Banking on Africa: Chinese financial institutions and Africa

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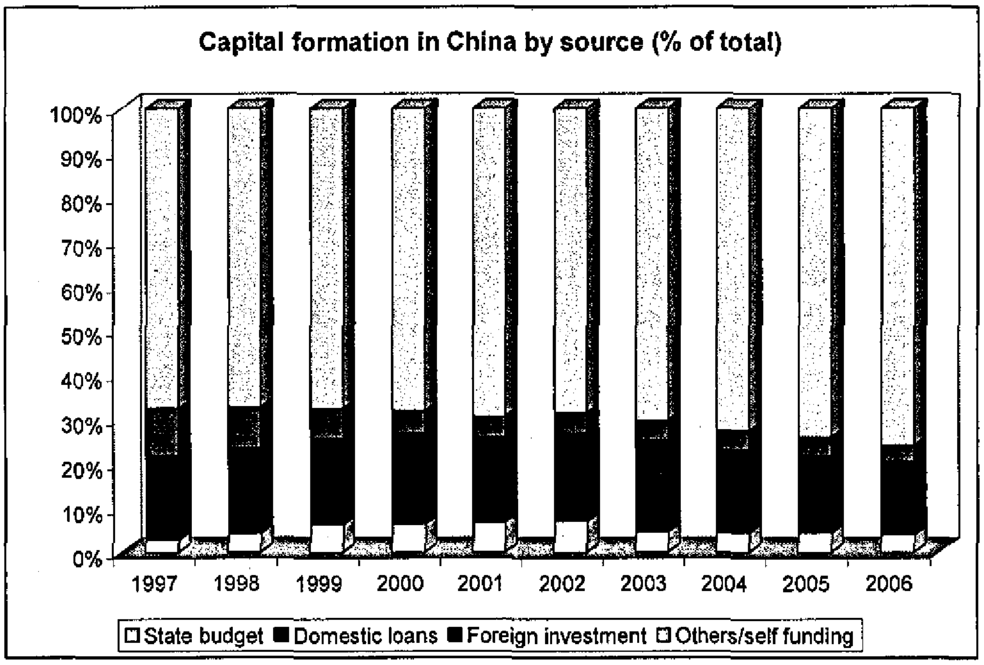
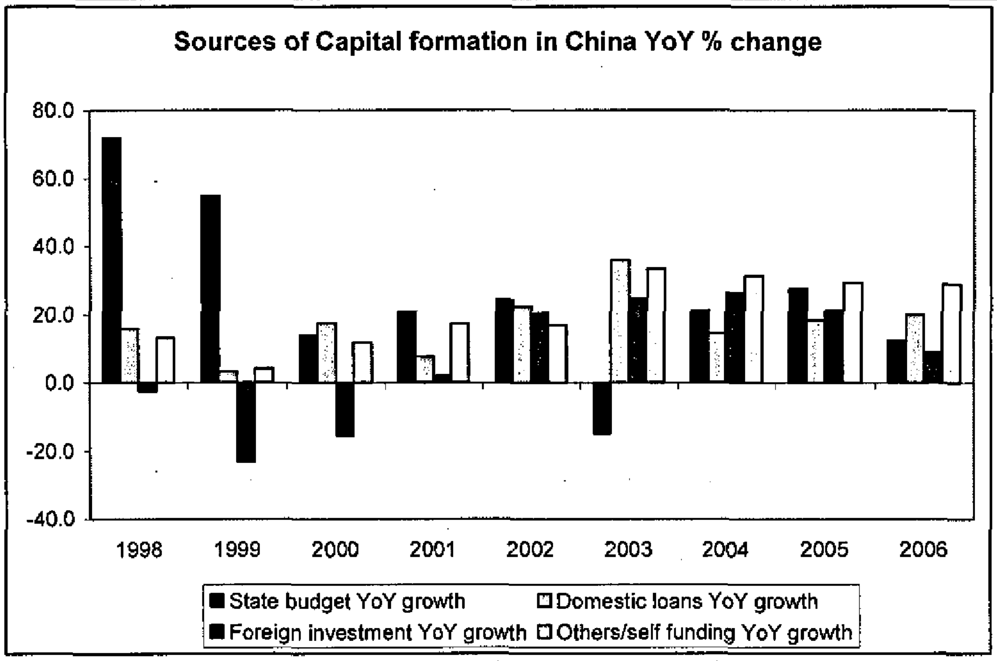
The Chinese drive into the resource sector in Africa has already received much attention in the media and, increasingly, in scholar literature. What has not been well understood is the role of Chinese financial institutions in support of the country's resource strategy and, increasingly, its entry into the previously unknown African market. With the Industrial and Commercial Bank of China's purchase of a 20% stake in South Africa's leading bank in late 2007, the stage has been set for a new phase of China's engagement on the continent which promises to expand the sectoral reach of Chinese financial institutions and, concurrently, lay the foundation for ventures into new areas like commercial and perhaps retail banking. This policy report will outline the origins of China's financial institutions, their reform and expansion beyond the domestic market; the role they have played in support of China's resource strategy towards Africa; and, finally, the nascent movement into commercial banking in Africa, its modalities and implications.

