

21 April 2011

Renaissance  
Capital

Charles Robertson  
+44 (207) 367-8235  
CRobertson@rencap.com

Lucy Corkin  
Consultant

## China in Africa



Important disclosures are found at the Disclosures Appendix. Communicated by Renaissance Securities (Cyprus) Limited, regulated by the Cyprus Securities & Exchange Commission, which together with non-US affiliates operates outside of the USA under the brand name of Renaissance Capital.

## China in Africa

- The GDP boom in China and Africa over the past decade has been exceeded by even faster growth in Chinese-African economic relations. While Chinese trade with the world has risen eightfold, with Africa it has seen a tenfold increase, from \$11bn in 2000 to \$129bn in 2010, and unlike China's trade with most of the world, it is Africa that has the upper hand in this trading relationship. By 2015, trade turnover could have reached nearly \$400bn, with Africa's surplus around \$40bn.
- To improve its trading position, China is now lending billions of dollars to Africa in tied loans that guarantee Chinese companies contractor rights and ensure Chinese goods are used in development projects. The loans tend to be granted when their repayment can be guaranteed by payments from China for African exports. So China is buying African exports, but trying to ensure the African export revenues are spent on Chinese goods and companies, while aiming, over the longer term, to boost African GDP and the African market of 1bn consumers. What Africa gets in return is cheaper, longer-maturity loans, investment in infrastructure, and the ability to afford Chinese-made items to meet consumer demand.
- Chinese private sector firms have now followed state-owned enterprises (SOE) and state banks into China, with the first tentative suggestions that Africa may now become a manufacturing base.
- How big is Chinese investment in Africa? The figure varies hugely depending on the source. Chinese foreign direct investment (FDI) quadrupled between 2005 and 2009, reaching a stock of \$9.3bn according to Chinese Ministry of Commerce (CMC) figures; we believe this could soar to \$40bn by 2015. But according to US Heritage Foundation (HF) data, Chinese investments were \$44bn over 2005-2010. The HF data fit better with United Nations Conference on Trade and Development (UNCTAD) data showing a total global sum of \$287bn of FDI to Africa over 2005-2010. We see evident problems in both the Chinese figures (e.g. they seem to exclude the \$5.5bn Standard Bank investment), as well as the HF data, which includes project work done by Chinese companies that is not necessarily FDI.
- Much of the investment is financed by aid and loans. We estimate total Chinese foreign aid at \$11.5bn since the 1950s, but aid is now overshadowed by loans from China Eximbank (CEB), which totalled \$7bn by 2009, and China Development Bank (CDB) which has promised \$10bn to Africa and has already disbursed over half of this. Their recent numbers do compare favourably with lending by the World Bank or African Development Bank (AfDB), and future plans suggest a boom in lending in the coming years. China's cheap financing is giving it a dominant position in Africa, which will force developed and other emerging market economies to fight harder for access to African resources and markets.
- What is clear is that China, and indeed the 200-750k Chinese, are here to stay. This report, co-authored with our consultant Lucy Corkin, aims to provide an overview of existing linkages, as well as country snapshots highlighting the progress to date and planned growth in Chinese-African relations at a country level. It is the first in a new series of thematic pieces on Africa's renaissance.

## Profile: Lucy Corkin

Lucy Corkin is Research Associate of the Africa-Asia Centre at SOAS, University of London.

Until mid 2008 Lucy Corkin was Projects Director at Stellenbosch University's Centre for Chinese Studies (CCS) in South Africa. Before joining CCS in 2005, Lucy worked in public relations and issue management for several prominent South African mining houses and corporate firms.

Lucy holds a Bachelors degree in International Relations (**cum laude**), an Honours Degree in International Relations (**cum laude**) and a Research Masters Degree in International Politics.

Lucy has made various presentations on research findings and the political economy of China-Africa relations in general to government officials, business communities and academic audiences internationally. She has written extensively and provided commentary to local and international media on China's relations with Africa. Her research interests focus on the China's emerging role as a financier of African infrastructure, as well as China-Angola relations.

Lucy is the 2008 recipient of the First National Bank Laurie Dippenaar Award for international post-graduate study and the Oppenheimer Memorial Trust (2010). She is a currently a PhD candidate at the School of African and Asian Studies (SOAS), University of London.

She speaks English, Portuguese, French, Afrikaans, and Mandarin Chinese.

# Contents

Overview	4
China-Africa trade	5
Chinese FDI to Africa	8
Chinese aid and loans to Africa	16
Country profile: Angola's relations with China	20
Country profile: Ghana's relations with China	23
Country profile: Kenya's relations with China	25
Country profile: Nigeria's relations with China	28
Country profile: Uganda's relations with China	32
Country profile: Zambia's relations with China	34
Country profile: Zimbabwe's relations with China	37
Country profile: Egypt's relations with China	40
Appendix	43
Disclosures appendix	44

# Overview

There has been much hype surrounding China's capital flows into Africa, but reliable data on the subject remain elusive. This report aims to provide a context to the numbers in order to present a more concrete picture of what is happening between the world's largest developing country and the world's largest group of developing countries.

**The Chinese authorities have led the boom in Chinese-African economic relations**

Trade, aid and investment flows have until now largely been state led. The Forum on China-Africa Cooperation (FOCAC), started in 2000 in Beijing, began a multilateral round table held every three years. Subsequent meetings in Addis Ababa (2003), Beijing (2006) and Sharm el-Sheikh (2009) witnessed a range of pledges and policy objectives announced by the Chinese government to enhance economic and political cooperation with African countries. Among these initiatives was the rolling out of three-to-five special economic and trade cooperation zones in Africa by 2009. These are based on the success of such zones in China's own industrialisation process and are currently being developed in Nigeria, Zambia, Egypt, Ethiopia and Mauritius. Cementing the importance of economic relations between the two regions, in May 2007 the African Development Bank (AfDB) held its annual meeting in Shanghai – only the second time the meeting was held outside the African continent.

**We expect the private sector to prove more dynamic in the coming years**

Although the bigger state-owned Chinese enterprises dominate the headlines with large-scale infrastructure and resource-related deals, the most dynamic sector of Chinese investment in Africa is private entrepreneurs investing in manufacturing and assembly plants across the continent. In terms of value, the larger SOEs still dominate through the sheer size of the projects they are able to undertake. Unlike their more numerous private counterparts, however, they are less flexible and require constant policy incentivisation to enter these markets.

Chinese state-owned banks such as China Eximbank (CEB) and China Development Bank (CDB) are playing increasingly large financing roles on the continent, but they largely cater for Chinese state companies. Private Chinese companies have often complained of the lack of Chinese government support in this respect. It was in recognition of this that the Chinese government announced in 2009 the launch of a \$1bn fund geared especially towards small- and medium-sized enterprises in Africa. The diversification of Chinese commercial actors on the continent therefore looks set to continue, with private Chinese investors driving investment, and far outnumbering state-owned enterprises. In this regard, Chinese investment in Africa may echo the domestic Chinese investment story, in which the private sector eventually outpaces the state sector.

# China-Africa trade

## Spectacular trade growth from a low base

It is less the absolute numbers regarding China's trade with Africa than their impressive growth in a very short time that caught us all by surprise. Bilateral trade passed the \$10bn mark in 2000. At the FOCAC Beijing summit in 2006, Chinese President Hu Jintao targeted the goal of \$100bn in China-Africa bilateral trade by 2010. This target was surpassed two years early in 2008 when trade reached \$107bn. This figure dipped in 2009, before soaring to \$129bn in 2010. Over 2000-2010, Africa has been one of the few areas able to run a trade surplus with China, as Chinese exports of \$285bn were offset by \$292bn of imports.

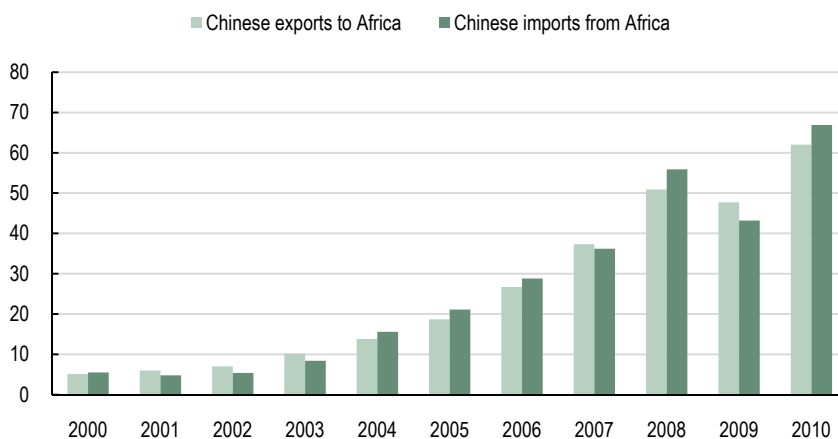
Annual export growth has averaged 29% since 2000, while Chinese imports have risen by 33% pa. Based on data for January-February 2011, Chinese exports are rising by 10% but Chinese imports are rising by 58% – this suggests Africa's trade surplus with China will increase in 2011.

If Chinese exports and imports growth gradually slows to 20% by 2015, we could see annual trade turnover reach nearly \$400bn, with Chinese exports of \$177bn and imports totalling \$220bn.

Trade turnover rose from \$11bn in 2000 to \$129bn in 2010, up roughly 30% pa

If this slowed to 20% growth by 2015, it would have reached nearly \$400bn, with Africa having a \$43bn surplus in 2015

Figure 1: Chinese trade with Africa



Source: Bloomberg

**As of 2010 China is now Africa's largest trading partner**

As of 2010, China is now Africa's largest trading partner, currently representing 10.4% of the continent's total trade. However, put in context, Africa represents 4% of China's global trade, less than China's \$189bn in trade with South Korea in 2010.

## Africa part of China's energy diversification strategy

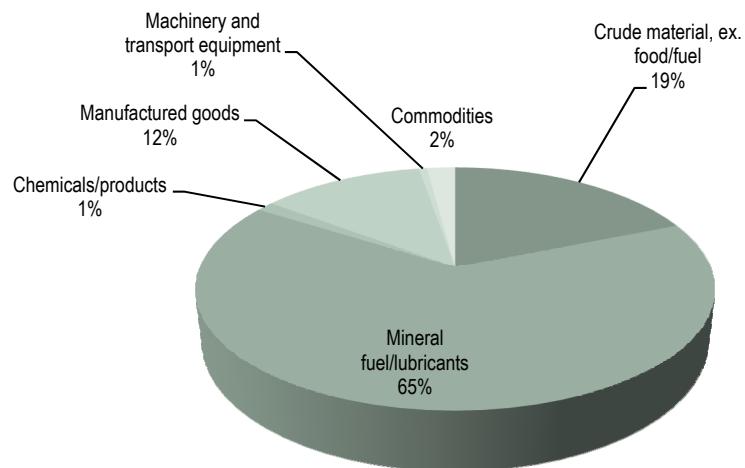
Of more significance than the numbers is the strategic nature of China's trade with Africa. Unsurprisingly, Chinese imports from Africa are heavily skewed towards petroleum and minerals.

**30% of China's oil imports in 2009 came from Africa, of which half was from Angola**

In 2009, 30% of China's oil imports were sourced from the continent, principally Angola (15.8%), Sudan (6%) and Libya (3.1%). Oil represented 60% of Africa's total exports to China.

Keen to diversify away from the less stable Middle East (e.g. the 2003 Gulf War), which in 2009 still accounted for 50% of Chinese oil imports, the Chinese government has increasingly looked to Africa. This also formed part of a national strategy to diversify its global sources of energy, in terms of geography, transport route and mode of acquisition. In Africa, Chinese efforts to secure oil equity have not been so successful (see the Nigeria section below) and Chinese oil companies are still minor players in Africa.

Figure 2: Distribution of Chinese imports from Africa, 2009



Source: UN Comtrade

## Expected growth in agricultural trade

Although currently a negligible portion of bilateral trade, it is likely that agricultural imports from Africa will increase. China is grappling with the issue of future food security, due to its own falling agricultural productivity, as a result of rapid urbanisation and environmental degradation. During 2008, although total trade dropped, agricultural imports from Africa increased 25%, e.g. in oranges from Egypt, cocoa beans from Ghana, coffee from Uganda, and sesame from Ethiopia. CDB,

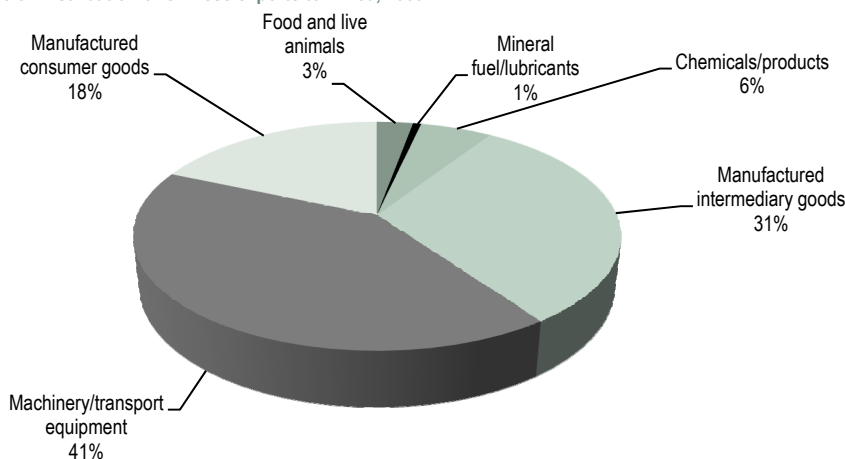
one of China's larger state-owned policy banks, has also been making strategic lending deals worth several billion dollars with various African countries in order to boost their agricultural production.

## Chinese exports suited to African low-income consumers

Chinese exports to Africa are far more diversified, dominated by manufactured intermediate and consumer goods. In 2010, China surpassed the US to become Africa's largest trading partner, reflecting the ready market Chinese products have found on the continent. Africa represents a market of 1bn, whose consumers' disposable income levels, with an estimated average GDP per capita of less than \$1,200 in 2009, are similar to a large chunk of China's population. As a result, the cheaper manufactured and machinery imports have readily displaced the more expensive western or even locally made counterparts.

China makes goods that are affordable  
given Africa's per-capita GDP

Figure 3: Distribution of Chinese exports to Africa, 2009



Source: UN Comtrade

This kind of competition has put extreme pressure on African textile industries – particularly in Africa's more industrialised economies, such as SA, Nigeria and Kenya. In 2006, China agreed to voluntary export restraints on its textile goods to SA. However during the 18-month implementation of the quotas from January 2007, while Chinese textile imports to SA decreased, the market space was not filled by local suppliers, but rather by alternative foreign exporters such as Vietnam, Malaysia and Mauritius. In other regions in Africa, however – notably Nigeria and East Africa – manufacturing has become a key sector for Chinese investment.



# Chinese FDI to Africa

Estimating Chinese FDI to Africa is distorted by many factors, including the use of Hong Kong as a financing conduit

The data below are wildly divergent. FDI should be ventures lasting longer than 12 months in which ownership is at least 10%.

First, we look at CMC data, which suggest Chinese overseas non-financial investment has reached a cumulative \$9.3bn in Africa; this evidently excludes the \$5.5-5.6bn investment in Standard Bank by Industrial and Commercial Bank of China (ICBC), but also cannot account for the large number of deals that have been reported over recent years. We believe the HF is correct in suggesting that part of the problem here may be that Chinese investment via Hong Kong is not included. Yet according to one UNCTAD report, total Hong Kong FDI into Africa is estimated at \$5.3bn in 2008, so this does not fully explain the difference either. Another recent example (from 4 April 2011) is the *Bloomberg* report that Minmetals Resources Ltd, the Hong Kong unit of China's biggest metals trader, is bidding \$6.5bn for the Australian mining company Equinox Minerals Ltd. This will show up as Hong Kong FDI, not Chinese.

