Readings for Geopolitics Discussion May 31, 2012 - China Trade

History of trade of the People's Republic of China From Wikipedia,

Trade has been a very significant factor of the People's Republic of China's economy. In the twenty-five years that followed the founding of the People's Republic of China in 1949, China's trade institutions were built into a partially modern but somewhat inefficient system. The drive to modernize the economy that began in 1978 required a sharp acceleration in commodity flows and greatly improved efficiency in economic transactions. In the ensuing years economic reforms were adopted by the government to develop a "socialist planned commodity economy" that combined central planning with market mechanisms. These changes resulted in the decentralization and expansion of domestic and foreign trade institutions, a greatly enlarged role for free markets in the distribution of goods, and a prominent role for foreign trade and investment in economic development.

The United States banned trade with China until the early 1970s. Thereafter trade grew rapidly, and after the full normalization of diplomatic and commercial relations in 1979, the United States became the second largest importer to China and in 1986 was China's third largest partner in overall trade. Most American goods imported by China were either high-technology industrial products, such as aircraft, or agricultural products, primarily grain and cotton.

Western Europe has been important in Chinese foreign trade since the mid-1960s. The Federal Republic of Germany, in particular, was second only to Japan in supplying industrial goods to China during most of this period. China followed a policy of shopping widely for its industrial purchases, and it concluded deals of various sizes with nearly all of the West European nations. In 1986 Western Europe accounted for nearly 18 percent of China's foreign trade, with imports exceeding exports.

Third World countries have long served as a market for Chinese agricultural and light industrial products. In 1986 developing countries purchased about 15 percent of Chinese exports and supplied about 8 percent of China's imports. China has increased trade and investment ties with many African countries such as Chad, the Sudan, and the Democratic Republic of Congo, partly to secure strategic natural resources such as oil and minerals.

Today, China's main export markets, in order of importance, are the European Union (20.4%), United States (17.7%), Hong Kong (13.4%), and Japan (8.1%). China's main import markets, in order of importance, are Japan (13.3%), European Union (11.7%), South Korea (10.9%), Taiwan (9.1%), and the United States (7.2%).

This article covers many aspects of the hsitory but appears to stop in the 1980s. WOK

http://en.wikipedia.org/wiki/History_of_trade_of_the_People's_Republic_of_China

US-China Trade Statistics and China's World Trade Statistics - US-China Business Council

Table 1: China's Trade with the United States, 2001-11 ($ billion)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
US exports	19.2	22.1	28.4	34.7	41.8	55.2	65.2	71.5	69.6	91.9	103.9
% change*	18.3	14.7	28.9	22.2	20.5	32.0	18.1	9.5	-2.6	32.1	13.1
US imports	102.3	125.2	152.4	196.7	243.5	287.8	321.5	337.8	296.4	364.9	399.3
% change*	2.2	22.4	21.7	29.1	23.8	18.2	11.7	5.1	-12.3	23.1	9.4
US balance	-83.0	-103.1	-124.0	-162.0	-201.6	-232.5	-256.3	-266.3	-226.8	-273.1	-295.5

Notes: *Calculated by USCBC. US exports reported on a free-alongside-ship basis; imports on a general customs-value basis.
Source: US Department of Commerce; US International Trade Commission (ITC)

Table 2: Top Ten US Exports to China, 2011 ($ billion)

HTS #	Commodity Description	Volume	% Change Over 2010
84	Power generation equipment	10.8	9.70%
12	Oil seeds and oleaginous fruits	10.7	-3.10%
85	Electrical machinery and equipment	7.2	-16.60%
87	Vehicles, excluding rail	6.4	55.60%
88	Aircraft and spacecraft	6.3	10.80%
90	Optics and medical equipment	5.2	8.30%
39	Plastics and articles thereof	5	7.20%
47	Pulp and paperboard	3.8	27.10%
74	Copper and articles thereof	3.7	32.70%
29	Organic chemicals	3.5	17.80%

