OCCASIONAL PAPER NO 103

China in Africa Project

November 2011

Chinese Financial Institutions and Africa

Riaan Meyer, Abiodun Alao,
Chris Alden and Ana Cristina Alves

South African Institute of International Affairs

African perspectives. Global insights.

ABOUT SAIIA

The South African Institute of International Affairs (SAIIA) has a long and proud record as South Africa's premier research institute on international issues. It is an independent, non-government think-tank whose key strategic objectives are to make effective input into public policy, and to encourage wider and more informed debate on international affairs with particular emphasis on African issues and concerns. It is both a centre for research excellence and a home for stimulating public engagement. SAIIA's occasional papers present topical, incisive analyses, offering a variety of perspectives on key policy issues in Africa and beyond. Core public policy research themes covered by SAIIA include good governance and democracy; economic policymaking; international security and peace; and new global challenges such as food security, global governance reform and the environment. Please consult our website www.saiia.org.za for further information about SAIIA's work.

ABOUT THE CHINA IN AFRICA PROJECT

SAIIA's 'China in Africa' research project investigates the emerging relationship between China and Africa; analyses China's trade and foreign policy towards the continent; and studies the implications of this strategic co-operation in the political, military, economic and diplomatic fields.

The project seeks to develop an understanding of the motives, rationale and institutional structures guiding China's Africa policy, and to study China's growing power and influence so that they will help rather than hinder development in Africa. It further aims to assist African policymakers to recognise the opportunities presented by the Chinese commitment to the continent, and presents a platform for broad discussion about how to facilitate closer co-operation. The key objective is to produce policy-relevant research that will allow Africa to reap the benefits of interaction with China, so that a collective and integrated African response to future challenges can be devised that provides for constructive engagement with Chinese partners.

A 'China–Africa Toolkit' has been developed to serve African policymakers as an information database, a source of capacity building and a guide to policy formulation

SAIIA gratefully acknowledges the generous support of the main funders of the project: The United Kingdom Department for International Development and the Swedish International Development Cooperation Agency.

Project leader and series editor: Dr Chris Alden, email: J.C.Alden@lse.ac.uk

© SAIIA November 2011

All rights are reserved. No part of this publication may be reproduced or utilised in any form by any means, electronic or mechanical, including photocopying and recording, or by any information or storage and retrieval system, without permission in writing from the publisher. Opinions expressed are the responsibility of the individual authors and not of SAIIA.

Please note that all currencies are in US$ unless otherwise indicated.

ABSTRACT

This paper unpacks the interplay among gradualist institutional evolution within China's financial sector, the domestic economic drivers within China itself, Africa's own complex financial terrain and the far-reaching changes to the global economy as a basis for understanding the impact of Chinese finance on the continent. Case studies of South Africa, Nigeria and Mozambique highlight the distinctive response of Chinese banks to differing African financial environments and are strongly suggestive of future strategies employed by Chinese financial actors operating on the continent.

ABOUT THE AUTHORS

Riaan Meyer is an associate researcher for SAIIA. He has extensive experience of the financial industry in Asia and has conducted research on economic development models in Asia and on Chinese banks. Dr Abiodun Alao is a senior research fellow at the Conflict Security and Development Group, King's College, London. Dr Chris Alden is head of the China in Africa project at SAIIA and a reader in international relations at the London School of Economics. Ana Cristina Alves is a senior researcher for the China in Africa project at SAIIA.

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
AgBank	Agricultural Bank of China
BCM	Banco Comercial de Moçambique
BEE	black economic empowerment
BES	Banco Espírito Santo
BOC	Bank of China
BOFIA	Banks and Other Financial Institutions Act
BPD	Banco Popular de Desenvolvimento
CAD	China–Africa Development (Fund)
CBN	Central Bank of Nigeria
CCB	China Construction Bank
CDB	China Development Bank
China Exim Bank	Export–Import Bank of China
CITIC	China International Trust and Investment Corporation
EDW	expanded discount window
EIB	European Investment Bank
FDI	foreign direct investment
FOCAC	Forum on China–Africa Cooperation
FRELIMO	Liberation Front of Mozambique (Frente de Libertação de Moçambique)
GDP	gross domestic product
GPZ	Zambezi Valley Planning Office
ICBC	Industrial and Commercial Bank of China
IPO	initial public offering
JSE	Johannesburg Stock Exchange Limited
LC	letter of credit
LIBOR	London Interbank Offered Rate
MOU	memorandum of understanding
PBOC	People's Bank of China
SARB	South African Reserve Bank
SME	small and medium-sized enterprise
SOE	state-owned enterprise
WTO	World Trade Organization

INTRODUCTION

The role of Chinese finance in Africa has evolved rapidly over the last decade, moving from a peripheral actor to one of increasingly central importance to African development. Spurred on by the dramatic events of the global financial crisis of 2008, Chinese lending and investment has assumed a position of singular significance in financing key development projects on the continent. This new standing reflects as much the changing dynamics within China itself and the concomitant push to seek out new resources and markets as it does any sudden shift in global economic power and alignments. Indeed, this interplay among gradualist institutional evolution within China's financial sector, the domestic economic drivers within China itself, Africa's own complex financial terrain and the far-reaching changes to the global economy forms the basis for an understanding of the role and continuing impact of Chinese finance on Africa.

There has been much focus on the role of particular Chinese policy banks in supporting the expansion of Chinese state-owned enterprises (SOEs) into the African resource sector. However, there has been little analysis on how this deepening involvement is linked to and how it responds to the variety of local African financial regulatory environments it encounters. Since Africa remains a high-risk environment, convention would suggest that Chinese financial institutions would – like their Western counterparts – be risk-averse and follow a pattern of limited exposure and selective engagement. In fact, Chinese financial institutions have increased their focus across the continent, and Chinese banks have opened operations in markets with strong regulatory environments and governance, which have the most business potential for Chinese companies. This contrasting approach highlights the seemingly 'ecumenical' attitude adopted by Chinese financial institutions towards the diverse environments for business on the continent. Examining the Chinese experience in South Africa and Nigeria – both leading African markets that offer different regulatory environments and experiences – can provide insight into the drivers of decision-making strategy for Chinese banks operating in Africa as they and their client base evolve.

The paper considers the evolution of Chinese financial institutions in Africa into leading players by examining first the background to banking reform in China and how these measures have prepared them to expand into other foreign markets. It discusses the case study of South Africa, with its sophisticated regulatory environment, strong corporate governance culture and relatively mature domestic market. The paper contrasts this with the case of Nigeria, a regional leader with a growing market but one which until recently was considered deeply corrupt, and reviews a private Sino–Lusophone financial initiative in post-war Mozambique. The paper concludes with an analysis of the potential for Chinese banks to increase their involvement in Africa, the challenges that they face and the attendant policy implications.

SETTING THE STAGE: CHINA'S RENEWED ENGAGEMENT WITH AFRICA

It is common currency to discuss the rapid growth of China's presence in Africa, in particular the dramatic emergence of Beijing as a key trading partner and investor in less than a decade, and the rising tide of Chinese enterprises in key sectors across the

continent.[1] This change in fortunes is reflected in the two-way trade between China and Africa, which exceeded $106 billion in 2008, and China's position as the lead trading partner with South Africa, the continent's largest economy. The impetus for China's involvement in Africa has always been multifaceted. Beijing's promulgation of its 'going out' (*zou chu qu*) policy can be read as a response to the geometric rise in domestic demand for resources, a search for new markets by newly established Korean-like chaebols, and a pro-active measure made in tandem with its World Trade Organization (WTO) ascension. However, a crucial driver of this escalating economic trajectory is the role of Chinese finance. Through diversification of instruments and sources, Chinese finance is setting the pace for China's engagement in Africa and providing a window into its changing approach to global finance.

Conventionally, the role of Chinese finance in Africa is seen as a lump-sum concessional loan, negotiated in secret between Beijing and the host government, built around the twin pillars of substantive Chinese investment in infrastructure in exchange for access to African resources, wrapped in a commitment to non-interference and peopled by Chinese companies, unskilled labour and supplies. Decision-making around questions of risk management is said to be ameliorated through the strength of these privately negotiated deals. Indeed, such is the power of this image that African leaders themselves have been seduced by it. Nigeria's Obasanjo, Gabon's Bongo, and, most recently, Guinea's Camara all believed that this was the definitive Chinese approach and pursued arrangements with Beijing on this basis. In most cases, however, their particular efforts to secure such a deal have been unsuccessful.

Part of the reason for misreading the impetus behind Chinese finance is that Chinese financing on the continent has always been more diverse than was commonly assumed. In fact, the primary constraints on Chinese banks in the past have been financial restrictions placed by Beijing. These restrictions, when coupled with smaller reserves at the time and lack of experience, have limited their role in the domestic setting. Following a series of policy innovations – especially after the establishment of national policy banks in 1994 and the subsequent opening of commercial banking – the scope for involvement abroad widened considerably. The model for investment in Africa, where infrastructure is exchanged essentially for export of commodities, probably has some of its roots in China's own development experience. As Brautigam notes, in the 1970s China secured a $10 billion loan from Japan in terms of which Japan would transfer technology and invest in infrastructure in China in exchange for shipments of oil and coal. This agreement is remarkably similar to some of China's more prominent arrangements in Africa.[2] In the 1980s Japan undertook a considerable number of infrastructure projects in Africa that focused on loans to develop ports, hydrodams and railways. Since 2004 China has undertaken investment projects worth around $14 billion, which involve the exchange of commodities – ranging from oil in Angola to cocoa in Ghana – for infrastructure.[3]

Today Chinese financial institutions operating in Africa range from those with direct ties to the government (and its largesse), which are participants in leading bilateral 'deals', to an emergent group of private banks and investment houses, which, while retaining informal ties with Chinese officialdom, nonetheless seems intent on pursuing its own commercial agenda. Moreover, the general impulse within Chinese financial institutions towards increasing autonomy of management, based in part on growing international exposure and the rapidly changing domestic regulatory environment, is shaping practices.

Those with closest links to Beijing, such as the China Development Bank (CDB), are involved in conventional project finance as well as politically motivated projects, such as the China–Africa Development (CAD) Fund. The Export–Import Bank of China (China Exim Bank), although a policy bank and involved in large-scale infrastructure projects, has sought increasingly to emulate the practices and conventions found in other leading national export banks. Its partnership with the World Bank and the African Development Bank (AfDB) serves to reinforce these trends. The Industrial and Commercial Bank of China (ICBC), the world's largest by market capitalisation, has pursued a joint-venture strategy since 2007, purchasing 20% of South Africa's Standard Bank and benefiting from its established position across Africa. It has taken the lead in structured project finance deals like the Morupule power station expansion – one of 65 overall deals that will potentially involve both banks and pipeline deals the ICBC has been involved in across the continent to date. Through Standard Bank, the ICBC is poised to use its financial resources to expand into retail banking.[4] Private finance, like China Merchant Bank, is testing the waters in Africa. However, as with most private enterprises in China, links with government remain significant for business purposes of any scale. Stanley Ho's Macaunese banking interests are opening offices in Mozambique and Angola, while the murky China International Fund, with its reported links to the Chinese security services, is pursuing its own joint-venture strategy in Guinea and Zimbabwe.

Understanding the diversity of Chinese financial actors is important for African policymakers and corporations, and also sheds light on the changing nature of China's business engagement with Africa. With the continuing growth of Chinese government financing linked to an expanding array of projects that are awarded to a growing number of Chinese companies, the ever-increasing flow of these funds needs to be managed. Yet to date the presence of Chinese banks in emerging markets like Africa has been limited, with these institutions unable to handle basic activities, such as remittances and advances, in African countries. According to the vice-president of a major non-state bank, this has increased pressure on corporate customers of Chinese banks to have a more meaningful presence in Africa.[5] Such customers would far rather deal with Chinese banks; or at least with African banks that have partnered with Chinese banks. This suggests that Chinese finance institutions, led by the official policy banks, will follow Beijing's lead into the African resource and infrastructure market and will also follow Chinese business interests into countries that are broadening their conventional commercial and retail banking practices.

It is important to understand how Chinese finance institutions are realising their ambitious agenda of establishing themselves in Africa. The obstacles to establishing a banking presence in Africa are well known. Less familiar, however, is the extended period of reform that China's financial sector has undergone. This has affected its outlook, approach and performance in Africa. Further, the particular conditions found in some African country markets have influenced Chinese decision-making in the African financial sector.

THE REFORM OF THE CHINESE BANKING SYSTEM

Before the onset of economic reforms in the late 1970s, China's banking system was rudimentary and played only a limited role in promoting economic growth. This supported the main tenets of the centrally planned communist system, with banks playing a limited

role as revenues were collected from 53 SOEs and investment was allocated through budgetary grants. Under this system, banks simply provided credit needed by the SOEs for their production plans; and provided cash used principally to cover labour costs and purchases of input materials.

In 1979 the government initiated changes to the banking system by removing the monopolistic position of the People's Bank of China (PBOC) through the establishment of three specialised banks. It established the Agricultural Bank of China (AgBank) to take over the PBOC's rural banking business and supervisory authority of a network of 60 000 rural credit co-operatives, which had provided small-scale rural banking. The main remit of the Bank of China (BOC) was to manage the country's foreign exchange transactions, while the China Construction Bank (CCB) focused on providing credit to the construction sector. In 1984 the government established a fourth specialised bank, the ICBC. However, it only completed the two-tier banking system by removing commercial banking activities from the PBOC and transferring them to the ICBC in 1994. It also established other banks in the 1980s, such as the China Investment Bank, the joint-stock Bank of Communications, and the China International Trust and Investment Corporation (CITIC) Industrial Bank.

In 1986 the government formally ceded responsibility for monetary policy, banking supervision and containing inflation to the PBOC. The PBOC also had the mandate of setting credit ceilings for provincial branches of the PBOC. This was administered according to the provisions of a national credit plan, under which the respective branches of the PBOC were allowed to allocate credit. It allowed for a fair amount of autonomy and authority for the local branches of the PBOC. However, it later transpired that this autonomy was not always the optimum solution, as local governments could collude with local branches of the PBOC to allocate credit in unintended ways. In contrast to the prevailing trends in Western countries where central banks were independent, the PBOC was not an independent regulatory organisation because its decisions were subject to the State Council's approval.