HF data suggest Chinese investment is six times higher than official Chinese figures

Hence we also focus in more detail on the Chinese (non-bond) investment figures collected by the HF, which put Chinese promised non-bond investment at \$61bn over 2005-2010 alone. The HF uses the non-bond investment figure definition to ensure that investment figures are not distorted by the Chinese buying of government bonds.

We also include UNCTAD data that do not give the source of FDI, but which show there was \$287bn of total FDI into Africa over 2005-2009, and which we assume might have reached \$350bn over 2005-2010. The HF data appear more consistent with these UNCTAD numbers, than both HF and UNCTAD data are with CMC data.

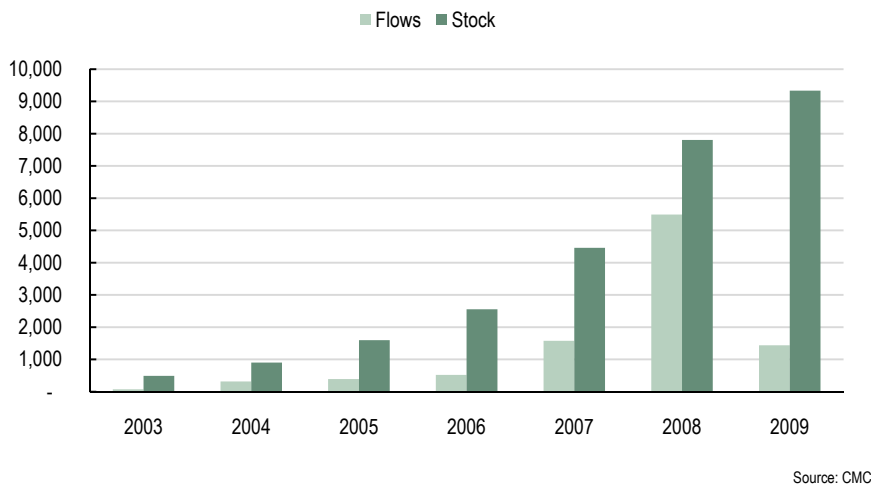
## Chinese FDI to Africa – according to the CMC

Chinese FDI stock was \$9bn by 2009, but could be \$39bn by 2015

According to CMC figures, the accumulated stock of Chinese FDI in Africa stood at \$9.33bn at the end of 2009, accounting for 3.8% of China's total \$246bn of FDI stock. Annual flows to Africa fell 74% in 2009 to \$1.4bn, which was 2.6% of outbound Chinese FDI of \$56bn in that year. It is surprising to note that 59% of all outward Chinese FDI into Africa happened in 2008. The Chinese stock of FDI compares with \$11bn from SA by 2008 and \$203bn from the EU by 2007 – which includes \$24bn in 2007 alone.

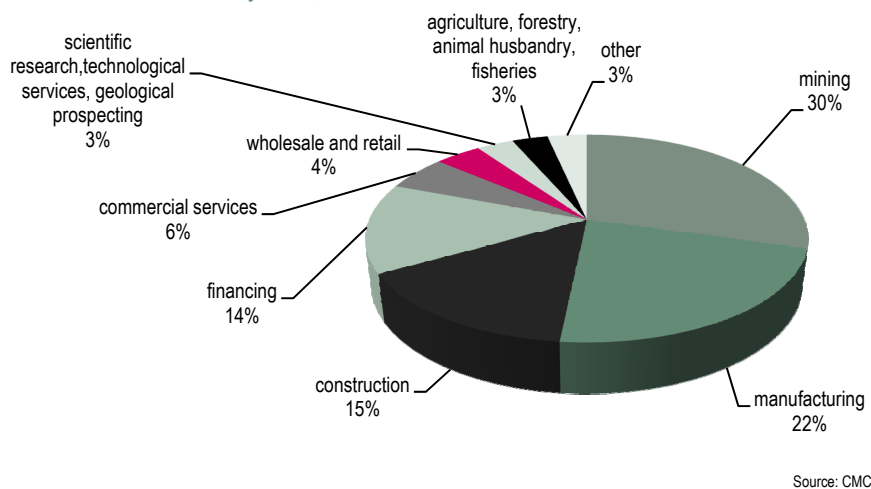
On the assumption that 2009 is exceptional, we believe it is conservative to assume that \$5bn in annual Chinese FDI (as per 2008) is plausible for 2010-2015, which would push cumulative Chinese FDI to roughly \$40bn by 2015.

Figure 4: Chinese FDI stock and flows to Africa 2003-2009, \$mn



As at end-2009, mining investments (29.2%) comprise the largest portion of Chinese FDI stock, followed by manufacturing (22%).

Figure 5: Chinese FDI to Africa by sector, end-2009



## China is exporting manufacturing capabilities to Africa

Although China is currently the world's leader in manufacturing (one of its core competencies), the cost of labour is steadily being eroded by domestic inflation and the country's economic success. Rising labour costs in China have increasingly led manufacturers to relocate their production overseas, in some cases Africa (as demonstrated by Figure 5). This is in order to take advantage of the market opportunities to export to the US provided by African countries under the African Growth and Opportunity Act, as well as domestic African markets. This indicates increasing Chinese interest in Africa being not only a source of natural resources, but also a viable industrial processing base. Chinese companies are increasingly moving from importing directly from the mainland to setting up plants in African

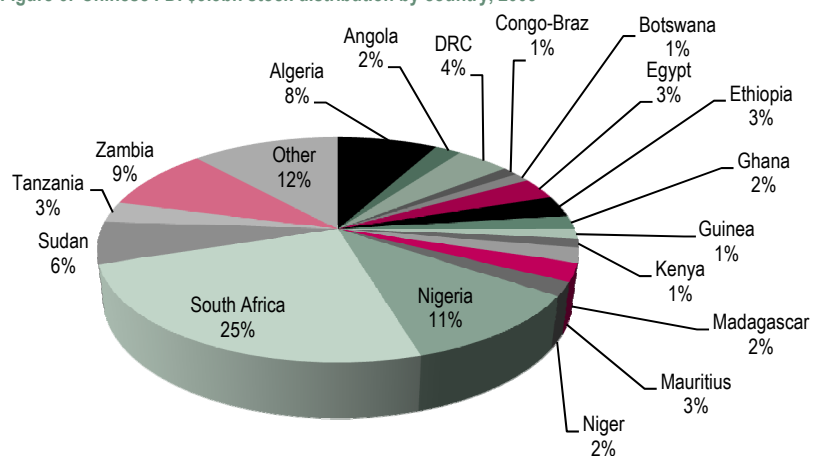
countries to assemble imported components. The special economic and trade cooperation zones set up in Egypt, Nigeria and Mauritius provide particular evidence of this. Domestic imperatives to upgrade the Chinese economy to a services economy also play into this.

## SA has taken a quarter of Chinese FDI

Chinese FDI to Africa has been increasing steadily, albeit from a low base. Five African countries out of 31 globally received FDI flows of more than \$100mn: Algeria, DRC, Nigeria, Egypt and Zambia. Notably, three of these countries are the sites of Chinese special economic and trade zones. China's top-20 FDI stock recipients globally include three African countries: SA (8), Nigeria (18) and Zambia (20). China has signed 33 investment promotion and protection agreements and 11 double taxation agreements with African countries. According to the CMC, China has more than 1600 companies in Africa covering more than 83% of the continent. Chinese companies in Africa are widely geographically diversified, with investments across 49 African countries.

SA accounts for fully one quarter of Chinese FDI in Africa. China Construction Bank and CEB both have representative offices in Johannesburg, and the China-Africa Development Fund (CADF) set up its headquarters there in 2009. ICBC, China's (and the world's) largest bank by market capitalisation, purchased a 20% share in South African Standard Bank for \$5.5bn, finalised in 2008, making it Standard Bank's largest single shareholder. This was the largest foreign purchase by a Chinese bank at the time. As a result of the deal, ICBC has a strategic partnership with Africa's largest commercial bank. In 2009, the banks collaborated to provide \$825mn in financing for Botswana's Morupule B Power Station to be constructed by a consortium of Chinese companies. Standard Bank in 2009 received a \$1bn syndicated loan from China, the first medium-term loan of over \$500mn it has ever sourced from outside Africa.

Figure 6: Chinese FDI \$9.3bn stock distribution by country, 2009



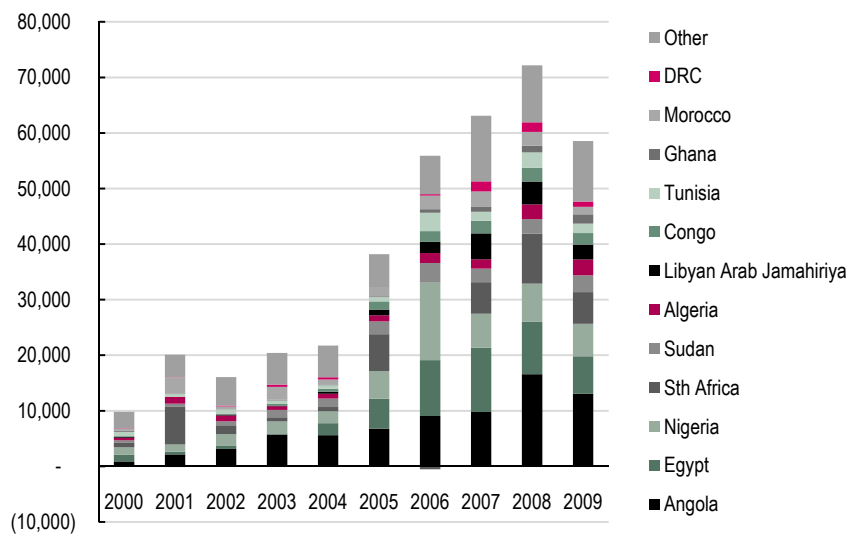
Source: CMC

## FDI – UNCTAD data

Other estimates are quite different. If we begin by looking at UNCTAD data for 2000-2009, global FDI inflows to Africa were a mere \$10bn in 2000; they then doubled to \$20bn over 2001-2004, before soaring with the commodity boom. The total for 2000-2009 was \$375bn, of which \$287bn came over 2005-2009. We assume at least another \$60bn flowed in over 2010, and possibly much more.

UNCTAD estimates global FDI to Africa was just \$10bn in 2000; but over 2005-2009 it reached \$287bn

Figure 7: Global FDI to Africa (\$mn), annual data



Source: UNCTAD

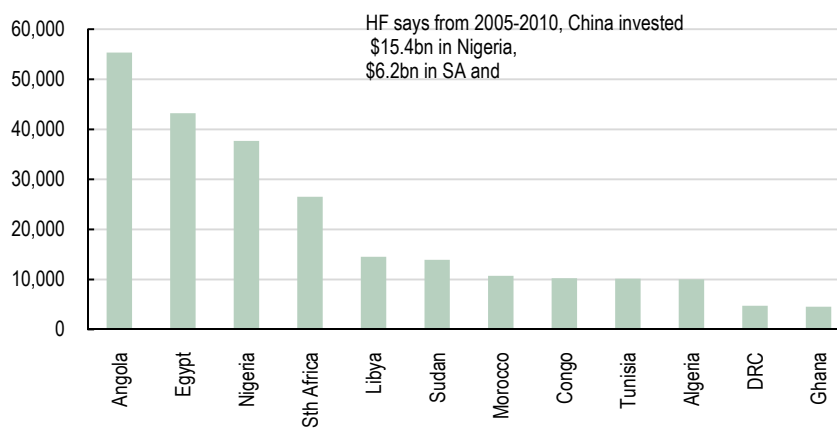
Out of perhaps \$350bn in FDI over 2005-2010 (our estimate above), the HF estimated China's non-bond investment in SSA to be \$43.7bn over 2005-2010, which we assume must include loans and projects.

Within the details, if we compare this with total FDI data from UNCTAD, it appears that China may be responsible for all investment in the DRC (UNCTAD says \$4.7bn over 2005-2009, the HF says \$5.9bn over 2005-2010), nearly half of all investment in Nigeria and over one-fifth of all investment in SA, which the Standard Bank deal for \$5.5bn at least fits with.

HF data suggest \$44bn of Chinese investment into Africa over 2005-2010, which must include loans

HF data suggest China was responsible for nearly all FDI into DRC over 2005-2009, nearly 50% into Nigeria, and 20% into SA

Figure 8: Cumulative FDI flows 2005-2009, \$mn



Source: UNCTAD

The HF has kindly agreed to allow us use of its database of deals in Africa.