1. Origins of the financial sector in China, its reform and the rise of 'financial champions'

China has been a major recipient of foreign direct investment ever since opening in 1978. The rapid rise in foreign direct investment (FDI) has made for a considerable increase in the capital account. FDI bound for China now accounts for about 40% of all FDI destined for developing economies. But the cost of such investment can be considerable. The People's Bank of China (PBOC) has had to sterilise the influx of such capital or 'mop up' the increased liquidity that results from the influx of capital. Thus, the central bank requires the state banks to repurchase government bonds at low interest rates that are lower than those earned on reserve holdings[1]. Since the majority of savings in China are held with the state-owned banks, the returns on savings have been low. Gross domestic savings in China have surged since 2000, climbing to over 50 percent of GDP in 2005. Enterprise savings have risen sharply and displaced household savings as the main contributor to national savings. However, while household savings have declined as a percentage of GDP, this is mainly because of a huge increase in the share of enterprise income in national income[2]. As can be seen from the below charts, capital formation is increasingly driven by self funding, meaning that domestic corporations are increasingly using earnings to drive investment. Also note that foreign investment, while very high in absolute terms, is declining in relative terms as a driver of capital formation.





Source: National Bureau of Statistics of China

The rapid rise in investment over the last few years has given rise to concerns over the easy availability of credit. This means that an accumulation of excess capacity is a real concern (the trend in consumption as a percentage of GDP versus gross capital formation is in favour of the latter). This could hamper the government's efforts in further reducing NPLs at state-owned banks through the formation of asset management companies in 1998 and the subsequent recapitalisation of a number of the banks.

With most savings tied up in state-owned banks, and with the spectre of overcapacity in certain sectors, the returns on domestics savings could possibly be very low, and in some cases negative. This inefficient allocation of capital is likely a concern to policy makers. The reform of financial institutions and the investment of foreign banks in China are aimed to lead to better credit assessment and better allocation of capital. In addition, development of capital markets will likely contribute to better credit discipline and in this regard, China has considerable way to go. As at end 2006, only 6% of bonds, including commercial paper (CP), were issued by nonfinancial enterprises (including SOEs). This makes it the least developed bond market in Asia. The majority of loans at the bigger state banks are still extended to the SOEs and the traditionally the government relied on SOEs to provide employment and pension and health benefits in the absence of a comprehensive social security system, a system that is changing as the state takes on more of these social benefits costs from SOEs.[3] With the opening of the banking sector to foreign participants in 2006 and the increasing number of foreign banks taking stakes in Chinese banks, the aim is to rely on foreign banks to bring better credit assessment and banking system technology that will bring about better lending and hence better return on savings[4].

