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Chinese firms eye Africa for expansion

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Faced with surging business costs at home and a weakening yuan, manufacturers are setting up new bases on the continent to extend footprint

Chinese firms are increasingly eyeing opportunities outside the country, with Africa becoming a favoured destination rather than locations in Asia, as business costs surge at home and the yuan depreciates.

The latest figures from the Ministry of Commerce show China's non-financial outbound direct investment for the first nine months of the year soared 53.7 per cent year on year to 882.78 billion yuan (HK$1 trillion). Last month alone, investment rose 56.9 per cent to 108.8 billion yuan.

The yuan has been devaluing against the US dollar in the past week and broke above the psychological 6.70 level just after the "golden week" national holiday.

Ministry spokesman Shen Danyang said the government's "one belt, one road" initiative had helped boost cooperation between Chinese and foreign firms.

During the first nine months, more than 4,000 engineering contracts were signed by Chinese companies in 61 countries along the belt and road routes, the ministry's figures showed, with a combined contract value of US$74.56 billion.

According to Xinhua, at least 100 China-based textile companies, for instance, have invested in or set up 2,600 businesses globally by the end of 2014 in an effort to reduce costs and avoid toughening trading barriers. Most of those have been in Asia, but there has been a rising interest in setting up shop in Africa.

Roger Lee, the chief executive of TAL Group, told the South China Morning Post that he planned to shutter one of its textile plants, in Dongguan, by the end of the year and set up a manufacturing site in Hawassa, Ethiopia.

The Hong Kong-based textile and garment manufacturer has 25,000 employees with factories in mainland China, Hong Kong, Thailand, Malaysia, Indonesia and Vietnam.

But Lee said the rising cost of doing business domestically meant Ethiopia offered a lower-cost alternative, along with duty-free trade status with the all-important US market.

TAL's investment in the first three years there is estimated at US$10 million.

"Wages in China have doubled in the past five years, and other countries [nearer home] have seen double-digit annual rises, so we had to consider an alternative in which to extend our footprint," Lee said.

Compared with other countries in Asia, wages in Ethiopia are a third of those in Vietnam, which is TAL's most cost-effective manufacturing base currently.

Hawassa has a population of five million within a 30km radius of its centre. Given that the city has a poor transport system with few buses, the company will have to arrange shuttle bus services to bring its workers in and out of the factory.

Although construction is 41 /2 months behind schedule, Lee has already hired 200 employees and sent them to Indonesia for training. The plan is to have 10,000 within three years, which could include opening a facility in Tanzania.

"Eventually every country will see its costs pushed up, as what's happening in Vietnam today and what China has experienced. So companies like us have to start making long-term plans," Lee said.

TAL previously closed its Taiwan plant in 2009 due to rising costs, and two years earlier another in Mexico, which proved too remote as a manufacturing location.Eventually every country will see its costs pushed up, as what's happening in Vietnam today and what China has experienced - so companies like us have to start making long term plansRoger Lee, CEO, TAL Group

Another textile company with expansion plans for Africa is Jiangsu Sunshine, a Shanghai-listed woollen manufacturer with a market capitalisation of 8.16 billion yuan.

Chairman and chief executive Chen Lifen said it took the company five years to plan its move, also to Ethiopia, where it has now invested almost US$1 billion in a factory.

"I thought we could survive with all our production based in mainland China. But now I know that would be impossible, and I have been under pressure to find a way out," she said.

The first phase of Sunshine's Ethiopian development is expected to be finished this year, and output will be worth about a third of that currently generated by its manufacturing base in Wuxi, Jiangsu.

Chen said she first started looking at alternative manufacturing bases in Southeast Asia as early as 2010, but she later gave up on expanding there due to a lack of confidence in the local infrastructure.

"In the past year, we have really been feeling the pinch and have seen more overseas clients transferring their orders to markets outside China. With more free-trade pacts being created, we started finding ourselves becoming isolated," she said, adding that Sunshine's revenue dropped 9.52 per cent to 2.27 billion yuan last year.

Official data showed China's textile and garment exports saw their first annual decline in six years last year, down 4.9 per cent from 2014 to US$283.9 billion.

Exports to Japan and Europe tumbled the most heavily, which companies have blamed on the weakened currency and labour costs, which surged more than 200 per cent from 2008.

Last year, all textile trade - exports and imports - combined fell 7 per cent in yuan terms and 8 per cent in dollar terms.

According to statistics from the All-China Federation of Trade Unions, average wages in China have been growing at an annual compound rate of 12.2 per cent from 4,538 yuan per year in 1994 to 45,676 yuan in 2013.

While the increases have helped boost domestic consumption, in line with the government's aim, but they have also fuelled the country's runaway housing market and eroded its competitiveness in terms of labour costs.

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