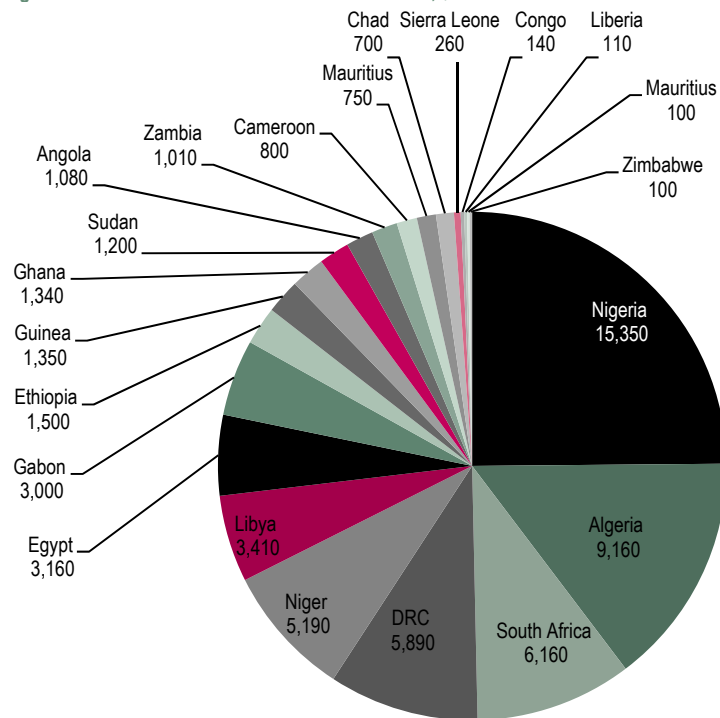
Figure 9: China's investment in Africa

Year	Month	Investor	\$mn	Share size	Partner/target	Sector	Subsector	Country
2005	May	CNPC	\$390			Energy		Algeria
2006	May	CITIC and China Railways Construction	\$6,200			Transport	Autos	Algeria
2009	June	China Railway Construction	\$2,570		Ozgun	Transport	Rail	Algeria
2005	February	China Railway Construction	\$350			Transport	Rail	Angola
2006	May	Sinopec	\$730	75%		Energy	Oil	Angola
2010	March	Sinohydro	\$800			Power	Hydro	Cameroon
2007	January	CNPC	\$200	50%	EnCana	Energy	Oil	Chad
2008	June	CNPC	\$500	60%	SHT	Energy	Oil	Chad
2009	March	China National Materials (Sinoma)	\$140		George Forrest Congo	Real Estate	Construction	Congo
2007	September	Export-Import Bank	\$3,000		Democratic Republic of Congo	Metals		DRC
2008	July	China Railway Engineering	\$1,190	28%		Metals		DRC
2008	July	China Metallurgical	\$850	20%		Metals		DRC
2008	July	Sinohydro	\$850	20%		Metals		DRC
2006	October	CITIC and Chalco	\$940			Metals	Aluminium	Egypt
2008	September	China Harbor Engineering	\$220			Transport	Shipping	Egypt
2010	May	Rongsheng Holding and Sinochem	\$2,000			Energy	Oil	Egypt
2006	November	ZTE-led consortium	\$1,500			Technology	Telecoms	Ethiopia
2006	October	China National Machinery & Equipment Import & Export	\$3,000			Metals	Iron	Gabon
2007	September	Shenzhen Energy Investment	\$140			Power		Ghana
2010	September	Bosai Minerals	\$1,200	80%	Ghana Bauxite	Metals	Aluminum	Ghana
2010	July	Chinalco	1,350	45-47%	With Rio Tinto in Simandou JV	Metals	Iron	Guinea
2008	December	Wuhan Iron and Steel and China-Africa Development Fund	\$110			Metals	Iron	Liberia
2008	February	China Railway Construction	\$2,600			Transport	Rail	Libya
2009	January	China Railway Construction	\$810			Transport	Rail	Libya
2010	March	Poly Technologies	\$100			Agriculture		Mauritania
2009	July	Taiyuan Iron leads consortium	\$750			Real Estate	Property	Mauritius
2010	June	Wuhan Iron and Steel	\$800	40% (and 8%)	Zambeze Coal (and Riversdale Mining)	Energy	Coal	Mozambique
2008	June	CNPC	\$5,000			Energy	Oil	Niger
2008	June	China National Nuclear	\$190			Energy		Niger
2006	January	CNOOC	\$2,270	45%		Energy		Nigeria
2006	May	China Railway Construction	\$200	60%	Lekki Free Trade zone	Real Estate		Nigeria
2008	July	China Harbor Engineering	\$1,000			Transport	Autos	Nigeria
2008	November	Shenzhen Energy	\$2,400		First Bank	Power	Gas	Nigeria
2009	October	Sinoma	\$230		Dangote	Real Estate	Construction	Nigeria
2009	October	CCECC	\$850			Transport	Rail	Nigeria
2010	July	China State Construction Engineering	\$8,000		Nigeria National Petroleum	Energy	Oil	Nigeria
2010	December	ZTE	\$400			Technology	Telecoms	Nigeria
2010	April	China Railway Materials Commercial Corp	\$232	13%	African Minerals	Metals	Iron	Sierra Leone
2010	July	Shandong Iron & Steel	\$1,500	25%	African Minerals Tonkolili project	Mining	Iron ore	Sierra Leone
2006	November	Sinosteel	\$230	50%	Samancor Chrome	Metals		South Africa
2007	October	ICBC	\$5,600	20%	Standard Bank	Finance	Banking	South Africa
2010	March	First Auto Works	\$100			Transport	Autos	South Africa
2010	May	Jinchuan Group and China-Africa Development Fund	\$230	51%	Wesizwe Platinu,	Metals		South Africa
2008	April	Sinhydro-led group	\$400			Power	Hydro	Sudan
2009	March	Sinohydro	\$300			Transport	Autos	Sudan
2010	March	China National Chemical Engineering	\$500			Agriculture		Sudan
2006	November	China Nonferrous	\$310		(Chambishi)	Metals	Copper	Zambia
2008	September	Sinohydro	\$400			Power	Hydro	Zambia
2009	May	China Nonferrous	\$300	85%	(Luanshya mine)	Metals	Copper	Zambia
2007	December	Sinosteel	\$100	92%	Zimasco	Metals		Zimbabwe

Source: HF, FT, Bloomberg erg

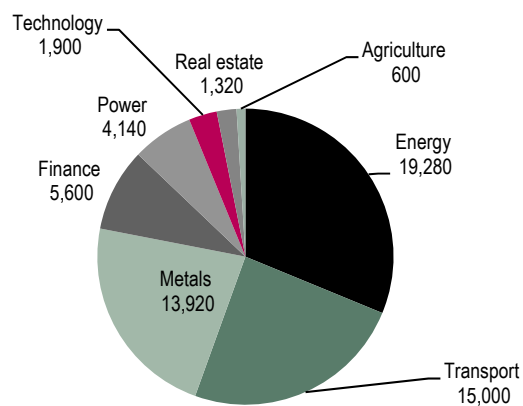
As well as by sector, we have ranked the deals by country in the charts below.

Figure 10: Chinese investments in Africa 2005-2010, \$mn



Source: HF

Figure 11: Chinese investment in Africa 2005-2010, \$mn



Source: HF

This data are far more consistent with the headline deals we all read about. Chinese companies are keen to access raw materials, such as energy (31%) and metals (23%), and are investing in the transport sector to help ensure these raw materials can be delivered to the market. Nigeria, Algeria and the DRC account for 50% of all Chinese investment in Africa.

But of course, these deals are not all FDI. If an African government pays China Railway Construction to build a railway, China Railway Construction is not buying the railway – it is merely building it, often financed by Chinese loans. Or to take a more recent example, the 13 April announcement that Chinese firm Sinoma will jointly enter a \$3.9bn contract with Dangote Group (to expand cement production across six countries in Africa) might look like FDI, but in fact it seems to be an agreement to use Chinese manpower, steel and financing for Nigerian FDI abroad.

However, \$6bn of Chinese railway investments are presumably contracts, not FDI

Even when the deals do look more like FDI, the figures cited do not represent the actual investment on the day they were announced. For example, the China National Petroleum Company's (CNPC) \$5bn investment in Niger announced in 2008 did not see that money flow in overnight. Indeed, our attempts to check what has happened with this investment have been confounded by a huge lack of detail in the CNPC annual report, which does not report a single figure for its investments in Africa, despite the HF stating that there is \$6bn invested in three countries (the CNPC report cites more countries than the HF table for 2005-2010). Even the omniscient Google fails when it comes to this Chinese deal in Africa (though it does seem the deal survived Niger's military coup).

In addition, the announced deals do not see these sums flow in on the day they are announced

As the investment figures assiduously collected by the HF do not represent the actual flow of money into the country, there is no point in us trying to analyse the impact on the balance of payments from these investments.

However, the deal details do highlight the next, and last, part of the Chinese investment story in Africa. Many of the investment and FDI projects into Africa are heavily supported by China's banks and their willingness to offer low-interest rates and long-maturity loans – whether they be in Angola, Nigeria or Niger, to cite just a few readily available examples.

But HF data do highlight the importance of Chinese loans



# Chinese aid and loans to Africa

In our view, it is very likely that a high-saving nation will eventually export capital to the rest of the world. China has just recently displaced Japan as the biggest investor in the US Treasury market. Now we are beginning to see China's excess savings being directed towards frontier markets, from Kazakhstan to Africa.

## Chinese aid to Africa

**Annual Chinese aid to Africa amounts to around \$500mn pa**

Exact figures for Chinese foreign aid are hard to come by. China does not report its aid figures to international bodies and does not subscribe to OECD definitions. From the 1950s to now, we estimate that total accumulated aid to Africa from China was RMB76bn (\$11.5bn), with annual flows only recently reaching \$500mn.

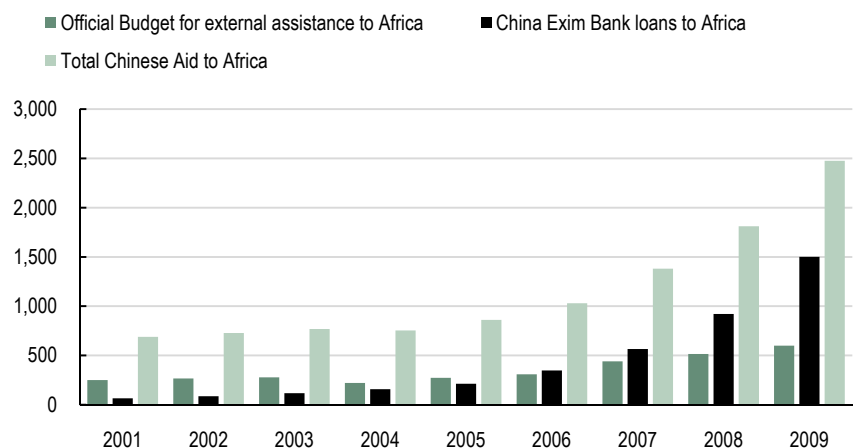
**CEB loans were three times higher in 2009**

This has been dwarfed in recent years by new lending. CEB loans over 1995-2008 reached RMB46bn (\$7bn). We look at these in more detail below.

CDB has also recently joined the lending party. CDB chairman Chen Yuan said on 17 November 2010 that CDB has \$10bn in commitments for African financing, and has provided \$5.6bn to 35 projects over 30 African nations, with \$5bn outstanding and no non-performing loans. This includes nearly \$2bn in loans to SA, Angola and Botswana, with \$1.7bn outstanding.<sup>1</sup>

We have not, on this occasion, attempted to quantify lending by other Chinese banks.

Figure 12: Chinese aid to Africa 2001-2009, \$mn



Source: Page 317, *The Dragon's Gift: The Real Story of China in Africa* (2009) by Deborah Brautigam. Oxford: Oxford University Press.

## Lack of figures for Chinese lending

It is evident that Chinese state banks – CDB and CEB in particular – have become important lenders to African countries. Neither banks report their lending by country in their annual reports, but CEB loans to Africa as a whole are listed below.

<sup>1</sup> <http://www.cdb.com.cn/english/NewsInfo.asp?NewsId=3477>

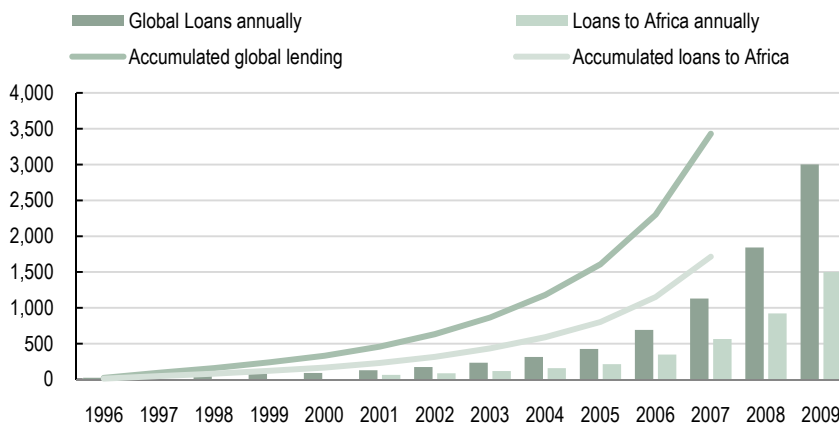
CEB has a longer track record in Africa. According to Chinese sources, by 2006 CEB had 259 projects in 36 African countries. However, China does not consider these loans to constitute aid. Rather, any subsidy on the loan's interest rate to render it concessional is considered aid, rather than the face value of the entire loan. CDB has only been engaging in Africa for a few years. The bank makes strategic lending deals and investments in the oil, mining and agriculture sectors.

## CEB loans are geared towards creating market space for Chinese imports

In principle, the projects financed by CEB must be undertaken by a Chinese company, with at least 50% procurement from China. Consequently, the loans are a conduit through which Chinese firms can enter developing markets. They are also an important means of trying to balance China's increasing raw material imports from these countries with exports of Chinese goods and services. This was beginning to work in 2007 when China exported more to Africa than it imported, despite rising commodity prices; China's trade surplus in 2009 was only because commodity prices had collapsed. While China's exports rose 30% and reached a record high in 2010, the commodity rebound was so strong that its trade went back into deficit.

**CEB projects must be implemented by Chinese firms, with 50% of more procurement also coming from China**

Figure 13: CEB lending 1996-2009, \$mn



Source: Page 317, *The Dragon's Gift: The Real Story of China in Africa* (2009) by Deborah Brautigam. Oxford: Oxford University Press

## CEB focuses on infrastructure financing

CEB's portfolio is on infrastructure projects, accounting for 79% of its portfolio in Africa as of 2006. The bank was told to extend \$5bn worth of concessional loans between 2007 and 2009 – though our graph above suggests this was not quite achieved – and has been given the mandate to disburse \$10bn between 2010 and 2012. These are mostly extended to resource-rich countries, as China trusts their ability to repay the loans through the sale of their resources (to China).

**CEB lending is aimed at infrastructure projects, primarily in commodity exporters**

African countries have often preferred CEB loans to those of other financiers, due to the longer grace and repayment terms, and a generally lower interest rate LIBOR +

1.5-3%, contingent on the recipient country's risk profile. Furthermore, CEB does not attach political or fiscal conditions to its lending.

## No free lunch

**CEB loans must be linked to a revenue source**

However, CEB's loans are not without stringent conditions attached to the nature of the financing agreement. The bank demands that, in order to ensure the feasibility of the loan repayment, a loan be linked to a revenue source. As a result, these loan structures are most often used in countries such as Angola or DRC, which are able to use oil or mineral reserves as collateral. In some cases, cash crops such as cocoa are used as repayment, such as in the case of Ghana. Loans are managed by CEB, which pays the Chinese contractors directly from the revenues of the sale of the resources or cash crop in question to China.

## Politically driven investment

**A Chinese equity fund has now invested \$1bn into Africa, with an increase to \$5bn possible in the coming years**

At the 2006 Beijing FOCAC summit, Chinese President Hu Jintao announced the creation of a stock equity fund, the CADF, to be managed by CDB which had RMB7.6trn of registered capital in the fund in the 2009 annual report. The fund's stated purpose is to give special support to Chinese firms investing in Africa. The fund had only earmarked \$700mn by the end of 2009, according to the CMC's research department, although it was confirmed a few months later that the first tranche of \$1bn had been fully disbursed into over 30 projects spanning a wide variety of sectors. It is expected that the financing cap will be increased to \$5bn.

## Compared with the World Bank (IBRD) and AfDB

With no annual loan data from the CDB, and no details on the difference between approvals and loans from CEB, comparing their lending with multi-lateral institutions is practically impossible, and is made even more difficult by the fact that the World Bank reports its lending using (World Bank) fiscal-year data.

**There's a big difference between promised World Bank lending and actual disbursements**

The World Bank significantly increased its funding to SSA in the fiscal year 2010 (July 2009-June 2010); we unfortunately have not found pan-African lending data by the World Bank. IBRD lending reached \$4.258bn, up from \$0.4bn in the fiscal year 2009 (July 2008-June 2009). International Development Association (IDA) commitments were \$7.179bn in support, including \$1.7bn in grants. Of the promised \$11.44bn from the IBRD and IDA together, 43% was for energy and mining, 15% for transport and 14% for law, justice and public administration. However, actual IBRD disbursements seemed to have been a minuscule \$27mn in the fiscal year 2010, and a far more significant \$5,983mn from the IDA.

**AfDB actual disbursements seem to be less than half its commitments**

The AfDB further complicates matters, with its use of the term *UA* – (units of account – which are effectively special drawing rights). It approved a total of 8.1bn UA in 2009, with 6.6bn UA in loans and 0.9bn UA in grants, with the remainder in HIPC operations and other smaller routes. 52% of its approvals were for infrastructure. As with the World Bank, it appears that actual disbursements were quite different – for

example, total approvals from the non-concessional AfDB window amounted to 5.6bn UA for 84 operations, but it appears that disbursements on AfDB loans were 2.35bn UA.

Overall, it would appear that CEB and CDB are in the same lending league as the World Bank and AfDB.

## Conclusion of this section

We hope this report has provided a sense of China's ever stronger linkages with Africa, while at the same time provoking a measure of sympathy from you regarding the pain involved in collecting the data. Most impressive and transparent is obviously the trade boom. The significant efforts to boost investment in the continent are also obvious, as is the recent jump in lending commitments by Chinese banks in support of this effort. Much of this has come in the last few years, and our assumption is that trade, lending and investments over 2011-2015 will be closer to the high figures seen in 2008 than either the years before that or in 2009. China is likely to further advance its leading position as Africa's main trading partner.

Below we attempt to show through various examples the successes and problems that China and Africa have experienced as their relationship has grown. What is striking is just how different some of these bilateral relationships are, from tiny sums of investment to massive loans, from large Chinese trade surpluses to significant deficits, and from relatively successful relationships to those that have withered.