The main challenges that policy makers face in the financial sectors are twofold: the need to liberalise the capital account and gradually eliminate foreign exchange control and the need to prevent a flight of capital from China to overseas investments that can bring higher returns.

1.1. Reform of China's Financial Institutional Structure

The catalyst for this institutional reform was the creation of the four state-owned commercial banks from the People's Bank of China (PBOC), the country's central bank, in 1984. At this time the Chinese banks operated as little more than cashiers for government, without even the fundamental lending or depositing functions one associates with a modern bank.

The first step was the spinning-off of three commercial banks from the POBC; with each designated to act as specialist conduits for the channelling of government capital to the key agricultural, industrial and construction sectors. With the fourth bank, the POBC taking on the mantle of central bank (or cashier), the other three banks were named Agricultural – Industrial- and Construction Banks of China (ACBC, ICBC and CCBC). Two state-controlled banks, the China ExIm Bank and China Development Bank were both established in 1994 also out of the POBC, the former a reflection of the needs of Chinese companies operating abroad, and anticipating the 'going out' strategy, and the latter, the leading development infrastructure financier domestically. The authorities also wanted to stimulate further competition in the commercial banking sector and established China Everbright Bank and Hua Xin Bank in 1992. In 1996 China Minshen Bank was formed and unlike the other two national banks its shareholders were mostly private enterprises rather than regional and national governments[5].

The next milestone was reached with the introduction of the Commercial Bank Law and the Central Bank Law in 1995[6]. The former laid out the route-map for the banks to become operationally stand-alone institutions, managed at arms length from the government and subject to the same pressures and market discipline as western institutions. In order to facilitate this development, major banks were invited to act as strategic investors and consultants to these companies; helping them instil western management techniques, commercial acumen and banking technology.

The culmination of this process was to take place a decade later in October 2006 with the listing of ICBC on both the Hong Kong and Shanghai stock exchanges. This ranked as the world's largest ever IPO at $21.9 billion, (surpassing Japan's NTT DoComo listing in 1998 by over $3 billion) and also as the first simultaneous listing on these two exchanges. Today ICBC ranks as the world's 5th largest bank whilst the remaining 3 banks are also listed. As at March 2007 global investors showed a voracious appetite for China's state banks, investing US$42.3bn[7] Ironically, given the rise in foreign reserves and corporate profits and high consumer savings, China's banks will likely not use the windfall from IPOs in the domestic economy as this could lead to a credit bubble and in time to come a surge in NPLs. The initial move outwards was tentative and cautious with China Construction Bank acquiring the Hong Kong and Macau retail assets of Bank of America for US$1.2bn[8]. Bank of China followed soon by buying Singapore Aircraft Leasing Enterprise for US$965m, thereby giving it access to Asia's rapidly growing airline market.

1.2. Institutional Reasons for China to attract Western Banks

By nurturing these banks with the assistance of Western banks and then listing them on a major international exchange (Hong Kong), China has sent out a clear message about its financial institutional framework, namely that it expects and welcomes co-operation and competition from Western institutions so as to galvanise its own domestic players. Indeed, many Western banks have already gained a strong foothold in China through their strategic investor relationships (see table below)

Largest foreign bank activity in China

Bank Name	Size of Bank (RMB) end of 04	Strategic Partner	Strategic Involvement
ICBC	5.59 trillion RMB (Rank 1)	Goldman Sachs, Allianz and America Express	Co-operation in Treasury Operations, Risk Management, HR, Corporate Governance and Asset Management
BOC	4.27 Trillion (Rank 2)	Temasek	Co-operation in restructuring
CCBC	3.91 Trillion (Rank 3)	Bank of America	Co-operation in risk management, technology and IT, finance, corporate governance and management.
Bank of Communications	3.14 Trillion Rank 5	HSBC	Credit Cards
Huaxia Bank	Not known	Deutsche / Royal Bank of Scotland	Co-operation in credit card development and insurance
Bank of Beijing	Not Known	ING	Co-operation in retail banking

