

# The China Analyst

中国分析家

战略 Strategy · 采购 Sourcing · 投资 Investment

A knowledge tool by THE BEIJING AXIS for executives with a China agenda

May 2010



## China Technology Edition

### Features

- Upstart: China's Emergence in Technology and Innovation 6
- Building by Design: How China Develops the Developing World 9
- Transition to the Future: Mining and Mineral Processing in China 12

### Regulars

- Macroeconomic Monitor 14
- China Sourcing Strategy 25
- China Capital: Inbound and Outbound Foreign Direct Investment 30
- Strategy: Mapping China in the Gold Mining Industry/Zijin Mining Group 34
- Regional Focus: China-Africa 39
- Regional Focus: China-Australia 44
- Regional Focus: China-Latin America 48
- Regional Focus: China-Russia 52



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## At the Highest Level

As the world economy gradually emerges from the worst financial crisis since the 1930s, it cannot but look towards China again, which long since emerged from the crisis and showed the way forward. In this edition of *The China Analyst* we examine China's next frontier of development: technology, where China has ample ability to surprise the world yet again.



The financial crisis is behind us. We have lived through a period of immense historical significance and, finally, we are able to look forward to a perhaps more *normal* year for the global economy in 2010. Yet looking back now, the global financial crisis seemed like little more than a blip for China's resilient economy, and if the crisis can now pass into history, the ongoing story of China's rise is leading the world further into the future with seemingly boundless potential.

In the years since 2003 that THE BEIJING AXIS has published *The China Analyst*, it has been a remarkable experience to track the journey of China's economic development. It has been a multifaceted picture not only of how China itself has been able to shed an image of backwardness, but also of how the rest of the world has been able to profit from China's rise. China's role in the global recovery from the financial crisis was a case in point.

In previous editions of *The China Analyst* we have paid particular attention to China's manufacturing capability and the complex processes of procurement that have enabled the world to profit from China's cheap industrial outputs; we have illustrated the macroeconomic and financial fundamentals of China's economy and given forecasts of underlying trends; we have analysed China's outbound investments in various parts of the world and looked at China's relations with strategic countries and regions; we have studied the impact of the global financial crisis on China and monitored its response; and we have—more recently—investigated the business strategies of China's leading enterprises.

For this edition, however, we have chosen to look at China from a new perspective: technology. On the surface, China is often perceived to be still inordinately afflicted by intellectual property enforcement problems. Yet in this China Technology Edition we illustrate how effective China has been in harnessing foreign technology and fusing it with China's own corporate ingenuity. After 30 years of technology absorption, political reform and industrial innovation, Chinese manufacturers are increasingly able to compete successfully in global markets by utilising China's low-cost advantages to produce quality products.

As we make clear in the features to follow, we are only at the beginning of China's global emergence in technology and innovation. Yet the outlines of China's technological capabilities are already impressive, from the numbers of patents taken out by its leading firms and inventors; the vast increases in its output of scientific research; the expanding activities of its engi-

neering and design firms in executing contracts the world over; and the ability of its industries to produce sophisticated machinery ranging from small cost-cutting telecommunications products to large airplanes and aircraft carriers.

As we finally leave the financial crisis behind us, it seems in retrospect that this global calamity clearly illustrated China's ability to lead. Experience has taught us never to underestimate China's ability to surprise, however, and it is with this perspective that we consider China's emergence in technology and innovation.

It has been a remarkable journey documenting China's progress in the last few years, and we will do so still, with only increasing fascination. I trust that our readers will be able to gain new insights from this China Technology Edition of *The China Analyst* – and as always we look forward receiving to your feedback. ☐

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### THE CHINA ANALYST - May 2010

Published by	<b>THE BEIJING AXIS Ltd.</b>
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# Table of Contents

