POLICY BRIEFING 39

China in Africa Project

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The Evolving Nature of Chinese Telecommunications Investment in the DRC

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RECOMMENDATIONS

- The DRC should permit international companies looking to invest in the country to implement business strategies that enable them to stick to and develop their core strengths, rather than obliging them to take on activities for which they are neither enthusiastic nor sufficiently skilled, for the sake of politics and diplomacy.
- Other African governments seeking to encourage Chinese and other telecommunications companies to invest should learn from the DRC's experience. They should allow the companies to define the nature of their investment, as Huawei has done in the DRC, rather than shoulder them with business obligations and/or partnerships with parastatals that sap their profitability and commitment.
- ZTE should take the opportunity afforded by its exit from CCT to reconsider its DRC business strategy. It should focus on the company's core strength of supplying telecommunications equipment, rather than on areas such as agriculture where the company has no relevant experience, particularly in such a challenging environment as the DRC's.

EXECUTIVE SUMMARY

ZTE was the first Chinese company to invest in the Democratic Republic of Congo (DRC) telecommunications sector, acquiring a majority shareholding in mobile phone operator, Congo Chine Télécoms (CCT), in 2000. CCT is popular with low-income users for its inexpensive call rates, but has not been profitable, and in 2011 both ZTE and the DRC government sold their shares to France Telecom-Orange.

Huawei and the China International Telecommunication Construction Corporation (CITCC) arrived in the DRC several years after ZTE, and have from the outset pursued entirely business-oriented strategies, apparently unaffected by wider political considerations. The CITCC enjoyed initial success but has since fared less well, whereas Huawei has gained market share steadily in the provision of telecommunications equipment to mobile phone service providers.

ZTE and Huawei are increasingly bitter rivals in international markets, and China's government has declined to become involved in their disputes. This rivalry, however, appears not to have extended to the DRC.

China is becoming increasingly dominant in the provision of telecommunications equipment to the DRC market. However, it is retreating from the country's mobile phone operating business, which is controlled by Indian and European companies.

ZTE AND CONGO CHINE TÉLÉCOMS

Chinese investment in the DRC telecommunications sector began in 2000, when China's state-owned ZTE acquired a 51% stake in a newly established company, CCT, with the balance held by the DRC government's Office Congolais des Postes et Télécommunications (OCPT). ZTE is one of China's largest telecommunications companies and an important international player. In 2010 the company was ranked the sixth-largest global producer of telecommunications infrastructure.[2] The state-owned Export–Import Bank of China (Exim Bank) provided CCT with a concessional loan of CNY[3] 80 million ($12.5 million) to enable the company to start operations, most of which was spent on purchasing all its equipment from ZTE.

Increasing Chinese investment in the DRC was an important policy objective for then-President Laurent Désiré Kabila, to counter what he regarded as excessive European and American influence. Kabila made several appeals for investment to the Chinese government, which eagerly took up the opportunity, as evidenced by ZTE's partnership with the OCPT and Exim Bank's loan to CCT. For ZTE, whose core business is manufacturing and supplying telecommunications equipment, the arrangement of co-founding mobile phone operator, CCT, was not ideal. However, it seems that at the time, in 2000, investing in operations was ZTE's only means of accessing the DRC market.

By mid-2011 CCT had built its customer base to a little over one million subscribers, making it the fourth-largest mobile phone operator in the DRC, after Airtel, Vodacom and Tigo. CCT's national network is less extensive than that of its competitors, and reputedly less reliable. However, its service is the least expensive, making it attractive to low-income users. Competitors have alleged that CCT is able to offer lower call rates because it pays too little tax.[4] CCT has strongly denied this, insisting that it receives no favours and pays the DRC state a hefty tax bill.[5]

Although it has not been possible to obtain figures on CCT's investment spending, CCT concedes that the company has not received anything like the level of investment spent on its rivals. India's Bharti, for example, is on track to invest $400 million over a two-year period in Airtel, and already has a network and marketing presence in the country far exceeding that of CCT.

In 2009 rumours emerged of ZTE's intention to sell its stake in CCT. During 2010 South Africa's MTN was touted widely as a possible buyer. However, a sale never transpired, possibly because of opposition from Vodacom and from Bharti, which had tried previously to buy MTN without success.

