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"Going global" in growth markets — Chinese investments in telecommunications in Africa

China is broadening its investment base in Africa. Investments are shifting from extractive and heavy industries to also include the continent's service sectors; such as telecommunications. The boom achieved in Africa's telecoms industry, due to the liberalisation of the sector in many countries and the willingness of African governments to develop and modernise the telecoms industry, has attracted foreign investors, including Chinese multinational companies. Since the late 1990s, following China's "go out" policy, Chinese telecoms companies have ventured abroad to acquire technology, new markets and develop new managerial skills.

Telecommunications fits into China's political economy strategy and during the last three decades, China's telecoms sector has experienced an unprecedented growth. The telecoms industry has become a key element of social, economic and technological development, thus making it not only strategic but also important for creating jobs and businesses. In addition, telecommunications make a substantial and growing contribution to the world economy.

China's "go out" strategy

With the world's largest number of mobile phone subscribers and internet users, telecommunications represent a strategic investment sector in China. Tensions between companies' economic interests and the central government policies towards state-owned companies on the domestic market (China Mobile, China Unicom and China Telecom) have been push factors for other Chinese telecommunications enterprises to venture for new markets abroad. Following China's economic rise, accompanied by the competitiveness of Chinese companies in the global market, a number of Chinese telecommunications companies have expanded their activities overseas to compete with the world's major telecoms firms (Ericsson, Alcatel, Nokia; etc.) and counter their dominance of the sector. Such forays into foreign markets have enabled Chinese telecommunications companies to acquire new markets, technology and managerial skills.

Chinese telecoms companies operating internationally are mainly Huawei and ZTE and recently Alcatel-Lucent Shanghai Bell and Tecno Telecom Limited. These companies are globalising fast and their footprint in the global telecoms industry is changing the trend in the sector by creating new competition and reshaping management

Table 1: African Countries' with high mobile cellular subscription growth (Subscriptions in millions)

Country	2007	2008	2009	2010	Growth (2007-2010)
Nigeria	40,395	62,988	74,518	87,297	**116 %**
Egypt	30,093	41,286	55,382	70,661	**135 %**
Morocco	20,029	22,815	25,310	31,982	**60 %**
SAfrica	42,300	45,000	46,436	50,372	**19 %**
Kenya	11,349	16,303	19,364	24,968	**120 %**

Source: International Telecommunications Union, 2010—Growth: author's calculation

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strategies. Yet, their internationalisation has taken different forms including research & development, joint ventures, project contracting, mergers & acquisitions, telecoms management and operation.

Chinese telecoms companies have changed the monopoly of the telecoms market in Africa, benefiting from comparative advantage and high profit potential due to cheap production, cheap labour costs and price competitiveness.

Not least, the Chinese government's role is visible and constitutes an important aspect in the internationalisation process of Chinese telecommunications companies. The "go out" policy in place since the late 1990s has been developed by Beijing's central government to promote more Chinese companies operating overseas.

Financial and political institutions have been instrumental in this strategy of internationalisation of Chinese enterprises; among the financial institutions are China Exim Bank, China Development Bank and China-Africa Development Fund. The political actors are the Ministry of Commerce (MOFCOM), the National Development and Reform Commission (NDRC) and the State Administration of Foreign Exchange (SAFE). Chinese telecoms companies are part of this policy. For example, preferential loans and buyer credits are provided to Chinese telecoms companies operating abroad. In a 2009 five year development cooperation framework agreement, China Development Bank stated it would provide ZTE with a US$15 billion credit line including ZTE's overseas project financing and credit limits.

Liberalisation and growth of Africa's telecoms industry — to the consumers' benefit

Africa is a thriving market for the telecoms industry, as Tables 1 and 2 illustrate. The telecoms sector in Africa has experienced important growth during recent years and has attracted an increasing number of foreign investors. The willingness of African governments to modernise and develop their telecoms industries and the telecoms policies' liberalisation in some African countries in the 1990s and early 2000 have made the African telecoms environment favorable to foreign investors. The continent thus also plays a key role in Chinese telecoms companies' international activities, allowing them to gain partnership and collaboration with local telecoms operators. China's increasing presence in Africa's telecommunications sector is part of a multi-dimensional engagement on the continent to serve its broader strategy in the new world political and economic order.