# Country profile: Angola's relations with China

## Politics exchanged for pragmatism

China's bilateral trade with Angola reached \$25bn in 2008

Despite China's erstwhile support of UNITA during the Angolan Civil War, the MPLA government has developed a pragmatic partnership with China over the past decade. With bilateral trade worth more than \$25bn in 2008 (although it dropped to \$17bn in 2009), Angola is China's top African trading partner, thanks mainly to Angolan oil. According to the Angolan Ministry of Petroleum, in 2009, China received 39% of Angola's crude exports, accounting for 15.7% of the Asian country's total oil imports. China's exports to Angola consist mainly of machinery and transport equipment (47% of the total in 2009, worth \$1.1bn), construction materials and consumer goods.

Figure 14: China's trade with Angola 2000-2009, \$mn

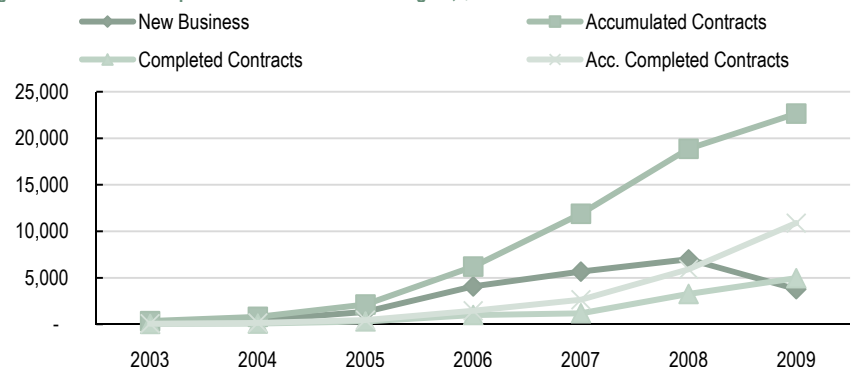


Source: UN Comtrade

## Chinese loans of \$14.5bn to be mainly spent on Chinese contractors

CEB has pledged oil-backed financing of some \$14.5bn for the Angolan government's ambitions post-war reconstruction programme. As per the conditions of the loan, these projects are predominantly (70%) undertaken by Chinese contractors, with the majority of the procurement coming from China. In 2010, China for instance was the principle source of cement to the Angolan construction industry.

Figure 15: Chinese companies contract values in Angola, \$mn



Source: CMC

Out of all the countries surveyed in this report, Chinese construction companies have the strongest presence in Angola. Officially there are 29 Chinese companies in the country, employing 31,000 workers. Given that Chinese companies have an accumulated contract value of \$22.6bn, Chinese investment in Angola is surprisingly low, with a stock value of \$195mn in 2009. However, there is some discrepancy as the Chinese Embassy in Angola indicates total Chinese stock investment to be \$310mn. Regardless, this indicates a certain hesitance on the part of Chinese firms to venture into projects that are not backed by the CEB credit line. They are right to be cautious: in 2008, in the wake of the financial crisis, the Angolan government defaulted on the payment of construction contracts across the board, admitting in 2010 to owing foreign contractors over \$9bn. Chinese workers were forced to down tools around the country, as projects came to a standstill and more than 25,000 Chinese workers were sent home.

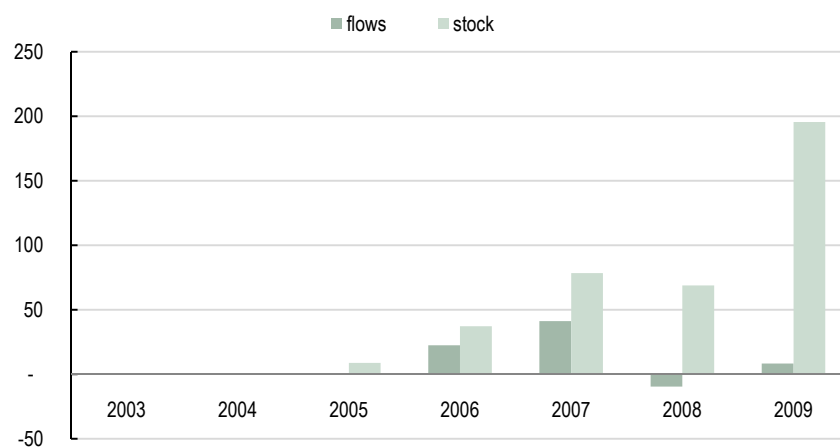
**Chinese companies have \$23bn in accumulated contracts in Angola**

## Lack of investment traction

Chinese interests first entered the energy sector in 2004, when China Petroleum and Chemical Corporation, (Sinopec) bought a 50% stake of Block 18 for the reported sum of \$725mn, despite Shell, the former owner of the stake, initially negotiating to sell it to the Indian oil company ONGC Videsh. In late 2004/2005, Sinopec acquired Block 3/80 (owned previously by Total), after Sonangol did not renew the French company's contract. After forming a JV – Sinopec-Sonangol International – with two other well-connected Chinese companies, China Sonangol International Holdings and Dayuan International Development Ltd, and Angolan national oil company Sonangol, Sinopec (a 55% shareholder in the JV) acquired equity in several other Angola oil blocks, attaining 27.5%, 40% and 20% in the off-shore blocks 17/06, 18/06 and 15/06, respectively. The signature bonuses of \$1.1bn for the concessions in blocks 17 and 18 were the highest ever offered in the history of Angola's oil industry. Sinopec was also in negotiations with the Angolan government to develop a 200,000 bpd oil refinery, Sonaref, at Lobito.

Despite a promising start, Sinopec has retreated somewhat. The refinery deal was called off in March 2007, reportedly due to a lack of consensus as to the intended destination of the refined product, although it is unclear which side imposed the deal-breaker. The project's costs are currently under review. Almost immediately after announcing an end to negotiations regarding Sonaref, Sinopec withdrew from its stake in block 18/06. China Sonangol (Shanghai) Petroleum Co. Ltd has since taken up these shares. In October 2008, Sinopec and China National Overseas Oil Company (CNOOC) negotiated with Marathon the purchase of a 20% stake in Block 32 for \$1.8bn. By October 2009, Sonangol, as an existing equity holder, had exercised its right of first refusal, blocking the Chinese purchase by announcing its own intention to buy it. The sale was finalised in February 2010. It was subsequently awarded to China Sonangol. China Sonangol also has shares in Block 3/05A (25%) and Block 18 (50%).

Figure 16: Chinese FDI to Angola 2003-2009, \$mn



Source: CMC

Chinese financial institutions however remain very interested in Angola, with CDB pledging \$1.5bn in agricultural investments in January 2010, and ICBC a further \$2.5bn in oil-backed loans.

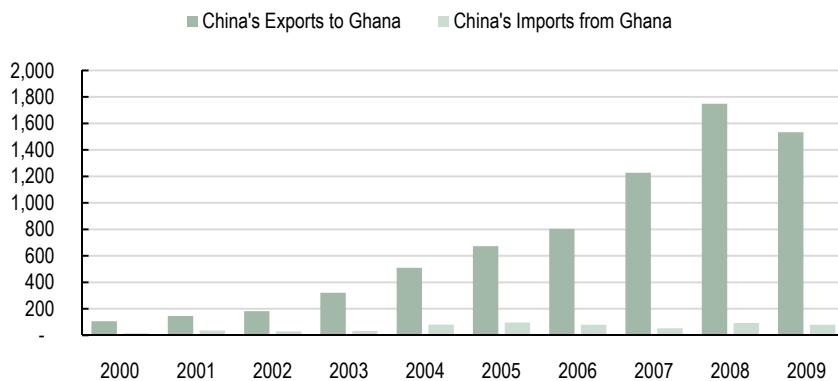
# Country profile: Ghana's relations with China

Until recently, China's relations with Ghana were fairly low-key. China had extended several small grants and interest-free loans to assist with the refurbishment of various infrastructure projects. China's exports to Ghana are predominantly manufactured goods, as well as machinery and chemical products, whereas Ghana's main exports to China have been limited to cocoa beans, copper, scrap metal and palm oil.

In September 2007, CEB signed an agreement with Ghana extending a hybrid package of \$270mn in concessional loans and \$292mn export buyers' credits to fund the Bui Dam, a hydro-electric project with a projected capacity of 400 MW. The loan was arranged to be paid back over a period of 20 years with cocoa exports. The Ghanaian government pledged to provide the balance of \$60mn to fund the dam. The dam is projected to be completed in 2012, but labour disputes between Chinese managers and Ghanaian workers are slowing the process. The Ghanaian government is reportedly currently looking for a further \$168mn in funding to complete the dam.

Ghana's fortunes changed when Tullow Oil struck oil, in June 2007. Production began in December 2010 and is expected to rise from 50,000 bpd to 120,000 bpd in 2011. China has since been willing to extend bigger loans to Ghana, given the country's future oil wealth. During President John Atta Mills' state visit to China in September 2010, an agreement was signed with Chinese financial institutions for almost \$13bn in loans to Ghana. Some \$3bn in loans extended by CDB will be used to develop the country's oil and gas infrastructure, and \$9.87bn will be extended by CEB, channelled towards roads, railways, schools and hospitals.

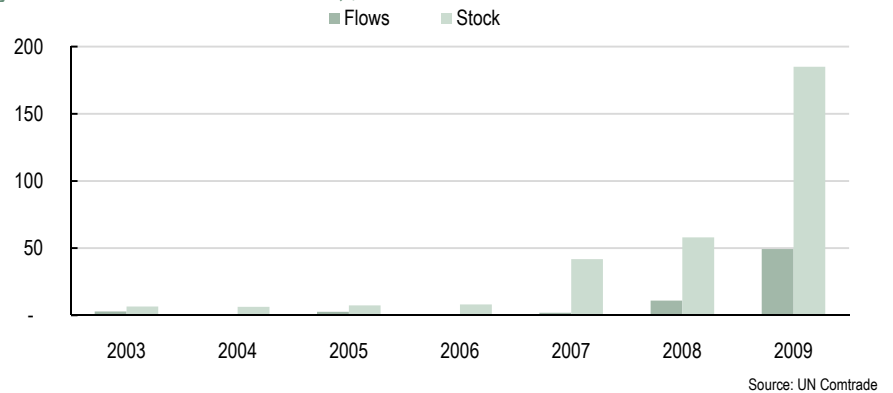
Figure 17: Chinese FDI to Angola 2003-2009, \$mn



Source: UN Comtrade

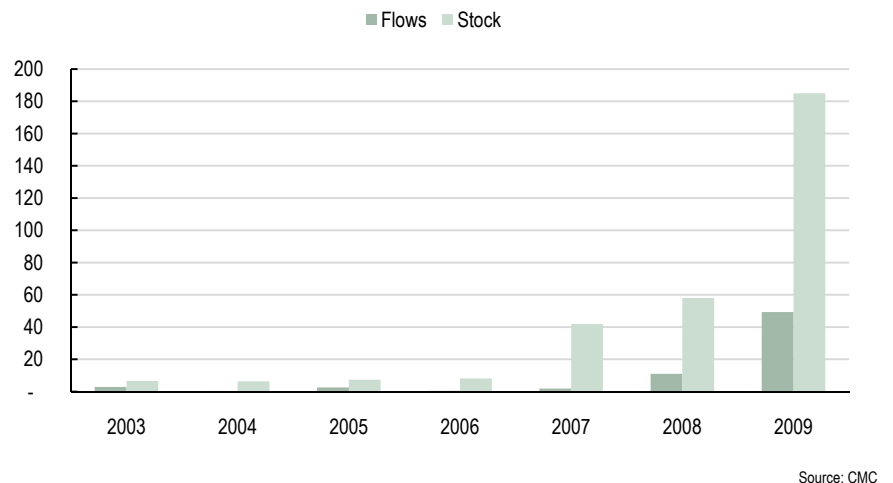


Figure 18: Chinese FDI to Ghana 2003-2009, \$mn



The CDB also guaranteed more than \$400mn for water e-governance projects in Ghana.

Figure 19: Chinese FDI to Ghana 2003-2009, \$mn



Ghana says China is its fourth-biggest investor at \$245mn, while Chinese data say investment is 25% less, at \$185mn

According to the Ghana Investment Promotion Agency, with cumulative investment of \$244.5mn, China is Ghana's fourth-largest source of investment after the UK, the US and Malaysia. According to CMC statistics, the 402 Chinese companies in Ghana have invested only \$185mn, \$49mn of which was invested in 2009 alone.

The Ghanaian government signed an agreement valued at \$1.2bn with Chinese company Bosai Minerals Group to build a bauxite and aluminium refinery in Ghana over four years. Bosai would purchase 80% of the shares in Ghana Bauxite Co.<sup>2</sup>

In 2009 alone, \$1.3bn of new contracts were signed with Chinese firms

Chinese private companies have invested predominantly in manufacturing, wholesale trading, tourism and the services industry. Larger SOEs are more involved in contract engineering. In 2009 Chinese companies signed \$1.3bn in new contracts, having already completed \$460mn of contracts. The number of registered Chinese workers in Ghana is 1,579.

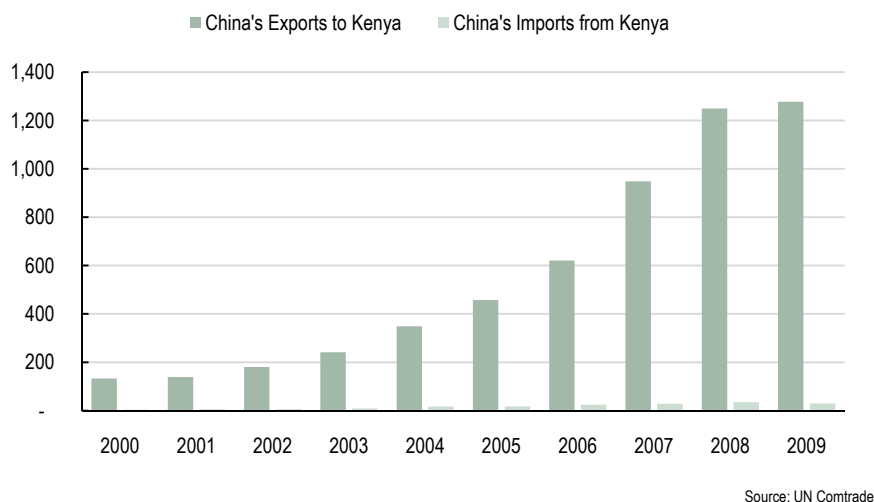
<sup>2</sup> <http://ghanaonline.org/2010/09/china-extends-africa-push-with-loans-deal-in-ghana/>

# Country profile: Kenya's relations with China

## An East African import depot

As a non-resource-rich country, Kenya's strategic value to China is in terms of market access to the rest of the East African region. Kenya's exports to China are almost negligible, amounting to barely \$30mn in 2009. China exports organic chemicals, pharmaceuticals products, textiles, footwear, ceramic products, iron and steel, and electrical and electronic equipment; Kenya primarily exports hides and skins, sisal fibre, tea, fishery products and scrap metal. Kenya's trade deficit with China has increased substantially in the past couple of years, owing mostly to increased imports of manufactured Chinese goods. Increasing Chinese imports have put pressure on local manufacturing industries that are struggling to compete with the cheaper products, not only in the domestic market but for export into third-party markets as well. This has particularly been the case since the expiration of the multi-fibre agreement in 2005, which essentially limited US and European imports of Chinese textiles and encouraged them to find new markets.

Figure 20: China's trade with Kenya 2000-2009, \$mn



## Aborted mineral exploration

In 2006, the Kenya government signed a deal with CNOOC, awarding the Chinese company six blocks. CNOOC quit all its licences in late 2010, after unsuccessfully drilling for oil in Northern Kenya. However, in February 2011 CNOOC indicated an interest in partnering Tullow Oil, although this initial proposal was rebuffed.

