

Investors given a helping hand

VP of power equipment firm lauds private equity targeting Africa



By **LIU HONGJIE**

In the eyes of Li Hong, vice-president of China Western Power Industrial, Africa is the ideal place for investing Chinese surplus capital. Li, who is in charge of the company's investment operations, says Africa is the best investment choice for several reasons.

First, the Sino-Africa relationship is sound and stable, which creates a friendly environment for Chinese investors. Also, the Chinese government strongly supports Chinese companies' investing in Africa.

Furthermore, the China-Africa Development Fund, founded in 2007, the first fund focused specially on investing in Africa and the biggest of all the private

equity funds, provides financial support to Chinese companies to tap into the African market. The Chinese government approved the establishment of the China-Africa Development Fund with first-phase funding, of \$1 billion, provided by China Development Bank, and which will eventually reach \$5 billion. According to an official report, the China-Africa Development

Fund has invested \$2.4 billion so far, with a promised \$3 billion in total.

Finally, African countries are still underexplored and most are in the initial phase of industrialization and modernization. They need Chinese companies to help them with their infrastructure construction and factory building.

"As for investment, we must raise chickens first and then can we have eggs," Li says.

He expects return on investment in Africa to be between 20 percent and 30 percent, compared with 10 percent in China and 15 percent in Asia, he says.

Li went to Tanzania as a member of a China-Africa Business Council delegation

CHINA WESTERN POWER INDUSTRIAL CO LTD

Established: 1983

Headquarters: Sichuan

Industry: Research and development, manufacture and export for large power plant boilers, special-type boilers and power station auxiliary equipment; supplier of system solutions for power equipment

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- General Manager of China Western Power Industrial Co Ltd (2007-present)

- Deputy General Manager of China Western Power Industrial Co Ltd (2007-9-2007.11)

LI HONG



Vice-President of China Western Power Industrial Co Ltd

Born: 1959

Education

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Career

- Vice-President of China Western Power Industrial Co Ltd (2014-present)

to do market research in June, and he attended the Third Tanzania-China Business Forum in Beijing four months later. China Western Power Industrial is currently taking part in the negotiations over two cooperation projects in Tanzania and South Africa separately.

China Western Power Industrial specializes in research and development, manufacturing and exports for large power plant boilers, special-type boilers and power station auxiliary equipment. It is also the professional supplier of system solutions for power equipment. Its main activities include equipment manufacturing and investment.

Large Chinese companies have only begun diversifying from their highly competitive domestic markets to seek better returns overseas in recent years. According to a white paper on China-Africa economic and trade cooperation published by China's State Council last year, the country's foreign direct investment in Africa grew at 20.5 percent a year between 2009 and 2012.

Cumulative FDI in Africa amounted to \$21.23 billion by 2012, mostly in energy and mineral resources, it said, and Chinese businesses had completed construction contracts worth \$40.8 billion on the continent. From 2010 to May 2012, China approved concessional loans worth \$11.3 billion for 92 African projects, and China-Africa trade had reached \$198 billion in 2012, 19.3 percent higher than the year before, it said.

Many analysts say that because of Chinese companies' years of experience in the domestic market, they have a deep understanding of how to operate in fast-growing economies, and that experience has proved invaluable to their operations in Africa. To that end, the China-Africa partnership is evolving rapidly.

In the past, many Chinese investments have been in the tens of millions of dollars but today some are in the billions. Moreover, the scope of investment is widening, and now ranges from natural resources and infrastructure to telecommunications and manufacturing.

Given the increasing competition for assets unleashed by buyers from other nations, many Chinese investors are engaging local employees and drawing on local materials, and in turn are leaving behind valuable skills in the community. Those legacies will inevitably make it easier for China's investors to secure more deals in Africa for decades to come.

Nowadays, Chinese investment is seen to have several advantages. Availability of finance is the key to success, with funding commonly provided to contractors and investors through export credits from Export-

Import Bank of China. Most of the financing is provided by it and the China-Africa Development Fund, with very little from state-owned banks.

In theory at least, cash is placed in escrow accounts in Beijing, a list of infrastructure projects is drawn up, Chinese companies are given contracts to build them and the funds are then transferred to the companies' accounts. The aim is to avoid embezzlement and ensure that projects are completed.

Chinese companies also have a time advantage over Western firms that may depend on financing from the World Bank, or a commercial lender such as Citibank, which tie loans to cash flows generated by a project. There is less immediate pressure on Chinese firms to produce revenue to service debt, so they can bide their time before mobilizing resources.

Last November Zhao Changhui, the chief country risk analyst at the Export-Import Bank of China, announced that the central government, including state-owned banks, would provide \$1 trillion in financing to Africa up to 2025. Zhao told delegates at an Africa investment conference in Hong Kong that the Export-Import Bank of China would account for 70 percent to 80 percent of the funds, which were to include direct investments, soft loans and commercial loans.

"Africa will be the single-most important business destination for many Chinese mega-corporations for the next 20 years," he said. In particular, the Export-Import Bank of China had plans to take part in infrastructure projects in Africa, including transnational highways, railways and airports. He estimated it would cost \$500 billion to build a continental rail network.

In May, Zhao stressed that Chinese investors would not be put off by instability in Africa. He highlighted the Export-Import Bank of China's support for billion-dollar projects, including a power plant in Ethiopia, railway networks in the Democratic Republic of Congo and Kenya, an airport in Sudan and infrastructure projects in Cote d'Ivoire.

Such commitments are built on the support for strengthening the bilateral relationship at the highest levels. When President Xi Jinping was in Africa in March last year he made a commitment to provide concessional loans worth \$20 billion to next year, reinforcing the country's economic ties to the continent.

Li of China Western Power Industrial believes that with the support of the Chinese government and the company's past successes, it can achieve great success in Africa.