It is also significant that some financial institutions functioned outside the realm of the PBOC. Urban credit co-operatives emerged as the main financial institutions serving newly emerging non-state corporations. In addition to the rural credit co-operatives, these co-operatives willingly extended credit to small and medium-sized enterprises (SMEs) and new firms, since it was understood that the government would be their guarantor of last resort.

To access overseas borrowing, CITIC was established as the first non-banking financial institution in the 1980s. Some provincial and city governments set up other trust and investment companies to allow them to raise funds from foreign sources through overseas bond issues. The rise of the trust and investment companies signalled a new period of credit extension, in which the specialised banks could no longer meet the demand for credit against the backdrop of rapid economic growth. Moreover, trust and investment companies could conduct business that the traditional banks were prohibited from conducting. Finally, decentralisation of financial activity was also underway in China, enabling local and provincial governments to secure direct financing for their projects. They were also able to secure better rates of return on investments than they would have with local bank deposits.

Financial reform in the 1990s was aimed at transforming the financial system to create a viable commercial banking sector and to assign the financial supervision authority to the PBOC. The aim was to transform the specialised state banks and urban credit co-operatives into commercial banks, and to establish three policy-lending banks and new commercial banks. The reforms further abolished credit plans, reduced government intervention in credit allocation, brought about a more focused scope of business, introduced interest rate deregulation, and tightened accounting and prudential norms. Essentially the government realised that the overheating economy in the early 1990s necessitated a restructuring of the PBOC to limit credit growth. The PBOC's lack of direct supervisory powers over credit allocation at local level and its inability to control non-bank financial institutions led to a shift of funds from the banking system to unregulated sectors, giving rise to bubbles in the real estate and stock market and causing a decline in bank deposits. This became a recurring theme in China, even in the new millennium, as economic growth continued unabated.

A primary aim of the new reform regime was to distinguish between policy lending and commercial lending. The PBOC had to function as an organisation that was able to control and promote liquidity at a system level. This was a tacit nod to the importance of independent policy setting by a central bank. It led to the implementation of the Commercial Bank Law of 1995, which determined the establishment of the three policy-lending banks and commercial banks. The policy-lending banks were governed by their adherence to individual charters, while the commercial banks were subject to the regulatory oversight of the PBOC. Further measures were introduced during this period. These included the liberalisation of credit to reduce local and provincial governments' distorting role in its allocation; the establishment of a host of provincial and private banks (such as Guangdong Development Bank and Minsheng Bank); the involvement in money-management services (including forex services) by the ICBC and BOC; and the creation of asset management companies to take on the non-performing loans that were extended to loss-making state-owned enterprises.

The Asian financial crisis of 1997–98 had an important impact on the evolution of Chinese banking, most notably with the introduction of capital liquidity requirements by the PBOC. It also led to the realisation that the classification of loans was an important step towards improved risk management, and in 1998 an internationally accepted five-tier classification of loans was introduced. Despite the change in regulations announced by the PBOC, banks were reluctant initially to adopt these prudential limits. This changed in 2001 when prudential regulations and accounting standards were tightened in response to increasing challenges from globalisation and China's accession to the WTO. The pattern of strict government oversight was repeated in the aftermath of the 2008 global financial crisis. In February 2010 Beijing officials declared that to restrict lending and cool the economy, larger financial institutions would be required to maintain reserve ratios of 16.5%, and smaller institutions up to 14.5%.[6]

At the beginning of the 21st century the PBOC introduced new regulations to promote business innovation, improve banking services and competitiveness, and reduce financial risks. The regulations defined intermediate businesses as those not constituting scheduled assets and liabilities, and not producing non-interest income for banks – including settlement, warranty, acceptance, and trading. Consequently, commercial banks were now allowed to engage in financial derivatives structuring and trading, agency security business,

investment banking and financial advisory services. Banks were quick to respond and, in September 2001, AgBank announced the opening of 100 'financial supermarkets' offering a full range of financial services in 100 cities. These included granting individual loans within 24 hours, providing safe deposit boxes and conducting foreign currency transactions.

Concurrently Chinese banks began a process of gradual internationalism through investments in foreign banks, for instance the CDB's equity stake with Barclays in late 2008. It has been argued that the main benefit for the Chinese banks from these arrangements has been the transfer of bank management skills from the foreign banks. Echoing this arrangement was China Exim Bank's memorandum of understanding (MOU) with the World Bank in 2007, enabling it to benchmark its processes against the leading international financier of development. Given their likely internationalisation over the next few years, the main focus for Chinese banks is increasingly on treasury management, Basel III[7] capital management, operating and payment systems management, and risk management. The ability to work in these areas is a prerequisite for full participation in international finance, and China's banks are working closely with foreign banks to develop their knowledge base.

The pace of reform increased after 2004, with the PBOC allowing borrowers to repay loans in foreign currency to designated banks. These were AgBank, the BOC, ICBC and the CCB. The loans were set at a limit of $1 million ($4 million in the case of the BOC) in foreign currency.[8] The state-owned commercial banks have expanded their capital base significantly, and all have been listed on the Shanghai and Hong Kong exchanges. The initial public offerings (IPOs) that took place included the CCB raising $8 billion in October 2005; the BOC raising $9.7 billion in May 2006; the ICBC raising $22 billion in May 2006, the world's largest initial public offering at the time; and AgBank raising over $19 billion in June 2010 in Hong Kong alone. The combined assets of the ICBC, CCB, BOC, Bank of Communications and AgBank totalled RMB[9] 43 trillion ($6.8 trillion) at the end of March 2010. This accounts for half of the domestic banking sector and is roughly the size of China's gross domestic product (GDP) in 2010.[10]

Table 1: Performance highlights of Chinese banks (RMB billion), 2008 and 2009

	Assets		Loans		Deposits		Profit after tax	
	2008	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**	**2009**
Big four commercial banks	31,815	40,089	14,762	19,597	25,870	31,955	354	400
Other banking institutions	29,372	37,129	17,251	22,963	21,974	29,245	201	238

Source: KPMG, *Mainland China Banking Survey*. Publication number: HK-FS10-0021, 2010

Assets at Chinese banks are significant indeed and growing apace. According to *The Banker's* annual rankings, the ICBC is the world's most profitable bank, with pre-tax

earnings of RMB 167 billion ($26.2 billion) in 2009. CCB is in second position, with pre-tax earnings of RMB 138 billion ($21.7 billion).[11] With so many pressing development needs and potential economic opportunities facing China, it was only a matter of time before such latent financial power would be more fully mobilised.

Table 2: Key profitability measures for China's main banks (RMB million), 2008 and 2009

	Net interest income		Non-interest income		Charges for bad and doubtful loans		Profit before tax	
	2008	2009	2008	2009	2008	2009	2008	2009
Industrial and Commercial Banks of China	263,037	245,821	46,293	63,252	36,512	21,682	145,301	167,248
China Construction Bank	224,920	211,885	42,271	55,049	36,246	24,256	119,741	138,725
Agricultural Bank of China	193,845	181,639	17,344	40,635	39,858	44,289	52,349	73,928
Bank of China	162,936	158,881	51,572	59,385	16,792	15,445	86,251	111,097
China Development Bank	82,901	74,421	–706	4,870	23,376	20,189	27,938	42,192

Source: KPMG, *Mainland China Banking Survey*. Publication number: HK-FS10-0021, 2010

CHINESE BANKS GO ABROAD

There are a number of different actors on the Chinese financial institutions stage that fulfil different roles, which will influence their activities in expanding into new markets such as Africa. The main distinction among the institutions is the policy banks versus the commercial banks. The policy banks are those that seek to operate within government-approved parameters. They include China Exim Bank, the CDB and other government concessional institutions. Commercial banks are private financial entities licensed by the government but, beyond the operational requirements imposed, are not formally under the control of the government.

China Exim Bank is one of three institutional banks in China chartered to implement the state policies in industry, foreign trade, diplomacy, economy and finance to provide policy financial support for promoting the export of Chinese products and services. It was founded in 1994 and is subordinate to the State Council. China Exim Bank's total assets exceeded RMB 1 trillion ($153.85 billion) at the end of 2010, and its earnings have

Table 3: Size and capital strength measurements for China's main banks (RMB million), 2008 and 2009

	Total assets		Total advances to customers		Total deposits from customers		Captial adequacy ratio (%)	
	2008	2009	2008	2009	2008	2009	2008	2009
Industrical and Commerical Banks of China	9,757,654	11,785,053	4,571,994	5,728,626	8,223,446	9,771,277	13.06	12.36
China Construction Bank	7,555,452	9,623,355	3,793,943	4,819,773	6,375,915	8,001,323	12.16	11.70
Agricultural Bank of China	7,014,351	8,882,588	3,100,159	4,138,187	6,097,428	7,497,618	9.41	10.07
Bank of China	6,955,694	8,751,943	3,296,146	4,910,358	5,173,352	6,685,049	13.43	11.14
China Develop-ment Bank	3,821,218	4,541,058	2,898,555	3,708,410	245,012	387,083	11.31	11.83

Source: KPMG, *Mainland China Banking Survey*. Publication number: HK-FS10-0021, 2010

increased consistently since it turned a profit in 2008. At the end of 2010 the bank had 18 domestic branches and three overseas representative offices. It has signed loans exceeding $190 billion in over one hundred countries and regions.[12] The scope of China Exim Bank includes export credit and import credit; loans to overseas construction contracts and overseas investment projects; Chinese government concessional loans; international guarantees; on-lending loans from foreign governments and international financial institutions; international and domestic settlements and corporate deposits under the loan facilities provided by the bank; raising funds in domestic and international capital markets and money markets and international inter-bank loans; and organising or participating in international and domestic syndication loans.

China Exim Bank offers both 'soft loans' and 'commercial loans'. Generally soft loans are extended against sovereign guarantees issued by the project employers (when financing a particular project) and the ministry of finance. The soft loan interest rate can be as low as 2–3% with maturity terms of up to 20 years. The loans can be extended for five years and in certain cases come attached with a two-to-five-year grace period. China Exim Bank offers commercial loans against sovereign guarantees or commercial guarantees. Internationally reputable banks generally issue commercial guarantees, but these are assessed on a case-by-case basis by the participating Chinese commercial banks financing for the projects. Interest rates are usually based on London Interbank Offered Rate (LIBOR)[13] plus a spread, which is negotiable. Terms can be between 12 and 15 years

with a grace period of two to five years.[14] For both soft loan and commercial loan projects, foreign parties in a project should contribute at least 15% of their own funding to the projects, and the maximum loan value is 85% of the contract value.

Sinosure is China's official credit insurance agency and was established in late 2001, shortly after the country's accession to the WTO. It was formed as a result of the merger between the export credit insurance arm of China Exim Bank and the People's Insurance Company of China. Offering export credit and credit insurance, Sinosure aligns China with many other countries that have the same institutions to boost exports and foreign direct investment (FDI). Sinosure can insure China's overseas investments and overseas investments in China, and can guarantee both shares and loans. It provides services to Chinese companies and to foreign-invested companies in China. These services comprise short-term export credit insurance; medium-term and long-term export credit insurance; investment insurance; bond and guarantee business; debt and capital retrieval business; and credit assessment business. The investment guarantees protect against expropriation, war, restrictions on foreign exchange and breaches of contract.[15]

Sinosure has also proven to be rather innovative in its co-operation with the private sector. For instance, JP Morgan has signed an agreement with Sinosure under an export credit insurance letter of credit (LC) policy agreement. This enables JP Morgan to provide a wide range of trade finance solutions to Chinese exporters of goods and services. This should improve the exporters' efficiency and reduce risk, and enable them to enter new markets they previously could not consider owing to a lack of insurance cover.[16]

Founded in March 1994, the CDB is under the direct jurisdiction of the State Council. It is one of China's largest issuers of bonds and debts issued by the CDB are guaranteed fully by the central government. From an African perspective, the most interesting component of the CDB is its relationship with the CAD Fund. Established in 2007 to correspond with its hosting of the annual AfDB meeting in Shanghai, the CAD Fund is the first Chinese equity investment fund focusing on investments in Africa.

China's membership of the WTO in 2001 encouraged it to look beyond its domestic borders and remove functional restrictions on the geographical area of the banks' commercial activities formerly in place. Expanding its financial horizons also highlighted barriers to entry into foreign markets. Some of these, such as bureaucratic licensing requirements, are obstacles that all foreign banks face. However, with its dearth of experience in international finance, Chinese expansion posed a distinctive challenge. Foreign banks, especially ones as inexperienced abroad as the Chinese ones, need to find ways of incorporating locally, as Chinese domestic subsidiaries, to maximise their access to markets. Having the mandate and resources to expand abroad as well as the corporate clients forced Chinese financial officials to consider a new strategy of collaborating with other foreign banks. It was in Africa that this policy was pursued with special vigour.

The influence of domestic factors should always be borne in mind when considering China's decision to expand operations abroad. Van Wyk has characterised China's 'going out' policy as initially motivated as much by market-seeking rationale driven by 'severe competition and overcapacity in their domestic market' as by the more publicised resource-seeking strategies. The changing international political economy and China's place within it has sharpened and deepened the drivers and forms of Chinese investment abroad.[17] Bolstered by their enhanced financial reserves, Chinese firms have sought to acquire resources and markets, new technologies, and to gain access to local networks

through the acquisition of strategic assets abroad. Chinese financial institutions have played a critical role in achieving these aims.

