# FOCAC 2015

## Business to Business Forum Panel Discussions


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合作共赢 共同发展——助推非洲一体化和工业化发展
Organizers:
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合作共赢 共同发展
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# Summary

Embracing the theme "China-Africa Cooperation for Common Development: Catapulting the African Industrialisation Renaissance", the 2015 FOCAC Business to Business Forum panel discussions – hosted in Johannesburg on 3 December 2015 – included participation by private sector C-suite executives, academics and government officials from both China and Africa.

The discussions were centred on cooperation and investment opportunities and the way forward in the Sino-African commercial relationship, relating to financial services, infrastructure, transport, the resources sector, agro-processing as well as manufacturing and advanced manufacturing.

The sessions highlighted that the evolution of financing models and the identification of feasible projects are key in enhancing the cooperation and investment opportunities across all sectors in Africa. There is a great opportunity for Africa to industrialise by capturing China's industrial relocation, innovations in ICT and industrial technologies, as well as the skills transfers within the different sectors of focus.

"Localisation" of Chinese investors with equity share options and revisiting investment models in the beneficiation of resources, is regarded as an important step in advancing from the "Made in China" narrative to one that says "Made with China, in Africa".

In tackling Africa's challenges, the Chinese counterparts made a call for win-win cooperation to be driven by business and guided by governments. In light of this, the build up to the sixth Forum on China-Africa Cooperation (FOCAC) meeting and the second Heads of State Summit saw China and South Africa signing 26 bilateral deals worth US$6.5 billion for instance. In addition to the major pillars to boosting cooperation between China and Africa, China has committed a total of US$60 billion in funding support to the continent over the next few years. The majority of these funds will be in the form of concessional loans which are directed towards infrastructural development, growth of African SMEs and enhancement of production capacity on the continent.

## The 5 Major Pillars in Boosting Cooperation between China and Africa

- **Political equality and mutual trust**
  A respect for development paths, mutual understanding, support in upholding equality and justice
- **Promoting win-win economic cooperation**
  Leveraging the strength of political mutual trust and economic complementarities to enhance industrial capacities
- **Mutually enriching cultural exchanges**
  Facilitating more exchanges between the youth, women, academic institutions, media and other sectors to promote cultural interaction and policy coordination
- **Sustainable development and security**
  The settlement of African issues by Africans in the African way. Support in capacity-building for maintaining and strengthening peace and security
- **Solidarity and coordination in international affairs**
  Strengthening consultation and coordination and support for Africa in global platforms of engagement

**China's 10-point plan to address Africa's development obstacles**

1. Industrialisation
2. Agricultural modernisation
3. Infrastructure planning, design, construction operation and maintenance
4. Investment and finance support and services
5. Green, low-carbon and sustainable development and support
6. Trade and investment facilitation
7. Poverty alleviation
8. Cultural exchanges
9. Public health
10. Peace and security

## Panel 1: Cooperation and Investment Opportunities in Financial Services, Infrastructure and Transport

Partnerships between China and Africa, as well as localisation in one form or the other are pivotal in both bolstering and optimising infrastructure investment on the continent. While there is no shortage of funds for transport and infrastructural investment in Africa, there is general consensus that a lack of bankable projects exists on the continent. Despite this, China's role on the continent relating to infrastructural development has been significant with the country owning only one project but present in funding 13 projects (4%) and heavily present in the construction of 42 projects (15%).

The nature of capital investments into the sector needs to evolve from solely applying Engineering, Procurement and Construction (EPC) contracts, which are short- to medium-term, to longer-term partnerships, including equity investments. This evolution of financing models needs to be coupled with African companies and government agencies identifying their points of integration and working on their respective competitive advantages in order to facilitate and enable faster economic growth. African governments are thus called to action to also balance the terms of trade by exploring opportunities in China as well as making Chinese markets more accessible but with more transparent processes and legal frameworks.

The China Construction Group for instance has established 30 cement plants and over 10 plastic manufacturing production lines across Africa. The group is now shifting from EPC contracts to direct investments. On the 3rd of December 2015, in the shadows of the 6th FOCAC summit in Johannesburg, the China Construction Group signed three agreements to invest in manufacturing plants, one of them being a glass manufacturing plant. In Zambia for example, the Chinese company has also been investing and overseeing a pilot green housing construction project that uses alternative and environmentally-friendly building materials. They have since continued identifying local plants to set-up joint ventures in order to bolster infrastructural development on the African continent.

Other case studies of win-win business to business cooperation between Chinese and African businesses reflect the growing trajectory of interest and continued cooperation in the transformation and development of the African continent. The MoU's signed between the Industrial and Commercial Bank of China (ICBC) with Standard Bank of South Africa; Chinese investments into South Africa's power utility Eskom and the China Export and Credit Insurance Corporation (Sinosure) loan deal worth about US$2.5 billion for equipment from Chinese firms are tangible examples of the continued commitment to the cooperation in creating and financing opportunities in financial services, infrastructure and transport in Africa.

