

BRICS: The Africa and China Perspective

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The Beijing Axis – 4 cross-border businesses



- Founded in 2002; has successfully worked with many international and Chinese MNCs
- Operates in four synergistic cross-border China businesses
- Provides services across various sectors, with a core focus on the MINING, RESOURCES, INDUSTRIAL and ENGINEERING sectors
- Provides solutions to international firms as they act in unfamiliar territory in China/Asia
- Provides solutions to Chinese firms as they venture out and 'go global'

Key global factors

The backdrop

- The rise of China ... global labour market and supply shock as producer ... engine as consumer
- New competitive lines and forces, winners/losers – the rise of Asia, BRICS, etc
- A two-speed global economy over the long term?
- A lasting new GDP trajectory in Africa – governance, growth, stability, infrastructure, confidence, etc

The issues now

- Risks in the developed world ... US debt, Europe – and knock-on effect
- China's landing – soft or hard? Implications for growth and resource demand?
- Tapping into the China story vs over-reliance on China and need to diversify economic ties
- Making decisions in boardrooms around the world that will position businesses for this new era

Agenda

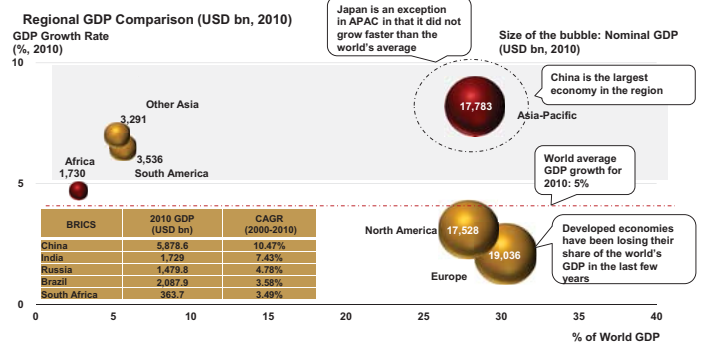
The Rise of BRICS

South Africa and the World

Implications and Future Trends

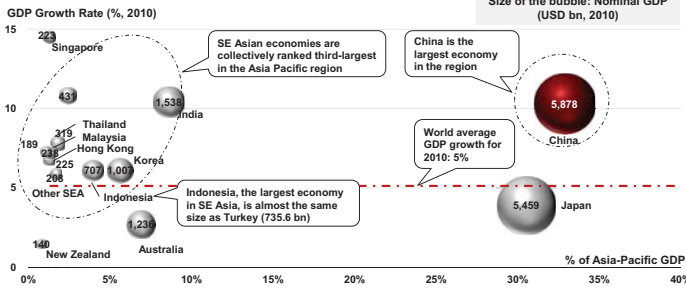
Final Word

The combined economies of the Asia-Pacific region account for 28% of the world's GDP. Africa, though a small portion of the world's GDP, grew faster than the world's average as well as developed economies



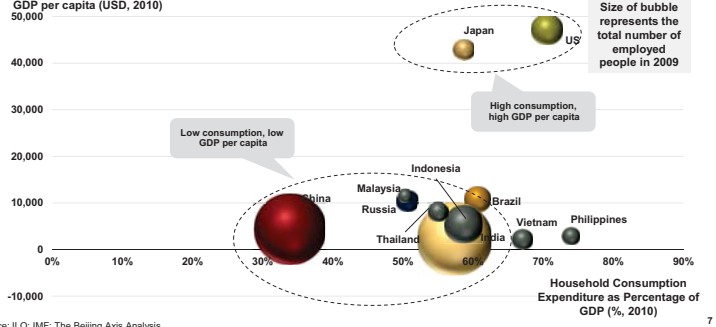
Asia is very diverse – it is necessary to get closer; many trends are revealed

Asia-Pacific GDP Comparison (USD bn, 2010)



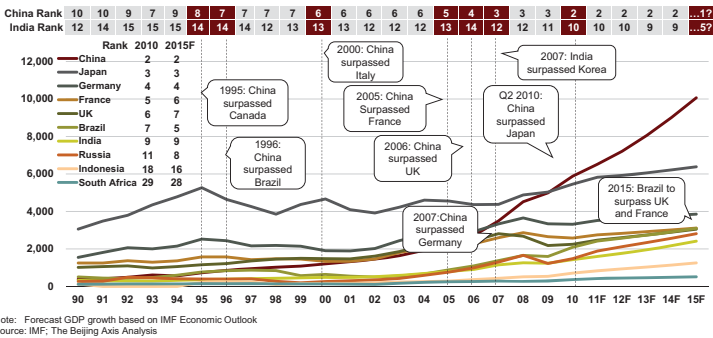
Similar to China, other SE Asian countries exhibit similar potential to dramatically increase domestic consumption, thus providing growth opportunity for global players