In July 2011 France Telecom-Orange entered into exclusive talks with ZTE to buy its stake in CCT, and also entered into discussions to purchase the DRC government's 49% stake. In a bid to diversify from European markets, the French company had earlier agreed to purchase 20% of Iraq's Korek Telecom, and 40% of Morocco's Méditel.[6] On 20 October 2011 France Telecom-Orange announced that it had signed purchase agreements with ZTE and the DRC government for just $17 million, thereby acquiring 100% of the company. Of this, $10 million was for ZTE, with the balance going to the DRC government. France Telecom-Orange also agreed to pay $71 million to the government for a new ten-year licence, but with improved conditions to CCT's current licence, and a hefty $185 million to settle the company's apparently extensive debts.[7] It is not yet clear, however, why and to whom CCT owes so much money, though one Kinshasa-based banker with knowledge of the deal said that the bulk of the debt is owing to the DRC government. Should this be the case, it marks a sorry end to a poorly performing investment for ZTE.

In addition to its troubled CCT investment, ZTE recently established an independent presence as a supplier of telecommunications equipment to mobile phone networks, although on a smaller scale thus far than its Chinese rival, Huawei. Curiously, ZTE is also making tentative investments in the DRC's commercial agricultural sector. Claims that ZTE has acquired three million hectares of land in the DRC to grow palm oil have been used as evidence of a Chinese 'land grab' in Africa. The DRC government reportedly approved a 100 000-hectare allocation in principle to ZTE in 2007.[8] However, ZTE's website states that its only land currently in production is a ten-hectare experimental farm for planting high-yield crops.[9]

HUAWEI

ZTE's troubles stand in stark contrast to a far smoother experience of the other main Chinese telecommunications company in the DRC, and ZTE's bitter rival in international markets, Huawei. In 2010 Huawei was ranked as the second-largest global provider of mobile phone network infrastructure, with a 15.7% share of the market's $78.6 billion revenues.[10] Like ZTE, Huawei's primary interest is in supplying equipment to other service providers. However, Huawei was a later entrant to the DRC market in 2004, during the presidency of the more market-oriented Joseph Kabila. Consequently, unlike ZTE Huawei was never saddled with the obligation of running its own mobile phone network, and won its first major contract in the country in 2006. The contract involved supplying equipment to Tigo – a mobile phone operator owned by Luxembourg-based Millicom – at a cost of over $120 million, and was completed in 2009.

In 2008 Huawei signed its second major contract with the OCPT to install code-division multiple-access technology for its network, firstly in Kinshasa and then extending to the rest of the country. Work for the project commenced in 2010. In 2011 Huawei also began working with Vodacom in supplying equipment to Airtel. Huawei demonstrated its confidence in the DRC by purchasing prime real estate on Kinshasa's Boulevard du 30 Juin, where it is building an office, training centre, sports centre and apartment blocks for its staff. The buildings are due to be completed at the end of 2011 at a cost of around $20 million.

ZTE VERSUS HUAWEI

Competition between ZTE and Huawei has been strong for many years. This intensified after Huawei sued ZTE in April 2011 in several, mostly European countries for allegedly infringing patents relating to data card technology and long-term evolution (LTE), a new mobile phone technology.[11] ZTE rejected Huawei's accusations, filing motions a few days later, also in several countries, to invalidate various Huawei patents and a Huawei trademark. ZTE also filed a lawsuit against Huawei for alleged infringement in China of LTE-related patents.[12] Technology analysts considered it significant that the companies chose to fight their legal battles outside China – where any legal judgement could be construed as being influenced by political considerations – presumably in the hope that customers will view their eventual settlement as fair and impartial. The Chinese government has neither commented publicly nor intervened in the two companies' legal battles, apparently content for them to battle the matter out in international courts. This represents a significant departure from the government's previous practice of intervening in disputes between its prominent companies, particularly if they are state-owned. Analysts have interpreted this as an indication that the government is adopting a more *laissez-faire* approach.

By late 2011 ZTE and Huawei's struggle appeared not to have reached the DRC. Although both companies compete vigorously for the same contracts and appear to have little contact with each other, neither has shown any overt signs of hostility to the other.