In order to entice strategic investors, it is necessary for these Chinese firms to be as auditable and transparent as any other potential recipient of capital in any other market in the world and hence this implies the need for comparable regulatory, accounting, governance, training and auditing frameworks. Thus, the big 4 audit firms (KPMG, PWC, Accenture, Deloitte) have been encouraged to bid for audit assignments at the major banks in China and an intensive program of regulatory reform has been initiated. With the set-up of the PBOC[9] as the central bank in 1995 with responsibility for monetary policy[10], bond trading, clearing and settlement, the reform program brought China's economic institutions into closer alignment with the major western economies. Foreign exchange administration was transferred to the State Administration of Foreign Exchange ("SAFE"). The China Banking Regulatory Commission (CBRC) was set up in 2003 with the aim of reforming bank oversight and:

> "the regulation and supervision of banks, asset management companies, trust and investment companies as well as other deposit-taking financial institutions. Its mission is to maintain a safe and sound banking system in China".[11]

Clearly, just as in other sectors where the government has indentified corporations (usually former State-owned enterprises, or SOEs) to lead the charge to establish a presence in international markets with world-class products, the charge in the financial sector will likely be led by the biggest banks; Bank of China, China Construction Bank and Industrial and Commercial Bank of China and possibly China Development Bank. The case of the latter is not as clear-cut yet since it has been operating as a policy bank and implementing a substantial part in the development policy of the state (such as the Three Gorges Dam and Shanghai Pudong International Airport) and in the inner provinces of China and in projects in recipients of aid. The state has injected US$20bn in the CDB and the bank has become more active in foreign acquisitions, including a stake in Barclays and a cooperative venture with Nigeria's United Bank for Africa[12].

The desire of China to establish multinational corporations in international markets is clear and not far removed from the Korean *chaebol* model and Japanese MNCs preceding them. What matters for the banks is the timing of forays into foreign markets. As will be argued, the Chinese banks will likely largely proceed according to the 'follow your client' model but there is a clear paradigm shift underway in the form of the 'credit crunch' and the significant impact it will have on Western banks. With substantially reduced liquidity, Western banks are no longer able to offer the terms of finance that spurred a global lending spree in the last few years and have even turned to the cash flush Chinese for assistance. The onset of Chinese financed purchases of shares in traditional Western banking stalwarts, for instance Morgan Stanley, is a demonstration of this new set of circumstances. Thus the opportunities for China to establish a more formidable presence internationally and in emerging markets is becoming more pressing and it is the large Chinese banks that will likely lead the charge.

2. Role of finance in supporting the Chinese government ambitions to acquire resources and market share in Africa

The case for China's rapid expansion of trade relations with Africa, amounting to US$55bn at end 2006[13] is firstly premised on the need for resource security to ensure the continued rapid economic development of the country. This is clearly illustrated in the identity of the biggest trade partners for China: Sudan, Angola, Nigeria and South Africa. But the need to secure resources is based on the need of Chinese companies to secure the commodities through a variety of formats, including joint ventures with local firms, such as the agreement between Gabon's national mining company and CMEEC to exploit the iron ore reserves in Belinga, and bid for concessions that are carried out exclusively by the Chinese firms, for instance the Chambishi copper mine in Zambia, or taking stakes in existing projects such as a 45% stake in an offshore Nigerian oilfield by CNOOC[14].

In exchange for the access to resources, the Chinese state has encouraged a number of ancillary services to develop in the host countries as it builds necessary infrastructure such as the railroad extensions and highway extensions. The China ExIm Bank and China Development Bank have been playing an important role in the pre-export finance, trade finance, and project finance for a number of the projects. While the details of the terms of the financing are not available, one can assume that a great number, if indeed not the majority, were priced on favourable terms for the recipient countries and likely function more as an extension of Chinese aid. In some cases, however, China has started cooperating with Western banks to do project finance deals. This includes the Sinopec (China Petrochemical Corporation) financing for its joint venture with Angola's Sonangol for offshore block 18. Initially attracting little participation from Western Banks[15], the deal attracted a range of western and Chinese banks and the political risk of Angola was seen to have been mitigated by the big Chinese participation.