Household Consumption as Percentage of GDP vs. GDP per Capita for Various Countries



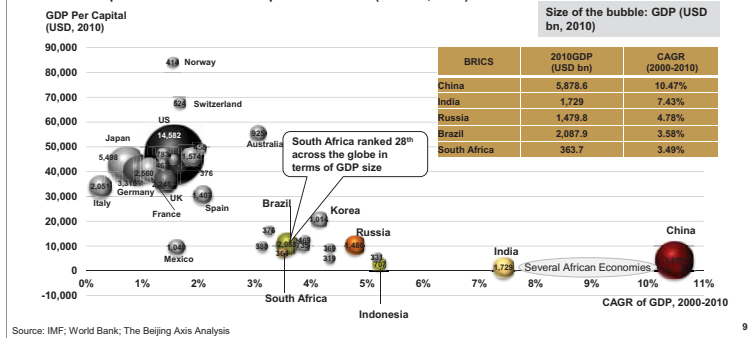
Today, the BRICS countries hold an important position in world GDP. China became the world's second-largest economy in 2010 and is likely to overtake the US around 2025 to become the world's largest economy

Top Economies' GDP, excl. US (USD bn, 1990-2015F)



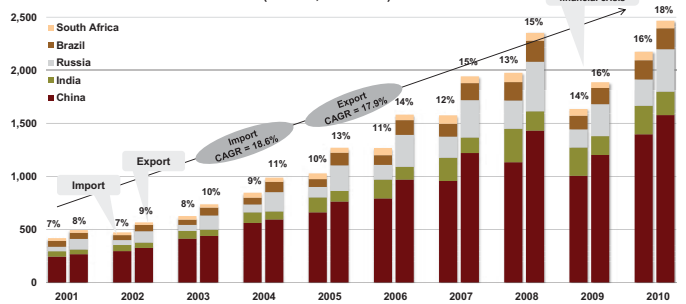
The BRICS countries are the fastest growing and largest emerging countries in the world. South Africa, the newest BRICS member, boasts the largest economy in Africa. Several African economies bottom right...

GDP Comparison of BRICS with Top 30 Economies (USD bn, 2010)



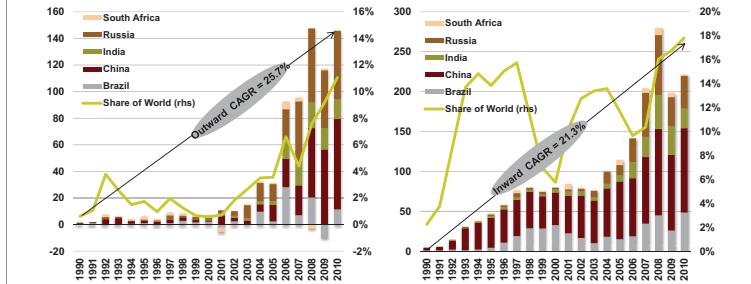
In 2000, the BRICS economies accounted for just 7% of global trade, but by 2010 their share had increased to almost 16%

BRICS Trade and Share of Global Trade (USD bn, 2001-2010)



The total value of BRICS FDI rose from less than USD 10 billion in the late 1990s to USD 147 billion in 2010. This growth is much faster than that of global FDI, which only doubled over the same period

BRICS FDI Outward Flow and Share of Global FDI (USD bn, 1990-2010)



The importance of the BRICS economies to the world has grown tremendously. In 2010, the BRICS nations accounted for 18.3% of the world's total GDP and have been driving more than 40% of world GDP growth since the financial crisis

	Brazil	Russia	India	China	South Africa	BRICS % of World
Population (2010)	190.73 mn	142.91 mn	1.21 bn	1.34 bn	50.59 mn	42.11%
GDP (USD, 2010)	2,087.9 bn	1,479.8 bn	1,729 bn	5,876.6 bn	363.7 bn	18.30%
Total Imports (USD, 2010)	180.5 bn	248.7 bn	268.6 bn	1,396.0 bn	80.1 bn	15.59%
Total Exports (USD, 2010)	197.4 bn	400.1 bn	220.4 bn	1,577.8 bn	71.5 bn	17.95%