*Calculated by USCBC
Source: ITC

Table 3: Top US Imports from China, 2011 ($ billion)

HTS#	Commodity description	Volume	% change over 2010
85	Electrical machinery and equipment	98.7	8.7
84	Power generation equipment	94.9	14.7
95	Toys, games, and sports equipment	22.6	-9.4
94	Furniture	20.5	2.7
64	Footwear and parts thereof	16.7	5.1
61	Apparel, knitted or crocheted	15.1	7.4
62	Apparel, not knitted or crocheted	15.0	1.8
39	Plastics and articles thereof	10.9	13.0
73	Iron, steel	8.6	18.0
87	Vehicles, excluding rail	8.1	17.0

*Calculated by USCBC
Source: ITC

Table 4: China's Trade with the World, 2001-10 ($ billion)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Exports	266.1	325.6	438.2	593.3	762.0	968.9	1,217.8	1,430.7	1,201.6	1,577.9
% change*	6.8	22.4	34.6	35.4	28.4	27.2	25.7	17.5	-16.0	31.3
Imports	243.6	295.2	412.8	561.2	660.0	791.5	956.0	1,132.6	1,005.9	1,394.8
% change*	8.2	21.2	39.8	35.9	17.6	19.9	20.8	18.5	-11.2	38.7
Total	509.7	620.8	851.0	1,154.6	1,421.9	1,760.4	2,173.7	2,563.3	2,207.5	2,972.8
% change*	7.5	21.8	37.1	35.7	23.2	23.8	23.5	17.9	-13.9	34.7
Balance	22.6	30.4	25.5	32.1	102.0	177.5	261.8	298.1	195.7	183.1

Notes: *Calculated by USCBC. PRC exports reported on a free-on-board basis; imports on a cost, insurance, and freight basis.
Source: PRC National Bureau of Statistics

https://www.uschina.org/statistics/tradetable.html

Bloomberg Businessweek **Trade War Looming as China Rebukes U.S. Support for Solar**
May 25, 2012

China's allegation that renewable- energy subsidies in five U.S. states violate free-trade rules ratchets up a potentially costly trade war between the world's two largest economies. “It’s a long, slow escalation of trade and currency wars as we race to the bottom,” said Theodore O’Neill, an analyst with Wunderlich Securities Inc. of New York. Programs supporting renewable power, including wind and solar, in Washington state, New Jersey, Massachusetts, Ohio and California, violate World Trade Organization policies and trade treaties, according to a preliminary finding of an investigation posted yesterday on the website of China’s Ministry of Commerce. China filed a complaint today at the WTO over U.S. procedures for calculating anti-subsidy duties on imports.

Those announcements followed a preliminary decision by the U.S. Commerce Department last week to impose tariffs of as much as 250 percent on imports of Chinese solar cells. The agency said the units were being sold for less than the cost of production in an attempt to drive out domestic competition. Both countries have identified renewable energy as a strategically important industry that could provide both jobs and clean power. As a candidate, President Barack Obama campaigned in support of a “green” economy that would replace jobs lost in declining sectors.

Chinese Complaints At least four U.S. solar manufacturers filed for bankruptcy in the past year even as federal subsidies helped build a $8.4 billion U.S. solar market. “China has been engaged in a trade war against the U.S. interests for a number of years and only now are we calling them to the carpet for their illegal and predatory trade practices,” said Mike Wessel, a member of the U.S.-China Economic and Security Review Commission that reports to Congress. Chinese solar companies criticized Commerce’s preliminary decision May 18 that they improperly benefit from government subsidies and sell solar cells below cost. High tariffs may raise costs, slowing demand for polysilicon that’s used to make solar panels, hurting U.S. companies that reported $2.6 billion in exports in 2011, including about $700 million to China, according to a Bloomberg Government report released last week.

‘**Prohibited Subsidies**’ China initiated the investigation into U.S. subsidies in November, a month after seven U.S. solar manufacturers filed their complaint with the U.S. International Trade Commission and Commerce. In announcing the preliminary findings yesterday, the Chinese Ministry of Commerce said some U.S. actions “constitute prohibited subsidies.”