## May 2010



- 6 FEATURES Upstart: China's Emergence in Technology and Innovation**  
After coming of age in China's domestic markets, Chinese firms are now replicating their domestic success in global markets by competing on price *and* quality as part of an emerging trend of Chinese innovation.
- 9 FEATURES Building by Design: How China Develops the Developing World**  
Chinese contractors and design firms have gone international and are shaping landscapes and raising the world's skylines where improvement is needed most: the developing world.
- 12 FEATURES Transition to the Future: Mining and Mineral Processing in China**  
China's mining and mineral processing sector has been a significant market for the world's technology leaders, yet now China is increasingly turning the tables and exporting more of its mining and processing technology.
- 14 MACROECONOMY Macroeconomic Monitor: China's Quiet Confidence**  
Premier Wen Jiabao promised a very difficult year for China's economy in 2010, but despite signs of a bubble forming in the property sector, China's economy performed well in Q1 2010. Yet the calm may not last long.
- 18 NEWS China Business News Highlights**  
Headline business stories in China during Q1 2010, leading with Geely's acquisition of Volvo.
- 20 STATISTICS China Facts & Figures**  
A cross-section of data illustrating growth, transformations and trends in select Chinese economic indicators.
- 22 STATISTICS China Trade Roundup**  
Recent trends in China's trade performance and the outlook going forward, with the latest trade data.
- 25 SOURCING China Sourcing Strategy**  
In this edition CSS looks at China's industrial clusters to see how concentrated local manufacturing has become.
- 29 SOURCING China Sourcing Blog Highlights**  
A summary of recent postings on the China Sourcing Blog, THE BEIJING AXIS' online sourcing portal.
- 30 INVESTMENT China Capital: Inbound and Outbound Foreign Direct Investment**  
China's investment activity contracted slightly in 2009 yet by Q1 2010 the outlook had turned positive again.
- 34 STRATEGY Mapping China in the Gold Mining Industry**  
In this edition *Mapping China* illustrates China's role as producer and consumer in the gold mining industry.
- 36 STRATEGY Zijin Mining Group: Leading China's Next Golden Age**  
A closer look at China's largest gold producer and the drivers behind its rapid increase in competitiveness.
- 38 REGIONS Quarterly Overview: BRIICS**  
A review of the world's leading developing economies: Brazil, Russia, India, Indonesia, China and South Africa.
- 39 REGIONS Regional Focus CHINA-AFRICA**  
China-Africa trade and investment analysis, with a China-Africa trade and investment country profile of Ghana.
- 44 REGIONS Regional Focus CHINA-AUSTRALIA**  
China-Australia trade and investment analysis, and a look at the role of liquefied natural gas in bilateral ties.
- 48 REGIONS Regional Focus CHINA-LATIN AMERICA**  
China-Latin America trade and investment analysis, and an interview with Brazil's Econ. & Trade Counsellor in Beijing.
- 52 REGIONS Regional Focus CHINA-RUSSIA**  
China-Russia trade and investment analysis, with an investigation of Rusal's problematic recent IPO in Hong Kong.
- 58 EVENTS Upcoming Events**  
A selection of upcoming China events focusing on the mining and engineering sectors.
- 60 THE BEIJING AXIS THE BEIJING AXIS and Bateman Beijing Axis Careers**  
New employment opportunities at THE BEIJING AXIS and Bateman Beijing Axis.
- 62 THE BEIJING AXIS THE BEIJING AXIS News - Q1 2010**  
Company news for the first quarter of 2010.
- 64 THE BEIJING AXIS About THE BEIJING AXIS**  
Company profile and contact information.

## Upstart: China's Emergence in Technology and Innovation

After coming of age in China's domestic markets, Chinese firms are now replicating their domestic success in global markets by competing on price *and* quality. The success of the likes of Huawei and Lenovo are indicative of an emerging trend of Chinese technology and innovation, yet China's emergence is only just beginning. *By Barry van Wyk.*

On 13 October 1981, Deng Xiaoping, the architect and visionary of the reform policies that opened China's economy to the world in the late 1970s, made what must then have seemed like a startling comment in a speech to the Central Political Bureau of the Chinese Communist Party. China, he declared, should be making all of its own domestic planes. He may well have been thinking of the Yun-10 when he said this, because at the time, the Chinese government's Department of Industry on Aviation and Spaceflight was engaged in the construction of China's first large passenger plane. Just the year before, the Yun-10 had successfully completed a test flight, yet ultimately only two prototypes were ever constructed. The plane would ultimately be retired in 1984.

