Chinese Contractors in Africa

Peng Shenying
Chief Contract Officer
Sinohydro Corporation Limited
Content

Chinese Contractors in Africa

Challenges and Risks

Development and Future

Brief Introduction to Sinohydro Corporation
Global Construction Market

2011
- Value of Global Construction Industry: $5.8 Trillion
- Global GDP Value: $69.66 Trillion

2020
- Value of Global Construction Industry: $12.7 Trillion
- Global GDP Value: $86.99 Trillion

Percentage:
- Asia & Australia: 24.80%
- Europe: 22.40%
- Middle East: 18.30%
- Africa: 12.80%
- Latin America & Caribbean: 9.10%
- USA: 8.10%
- Canada: 4.50%

Revenue ($bil):
- Asia & Australia: 112.19
- Europe: 101.46
- Middle East: 83.07
- Africa: 58.15
- Latin America & Caribbean: 41.11
- USA: 36.71
- Canada: 20.2
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).
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.
Chinese Contractors in Africa

Business scope

• The operations of Chinese contractors in Africa vary from labour-intensive sectors like building, road pavement to capital and technology-intensive sectors like Power Generation, Transportation, Petrochemicals, Telecommunications, Mining and Sewage Treatment.
Factors leading to the development of Chinese Contractors in Africa

(Source: The investigation: Chen and Orr 2009)
# Chinese Contractors in Africa

## Brief Introduction of Sinohydro Corporation

<table>
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<th>S.N.</th>
<th>ENR Top 5 Chinese Contractor</th>
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<td>10</td>
<td>China Communications Construction Company Limited</td>
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<td>22</td>
<td>China State Construction Engineering Corporation</td>
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<td>Sinohydro Group Ltd.</td>
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<td>24</td>
<td>China National Machinery Industry Corporation</td>
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<td>30</td>
<td>China Railway Construction Corporation Limited</td>
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</table>
130,000 permanent employees

19 subsidiaries

11 holding companies

70 overseas branch companies and representative offices

Ranked 23rd in the ENR Top 225 International Contractors.
SINOHYDRO  Four main business lines

Construction & Engineering  Investment

Real Estate  Mechanical & Electrical Equipments
SINOHYDRO is actively pushing forward its international strategy.

Building a growth dynamic

- 311 Projects
- 63 Countries
- Contracted value USD 30.7 billion

SINOHYDRO Overseas Business
CHALLENGES & RISKS

- Late Involvement
- Minority Share in Revenue
- Competitive Pressures
- Contractual Risk
- People and Property Risk
- Political Risk
- Other Affecting Factors
Challenges and Risks

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 European, American, Japanese, and South Korea). (Called as the “third echelon” in the International Construction Industry.)
Challenges and Risks

Minority Share in Revenue

ENR Top 225
in three main Sectors

- Chinese Contractor in Top 10
- Other Contractors in Top 10

Challenges and Risks

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Chinese Contractors’ Portion on the ENR Top 225 list

Chinese
Average
Other International

Chinese Contractors’ Portion on the ENR Top 225 list

Chinese
Average
Other International
Challenges and Risks

Competitive Pressures

- Worldwide Competitors
- More Chinese Contractors

Both are attracted by the continuous development requirement of the infrastructure in Africa.
Challenges and Risks

Contractual Risks from Employer

- Exaggeration of its contractual rights
  - Right to withhold payments
  - Right to reject taking over
  - Right to issue late instructions

- Claims
- Disputes
- Illegal Termination
- Arbitrations
Challenges and Risks

Contractual Risks from Employer

- Financial capability is not always reliable
- Political intervention
- Government Stability

Disputes

- Time & Cost Overruns
  - Delay
  - Suspension
  - Pre-mature termination
Challenges and Risks

Contractual Risks from Contractor

- Focus on market expansion
- Taken surprise by Risks Exposure
  - Time & Cost Overruns
  - Disputes
- Compromised Risk Evaluation & Response Plans
Challenges and Risks

Contractual Risks from Contractor

- EPC = Integrated Contract Management = Profit

Contractor leading inexperienced E+P+C

= Massive Risks
  - High Costs
  - Hugh Losses
Challenges and Risks

People and Property Risk

• More Chinese Contractors go global;
• Large number of Chinese labours work overseas;
• More projects in the risky markets: Libya, Mali, Central African Republic, Democratic Republic of Congo, Sudan, South Sudan, Nigeria, etc.