During the U.S. investigation into whether Chinese companies received illegal government aid, the U.S. acted “inconsistently with WTO rules and rulings in many aspects,” China’s mission to the WTO in Geneva said today in an e-mailed statement. The U.S. “repeated its wrongful practice” during its recent anti-subsidy investigation on Chinese solar cells. China’s official Xinhua News Agency reported yesterday that 14 of China’s solar-panel companies have formed an alliance in response to the trade issues with the U.S.

http://www.businessweek.com/news/2012-05-24/trade-war-seen-looming-as-china-rebukes-u-dot-s-dot-support-for-solar

China Trade NEWS - EDITOR, 15 FEBRUARY 2012 Strategic Canada-China Energy Partnership in the Pipeline

Addressing nearly six hundred Canadian and Chinese businesses leaders in the city of Guangzhou earlier this week, Canadian Prime Minister Stephen Harper conveyed the message that Canada is keen to sell oil and gas to China, but is not prepared to abandon its principles in the process. He was also very direct in targeting groups opposed to the development of Canada's energy resources, stating that the Canadian government will always put the country's economic interest ahead of what he called "foreign money and influence" that may try to obstruct the increased production of petroleum. Prime Minister Harper also made it clear that he envisions a new era in a strategic Canada-China energy partnership with the establishment of the proposed Northern Gateway pipeline.

- **BRICS Countries Consider Central Bank** - **Editor**, 28 March 2012
- The fourth annual BRICS summit, to be held in New Delhi on Thursday, will cover a wide range of topics of interest to member countries – Brazil, Russia, India, China and South Africa. One of the topics for discussion will be the idea of a multilateral bank funded by developing nations for the purpose of encouraging trade and financing projects in the developing world. This proposed initiative of establishing common institutions is seen as a step toward formalizing the BRICS grouping.
  China Continues to Promote Yuan as International Trading Currency - Editor, 29 February 2012

- As China's position in world markets continues to strengthen authorities are taking new steps to establish the yuan, or renminbi, as an international trading currency. The yuan advanced for the second consecutive day as the People's Bank of China set the reference rate of the currency at the strongest level on record. The daily fixing set by the central bank was 0.07 percent higher at 6.2919 per dollar, being the strongest reading since July 2005.

http://www.chinatrade.com/blog/strategic-canada-china-energy-partnership-in-the-pipeline

Forbes | 5/25/2012 @ 3:45PM |1,588 views

China: Currency Manipulator No More

China is no longer considered to be manipulating its currency to gain unfair economic advantages, but the doesn't mean the currency is not seriously undervalued, the U.S. Treasury Department said Friday morning. The U.S. Trade and Competitiveness Act of 1988 requires Treasury to provide semiannual reports to Congress on the exchange rate policies of the major trading partners of the U.S.   The Treasury department concluded that no major trading partner met the standards identified in the Act during the period covered in Friday's 28 page report. For the first time, China is no longer considered a currency manipulator. The U.S. China Business Council come out with an "I told ya' so" statement mid-afternoon. "The Treasury made the right call on China's currency policy in its report to Congress," said Council president John Frisbie. The Council represents U.S. multinational businesses in China. "Branding China a currency manipulator triggers nothing to help reach the goal of a fully convertible currency and market-driven exchange rate for China. In addition, the 'manipulator' label would likely lead China to react negatively and slow down progress on this issue."

http://www.forbes.com/sites/kenrapoza/2012/05/25/china-currency-manipulator-no-more/

The Weekly Standard - China: An Unlovely but Necessary Trading Partner? 12:00 AM, MAY 12, 2012 • BY IRWIN M. STELZER

Perhaps the best way to understand China's trade policy is to consult professional China watchers who always accuse mere economists of ignoring "context." The Chinese regime is in transition to a new generation of leaders; a scandal has led to the purging of Bo Xilai and the arrest of his wife in connection with the murder of British businessman Neil Heywood; the children of famed revolutionaries, the so-called princelings, are zipping around China and the environs of Harvard in expensive foreign cars; and the regime is licking its wounds over *l'affaire* Chen Guangcheng, whom it has had to allow to leave the country for an education in America, or admit to its human non-rights policy. According to Jonathan Fenby, writing in Britain's *Spectator* magazine, "China's authorities … even felt compelled to ban the word 'coup' from microblogging sites…" That's the context.

