

# Chinese Contractors in Africa

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## Preface:-

### General Information of Global Construction Industry and African Market

The value of the **global construction industry** in 2011 was USD 5.8 trillion, which took up 8.32% of the **global GDP value**. “**OXFORD ECONOMICS**” predicts in its report 《**Global Construction 2020**》 that the value of **global construction industry** will be USD 12.7 trillion and its portion within the global GDP value will go up to 14.6%. China, India, Russia, Brazil, Poland and United States will be the main markets for this growth.

Despite some global upheavals and uncertainties, the world construction market showed surprising strength for large contractors in 2011. The revenue of the global construction industry in 2011 was \$5.8 trillion. Asia & Australia, Europe and Middle-East countries are still the top three regions weighting 65.5% of the whole value of the international construction market. (It can be seen here that the value is USD 112.19 billion in Asian & Australian countries, USD 101.46 billion in European countries and USD 83.07 billion in Middle East countries.

Of course Latin America, Africa and Asia are certainly all regions where to see great opportunities for the business growth in the future. Comparing with the total revenue in 2010, the growth rate of different regions were: 6.6% in Asia & pacific; 6.4% in Latin America; 5.8% in East Europe; 4.7% in Middle East; 4.7% in Africa; minus 0.4% in West Europe, and minus 3.3% in North America. And for the past decade, the total revenue of the ENR Top 225 grew for 6 times (from \$88 billion in 2001 to \$606 billion

in 2010). The revenue of African market weighted 8.28% of the total Top 225 revenue in 2001 and increased to 15.80% in 2010(12.84% in 2011).

It can be seen as a matter of fact that the African Market has been weighting a significant proportion in the total ENR International Contractors' Revenue. The market demand is increasing due to the needs to build or improve the infrastructures and this sustained development tendency will last in the coming decade as well.

## **Part 1:-**

### **Chinese International Contractors in Africa**

#### **1.1 Dominating Contractors in Africa**

Among the ENR Top 225 International Contractors, European, American and Chinese Contractors were taking up to 80% of the whole market revenue. The sum weight of the main regional International Contractors went year by year with plus or minus 5% fluctuation. However, the interior distribution among the contractors from these three regions (Europe, America and China) varied substantially. As the dominating Contractors in African market, the European group used to take 44.30% of the total market revenue in 2002, but their share declined to 34.60% in 2011. The market share of American group fell significantly from 24.10% in 2002 to 6.70% in 2011. By contrast, the Chinese group was in a major growth tendency and the market share rose from 9.90% in 2002 to 40.10% in 2011, and took the lead in the recent three years. As the revenue of African market increasing, it became the entry point for Chinese contractors going out.

#### **1.2 Chinese Contractors on ENR Top 225 List**

Chinese international construction sector is a sun-rising industry after the implementation of China's Reform and Opening-up Policy. During the past three decades, the Chinese international project contracting industry has emerged, grown, flourished and gone through an extraordinary process of development. Under the guidance of "Going Global Strategy", the industry made an unprecedented breakthrough.

Chinese international contractors, growing with the objective of globalization and market diversification, against the backdrop of increasingly fierce worldwide market competition, have managed to solidify their market position in traditional lines of business and entered new markets. Started in Asia and Africa, Chinese international contractors have now enlarged their business and reached out into over 180 countries and regions in five continents.

### **1.3 Business scope of Chinese International Contractors in Africa**

Chinese international contractors have continuously extended their operations from labor-intensive sectors like housing construction and road pavement into such capital and technology-intensive sectors like metallurgy, petrochemical, power generation, transportation, telecommunications, mining and sewage treatment. In recent years, turnover that Chinese international contractors achieved in transportation, telecommunications, power generation and petrochemical sectors has grown rapidly and takes about 50% of the annual total contract value.

These are some sample projects:

- **Ring Road in Ethiopia**
- **Friendship Port Project in Mauritania**
- **AL-JaBaLayn Oil Project in Sudan**
- **Merowe Hydro Project in Sudan**
- **International Convention Center in Malabo, Equatorial Guinea**
- **Sheraton Hotel in Algeria**
- **The Garma Mosque in Algeria**
- **International Airport in Boumediene, Algeria**

### **1.4 Factors leading to the development of Chinese Contractors in Africa**

According to the investigation conducted by Chen and Orr in 2009 among the Chinese Contractors in the African market, their past development and success in business extension scale can be attributed to the factors like technical superiority, cost advantage, labor resources and management experience which were in the dominant position.