• January 28th, 2012
• Sudan
• Sinohydro Corporation Kordofan Project
• 29 Chinese staff were kidnapped
People and Property Risk – security risk map

February, 2011, Civil war in Libya, 50 projects undertaken by Chinese contractors were affected. Sum of the contract value involved: $18.8 billion.
Most of the African countries are on the “High” or “Very High” risk list
Challenges and Risks

Other affecting factors

- Majority projects are construction contracts, marked with low margin;
- Local finance with bespoke contracts where risk allocation is usually one-sided;
- Chinese finance with intense competition among Chinese contractors;
- Contract management ability needs to be improved;
- Risks management ability needs to be improved;
- Localization needs to be improved.
CHALLENGE & RISK

OUR EFFORTS
Development and Future

Government Support

- Preferential International loans
- Commercial Credit, including buyer's & seller’s credit
- Chinese funds, including interest-free loans, soft loans, International Development Aid, etc.
- Permit for companies to finance overseas projects and provision of overseas investment insurance (Export Credit Insurance)
Development and Future
Continuously Improving Our International Competitiveness

- Building; Transportation; Power Station; Harbor; Railway, and etc.
- Construction; Design; Manufacture.

- Core competitiveness in Core Business
  - Technique Advantage

- Consolidating Key Markets
  - Expanding in New Market

- Algeria; Congo; Zambia; Algeria; Ethiopia

- Well-Known Brand

- Successful Delivery & Reputation

- Algeria Road Project - USD 6.25 Billion (CITIC&CREC)
- Anaco Tinaco Railway Project - USD 7.5 Billion (CREC)
- ......
Development and Future
Inventing New Contracting Modes

Now
• Traditional Construction Contract
• EPC Contract

Further Developed
• BOT(BT/BOOT) (Build + Operation + Transfer)
• D+B+B (Development + Design + Build)
• F+P+D+B+PM (Finance + Procurement + Design + Build + Property Management)
• PPP (Public Private Partnership)
Development and Future

Adopting More Contract Management Solutions

Followings are the actions & contractual mechanism commonly adopted in contract management in Sinohydro Corporation

Self-Improvement
- Contract Management
- Claim Management

Exobrain
- Contract Advice
- Legal
- Global Network and Resources
- Project Management

ADR/Pre-arbitral
- ADR has been widely recognized and thus accepted as an effective way of conflict management and dispute resolution
Development and Future
Bettering & Sharing Our Future with Business Partners

Mutual-benefit Concept

Chinese Contractors linked with
• Chinese Contractors
  Sinohydro JV CWE in Sudan, CITIC JV CCECC in Algeria,
  Sinohydro JV CGGC in Ethiopia, ...
• International Contractors
  CNPC JV Turkmenistan’s Natural Gas Konzern,
  HQCEC JV VINACHEM
• International Consulting Company
  AECOM, FLOUR, AMEC, ARCADIS, JACOBS, DAR Group, ARUP, ...
• International Risk Management Agent
  Aon Corp., Marsh & McLennan, Willis Group, Lockton Cos.L.L.C,
  BB&T, ...
Localization is set as the approach for all the Chinese international contractors to improving corporate management effectiveness and efficiency with respect to adaption to local work environment, culture, religion, history, regulations, and politics.
Development and Future

Being Socially Responsible

Advocating Environmental Protection for Public Welfare

Promoting Community Education

Constructing in a green and environmentally-friendly way

Improving working and living conditions
No doubt, Africa is and will remain a booming market for international contractors. Coming with business opportunities are always risks, conflicts, disputes.
More overseas projects, more claims and disputes.

Looking forward to closer cooperation between

**DRBF & Chinese International Contractors**

to promoting the **avoidance** and **resolution** of disputes worldwide
Global Responsibility & All-win Harmony

Thank You!