From which some China watchers conclude that the regime is in serious trouble, stumbling, perhaps even to find it prudent to postpone the five-year Congress scheduled for October. That, they say, will make the regime give ground on important trade issues rather than risk a confrontation with America. Unless, of course, this sea of troubles makes the regime reluctant to show any weakness, and toughens its bargaining stance. So much for the guidance provided by sinologists' context.

Romney, now matching President Obama's full campaign mode, has promised to label China a "currency manipulator" on his first day in the Oval Office. That would bring a round of applause from key New York Democratic senator Chuck Schumer and the trade unions that make up such a large part of the president's constituency. Everyone who has been calling for just such bipartisanship might regret what they have been wishing for.

One problem: if it were all that simple, Obama would have pinned that label on the Chinese long ago. He is, after all, better known for bending a knee to the trade unions than for standing tall and firm when they lay out the quids pro quo they expect for their support. The president knows what Romney must surely also know, but chooses to ignore: China is America's largest creditor, it is capable of

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chooses to ignore: China is America's largest creditor, it is capable of thwarting US foreign policy goals in the Middle East, Africa, and Latin America. It is wooing a Europe that lusts after the cash hoard China has accumulated as a result of a trade policy that includes subsidizing key industries, helping itself to the intellectual property of its trading partners, and enforcing buy-China policies. Indeed, China has acquired so many German engineering firms that there is some call for barring future acquisitions, perhaps along the lines of the restrictions China places on foreign investors.

So the politicians who call for a get-tough policy, and criticize Obama for failing to come down hard on the Chinese regime, add no more to the debate than the China watchers. Obama knows that although he holds a strong hand as China's most important customer and powerful military rival, the regime also has some high cards to play if America raises the ante.

Which brings us to the real world of trade policy. The American economic recovery is lackluster, with economists guessing that it is growing at an annual rate of 2 percent or less, and with job creation so anemic that workers in droves are dropping out of the work force. China can easily turn that feeble recovery into a downturn by cutting back on purchases of U.S. treasury IOUs, driving interest rates up.

China has its own problems, even though its growth figures remain the envy of its trading partners. Société Générale economists estimate that growth in its exports dropped from 8.9 percent in March, year-over-year, to 4.9 percent last month, and report that investment growth "is going through a landing that is notably harder than 'soft'…. China's economic growth has not bottomed yet…. Property sluggishness is spreading to consumption…" The nation's leaders, whose authority rests not on democratic validation, but on their ability to create jobs (and repress dissent), have a stake in the prosperity of American consumers, among their best customers.

So cut through China's tetchy insistence on its sovereignty and America's at-times bellicose statements, and you have mutual interdependence, something Obama has learned, and Romney has so far refused to admit, perhaps even to himself. Which is why at the height of the Chen controversy Prime Minister Wen chose not to stomp out of his meeting with Secretary of State Hillary Clinton and Treasury Secretary Timothy Geithner, and announced that the conference had produced "some important breakthroughs," while Geithner reported "very good progress" at the fourth round of the U.S.-China Strategic and Economic Dialogue. The regime's attitude, Geithner later announced to an audience at the Brookings Institution, "signals a continued commitment by Chinese authorities to a broad change" in economic strategy.