The main reason the Yun-10 project never got off the ground was that those involved in its construction could not agree on what basis the plane should be constructed: imitation or innovation. Should it simply be an exact replica of an existing plane, or a new one designed from scratch? Those favouring innovation initially prevailed, and the plane was painstakingly constructed over a period of ten years. The China Civil Aviation Authority (CCAA) decided not to buy the Yun-10, however, and even before Deng's speech in 1981, it had opted to import foreign planes instead.

Despite the failure of the Yun-10, Deng's confidence in China's fledgling manufacturing capabilities was indicative of what was to come. China, Deng insinuated, can make anything. In the 30 years that followed, the world has learned how right he was, China does indeed seem to make everything. It makes everything not only at low cost, but now also of high quality, constituting a particularly Chinese brand of innovation that enables China to increasingly shake up global markets.

### The road much travelled

As export processing zones were established in China's coastal regions from the early 1980s, and firms from North America, Europe, Japan and newly industrialised Asian economies moved their labour-intensive assembly plants to China, China's manufacturing sector expanded in leaps and bounds, drawing on an elastic supply of labour from the interior and completely transforming China's coastal provinces, turning fishing villages into new megacities within a few years, as exemplified by Shenzhen.

Rapid economic growth ensued from China's ability to absorb and harness codified technology. The groundwork for this was laid in the 1950s when an industrial policy was initiated to achieve a degree of self-sufficiency across a range of capital and consumer goods. A heavy industrial base was established, followed in the 1970s by investment in the manufacturing capacity for light consumer items, farm equipment and electron-

ics. Hence by the time China began to import technology and to attract foreign direct investment (FDI) in the 1980s, it could utilise a diversified industrial system and a pool of manufacturing and production skills. As a result, the export processing trade rapidly became a catalyst for China's economy, with its share of total exports increasing from 30% in 1988 to 55% in 2005, while China's exports as a whole grew at an annualised rate of 18.4% from 1992 to 2005, more than twice the growth rate of world exports.

Following in the footsteps of other Asian catch-up economies like Japan and—more recently—Hong Kong and Singapore, China's exports gradually moved up the value chain. Initially specialising in low-tech products such as apparel, toys and footwear, in the last decade Chinese manufacturers have progressed to electronics and machinery. Between 1992 and 2005, China's medium- to high-technology exports grew 22% annually, while high-technology exports grew by 32%. By 2008, 43% of China's exports were directly related to machinery, mechanical appliances and electrical equipment, with China now dominating global markets for these and other types of machinery. Furthermore, a full 27 years after Deng Xiaoping's speech in 1981, China showcased the ARJ21—or Advanced Regional Jet for the 21st Century—a new Chinese regional aircraft currently in final assembly stage that is set to propel China to become a competitor in the global commercial aircraft industry. Within ten years China is poised to challenge not only the regional jet market but even the Airbus/Boeing duopoly of large commercial aircraft, to expand upon its current manufacture of fighter aircraft, helicopters and space vehicles.

China's emergence as a serious challenger in the commercial aircraft industry was sealed in 2008 when Airbus signed an agreement with Tianjin Zhongtian Aviation Industry to open a final assembly plant for the A320 aircraft in Tianjin. After 20 years of absorbing technology and expertise from Western aircraft manufacturers, this facility is considered the final step for Chinese manufacturers to master the skills of producing commercial aircraft to international standards. With the latest available machine tools, advanced engineering procedures and design software; with China's low labour costs and a supportive investment environment; and with a China-based supply chains of Western aircraft components to draw on, China seems finally ready to start making its own domestic planes.

### A tale of two firms

In the 1980s the southern Chinese province of Guangdong became a national experiment for combining foreign investment and technology with the cost advantages of Chinese labour. Three of the initial five special economic zones for foreign assembly operations were situated in the province, allowing it to

rapidly develop an extensive capacity to absorb foreign capital and technology. By the late 1990s, the Pearl River Delta near the city of Guangzhou had developed to such an extent that if one were to assemble a computer from scratch, you could reportedly obtain all the supplies from the surrounding international vendors and assemble the whole unit within two hours.