The investment of Chinese firms in Africa, with its tie-ins of resource supply agreements in exchange for Chinese-sponsored infrastructure development, has been controversial precisely because it is so vastly different from Western investment and aid. The investment is not mired in procedure and there are few conditions attached to such lending.[16] In the case of Angola, Sudan and Nigeria, the guarantees of oil supplies in exchange for infrastructure lending and construction have involved importing of Chinese workers to work on construction projects. The fact that tens of thousands of Chinese labourers are entering these countries, sometimes employed at wages which are below national legal standards, and in some cases subject to conditions which at least in nominally break with regulations on safety is significant. But while most accounts have focused on the social implications of this influx, there are some interesting implications from the perspective of the financial sector.

2.1. Chinese migrants in Africa

It is this rise in the number of Chinese labours and, following in their wake a growing migrant population, which has swelled the Chinese population officially to three-quarters of a million (but in fact is likely to have exceeded this figure) which holds significance for financial institutions. In the first instance, a striking feature of the Chinese employed in Africa is the fact that they are less skilled and generally poorer than would be the average migrant from inner China to the fast developing coastal regions of China. This was evident in interviews with a number of Chinese entrepreneurs and workers in South Africa, to date the largest recipient of Chinese migration to the African continent, a common theme emerged: Africa was seen as a money-making opportunity compared to China by some. In fact, it was argued by some interviewees that competition for jobs in China was very intense and that education and age were determining factors in securing good positions. In contrast, able to use superior supply chains based in China import consumer goods at competitive prices, Africa has seen far less competition and provides attractive trading opportunities. Traditionally, networks are of fundamental importance in Chinese society and the sourcing of workers to come to Africa is not much different; families and friends come in numbers on news of attractive opportunities. The expectation that, like previous outward migrations from China to other parts of the world, the presence and experience of Chinese labourers will ultimately encourage other Chinese to migrate to Africa.

While this migratory phase can be seen to be pretty much in its infancy, one can assume that this may accelerate and given the likely oversupply of labour in some sectors in China, an economic slowdown in China may send more skilled and unskilled labour abroad. Of note is the construction sector in China, which has been one of the major factors in development over the last decade. However, in a number of provinces this sector is seen as bubble that has led to complete oversupply. In this respect, Africa has a lot to offer in China in these respects: its infrastructure is underdeveloped and the construction sector can develop fast as economic activity expands in countries that can take advantage of the economic boom. Moreover, the speed and efficiency with which these projects come to fruition can be attributed to the ease of communication and understanding of deliverables between the Chinese management and Chinese workers.

In addition, Africa can also be a partial solution to another unique Chinese conundrum: excessive foreign reserves. Given the significant investment in China, the central bank has the unique (perhaps enviable position) of 'sterilising' the inflow through government bond issuance. Controls on overseas investment and the inconvertibility of the renminbi are at the heart of this problem. Both policies, at some point in time will come to an end. More extensive investment abroad, as with the setting up of the China Investment Corporation (CIC), has led to a growing presence in investment in the financial industry. CIC has made two significant investments in the sector; it put more than $3 billion into a private-equity fund set up by JC Flowers & Co, New York, aimed at selective investment in financial institutions.[17] Given the scramble for fresh capital by Western financial institutions, it can only be safely assumed that further sovereign fund investment will follow. While this presents a valuable outlet for China's excess cash, it should be noted that the sovereign funds are almost always silent investors with no participation in management, even though they get seats on the boards of companies. The sovereign fund investment model may well be appropriate for investment in the West where political opposition may be significant and a more active investment profile in the financial sector may not be in the immediate offing. Africa and other emerging markets present a different opportunity.