Well, yes and no. It is true that China's trade surplus is declining. Worker shortages and dissatisfaction are forcing labor costs up, to which add a 30 percent real increase in the yuan relative to its trading partners' currencies since 2005 (40 percent against the dollar). That makes Chinese goods less competitive in world markets. In 2007, China's excess of exports over imports came to 10 percent of its economy; last year that figure was less than 3 percent. But the relative decline in its surplus with the world might be a temporary phenomenon. The recession has reduced consuming countries' demand for all sorts of made in China goods, while China's anti-recession infrastructure construction stimulus is sucking in imports.

It is also true that our exports to China are increasing. But China's trade surplus with us hit a record $202 billion last year. Despite the authorities' claim that the yuan is now at its fair market value, it is clear that without strenuous efforts by the regime to keep the currency undervalued, it would rise further. It is also clear that China is not prepared to open key markets to foreign firms. At the conclusion of the latest U.S.-China Dialogue, Beijing announced that foreign banks will be allowed to increase their stakes in investment banking joint ventures from 33 percent to 49 percent. A few days later, with Clinton and Geithner safely on their way back to America, the National Development and Reform Commission released a ruling, drafted before the American duo's visit, that overseas equity firms that invest in China must raise all their funds from Chinese investors if they are not to be treated as foreign, and hobbled in their competition with what The *Wall Street Journal* describes as "a flood of new Chinese competitors." For example, foreign funds are forbidden to invest in defense-related industries, and face restrictions on their investments in the telecoms and Internet industries, among others.

Retaliate for this restriction on American firms, as Adam Smith recommended in similar cases? Certainly not. Instead, the Obama administration late this week approved the Industrial & Commercial Bank of China's application to purchase an American bank, thus, in the words of the *Financial Times*, "marking a watershed moment for Chinese lenders looking to gain a U.S. foothold. … The approval follows the U.S.-China

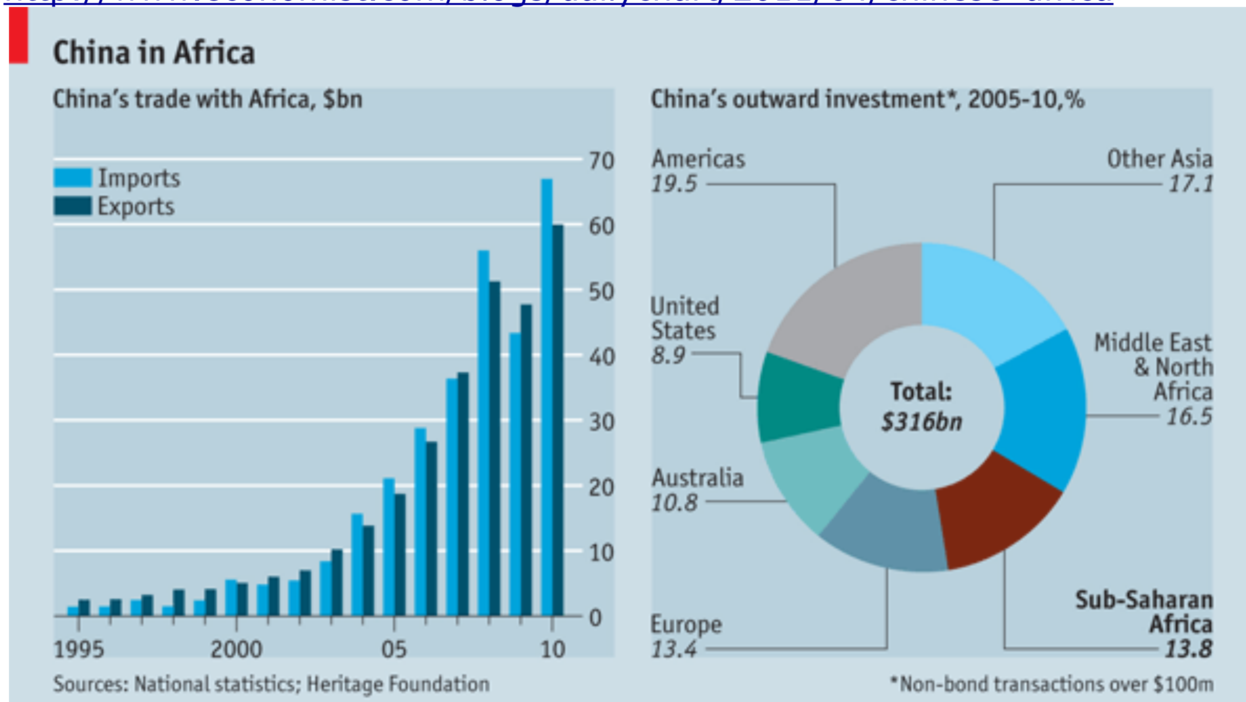
Economic Dialogue. … [and] was a 'slam dunk, said Ernie Patrikis … who acted for ICBC [and] predicted more acquisitions."
There's more, but you get the idea: I am told that Chinese tourists who visit Britain now trek to Kirkcaldy, in Scotland, to visit the birthplace of Adam Smith in greater numbers than those who visit London's Victorian Highgate Cemetery to pay homage at the grave of Karl Marx. But that doesn't reflect any devotion to the great Scot's views on free trade. Or any enthusiasm for free and open competition.
In the end, a market economy trading with one dominated by state owned enterprises to which it can funnel covert subsidies including cheap capital, and controlled by a regime that sees trade as one weapon in a battle for geopolitical supremacy, remains at a serious disadvantage.