CHINA INTERNATIONAL TELECOMMUNICATION CONSTRUCTION CORPORATION

The third prominent Chinese company involved in telecommunications in the DRC is the China International Telecommunication Construction Corporation (CITCC). The CITCC has been present in the DRC since 2006, providing and laying fibre-optic cables. In 2008 the CITCC won a contract in conjunction with France's Alcatel-Lucent, which has a 50% stake in China-based Alcatel Shanghai Bell, to connect Kinshasa with fibre-optic cables to Moanda, on the Atlantic coast. Alcatel-Lucent had previously connected Moanda to the South Atlantic 3/West Africa Submarine Cable (SAT-3/WASC). The SAT-3/WASC is a submarine communications cable running from Portugal and Spain to India and South East Asia, with connections to several African countries en route. The CITCC completed work in late 2009, leaving it with little to do but maintenance on the Kinshasa–Moanda line while it looks around – so far unsuccessfully – for other contracts.

CONCLUSION

Chinese companies have played a significant and growing role in the DRC's telecommunications sector for over a decade, during which time the nature of their presence has undergone profound transformation. The role played by ZTE, the first Chinese company to arrive, was shaped more by political factors than by the company's own wishes, which has proved deeply problematic for the company. Although Congolese consumers welcomed CCT's low call charges, ZTE experienced financial losses in its investment. ZTE has also failed to entrench itself as a market leader in its core business of manufacturing and supplying telecommunications equipment.

Huawei and the CITCC, however, were fortunate in being able to structure their operations according to their own preferences and strategy, and to avoid committing themselves to unwieldy and unprofitable joint ventures. The CITCC enjoyed initial success with its Kinshasa–Moanda line contract, but has failed to secure significant work since and appears to be languishing. Huawei, by contrast, has gone from strength to strength, supplying equipment to all three of the main mobile phone operators in the country. Officials from each have described Huawei's product and service mix as world class, competitive not just on price, but also on quality. Huawei is building its presence steadily in the country, and if not already the DRC's market leader in providing telecommunications equipment, it is well on its way to becoming so.

Huawei and ZTE are fierce competitors internationally, but the former has become a much larger player than the latter, ranking second in the world after Siemens in 2010 compared with ZTE's relatively lowly sixth place. Similarly in the DRC, Huawei has won a far greater market share than ZTE. In contrast to Huawei's focused approach in the DRC, ZTE appears uncertain of how to proceed, with its unsuccessful CCT investment now behind it, a small selection of telecommunications service provision projects and a tiny foothold in commercial agriculture.

Looking beyond ZTE and Huawei's rivalry, the bigger picture is one of increasing dominance for Chinese companies in the DRC's telecommunications equipment sector, despite a retreat, which may prove permanent, from telecommunications service provision.

ENDNOTES

1 Gregory Mthembu-Salter is a researcher and author on Africa's political economy.

2 Fletcher O, 'ZTE steps up patents battle with Huawei', *Wall Street Journal*, 5 May 2011, http://online.wsj.com/article/SB10001424052748703849204576302623622429598.html#ixzz1YBG44pTd.

3 Chinese renminbi.

4 Personal interview, officials from several mobile phone operators, Kinshasa, May 2011.

5 Personal interview, CCT official, Kinshasa, May 2011.

6 Campbell M & MJ Kavanagh, 'France Telecom weighs deal to buy Congo China Telecom Stake', *Bloomberg Businessweek*, 18 July 2011, http://www.businessweek.com/news/2011-07-18/france-telecom-weighs-deal-to-buy-congo-china-telecom-stake.html.

7 'France Telecom-Orange to acquire 100% of Congo Chine Télécom (CCT), a mobile operator in the Democratic Republic of the Congo', France Telecom-Orange press release, Paris, 20 October 2011.

8 Brautigam D, 'China and the African "land grab": The DRC oil palm deal', 15 March 2010, http://www.chinaafricarealstory.com/2010/03/china-and-african-land-grab-drc-oil.html.

9 ZTE Energy Company Limited, 'Congo (Kinshasa) agricultural experimental plot', http://www.zte-e.com/en/prod_js.aspx?ID=738.

10 Fletcher O, *op. cit.*

11 Hille K, 'Huawei sues ZTE over patents', *Financial Times*, 28 April 2011, http://www.ft.com/cms/s/2/13f61fde-71a9-11e0-9b7a-00144feabdc0.html#ixzz1YBFpTtz8.

12 Fletcher O, *op. cit.*

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