Source: Various; The Beijing Axis Analysis

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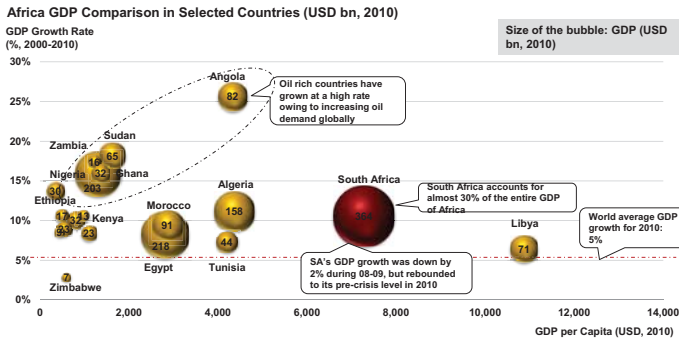
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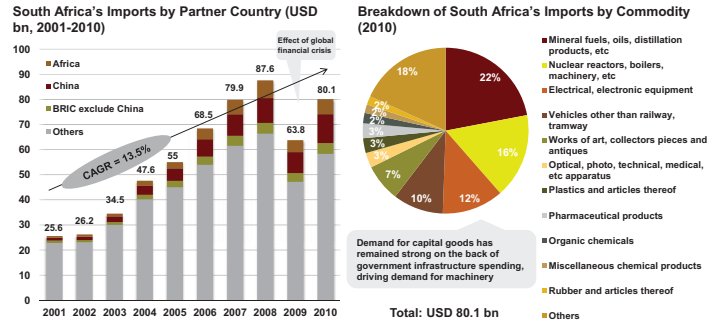
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While South Africa has the largest GDP in Africa, Angola has the fastest-growing economy in the continent. Almost all the economies in the region are growing faster than the world average



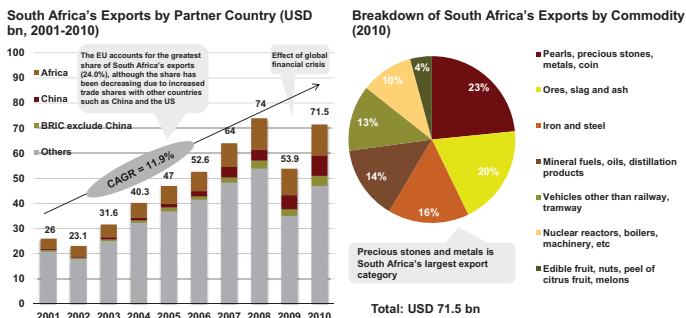
Source: UNCTAD; The Beijing Axis Analysis

Imports have been heavily weighted in favour of capital goods as the government and private sectors have attempted to reverse years of disinvestment



Source: UN Comtrade; The Beijing Axis Analysis

China and the US overtook Japan as South Africa's second and third largest export markets. Trade with other African countries is still low - Zimbabwe and Mozambique were the only two African countries that featured in South Africa's top seven export destinations in 2010



Source: UN Comtrade; The Beijing Axis Analysis

China has not historically been a major foreign investor in mining: A snapshot of eight years ago



Source: UN Comtrade database; The Beijing Axis Analysis

But in recent years, China started to make many major global mining investments: Three years ago



Note: The red dots represent Chinese mining investment locations
Source: UN Comtrade database; The Beijing Axis Analysis

These mining investments have accelerated rapidly: Two years ago



Note: The red dots represent Chinese mining investment locations
Source: UN Comtrade database; The Beijing Axis Analysis

Chinese mining investment is now a worldwide phenomenon: Present



Source: The Beijing Axis Analysis

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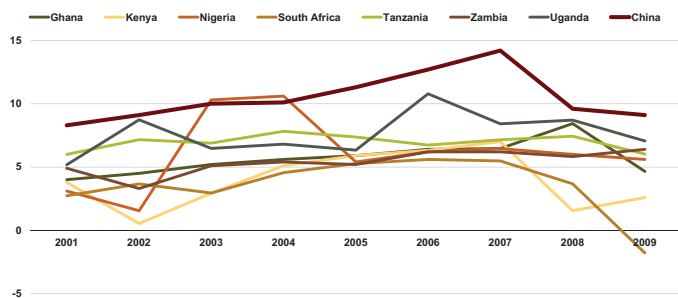
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China's consistent GDP growth has pushed African countries towards a similar growth pattern owing to rising commodity demand and increased trade

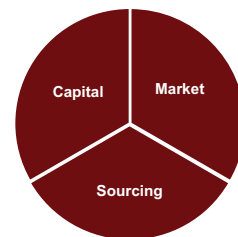
GDP Growth Rate for China and Selected African Countries (% , 2001-2009)



Source: World Bank; China Customs Data; The Beijing Axis Analysis

China can bring value and opportunities in terms of capital, markets and sourcing

- Source of capital: strategic equity partner or divest non-core asset
- User of capital: ECM and DCM
- Infrastructure investment
- Comprehensive package – across project development cycle
- Need to strategically manage the engagement as a continent ...



