development so as to continuously sharpen the competitive edges and have the initiative in competition."[2] China sees Africa as an ally, as well as an open and still underdeveloped marketplace to position their products and strengthen their brands in before a possible massive launch onto Western markets. This is especially evident in the automotive and information and communication sectors.

1. *Figures according to the Chinese Ministry of Commerce*
2. *For the full speech: http://www.chinaembassy.org.zw/eng/zt/zflt/t150396.htm*

Example 1: The Automotive Industry

While more and more Western car manufacturers are locating production plants in China, Chinese car companies are opening up factories in Africa. SAIC (Shanghai Automotive International Inc.) and other major Chinese car companies are looking for other markets, e.g. Ghana, to assemble Chinese-made car kits for export. Although China is looking to replace Japan as the dominant manufacturer on the African car market (they have already acquired a reputation for low prices), the primary focus is clearly export oriented. Not only does this take the pressure off direct exports from China, Chinese companies can also benefit from the duty-free status of imports from Ghana to both NAFTA and EU countries. Beyond these obvious advantages, the Chinese are pushing for special incentives from African governments to sweeten the deal, among other measures a 5-10 year tax-free income status from the Ghana government.

Example 2 : ICT in Africa

The development of Information and Communication Technology capabilities and infrastructure is a major concern to Africa. African governments appreciate the need for sustainable foreign and domestic investment in the ICT sector. In a recent speech at a Ministerial Consultation Workshop on Telecommunications in Beijing, the Deputy Minister of the South African Ministry of Communications, Mr. Padayachie, highlighted the role of ICT. Not only in creating economic growth and strengthening human resource development in Africa, but also to close the digital divide and significantly reduce poverty - not to mention achieving the Millennium Development Goals. To develop ICT networks, Africans have employed a new philosophy and looked to China: "In Africa we were always conscious that the sun first rises in the east. It is therefore time to apply this natural wisdom and in the case of ICT to look to the east."[3]

China and Nigeria started building diplomatic ties in the early 1970s. In effect, no significant trade and investment activities took place until the mid-1990s. Over the last decade, however, the trade volume between the two countries has rapidly increased, reaching USD $2.18bn in 2004. Nigeria is now China's second largest export market and third largest trade partner in Africa, after South Africa and Egypt. Within the last few months Huawei Technologies, China's largest telecommunication equipment maker, signed a deal to provide Nigeria with USD $200m worth of telecommunications equipment to set up a nationwide mobile phone service using CDMA technology. The deal also included an agreement to set up a telecommunications technology training centre in Nigeria worth a further USD $20m. "Nigeria is one of our major overseas markets and it has great potential" said Huawei President Ren Zhengfei.

ZTE and (Alcatel)-Shanghai Bell are currently providing Nigeria with USD $200m worth of telecommunications equipment for rural telephone projects. The former also signed a USD $95m agreement to expand wireless telephone coverage and establish a handset and terminals manufacturing facility as well as an exhibition and training centre in Nigeria. President Olusegun Obasanjo and his Chinese counterpart at the Great Hall of the People, Beijing, China witnessed the agreement signing ceremony, during President Obasanjo's visit to the country in April 2005. China is now the biggest mobile phone producer in the world. Major deals with Africa can only help Chinese companies become even bigger players on the global market, joining the ranks of Siemens and Nokia.

Additionally, the "Nigerian communications satellite bid, for launch in 2007, is the first Chinese satellite bought by any African nation". "The satellite called Dongfanghong IV, will be put into orbit by a Long March 3B carrier rocket from the Xichang Space Launch Centre in Southwest China's Sichuan Province sometime after next year. China Aerospace will also help to train Nigerian technicians," said Mr. Li, an official with the China Aerospace Science and Technology Corporation. Adding that to date China has sent 28 foreign satellites into space.

Other significant Chinese trade activities in Nigeria include proposed/recent investments in motorcycle assembly plants, petroleum, electricity generation, manufacturing, real estate, infrastructure construction, etc. "President Hu Jintao of the Peoples Republic of China has declared his country's interest to invest in the oil and gas sector of the Nigerian economy and deepen relations between his country, Africa, and Nigeria. The two leaders also agreed to strenghten relationships in international affairs in their mutual policy of seeking a 'fair and reasonable new economic order'." According to Josephine Lohor's article, in the Lagos based This Day newspaper, 15th April 2005.

