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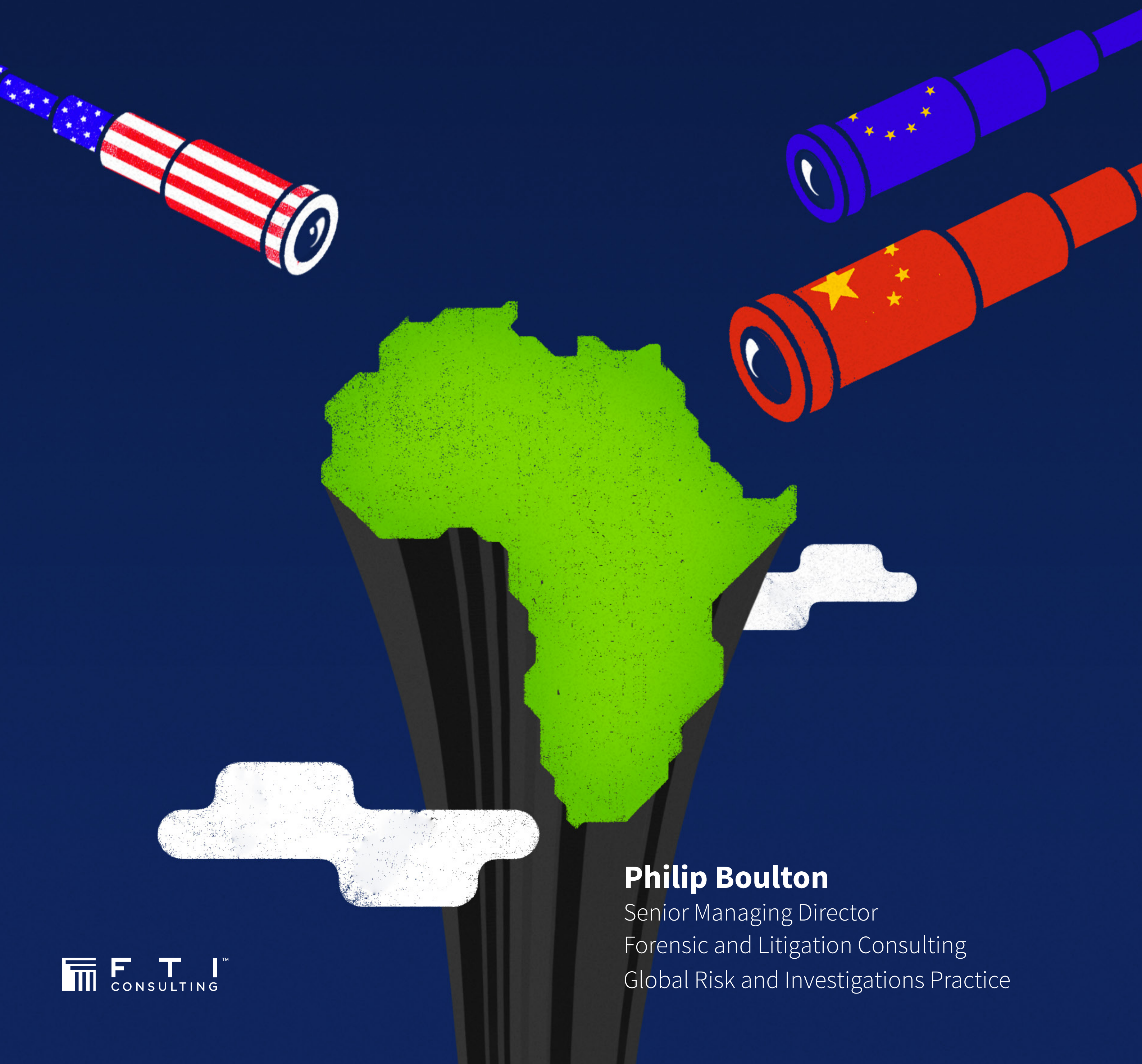
Africa Booms & Multinationals Take Notice

Chinese companies have established a strong presence in Africa's soaring economies. But plenty of opportunity remains for non-Chinese firms to find their own fortunes in Africa.



