China's Trade and Investment in Financial Services with Africa

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Chinese financial institutions are rapidly expanding in Africa. This trend responds to growing interest in using RMB to settle payments arising from cross-border trade, as well as the opportunity to serve the banking needs of an increasing number of Chinese firms and tourists on the continent. This briefing describes China's growing trade and investment in financial services with Africa, as well as nontariff measures that could limit Chinese penetration into the African market. Understanding China's role in Africa's financial services market is important for U.S. commercial banks and other financial institutions, as U.S. and foreign banks continue to seek growth opportunities in emerging markets, including Africa.

Drivers of Growing Trade and Investment in Financial Services from China

- Growing trade flows between China and Africa have encouraged some exporters and importers to accept settlement in RMB instead of U.S. dollars in payment for trade. Africa's two-way trade in goods with China grew more than 10-fold over the past decade, from $18.5 billion in 2003 to $198.6 billion in 2012, and is expected to rise to $385 billion by 2015, according to projections by Standard Chartered Research. Traditionally, Africa and China have used the U.S. dollar as their primary settlement currency for bilateral trade. However, in 2009 the Chinese government began a campaign to mitigate its exchange-rate risk by internationalizing its currency, including expanding the use of RMB in settling cross-border and international trade. In April 2009, Chinese authorities launched a pilot program to enable cross-border trade deals to be settled in RMB in five Chinese coastal cities. After a two-year trial period, in August 2011 the authorities further allowed all domestic exporters and importers to settle cross-border and international trade in RMB. To avoid exchange rate risks and reduce transaction costs, businesses from Africa and China began to replace the dollar with the RMB as settlement currency, leading to a rise in RMB trade-related currency transactions. In 2012, the value of RMB cross-border trade settlements between Africa and China nearly septupled, rising to RMB 35.8 billion ($5.7 billion) from just RMB 5.2 billion in 2011 ($0.8 billion). Standard Chartered Research estimates that the figure will increase to $38.5 billion by 2015, which will account for 10% of Africa-China two-way trade volume (see figure 1).

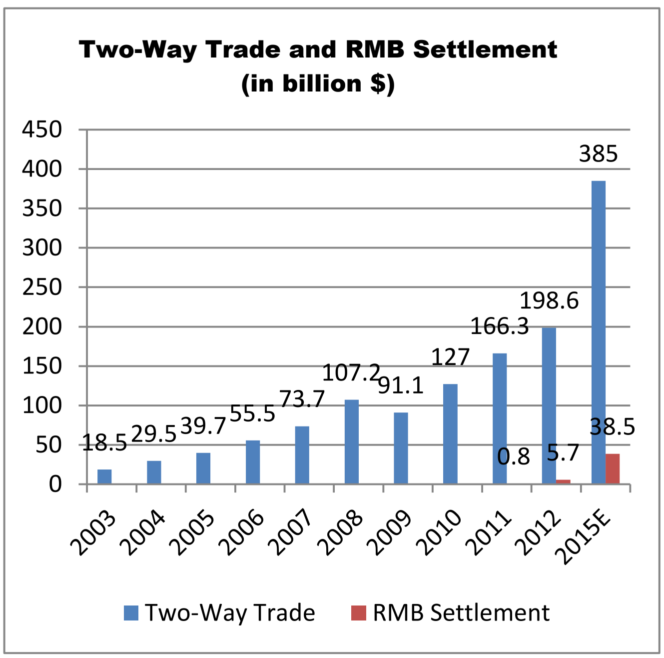

Figure 1 Source: National Bureau of Statistics of China, Standard Chartered Research

- The increasing presence of Chinese businesses and nationals in Africa has prompted surging demand for Chinese banking and credit card services. Starting from 2000, China Development Bank, the Export-Import Bank of China and other government agencies have invested in more than 1,700 projects in 50 African countries, with an official financial commitment totaling $75 billion. Moreover, by 2012, there were more than 2,000 Chinese enterprises in Africa, working in the agricultural, mining, infrastructural, manufacturing, and real estate sectors. An increasing number of Chinese firms want to cover the whole value chain—not only in conducting downstream supply chain activities, such as final goods assembly, but also in financing their operations, fueling demand for loan and trade financing services.

- Meanwhile, many African countries have witnessed a surge in Chinese tourists in recent years. From 2009 to 2011, the number of Chinese tourists traveling directly to Africa nearly tripled, rising from 381,600 to 1,012,000. Chinese tourists prefer to carry the UnionPay credit card, which is issued by China UnionPay—China's only domestic bank card organization. However, ATMs in Africa did not accept UnionPay credit cards until 2007. The growing number of Chinese tourists spurred China UnionPay's expansion in Africa, as discussed below.

Chinese Financial Institutions Are Expanding in Africa

- By the end of 2012, foreign direct investment (FDI) from China in Africa's financial service sector reached $3.87 billion, accounting for 17.8% of China's total FDI in Africa. Two of the four major Chinese state-owned banks, Bank of China and China Construction Bank, have established branches in Africa. The Industrial and Commercial Bank of China (ICBC) took a slightly different approach: in 2007, it invested $5.5 billion for a 20% stake in South Africa's Standard Bank, the largest bank in Africa. In turn, ICBC became the bank's largest shareholder before opening an office of its own in Cape Town in 2011.
- In 2010, Bank of China's Johannesburg branch in South Africa clinched the first RMB trade settlement in Africa. By 2013, the bank had established a full range of businesses using RMB, covering settlement, clearing, deposits, and loans, and its volume of RMB businesses reached RMB 12.6 billion ($2.02 billion). Standard Bank has also taken steps to expand its RMB-based businesses.
- China UnionPay started its African market expansion in 2007, when it collaborated with the National Bank of Egypt to allow ATMs to accept UnionPay credit cards. By 2013, UnionPay credit cards were accepted for use with ATMs in more than 40 African countries, though the cards were still all issued in China. In August 2013, UnionPay International and Mauritius Commercial Bank (MCB) jointly announced their cooperation in issuing UnionPay cards in Mauritius, which is the first UnionPay card issued in Africa.

Nontariff Measures Affecting Trade and Investment

- African countries' nontariff measures in the financial service sector have limited further Chinese penetration of the African banking market, as well as their ability to expand their RMB settlement businesses. According to information from the World Bank's Investment Across Borders database, several African countries impose foreign equity caps in the banking sector. Some countries also restrict how foreign-owned banks may operate in their markets. For instance, foreign direct investment is prohibited in the financial service sector in Ethiopia. In Angola, foreign capital participation in banks is limited to 10%, a limit exceedable only with the approval of the Council of Ministers or the central bank. In Nigeria, foreign investors are not allowed to acquire more than 40% of an already existing Nigerian bank. Other barriers include complex tax administration procedures, opaque and onerous regulations, and a high level of corruption in some African countries.

Sources: National Bureau of Statistics in China; White Book of China and Africa Economic Cooperation (2013); Economic Daily; Standard Chartered Research; AidData; African East Asian Affairs; China UnionPay; Chinese Ministry of Commerce; Banking Association South Africa; U.S. Trade Representative; Bank of International Settlements; the World Bank's Investing Across Borders database.