Chinese financial institutions enter the African market

Traditionally China Exim Bank has been the leading Chinese financial institution in Africa, focusing on providing export finance, credit lines and participating in project finance. Indeed, it provided the bulk of the high-profile lending seen in Africa in the earliest phase of China's renewed engagement with the continent. With a larger portfolio than its equivalent financing institutions in the US, Japan and Britain, China Exim Bank has lent $15 billion in 2005 alone, thirty times more than its nearest rivals. It has, for instance, provided loans to support infrastructure projects in Angola, Nigeria, Tanzania, Algeria, Mauritania and a number of other African countries. Under the stewardship of Liu Ruogu, China Exim Bank has linked up with leading financial institutions in Africa. These include the World Bank, the AfDB and South Africa's Industrial Development Corporation. China Exim Bank has made a concerted effort to participate in contemporary 'best practices' among financial institutions, such as becoming a signatory to the Equator Principles,[18] earning the support of international non-governmental organisations.[19]

The CDB, by contrast, was originally charged with only lending to the Chinese domestic market, admittedly an enormous challenge in itself. However, the CDB has also provided finance for corporations and has made overseas investments, including buying a stake in Barclays and lately in Polish telecoms. It has been involved in key deals in Africa, its co-operation with Nigerian United Bank for Africa being a key conduit for financing. The CDB, China's largest policy lender, secured formal approval from the State Council to establish a new firm,[20] called the China Development Bank Corporation. The expectation is that although it will venture into retail and commercial banking activities, the China Development Bank Corporation will remain focused on national development projects and some degree of overseas expansion.[21] The continued policy role of the CDB illustrates how the Chinese state retains influence over key financing activities despite the decentralisation, modernisation and privatisation of much of the economic system since 1978.

The CDB plays an important role in concert with the China Exim Bank through investment in the $5 billion CAD Fund. According to the original plan, the fund started with $1 billion in 2008 and should receive an additional $3 billion in the second phase which will end in 2011, and eventually reach $5 billion.[22] The CAD Fund will support African agriculture, manufacturing, energy, transportation, telecommunications, urban infrastructure, resource exploration and the development of Chinese enterprises in Africa.[23] The fund signed its first deals with four Chinese companies in Beijing in January 2008 to invest in various infrastructure and housing projects in Africa. The companies were CGC Overseas Construction Co, Sinosteel Corp, Shenzhen Energy Investment Co and China National Building Material Co Ltd.[24] This has been followed up by support for a large-scale investment project by Chery Automobile Co Ltd, the biggest private automaker in China. In August 2011 the company signed a strategic co-operation agreement with the CAD Fund to set up a joint venture to develop the African market. In terms of the agreement, the joint venture, to be called Chery Overseas Industrial Investment Co Ltd, will have a registered capital of RMB 1.27 billion ($200 million).[25] It will enable Chery to

invest in the main African markets; establish plants and automobile financial companies; offer automobile financial and consultation services to the African automobile market; and to provide subordinate project companies with financing and financial consultation services.[26] According to CDB officials, the CAD Fund has experienced considerable difficulties in getting projects of sufficient value – most of those proposed by Chinese firms to date have been under $200,000 – to qualify for support.[27] This problem was especially acute in the build-up to the fourth Forum on China–Africa Cooperation (FOCAC) Ministerial Meeting held in Egypt in 2009, when the lack of expenditure by the CAD Fund threatened to cause political embarrassment for Beijing.

A major step forward in the involvement of the CDB and the CAD Fund in South Africa has been the investment of Jinchuan Group Ltd, a producer of industrial and precious metals, in South Africa's platinum industry. South Africa's Wesizwe Platinum Ltd and Jinchuan Group concluded an agreement to finance the Frischgewaagd-Ledig mine. Wesizwe expects to commence production at its new plant by 2017, and to achieve full output within three years. Wesizwe has issued new shares and has applied to the Johannesburg Stock Exchange (JSE) Limited to list 829 884 460 Wesizwe ordinary shares. Under the terms of the transaction, Wesizwe will receive an equity injection of $227 million from Jinchuan Group and the CAD Fund, constituting 45% of Wesizwe's fully diluted issued share capital. Jinchuan Group and the CAD Fund will offer a project-finance loan facility of $650 million for the completion of the Frischgewaagd-Ledig platinum mine, located near Rustenburg in the North West Province.[28] A further participant in the deal is an entity called Micawber, which is a special-purpose vehicle owned by an empowerment trust[29] that was formed to boost black participation in Wesizwe. As part of the deal, the Chinese consortium will have a 45% stake in Wesizwe and Micawber 6%.[30]

Interestingly the Chinese media referred to the CAD Fund as a private equity fund, which provides social development rather than the same rates of return as Western private equity funds. This suggests that the Chinese government does not see a dichotomy between social development and investment returns. This is perhaps borne out by the Chinese economic development model, which has seen state-owned enterprises being responsible for considerable investment not only in productive assets but also in social development.

A number of projects undertaken by Chinese firms in Africa have involved employing Chinese workers and managers. This may also have a significant impact on the risk assessment by a Chinese financial institution of a project. If Chinese companies employ a majority of Chinese workers and Chinese suppliers on projects, the cost base can remain low, time overruns are unlikely and hence the hurdle rate (the minimum projected return on an investment that has to be matched before the deal is approved) could well be below what any Western financial institution could imagine. If this is indeed the case, then considerably more investment and commercial banking participation in such projects seems not far off. Controlling the inputs to the project, or a large part thereof, and ensuring the timeliness of delivery, transfers some of the risk from the Chinese bank to the Chinese companies that win such projects.

There are nevertheless limits to providing finance to projects that involve mostly Chinese contractors. Further developing financial assistance to Africa will involve Chinese banks being able to access the local market to provide finance on a more commercial footing, rather than relying on government guarantees. The terms of loans extended to

African governments thus far by the government-backed financial institutions have been very competitive. China Exim Bank has been able to offer the Angolan government loans with interest rates of around LIBOR plus 125 to 175 basis points.[31] This loan spread, given the country risk profile of Angola, cannot be matched by private Western financial institutions. Further, the Chinese export credit agency, Sinosure, has provided export credit for a considerable amount of trade between China and Africa.

The main problem the current Chinese approach to financing projects and development in Africa faces is the link between financial sector development and sustained economic growth, which has been well documented. An IMF report[32] assessed the main determinants for both bank sector development and stock market development in an African context. It found that political risk, creditors rights protection and trade openness are associated positively with banking sector development; whereas reserve requirements and inflation are associated negatively. These findings indicate that interest rate controls and mandated credit allocations have an inhibiting influence on the development of the bank sector. Unsurprisingly, the report concluded that legal system stability and predictability positively influence banking sector development; while trade openness in concert with liberalisation of the capital account tends to stimulate banking sector development. There is also a positive correlation between banking sector development and stock market development. A 1% increase in bank credit (as a percentage of GDP) increases stock market development by 0.5%.[33] Therefore the development of the banking sector stimulates capital market development. For the most part, factors that influence banking sector development in Africa are also responsible for the development of capital markets on the continent.

Chinese investment in Africa will thus have to extend beyond the realm of Chinese official lending to governments at preferential rates. It will require a greater degree of regulatory strength, continued market liberalisation and a higher degree of stability (some of which could be interpreted as a partial endorsement of better African governance). Moreover, the rising debt burden among African governments on the back of some prodigious Chinese lending calls for improvement in African capacities to pay back the debt – beyond the commitments to provide in kind resources. The lack of familiarity within Chinese circles about the local markets and banking practices in individual countries also increases uncertainty and risk for Chinese interests.[34]

As the Chinese financial sector develops its international scope, it can be assumed that decisions to invest in financial institutions in Africa will be driven by the factors determining financial sector development. These factors, in concert with the geographical focus of Chinese businesses, will determine the concentration of Chinese banking activity in Africa. This holds significant implications, as the political footprint of Chinese investment may not reflect the interests of commercial banks. It is hard to imagine that Chinese commercial banks will venture into extending credit to Sudanese companies rather than to a market such as Ghana, which has a far more stable legal and regulatory banking system and considerably lower political risk. Commercial banks operating in higher-risk markets are much more likely to demand a guarantee of sorts from an institution supported by the Chinese state, such as China Exim Bank or the CDB. It will take some time before Chinese banks feel sufficiently comfortable with the legal and regulatory landscape in Africa to follow an investment strategy independent of Chinese government influence and without involving African partners. For the considerable future

then, co-operative ventures, participations in syndications and joint ventures will mark Chinese activity in the African market.

What follows is an examination of three case studies from the continent – South Africa, Nigeria and Mozambique – which illustrate the process by which Chinese financial institutions have sought to address the challenges of local financial structures based on this strategy of selective, sectoral and co-operative engagement with African partner banks.

CASE STUDY: SOUTH AFRICA'S BANKING INDUSTRY AND CHINESE INTERESTS

Relations between China and South Africa have been complex, influenced by the apartheid era of struggle and contending support for liberation movements as well as by close ties between the (then) ruling National Party and Taiwan.[35] After official diplomatic recognition was accorded to Beijing in 1998, the relationship moved onto a sounder diplomatic footing and, gradually, a deeper economic grounding. Trade between the countries has expanded rapidly and South African exports to China have increased almost exponentially over the last couple of years, from ZAR[36] 6.6 billion in 2006 to ZAR 35.8 billion in 2008, and reaching ZAR 58 billion in 2010. Imports from China have reached staggering proportions, increasing from ZAR 23 billion in 2004 to ZAR 84 billion in 2010.[37] The result is that China has become South Africa's largest trading partner.

There has been, in recent years, a new Chinese impetus for deal-making in South Africa emerging alongside these rapidly expanding trade relations. Although most of the deals so far have been in the private equity space, Chinese business leaders seem to be considering a variety of industries, searching for partners or investments. South Africa is seen as an attractive, small, open economy that is easy to penetrate for private Chinese investors. However, the rules of negotiation and their offerings in South Africa will have to be different from those in the rest of Africa.[38]

The South African banking landscape

Compared with the rest of Africa and banks in emerging markets generally, South Africa's banks are highly sophisticated. The sector has had a long history of development, mostly influenced and shaped by South Africa's history as a British colony. South African banks are well managed and utilise sophisticated risk-management systems and corporate-governance structures. South Africa's political transformation, together with the relaxation of exchange controls and the liberalisation of African economies, has resulted in it becoming an increasingly important financial centre. Like China, South Africa's banking landscape is dominated by four main banks, despite there being 22 registered banks in the country. This has led to conclusions among some observers that the banking sector is highly concentrated. Traditionally it is believed that a high level of concentration shows that the banking sector is suffering from a low level of competition; a problem identified as the 'structure-conduct performance paradigm'.[39] Studies on the structure of the banking industry in South Africa and its level of competitiveness have concluded that although there is no central formation in the country, costs to switch from one bank to another are high, leading to 'supra-competitive pricing to be maintained'.[40]

Table 4: Licensed financial institutions in South Africa, 2008 and 2009

	June 2008		June 2009	
	Number of institutions	Total assets (ZAR billions)	Number of institutions	Total assets (ZAR billions)
Locally controlled banks	13	2,035	13	2,128
Foreign controlled banks	6	683	6	706
Mutual banks	2	1	2	1
South African branches of foreign banks	14	227	14	185
Totalled registered banks	35	2,946	35	3,020

Source: SARB (South African Reserve Bank), *Annual Report 2008/9*

According to SARB's Banking Supervisory Committee, of the nominal value of the total South African banking sector's shares in issue at the end of December 2009, foreign shareholders held 47.5%, domestic shareholders 30.4% and minority shareholders 22.1%. Total assets of the big four banks amounted to 84.6% of total banking sector assets. The impact of the financial crisis, however, has been evident in the activities of the banks. Gross loans and advances declined by 2.6%, from ZAR 2.316 billion at the end of December 2008 to ZAR 2.257 billion at the end of December 2009.

Of note is the capital adequacy ratios of South African banks, which have remained high and have been historically higher than those of developed country peers. The total capital adequacy ratio of the banking sector improved during 2009, increasing from 13% at the end of December 2008 to 14.1% at the end of 2009. The Tier 1 capital adequacy ratio[41] improved from 10.2% at the end of December 2008 to 11.0% at the end of December 2009. This increase in capital adequacy ratio is linked closely to the increase in banking sector equity, which rose by 9.5% during the 12 months to December 2009 and amounted to ZAR 198.2 billion at the end of December 2009.[42] Impaired advances (mostly comprised of non-performing loans) to gross loans and advances deteriorated to 5.9% at the end of December 2009, compared with 3.9% at the end of December 2008.

In determining the level of competition in the banking industry, a study by Greenberg and Simbanegavi indicates that in terms of interest income, the top four South African banks function under conditions of near perfect competitive conditions, whereas smaller banks within the system face less competition. One explanation offered for this is that the smaller banks operate in specific geographic areas or niche markets, where they may have a competitive advantage and are therefore able to charge higher rates.

Table 5: Deposits and loans as a percentage of South African GDP, 2003–07

	2003	2004	2005	2006	2007
Total deposits	72	74	80	88	93
Loans to public sector	6	5	5	4	3
Loans to private sector	58	61	67	76	81

Source: Greenberg JB & W Simbanegavi, 'Testing for competition in the South African banking sector', Faculty of Commerce, University of Cape Town, 2009, http://www.commerce.uct.ac.za/economics/seminars/2009/20091106%20Simbanegavi%20Measuring%20competition%20in%20Banking%20sector.pdf

Table 6: Deposits market share of South African banks, December 2007

	Total deposits (ZAR million)	Market share (%)
Standard Bank	705,843	36
FirstRand	416,507	21
Absa	363,545	19
Nedbank	384,541	19
Others	96,242	5

Source: Greenberg JB & W Simbanegavi, *op. cit.*

Table 7: Size and market share of the main four South African banks, June 2010

	Total assets (ZAR billion)	Market share (%)
Standard Bank	781	25.5
Absa	663	21.6
FirstRand	578	18.8
Nedbank	546	17.8

Source: South African Banking Sector Overview, Banking Association of South Africa, September 2010, http://www.banking.org.za/resource_centre/banking_association/publications/publications.aspx

Despite the domination of the four banks and their dominance in both assets and deposits, South Africa still has a large percentage of its population that remains unbanked. This pertains both to individual classes and to SME borrowers. Rapid change, however, is afoot in these areas as more focus is placed on developing the infrastructure that can serve SMEs

and individuals. This is important for banks to grow their customer base. It is also of significant consequence for economic development plans, as SME development serves an important role in diminishing unemployment and advancing the cause of the government's black economic empowerment (BEE) policies. South African banks concluded with the government in 2003 the Financial Services Charter, which stipulated the need for the banks to expand banking services to the population as a whole and to the previously disadvantaged segment of the population in particular. SARB reports in its 2008/9 annual report that:[43]

> the banking sector exceeded its Financial Services Charter requirements in terms of the objectives set out in 2003. Noticeable progress made included the addition of banking access points, such as the opening of new branches and the roll-out of automated teller machines.