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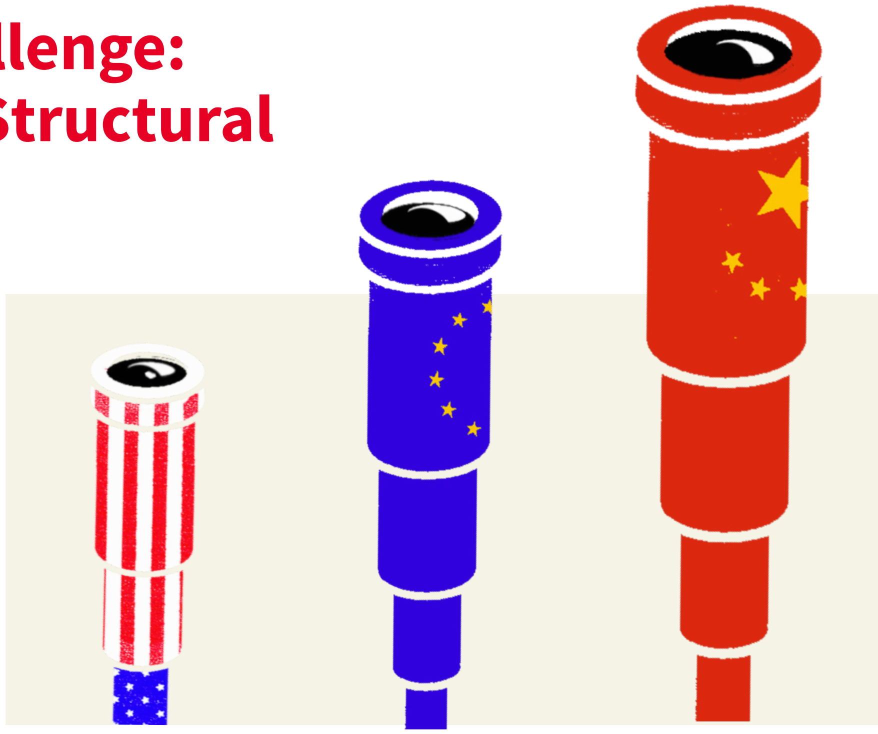
Africa is home to some of the fastest-growing economies in the world, including a dozen that are expected to grow at least 6 percent annually during the next six years or longer. The International Monetary Fund's (IMF) World Economic Outlook, *published in October 2012, notes that 11 of the world's 20 fastest-growing economies are in Africa. Africa's upward trajectory seems likely to continue. The IMF predicts that African nations will represent seven of the top 10 fastest-growing economies (with a population in excess of 10 million) in the 2011-2015 time frame.*

Africa Rising

There is a widespread belief that Chinese firms already dominate African markets to such an extent that non-Chinese firms have little hope of breaking into African markets. Indeed, China has prioritized African trade and carved out a strong position trading with African nations. Trade between Africa and China reportedly rose 83 percent from 2009-2011 and then jumped another 25 percent in 2012 to $220 billion. (By comparison, trade between the United States and sub-Saharan Africa reached only $95 billion in 2011.)

Over the same period, European trade with Africa has atrophied. While Europe once held a dominant two-thirds share of international African trade, by 2011 that share had declined to just 25 percent, according to research by Renaissance Capital. But the successes of Chinese companies in Africa do not make their position unassailable. Certain missteps by Chinese firms have given companies from the United States, Canada, Europe, Latin America and elsewhere an opening to capture (or recapture) a stake in Africa's growing markets. Chinese companies, meanwhile – if they take the lessons from these mistakes to heart – may be better able to defend against international competition.

The Chinese Challenge: Head Start plus Structural Advantages



Chinese firms have carved out a dominant trading position in some of the fastest-growing African economies. In Ethiopia, for instance, two Chinese companies are working on building a $2.8 billion electric railway connecting Addis Ababa to the Djibouti border. In Cameroon, China Petrochemical Corporation (Sinopec Group) paid more than $500 million for an 80 percent stake of oil and gas production company Pecten Cameroon.

China has made African investment a priority, in part to secure access to the raw materials — especially fuel, iron ore and various additional metals but also food and other agricultural products — needed to power China's manufacturing juggernaut and advance its own development goals. While China was looking outward to Africa, many European firms were turning inward, shell-shocked by the 2008 financial crisis and preoccupied with the specter of a teetering Eurozone.

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The United States, meanwhile, traditionally has looked at Africa more as a foreign aid recipient (or, most recently, as a battlefield in the War on Terror) than as an investment opportunity. This may explain why the U.S. Department of Commerce has officers in only three African nations (Kenya, Nigeria and South Africa), according to The Brookings Institution. China, on the other hand, has approximately three commercial attachés per country in sub-Saharan Africa, adding up to over 150 trade representatives in total.