2.2. Chinese financial institutions enter the African market

China ExIm Bank has traditionally been the leading Chinese financial institution working in Africa, focusing the bulk of its attention on providing export finance, credit lines and participation in project finance. China Development Bank, by contrast, has been charged with lending to the domestic market, admittedly an enormous challenge in itself. But CBD has been also providing finance for corporations and has made overseas investments including buying a stake in Barclays and lately in Polish telecoms and has been involved in key deals in Africa, its cooperation with Nigerian United Bank for Africa being a key conduit for financing. CDB, the country's largest policy lender, has secured formal approval from the State Council to establish a new firm[18], which will be called China Development Bank Corp. The expectation is that even while it will venture into retail and commercial banking activities, the focus of its business will remain national development projects and some degree of overseas expansion. Notably, however, there is currently an investigation into the vice president of the bank, Wang Yi, by anti-corruption authorities.[19] This may just be limited to this official, but has the potential to affect the CDB's standing and subsequent overseas involvement. Moreover, it points to one of the key mechanisms by which the Chinese state – despite decentralisation, modernisation and privatisation of much of the economic system since 1978 – continues to exercise influence over these institutions.

The CDB will also continue to play an important role in concert with the China ExIm Bank through investment in the US$5bn China-Africa Development Fund. According to the draft plan, the fund will start from one billion US dollars, and then add up to three billion US dollars in the second phase, until eventually amount to five billion dollars. The fund will be used to support African countries' agriculture, manufacture, energy sector, transportation, telecommunications, urban infrastructure, resource exploration and the development of Chinese enterprises in Africa[20]. The fund signed its first deals with four Chinese companies - CGC Overseas Construction Co, Sinosteel Corp, Shenzhen Energy Investment Co and China National Building Material Co Ltd - in Beijing in January 2008[21] to invest in various infrastructure and housing projects in Africa. Interesting to note is that the Chinese media referred to this as a private equity fund but one that does not pursue the same rates of return as Western private equity funds but rather being one that pursues social development.

This implies then that the Chinese government does not see a dichotomy between social development and investment returns. However, is should be pointed out that if the Chinese companies do employ a majority of Chinese workers and Chinese suppliers, the cost base can remain low, time overruns are unlikely and hence the hurdle rate (the minimum projected return on an investment that has to be matched before the deal is approved) could well be below what any Western financial institution could imagine. If this is indeed the case, then much more investment and commercial banking participation in such projects seems not far off; Western banks may apply higher weightings to country risk and project risk as its strategic interest may not be as fundamental as that of China – securing resources through exports. By controlling the inputs to the project, or a large part thereof and ensuring the timeliness of delivery there is indeed a degree of risk transfer from the bank to the companies that win such projects.

2.3. Investing aboard; how do banks decide?

The decision then to invest in foreign markets therefore becomes a more elementary one than is usually the case. A considerable number of studies have centred on the investment decision in emerging markets, usually from the point of view of banks in developed countries. Relatively few studies have focussed on the investment decisions of *developing country banks* in other developing countries. Nevertheless, the drivers of investment of banks appear for many similar reasons. The most important is diversification as banks are highly susceptible to earnings volatility in business cycles. Shareholders of large, international banks indeed seem to prefer earnings diversification to ensure earnings stability. Two other important factors point to the decision to invest abroad[22] are a higher expected rate of GDP growth and in countries where the banking system is less efficient. Other studies have gone even further and concluded that foreign banks invest in regions where banking regulation is weaker.[23] One possible explanation offered is that heavily regulated markets may be less accessible to foreign players and that a larger degree of protection exists for domestic players. Given the premise that the foreign bank has more efficient banking systems in place and superior risk management systems as well as access to product solutions, the entry of foreign banks brings immediate improvements in efficiency.[24]