In 2008, Canadian mining firm Tiomin announced that the Chinese mining firm Jinchuan Group would invest \$25mn in the former's wholly owned subsidiary, Tiomin Kenya Ltd (TKL), entitling the Chinese investor to 70% of TKL's shares. Under the agreement, Jinchuan would secure financing to develop TKL's asset, the Kwale Mineral Sands Project (KMSP). In October 2009, Jinchuan terminated the investment agreement, two days prior to the sale's close, citing corruption and lack of disclosure on the deal. As a result, in 2010 Tiomin decided to write-off the KMSP.

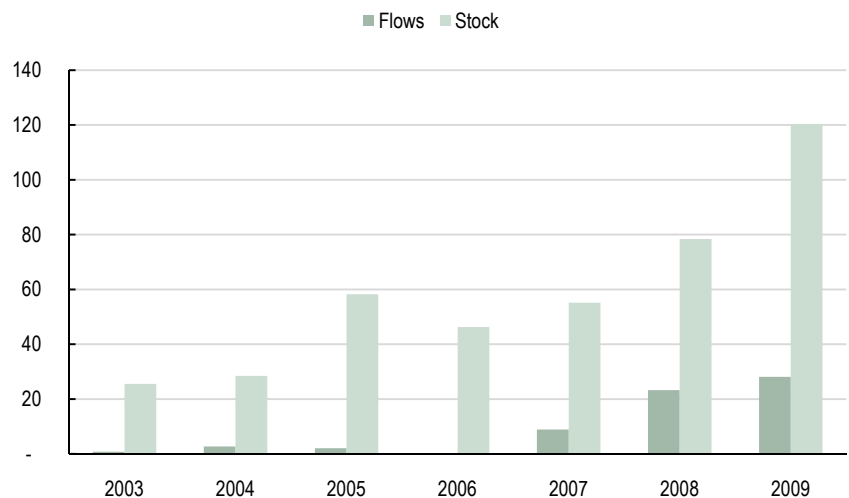
## Kenya's strategic Sudanese connection

### South Sudanese oil will encourage Chinese engagement with Kenya

Kenya has in recent years acquired new strategic significance for China. CNPC has considerable investments in Southern Sudan, and has essentially been developing a greenfield oil complex from 1995. China imports 60% of Southern Sudan's oil to China, accounting for 7% of the Asian country's crude imports. Following the referendum in 2011, Southern Sudan's imminent split with Khartoum is likely to see Southern Sudan favour an alternate export route to the route through the north via Port Sudan. Since 2009, the Chinese government has quietly been negotiating with Nairobi to develop an alternative pipeline through the Kenyan port of Lamu. Chinese contractors are among those bidding for the contract. China has also invested significantly in Kenya's port infrastructure, supporting a \$22bn project unveiled by the Kibaki government in 2008 to link neighbouring countries such as Ethiopia, Southern Sudan and Rwanda to Lamu Port.

China has been supportive of cross-border infrastructure projects, as well as regional institutions such as the East African Community and the Great Lakes Forum. These initiatives will serve to further integrate African markets, whose consumers are proving ready customers of Chinese goods.

Figure 21: Chinese FDI to Kenya 2003-2009, \$mn



Source: CMC

## Manufacturing and construction investment dominant

As with most countries in East Africa, most Chinese investment in Kenya concentrates on the manufacturing sector, notably apparel and motorcycle assembly and (to a lesser degree) services. As is the case in Nigeria, Chinese companies seem keen to invest in industries where there is a large concentrated domestic population and ready access to ports for potential export markets. However, investments are diversified and range among retail ventures, tourism, transport, construction, power plants, and telecommunications. The largest Chinese investment (valued at \$3mn) in Kenya is Beijing Transmission and Distribution's cement pole factory, the only one in East Africa, with annual output of 25,000 units.

In 2009 alone, Chinese companies signed new contracts to the value of \$881mn, of which \$57mn have been completed. There are 1,466 officially registered Chinese workers in Kenya. There are currently 22 Chinese construction companies undertaking 52 separate projects to the value of \$1.39bn, according to the CMC.

Kenya has received several relatively small loans and grants, with total aid amounting to \$160mn. Significantly, Kenya was the site of the first Confucius Institute, a cultural centre dedicated to the teaching of Mandarin.

# Country profile: Nigeria's relations with China

## **Nigeria's large population is an attractive market for Chinese goods**

Nigeria, the largest oil-producer in SSA, is one of China's top-five African trading partners and investment destinations on the continent. As one of the most populous Africa countries, it is a fertile market for Chinese goods. Although not Nigeria's largest trading partner, China is one of Nigeria's largest source of imports. Nigeria is also a hub for the re-export of Chinese consumer goods to the rest of Africa. There is a substantial Chinatown in Lagos, consisting of approximately 120 shops that sell Chinese consumer goods, imports and products manufactured by Chinese firms in Nigeria. 50,000 Chinese nationals are estimated to live and work in Nigeria.

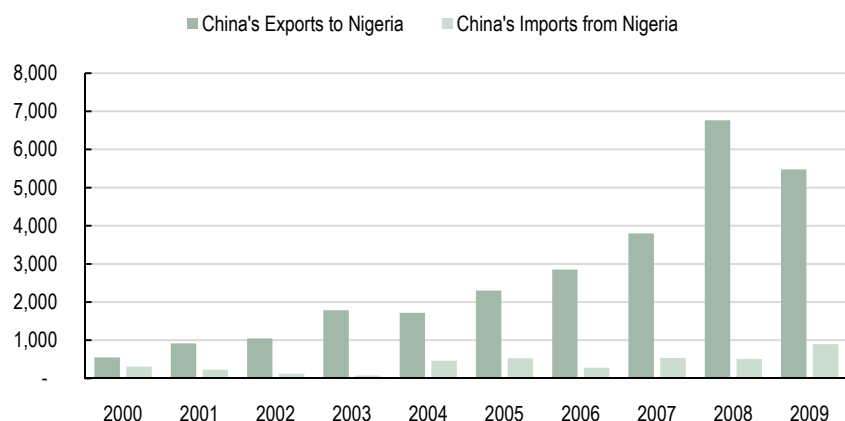
Chinese oil companies have had moderate success breaking into the Nigerian market. Great strides were made under the Obasanjo administration, which actively sought investment from Asian countries. Frequent high-level visits between the two countries are continuing, and in 2006 Nigeria became the first African country to sign a strategic partnership agreement with China.

In 2009 the Central Bank of Nigeria, one of China's largest African investment destinations, signed an MoU with China's banking regulatory commission on bilateral banking regulation cooperation. That Nigeria in January 2011 added the renminbi to its list of tradeable currencies illustrates the increase in financial and trading flows between the two countries and their growing economic importance to each other.

## **Only a moderate supplier of crude oil to China**

Unsurprisingly, crude oil accounts for up to 93% of Nigeria's exports to China. However, given Nigeria's status as the largest oil producer in SSA, the volumes are unusually small: \$832mn in 2009 – compared with Angola's \$14.6bn in 2009. Until the military insurgency in the Niger Delta disrupted production, Sinopec had annual supply contracts with the Nigerian National Petroleum Corporation (NNPC) for 100,000 bpd (of the 137,000 bpd produced by the Group in 2008, more than 65,000 bpd were from Nigeria) and Petro China for 30,000 bpd. This is not reflected in China's trade statistics with Nigeria, as Chinese oil majors are not obliged to ship their oil off-take to China and in fact very rarely do so. As fuel prices in China are fixed by the state, Sinopec, whose primary business is in downstream, prefers to sell its oil on the international market in order to fetch more attractive, market-related prices.

Figure 22: China's trade with Nigeria 2000-2009, \$mn



Source: UN Comtrade

## Investment hub

As of 2009, Nigeria was the 18<sup>th</sup>-largest recipient of Chinese FDI globally. Chinese investment covers a broad range of sectors. In April 2008, China's export credit agency, Sinosure, announced it would guarantee up to \$50bn of Chinese investment in Nigeria. However, little has come of this, and it is largely viewed as a move China made to earn political kudos.

Private Chinese investment is primarily in manufacturing and construction, and over 30 Chinese companies have built factories in Nigeria. State-owned Chinese companies have concentrated on the oil sector, often linked to infrastructure deals. In 2006, the Chinese government made \$5bn in infrastructure commitments, accounting for 70% of China's commitments to SSA that year. According to CMC statistics, as of 2009 Chinese companies had signed \$3.96bn of new construction contracts, and had already completed \$2.01bn. There are 5,267 Chinese workers officially registered in Nigeria.

## Nigeria's two China-funded SEZs

Nigeria is home to two Chinese-funded special economic zones (SEZ). The first, Lekki Free Trade Zone, which was launched in May 2006, is a JV between Nanjing Jiangning Development Zone, China Civil Engineering Construction Company (CCECC) Beyond International Investment and Development Co. Ltd and the Lagos state government. The zone, located 60 km outside Lagos, is 165 km<sup>2</sup> in area. The zone offers a range of preferential policies:

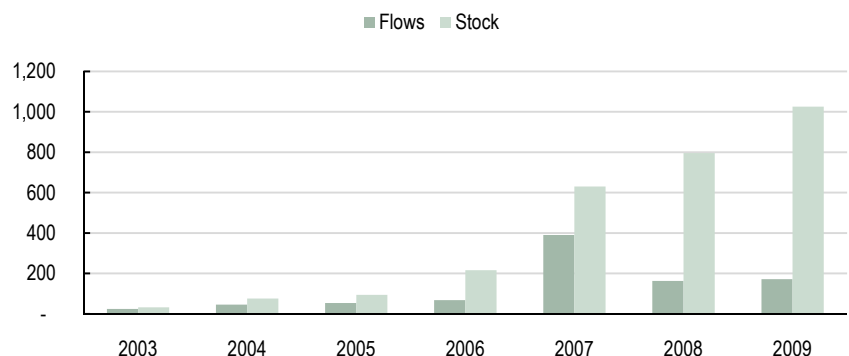
- Duty-free import of all raw and processed materials, finished products, machinery and equipment, and consumer goods used for enterprise production and other goods related to investment projects in the zone.

- The tariff of all products manufactured in the zone will be calculated based on the prices of the raw material and the components and parts, instead of the finished products on entry into the Nigerian market.
- Unrestricted foreign capital movement.

The zone is designed to encourage industrial investment to supply manufactured goods to Nigeria's burgeoning population, while simultaneously taking advantage of Nigeria's proximity to European and US markets. Although the zone is not exclusively for Chinese companies' use, China has a 50-year franchise and a 99-year free-land use. Of the 53 companies currently installed in the zone as of end 2009, 12 are Chinese, and have invested over \$40mn.

The second zone is an investment by Guangdong Xinguang International Group's China-Africa Investment Co. Ltd and the Ogun State government (the Guangdong Ogun Free Trade Zone), which was launched in November 2007. The zone will be financed to the tune of \$500mn by Chinese companies. On completion, it is expected to house 100 companies. Although activities will concentrate mainly on light manufacturing, First Bank of Nigeria is also a collaborative partner in terms of investment banking and financing. Ogun State boasts a second zone: the Kajola Specialised Railway Industrial Free Trade Zone, a JV between the Ogun state government and CCECC, whose investment in the project is estimated at \$775mn.

Figure 23: Chinese FDI to Nigeria 2003-2009, \$mn



Source: CMC

## Less luck in the oil sector

Chinese oil companies have been wary of investing into Nigeria's oil sector. The market is perceived to be dominated by western oil majors, and fears that contracts will not be honoured have deterred would-be Chinese investors – which are far more risk-averse than is popularly believed.

In a bid to attract investment, particularly from Asia, then-Nigerian president, Olusegun Obasanjo, negotiated with Asian NOCs a right of first refusal (RFR) on several oil blocks with discounted signature bonuses in return for commitments to infrastructure projects. During 2006 and 2007, agreements were put in place for Chinese companies to construct the Mambilla hydro-electric power plant, a double-track railway between Kano and Lagos, and \$2bn worth of core investment in the

Kaduna refinery. In November 2006 Nigeria signed a loan facility with CEB for \$2.5bn (comprising \$2bn in commercial lending and \$500mn in preferential export credit) to fund the infrastructure projects. The terms were an interest rate of 3% over a 20-year period, with a grace period of five years.

However, under the subsequent Yar' Adua presidency, many of the contracts were reviewed and the RFR policy revoked. Furthermore, questions were raised as to the inflated price tag of the planned Chinese infrastructure projects, which were considered by Obasanjo's successor to not be in the country's national interest. The \$2bn loan has expired, but the \$500mn has been renewed and may go towards a less ambitious railway project.

Figure 24: Chinese infrastructure projects linked to RFR oil deals

Chinese oil company bidding	Blocks on offer	Infrastructure pledge	Chinese contractor	Value	Status
CNPC	(2006 licensing round) OPLs 471, 298, 732, 721	Investment in Kaduna Refinery	-	\$2bn	CNPC relinquished blocks, so linked, and refinery sold by Nigeria to Bluestar oil
CNOOC	Four unspecified oil blocks	Lagos-Kano dual-track standard gauge railway	CCECC	\$15.4bn negotiated to \$8.3bn	Contract revoked in June 2008
CNOOC	Four unspecified oil blocks	Mambilla hydro-electric power plant	China Gezhouba Group	\$1.46bn	Blocks not taken up, contract suspended in October 2007

Source: Alex Vines et al (2009) *Thirst for African Oil*, Chatham House Report, August; pages 14-26

Chinese companies have had more success buying assets outside the oil licensing rounds de-linked from infrastructure obligations. In May 2006, Sinopec was approved as the operator of Block 2 in the Nigeria-São Tomé Joint Development Zone as 28.67% shareholder. Sinopec also acquired Addax in June 2009 for an estimated \$7.22bn. In early 2006, CNOOC bought contractor rights to the Akpo oil field for \$2.3bn – the largest Chinese foreign acquisition at the time. CNOOC received a 10-year low interest loan of \$1.6bn to help the company develop the field. In March CNOOC also bought a 35% working interest in block OPL 229 for \$60mn. China State Construction Engineering Corporation announced in May 2010 that it had signed a \$23bn deal with NNPC to build three refineries in Bayelsa, Kogi and Lagos states, as well as a petrochemicals complex.



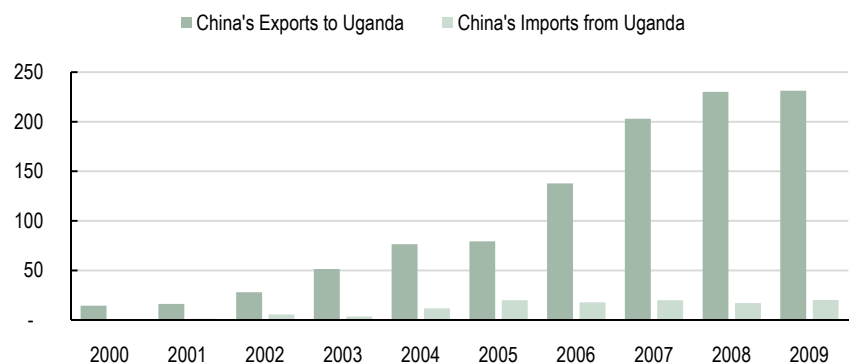
# Country profile: Uganda's relations with China

## Unrealised oil and market potential

As a resource-poor country, Uganda's strategic value for Chinese companies lies more in the access it provides to Juba, the capital of Southern Sudan. The recent discovery of oil reserves with a potential of \$2.5bn bbls in the Albertine-Graben basin is also of interest, although Chinese companies have as yet not been able to participate due to the long-term lease agreements held by European oil firms. Plans are afoot for CNOOC to partner Total and Tullow Oil in constructing an oil refinery in Western Uganda, which would be a \$2bn project.