http://www.weeklystandard.com/blogs/china-unlovely-necessary-trading-partner_644401.html

4/22/11 Chinese in Africa The Chinese are coming...to Africa

Many of its people are not happy about it, as our briefing reports, but business is booming in Africa thanks mostly to the Chinese. Trade between the two surpassed $120 billion in 2010, and in the past two years China has given more loans to poor, mainly African countries than the World Bank. The Heritage Foundation, an American think-tank, estimates that between 2005 and 2010 about 14% of China's investment abroad found its way to sub-Saharan Africa. This has brought increased employment and prosperity to the region, but also allegations of damage to local businesses, corruption and the hoarding of natural resources.

http://www.economist.com/blogs/dailychart/2011/04/chinese_africa



Wikipedia - Chinese involvement in Africa, which began centuries ago, continues through the present day through exploration, trade, and the settlement of Chinese people in Africa. This includes the ongoing move by the People's Republic of China to secure highly needed natural resources through Chinese-African trade and diplomatic relations.

The quest for key resources in Africa targets areas rich in oil, minerals, timber, and cotton, such as Sudan, Angola, Nigeria, and South Africa. Many African countries are viewed as fast-growing markets and profitable outlets for the immediate export of cheap manufactured goods, and the future export of high-end products and services.

Large scale structural projects, often accompanied by a soft loan, are proposed to African countries rich in natural resources. China commonly funds the construction of infrastructure such as roads and railroads, dams, ports, and airports. These amenities aid the movement of natural resources back to China, and provide China with leverage to obtain exploration and drilling rights. While relations are mainly conducted through diplomacy and trade, military support via the provision of arms and other equipment is also a major component.

In the diplomatic and economic rush into Africa, Taiwan, the United States, France, and the UK are China's main competitors. France and the UK were once the primary commercial partners in Africa, but China recently became the largest trading partner, with trade of US$90 billion in 2009. The United States ranked 2nd, with $86 billion.[1] Although Africa has seen economic growth through commodity exports to China, critics argue that Chinese exports to Africa—as well as Chinese business practices—have impeded aspects of African development, but much better than little to no growth coming from the US or Europe.[2] China continues to expand its influence in the region on diplomatic, cultural, and commercial fronts, while working to secure and stabilize the region for long term gains.[

Oil

Africa produced about 10.7 Mbpd of oil in 2005, 12% of the 84 Mbpd produced worldwide.[82] Around one half of that is produced in north Africa, which has preferential trade agreements with Europe.[76] The sub-Saharan oil producers include by global rank and Mbpd: Nigeria (13th; 2.35Mbpd), Angola (16th; 1.91Mbpd), Sudan (31st; .47Mbpd). Guinea (33rd), Congo (38th), and Chad (45th) also have notable oil output.[82]

