

Study reveals China commands almost 50% of Africa's international EPC market

According to a new report by McKinsey Africa, *Dance of the lions and dragons*, China's involvement in Africa is bigger and more multifaceted than previous studies suggest.



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Through a study conducted across eight countries that together make up about two-thirds of sub-Saharan Africa's GDP, the report finds that there are already over 10,000 Chinese firms operating in Africa — four times the previous estimate. About 90% of these are private firms, of all sizes and operating in diverse sectors, with about a third in manufacturing.

The China-Africa relationship has ramped up over the past decade with trade growing at around 20% per annum. FDI has grown even faster — at an annual growth rate of 40%. China's financial flows to Africa are 15% larger than official figures suggest when non-traditional flows are included. China is also a large and fast-growing source of aid and the largest source of infrastructure financing, supporting many of Africa's most ambitious infrastructure developments in recent years.

Chinese firms are market-driven and investing for the long-term

Operating across many sectors of the African economy, in addition to manufacturing, a quarter is in services and a fifth in trade and in construction and real estate. Chinese firms already handle 12% of Africa's industrial production — valued at \$500bn a year in total. In infrastructure, Chinese firms' dominance is even more pronounced, having cornered nearly 50% market share of Africa's international engineering, procurement and construction (EPC) market.

Chinese firms are making healthy profits. Nearly a quarter of the 1000 firms surveyed said they covered their initial investment within a year or less. A third recorded profit margins of over 20%. These firms are agile and quick to respond to new opportunities. They are primarily focused on serving the needs of Africa's fast-growing markets rather than on exports. Chinese firms have made investments that represent a long-term commitment to Africa. Of the Chinese firms surveyed, 74% said that they are optimistic about their future in Africa.

Clear benefits, but challenges must be addressed

The report points to three main economic benefits to Africa from Chinese investment and business activity:

Job creation and skills development: Of the 1,000 firms surveyed, 89% of the employees are local. The research suggests that Chinese firms employ several million Africans. Nearly two-thirds of Chinese firms provide skills training to their workers.

Transfer of knowledge and new technology: Chinese firms are modernising African markets by introducing new products and technologies. Some 48% introduced a new product or service and 36% have introduced a new technology in the last three years.

Financing and development of infrastructure: When asked what they value most from their Chinese partners, for some 50 African public-sector leaders, low-cost financing and improved infrastructure topped the list. They cited Chinese firms' efficient cost structures and speedy delivery as major value-adds.

While on balance, China's burgeoning partnership with Africa is a positive for Africa's economies, governments and workers, there are areas that need significant improvement:

Local sourcing: By value, only 47% of Chinese firms' sourcing was from local African firms, which is lost opportunity for these firms to benefit from Chinese investment.

Local managers: Too few locals are in managerial positions — only 44% today.

Pain points for both sides: Chinese firms cite personal safety and corruption in some countries as their top concerns. For African leaders, language and cultural barriers are pain points. There have been instances of labour and environmental violations by Chinese firms.

Maximising the impact of the partnership

Kartik Jayaram, a senior partner and co-author of the report said, "Chinese engagement with Africa is set to accelerate — by 2025 Chinese firms could be earning revenues worth \$440bn, from \$180bn today. Additional industries could be in play for Chinese investment, including technology, housing, agriculture, financial services and transport and logistics. However, to unlock the full potential of the China-Africa partnership, we have identified 10 recommendations for Chinese and African governments as well as the private sector. To highlight two key ones, African governments should have a China strategy and the Chinese government should open financing and provide guidance to Chinese firms."

Few African countries have a clear strategy and engagement plan for China. Governments should develop such strategies, linked to national plans and priorities. They should also cultivate capabilities in their bureaucracies to support these strategies.

Opening Chinese government financing and providing guidance on responsible business practices to Chinese private sector firms in Africa would accelerate sustainable investment.

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