But other factors are equally as important in determining where to invest. The studies cited indicated the proximity is an important factor and by proximity this not only refers to geographical proximity but also to proximity in terms of cultural, linguistic and economic ties. These factors seem to dictate against a Chinese banking foray into Africa given the dearth of any such ties. Hence, what this could point to is a new forging of ties between non-Western powers, borne out of economic necessity (or as proponents prefer to characterise it, 'mutual benefit'). Since China has no colonial baggage that renders – at least until recently -- its economic decisions subject to political controversy in Africa, it could well be in an advantageous position to exploit opportunities. Moreover, its risk appetite may be far more voracious than Western counterparts since its shareholders (apart from the publicly listed shares) are mostly government departments that subscribe to a political agenda rather than immediate shareholder return. Moreover, as pointed out above, the hurdle rate for investment projects may be lower, especially where Chinese companies are involved.

However, this does not mean that financial returns do not feature. In fact, as Chinese banks expand overseas, they will act more in line with competitors. Before Chinese financial institutions start acting competitively in the international arena, they will need to enhance competitive capabilities. This will involve acquiring payments and processing system to handle international transfers, data capturing and management information systems to process such data. Crucially, operational and credit risk systems will need to be enhanced. One can argue that one of the main aims of the Chinese government in opening the banking system to foreign investment is to gain the necessary expertise to become highly competitive. In local markets, and especially emerging markets, local banks may well have an advantage in market information given superior access to corporations, superior relationships and a better understanding of local market conditions. This implies that a foreign bank with little experience in entering foreign markets will need to take a cautious approach. It is likely to start with a fundamental understanding of the key players in the local market and to approach such institutions with an understanding to cooperate, start joint ventures and eventually to make equity investments.

2.4. ICBC's investment in Standard Bank

The investment world was surprised in October 2007 when it was announced that ICBC would take a 20% stake in South Africa's Standard Bank for US$5.5bn. This was a significant outlay, even for ICBC, as the outlay equates to 8% of its capital. The reasoning seems sound from a strategic point of view; ostensibly Standard Bank will help ICBC serve its corporate customers in Africa and Standard Bank will gain a foothold in China. Moreover, given its global expansion plans, Standard Bank will use the capital for expansion into the rest of Africa and the developing world. Of this investment, US$450m of capital is earmarked to support organic African growth. Key to this is that Standard Bank plans to substantially increase its Nigerian retail network of around 56 branches and add 200 ATMs this year[25].

Standard Bank has operations in 18 African countries, has a market capitalisation of ZAR146bn in South Africa, has highly advanced operating systems, management information and credit risk policies in place. ICBC is the foremost bank for Chinese SOEs and has a strong national presence. It also has also setup a strategy department (initially with 20 staff) to map the bank's expansion policy and to oversee mergers and acquisitions[26].

Of the total investment, Standard Bank has indicated the usage as follows: $450 million will be utilized in Africa, $400 million is earmarked for growth in South Africa, $300 million will be set aside for international activities, and $200 million will be contributed towards the global resources fund to be established by Standard Bank and ICBC. A further $200 million will be set aside for private equity investments. The largest portion, $900 million has been earmarked as strategic capital reserves[27]. It is apparent from this that Standard Bank will target growth outside its home market and will be well placed to target Chinese corporate customers operating in Africa. This presents it with a significant opportunity to consolidate its operations in Africa and take a large share of business from Chinese clients who will increasingly be important in this area. Standard Bank operates out of the most advanced banking market in Africa with a well developed commercial legal system and can determine strategic direction for Africa from its Johannesburg base, deploy resources effectively and continue to build on its integrated Africa operations on common platforms. This puts it at a significant advantage to many other competitors. Hence, this seems to be the benchmark investment approach for Chinese banks in emerging markets; target the bigger, sophisticated institutions with multi-country presence first.