## **Part 2:-**

### **Challenges and Risks**

There was no peaceful world for the Chinese Contractors to make such eye-catching achievement in their past three decades' development journey. The challenges and risks are always living with the opportunities in the African market with the Chinese Contractors, such as late involvement, minority proportion in revenue, competitive pressures, people risk and property risk, political risk, etc.

#### **2.1 Late involvement**

Chinese Contractors started their international construction business in 1978 and gradually increased the market share from 2000, much later than other international contractors (those in Europe, America, Japan, and South Korea).

Therefore the Chinese International Contractors are called as the "third echelon" in the International Construction Industry, comparing with the examples such as Hochtief AG(Germany) (1<sup>st</sup> ENR 225 in the year of 2012) which was formed in 1873 and involved the international market in 1921, and Skanska AB (Sweden) (9<sup>th</sup> ENR 225 in the year of 2012) which was formed in 1887 and involved the international market in 1897.

#### **2.2 Minority Proportion in Revenue**

The three main market sectors of the ENR Top 225 International Contractors' Revenue, i.e. Transportation, Petroleum and Building, normally account for 75% of the total annual revenue, while the Chinese Contractor was sharing 6.13% in transportation, 5.4% in petroleum and 4.53% in building in the year of 2011.(Taking into account of the number of the Chinese Contractors, the average proportion shall be 23%.) Similarly can be seen for a 11 years' period from 2001 to 2011, the proportion of total revenue shared by the Chinese Contractor on the ENR Top 225 list were always much lower than the average figure.

#### **2.3 High competitive pressures**

According to the investigation done by Chen and Orr in 2009, only 11% of the projects were awarded through unilateral negotiation, while 40% of the projects

were awarded through competition among Chinese Contractor and 49% of the projects were obtained after the international bidding process. That means the Chinese International Contractors have to cope with the extremely high competitive pressure from both International Contractors and the other Chinese Contractors, since both are attracted by the continuous development demand of the infrastructure and potential projects opportunities in Africa.

#### **2.4 High People Risk and Property Risk**

Along with the Chinese International Construction industry expansion in the foreign market, the people risk and property risk are severely increased due to reasons such as:

- **More Chinese International Contractors are going out;**
- **A large number of Chinese Labour Resources are deployed in the projects;**
- **More Chinese Contractors are undertaking projects in the most risky markets:-**  
Libya, Mali, Central Republic African, Democratic Republic of the Congo, Sudan and South Sudan, Nigeria and etc.

Between January 2009 and June 2011, **Control Risks** ([www.controlrisks.com](http://www.controlrisks.com)) recorded a total of 25 cases involving Chinese nationals and 65 Chinese victims. According to a report from the specialist risk consultancy: “The number of cases involving Chinese nationals, and indeed their proportion of the total number of foreign nationals abducted, almost doubled in 2010 and remained high during the first six months of 2011.”

Regarding the people risks, security risks, and political risks which are all serious concerns in most African countries to all the Chinese Contractors, it can be seen from the **Kidnapping Risk Map, Security Risk Map and Political Risk Map produced by Control Risks(www.controlrisks.com)**, African Market is the one with the highest risky degree. Numbers of countries in Africa are marked as high and extremely high risky areas, such as Mali, Somalia, Mauritania, Niger, Nigeria, Sudan, and most of the African countries are on the “Very High” political risk list, including Libya, Mali, Central Africa Republic, Democratic Republic of Congo, Sudan and etc.

During the Civil war in Libya in February, 2011, 50 Chinese undertaking projects were

affected and the sum of the contract value involved is \$18.8 billion. To the Chinese Contractors, the political risk may cause the contracts to be suspended, place the people in an extremely dangerous situation, bring huge value losses to the property and undertaken activities, and trigger massive evacuation expenses and etc.

## **2.5 Other affecting factors**

There are some other affecting and challenging factors to be considered by the Chinese International Contractors:

- **Labour cost advantage is weakening;**
- **Majority markets in construction by Chinese Contractors are marked with low margin;**
- **Relying on local finance & Chinese financing sources, short of experience in the international and worldwide financing market;**
- **Contract Management ability to be improved;**
- **Risks management ability to be improved;**
- **Management localization to be further strengthened.**

## **Part 3:-**

### **Development and Future**

Risks are always living together with the opportunities and profits. It's up to the clever one to manage the risks and get the profits. Therefore, Chinese International Contractors shall seize every opportunity and maximize all efforts to preserve the upward tendency of the International Construction Industry.