Over three decades, however, the province's competitiveness remained tied to its dependence on cheap labour and technology transfer. In 2008, it accounted for 31.5% of China's exports, yet only 10.9% of the national total for R&D. Most R&D activities in the province take place within private enterprises, with contributions from institutions of higher education remaining below the national average, and at a level half that of Beijing. Almost all R&D expenditure in the province is directed at the electronics and telecommunications equipment subsectors, and most of this is largely attributed to a lone, yet remarkable, private firm based in the new city of Shenzhen: Huawei Electronics.

As an innovative firm that would subsequently become a global leader, Huawei has come to personify the global emergence of Chinese technology and innovation. Consistently spending 10% of its revenue on R&D every year, the company was recently described by Business Week magazine as one of the world's most influential companies. By taking advantage of foreign technology transfers in the early 1990s, Huawei became very successful in China's rural areas and smaller cities before starting to compete with foreign enterprises in China's urban markets. Deriving its success from offering customers top quality products at low prices and forcing its competitors to compete on its terms, Huawei has developed a reputation for innovation, with 70% of its revenues now generated outside of China. The firm's credentials as an innovator are beyond question. It was lauded by the World Intellectual Property Organization (WIPO) in 2009 as the World's Top International Patent Seeker. However its greatest achievement is that it can fuse two often disparate elements: good quality at low prices.

Before the first foreign firm had set foot in Guangdong, a very different experiment was launched in Beijing. Already in the 1950s, the Zhongguancun (ZGC) suburb in north-western Beijing was an area dedicated to scientific research and higher education. In 1988, China's first high-technology zone (today there are 53), loosely modelled on Silicon Valley in the US, was established at ZGC with government support. By 2005 it contained over 17,000 technology enterprises. Situated in China's political seat of power in Beijing, companies in ZGC were mostly funded by domestic capital—unlike those in other high-tech areas such as Shanghai and Shenzhen—with the benefit of a broad range of tax incentives.

The type of governance implemented in high-technology zones like ZGC was based on a model called 'smaller government, more services'. This system was derived from Deng's original thinking on how to reform China's innovative capacity, which was set out in the so-called Decision Memorandum of 1985. In essence, this strategy envisaged the creation of an organic link between scientific research and industrial produc-

China Science and Technology (S&T)			
	2004	2006	2008
<b>Personnel engaged in S&amp;T activities</b>	3.48 mn	4.13 mn	4.96 mn
<b>Funding for S&amp;T activities</b>	USD 63.4 bn	USD 90.7 bn	USD 104.5 bn
Government funds	USD 14.4 bn	USD 20.0 bn	USD 27.8 bn
Self-raised funds by enterprises	USD 40.5 bn	USD 60.1 bn	USD 93.2 bn
Loans from finance institutions	USD 3.8 bn	USD 5.4 bn	USD 5.9 bn
<b>Expenditure on R&amp;D, by output</b>	USD 28.7 bn	USD 43.9 bn	USD 67.5 bn
Basic research	USD 1.7 bn	USD 2.2 bn	USD 3.2 bn
Applied research	USD 5.8 bn	USD 7.1 bn	USD 8.4 bn
Experimental development	USD 21.2 bn	USD 34.5 bn	USD 55.9 bn
<b>Expenditure on R&amp;D, by source</b>	USD 28.7 bn	USD 43.9 bn	USD 67.5 bn
Government funds	USD 7.6 bn	USD 10.8 bn	USD 15.9 bn
Self-raised funds by enterprises	USD 18.9 bn	USD 30.3 bn	USD 48.4 bn
<b>Gross expenditure on R&amp;D in relation to GDP (GERD)</b>	1.23%	1.42%	1.54%
<b>Total value of export and import of high-tech products</b>	USD 47.8 bn	USD 77.4 bn	USD 110.9 bn
Exports	USD 24.2 bn	USD 41.2 bn	USD 60.8 bn
Imports	USD 23.6 bn	USD 36.2 bn	USD 50.0 bn
<b>Total enrollment of science and engineering postgraduate students</b>	420 444	547 002	619 355

Source: China Statistical Yearbooks 2005, 2007 and 2009

tion, giving firms and institutions an incentive to innovate, as opposed to merely being answerable to their superiors as is often the case in command economies. As a complement to this, from the 1980s growing numbers of state-owned enterprises (SOEs) converted to non-state ownership and commercial for-profit forms. Many government research institutions now also branch out into business, though never quite severing their government connections. During the first wave of start-ups by erstwhile research organisations in ZGC, Legend Computer (renamed Lenovo in 2003) was formed in 1984 when it emerged from the Institute of Computation in the Chinese Academy of Sciences. Start-ups like Lenovo were not funded via regular state budget allocations, and hence were basically granted complete autonomy in business decision-making.