**Case Study: A Snapshot of Huawei in Africa**

- Huawei has been operating in Africa for 17 years with strong support from Chinese and African governments and banks.
- Given that technology is key to Africa's present and future development, Huawei has installed over 50 000 fibre cables in and across Africa to improve IT infrastructure, preparing countries to be more competitve and develop digital economies.
- Huawei has worked with local governments and other private sector players to map and implement national broadband plans.
- Forging local partnerships and involvement in local social responsibility projects such as skills exchange programmes, academic scholarships and supporting sport programmes on the continent has enabled their continued success and growth on the continent.
- Huawei believes that there is huge potential in Africa for more infrastructure projects. Prioritisation of the key projects, however, is of utmost importance.

In order for skills to be transferred successfully and sustainably in the finance, infrastructure and transport sectors, a ready market needs to be in place with the transfer of skills taking a step-by-step approach. African business and government together with private Chinese companies such as Huawei, Hisense, ZTE and the Chinese government through its numerous parastatals operating in Africa, are advocating for growth in rail, aviation and road infrastructure – sectors where skills transfer is essential.

The selection of feasible and bankable transport and infrastructure projects is quintessential in the China-Africa relationship. Institutions such as the Development Bank of South Africa (DBSA) amongst others in Africa are assisting in project preparation while the China-Africa Development Fund (CADFund) is an instrument of Chinese investments into transport and infrastructure projects in Africa.

## Panel 2: Co-operation and Investment Opportunities in Agro-Processing and Advanced Manufacturing Sectors

Manufacturing and industrialisation is at the centre of South Africa's economic policy. On the back of the recent commodity price slump, diversification of resource-rich economies in Africa, including South Africa, into manufacturing and agro-processing has become ever more imperative for their sustainable economic growth plans. Statistics highlight skewed trade between Africa and China, with more than 85% of exports to China from Africa comprising of raw commodities. For more value-added growth to occur in Africa, beneficiated exports to China need to increase. However, in a world where each economy seeks to better itself, the question arises whether Africa and China will be collaborators or competitors. Can there be a win-win relationship as both entities seek to become more competitive?

Panellists agreed that China is more of a collaborator rather than adversary with a view that Africa has much to learn from China. For instance, in the agricultural industry, though Africa has the necessary natural resources for a booming sector, a major gap in agro-processing hinders most countries from realising their full agricultural potential. The agricultural value chain is long and complex and Chinese investment in Africa can support and fast-track development of the African value chain at all stages including basic farming processes. A lot of agricultural output in Africa is produced with poor consideration of market demand due to information asymmetry. In partnership with Chinese farmers and manufacturers African farmers can produce more market-demanded output by leveraging established Chinese market knowledge and linkages. Though agricultural investments take time to yield returns, Chinese investors want to build long-term successful relationships in African countries. Africa needs a stronger manufacturing base for more sustained growth and building manufacturing bases in turn requires long-term partnerships between African and Chinese businesses.

Many Africans rely on agriculture and developing the sector across the continent will have a strong positive impact on people's livelihoods. Upon its transition in the early 1980s from a planned to a market economy, China's per capita income was only a third of Africa's at the time. 85% of China's population was rural while about 79% of the labour force was employed in the agricultural sector. Over 36 years Chinese labour shifted towards employment in the manufacturing sector and now only 3% of the labour force is employed in the agricultural sector while 45% of the population is rural.

Evidence from China's transition, highlights a strong manufacturing base as a precondition for sustained economic growth. For instance, capturing the relocation of labour-intensive manufacturing away from the US in search for cheaper labour destinations, Japan was able to achieve sustained development post World War II. Similarly, Singapore and South Korea captured relocating manufacturing firms from Japan following which in the 1980s manufacturing relocated to China. Now as labour costs rise in China and as manufacturing seeks more cost-effective destinations yet again, Africa can position itself to capture China's offshoring manufacturing firms.

China Railway Construction Corporation (CRCC), for example, has worked in more than 30 African countries and currently has 10 bases set up in Africa to produce African locomotives. CRCC is greatly involved in technology transfer and localisation of skills and in recent years has trained more than 400 Africans, in the train manufacturing process. African cities are not well connected and logistics continues to be a key challenge for intra-African trade. However, through long-term partnerships in infrastructure projects such challenges can be addressed as evidence shows.

By partnering with China, Africa can position itself to capture China's manufacturing by leveraging China's competitive construction industry for infrastructure development. Beyond physical infrastructure, pragmatism is needed and developing Special Economic Zones (SEZs) is a cost-efficient approach for African governments to kick-start industrialisation.