For Africa, the lack of adequate infrastructure has always been a bottleneck for socio-economic development. To operate in Africa's telecommunications industry, Chinese companies have focused on developing telecommunications infrastructure. Thereby, investment in telecommunications goes hand in hand with strategic policies of China's interests abroad to find new markets to export its manufacturing products, develop its technology and acquire foreign expertise. For Huawei and ZTE, the main motives to tap into Africa's telecoms industry were the lack of network coverage and the high costs of establishing landline networks across vast and often sparsely populated territory. From traditional messaging and calls to money transfer and social network access, mobile phone usage in Africa is growing, making Africa the world's fastest growing mobile phone market. Over the past five years, the number of mobile phone subscribers has increased by almost 20% per year. According to estimates, it is expected to reach 735 million by the end of 2012.

Telecommunications is a key sector for economic development. It contributes to services' trade and plays an important role in offering innovative solutions to traditional development challenges for African countries. In Kenya for instance, farmers in rural areas benefit from the large network coverage in their villages by taking their customers' orders and making bank payments via their mobile handsets. Such technological development has allowed them to lower transaction costs and avoid expensive transport costs due the bad quality of the roads. The Global System for Mobile

Table 2: Total and Penetration rates of mobile and fixed telephone lines subscriptions in Africa

	(millions)				Per 100 inhabitants			
Year	2008	2009	2010	2011*	2008	2009	2010	2011*
Fixed Telephone Lines	11	12	12	12	1.5	1.6	1.5	1.4
Mobiles cellular Subscriptions	246	296	360	433	32.4	38.0	45.2	53.0

Source: International Telecommunications Union, 2011. Updated on 16 November

Note: *Estimate

Table 3: Examples of Chinese Telecoms investments in Africa

Country	Company	Winner	Description	Year	Value (US$) millions
S Africa	Cell C	ZTE	GSM/3G expansion	2010	378
S Africa	Telkom SA	Huawei	W-CDMA expansion	2008	211
Libya	LPTIC	Huawei	Submarine cable	2010	n/a
Ethiopia	ETC	ZTE/Huawei/CITCC	Fibre optic Transmission/ GSM network expansion	2006	1,500
Ghana	Ministry of Com-munication	ZTE	Transmission network	2006	70
Algeria	Mobilis	ZTE	3G network	2005	n/a
Angola	Angola Telecom	ZTE	Optic fibre backbone	2008	1,200
Nigeria	Zain	Huawei	NGN Mobile softswitch	2010	n/a

Source: Chanakira, 2010

Association (GSMA) stated that: "in 2006, the mobile industry in Sub-Saharan Africa employed more than 3.5 million people directly or indirectly and the industry made an average contribution of 4% to the region's GDP and accounts for 7% of the total revenues of the region's governments".

Not surprisingly, African governments have shown an interest in developing their telecoms environment. The high costs of building landline phone networks equipment in Africa compared to mobile phone base stations have driven the rise of the mobile phone market in the continent. For the majority of the population in Africa living in rural areas and in poverty, the initially high costs of establishing telephone wires have not been viable. Rural areas have thus remained disconnected and remote from urban centres. This gap has been bridged by increased numbers in mobile phone usage. The arrival of more mobile phone manufacturers and telecoms network providers further helped to supply customers with low cost mobile telephone handsets and wide network coverage.

With the already great and still rising demand in Africa's mobile phone business, Chinese telecoms companies continue to expand their activities on the continent and contribute to the changes occurring in the sector relying on government support, price competitiveness, cheap labour, low production costs and high profit margins. ZTE and Huawei have developed telecoms infrastructure and networks in Africa; thereby they have arguably contributed to bridging the telecoms divide (see Table 3).