The expansion of South Africa's banking sector can be traced along several lines; both in terms of segment and in terms of geography. The segment approach can distinguish between corporate and investment banking segments and the retail banking segment. Given South Africa's standing in the world as the fifth most competitive in banking and the well-banked nature of its corporate sector, the growth opportunities in corporate and investment banking may be more muted unless they are tied to overseas expansion of South African corporations or to inward FDI. The retail banking segment seems to present more attractive growth opportunities, given that a relatively large part of the South African population still have no or limited access to banking services. The same applies for SMEs, which have to contend with stringent credit policies.

The number of medium-to-small local banks increased steadily during the 1990s. However, in the latter part of 1999, liquidity pressures led to many of these banks exiting from the banking system. This downward trend reached its lowest point with the placement of Saambou Bank into curatorship in February 2002 and the subsequent integration of BOE Bank into Nedbank. From the last quarter of 1999 to the end of March 2003, some 22 banks exited the South African banking system. It can be said, however, that this phenomenon was due more to a consolidation of the broader banking sector than to a failure of the medium-to-small banking sector. Following South Africa's re-entry into international financial markets in 1994, locally registered banks increasingly expanded their operations into other countries. At the same time, international banks like the Barclays Group expanded their operations into South Africa. Besides adding further depth and sophistication to the South African market, these foreign banks began to tap into the South African labour market. Consequently, the arrival of these predominantly resourceful and experienced banks posed formidable challenges to local banks. In a quest to survive and excel, South African banks had to devise means to adapt to the new terrain.[44]

South Africa's banking industry, although sophisticated, has been dominated by the 'big four' banking groups in the last decade: Standard Bank Group, Absa, Nedbank and FirstRand. When considering the revenue sources of the main four banks, the picture is one of considerable difference. Three of the banks, Nedbank, FirstRand and Standard Bank, retained significant earnings from investment banking activities, while Absa had a much smaller contribution from its investment banking division. The geographic revenue distribution is also of great relevance. This is because although South Africa continues to offer significant opportunities for further expansion in the traditionally non-banked sector

and investment banking opportunities such as new listings and BEE deals, the reality is that South Africa is a rapidly maturing market and very competitive in banking.

In this regard, the salvation of the South African banks is to expand north of the border into the rest of Africa, driven not only by the rapidly growing economies of Africa but also by the expansion of their own South African-based corporate clients, including MTN, Murray and Roberts and Shoprite–Checkers. The bank that derives a large and increasing part of its revenues from its African and other emerging markets operations is Standard Bank. This has accelerated given the investment of the ICBC, which shares Standard Bank's strategic vision of becoming a major banking operation in Africa. This is evident from both the retail and corporate and investment banking revenues that Standard Bank derives from Africa, which amounted to over ZAR 1 billion in 2008. Nedbank and FirstRand followed with operating income for Nedbank of ZAR 366 million in 2010 and normalised earnings for FirstRand of ZAR 524 million in 2010.[45]

The outlier and surprise is Absa, which reported no income from Africa in its retail and corporate banking division. It has operations in Tanzania, Mozambique and is in the process of acquiring an operation in Namibia, but none has contributed revenue to the group as of 2009. However, with reference to the Absa Group financial report for 2010, it appears that the only division with meaningful Africa income is Absa Capital.[46] Retail Banking and Corporate and Business Banking reported no significant income from Africa, whereas Absa Capital reported income from Africa of ZAR 342 million in 2010, which is 4% higher than the previous year.

Since Absa Capital's business is investment banking, the revenues from Africa are most likely derived from fee income related to advisory services of trading activities. Credit exposure, which will mostly come from lending activities in retail banking and corporate and investment banking, is therefore very low. The explanation for this is perhaps the controlling share by Barclays Group, which has its own operations in Africa where it has, until now, not allowed Absa to operate. Moreover, the risk appetite appears far more conservative than at Standard Bank. Barclays has a controlling share in Absa and hence it is probably unfair to depict Absa as a South African bank, given that its credit decisions and strategic direction are determined in London and are driven primarily by the strategic vision of the Barclays Group.

The contrast between the expansion of operations and deals undertaken by Standard Bank and the inactivity from Absa in Africa probably reflects the different visions of the investors in both banks. It is likely that the ICBC views Standard Bank as a pre-eminent South African bank that can grow to become a leading pan-African bank with an investment and retail banking presence in the major economies on the continent, and that it is willing to participate in the expansion through capital infusions and loan syndications. Absa appears to have shied away from the continent altogether, as risk is perhaps unpalatable for its developed market-focused parent. Of course, Standard Bank has focused for quite some time on expanding its African presence. It also had plans to become a force in other emerging markets, acquiring assets in South America and Russia. Although that strategy may have been partly reversed through the spinning off of its Russian assets, Standard Bank remains focused on retail, commercial and investment banking in Africa.

Absa may yet become a force to be reckoned with in Africa should it carry through with its plans to consolidate the Barclays operations in Africa under an Africa division

Table 8: Summary of comparative positions of major South African banks, 2009–10

	Standard Bank		FirstRand	
	2010	2009	2010	2009
Number of branches	705	664	657	687
Number of employees	30 396	29 494	42 548	42 783
Headline earnings (ZAR millions)	8,034	8,441	8,535	6,056
Personal and business banking reveue (ZAR millions)	4,271	3,273	5,780	4,594
Corporate and investment banking (ZAR millions)	4,286	4,690	3,261	1,536
Cost-to-income ratio (%)	55.2	46.9	57.1	58.1
Net interest income (ZAR million)	20,212	21,500	9,512	10,359
Non-interest income (ZAR million)	18,457	17,627	14,518	13,664
Profit before tax (ZAR million)	10,167	10,324	5,833	5,060
Credit loss ratio (%)	1.18	1.87	1.3	1.81
Tier 1 capital adequacy ratio (%)	11.5	10.6	11.9	11

	Absa		Nedbank	
	2010	2009	2010	2009
Number of branches	1 007	1 062	–	–
Number of employees	36 770	36 150	26 035	26 007
Headline earnings (ZAR millions)	8,041	6,840	3,838	3,823
Personal and business banking reveue (ZAR millions)	7,492	6,255	–	–
Corporate and investment banking (ZAR millions)	1,527	1,272	–	–
Cost-to-income ratio (%)	56.2	49.6	56.6	56.3
Net interest income (ZAR million)	23,340	21,854	15,865	15,537
Non-interest income (ZAR million)	19,474	20,232	10,741	10,338
Profit before tax (ZAR million)	11,851	9,842	4,773	4,989
Credit loss ratio (%)	1.49	2.3	1.38	1.53
Tier 1 capital adequacy ratio (%)	12.8	12.7	11.1	11.7

Source: Absa, *Absa Group Limited Annual Report 2010*, Johannesburg, 2011, http://www.absa.co.za/deployedfiles/Absacoza/PDFs/About%20Absa/Annual%20Reports/Group%20Reports/2010/2010%20Full%20Annual%20Report.pdf; FirstRand, *FirstRand 2010 Annual Report*, Johannesburg, September 2010, http://www.firstrand.co.za/content/2010Limited~1.pdf; Standard Bank, *Standard Bank of South Africa Annual Report 2010*, Johannesburg, 2011, http://www.standardbank.co.za/site/investor/fina_repo_index01.html; Nedbank, *Nedbank Limited Annual Report 2010*, Johannesburg, 2011, http://www.nedbankgroup.co.za/pdfs/groupCompanies/nedbank_ar2010.pdf

headquartered in Johannesburg – a plan known as the 'one bank in Africa' plan.[47] This will mean that Absa, rather than Barclays headquarters, will drive the Africa expansion strategy.

Access to investment opportunities on the African continent was increased, firstly, when the JSE together with the FTSE Group introduced the FTSE/JSE All-Africa 40, and the FTSE/JSE All-Africa ex South Africa 30 indices in 2008; and, secondly, when the JSE launched the Africa Board in February 2009, offering listings to companies domiciled or with the largest part of their activities in Africa.[48] The impact of the financial crisis has also been evident in the retail banking market, with consumers having to pare down on loans, either for mortgages or personal and vehicle loans. The significant downturn is evident from the figures kept by SARB.[49]

Chinese banking interests in South Africa

The investment world was surprised in October 2007 when it was announced that the ICBC would take a 20% equity stake in South Africa's Standard Bank for $5.5 billion. This was a significant outlay, even for the ICBC, as the finance allocated to the deal equates to 8% of its capital. The reasoning seems sound from a strategic point of view. Ostensibly Standard Bank will help the ICBC to serve its corporate customers in Africa, while Standard Bank will gain a foothold in China. Moreover, given its global expansion plans, Standard Bank will use the capital for expansion into the rest of Africa and the developing world. Of the ICBC investment, $450 million of capital is earmarked to support organic African growth. Key to this is Standard Bank's plans to substantially increase its Nigerian retail network of around 56 branches and to add 200 ATMs.[50] According its deputy CEO, Ben Kruger, Standard Bank has a $1.35 billion war chest for international acquisitions that will initially target commercial and retail banks in Nigeria. Kruger also states that the bank, which operates as Stanbic IBTC in Nigeria, with the successful roll-out of its core business platform, is better positioned to drive its growth in the country. Standard Bank aims to have 180 branches across the country by the end of 2011, reaching 200 by 2012.[51]

Standard Bank is an appealing partner for the ICBC because it has operations in 18 African countries, a market capitalisation of ZAR 146 billion in South Africa, and highly advanced operating systems, management information and credit risk policies in place. The ICBC is the foremost bank for Chinese SOEs and has a strong national presence. It has also set up a strategy department (initially with 20 staff) to map the bank's expansion policy and to oversee mergers and acquisitions.[52] Of the total investment, Standard Bank has indicated the usage as follows: $450 million will be utilised in Africa, $400 million is earmarked for growth in South Africa, $300 million will be set aside for international activities, and $200 million will be contributed towards the global resources fund to be established by Standard Bank and the ICBC. A further $200 million will be set aside for private equity investments. The largest portion, $900 million, has been earmarked as strategic capital reserves.[53] It is apparent from this that Standard Bank will target growth outside its home market and will be well placed to target Chinese corporate customers operating in Africa. This presents it with a significant opportunity to consolidate its operations in Africa and to take a large share of business from Chinese clients, who will be increasingly important in this area. Standard Bank operates out of the most advanced banking markets in Africa, with a well-developed commercial legal

system. It can determine strategic direction for Africa from its Johannesburg base, deploy resources effectively and continue to build on its integrated African operations on common platforms. Standard Bank thus has a significant advantage over many other competitors. Hence, this seems to be the benchmark investment approach for Chinese banks in emerging markets; to target the bigger, sophisticated institutions with multi-country presence first.

One may ask what Chinese banks can focus on in Africa. If the theoretical assumptions of investment decision-making are indeed accurate, and one sets aside the arguments about proximity, banks prefer locations with relatively low efficiency in the banking system and with relatively light regulation. The expectation is that, as with most other foreign banks, the Chinese banks will follow clients and offer the usual gamut of products such corporations may require. These include import financing, general banking facilities, leases, factoring and ring-fenced project financing. This will be consistent with the experience of foreign banks in local markets focusing on multinational companies. Yet the Chinese investment model already exhibits some unique features, with Chinese SMEs – mostly traders and shopkeepers – following the bigger corporates into Africa.

Given the increase in trade and the expected rise in the number of Chinese workers based in Africa and the SMEs investing in Africa, one can reasonably assume that the opportunities for Chinese banks to expand their product offering will be attractive. This would include retail banking services with Chinese language client-servicing capabilities, local and hard currency working capital facilities for SMEs, deposit-taking services and electronic transfers to China. Of course, such an array of services is usually not available to branches of foreign banks that have only just invested in a country. This implies that joint ventures with or equity investments in local banks can help Chinese banks trial such services and products to the growing migrant Chinese population in South Africa (and in Africa generally).[54] Chinese banks in overseas locations already serve the local Chinese SME market, such as the BOC's operations in London where it offers services to Chinese corporate clients. Given the saturated and competitive banking market in Western countries, it may be difficult for China to break out of this niche lending. In Africa, however, the market still has considerable room for growth and limited competition.

Since the onset of the power struggle within the ruling African National Congress, which culminated in the ousting of Thabo Mbeki and election of Jacob Zuma to the South African presidency in 2009, the pace of Chinese investment in South Africa has begun to pick up, as has the expansion of more Chinese banks into the country. A number of important initiatives in South Africa's relations with China have come through in the last few years. The biggest Chinese investment in South Africa for more than two years is the investment by the Jidong Development Group, China's second-largest cement maker, and the CAD Fund. They will acquire a majority stake in a new ZAR 1.65 billion cement plant. Chen Ying, vice-president of Jidong Development Group, said his company was excited by South Africa's growth potential and believed the market for cement would grow quickly over the next few years.[55] Jidong and the CAD Fund will invest ZAR 382.5 million and Chinese banks will provide about ZAR 450 million. The rest of the money will come in the form of equity stakes from two South African partners – Continental Cement and Women Investment Portfolio Holdings, a black women's empowerment group – and loans from Nedbank. The investment is the first ever by Jidong in a production plant outside China and the biggest investment so far in South Africa for the CAD Fund. It

also marks the CDB's movement into a more politically minded approach to financing, with the BEE components of the deal being a central feature, issues which subsequently have raised public concerns.[56] In addition to these investments, the CAD Fund has invested considerable funds through the Chinese firm, Suntech Power Holdings, in South African solar and wind power projects. Also, in June 2010 FAW, a Chinese motor concern, announced a $100 million South African investment, in part funded by the CAD Fund.