Initially, Lenovo served as a trading company for foreign merchandise. The company's first product was an add-on card that enabled computers to use Chinese language input with a standard keyboard. By the late 1980s, Lenovo had begun to assemble and sell computers under its own brand. The company maintained a close relationship with the Chinese government, yet it also forged partnerships with foreign firms, most notably HP, from which it absorbed crucial business and managerial know-how while collaborating to market HP's products in China. At the time, foreign MNCs in China's personal computer market did not sell their latest products in China due to estimates of the weak purchasing power of Chinese users.

The management of Lenovo, however, understood the desire of Chinese users to access up-to-date products. By the 1990s it had built up sufficient expertise to mass-produce the latest computers, and began selling them at prices substantially

lower than those of any foreign competitor. Lenovo quickly became the leading computer brand in China, enjoying a 30% share of the domestic market in the 2000s. Like Huawei, Lenovo excelled by absorbing foreign technology and business expertise and adapting them to a Chinese context before extending the same strategy into global markets.

### Upstarts

Foreign firms currently still retain a strong presence in China's high-tech exports and patents. In 2004, for example, exports by foreign-invested enterprises in China accounted for 55% of China's total exports, as much as 90% of computers, components and peripheral exports, and 71% of electronics and telecommunications equipment exports. While domestic patent applications to the Chinese State Intellectual Property Office expanded nearly six-fold between 1995 and 2006, patents granted to Chinese nationals have been mainly non-invention patents (in the form of utility models or appearance-based designs).

Nevertheless, it is easy to identify innovative techniques in the way trailblazing firms like Huawei and Lenovo originally overcame the established influence of foreign firms in China. One might expect that the Chinese market's preference—or imperative—for low prices not to be particularly fertile ground for providing incentives for Chinese firms to engage in technological advancement. Yet because foreign technology is readily available in China, Chinese firms are able to concentrate their in-house R&D on China's comparative labour-using and cost-cutting advantages. Hence the vast majority of such firms' R&D expenditure is devoted to experimental development (as opposed to basic or applied research, see table on previous page), which constitutes the adaptation and process development of existing techniques. The industrious way in which Chinese firms have applied themselves to absorb, adapt and to improve technology for China's vast market is the foundation of their success on a global scale. Because as Huawei and Lenovo have shown, good quality at a low price is well-nigh impossible to beat.

Huawei and Lenovo are merely the vanguard of innovative new Chinese companies with global ambitions. By the late 1990s, as China was progressively becoming the world's largest mobile phone market, a new wave of ZGC start-ups had emerged, boasting more extensive global connections and better technical expertise. One of these which has followed in the footsteps of Lenovo is the multimedia chip design firm Vimicro. It already has an established multimedia product (a chip used in desktop computer cameras) for which it has around 60% global market share. Because most of the world's leading computer accessory makers have a strong presence in China, Vimicro needs only to market its chip to these firms for it to quickly become a mainstream product.

China's vision to become a global technology leader is set out in the Medium to Long-Term S&T Strategic Plan 2006-2020 (MLP). In essence, the MLP aims to reduce China's reliance on foreign technology to less than 30% by 2020; to increase GERD

(gross domestic expenditure on R&D as a percentage of GDP) to 2% by 2010 and to 2.5% by 2020; to have S&T and innovation contribute 60% to GDP growth, and for China to be among the top five worldwide contributors to domestic patents and international citations in scientific papers.