Under the newest trade agreement signed in August 2010 under the FOCAC framework, more than 60% of Uganda's exports to China qualify as being duty-free. China's major imports to Uganda include electrical and high-tech goods and footwear and apparel. Uganda's main exports to China are cow and horse hides, agricultural produce and cotton.

Figure 25: China's trade with Uganda 2000-2009, \$mn



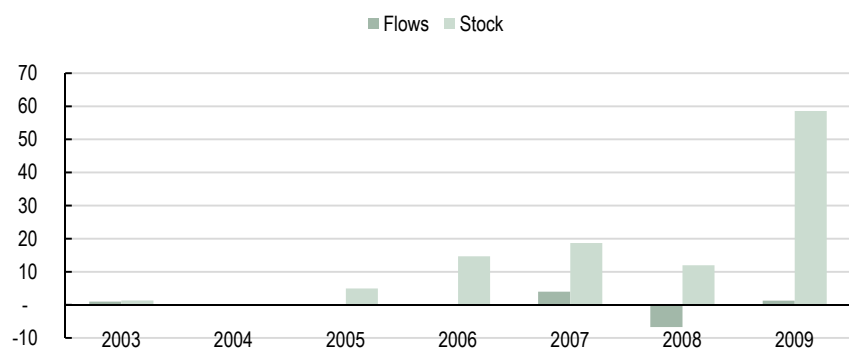
Source: UN Comtrade

## Unremarkable investment figures

In 2009, total Chinese investment stood at \$68.8mn, making China Uganda's third-largest foreign investor for that year. There are 38 registered Chinese companies in Uganda, involved in trading, agricultural developments, leather processing, manufacturing of building materials and hotel management.

By 2009, Chinese companies had signed new contracts worth \$260mn, having already completed \$190mn. There are 1,946 registered Chinese workers in Uganda. Notable projects include the Kampala-Entebbe highway project, to be financed by China through a \$350mn loan. Uganda is a regular recipient of \$4-5mn pa – usually in the form of non-concessional loans.

Figure 26: Chinese FDI to Uganda 2003-2009, \$mn



Source: CMC

# Country profile: Zambia's relations with China

## Traditional ties

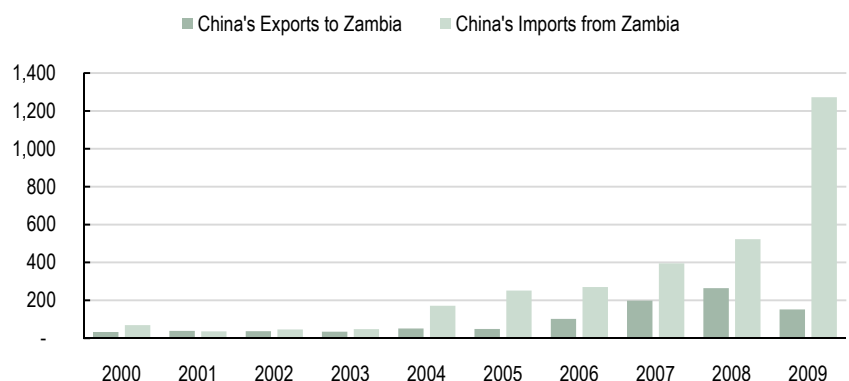
Zambia has longstanding ties with China; former president Kenneth Kaunda was one of Mao Zedong's closest allies on the continent. Zambia benefited from the construction of the 1,860 km Tazara Railway connecting Zambia's copper mines to Tanzania's port city Dar es Salaam. In 1997, Bank of China opened a branch office in Lusaka, their first in Southern Africa.

Another iconic project was the state jointly owned China-Zambia Mulungishi textile factory established in 1997. Formerly the largest textile mill in the country and employing 2,000 workers, it was (rather ironically) closed in 2008 owing to competition from cheaper Chinese imports.

## Strategic copper resource

Zambian exports to China qualify for duty-free treatment under China's agreement with least-developed African countries. Zambia's overall copper earnings dropped to \$2.9bn in 2009 from \$3.6bn the previous year, representing an 18% decline despite productivity picking up by 20% in the same period. However, China has become an important market for Zambian copper, representing 83% of their exports to China in 2009. China's most important exports to Zambia are electrical and mechanical goods and iron and steel products.

Figure 27: China's trade with Zambia 2000-2009, \$mn



Source: UN Comtrade

## Chambishi controversies

In 1998, China Non-ferrous Metals Corporation (CNMC) bought 85% of the defunct Chambishi Copper Mine for \$20mn, investing a further \$130mn in rehabilitation. The subsequent rapid growth of Chinese investment in the country has proved unsettling. Tensions flared in the region in 2005, when an explosion at the Chinese-owned BGRIMM explosives plant at Chambishi killed 51 Zambian workers. This mobilised the politically influential mining trade unions and protests and riots broke out at the mines; Chinese mine bosses shot six Zambian miners in the melée, causing the mine to temporarily close.

In the run-up to the September 2006 Zambian presidential elections, Michael Sata, leader of the prominent opposition party the Patriotic Front (PF), used anti-Chinese sentiment to bolster his support. Sata stated at the time that should he win the election, he would rid the country of “unnecessary Chinese, Lebanese and Indians” who were viewed by many as taking away jobs from local Zambians. Subsequently, Sata described Taiwan as a sovereign state, prompting Li Baodong, the Chinese Ambassador to Zambia, to announce that should Sata win and establish relations with Taiwan, Beijing may consider cutting diplomatic ties with Zambia. While Sata’s presidential bid failed, he retained a stronghold in Zambia’s Copperbelt region and his remarks can be perceived as reflecting an underlying antipathy at the time towards one of Zambia’s most important investors. Tensions were so high that on a state visit to Zambia in February 2007, President Hu Jintao was prevented from going to Chambishi to inaugurate the Zambia-China Economic and Trade Cooperation Zone, as a result of security concerns.

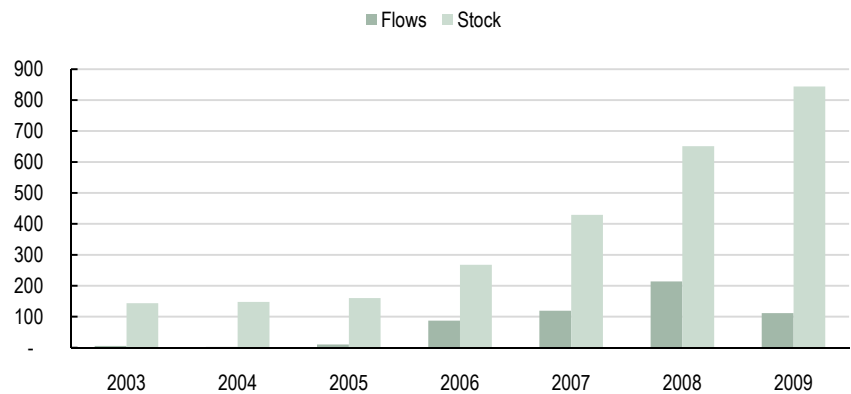
Both Sata and Chinese diplomatic officials have since adopted a more pragmatic stance. Sata, contesting presidential elections in 2008 following the death of President Mwanawasa that year, stated that should he become president, he would welcome Chinese investment.

Under President Rupiah Banda tensions remain. In early 2008, Zambian mine workers in Chambishi went on strike, again over pay. Such incidents are not limited to the copper mines; at the Chinese-owned Collum coal mine in Zambia’s Sinazongwe district, Chinese managers shot and wounded 11 Zambian miners in a dispute over pay.

## **Zambia is the site of China’s first African SEZ**

The first Chinese-developed SEZ in Africa was launched in Zambia. In 2003, CNMC began plans to develop an industrial cluster on its Chambishi concession. According to negotiations, there is a minimum capital investment requirement of \$500,000 to qualify for special incentives and tax breaks, but the zone is not restricted to Chinese investors. The SEZ at Chambishi is to concentrate on metal processing, and an extension of the zone nearer Lusaka would focus on a variety of light industries such as food processing, pharmaceuticals, textiles, construction equipment and materials manufacturing and electronics assembly. Currently 10 Chinese companies have invested \$700mn in the zone, including a \$200mn copper smelter with an annual capacity of 150,000 tonnes, opened in January 2009 by Zambian President Banda and Chinese Minister of Commerce Chen Deming.

Figure 28: Chinese FDI to Zambia 2003-2009, \$mn



Source: CMC

According to CMC statistics, Chinese accumulative investment in Zambia is \$844mn, of which \$112mn was in 2009 alone. Chinese companies have invested in manufacturing, construction equipment, tourism, agriculture and services. Chinese construction companies have also undertaken several large-scale contracts in Zambia. Future projects include the Lower Kafue Gorge power station, to be developed with CDB, CADF and Sinohydro at a cost of \$1.5bn, Lafarge Cement plant with an 830,000 tonne annual capacity in Chilanga by Chinese company CBMI Construction, and the government complex in Lusaka.

By 2009 Chinese companies had cumulatively signed contracts worth \$661mn, of which \$359mn were complete. There are officially 2,175 Chinese workers in Zambia. In November 2007, CEB agreed to lend Zambia's Power Utility Zesco Ltd \$315mn, representing 85% of the cost of expanding the Kariba North Bank hydropower station's capacity by 360 MW. The project is to be undertaken by Chinese company Sinohydro. In February 2011, Development Bank of South Africa agreed to fund the \$10.5mn balance of the project cost, allowing the project to get under way.

# Country profile: Zimbabwe's relations with China

## Zimbabwe looks east

Although a long-time supporter of the Zanu-PF prior to Zimbabwean independence, China's relations with Zimbabwe have been ambivalent over the past decade. From 2000, after Zimbabwean President Robert Mugabe initiated a controversial land reform programme, Harare was alienated from the international community. In 2003, in retaliation, Mugabe launched his Look East policy intimating that, given the strength of his relations with Asian countries (including China), he had no further need for relations with the West. China has, together with Russia, repeatedly used its veto right to halt the imposition of further sanctions on Mugabe and others in his regime.

## Awkward diplomacy

In November 2004, Chinese chief legislator Wu Bangguo visited Zimbabwe. During his visit a number of deals, including a \$228mn telecommunications refurbishment by Huawei and military purchases to the value of \$240mn, were signed. Beijing's stance on Zimbabwe had however begun to take its toll on China's own international standing, and the Asian country has become increasingly cautious in its dealings with Harare in a bid to temper international criticism of such relations. Perhaps more importantly, it was also becoming increasingly apparent that due to a disintegrating economy, Zimbabwe could no longer honour its loan commitments to China.

Mugabe's attempt to negotiate a \$1bn loan during a visit to China in July 2005 – one estimate has this at \$1.3bn for rehabilitation of the national power grid in return for chrome resources – resulted in China offering \$3mn in credits. Negotiations, initiated in December 2006, on a \$2bn loan from China came to nothing, and President Hu Jintao did not stop in Harare on his seven-nation African tour in February 2007.

In mid-2008, a controversial arms shipment aboard the Chinese vessel *An Yue Jiang* bound for Harare caused considerable diplomatic embarrassment for Beijing. The shipment, whose arrival would have coincided with the Zimbabwean presidential elections, was at first defended by the Chinese foreign minister as being "normal military trade" between Zimbabwe and China. Dockworkers in Mozambique, SA and Namibia all refused of their own accord to unload the ship when it docked at their harbours. This move was endorsed by the then Zambian President Levy Mwanawasa, who also chaired the Southern African Development Community at the time. The ship was later allowed to dock off an Angolan port, although officially not to unload its cargo. The level of public criticism this incident attracted forced an announcement of the return of the ship with the cargo undelivered. It remains unclear as to whether the arms were in fact eventually smuggled through Angola or DRC, although this is denied by the Chinese government.

## Renewed interest

Recently, Beijing seems to have been prepared to do business with Harare again. In February this year, the Chinese foreign minister had Zimbabwe on the itinerary for his tour of African countries, traditionally made at the beginning of each year by the

foreign minister since the early 1990s. During his visit it was announced that state-owned CDB may extend \$10bn in financing to the economically beleaguered country. Furthermore, Yang spoke out strongly against sanctions imposed on Zimbabwe by the West. In late March, during a visit by Chinese Vice Premier Wang Qishan, CEBank reportedly signed loan agreements worth \$700mn, although it is unclear whether this is in place of or in addition to the CDB pledges. Zimbabwean officials stated that the loans would come from CEB, and that more than half of them would go towards the agriculture sector and the purchase of machinery and equipment.

## Tobacco – Zimbabwe's largest export to China

Despite Zimbabwe's mineral wealth, tobacco has been the dominant export to China accounting for 82% in 2008 and 67% in 2009 of total exports to China. Zimbabwe also exports, cotton, ferrochrome and nickel to China, and imports electrical goods, farming equipment, chemicals, textiles and medicines.

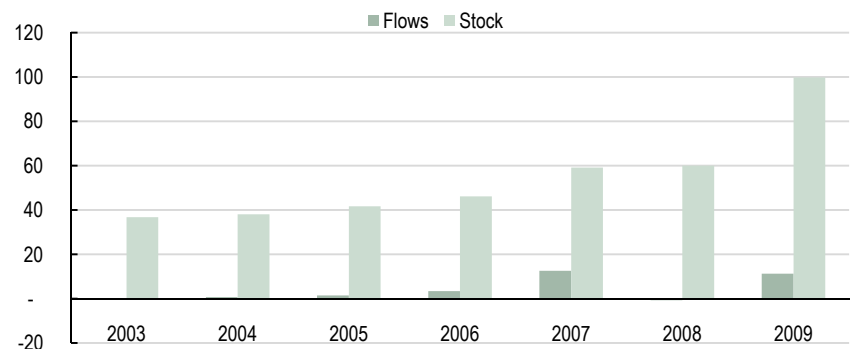
Figure 29: China's trade with Zimbabwe 2000-2009, \$mn



Source: UN Comtrade

China is one of Zimbabwe's more dynamic investors. China's Sinosteel bought a 73% share in Zimbabwean Zimasco. As of 2009, Chinese contractors had completed \$67mn of contracts and in 2009 alone signed new contracts worth \$60mn. Sinomine Resource and Exploration has a contract to develop a platinum and palladium mine. There are 228 registered Chinese workers in Zimbabwe.

Figure 30: Chinese FDI to Zimbabwe 2003-2009, \$mn



Source: CMC

For a brief period it appeared that China was holding Zimbabwe at arm's length: not radically changing its stance in political forums, but refusing to enter into further economic and trading deals. This was due as much as to Zimbabwe's inability to raise the required financing as to the international political fallout such deals caused. The Chinese foreign minister's visit in February 2011 signalled a renewal of interest in Zimbabwe as a trading and investment partner, particularly in the fields of mining and agriculture.



# Country profile: Egypt's relations with China

## Strategic ties

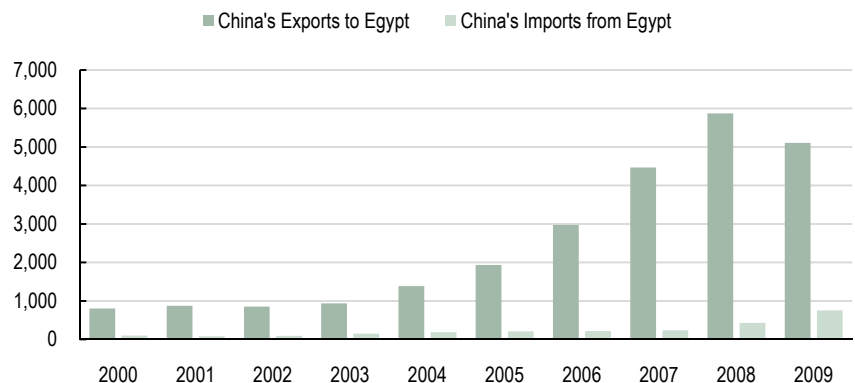
As the home of Africa's oldest Communist Party (1921) and the first African or Arab country to diplomatically recognise the People's Republic of China (1956), Egypt was a natural host of the fourth FOCAC summit, held in Sharm el-Sheikh in November 2009.