Another interesting development involves the changing nature of the ICBC–Standard Bank relationship. The high expectation of revenue generated by the deal proved to be inflated. An obvious reason for this was that the grand plans around the deal were made pre-financial crisis, which fundamentally changed the global and local landscape. This necessitated Standard Bank reconsidering its strategy, which it did in conjunction with the ICBC. By May 2010 Standard Bank's chair, Jaco Maree, had expressed public disappointment in the slow pace of revenue generation. Many of the projects that Standard Bank sought to jointly fund with the ICBC were government tenders in Africa. As such they were subject to complex procedures that effectively delayed the process. Indeed, only once the government requests the borrower, usually a parastatal, to actually initiate contracts with a service provider, can the banks begin lending. As the relationship between Standard Bank and the ICBC is non-exclusive, both banks have gone on to work with other competitors in parts of Africa and beyond. The ICBC is able to raise capital at a lower cost than Standard Bank, and thus there can be compelling reasons for it to operate independently in some cases. This may have also contributed to a re-evaluation by the ICBC of the necessity of having a South African partner for some deals.

The movement of the ICBC into other African markets without the direct involvement of Standard Bank suggests that the partnership is more one-sided. For example, although Standard Bank officials were informally consulted in the due diligence component of the Gibe III Dam, no deal emerged from the process. This could be attributed to environmental consequences, which may have played a role in keeping the South Africans away from the project. The expectation that Standard Bank would gain access to the Chinese market, widely discussed in the media, also has not materialised. In fact, its intention in China was apparently less to establish a retail or commercial banking presence in the country but chiefly to provide cross-border commercial and investment banking services to Chinese companies wanting to invest in Africa and other markets where Standard Bank has a significant presence. Although over 40 personnel are now based in its China office, the focus of operations has not been on procuring projects in China itself but rather on lending to Chinese companies or projects outside of China and on the lucrative commodity trading in the country. Standard Bank has been involved in important projects such as the aforementioned Morupule power station in Botswana and the Lumwana mine in Zambia and it has served as a financial advisor to Chinese companies on deals including CGNP's bid for a nuclear project in South Africa.[57] Ironically, Standard Bank and the ICBC have been more successful in third-country non-African markets. The most notable project involves the Brazilian State Grid worth $1.8 million, the largest investment by a Chinese company in Brazil to date, which crucially relied upon Standard Bank's established presence and local knowledge to secure the deal.[58]

Finally, with respect to synergies between South African and Chinese banks, it is important to keep in mind that with the exception of Nigeria, Ghana, Kenya and South Africa, banking services in sub-Saharan Africa can be very rudimentary and electronic

funds transfers are often not possible. Yet Africa represents a unique opportunity, as it can adopt technology to leapfrog into the future. In this regard, mobile telephony has provided the continent with an opportunity to conduct mobile banking. Already a number of banks have implemented mobile banking systems. M-pesa, a prime example, is a competitor of South Africa and has done very well. It has enabled the Equity Building Society in Kenya to make banking services normally conducted in branches available to its client base in most rural areas. Payment capabilities have also been developed in markets such as Botswana, where FNB Botswana has developed mobile telephone banking to transfer funds and pay third parties.[59] Here Standard Bank–ICBC have established an online banking platform for transactional banking products and cash management, which enables Chinese corporates to make transfers around Africa if their subsidiaries bank with Standard Bank.[60]

South African banks have been particularly active in the field of adopting technology to service Africa's banking needs. Given that the Chinese companies, such as ZTE and Huawei, are directly involved in bringing mobile phone technology to Africa, South African banks are in a good position to develop the infrastructure further to expand to banking services. The Chinese banks may not have the technology to provide payment services to Africans but they can well benefit from the pioneering work already done by African banks. This should be a good investment opportunity and provide it with technology and payment systems that could well be implemented elsewhere, including the Chinese hinterland.

CASE STUDY: NIGERIA'S BANKING INDUSTRY AND CHINESE INTERESTS[61]

Generally relations between Nigeria and China have been strong since the country achieved its independence in 1960. Chinese financial interest in Nigeria is quite extensive, ranging from telecommunications and railways to small retail businesses. However, measured in terms of funds allocation, its main interest in the West African nation is oil, a resource that is also at the forefront of controversy in Nigeria. Several oil deals have been signed over the last few years, the most significant being the deal that allowed China to invest $4 billion in Nigeria's infrastructure in return for the first refusal rights on four oil blocks.[62] Overall trade between Nigeria and China increased from $178 million in 1996 to $1.44 billion in December 2001. The trade figure for 2002 was $1.168 billion, rising to $1.858 billion in 2003, $2 billion in 2004 and $2.83 billion in 2007. China is one of Nigeria's top-ten trading partners and has set up 30 companies in Nigeria. Some of these are solely owned and some are jointly owned with Nigerians. These companies are involved in the construction, oil and gas, technology, service and education sectors of the Nigerian economy. Chinese oil exploration contracts, coupled with commitments to expand a power-generating station that would add substantial megawatts of electricity, are seen as crucial to Nigeria's development ambitions. Beyond this resource rationale, Nigeria is Africa's largest population and offers considerable commercial and retail opportunities for Chinese entrepreneurs.

The Nigerian banking landscape

Banking in Nigeria was established under British colonial rule, when the African Banking Corporation commenced formal banking business in the country in 1892. In line with the rise and fall of military rule in Nigeria, the banking sector has been marked by periods of upheaval and instability, prone to corruption and political interference. Capital flight has been a major problem for oil-rich Nigeria since the 1970s and has weakened the government's ambitious development plans. However, under the guidance of reformist administrators, the Nigerian banking sector has made considerable progress towards rebuilding its reputation and capacity in the last decade.

Currently Nigeria has 24 universal banks with global appeal and 900 microfinance banks, mainly targeting small markets and medium-scale industries at local government and state levels. Besides these institutions, there are 98 mortgage banks; 84 finance houses; 600 class B bureaux de change and 50 class A bureaux de change; and five development finance institutions, comprising the Federal Mortgage Bank, Bank of Industry, Nigerian Agricultural Cooperative and Rural Development Bank, Nigerian Export–Import Bank, and the Urban Development Bank. There are also five very active discount houses. All these institutions are under the supervision of the Central Bank of Nigeria (CBN). There are about 200 stock broking firms, investment banks, asset management firms and issuing houses operating in the capital market under the direct supervision of the Securities and Exchange Commission. There are also about 50 insurance firms under the supervision of the National Insurance Commission.

There are two main sources of legal and regulatory framework for Nigerian Banks. These are the Banks and Other Financial Institutions Act (BOFIA) and periodic policy documents issued by the CBN. BOFIA was enacted in 1991 and there have been a number of subsequent amendments. Periodic policy documents also provide an overview of the financial sector, money supplies, growth and the implications of these growths. The documents clearly outline what the CBN will do to contain liquidity and define credit management, loans and lending.

The last few years have witnessed a number of major developments in the Nigerian banking sector. Perhaps the most significant of these was the $25 billion recapitalisation initiative undertaken by the former CBN governor, Charles Soludo, in 2006. However, most of the 89 Nigerian banks in the country as of 2006, the bulk of which were commercial in orientation, were too small to play any major part in the global economy or to help in revitalising the national economy. The recapitalisation exercise sought to place Nigeria's banks on a solid footing. Through mergers and acquisitions, the number of banks in the country was reduced to 25. All three foreign-owned banks in the country did not merge with any bank. Instead their parent companies increased their capital through direct injections of funds to meet the regulatory requirements.

In terms of achievement, the outcome of the Soludu reforms could be seen from both quantitative and qualitative perspectives. Whereas there was a reduction of banks from 89 to 25, the number of branches rose by 33%, from 3 382 to 4 500; and the total asset base rose by 104%, from NGN[63] 3.21 trillion to NGN 6.5 trillion. The ratio of non-performing loans to total loans improved massively by 51%, from 19.5% to 9.5%. Besides the elimination of weak operators and increased public confidence, the banking industry

began to develop a capacity for bigger risks, with more financial muscle to take a more active role in the national economy.

Although the consolidation exercise was successful, it also resulted in a number of long-lasting problems, some of which are at the centre of recent controversies in the Nigerian banking sector. A second round of changes – far more profound than the first – occurred after Sanusi Lamido Sanusi became the CBN governor in June 2009. Sanusi focused on three objectives: recovering loans; recovering capital markets; and adopting measures to assist in improving the national economy. Sanusi argued that eight interdependent factors had created an extremely fragile financial system in the banking sector. These were macro-economic instability caused by large and sudden capital inflows; major failures in corporate governance of banks; a lack of investors and consumer protection; inadequate disclosure and transparency about financial positions of banks; critical gaps in regulatory framework and regulations; uneven supervision and enforcement; unstructured governance and management processes at the CBN; and general weaknesses in the country's business environment.

To address these issues, Sanusi designed a blueprint for reforming the Nigerian financial system, built around four pillars. The first was enhancing the quality of banks. This would involve the CBN's initiation of a five-part programme to enhance the operation and quality of banks, consisting of industry remedial programmes to fix the key causes of the crisis; implementation of risk-based supervision; reforms to regulations and regulatory frameworks; enhanced provision for consumer protection; and internal transformation of the CBN. The second pillar was establishing financial stability. This involved strengthening the financial stability committee within the CBN and establishing a hybrid monetary policy and macro-prudential rules. The third pillar was enabling the evolution of a healthy financial sector. It entailed the CBN reviewing the basic one-size-fits-all model of banking and the universal banking model mandate to allow it to have international, national, regional and monocline or specialised banks, such as Islamic banks, with different capital requirements commensurate to the depth of their activities. The fourth pillar was ensuring that the financial sector contributed to the real economy.

One of the first things Sanusi did was to institute a special audit in concert with the Nigeria Deposit Insurance Corporation to ascertain the status of all 24 banks. This produced a damning report of monumental misdeeds. It revealed that the total amount outstanding for banks at the expanded discount window (EDW) was NGN 256.571 billion, most of which was owed by five banks. A review of the activities in the EDW showed that four banks had almost permanently been borrowing from the EDW and were clearly unable to repay their obligations. Although not the only banks to have benefitted from the EDW, the persistence and frequency of their demands pointed to a deeper problem; and the CBN identified them as a probable source of financial instability. In exercise of his powers, as contained in Section 33 and 35 of BOFIA, Sanusi removed the CEOs of these banks with the exception of Wema bank.[64]

Following the take-over of erring banks, the CBN governor began focusing on other aspects of his reform. These were the categorisation of banks; the creation of the Assets Management Corporation of Nigeria; the introduction of limitations for the CEOs' term of office; and the abolition of universal banking. As expected, Sanusi's reforms have been controversial. Perhaps the most profound critic is a group known as the Renaissance Professionals, which is led by Victor Shodipo. Little else is known about the group,

with no publicised fixed address or membership list. It is, however, believed that those affected by Sanusi's policies are behind the group. They have claimed that most of Sanusi's policies are not helpful to banking in Nigeria. However, there has also been support of Sanusi's reforms, including from a group known as the Vision for Greater Nigeria and from external endorsements. According to Flitch, Nigeria investors 'will now begin to tremendously benefit from improved financial and periodical reporting disclosures'. The European Investment Bank (EIB) noted that the CBN's approach 'is similar in substance to moves taken by financial regulators both across Europe and beyond at a time of global economic turmoil, challenge and questioned confidence'.[65] There have also been recent external investments. In February 2010 the EIB announced a $330 million loan to three Nigerian Banks, namely First Bank, Guaranty Trust Bank and Stanbic Investment Banking and Trust Company.

Chinese banking interests in Nigeria

The banking relationship between China and Nigeria continues to deepen. The most significant development in recent years was the CBN's decision to increase its reserve holdings of renminbi. Under the plan, the CBN intends to diversify its $33 billion in foreign exchange reserves away from the dollar by converting one-tenth of the stockpile into renminbi. The central bank governor, Lamido Sanusi, stated that the bank was 'looking at anything to start with from 5% to 10% of our reserves'.[66] Nigerian commercial banks are known to have established links with China. The first of these is Nigeria's oldest Bank, First Bank, which has been granted a licence to operate in China. This development provided First Bank with a foothold in the Asian region. First Bank also has other banking relationships with Chinese institutions. These include an MOU with Yuemei Group Company Limited, a textile manufacturing firm, with a value of $50 million; a partnership with Shenzhen Energy Investment Co Limited (Shenzhen Energy Group) in the building of a 3 000-megawatt gas turbine power plant in Nigeria, worth $2.4 billion; and an MOU with another Chinese firm, Guangdong Xinguang International China–Africa Investment Limited, for a $500 million investment in Nigeria's Ogun State. The Guangdong Xinguang Group is collaborating with First Bank in investment banking, project financing, business advisory services and correspondent banking relationships. First Bank also has an MOU with the CCB to cover global banking collaboration. Another bank that has established banking links with China is the Standard IBTC.[67] The bank has links with the ICBC, and in March 2010 the ICBC chairman, Jiang Jianqing, visited Nigeria. As noted, the ICBC's acquisition of a 20% stake in the Standard Bank Group – the banking group to which Standard IBTC Nigeria belongs – has enabled it to become involved in a number of other economic interests in Nigeria. This includes co-operation on the Lagos Rail project and the Nigerian National Petroleum Corporation oil refineries. The visit enabled Nigeria's financial sector to showcase the country and to demonstrate to the Chinese how things work in Nigeria.

A third bank that has established links with Chinese banks is the Nigerian Export–Import Bank, which is at the core of Nigeria's trade-oriented activities. It provides short-term guarantees for loans granted by Nigerian banks to exporters and offers credit insurance against non-payment by foreign buyers. The bank has held high-level talks and

deals with Chinese financial institutions, including China Exim Bank. All these links offer other existing opportunities for China in the Nigerian banking sector.