Additional Benefits: Energy Sources

Limited fuel resources are a major concern for

3. *Deputy Minister of SA Ministry of Communications, Ministerial Workshop on Telecommunications, Beijing 9th December*

the steadily growing Chinese economy. The Vice Governor of Guangdong, Tang Bingquan, freely admitted that part of the reason for locating to Africa was "Africa's abundant timber, oil and non-ferrous metal resources (which) provide ample fuels and raw materials for manufacturing projects."[4] Indeed analysts have begun to see large Chinese investments into non-oil sectors in Nigeria as a leverage to secure the oil stake, i.e. that much of the interest in Nigeria has been to take advantage of its oil wealth as well as its relatively untapped market. By the end of 2003, China had invested more than USD $6bn in 58 overseas oil and gas projects as state companies make deals in Africa, Southeast Asia and Central Asia.

Future Looks Bright, Future Looks Chinese?
China's influence and export capacity to developing countries is causing major concern to the West, especially North America. But while they focus on China's expansion into the developing world, Chinese companies are already expanding onto Western markets. Unlike China's 'soft' approach to winning the African market, through investment and joint ventures, it is using a much more aggressive tactic to advance on Western markets. The most widely publicised Chinese takeover bid has been the Lenovo-IBM deal, which will "make Lenovo the third largest manufacturing computer company in the world with annual revenues of over USD $10bn," according to the Lenovo's chairman, Liu Chuanzhi. Other Chinese companies are also rapidly expanding onto the global market place. TCL Corp, China's second-largest mobile handset and television manufacturer, made headlines by merging its TV and DVD operations with the French company Thomson. Zinc and copper producer China Minmetals meanwhile is leading negotiations on a potential USD $5.5bn takeover of Noranda, Canada's biggest mining company. Haier, China's largest domestic appliance maker, which has consistently been ranked one of China's most valuable brands, already has an international cache and a manufacturing plant in the US.

According to the Chinese Ministry of Commerce by 2003 Chinese companies had invested over USD $33bn in around 7,500 companies located in more than 160 countries and territories. China is now trying to rival South Korea and Japan in growth of importance on the global stage. At the International Forum[5] held last month Wang Zhongyu, Vice-Chairman of CPPCC, said that encouraging companies to go global and become internationally competitive is an important strategy in China's long-term development plan. Although some companies like PetroChina, China Ocean Shipping, Haier, and TCL have already succeeded, Wang admitted that China's companies are still at the initial stage of "going out". An Min, Vice-Minister of Commerce, maintained that China is trying to speed up plans for outward investment by simplifying procedures in financing, insurance, foreign exchange and quarantine to support companies to go global. In the meantime China is kindling relations with India, investment and bilateral trade figures set to rival those with Africa; USD $20bn by 2008 and USD $30bn by 2010 according to Wen Jiabao, the Chinese Premier.[6] Growth is expected to be encouraged through a removal of trade barriers and strengthening of cooperation in steel, oil, machinery, and other basic industries as well as high tech industries such as space, maritime, and IT. Investment from China would be concentrated in biotech and computer- and telecom hardware. This essentially follows the same pattern as China's expansion into Africa and a similar strategy is being pursued by the Chinese with the ASEAN nations on trade and investments. ■

PROFILE

UGC Technology & Management Firm (UGC) is an innovative engineering, global advanced technology/transfer and strategic management consulting services company that provides its multi-national clients with timely, cost-effective and world-class quality services. UGC is a major player in the increasingly complex and competitive global economy, starting with significant projects for General Motors, USA. UGC major clients are Western, Asian and African multi-national corporations and governments, such as GM of China, Lear, First Auto Works, Dong Fang, Schlumberger, Kayser, etc. Most of the companies current projects are in the USA and China. Recent activities include inroads to rapidly developing markets such as that of Nigeria, South Africa, India, etc. UGC has increased its clients' profitability through an innovative marriage of its clients' people with effective state-of-the-art technology. UGC service offerings include IT, telecom, manufacturing, oil and gas and general management consulting. UGC people are its most valued asset. A majority of its management and technical staff members have in-depth professional experience spanning several industries in the U.S., China and Nigeria among other.

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4. 'Chinese Companies Encouraged to Invest in Africa', 31st October 2000; People's Daily (http://english.people.com.cn/english/200010/31/eng20001031_54008.html)

5. International Forum on Going Global of Chinese Enterprises, 28th April 2005

6. Wen Jiabao, speaking at the India-China Business Cooperation Conference: New Delhi, 11th April 2005.