Significant progress has already been achieved with the MLP, and it is not hard to identify signs of China's rapidly improving innovative abilities. GERD has increased from 0.57% in 1995 to 1.54% in 2008 (see table on previous page). Occurring at a time when its GDP was growing exceptionally fast, China's GERD now ranks behind only the US and Japan. The number of triadic patents (granted in all three of the major patent offices: US Patent & Trademark Office, Japan Patent Office and European Patent Office) granted to China remains relatively small, reaching 433 in 2005 (compared to 652 for Sweden and 3158 for Korea), yet Chinese patent applications are increasing rapidly. Chinese patent applications to the World Intellectual Property Office (WIPO), for example, increased by 44% in 2005 and by a further 57% in 2006.

From a total of about 20,000 in 1998, China's output of scientific papers has increased four-fold to about 112,000 as of 2008, moving China to second place in the global rankings, behind only the US. In the period 2004 to 2008, China produced about 400,000 papers, with the major focus areas being material science, chemistry, physics, mathematics and engineering. While these focus areas reflect China's traditional emphasis on heavy industry and primary manufacturing, substantial research outputs in these subjects provide China with a major platform for innovation in such core industries. Chinese researchers have also branched into new fields and achieved prominence in areas like biological and medical sciences. Furthermore, China has greatly expanded regional collaborations with north American, Asian and European counterparts. In short, the progress of Chinese scientific output, while sometimes associated with an environment in China grappling with intellectual property right enforcement, has undoubtedly emerged on a global platform, enabling China to support independent research and technological activity.

China's emergence since 1978 remains an exceedingly industrious and innovative *Chinese* economic phenomenon which has impacted the world to an extent that seems almost impossible to grasp in its entirety. Yet Chinese companies are now becoming very successful at replicating their low cost manufacturing prowess on a global scale, but at good quality and with constantly improving technology. There is no way of telling how far China will go as a global leader in technology and innovation. China's MLP in 2006 called for the construction of large passenger airplanes through 16 major new projects over the next 15 years. Deng Xiaoping had already believed China to be capable of this back in 1981, yet even now, almost 30 years later, China's global emergence in technology is just beginning. ☎

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# Building by Design: How China Develops the Developing World

Chinese contractors and design firms have gone international. With one-sixth of global construction industry market share, China is shaping landscapes and raising the world's skylines. Most of China's projects have been implemented where improvement is needed most: in the developing world. China's resilient growth may yet spread through infrastructure construction and design projects abroad. *By Charles Avery.*

During the last three decades, China has developed at a rate unprecedented in its long history. The changes have occurred incrementally, almost unnoticed to those who have become accustomed to the sight of cranes on the horizon and to the sound of jackhammers. But then there are those who leave their homes to return years later who barely recognise their own city. Roads of dirt and gravel have given way to paved, multiple-lane highways; cars, busses and subways have displaced bicycles for transportation; high-rise buildings of glass, steel and cement now tower above the structures of yesteryear; on China's shores, trade bustles in some of the world's busiest, most state-of-the-art harbours. These changes are visible symbols of China's rapid progress. Every pipe laid and every power plant constructed marks a subtle contribution toward economic development. Behind every brick laid on this road toward modernity are Chinese contractors and designers. (Designers, although inclusive of both engineers and architects, will be used more or less synonymously with engineers.)

China is now spreading its progress abroad, its contractors becoming the primary fountainheads of development. In construction—one of the world's most important industries, comprising over 10% of global GDP—China has become a dominant player. At USD 77 billion in 2009, this lone nation accounts for around one-sixth of all internationally contracted projects by value, most of this earned shaping the landscapes of emerging Asia and Africa. Way off the mark only a quarter-century ago, China's contractors and designers are quickly rising to become the world's most competitive.

## Humble origins

Despite numerous accomplishments at home, Chinese contractors are relative newcomers on the global scene. The government has historically been the prime mover of the market, with international projects subordinate to domestic programs. In the early days of the Peoples' Republic the state directly contracted projects to local firms, limiting the possibility for the emergence of dominant nation-wide enterprises. The high segmentation within China, along with the strict adherence to government-determined building standards, limited the competitiveness of Chinese firms internationally. Contracting abroad required administrative approval which was infrequently granted.