CASE STUDY: MOZAMBIQUE'S BANKING INDUSTRY AND CHINESE INTERESTS

Chinese relations with Mozambique have extended back to the era of the liberation struggle, when the Liberation Front of Mozambique (FRELIMO) received diplomatic and military support from Beijing. After independence in September 1975, the new government turned to China's socialist rival, the Soviet Union. FRELIMO formally proclaimed itself a Marxist–Leninist party, imposing widespread nationalisation and adopting radical socio-economic measures that aimed to transform society. More than a decade of destabilisation and civil war followed, ending with the promulgation of a new liberal constitution, a peace treaty and democratic elections in 1994. Initially China's interests in Mozambique were limited, although many Mozambicans saw the opening of a large embassy and trade mission as harbingers of the future. Discussions of large leases of land in the Zambezi Valley reportedly occurred in 2006, linked to provisions for large infrastructure projects and potentially involving thousands of Chinese farmers. However, the project never came to fruition. Chinese entrepreneurs continued to trickle into the country, while development assistance projects in agriculture received support alongside an array of other project proposals. Roque suggests that the Mozambican government's cautious approach towards deepening economic engagement with China was because of its close links to and dependency on Western sources of finance.[68]

The Mozambican banking landscape

The nationalisation of Mozambique's banking sector, as a result of FRELIMO's formal adoption of Marxist–Leninism in 1977, dominated the first decades of independence. The Banco de Moçambique and the ministry of planning managed the financing of development projects, as the state sought vainly to transform the colonial economy along socialist lines. The introduction of a structural adjustment programme in 1984 marked a turning point in the economic orientation of the country, with Maputo turning to the Bretton Woods institutions for desperately needed financial assistance and advice. Against a backdrop of rising foreign debt and growing foreign-aid dependency (which by 1990 had reached 75% of total GDP), the country embarked on a significant restructuring of the financial sector. Commercial functions were separated from the state's central bank, the Banco de Moçambique, to create the Banco Comercial de Moçambique (BCM) alongside the state-owned Banco Popular de Desenvolvimento (BPD) and the private Portuguese bank, Standard Totta de Moçambique. Within a few years five commercial banking operations had been established. These included the Malaysian acquisition of a leading share in BPD (subsequently renamed Banco Austral).

By 2009 the banking landscape had been transformed with the establishment of 14 commercial banks, six credit co-operatives, three micro-banks, nine savings and loans banks, and 96 micro-credit operators. Commercial banking is dominated by foreign capital: 80% in 2005 and 72% in 2009, of which 40% was Portuguese and 19% South

African foreign capital. As prosperity in Mozambique has grown, so national capital in banking has risen. Mozambican capital represented 28% of the country's total banking stocks in 2009, up from 20% in 2005. The banking sector's overall contribution to GDP has remained modest, rising from 4% in 2005 to 5% in 2009. The three-largest banks in Mozambique reflect the legacies of the past as much as the transformations over the last few decades, with Portuguese and South African capital leading the sector. The largest bank in terms of assets ($1.5 million) is BIM Millenium, which is a partnership between the largest private Portuguese bank, Banco Comercial Português, and BCM. The second-largest bank by assets is Banco Comercial e Industrial, owned by the Portuguese state bank, Caixa Geral de Depósitos, and two Mozambican partners, BPI and Ensitel, the latter being dominated by holdings of the Mozambican president. Standard Bank, South Africa's largest bank, occupies the third position.

In the earliest period of liberalisation of the financial sector, political connections were especially relevant in the establishment of new banks, including foreign capital.[69] Indeed, these connections seemed to impose costs on the activity of foreign investors in the case of the BCM and Banco Austral. Both banks had a large portfolio of non-performing loans allegedly held by leading figures within the governing party, which eventually forced the government to recapitalise them through the issuance of treasury bonds. Efforts to investigate these links brought about the killing of journalist Carlos Cardoso and banker Antonio Siba-Siba Macuacua in the early 2000s.[70] The entry of foreign capital, and its domination of the sector, has made it more difficult for political power to interfere in the sector, thus tempering the proximity between political power and the banking sector. Nevertheless, links with the FRELIMO establishment remain significant factors in the achievement of commercial success in Mozambique.[71] These factors only exacerbate the challenges in the financial sector. Such challenges include an extreme shortage of skilled personnel to assess and support the performance of debtors; the identification of worthy ventures for financing; and the need to extend the reach of banking services to regions and clients outside Maputo, 80% of which are still not reached by any financial providers.[72]

Chinese banking interests in Mozambique

In contrast with other African cases, the Chinese financial presence in Mozambique has involved not only state-owned banks but also private commercial interests, specifically an unusual joint venture called Geocapital. When compared with other resource-rich countries in Africa, the economic penetration of Mozambique has been relatively slow, but has gained pace in the last few years. Two-way trade has grown from $70 million in 2004 to $690 million in 2010.[73] At 26th position less than a decade ago, in 2008 China became the second-largest investor in Mozambique after South Africa.[74] Its investment covers a wide range of sectors, namely retail, banking, logging, agriculture, fisheries, construction, manufacturing and mining. In 2010 total Chinese investments in Mozambique amounted to $607 million and are expected to expand further in the near future.[75] Mozambique's coal reserves in Tete Province have attracted much interest, with Wuhan Iron and Steel pledging $800 million investment as a part of an Australian-led consortium aimed at developing a mining concession there. Political connections with the ruling party seem to be of paramount importance in large investment projects, replicating a formula that is common to all other investors. Not all economic activity by the Chinese has met with

local approval. The recorded involvement of Chinese (and Malaysian) companies in illegal logging and the plundering of marine species (often in collusion with governmental authorities) have drawn much criticism in the Mozambican press. So too have the periodic problems involving labourers working for the Chinese.[76]

China Exim Bank has been involved in financing infrastructure projects in Mozambique since 2001. A credit line of $3.9 million has helped to finance an international conference centre, a new office building for the ministry of foreign affairs, police equipment and 150 units of low-income housing in greater Maputo.[77] According to one source, the Mozambican government applied to China Exim Bank as early as 2006 for loans of $2 billion for the Mphanda Nkuwa Dam project[78] on the Zambezi river; $50 million to support agricultural investment in Zambezi Province and $60 million to rehabilitate the capital's international airport.[79] The funding for the rehabilitation of the international airport was conceptualised in two phases. The first amounted to $50 million and the second, approved in 2010, totalled $65 million to finance the reconstruction of the domestic terminal of Maputo's international airport by Anhui Foreign Economic Construction Company (Group) Co Ltd. A widely publicised venture established in 2007 between the World Bank and China Exim Bank to jointly finance projects in Mozambique, Ghana and Uganda did not produce any concrete project financing agreements. Rumours of Chinese Exim Bank opening an operations branch in Maputo emerged around the time that Mozambican prime minister, Aires Bonifácio Baptista Ali, visited China in late 2010. A visit apparently aimed at facilitating credit lines to Chinese investors. However, this has yet to materialise.[80] During the same visit, two other concessional loans were signed with another Chinese policy bank – the CDB – totalling $100 million to support the construction of a cement factory in Sofala Province ($80 million) and a cotton plant in Maputo Province ($20 million).[81] President Armando Guebuza paid a subsequent visit to China in August 2011. It resulted in the signing of a framework agreement on financial co-operation with the CDB to provide commercial loans to Chinese and local investors alongside a commitment to provide $7.6 million in economic and technical assistance. This suggests further involvement by the CDB in Mozambique.[82]

The origins of the private Chinese banking venture in Mozambique are unclear. However, from the outset, it has been dominated by a joint Sino–Lusophone initiative, Geocapital. This venture was established in Macau in 2006 by a Hong Kong magnate, Stanley Ho, and a lusophone financier, Jorge Ferro Ribeiro, to maximise the opportunities created by the Forum Macau founded in 2003, which sought to exploit the business potential of placing Macau as a linkage platform between China as a funding source and the Portuguese-speaking countries, a bastion of natural resources.[83] Stanley Ho, with large business interests in gambling, hospitality, transport and financing sectors, including Hang Seng Bank in Macau,[84] is chairman of the board of directors and controls over 50% of Geocapital's shares. Jorge Ferro Ribeiro, who has interests in financing, telecoms, tourism and real estate in Portugal and Macau and acts as Stanley Ho's representative in Portugal, serves as vice-chairman and executive chair and is the second-largest stakeholder in Geocapital. Almeida Santos, who owns 5% of Geocapital and serves as president of the general assembly, is an eminent figure of the Portuguese Socialist Party and former president of the Portuguese parliament (1995–2002) with strong personal, political and economic connections to FRELIMO.[85] Santos apparently entered this venture through Ribeiro, an old acquaintance who worked under him (1974–75) when

he was the Portuguese minister for international co-operation. Finally, Ambrose So, a Chinese entrepreneur with close links to Stanley Ho's business empire and the Chinese political nomenclature (he is a member of the 11th National Committee of the Chinese People's Political Consultative Conference), serves as one of the three administrators of Geocapital.[86]

Geocapital aims to conduct strategic investments in basic sectors of Lusophone countries, namely banking, agriculture and energy. It has a wide-ranging portfolio of investments, including biofuels and agribusiness in Guinea-Bissau and banking in Angola, Cape Verde and Portugal. Owing to its personal connections, Geocapital made initial forays into business in Mozambique. Around the time of its establishment, there was much talk about Geocapital investing in Zambezi Valley – in the agribusiness (biofuels) and energy sectors. The Portuguese government was preparing to hand over its control of the Cahora Bassa Dam and there were rumours that Lisbon was even considering selling the remaining portion of its shares (15%) in the project, which naturally attracted much interest from Geocapital.[87]

In September 2005 an MOU was signed between Geocapital and the Zambezi Valley Planning Office (GPZ), headed by Sergio Vieira (an old acquaintance of Santos), to look into natural resources development opportunities.[88] By December 2005 Geocapital and two Mozambican companies reached an agreement to set up a joint venture, Zamcorp.[89] The company was formally established in June 2006. Its principal aim was to promote the development of the Zambezi Valley through privileged access to Chinese capital.

Alongside the establishment of Zamcorp, two sister financial institutions have grown out of Geocapital's role in Mozambique. These are Moza Capital (investment banking) and Moza Banco (primarily corporate banking). Moza Capital was founded in September 2005 to serve as a business platform for Chinese capital to invest in the Zambezi Valley. Moza Banco, a retail bank, was established in late 2007 and started operations in June 2008. It is partnered with Capitais de Moçambique, a private Mozambican investor's group headed by Prakash Ratilal. Ratilal is a high-ranking name in FRELIMO, former head of the Banco de Moçambique and an old acquaintance of Santos. The two institutions have the same CEO in Ratilal and originally had the same ownership structure (51% Mozambique Capitais, 49% Geocapital).[90]

Moza Banco's initial capitalisation stood at \$15 million. Although it has a universal licence (corporate and private banking), its aim is to specialise in corporate banking (finance projects and enterprises) and investment banking (agribusiness mainly). The bank has grown considerably in its first year of existence, posting revenues of \$2.2 million. Although it has not funded any big investments, three projects in the energy and agro-industry sectors are being assessed for possible funding.[91] In late 2010 Geocapital sold 25.1% of Moza Banco for \$35 million to the African Branch of Banco Espírito Santo (BES, Portugal's second-largest private bank). The sale was concluded in January 2011 and the current ownership structure is Moza Capital with 50.4%, BES 25.1% and Geocapital with 24.5%. According to a Moza Capital official, this should not be seen as a divesting strategy but as a means to increase the capital of the bank and bring in a partner with more experience and know-how, critical in the expansion phase the bank is going through presently.[92] With only two branches open as of 2010, there is much scope for expansion by Moza Banco.

Despite the high publicity and high expectations generated around the creation of these institutions, their record of success is extremely limited. To date there is no evidence of Zamcorp having any concrete projects. The sole exception is the $50 million credit line extended from China Exim Bank to the corporate arm of the ministry of planning and development, SOGIR. This is being channelled through Moza Banco/Moza Capital, following an agreement between Moza Banco and the BOC in early 2009 to facilitate the cash flow between the two countries.[93] The credit line is for the acquisition of agriculture equipment and machinery ($20 million) and for setting up two cotton and one corn agro-processing plants ($30 million) in the Zambezi Valley.[94] In the meantime the institutional framework is changing. The GPZ was officially closed down in August 2010 and the ministry of planning and development and SOGIR are in the process of creating a new agency. Its statutes exist but the new agency is still in the phase of implementation and sourcing of new management personnel.[95] The general perception is that Vieira has done little for the development of the valley, something echoed in the public criticism levelled by President Guebuza at the GPZ in July 2008.[96] Geocapital's close association with Vieira might come at a cost for the company's interests in Mozambique.

ANALYSING THE STRATEGY OF CHINESE BANKS IN AFRICA

The decision for a bank to invest in foreign markets is always a more significant one than is usually the case in the familiar domestic environment. A number of studies have centred on the investment decision in emerging markets, usually from the point of view of banks in developed countries.[97] Relatively few studies have focused on the investment decisions of developing country banks in other developing countries. Nevertheless, the drivers of investment of banks from developed countries appear for many similar reasons. The most important is diversification, as banks are highly susceptible to earnings volatility in business cycles. Shareholders of large, international banks seem to prefer earnings diversification to ensure earnings stability. Another important factor in the decision to invest abroad is the higher expected rate of GDP growth in countries where the banking system is deemed to be less efficient.[98] Other studies have gone even further and concluded that foreign banks invest in regions where banking regulations are weaker.[99] One possible explanation offered is that heavily regulated markets may be less accessible to foreign players and that a larger degree of protection exists for domestic players. Given the premise that the foreign bank has more efficient banking systems in place and superior risk management systems as well as access to product solutions, the entry of foreign banks brings immediate improvements in efficiency.[100]

However, other factors are equally important in determining where to invest. The studies cited indicated that proximity is an important factor. This not only refers to geographical proximity but also to proximity in terms of cultural, linguistic and economic ties. These factors seem to dictate against a Chinese banking foray into Africa, given the dearth of any such ties. Hence, what this could point to is a new forging of ties between non-Western powers, borne out of economic necessity (or, as proponents prefer to characterise it, 'mutual benefit'). Since China has no colonial baggage that renders – at least until recently – its economic decisions subject to political controversy in Africa, it could well be in an advantageous position to exploit opportunities. Moreover, its risk

appetite may be far more voracious than Western counterparts, since its shareholders (apart from the publicly listed shares) are mostly government departments that subscribe to a political agenda rather than to immediate shareholder return.[101] Finally, as mentioned, the hurdle rate for investment projects may be lower, especially where Chinese companies are involved.