In 2005, 35% of exported African oil went to the EU, 32% to the USA, 10% to China, while 1% of African gas goes to other parts of Asia.[76] North African preferentially exporting its oil to western countries : EU 64%; US 18%; all others 18%.[76] 60% of African wood goes to China, where it is manufactured, and then sell across the world.[37]

As of 2007, thanks to good diplomatic relations and recent growth, Africa provides 30% of China's oil needs,[83] with Sudanese's oil account for 10 of these 30 points.[84]

Major projects

Chinese companies have recently increased their activity worldwide. Specifically in Africa, notable cases are:

- **Sudan**. In 1997 CNPC's Great Wall Drilling Company agreed to buy a 40% stake in the $1.7 "Greater Nile Petroleom Operating Company", contract renewed and expanded in 2000 ;[62][85] CNPC owns most of a field in south Darfour and 41% of a field in Melut Basin, expected to produce 300,000 bpd in 2006; Sinopec is erecting a pipeline, building a tanker terminal in Port-Sudan.[85] 60% of Sudan's oil output goes to China;[68] since the 1990s, China has invested $15b, mainly in oil infrastructure.[84]
- **Nigeria**. In 1998 CNPC bought two oil blocks in the Niger delta;[62] in 2005, four blocks, together with other companies, in exchange for a hydropower plant in Mambila with 1,000 MW capacity and a taking controlling stake in 1,100,000 bpd from the Kaduna refinery;[85] CNOOC has paid $2.7b for a rich oil block.[68]
- **Angola**. Proposal for a $5 billion loan for oil-related and structural infrastructcure for post-war rebuilding, to be repaid in oil;[49][62] Sinopec owns 50% of Angola BP-operated Greater plutonio project.[68]
- **Gabon**. In 2004 Feb, China signed a technical evaluation agreement with the Gabonese oil ministry for 3 onshore fields.[85]

Similar or greater projects are taking place in Middle East and Latin America, one Sino-Iranian deal having an estimate value of US$ 70 billions.

http://en.wikipedia.org/wiki/Involvement_of_the_People's_Republic_of_China_in_Africa

Wall St. Journal March 28, 2012, 8:54 a.m. ET China's African Odyssey

Roughly one million Chinese nationals are working or doing business in Africa, from Egypt's Mediterranean shore to South Africa's Cape of Good Hope.

Theirs are the faces behind China's soaring direct investment in Africa—which, according to China's Ministry of Commerce—rose 87% to $1.1 billion during the first three quarters last year compared to the same period 2010. China's Ministry of Commerce said the value of all China-Africa trade between January and September last year topped $122 billion—a record amount that was equal to total two-way trade for all 2010.

Central to China's success and ambitions is South Africa, where mainland companies run textile mills and mining operations. Industrial & Commercial Bank of China Ltd. 1398.HK -0.22% owns 20% of South Africa's Standard Bank Group Ltd. Moreover, South Africa is often a starting point for Chinese businesses that plan to expand into less-developed countries to the north

Much of China's investment push into Africa through South Africa came during the tenure of Zhong Jianhua as the Beijing government's point man in Pretoria. Mr. Zhong, China's ambassador to South Africa from 2007 until earlier this year, now serves as his government's special envoy for African affairs.

In an interview with Han Wei and Shen Hu of Caixin, Mr. Zhong said Chinese investment in Africa has only begun. Given the continent's population of more than one billion, growing per capita income and natural resources, the market potential is huge. And China's goal to internationalize its currency, the yuan, may well hinge on Africa.

Mr. Zhong admitted, however, that Chinese trade and investment practices have generated controversy. African communities with Chinese investors, as well as the international community, have often found fault with how mainland companies treat their workers and the environment, and accuse them of bending the law.

Even stable Chinese companies with years of experience in Africa occasionally struggle with labor and social issues, given the wide gap between Chinese culture and the varied cultures of Africa's diverse population.