During President Hosni Mubarak's visit to China in 1999, the two countries signed a strategic partnership agreement. Egypt recognised China as a full market economy in November 2006, thus precipitating a steady growth in Chinese imports until the economic crisis.

## Significant trade deficit

With a population of 80mn, Egypt is one of Africa's most populous countries, and once again a ready market for Chinese goods. Egypt is one of the largest exporters of high-quality marble and 70-80% of its marble exports go to China, along with oil, granite, raw cotton, industrial carpets, ceramic and sanitary wares, linen, crystal and glass. Major Egyptian imports from China include chemicals, electric goods, footwear, textiles and apparel and beans. Expectations that bilateral trade would reach \$10bn by 2010 now seem unrealistic.

Figure 31: China's trade with Egypt 2000-2009, \$mn



Source: UN Comtrade

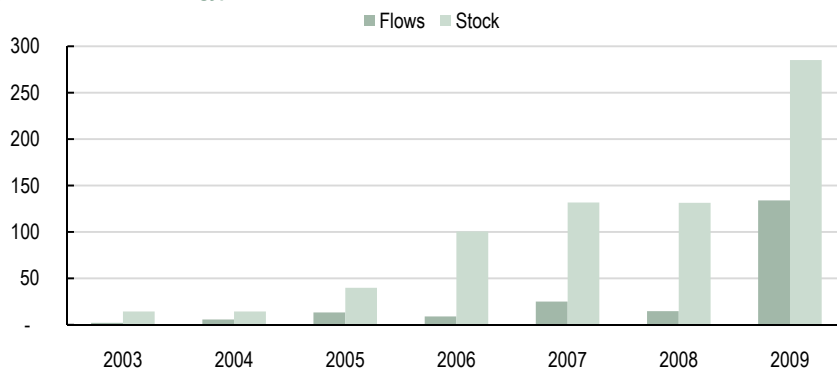
## Investment in industrial processing

One of the largest investment deals to be signed on the back of the Beijing FOCAC summit in November 2006 was a \$938mn aluminium smelter to be built in Egypt by CITIC Group. CITIC holds 85% of shares in the project, with the balance held by a consortium of Egyptian banks. The smelter's annual capacity on completion will be 270,000 tonnes.

According to the Egyptian investment agency, 1,066 Chinese companies have invested in Egypt with a collective registered capital of \$320mn, and paid in capital of \$285mn. The most important sectors for Chinese investment are textiles,

chemical production, engineering, and construction materials. An increasing amount of investment is coming from smaller private manufacturing firms, but there are also several projects in the oil services sector. In 2009 Chinese companies signed new business contracts to the value of \$1.1bn. Important new projects on the go as of 2009 include telecommunications, a cement factory and a sulphuric acid plant with a daily output of 1,250 tonnes. As of the end of 2009, Chinese companies have completed nearly \$800mn worth of contracts. There are officially 646 registered Chinese workers in Egypt.

Figure 32: China's FDI to Egypt 2000-2009, \$mn



Source: CMC

## Oil sector investment

China's largest investment in Egypt is a JV between Sinopec's overseas subsidiary Sinopec Star and Egypt's state company Tharwa Petroleum Company (Sinopec Tharwa Drilling Company) with registered capital of \$40mn. The company looks for opportunities in the oil sector and the provision of oil sector services. The Egyptian-Chinese Petroleum Company is Egypt's third-largest Chinese investor (registered capital of \$12mn) and provides services to the oil industry.

## Egypt's China-funded Suez SEZ

Egypt is the site of one of six SEZs China is financing across Africa. Plans for the SEZ date back from Mubarak's China visit in 1999, and in 2002 official legislation was passed in Egypt endorsing the zone's construction. The zone's development was officially announced in 2006. The zone, which is located in the Suez region 120 km from Cairo and is 20 km<sup>2</sup> in area, is adjacent to Port Sokhna, Egypt's only privately managed port. Egypt is seen as being strategically placed to service markets in Europe, Africa and the Middle East. The Egyptian government is providing the utilities, and further development is expected to be led by investing firms and public-private partnerships. Provision has been made for a satellite city to house the labour required for the site. The Chinese company Tianjin Technological Economic Development Area (TEDA) manages a 5-6 km<sup>2</sup> sector of the zone and has a 10% shareholding in the authority responsible for the zone's development. Chinese firms investing in Egypt have increased significantly following the announcement of the SEZ in 2006, although it is not apparent that all are taking

advantage of the zone's incentives. The zone is being financed with the assistance of \$200mn from the CADF and Egypt's non-utilised loans from China.

It is hoped that Chinese investment in the zone will bring in a further \$2.5bn. The purpose of the zone appears to be a kind of import substitution in order to harmonise trade flows, which are heavily in China's favour. There are also prospects of exporting to other markets.

Given the recent upheaval in Egypt, it is likely that these plans will be put on hold for now. China has kept an arm's length from the political turmoil affecting the Middle East, as such popular uprisings are uncomfortable global developments that the Chinese leadership would not like to see spread to a more domestic context.

## Chinese workers in Africa

As an addendum, we include some estimates of the Chinese population movement that has followed this flow of investment, trade and lending. According to official figures, there are only 1,579 officially registered Chinese workers in Ghana; 1,466 in Kenya; 228 in Zimbabwe and a slightly more impressive 5,267 in Nigeria. These would be employees working in state-owned companies were brought in officially; however, the state run news agency *Xinhua* quoted the figure of 750,000 Chinese in Africa in August 2007.

The recent book *La Chinafrique* estimated there to be 50,000 Chinese in Nigeria, 20-50,000 in Sudan, 40,000 in Zambia, 30,000 in Angola and 20,000 in Algeria (note that these may well be out-of-date figures). In 2009, Angola's migration service estimated that 40,000 Chinese are working in Angola on official bilateral infrastructure projects, many living in closed compounds and working under one-to-two-year contracts. The current civil war in Libya has revealed that 35,000 Chinese are in the country.

Hence somewhere between 10,000 and 750,000 Chinese are in the countries listed above, which is an even greater discrepancy than for the Chinese FDI figures.

# Appendix

Among the very many useful sources on Africa, we would highlight the following reports.

## Sources

*Thirst for African Oil*, by Alex Vines, Lillian Wong, Markus Weimer, and Indira Campos. Chatham House (see [http://www.chathamhouse.org.uk/files/14524\\_r0809\\_africanoil.pdf](http://www.chathamhouse.org.uk/files/14524_r0809_africanoil.pdf))

*The Roots of Chinese Oil Investment Abroad*, Trevor Houser, January 2008 (see [http://www.globaloilwatch.com/reports/0409\\_Houser.pdf](http://www.globaloilwatch.com/reports/0409_Houser.pdf)). *The Fact and Fiction of Sino-African Energy Relations* by Erica Downs, Summer 2007 (see [http://www.brookings.edu/~media/Files/rc/articles/2007/summer\\_china\\_downs/downs20070913.pdf](http://www.brookings.edu/~media/Files/rc/articles/2007/summer_china_downs/downs20070913.pdf)).

Brautigam, Deborah (2009) *The Dragon's Gift: The Real Story of China in Africa*. Oxford: Oxford University Press.

Institute of Developing Economies, Japan External Trade Organisation (2009) *China in Africa: A Strategic Overview*, September. Available: [http://www.ide.go.jp/English/Data/Africa\\_file/Manualreport/cia.html](http://www.ide.go.jp/English/Data/Africa_file/Manualreport/cia.html)

Jakobsen, Linda (2009) *China's diplomacy towards Africa: Drivers and Constraints* International Relations of the Asia Pacific, vol: 403-433.

Michel, Serge et al (2009) *China Safari: On the Trail of Beijing's Expansion into Africa*. Nation Books [English version of Chinafrique]

Gill, Bates and James Reilly (2007) *The Tenuous hold of China Inc. in Africa* *Washington Quarterly* 30(3):37-52

*AERC Scoping Studies on China-Africa Relations: A Research Report on Zimbabwe*, Hannah Edinger and Christopher Burke.

# Disclosures appendix

## Analysts certification

This research report has been prepared by the research analyst(s), whose name(s) appear(s) on the front page of this document, to provide background information about the issuer or issuers (collectively, the "Issuer") and the securities and markets that are the subject matter of this report. Each research analyst hereby certifies that with respect to the Issuer and such securities and markets, this document has been produced independently of the Issuer and all the views expressed in this document accurately reflect his or her personal views about the Issuer and any and all of such securities and markets. Each research analyst and/or persons connected with any research analyst may have interacted with sales and trading personnel, or similar, for the purpose of gathering, synthesizing and interpreting market information. If the date of this report is not current, the views and contents may not reflect the research analysts' current thinking.

Each research analyst also certifies that no part of his or her compensation was, or will be, directly or indirectly related to the specific ratings, forecasts, estimates, opinions or views in this research report. Research analysts' compensation is determined based upon activities and services intended to benefit the investor clients of Renaissance Securities (Cyprus) Limited and any of its affiliates ("Renaissance Capital"). Like all of Renaissance Capital's employees, research analysts receive compensation that is impacted by overall Renaissance Capital profitability, which includes revenues from other business units within Renaissance Capital.

## Important issuer disclosures

Important issuer disclosures outline currently known conflicts of interest that may unknowingly bias or affect the objectivity of the analyst(s) with respect to an issuer that is the subject matter of this report. Disclosure(s) apply to Renaissance Securities (Cyprus) Limited or any of its direct or indirect subsidiaries or affiliates (which are individually or collectively referred to as "Renaissance Capital") with respect to any issuer or the issuer's securities.

**A complete set of disclosure statements associated with the issuers discussed in the Report is available using the 'Stock Finder' or 'Bond Finder' for individual issuers on the Renaissance Capital Research Portal at: <http://research.rencap.com/eng/default.asp>**

This Communication is for information purposes only. The Communication does not form a fiduciary relationship or constitute advice and is not and should not be construed as a recommendation or an offer or a solicitation of an offer of securities or related financial instruments, or an invitation or inducement to engage in investment activity, and cannot be relied upon as a representation that any particular transaction necessarily could have been or can be effected at the stated price. The Communication is not an advertisement of securities nor independent investment research, and has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Opinions expressed therein may differ or be contrary to opinions expressed by other business areas or groups of the Renaissance Group as a result of using different assumptions and criteria. All such information is subject to change without notice, and neither Renaissance Capital nor any of its subsidiaries or affiliates is under any obligation to update or keep current the information contained in the Communication or in any other medium.

Descriptions of any company or issuer or their securities or the markets or developments mentioned in the Communication are not intended to be complete. The Communication should not be regarded by recipients as a substitute for the exercise of their own judgment as the Communication has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. The material (whether or not it states any opinions) is for general information purposes only and does not take into account your personal circumstances or objectives and nothing in this material is or should be considered to be financial, investment or other advice on which reliance should be placed. Any reliance you place on such information is therefore strictly at your own risk. The application of taxation laws depends on an investor's individual circumstances and, accordingly, each investor should seek independent professional advice on taxation implications before making any investment decision. The Communication has been compiled or arrived at based on information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified, is provided on an 'as is' basis and no representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness, reliability, merchantability or fitness for a particular purpose of such information, except with respect to information concerning Renaissance Capital, its subsidiaries and affiliates. All statements of opinion and all projections, forecasts, or statements relating to expectations regarding future events or the possible future performance of investments represent Renaissance Capital's own assessment and interpretation of information available to them currently. Any information relating to past performance of an investment does not necessarily guarantee future performance.

The Communication is not intended for distribution to the public and may be confidential. It may not be reproduced, redistributed or published, in whole or in part, for any purpose without the written permission of Renaissance Capital, and neither Renaissance Capital nor any of its affiliates accepts any liability whatsoever for the actions of third parties in this respect. The information may not be used to create any financial instruments or products or any indices. Neither Renaissance Capital and its affiliates, nor their directors, representatives, or employees accept any liability for any direct or consequential loss or damage arising out of the use of all or any part of the Communication.

© 2011 Renaissance Securities (Cyprus) Limited. All rights reserved. Regulated by the Cyprus Securities and Exchange Commission

## Investment ratings

Investment ratings may be determined by the following standard ranges: **Buy** (expected total return of 15% or more); **Hold** (expected total return of 0-15%); and **Sell** (expected negative total return). Standard ranges do not always apply to emerging markets securities and ratings may be assigned on the basis of the research analyst's knowledge of the securities.

Investment ratings are a function of the research analyst's expectation of total return on equity (forecast price appreciation and dividend yield within the next 12 months, unless stated otherwise in the report). Investment ratings are determined at the time of initiation of coverage of an issuer of equity securities or a change in target price of any of the issuer's equity securities. At other times, the expected total returns may fall outside of the range used at the time of setting a rating because of price movement and/or volatility. Such interim deviations will be permitted but will be subject to review by Renaissance Capital's Research Management.

Where the relevant issuer has a significant material event with further information pending or to be announced, it may be necessary to temporarily place the investment rating **Under Review**. This does not revise the previously published rating, but indicates that the analyst is actively reviewing the investment rating or waiting for sufficient information to re-evaluate the analyst's expectation of total return on equity.

If data upon which the rating is based is no longer valid, but updated data is not anticipated to be available in the near future, the investment rating may be **Suspended** until further notice. The analyst may also choose to temporarily suspend maintenance of the investment rating when unable to provide an independent expectation of total return due to circumstances beyond the analyst's control such as an actual, apparent or potential conflict of interest or best business practice obligations. The analyst may not be at liberty to explain the reason for the suspension other than to Renaissance Capital's Research Management and Compliance Officers. Previously published investment ratings should not be relied upon as they may no longer reflect the analysts' current expectations of total return.

If issuing of research is restricted due to legal, regulatory or contractual obligations publishing investment ratings will be **Restricted**. Previously published investment ratings should not be relied upon as they may no longer reflect the analysts' current expectations of total return. While restricted, the analyst may not always be able to keep you informed of events or provide background information relating to the issuer.

If for any reason Renaissance Capital no longer wishes to provide continuous coverage of an issuer, investment ratings for the issuer will be **Terminated**. A notice will be published whenever formal coverage of an issuer is discontinued.

Where Renaissance Capital has not expressed a commitment to provide continuous coverage and/or an expectation of total return, to keep you informed, analysts may prepare reports covering significant events or background information without an investment rating (**Unrated**).

Your decision to buy or sell a security should be based upon your personal investment objectives and should be made only after evaluating the security's expected performance and risk.

**Renaissance Capital equity research distribution ratings****Investment Rating Distribution****Renaissance Capital Research**

Buy	160	40%
Hold	63	16%
Sell	16	4%
Under Review	12	3%
Suspended	0	0%
Restricted	0	0%
Unrated	152	38%

**403****Investment Banking Relationships\*****Renaissance Capital Research**

Buy	4	57%
Hold	3	43%
Sell	0	0%
Under review	0	0%
Suspended	0	0%
Restricted	0	0%
Unrated	0	0%

**7**

\*Companies from which RenCap has received compensation within the past 12 months.