This does not mean that financial returns do not feature. In fact, as Chinese banks expand overseas, they will act more in line with traditional developed-country competitors. Before Chinese financial institutions start acting competitively in the international arena, they will need to enhance competitive capabilities. This will involve acquiring payments and processing systems to handle international transfers, data capturing and management information systems to process such data. Crucially, operational and credit risk systems will need to be enhanced. One can argue that one of the main aims of the Chinese government in opening the banking system to foreign investment is to gain the necessary expertise to become highly competitive. In local markets, and especially emerging markets, local banks may well have an advantage in market information, given their superior access to corporations, superior relationships and a better understanding of local market conditions. This implies that a foreign bank with little experience in entering foreign markets will need to take a cautious approach. It is likely to start with a fundamental understanding of the key players in the local market and to approach such institutions with an understanding to co-operate, start joint ventures and eventually to make equity investments.

This latter impulse can be seen in the emerging pattern of engagement pursued by Chinese banks in Africa, which have been keen to enter various co-operative agreements with banks in Africa, such as First Bank in Nigeria and FirstRand in South Africa. Of more consequence would be the co-operation between the major state-owned banks and a bank in Africa with a cross-border focus. The strategic alliance between AgBank and Standard Chartered that was announced shortly after the IPO of AgBank is one such agreement that could have a significant impact on banking in Africa. Standard Chartered stated that the alliance would allow the banks to explore opportunities in China and Standard Chartered's domestic markets – including Africa. The bank said AgBank's Chinese corporate clients would gain access to international capital markets, leveraging on Standard Chartered global reach.[102] One factor that sets Standard Chartered apart from its Western peers is that even though it is headquartered in London, it has never had a developed markets focus. Rather its focus has always been on emerging markets, where it continues to develop its presence and product expansion. AgBank maintains a strong presence in Africa, even though it does not have a particularly strong presence in the main market, South Africa.

Another crucial observation from the literature on financial expansion to overseas markets is the role of local knowledge. Whenever a bank decides to start operating activities in a particular region, the most likely reason it will expand in that area is linked directly to the expansion of the particular bank's clients. If one can imagine a continuum along which banks increase their involvement, one may well think of 'suitcase banking' on the one end, which requires little on-the-ground presence and only a willingness to take risk exposure in a region that is relatively far from the home base. Suitcase banking works best where the banker is familiar with the industry and government guarantees, loan syndications and other forms of risk participation ameliorate the political and commercial risk attached to the activity.

These approaches are most likely to be found in the areas of project finance and export finance activities, and are clearly a feature of Chinese banking practices in Africa. Already such opportunities exist and Chinese banks have taken a part – such as the power project led by Standard Bank in which the ICBC has participated. In addition to oil exploration activities in Nigeria and Angola, the CDB has also announced that it will lend money to Ghana's national oil company to pay for infrastructure projects in the Jubilee field.[103] Mining and oil exploration activities will probably continue to be a mainstay for the Chinese government. Given the implicit or explicit Chinese government guarantees on such projects, the risk profile should be acceptable to Chinese commercial banks.

Other relevant activities will be trade and in particular commodity finance, given that trade is a key ingredient in the relationship between China and Africa. Naturally this area of finance is closely related to project finance and typically the finance opportunities created by the shipping of commodities lead to the cash generation used to repay a project finance loan. However, commodity finance in Africa is not limited to metals and precious metals. A large part of Africa's economic development potential is locked up in agriculture, and the export of agricultural commodities is crucial to foreign exchange earnings for some African countries. Examples include Ghanaian cocoa and Malawian tobacco. These commodities have been financed by local and international banks for some time on a rolling, seasonal basis. However, other banks are doing more to drive the growth of agricultural exports, such as Standard Chartered Bank. The bank has been developing the financing of precision farming in markets such as Zambia, and finances companies that contract local farmers in the production of particular crops. Through its client, Standard Chartered Bank finances all inputs for the crop in question and employs sophisticated techniques to monitor the crop's progress and to be alerted of any threat to the crop.

Finally, the spectacle of a Sino–Lusophone connection in the form of Macau, which has led the way in opening commercial banks in Portuguese-speaking Mozambique and Angola, seems to affirm the notion of geographical and cultural proximity as drivers of decision-making in international finance. Operating without the formal linkages to the Chinese state, Geocapital nonetheless had faith in its ability to leverage personal connections within Mozambique (and in Portugal) to secure access to investment opportunities in the Zambezi Valley. The boldness of the initiative, which may indeed have paid off in other Lusophone countries, rested largely on confidence in personal networks and accompanying local knowledge to overcome local obstacles and facilitate the delivery of solid projects to the company. These networks were able to overcome regulatory obstacles that might otherwise have prevented the actions of another institution seeking to enter the financial sector in the country. However, they were not sufficiently attuned to the local market to identify viable projects that could offer the expected returns for investors.

DIVINING THE FUTURE OF CHINESE FINANCIAL INSTITUTIONS IN AFRICA

The broader implications of China's experiences in the financial sector in Africa and in other parts of the developing world are manifold. Chinese corporates have seen a movement to conduct overseas trade on open-account rather than more traditional LC

terms with overseas customers. Moreover, in the wake of the global financial crisis, China has demonstrated a willingness to play a much more assertive role in international finance by proposing alternatives to the US dollar in settling international trade transactions. China is currently piloting international trade settlements in renminbi in a number of Chinese cities. The pilot scheme allows for 400 approved Chinese enterprises in five approved cities – Shanghai, Guangzhou, Shenzhen, Dongguan and Zhuhai – to settle trades with their counterparts in Hong Kong, Macau and Asian member countries. If the renminbi is finally allowed to trade freely, it is only natural that a large part of international trade will be conducted in the currency. For Africa, whose trade is shifting rapidly eastward but still dominated by the US dollar (except in Francophone West Africa), the switch to renminbi will be a natural progression if the current trends in trade continue. The BOC said it made its first yuan settlement transactions in Africa in January 2010,[104] when China's state-owned steel maker, Sinosteel Corp, remitted 10.9 million Chinese yuan to its South African unit via the bank. China has pledged to expand its yuan settlement trial this year. Banks like Standard Bank hope to capitalise on their position as a 'first mover' in this area and, along with their bank-to-bank transfer platform, to attract Chinese corporate business.

Finally, the rapid development of contacts between Chinese and African entrepreneurs across the continent, through the establishment of joint Chinese–African chambers of commerce in many African states as well as events such as the Conference of Chinese and African Entrepreneurs, points to the permeation of more lasting, non-state-oriented growth. This was further bolstered by Beijing's initiatives at the FOCAC IV meeting in 2009, where China announced its support for Chinese financial institutions in setting up a special loan of $1 billion for small-sized and medium-sized African businesses. This is a clear sign that Beijing wants to encourage Chinese financial institutions to take up a credit view on local companies. The development points to more meaningful banking relationships that could develop and present further opportunities for Chinese banks to make an impact on the African market. In this respect, some of the joint ventures that Chinese banks have forged with African partners could indicate what could follow. The joint venture formed between South African partners and the CCB, known as Rand Asia, is a specialist company that provides commodity and trade finance to South African and African companies. Credit decisions are made locally up to a certain mandate and are referred to Beijing headquarters of the CCB above a certain limit.[105] The remit of the bank is very specific to trade finance; an arrangement which gives a considerable advantage to all parties involved. In the first instance, the CCB has access to South African clients, but can call on the expertise of the South African partners as well as their established local networks. The latter benefit from having access to the credit appetite of the CCB and access to Chinese offtakers of South African produce. These offtakers could well be clients of the CCB, which could allow for their creditworthiness to be tested. China is also gaining a foothold in exposure to SMEs in South Africa, albeit in an indirect manner. China's second-largest bank, state-owned CCB, extended a $50 million loan to Industrial Development Corp, the South African government's development-finance arm in May 2009.

The entry of Chinese financial institutions in Africa in the wake of the financial crisis should be viewed in the context of an accelerated internationalisation of the Chinese banks. Domestic constraints on lending activities and the growing importance

of Africa to China have contributed to the changing nature of financial engagement, from typical government concession loans and ECA-backed finance to participation on a more commercial footing. However, progress is likely to be slow, as Chinese banks have a lot to learn about the African banking environment. The scene is set for significant development over the next few years, given the Chinese government's encouragement of lending to African SMEs announced at FOCAC IV in November 2009 and the track record of engagement with African banks, in particular South African banks. This comes at a very opportune time for Africa, as financing from Western banks abated following the financial crisis and there is little evidence to support a meaningful return in 2011/12. Africa could well serve as the pilot projects for Chinese banks to initiate new emerging market lending and to trial the much-needed internationalisation of the currency through allowing settlements in renminbi. From a banking perspective, it appears that the Chinese plan to be in Africa for a very long time.

ENDNOTES

1 See, amongst others, Brautigam D, *The Dragon's Gift: The Real Story of China in Africa*. New York: Oxford University Press, 2009; Taylor I, *China and Africa: Engagement and Compromise*. London: Routledge, 2008; and Alden C, *China in Africa*. London: Zed/Palgrave, 2007.

2 Brautigam D, 'Africa's Eastern Promise', *Foreign Affairs*, 5 January 2010, http://www.foreignaffairs.com/articles/65916/deborah-brautigam/africa%E2%80%99s-eastern-promise.

3 *Ibid*.

4 Embassy of People's Republic of China in Botswana, press release, 16 June 2009.

5 Personal interviews, vice-president of a major non-state bank, Shenzhen, 26 October 2009 and 13 November 2009.

6 Bradsher K, 'China's Central Bank Hits Brake on Hot Economy', *New York Times*, 12 February 2010.

7 As a basic summary, 'Basel III is a set of international banking regulations developed by the Bank for International Settlements in order to promote stability in the international financial system. The purpose of Basel III is to reduce the ability of banks to damage the economy by taking on excess risk.' Investopedia, 'Understanding The Basel III International Regulations', 27 December 2010, http://www.investopedia.com/articles/economics/10/understanding-basel-3-regulations.asp#ixzz1bEVHIWL8.

8 Shirai S, 'Banking sector reforms in the People's Republic of China: Progress and constraints', associate professor, Keio University, and visiting scholar, Asian Development Bank Institute, 2005.

9 Chinese renminbi.

10 *The China Post*, 'Chinese banks turning into modern global financial giants', 20 July 2010, http://www.chinapost.com.tw/china/business/2010/07/20/265352/Chinese-banks.htm.

11 *Ibid*.

12 *Xinhua*, 'China Exim Bank aims to become multinational financial institution over next 5 years', *People's Daily Online*, 30 June 2011, http://english.peopledaily.com.cn/90001/90778/98505/7425769.html.

13 According to Kimberly Amadeo in the About.com Guide, 'LIBOR is the interest rate that banks charge each other for one-month, three-month, six-month and one-year loans. LIBOR is an

acronym for London InterBank Offered Rate. This rate is that which is charged by London banks, and is then published and used as the benchmark for bank rates all over the world. LIBOR is compiled by the British Bankers Association (BBA), and is published [at] 11 AM each day in conjunction with Reuters. It is comprised from a panel of banks representing countries in each currency'. About.com Guide, 'LIBOR rates', http://useconomy.about.com/od/glossary/g/LIBOR.htm.

14 China Power Contractor, http://www.china-power-contractor.cn/Government-finance.html#b2.

15 Pri-center.com, 'China Export and Credit Insurance Corporation (Sinosure)', http://www.fdi.net/documents/WorldBank/databases/pri-center_mockup/sinosure.html.

16 Barlow J, 'J.P. Morgan signs trade finance agreement with Sinosure', *FinanceAsia*, 22 March 2011, http://www.financeasia.com/News/251904,jp-morgan-signs-trade-finance-agreement-with-sinosure.aspx.

17 Van Wyk B, 'China OFDI on the world stage', *Pambazuka News*, 17 September 2009, http://www.pambazuka.org/en/category/africa_china/58816.

18 The Equator Principles are a set of voluntary guidelines that aim to integrate environmental and social issues into project funding by financial institutions.

19 See Peter Bosshard's blog, International Rivers, http://www.internationalrivers.org/en/blog/peter-bosshard.

20 *Xinhua News Agency*, 'China Development Bank Corp. goes commercial', 16 December 2008, http://news.xinhuanet.com/english/2008-12/16/content_10513436.htm.

21 Notably, however, there is currently an investigation into the vice-president of the bank, Wang Yi, by anti-corruption authorities.

22 Personal interview, CDB officials, Pretoria, May 2008. According to the officials, the difficulties in getting sufficient large projects to finance has slowed this process down.

23 *Xinhua News Agency*, 'China-Africa Development Fund boosts win-win', 27 June 2007, http://news.xinhuanet.com/english/2007-06/27/content_6297373.htm.

24 *China Daily*, 'Quick look' 21 January 2008, http://www.chinadaily.com.cn/bw/2008-01/21/content_6407207.htm.

25 Chery Auto and CAD Fund sign strategic agreement, 29 August 2011, http://www.cheryinternational.com/viewNews.php?id=56.

26 Chery, 'Chery Auto and CAD Fund sign strategic agreement', news release, 29 August 2011, http://www.cheryinternational.com/viewNews.php?id=56.

27 Personal interview, CDB official, Pretoria, September 2008.

28 *MiningWeekly.com*, 'PGMs partner completes transaction with Chinese consortium', http:// www.miningweekly.com/article/pgm-partner-completes-transaction-with-chinese-consortium-2011-08-19.

29 According to the Wisezwe press release that described the deal: 'Micawber is wholly owned by the Wesizwe Empowerment Trust, which was established to facilitate black economic empowerment (BEE) in the mining sector and to contribute to the stabilisation of Wesizwe's BEE credentials. The beneficiaries of the Wesizwe Empowerment Trust comprise the identifiable Wesizwe BEE shareholders as reflected in the public share register on 30 October 2010, provided that they remain invested in Wesizwe. The Micawber structure introduces a costless lock-in incentive for existing BEE shareholders in Wesizwe; this is a necessary step if the company is to meet its MPRDA obligations.' Wesizwe press release, 9 March 2011, http://www.wesizwe.co.za/downloads/final_shareholders_approve_transaction_9_mar.pdf.