2.5. Gains for Chinese financial institutions in Africa

But what, one may ask, can Chinese banks focus on in Africa? If the aforementioned studies are indeed accurate, and one sets aside the arguments about proximity, banks prefer locations with relatively low efficiency in the banking system and with relatively light regulation. The expectation is that as with most other foreign banks, the Chinese banks will follow clients and offer the usual gamut of products such corporations may require: import financing, general banking facilities, leases, factoring and ring-fenced project financing. This will be consistent with experience of foreign banks in local markets focusing on MNCs. Yet the Chinese investment model already exhibits some uniqueness: Chinese SMEs, mostly traders and shopkeepers follow the bigger corporates into Africa. Given the increase in trade and the expected rise in the number of Chinese workers based in Africa and SMEs investing in Africa, one can reasonably assume that the opportunities for Chinese banks to expand its product offering will be attractive; retail banking services that include Chinese language client-servicing capabilities, local and hard currency working capital facilities to SMEs, deposit taking services and electronic transfers to China. Of course, such this array of services is usually not available to branches of foreign banks who have only just invested in a country. This implies that joint ventures with or equity investments in local banks can help Chinese banks trial such services and products to the landed Chinese population. Of course, Chinese banks in overseas locations already serve the local Chinese SME market, such as Bank of China's operations in London where it offers services to Chinese corporate clients. However, given the saturated and competitive banking market in Western countries, it may be difficult for China to break out of this niche lending. In Africa, on the other hand, the market still has considerable room for growth and limited compeitition.

It should be noted, however, that retail banking services require more committed resources on locale compared with commercial and investment banking. Setting up dedicated Chinese servicing agents and staff will require an economic argument that is convincing and this will only be the case if scale can be achieved. Given the infancy of Chinese involvement in

Africa at this stage, investment in local banks will probably be the preferred route. One considerable advantage is the symbiosis that can be had from such tie-ups; the local bank can have access not only to the capital of the Chinese investors but also the deposits from Chinese retail and corporate customers. The Chinese bank can gain access to information about local credit conditions, defaults and retail consumer behaviour. Moreover, significant regulatory obstacles, politically-inspired difficulties and other unanticipated problems facing new actors in the complexity of the African environment can presumably be better ameliorated through local partners.

Finally, given that historically, Africa's banking sector – like its economies – has been divided along colonial lines with low to non-existent levels of penetration by non-colonial nationals into colonies, a tradition which broadly speaking carried on to the present day. So generally speaking Anglophone African countries subscribe to the more liberal model which is familiar to and conforms with Chinese banking model being pursued at home. In Lusophone and Francophone Africa, the circumstances vary, and Chinese penetration of the former is commencing through Geocapital, an investment company created by Macaunese magnate, Stanley Ho. Geocapital has already established a small bank in Guinea-Bissau and is in discussions with an Angolan partner. In Mozambique, it has launched Moza Banco with initial capitalisation of US$10mn and a 49% share in what is primarily expected to focus on investment banking.[28] As yet, there is no equivalent effort by Chinese financial institutions to penetrate the banking sector in Francophone Africa.

Conclusion

With the Chinese government continuing to provide financial incentives aimed at investment into the African continent through the release of funds such as China-Africa Development Fund to CDB and the China ExIm Bank's carries on this portfolio lending. Chinese banks, in line with classic pattern or rationale for expansion into new markets, are following their clients into Africa using a strategy that focuses on joint ventures with local partners. This is paving the way greater Chinese involvement in commercial banking and perhaps, ultimately, retail banking. The investment of Chinese banks in local African banks and the financing provided for exports and projects and finally corporate lending may prove to be what is needed to futher spur development of sustainable industry in Africa. If Chinese banks can see a strong return on banking activities, it may continue to develop the network and try the cooperation and equity participation model in other emerging markets such as Latin America. The benefit for Africa, however, would be if the banking operations spread beyond a narrow focus on Chinese funded projects and Chinese corporates to more comprehensive banking operations on the ground. The scramble for Africa may yet spill over into banking.

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