NR – Not Rated

UR – Under Review

## Renaissance Capital research team

**Head of Equity Research** David Nangle +7 (495) 258-7748 [DNangle@rencap.com](mailto:DNangle@rencap.com)

Name	Telephone number	Coverage
<b>Equity Strategy</b>		
Charles Robertson	+44 (207) 367-8235	Global
Ovanes Oganisian	+7 (495) 258-7906	Russia
Vitaliy Shushkovsky	+38 (044) 492-7385x7145	Ukraine
Herman van Papendorp	+27 (11) 750-1465	South Africa
Leye Adekeye	+234 (1) 448-5300x5386	Sub-Saharan Africa

### Macro and Fixed income research

Charles Robertson	+44 (207) 367-8235	Global
Anton Nikitin	+7 (495) 258-7770x7560	Russia/CIS
Ilya Zhila	+7 (495) 258-7770x4582	Russia/CIS
Anastasiya Golovach	+38 (044) 492-7382	Ukraine
Kassymkhan Kapparov	+7 (727) 244-1570	Central Asia
Lyubov Nikitina	+7 (495) 725-5229	Russia/CIS
Mikhail Nikitin	+7 (495) 258-7789	Russia/CIS
Rita Tsovyanyan	+7 (495) 258-7770x4516	Russia/CIS
Elna Moolman	+27 (11) 750-1462	South Africa
Busi Radebe	+27 (11) 750-1473	South Africa
Mamokete Lijane	+27 (11) 750-1471	South Africa
Yvonne Mhango	+27 (11) 750-1488 x1488	Sub-Saharan Africa

### Banking

David Nangle	+7 (495) 258-7748	EMEA
Milena Ivanova-Venturini	+7 (727) 244-1584	Central Asia
Svetlana Kovalskaya	+7 (495) 258-7752	Russia
Armen Gasparian	+7 (495) 258-7770x4964	Russia
Kirill Rogachev	+7 (495) 258-7770x4015	Russia
Ilana Stermer	+27 (11) 750-1482	South Africa
Naeem Badat	+27 (11) 750-1431	South Africa
Adesoji Solanke	+234 (1) 448-5300x5384	Sub-Saharan Africa

### Chemicals/Engineering/Building materials

Mikhail Safin	+7 (495) 258-7770x7550	Russia/CIS
Carmen Gribble	+27 (11) 750-1474x1474	South Africa

### Consumer/Retail/Agriculture

Natasha Zagvozdina	+7 (495) 258-7753	Eastern Europe, Russia/CIS
Ulyana Lenvalskaya	+7 (495) 258-7770x7265	Eastern Europe, Russia/CIS
Konstantin Fastovets	+38 (044) 492-7385x7125	Ukraine
Robyn Collins	+27 (11) 750-1480x1480	South Africa
Rohan Dyer	+27 (11) 750-1481x1481	South Africa

### Metals and mining

Rob Edwards	+44 (207) 367-7781x8781	Global
Boris Krasnojenov	+7 (495) 258-7770x4219	Russia/CIS
Andrew Jones	+44 (207) 367-7734x8734	Russia/CIS
Ekaterina Gazadze	+7 (727) 244-1581	Central Asia
Jim Taylor	+44 (207) 367-7736x8736	Africa
Vasiliy Kuligin	+7 (495) 258-7770x4065	Russia/CIS
Ian Woodley	+27 (11) 750-1447	South Africa
Christina Claassens	+27 (11) 750-1460	South Africa
Emma Townshend	+27 (11) 750-1463	South Africa

Name	Telephone number	Coverage
<b>Oil and gas</b>		
Ildar Davletshin	+7 (495) 258-7770x4971	Russia/CIS
Irina Elinevskaya	+7 (495) 258-7770x5662	Russia/CIS
Dragan Trajkov	+44 (207) 367-7941x8941	Africa, MENA
Gerhard Engelbrecht	+27 (11) 750-1454	South Africa

### Media/Technology/Real estate

David Ferguson	+7 (495) 641-4189	Russia/CIS, Africa
Anastasia Demidova	+7 (495) 258-7770x4040	Russia/CIS, Africa
Johan Snyman	+27 (11) 750-1432	South Africa

### Telecoms/Transportation

Alexander Kazbegi	+7 (495) 258-7902	Global
Ivan Kim	+7 (495) 258-7770x5620	Russia/CIS, Africa
Alexandra Serova	+7 (495) 258-7770x4073	Russia/CIS
Johan Snyman	+27 (11) 750-1432	South Africa

### Utilities

Derek Weaving	+44 (207) 367-7793x8793	Russia/CIS
Vladimir Sklyar	+7 (495) 258-7770x4624	Russia/CIS

### Luxury goods and tobacco

Rey Wium	+27 (11) 750-1478	Africa
----------	-------------------	--------

### Quantitative analysis

Renda Rundle	+44 (207) 367-8240	South Africa
--------------	--------------------	--------------

### Small and medium cap

Jeanine Womersley	+27 (11) 750-1458	South Africa
-------------------	-------------------	--------------

### Medium cap/Transport/Construction/Building materials

John Arron	+27 (11) 750-1466	Africa
------------	-------------------	--------

### Paper

Adriana Benedetti	+27 (11) 750-1452	South Africa
-------------------	-------------------	--------------

### Diversified industrials/Support services/Packaging

Ceri Moodie	+27 (11) 750-1459	South Africa
-------------	-------------------	--------------

### Regional research

Mbithe Muema	+254 (20) 368-2316	East Africa
Anthea Alexander	+263 (772) 421-845	Southern Africa
Ruvimbo Kuzviwanza	+263 (7) 88-317x8795	Southern Africa
Akinbamidele Akintola	+234 (1) 448-5300x5385	West Africa
Gbadebo Bammeke	+234 (1) 448-5300x5367	West Africa

Renaissance Capital research is available via the following platforms:

**Renaissance research portal:** [research.rencap.com](http://research.rencap.com)

**Bloomberg:** RENA <GO>

**Capital IQ:** [www.capitaliq.com](http://www.capitaliq.com)

**Thomson Reuters:** [thomsonreuters.com/financial](http://thomsonreuters.com/financial)

**Factset:** [www.factset.com](http://www.factset.com)



<b>Renaissance Capital</b> Moscow T + 7 (495) 258 7777	<b>Renaissance Capital Ltd.</b> London T + 44 (20) 7367 7777	<b>RenCap Securities, Inc.</b> New York + 1 (212) 824-1099	<b>Renaissance Securities (Cyprus) Ltd.</b> Nicosia T + 357 (22) 505 800
<b>Renaissance Securities (Nigeria) Ltd.</b> Lagos T +234 (1) 448 5300	<b>Renaissance Capital</b> Nairobi T +254 (20) 368 2000	<b>Renaissance Capital Ukraine</b> Kyiv T +38 (044) 492-7383	<b>Renaissance Capital</b> Almaty T + 7 (727) 244 1544
<b>Renaissance Capital (Hong Kong) Ltd.</b> Hong Kong T +852 3972 3800	<b>Renaissance BJM</b> Johannesburg T (+27 11) 750 0000	<b>Renaissance Capital</b> Harare T +263 (4) 788336	<b>Pangaea Renaissance Securities Ltd.</b> Lusaka T +260 (21) 123 8709

© 2011 Renaissance Securities (Cyprus) Limited, an indirect subsidiary of Renaissance Capital Holdings Limited ("Renaissance Capital"), which together with other subsidiaries operates outside of the USA under the brand name of Renaissance Capital, **for contact details see Bloomberg page RENA, or contact the relevant office.** All rights reserved. This document and/or information has been prepared by and, except as otherwise specified herein, is communicated by Renaissance Securities (Cyprus) Limited, regulated by the Cyprus Securities and Exchange Commission (License No: KEPEY 053/04). The RenCap-NES Leading GDP Indicator is a model that seeks to forecast GDP growth and was developed by and is the exclusive property of Renaissance Capital and the New Economic School (e-mail: [nes@nes.ru](mailto:nes@nes.ru)).

This document is for information purposes only. The information presented herein does not comprise a prospectus of securities for the purposes of EU Directive 2003/71/EC or Federal Law No. 39-FZ of 22 April 1994 (as amended) of the Russian Federation "On the Securities Market". Any decision to purchase securities in any proposed offering should be made solely on the basis of the information to be contained in the final prospectus published in relation to such offering. This document does not form a fiduciary relationship or constitute advice and is not and should not be construed as an offer, or a solicitation of an offer, or an invitation or inducement to engage in investment activity, and cannot be relied upon as a representation that any particular transaction necessarily could have been or can be effected at the stated price. This document is not an advertisement of securities. Opinions expressed herein may differ or be contrary to opinions expressed by other business areas or groups of Renaissance Capital as a result of using different assumptions and criteria. All such information and opinions are subject to change without notice, and neither Renaissance Capital nor any of its subsidiaries or affiliates is under any obligation to update or keep current the information contained herein or in any other medium.

Descriptions of any company or companies or their securities or the markets or developments mentioned herein are not intended to be complete. This document and/or information should not be regarded by recipients as a substitute for the exercise of their own judgment as the information has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. The application of taxation laws depends on an investor's individual circumstances and, accordingly, each investor should seek independent professional advice on taxation implications before making any investment decision. The information and opinions herein have been compiled or arrived at based on information obtained from sources believed to be reliable and in good faith. Such information has not been independently verified, is provided on an 'as is' basis and no representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness, reliability, merchantability or fitness for a particular purpose of such information and opinions, except with respect to information concerning Renaissance Capital, its subsidiaries and affiliates. All statements of opinion and all projections, forecasts, or statements relating to expectations regarding future events or the possible future performance of investments represent Renaissance Capital's own assessment and interpretation of information available to them currently.

The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors and trading in these instruments is considered risky. Past performance is not necessarily indicative of future results. The value of investments may fall as well as rise and the investor may not get back the amount initially invested. Some investments may not be readily realisable since the market in the securities is illiquid or there is no secondary market for the investor's interest and therefore valuing the investment and identifying the risk to which the investor is exposed may be difficult to quantify. Investments in illiquid securities involve a high degree of risk and are suitable only for sophisticated investors who can tolerate such risk and do not require an investment easily and quickly converted into cash. Foreign-currency-denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or the price of, or income derived from, the investment. Other risk factors affecting the price, value or income of an investment include but are not necessarily limited to political risks, economic risks, credit risks, and market risks. Investing in emerging markets such as Russia, other CIS, African or Asian countries and emerging markets securities involves a high degree of risk and investors should perform their own due diligence before investing.

Excluding significant beneficial ownership of securities where Renaissance Capital has expressed a commitment to provide continuous coverage in relation to an issuer or an issuer's securities, Renaissance Capital and its affiliates, their directors, representatives, employees (excluding the US broker-dealer unless specifically disclosed), or clients may have or have had interests in the securities of issuers described in the Investment Research or long or short positions in any of the securities mentioned in the Investment Research or other related financial instruments at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale, of any such securities or other financial instruments from time to time in the open market or otherwise, in each case as principals or as agents. Where Renaissance Capital has not expressed a commitment to provide continuous coverage in relation to an issuer or an issuer's securities, Renaissance Capital and its affiliates (excluding the US broker-dealer unless specifically disclosed) may act or have acted as market maker in the securities or other financial instruments described in the Investment Research, or in securities underlying or related to such securities. Employees of Renaissance Capital or its affiliates may serve or have served as officers or directors of the relevant companies. Renaissance Capital and its affiliates may have or have had a relationship with or provide or have provided investment banking, capital markets, advisory, investment management, and/or other financial services to the relevant companies, and have established and maintain information barriers, such as 'Chinese Walls', to control the flow of information contained in one or more areas within the Renaissance Group of companies to which Renaissance Capital belongs, into other areas, units, groups or affiliates of the Renaissance Group.

The information herein is not intended for distribution to the public and may not be reproduced, redistributed or published, in whole or in part, for any purpose without the written permission of Renaissance Capital, and neither Renaissance Capital nor any of its affiliates accepts any liability whatsoever for the actions of third parties in this respect. This information may not be used to create any financial instruments or products or any indices. Neither Renaissance Capital and its affiliates, nor their directors, representatives, or employees accept any liability for any direct or consequential loss or damage arising out of the use of all or any part of the information herein.

**Bermuda:** Neither the Bermuda Monetary Authority nor the Registrar of Companies of Bermuda has approved the contents of this document and any statement to the contrary, express or otherwise, would constitute a material misstatement and an offence.

**EEA States:** Distributed by Renaissance Securities (Cyprus) Limited, regulated by Cyprus Securities and Exchange Commission, or Renaissance Capital Limited, member of the London Stock Exchange and regulated in the UK by the Financial Services Authority ("FSA") in relation to designated investment business (as detailed in the FSA rules). **Cyprus:** Except as otherwise specified herein the information herein is not intended for, and should not be relied upon by, retail clients of Renaissance Securities (Cyprus) Limited. The Cyprus Securities and Exchange Commission Investor Compensation Fund is available where Renaissance Securities (Cyprus) Limited is unable to meet its liabilities to its retail clients, as specified in the Customer Documents Pack. **United Kingdom:** Approved and distributed by Renaissance Capital Limited only to persons who are eligible counterparties or professional clients (as detailed in the FSA Rules). The information herein does not apply to, and should not be relied upon by, retail clients; neither the FSA's protection rules nor compensation scheme may be applied.

**Ghana:** Distributed through NewWorld Renaissance Securities Ltd, a licenced broker dealer in Accra and an affiliate of Renaissance Capital.

**Hong Kong:** Distributed to professional investors (as defined in the Securities and Futures Ordinance and its subsidiary legislation) by Renaissance Capital (Hong Kong) Limited, regulated by the Hong Kong Securities and Futures Commission.

**Kazakhstan:** Distributed by Renaissance Capital Investments Kazakhstan JSC, regulated by the Agency for the Regulation and Supervision of the Financial Market and Financial Organizations.

**Kenya:** Distributed by Renaissance Capital (Kenya) Limited, regulated by the Capital Markets Authority.

**Nigeria:** Distributed by RenCap Securities (Nigeria) Limited, member of The Nigerian Stock Exchange, or Renaissance Securities (Nigeria) Limited, entities regulated by the Securities and Exchange Commission.

**Russia:** Distributed by CJSC Renaissance Capital, LLC Renaissance Broker, or Renaissance Online Limited, entities regulated by the Federal Financial Markets Service.

**South Africa:** Distributed by BJM Renaissance Securities Limited, regulated by the Johannesburg Stock Exchange.

**Ukraine:** Distributed by Renaissance Capital LLC, authorized to perform professional activities on the Ukrainian stock market.

**United States:** Distributed in the United States by RenCap Securities, Inc., member of FINRA and SIPC, or by a non-US subsidiary or affiliate of Renaissance Capital Holdings Limited that is not registered as a US broker-dealer (a "non-US affiliate"), to major US institutional investors only. RenCap Securities, Inc. accepts responsibility for the content of a research report prepared by another non-US affiliate when distributed to US persons by RenCap Securities, Inc. Although it has accepted responsibility for the content of this research report when distributed to US investors, RenCap Securities, Inc. did not contribute to the preparation of this report and the analysts authoring this are not employed by, and are not associated persons of, RenCap Securities, Inc. Among other things, this means that the entity issuing this report and the analysts authoring this report are not subject to all the disclosures and other US regulatory requirements to which RenCap Securities, Inc. and its employees and associated persons are subject. Any US person receiving this report who wishes to effect transactions in any securities referred to herein should contact RenCap Securities, Inc., not its non-US affiliate. RenCap Securities, Inc. is a subsidiary of Renaissance Capital Holdings Limited and forms a part of a group of companies operating outside of the United States as "Renaissance Capital". Contact: RenCap Securities, Inc., 780 Third Avenue, 20th Floor, New York, New York 10017, Telephone: +1 (212) 824-1099.

**Zambia:** Distributed through Pangaea Renaissance Securities Ltd, a licenced broker dealer in Lusaka and an affiliate of Renaissance Capital.

**Zimbabwe:** Distributed by the representative office in Harare of Renaissance Africa (Mauritius) Limited, part of the Renaissance Group.

**Other distribution:** The distribution of this document in other jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restriction.

**Additional information (including information about the RenCap-NES Leading GDP Indicator) and supporting documentation is available upon request.**