#### **3.1 Government Support**

The Chinese government is providing three levels support to the International Contractors:

- **Government investment and marketing promotion;**
- **Financing and insurance policy;**
- **Market oriented –financial support.**

Regarding the government investment and marketing policy, these can be different

infrastructure construction cooperative agreement between countries and providing interior and exterior policy privilege to the Chinese Contractors. Regarding the financing and insurance policy, these can be free-interest loan, guaranteed special funds, market development funds and export rebates from various sources to benefit the Chinese Contractors. And regarding the market oriented financial support, these can be international development aid, preferential international loans, buyer's credit and commercial credit support and etc.

### **3.2 Exploration in new business modes and new approaches in project contracting**

The business mode of Chinese international contractors becomes increasingly diversified, with general contracting modes like traditional construction contract and EPC (engineering procurement-construction) becoming more prevalent while resource development-oriented projects growing also at a fast speed. Investment or financing-oriented modes like BOT (build operate-transfer), DBB (Development-Design-Build), FPDBPM (Finance-Procurement-Design-Build-Property Management) and PPP (public-private-partnership) have also been widely adopted.

### **3.3 Continuously improving the international competitiveness**

After three decades' development in the international construction industry, Chinese Contractors have already **achieved numbers of well-known brands**, such as CNPC, CMEC, CSCEC, CCCC, SINOHYDRO, CGGC, CRCC, and etc; **delivered successfully various projects**, such as Algeria Road Projects with contract value of \$ 6.25 Billion (CITIC & CREC), Tekeze Power Project in Ethiopia(SINOHYDRO); **formed their core competence in business and technique** in the areas of Building, Transportation, Power Station, Harbor, Railway and etc.; **held fine reputation in key markets** such as Angola, Congo, Zambia, Algeria, Ethiopia and etc, and expanded further in new markets.

### **3.4 Heading to a collaborative future with the business partners**

Abiding by the mutual-benefit concept, Chinese international contractors operate in good faith, and elaborate their cooperation and sourcing policy, in hope of collaborative business opportunities with business partners.

In the practical activities, it is a quite common practice for Chinese Contractors jointly

working:

- With **Chinese Contractors**, such as:  
**Sinohydro JV CWE** in Sudan, **CITIC JV CCECC** in Algeria, **Sinohydro JV CGGC** in Ethiopia, and so many others;
- With **International Consulting Companies**, such as:  
AECOM, FLOUR, AMEC, ARCADIS, JACOBS, DAR Group, ARUP, and so many others;
- With **International Risk Management Agent**, such as:  
Aon Corp., Marsh & McLennan, Willis Group, Lockton Cos. L.L.C, BB&T and etc.
- With **International Contractors**, such as  
**CNPC JV Turkmenistan's Natural Gas Konzern**, and **HQCEC JV VINACHEM**.

They do all these for the following interests: to strengthen the competitiveness; to effectively capitalize on respective resources; to build cross industry alliances among multinationals; to better meet the requirements of project owners, and to extend into high-end markets and high-value-added fields.

### **3.5 Localization**

Localization is set as the approach for all the Chinese international contractors to improving the corporate management, in respect of local work environment, culture, religion, history, regulations, and politics.

As an example, Sinohydro Corporation is adopting a two-step human development strategy in its employee's localization programme: The first step is to ensure all field operators are locals. Currently, over 90% of operating staff working overseas are locally hired. And the second step is to recruit local managerial staff, especially senior management, with the ultimate goal of localization of middle management staff.

### **3.6 Social Responsibility Promotion**

With the development of the industry, Chinese international contractors have realized fulfilling social responsibility has become an important issue for contractors to transfer development mode and achieve sustainable development. Actively fulfilling the social responsibility can be conducive for Chinese international contractors to upgrade their overall competitiveness and seize more opportunities in



oversea market, which consequently will promote the sustainable development of individual contractors and the whole industry. More and more Chinese international contractors value the protection of the rights of employees, make or establish an overseas project quality management system, advocate social responsibility by way of doing the followings such as:

- **Promoting Community Education;**
- **Constructing green and environmental protection;**
- **Advocating Environmental Protection for Public Welfare;**
- **Improving infrastructure and living conditions;**
- **Highlighting Ecological Protection.**

## **Conclusion**

Seven of the 10 fastest-growing economies into 2015 will be African nations such as **Ethiopia, Mozambique, Tanzania, Democratic Republic of the Congo, Ghana, Zambia and Nigeria**, according to the statistics developed by **The Economist and the International Monetary Fund**.

The path may be thorny, but for the Chinese International Contractors, by way of learning from the Past to create a better future, they are ready to take the global responsibility and achieve the all-win harmony in the future.

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