The prospects are rife for China-Africa relations but sensitive issues about foreign ownership of land and resources across the continent need to be addressed through clear policies to avoid ownership disputes and for sustainable partnerships between African states and China. Market access problems for African exports into China also need to be resolved for more balanced trade between the world's second largest economy and the African continent. Furthermore beyond infrastructure development, human capital development is a critical part of the Africa industrialisation puzzle. All in all, poverty is not a destiny for any nation and relations between African countries and China present a great opportunity for the continent to evolve to affluence.

## Panel 3: Co-operation and Investment Opportunities in Mining And Energy

With Africa resourced to sustain itself, recognising the challenges that the African resources sector is facing such as skills shortages in beneficiation, infrastructure is very important as this poses opportunity for Chinese investments. The African power supply sector needs to be expanded by restructuring the sector and exploring other sources of energy in order for Africa to facilitate industrialisation. In China for instance, wind power is now 7% of the energy mix while in other developed economies, thermal power is now less than 30% of the energy mix.

China is willing and able to work with the African countries to improve energy efficiencies, introducing and developing green technologies as well as expanding exchanges for skills transfer given that China is itself a leader in innovation and exporting skills and technology to other markets. Energy optimisation is an important point of cooperation in order to reduce the cost of producing energy on the continent.

China's success in developing green technologies and efficiencies arose from the environmental concerns in the country but has since been able to transform this challenge into one of its strongholds and competitive advantages globally. The country's innovations in nuclear technology are now being exported to the United Kingdom and other countries in Europe. Africa is also carrying out bidding for Nuclear power projects and hence cooperation and collaboration with China in developing localised nuclear technology will enable the unlocking of the required development on the continent.

Successful collaboration in the African power sector will require local partnerships with equity shares issued, leveraging local labour, enhancing local equipment and social responsibility programmes that add value to local communities in Africa. Processing of raw materials also needs to be done on the continent, however, sources of funding for beneficiation need to be revisited exploring ideas such as the establishment of a "BRICS resources bank" in addition to the existing BRICS bank and other capital sourcing platforms.

**Case Study: A Snapshot of China General Nuclear Power Corporation (CGN) engagements in Africa (Namibia)**

- The China General Nuclear Corporation (CGN) made an investment of US$5 billion in Namibia's uranium mining sector. This was a result of a successful collaboration with local partners.
- CGNC's local partner in Namibia had equity shares. This enabled the leveraging of over 3000 local labourers, enhancing local equipment and social responsibility programmes that add value to the surrounding local community. Through intra-regional skills programmes and agreements, the technical staff for the project in Namibia were from South Africa.
- A flagship charactersic of CGN's operations in Namibia is that the semi-processing plant for the uranium mine is based in Namibia. While enrichment is not yet possible locally, the semi-processing plant is an ideal and practical example of future cooperation arrangements in the mining sector between China and Africa. Mineral beneficiation is part of Africa's industrialisation plan of action and thus an opportunity for China to invest in.
- While business to business engagements will drive investments on the continent, it is important to have knowledge of Government Energy plans in order to maximise on market opportunities given that the Chinese government is a big purchaser of energy for instance.

## Panel 4: An Outlook on China-Africa Economic Relations

In the modern age, a symbiotic relationship between China and Africa is inevitable. Africa is dependent on China's economic performance and as China develops the opportunity for industrialisation in Africa increases. Africa's prospects are becoming increasingly dependent not only on Chinese investment into Africa but also on rising Chinese consumption levels. Through cooperation with China, Africa can achieve greater diversification of both its products and export destinations.

An important part of China's success was the economies of scale created through a large population. Africa can create a similar environment through intra-continental integration. To date China has spent more than US$40 billion on infrastructure across Africa, however the approach has been mostly country-specific and at a bilateral level. For more effective and cost-efficient infrastructure development, future projects should focus on building corridor-oriented infrastructure to enhance intra-continental integration. There is a need for integrated communication, transport, and power infrastructure projects to ensure wider focus of skills development and economies of scale.

Dialogue should be deepened with Chinese investors on using local content as they do not view local labour as viable in Africa and in many cases prefer to import skills from China. In addition to skills development, China also needs to explore opportunities in supporting the development of black industrialists in Africa. Long-term partnership with China should be inclusive of African skills and there needs to be a joint effort in developing African human capital.

With regards to human rights, democracy and governance, there is an understanding between China and African states that Africa has its own agenda. Though Africa is scarred by unresolved colonisation issues, concerns about Chinese neo-colonialism are unwarranted as African states are sovereign and open to forming partnerships with all international economies including China. Africans are making their own decisions and neither the West nor China can dictate African affairs.

A lot is already being done on the continent by Chinese firms. In South Africa, Hisense successfully manufactures consumer electronics goods and exports its products across the continent. Likewise, Beijing Auto Works assembles passenger taxis and manufactures trucks and construction vehicles for domestic consumption. Innovation and skills development is also a reality in Africa. Besides the various challenges, taking everything into account, the China-Africa partnership has the potential to speed up the continent's industrialisation process and help propel socio-economic development across the continent.

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