30 *Reuters Africa*, 'S.Africa's Wesizwe sees output at new plant by 2017', 11 March 2011, http://

af.reuters.com/article/investingNews/idAFJOE72A0AY20110311.

31 Brautigam D, 2009, *op. cit*.

32 Andrianaivo M & C Amo Yartey, 'Understanding the growth of African financial markets', IMF Working Paper, WP/09/182. Washington, IMF Press, August 2009.

33 *Ibid*., p. 22.

34 See Meyer R & C Alden, *Banking on Africa: Chinese Financial Institutions and Africa*, SAIIA (South African Institute of International Affairs), Occasional Paper, 14. Johannesburg: SAIIA, 2008.

35 See Alden C, 'Solving South Africa's Chinese puzzle: Democratic foreign policy making and the "two China" question', in Broderick J, Burford G & G Freer (eds), *South Africa's Foreign Policy: Dilemmas of a New Democracy.* New York: Palgrave, 2001.

36 South African rand.

37 South Africa, Department of Trade and Industry statistics, http://www.dti.gov.za.

38 Paton C & C Bisseker, 'China in Africa: West goes East', *Financial Mail,* 8 July 2010, http://www.fm.co.za/Article.aspx?id=114196.

39 Greenberg JB & W Simbanegavi, 'Testing for competition in the South African banking sector', Faculty of Commerce, University of Cape Town, 2009, http://www.commerce.uct.ac.za/economics/seminars/2009/20091106%20Simbanegavi%20Measuring%20competition%20in%20Banking%20sector.pdf.

40 *Ibid*.

41 Tier I capital is core capital, which includes equity capital and disclosed reserves. The Tier I capital adequacy ratio, according to Investopedia, refers to 'a comparison between a banking firm's core equity capital and total risk-weighted assets. A firm's core equity capital is known as its Tier 1 capital and is the measure of a bank's financial strength based on the sum of its equity capital and disclosed reserves, and sometimes non-redeemable, non-cumulative preferred stock. A firm's risk-weighted assets include all assets that the firm holds that are systematically weighted for credit risk. Central banks typically develop the weighting scale for different asset classes, such as cash and coins, which have zero risk, versus a letter or credit, which carries more risk.' Tier 1 Capital Ratio, http://www.investopedia.com/terms/t/tier-1-capital-ratio.asp#ixzz1bEhqtv00; http://www.investopedia.com/terms/t/tier1capital.asp#ixzz1bEhY4CHK.

42 SARB (South African Reserve Bank), *Banking Supervision Annual Report, 2008/9*. Pretoria: SARB Publications, 2009.

43 SARB, *Banking Supervision Department Annual report 2009,* SARB, Pretoria, 2009, http://www.resbank.co.za/Publications/Reports/Documents/Full%20document%202009.pdf

44 Titi Mboweni in a speech to the Bank of International Settlements, 2004, 'The South African banking sector – an overview of the past 10 years', Bank of International Settlements, www.bis.org/review/r041231f.pdf.

45 *Nedbank Group Annual Report 2010*, Johannesburg, 2011, http://www.nedbankgroup.co.za/pdfs/groupCompanies/nedbank_ar2010.pdf; *FirstRand 2010 Annual Report*, Johannesburg, September 2010, http://www.firstrand.co.za/content/2010Limited~1.pdf.

46 Absa Group Financial Report for the year ended 31 December 2010.

47 Wessels V, 'Barclays, Absa plan to combine Africa units to boost services to customers', 18 April 2011, http://www.bloomberg.com/news/2011-04-18/barclays-absa-plan-to-combine-africa-units-to-boost-services-to-customers.html.

48 SARB, 2009, *op. cit*.

49 *Ibid*.

50 MacQuarie First South Securities Report, *Standard Bank Group: Chinese Cheque(rs)*. MacQuarie First South Securities Equities Research Publication, Johannesburg December 2007.

51 *Business Day on Line*, 'South Africa's Standard Bank halve capital utilisation in Nigeria', 11 August 2011, http://businessdayonline.com/NG/index.php/news/76-hot-topic/25882-south-africas-standard-bank-halve-capital-utilisation-in-nigeria.

52 Carew R, 'In search of new fortune, China's banks venture aboard', Far Eastern Economic Review, 170, 2 ABI/INFORM Global, p. 55.

53 'StanBank and ICBC tie-up yield' http://www.ft.com/intl/cms/s/0/ac476f9c-9a2d-11dc-ad70-0000779fd2ac.html#axzz1broStpTZ, William MacNamara, *Financial Times*, November 24 2007.

54 Estimated to be between 200 000 and 300 000. See Park YJ, *Chinese Migration in Africa*, Occasional Paper, 24. Johannesburg: SAIIA, 2009.

55 Lapper R, 'China seals cement deal with S Africa', *Financial Times*, 13 May 2010, http://cachef.ft.com/cms/s/0/0dbb3886-5ea7-11df-af86-00144feab49a.html#axzz1ZpRUPj3O.

56 Standard Bank was approached initially to finance the deal but was concerned about aspects of the BEE dimension. Personal/telephonic interview, Standard Bank official, Johannesburg, September 2009.

57 *Reuters Africa*, 'Standard Bank to work with China nuclear firm', 27 August 2010, http://af.reuters.com/article/topNews/idAFJOE67Q0L320100827.

58 Personal interview, Thomas Orr, Standard Bank manager, Johannesburg, February 2011.

59 Zandamela D, 'Banking in Africa; The big picture', *Africa The Good News*, 19 February 2009, http://www.africagoodnews.com/business/doing-business/31-banking-in-africa-the-big-picture.html.

60 Personal interview, Thomas Orr, Manager, Standard Bank, Johannesburg, August 2011.

61 This section is derived partly from Alao A, 'Chinese Business Interest and Banking in Nigeria', Policy Briefing, 20. Johannesburg: SAIIA, July 2010.

62 Hurst C, 'China's Oil Rush in Africa', IAGS (Institute for the Analysis of Global Security), Washington, DC: IAGS, July 2006, p. 11, http://www.iags.org/chinainafrica.pdf.

63 Nigerian niara.

64 Wema Bank's management was allowed to stay on because there had only recently been a change in the directorship of the bank, and those heading the bank at the time of audit were not those responsible for the bank's plight. The bank was thus given a year to get its structures solid. Also the Equatorial Trust Bank was later returned to its owner, the oil and telecommunication billionaire, Mike Adenuga.

65 Economic Intelligence Unit, 11 February 2010, http://www.eiu.com/index.asp?layout=ib3Article&article_id=1715224556&pubtypeid=1132462498&country_id=1650000165&page_title=&rf=0.

66 Cocks T, 'Nigeria central bank wants more yuan, fewer dollars', *Business Day*, 6 September 2011, http://www.businesslive.co.za/africa/africa_markets/2011/09/06/nigeria-central-bank-wants-more-yuan-fewer-dollars.

67 Standard IBTC was established through a merger between Stanbic Bank of Nigeria and the industry giant, IBTC Chartered Bank.

68 Roque PC, 'China in Mozambique: A Cautious Approach', Occasional Paper, 23. Johannesburg: SAIIA, 2009.

69 Personal interview, Portuguese embassy, 3 November 2010; Joao Feijo, IESE, Maputo, 2 November 2010.

70 Hanlon J, 'Do donors promote corruption? The case of Mozambique', *Third World Quarterly*, 25, 4, 2004, pp. 747–763.
71 Saul JS, 'Mozambique: Not then but now', Africa Files, Issue Ezine, 12, 3, July 2010.
72 Abrahamsson H & A Nilsson, *Mozambique: The Troubled Transition from Socialist Construction to Free Market Capitalism*. London: Zed, 1995, pp. 113–115; Making Finance Work for Africa, 'Mozambique: Financial sector profile', www.mfw4a.org/mozambique/mozambique-financial-sector-profile.html; *AllAfrica.com*, 'Mozambique: Guebuza calls for "inclusive" banking system', 23 November 2010, http://allafrica.com/stories/201011240038.html. Only 52 of Mozambique's 128 districts have a bank branch, and just 103 of every 1 000 Mozambicans have a bank account.
73 TradeMark Southern Africa, 'Mozambique's energy, agriculture potential fought over by emerging economic powers', 26 April 2011, http://www.trademarksa.org/news/mozambique%E2%80%99s-energy-agricultural-potential-fought-over-emerging-economic-powers.
74 *Macauhub*, 'Mozambique: China second largest investor in 2008 after South Africa', 27 March 2009, http://www.macauhub.com.mo/en/2009/03/27/6795.
75 *The Economist*, 'Mozambique's recovery: A faltering phoenix', 8 July 2010, http://www.economist.com/node/16542671.
76 *AllAfrica.com*, 'Mozambique: Changing ownership or just changing owners?', 14 December 2006, http://www.illegal-logging.info/item_single.php?it_id=1815&it=news.
77 *AllAfrica.com*, AFRODAD Fact Sheet, http://allafrica.com/stories/201011240038.html.
78 The dam project was later awarded to a consortium of two national energy companies (60%) and a Brazilian construction firm, Camargo Correa (40%).
79 *AllAfrica.com*, AFRODAD Fact Sheet, http://allafrica.com/stories/201011240038.html.
80 Personal interview, Portuguese embassy, 3 November 2010.
81 *Chinamining.org*, 'Chinese investors to build cement factory in Mozambique', 18 May 2010, http://www.chinamining.org/News/2010-05-18/1274168338d36266.html.
82 *Macauhub*, 'China Should diversify financial aid to Mozambique', 10 August 2011, http://www.macauhub.com.mo/en/2011/08/10/china-should-diversify-financial-aid-to-mozambique.
83 See Alves AC, 'Chinese Economic Diplomacy in Africa: The Lusophone strategy', in Alden C, Large D & R Soares de Oliveira (eds), *China Returns to Africa: A Rising Power and a Continent Embrace*. London: Hurst, 2008.
84 Stanley Ho was granted exclusive rights for the gambling business in Macau during the Portuguese rule. Although this came to an end in 2002, shortly after the handover in 1999, Stanley Ho still dominates the sector in Macau, having since expanded the gambling business to several lusophone countries, including one casino in Maputo.
85 Santos had been raised in colonial Mozambique from 1953–1974, where he opposed Portuguese rule alongside Frelimo.
86 Positions each of these figures holds in Geocapital according to Geocapital website, http://www.geocapital.com.mo.
87 Various interviews, Macau, 2005 and 2006.
88 *Macauhub*, 'Macau company to develop Zambezi region in Mozambique', 9 December 2005, http://www.macauhub.com.mo/en/2005/12/09/160.
89 Zamcorp's shareholders are Geocapital with 35%, SOGIR (Sociedade de Gestao Integrada de Recursos, corporate arm of GPZ) 55% and Moza Capital with 10%. Its initial capital was $500,000; its headquarters are in Tete and there is a Zamcorp International Office in Hong Kong.

90 *Macauhub*, 'Mozambique: Moza Banco, with Macau capital, opens 16 June in Maputo', 13 June 2008, http://www.macauhub.com.mo/en/2008/06/13/5212.

91 Prakash Ratilal interview with *O Pais*: Massango O, '*Nao temos ambicao de ser o numero um ou numero dois*', *O Pais*, 18 June 2009.

92 Telephonic interview, official at Moza Capital, Maputo, 4 November 2010.

93 Prakash Ratilal interview with *O Pais*, *op. cit*.

94 According to a Mozambique ministry of agriculture presentation, June 2010; personal/telephonic interview, officials at GPZ, Maputo, 4 November 2010.

95 Sergio Vieira has been discharged and encouraged to retire.

96 *AllAfrica.com*, 'Guebuza calls for more production from Zambezi office,' 30 July 2008, http://allafrica.com/stories/200807300874.html.

97 Focarelli D & AF Pozzolo, 'Where do banks expand abroad? An empirical analysis', *Journal of Financial Intermediation*, 11, 2002, p. 24; also see Bolton P, 'Banking in emerging markets', *Journal of Financial Intermediation*, 11, 2002, pp. 362–365.

98 Cárdenas J, Graf JP & P O'Dogherty, Bank for International Settlements, 'Foreign bank entry in emerging market economies: A host country perspective', *Journal of Financial Intermediation*, 11, 2002, pp. 1–29.

99 Focarelli D & AF Pozzolo, *op. cit*.

100 *Ibid*.

101 Personal interview, Zhu Jian, China Exim Bank, Beijing, 10 September 2009.

102 Xinhua, June 2010.

103 Africa The Good News, 'Chinese bank says will finance Ghana oil projects', *Reuters*, 9 December 2009, www.africagoodnews.com.

104 Dow Jones Newswire, 22 January 2010.

105 As indicated in the business protocol of Rand Asia.

SAIIA'S FUNDING PROFILE

SAIIA raises funds from governments, charitable foundations, companies and individual donors. Our work is currently being funded by, among others, the Bradlow Foundation, the United Kingdom's Department for International Development, the European Commission, the British High Commission of South Africa, the Finnish Ministry for Foreign Affairs, the International Institute for Sustainable Development, INWENT, the Konrad Adenauer Foundation, the Royal Norwegian Ministry of Foreign Affairs, the Royal Danish Ministry of Foreign Affairs, the Royal Netherlands Ministry of Foreign Affairs, the Swedish International Development Cooperation Agency, the Canadian International Development Agency, the Organisation for Economic Co-operation and Development, the United Nations Conference on Trade and Development, the United Nations Economic Commission for Africa, the African Development Bank, and the Open Society Foundation for South Africa.

SAIIA's corporate membership is drawn from the South African private sector and international businesses with an interest in Africa. In addition, SAIIA has a substantial number of international diplomatic and mainly South African institutional members.

South African Institute of International Affairs
Jan Smuts House, East Campus, University of the Witwatersrand
PO Box 31596, Braamfontein 2017, Johannesburg, South Africa
Tel +27 (0)11 339-2021 • Fax +27 (0)11 339-2154
www.saiia.org.za • info@saiia.org.za

South African Institute of International Affairs
African perspectives. Global insights.