Speaking in Pretoria, Mr. Zhong described these challenges and how Chinese investors—especially state-owned companies—are addressing critics and moving ahead with business in Africa. The following transcript has been translated as well as edited for length and clarity.

Caixin: How is the African market unlike those in Southeast Asia and Latin America for Chinese companies?

Zhong Jianhua: Africa has a population of more than one billion and huge market potential. Africa's latent demand in terms of population size and room for expansion is much higher than in Southeast Asia or Latin America.

When you start from a lower starting point, there is more room to move up. In Latin America, per capita GDP has reached $6,000 to $7,000. It's even higher in Southeast Asia. This is a lot different than the room for growth in per capita GDP in Africa, which is between $300 and $3,000. This is the significance of Africa.

South Africa is to the rest of Africa as Hong Kong was to the rest of China before [the Chinese economy's] reform and opening up. South Africa has well-established commercial-market mechanisms, banking and legal systems. The political situation is relatively stable, and communications and transportation are relatively developed. Moreover, South Africa has many experts familiar with African affairs.

At the same time, South Africans have many investments in the rest of the continent. Moving into the African hinterland from here provides space for maneuvering. In the past, many Chinese companies went directly to other areas in Africa, such as Congo and Angola. The trend now is to first establish a headquarters in South Africa and then radiate outward. This reflects a transformation from short-term awareness to long-term strategy.

Caixin: In what areas do you think Chinese companies are lacking when they move into Africa? What do Chinese companies need to be aware of? **Zhong:** If the Western way of operating in Africa can be compared to a large formation of regular army soldiers, then Chinese companies are still at the guerrilla stage. Some large, state-owned enterprises are, too. For instance, a Western company might first invest $20 million and assemble a staff for a mine worth $1 billion. It would start with technical considerations, researching geology, technology, financing, legal protection and local sentiments, and have experts do feasibility studies. Then it would form a comprehensive plan for how to operate the mine, liaise with the local government, communicate with locals, and follow the law. It would even form a 30-year action plan. A Chinese company usually brings a bag of money to the table. It would send three people, maybe two of whom can't speak English. This makes all the difference. People first pay $20 million to do feasibility studies, and this money may never be returned. Chinese companies might think $300,000 for this is too much. Some Chinese entrepreneurs think bribing a South African government official is enough. The reason is connected to differences in corporate culture and the degree of openness to the outside world. Multinational corporations have been seizing global market share for many years and have rich experience. Chinese companies always take domestic business practices with them. Thus, the "going out" road for Chinese companies is very long. It requires a lot of learning, and failures are hard to avoid. This is also a process of improving culture [through] internationalization, industrialization and normalization. You can't overpoliticize this learning process. Companies are trying to survive, trying to make a profit. While they might have some government backing, it isn't necessarily a lot. Even if they have political backing, they can only use economic means to resolve [problems]. Companies need to be economic animals with a good sense of smell, with sound bodies and brains. I'm most concerned that our basic research in Africa is inadequate. Since reform and opening up, we've focused research on the most attractive places, or those that constitute major threats. Research on developed countries has been the main focus for a long time, while research on Africa has been on pause. Generally speaking, there isn't enough, and it's not deep enough. State investment is also limited.

Caixin: How are Chinese companies competing with European and American companies in Africa? **Zhong:** American and European companies cannot monopolize the African market. But this isn't the impression they gave in the past. Take platinum, for example. South Africa has 60% of the world's platinum reserves and 80% of its production capacity. But the platinum trading market is in London, and the market price is manipulated by London. Now China, a large user, has appeared. China's cooperation with Africa is all about ensuring that for the next however many years China will buy however many things. Whatever others don't buy, we buy. Because of this demand, investment risks are lower. The West can manipulate prices, but they can't block China's entry. The hope China brings is a lot of potential demand. Africa's own future needs are also enormous. This is all hard for the West to manipulate.

http://online.wsj.com/article/SB10001424052702303816504577307263401130628.html

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