In our opinion, many African nations resent what they see as high-handed interference from the IMF, the World Bank and other institutional organizations on issues of corruption, governance and human rights. As the United Nations' Office for the Coordination of Humanitarian Affairs reported in 2006, Chinese loans to Angola allowed that country to forgo IMF lending that would have subjected government finances to greater scrutiny. At the same time, China's oft-stated political opposition to interfering with the internal affairs of various nations has won goodwill for Chinese firms in countries such as Sudan and Zimbabwe, which sometimes has helped them compete for investment or trade opportunities.

Meanwhile, some Chinese advantages derive from investment horizons. Many companies from the United States, Europe and elsewhere that would like to invest in Africa are publicly funded institutions that must deliver short-term results to satisfy their shareholders. By contrast, Chinese competitors may be state-owned enterprises funded by state-owned banks. The Asia Institute at the University of California, Los Angeles points out that this may result in being less concerned with immediate profits than with long-term access to markets and natural resources. Therefore, some stakeholders may be willing to wait decades to realize a return.

Chinese Vulnerabilities

Despite a track record of success in Africa, some Chinese companies have attracted some criticisms that provide potential openings for their international competitors. These complaints fall into four broad categories:

1. Quality

In 2010, structural problems at a new Chinese-built hospital in Angola's capital Luanda forced its closure just four years after the hospital had opened. In 2009, parts of the Chinese-built road to the Zambian capital of Lusaka washed away in heavy rains. Botswana's president Ian Khama has blamed Chinese companies for frequent power disruptions caused by delays in bringing power generation plants online. Whether or not it is fair to tar all Chinese companies with the same brush based on a few publicized debacles, such incidents led to concerns in Africa about the lifetime costs of Chinese-built infrastructure.

2. Ethics

Chinese investors and entrepreneurs have been blamed for bringing "bad habits" to Africa. There have been implications that Chinese firms engaged in bribery and undermined good governance. Such issues have led the World Bank to reportedly ban some mainland Chinese companies from bidding for African contracts. These ethics concerns also extend to discontent over alleged environmental destruction. For example, the Chinese oil firm Sinopec was accused of prospecting in a Gabonese national park, while another state oil company allegedly created "lakes of spilled crude" in Sudan.

3. Human Rights

The Chinese have built relationships with controversial African leaders such as Omar al-Bashir in Sudan and Robert Mugabe in Zimbabwe whose governments have been accused of human rights violations. Relationships such as these may have given Chinese firms short-term advantages in the respective countries, but they also undermined China's image among certain segments of African society.

4. Jobs

Two types of jobs-related critiques have been leveled against Chinese firms. On the one hand, Chinese companies have been castigated for disregarding worker safety. For example, in February 2013, Zambia cited issues regarding worker safety to justify its seizure of the Chinese-owned Collum coal mine. Zambia's mining minister accused the mine's Chinese managers of failing to provide employees with appropriate protective equipment or access to essential emergency facilities such as ambulances or, at a minimum, a first aid station. (Michael Sata won Zambia's presidency in September 2011 largely by tapping into anti-Chinese resentment.)

On the other hand, complaints have been registered stating that Chinese employers hire too few Africans and prefer to rely on imported Chinese labor. In fact, approximately 1 million Chinese now work in Africa, according to estimates from Beijing. Western companies such as Chevron operating in Angola depend primarily on local Angolan labor, whereas Chinese companies import 70 percent to 80 percent of their workers from China.

Both types of complaints about Chinese employment practices showed up in an FTI Consulting survey of South African opinions on Chinese foreign direct investment. One respondent lamented that "Chinese investments create very few local jobs," while another blasted Chinese businesses for "exploiting the local labor force but creating unhealthy work environments with unacceptable wages."

African Success: Four Ways to Win

Going forward, there are four strategies that companies can play to their advantage:

1. Produce High-Quality Delieverables

Multinationals competing for business in Africa may be able to gain an advantage by emphasizing a reputation for high-quality deliverables and correspondingly low maintenance or upgrade costs.

For example, in justifying his company's decision to award the advisory contract on its $1.9 billion fertilizer plant to India-based Tata Consulting Engineers, the president of Nigeria's Dangote Group cited Tata's track record of delivering complex projects. He professed his faith in Tata's ability to help Dangote complete its large-scale project on time while producing a "world-class plant that meets the highest global standards."

2. Implement Ethical Business Practices

Rather than seeing anti-corruption regulation such as the Foreign Corrupt Practices Act in the United States and the UK Bribery Act as impediments, multinationals should proudly declare their commitment to good governance and seek out African customers and partners that value ethical practices.