- Voracious consumer of metals leads to off-take and financing opportunities
- Long term driver of demand but no one-way bets
- China's need for international investment, technology, and know-how
- China a large importer of various products / services

- China as a low-cost manufacturer
- Significant cost savings can be achieved by sourcing from China
- Must be considered as a capital project / MRO supply chain partner

Source: The Beijing Axis Analysis

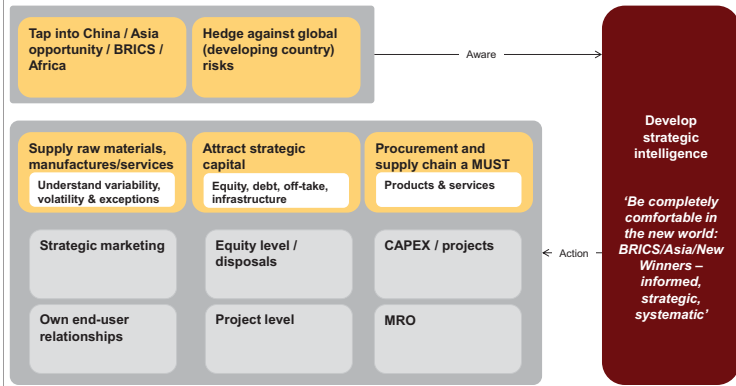
Much of China's involvement in Africa has a positive social impact...

- > African countries look to China for an alternative to the multi-tiered conditions that accompany aid and loans from the World Bank and the IMF
- > A definite gain is infrastructure improvements that increases the ability of African countries to participate in a competitive global economy
- > Chinese economic activity in Africa extends into public infrastructure, such as the building of hospitals, schools and affordable housing, which greatly benefit the general populace
- > Chinese construction activities in Africa create a source of employment for the local population
- > Cheaper Chinese manufactured goods and services are more readily affordable to impoverished African consumers and provide them with access to new products
- > Academic and athletic exchanges are also on the rise. In recent years, China has sent about 12 coaches to 40 African countries to help them develop capabilities in certain sports such as table tennis
- > There is great potential to reduce procurement costs when sourcing from China, although this needs careful management

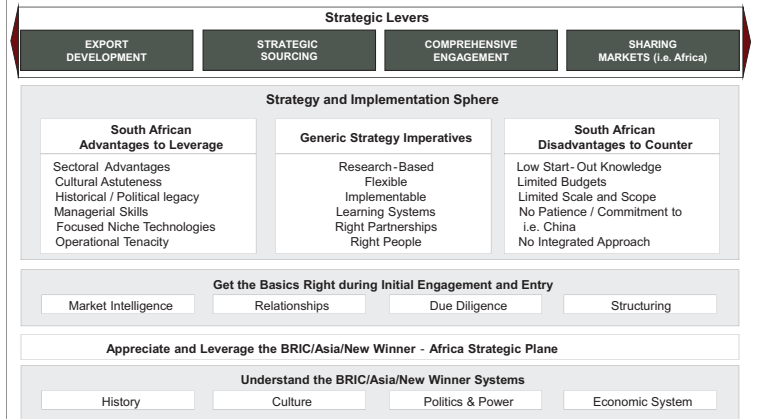
...Although certain key challenges need to be considered over the long term

- > Most African countries lack linkages between Chinese and local enterprises and efforts to promote regional integration have been limited so far
- > Chinese construction projects in Africa still import about half of their workforce from China. This inflow of Chinese labour into Africa has led to tensions with local communities, especially since the Chinese personnel generally do not attempt to assimilate
- > Although cheaper Chinese manufactured goods benefit the African consumer, it threatens local business; the fear is that in the long-run this will harm local manufacturing capabilities and competitiveness
- > Chinese labour practices in Africa are controversial. Chinese enterprises in Africa regularly pay relatively lower wages, offer poor working conditions and are against unionisation. This has led to protests and work stoppages at Chinese construction sites in Africa
- > China's booming resource demand could decrease the incentive for African countries to diversify their economies and lessen their dependency on commodities, contributing to African countries' susceptibility to swings in global prices

Strategic implications



Towards a Model for BRIC/Asia/New Winner Engagement



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Final word

- > A fragile global context in developed world
- > Asia is the foremost developing region in the world, led by China, India, Indonesia and Indo-China. BRIC and other new winners on the rise – a long term phenomenon, with many side-effects
- > Asia/BRIC and other new winners require large inflows of natural resources, manufactures, technology, best practice and services from abroad for its drive toward modernisation - sustainable demand, as well as some volatility
- > Understand the drivers of 1) broad trends and 2) the exceptions – get close, be informed and strategic
- > As global producers' exposures to Asia rise, strategic marketing becomes more necessary – cast truly close relationships with top-tier end-users in Asia
- > Appreciate the 'outward-looking' stance of China, India and other Asian players – new global leaders are emerging in Asia and they will act in Africa presenting both an opportunity and threat
- > Adapt view: China/Asia/BRIC/New winners > Africa matters more and more. This has wide-ranging influence: significant off-take potential in resources industry; a viable source of capital; strong in equipment/plant supply; has strong EPC capacity; advanced technology; African infrastructure, etc



THANK YOU

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