Implications for Africa

Chinese telecoms companies have contributed to the development of Africa's telecoms industry at different levels, both including socio-economic development and technology/skills transfer. For many Africans, the availability of low-cost consumer goods—even if sometimes of variable quality— represents the most important impact of Chinese involvement on the continent. Huawei and ZTE as telecoms manufacturers have enabled wide network coverage by establishing their base stations in remote and rural areas, bringing or making mobile phones more accessible to Africans through their low-cost equipment and products strategy.

As Huawei and ZTE focus on customers' requirements, Africa can benefit from up-to-date technologies and fast services at affordable costs. Both companies have established training centres in Africa that allow staff members and local network providers to benefit skills/ technologies transfer. The collaboration and the partnership established with major African telecoms operators have contributed to the improvement of telecoms technologies in African countries.

Huawei has established six training centres across Africa (Nigeria, Angola, Kenya, South Africa, Egypt and Tunisia) and ZTE has set up four (Egypt, Ethiopia, Algeria and Ghana). In collaboration with governments and telecoms operators, these centres also focus on technology promotion, professional consultation and academic research.

African governments and telecoms operators have welcome Chinese investments in the industry, as there is a dire need for infrastructure development and investment on the continent. However, problems exist and policies need to be developed by African policymakers to adjust the telecoms environment to the presence of Chinese enterprises.

In many African countries, local telecoms operators and foreign investors have expressed concern that Chinese telecoms companies have unduly used governmental relations with Africa to access markets. Indeed, political diplomacy from the Chinese government is one of the strategies that not only Chinese telecoms but also other Chinese multinational companies in different sectors apply to acquire more markets in Africa. Chinese government's diplomatic attention to African countries helps to support state to state projects and constitutes an important feature in the bidding process of Chinese telecoms companies in Africa. The presence of ZTE and Huawei top managers during Chinese officials' visit to African countries allow them to build strong ties with host countries' governments to gain reliability and influence in order to have more important projects.

In Kenya, one of the most thriving telecoms markets in Africa, Chinese investments in the ICT sector are allegedly distorting important investments decisions. With the Chinese companies' price advantage, African ICT vendors have highlighted the fierce competition in the sector brought by the Chinese presence. Subsidised funding sources allocated to Chinese companies by their government give them a competitive advantage. Chinese investments in Africa's telecoms sector come with tied loans for telecoms network providers and governments to only buy Chinese equipment. This is a way to secure large-scale contracts for Chinese telecoms companies. Corruption, lack of transparency, and cost inflation have also been concerns that African governments face while dealing with Chinese companies. Chinese investments projects in Africa often lack transparency vis-à-vis local companies and populations.

Conclusion

China's engagement in Africa's telecoms sector has been substantial. Based on their experience at home and their expertise in overseas markets, Chinese telecoms companies contribute to bridge the digital gap and allow people – irrespective of their location – to be part of the era of information and communication. This new movement of Chinese investments in services is probably driven by China's shifting priorities towards Inward Foreign Direct Investment (IFDI). The emphasis now is on creating a consumption-driven economy in order to avoid reliance on exports. In China, more proactive policies to attract foreign investments in services have been undertaken by policymakers.

From African policymakers' side, attention needs to be paid not to exclusively involve Chinese companies in sensitive service sectors. In China herself, although foreign investment in services is welcomed by Beijing's central government, the insurance and consumer banking sectors still remain untapped by foreign investors and entirely controlled by Chinese enterprises. These sectors including the telecoms sector fall onto the list of China's seven "strategic sectors" which are dominated by the "national champions".

To avoid suspicion about their activities in Africa and allow policymakers, organisations and academics to fully engage with them, Chinese telecoms companies should interact more—and more proactively—with the public, e.g. through local media. This can help improve companies' image and counter the strong and negative perception of secrecy that surrounds their engagement in Africa. Lastly, more needs to be done with regard to transparency in allocating tenders to telecoms companies operating in Africa; Chinese investments in Africa should not benefit African policymakers in sometimes opaque deals with Chinese officials but rather the people who increasingly are becoming consumers of goods.

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