Is it naïve to think that ethical business practices have a chance of carrying the day in Africa? While it might surprise some jaded observers, a recent FTI Consulting international survey found that South African adults named "anti-bribery and corruption" as the "most important" among eight corporate governance issues, with some 88 percent of them calling it "very important."

Similarly, when asked what attributes overseas companies would need to possess for success, more South Africans (87 percent) chose "honesty" than any other attribute, ranking it above obvious business advantages such as "efficiency," "innovation" and "flexibility." In fact, South Africans were more likely than respondents from five other countries (Australia, Canada, Germany, the United Kingdom and the United States) to say that honesty would help overseas companies.

3. Build Relationships with Communities, Not Just Leaders

Chinese companies may have some leverage in certain countries thanks to strong bilateral political ties those countries have with China, but the advantages are only as durable as the relevant political regimes.

Consider the case of Libya, where China had good relations with the regime of former strongman Muammar Gaddafi. By 2011, China had approximately $18 billion in engineering contracts with Libya, not to mention arrangements to import 150,000 barrels of Libyan oil per day, according to American University professor Deborah Brautigam in testimony before the United States Senate Committee on Foreign Relations Subcommittee on African Affairs. When Gaddafi's regime faced a revolutionary threat, China gave the Libyan leader diplomatic cover at the United Nations and criticized NATO's (North Atlantic Treaty Organization) military campaign in support of the rebels. Gaddafi's ultimate downfall created a new political climate where China now faces animosity and may well have trouble maintaining or extending its economic interests.

Another recent FTI Consulting survey indicated that public opinion in some African nations is negative or ambivalent toward incoming Chinese investment. For instance, among survey respondents in Ghana, only 18 percent described Chinese investment in their country as being "very beneficial," while 27 percent described such investment as being "slightly unbeneficial" or "very unbeneficial." Such attitudes may create opportunities for non-Chinese firms that can do a better job of convincing Africans that an investment in Africa would yield benefits for African societies.

4. Partner with African Companies and/or Create African Jobs

Many African countries struggling with high unemployment (49 percent are unemployed or underemployed in sub-Saharan Africa, according to a 2011 Gallup survey) are eager to create jobs. Accordingly, multinationals that include a commitment to such job creation, job training and respect for worker rights as part of their bid may have a stronger chance at landing major African contracts.

Consider the 2012 example of French energy solutions and transport company Alstom, which overcame competition from China, Spain and Canada to win a $5.8 billion passenger train contract in South Africa. Alstom had partnered its bid with a South African black empowerment company that manufactures electro-mechanical equipment. In declaring the selection of Alstom, the chief executive of South Africa's Passenger Rail Agency said, "We're not just buying trains — we are creating jobs, and we also are revitalizing our rail engineering industry."

How many jobs are involved? T*he Globe and Mail* reported that the contract (which it described as the biggest rail deal anywhere in the world) between South Africa and Alstom would generate thousands of jobs, with Alstom required to build a South African manufacturing plant.

Taking the First Step

It was the ancient Chinese philosopher Lao Tzu who reportedly said, "A journey of a thousand miles begins with a single step."

Chinese companies have done an excellent job of capturing market share in Africa over the past decade. But non-Chinese multinationals have recently shown they have the ability — and, perhaps, just as important — the desire and focus – to concentrate their efforts on winning important African contracts.

To provide just a few examples:

• Swedish telecom company Ericsson is building out a mobile broadband network in Angola.

• U.S.-based construction and engineering services firm Bechtel helped Gabon build stadia and training facilities for the 2012 Africa Cup of Nations football tournament.

•French firm Bolloré Group has become one of the largest port operators in Africa, with 14 container terminals, 25,000 African staff and €2.5 billion in sales from its African logistics division during 2012.

Such successes and many more demonstrate that despite some of the advantages Chinese firms enjoy in Africa, opportunities abound for non-Chinese competitors. But Chinese companies will not see their market share diminish just because non-Chinese multinationals show up and start competing seriously for African business. They, too, can convince African buyers that they are serious about delivering high-quality projects, upholding ethical business practices, creating jobs, respecting worker rights and partnering with communities. On this last point, some Chinese companies have provided funding for schools, hospitals, agricultural technology demonstration centers and even the African Union headquarters.

With African economies poised for continued rapid growth over the next few years, the continent is awash with opportunities – from infrastructure development in Nigeria to oil exploration off the coast of Somalia. Although Chinese firms apparently have a head start, future success in Africa will not depend on nationality. It, however, will depend, at least in part, on a firm's ability to bring quality, ethics, community empowerment, employment and job creation to the negotiating table. ■

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