Further setbacks occurred with the onset of the 'Great Leap Forward' in 1957 which did not recede until reforms began under Deng Xiaoping in the late 1970s. It was in this period that the mildly competitive contracting system was jettisoned in favour of the government directly financing projects from its budget, with construction activity classified as a not-for-profit sector of the economy. In the absence of competition, projects

were notorious for exceeding deadlines and budgets. At the time, one could hardly foresee a successful future for Chinese contractors internationally.

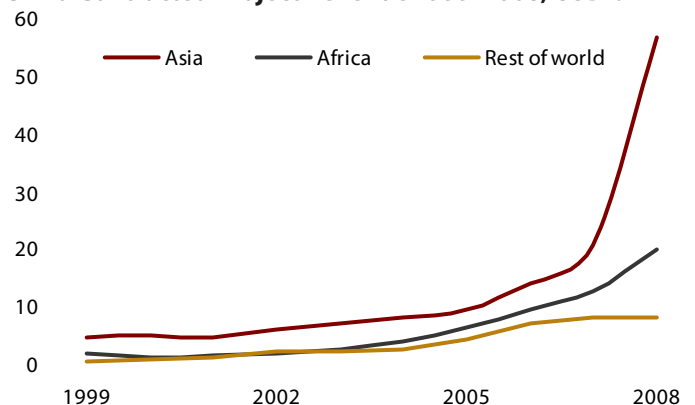
In the 1980s, reform was applied to the construction industry with the allowance of tendering in construction projects. At that point the industry became imbued with a sense of vitality. Although as little as 25% of rural square footage—and up to 60% of that in urban areas—was opened to tender offers prior to commencement, the advantages of having market-based competition quickly became apparent. Chinese contractors excelled, as did China's economy. It is around this time that Chinese builders also began going abroad in earnest, although still on a relatively limited scale. International revenues remained under USD 3 billion in 1989, but then quickly rose to USD 5 billion three years later.

Then in 2001 China entered the World Trade Organisation (WTO), putting China's 'go abroad' policy into full swing. By 2005, this USD 5 billion annual turnover figure would increase ten-fold. Chinese contractors and designers now operate in 179 countries. The handful of construction enterprises certified to work overseas in the early 1980s has increased to over 2,000 today, and the world is increasingly being shaped by China.

## Chinese contractors in emerging Asia and Africa

Itself a developing nation, China has shown great prowess in changing the skylines and infrastructure of likewise emerging economies, particularly those in Asia and Africa. In Asia, Chinese firms have overwhelmingly been the contractors of choice for Hong Kong and Singapore, due as much to cultural affinity as to their proximity with the mainland. However, the most promising Asian markets at present for China's construction talent lie in the developing ASEAN countries—the Association of Southeast Asian Nations (its ten members being Indonesia, Malaysia, the Philippines, Singapore, Thailand, Brunei, Myanmar, Cambodia, Laos and Vietnam).

China Contracted Project Revenue 1999–2008, USD bn



Source: China Statistical Yearbook; THE BEIJING AXIS Analysis

With USD 57 billion of China's contracted revenue originating in Asia, China's home continent is by far the most prevalent location of its international projects. Two ASEAN countries in particular – Vietnam and Indonesia – have infrastructure industry values that rank in the top ten for non-BRIC countries. Consequently, Chinese contractors have ventured south to these highly active regions, bringing their expertise in economic development along with them.

As much as one-third of the Vietnamese construction industry's value, estimated at just under USD 6 billion in 2008, is contributed by Chinese firms. Due to a shared border, materials and personnel amply flow into China's southern neighbour, giving Chinese firms an edge in freight costs. Current projects underway involve improvements to Vietnam's railway, ports and energy-based infrastructure.

For rail, China Railway No. 6 Engineering Group has been assigned by the Vietnamese government to a USD 553 million railway project from the capital, Hanoi. In southern Vietnam, China Harbour Engineering Company is upgrading a port in Ho Chi Minh City to handle increased loads of containers and general cargo at a multi-million USD price tag. For power, Vietnam will have its first nuclear-based generator come online with the assistance of China Guangdong Nuclear Power Group. Construction of thermo-electric and coal fired plants have also been tasked to Chinese companies in its southern neighbour.

Indonesia's construction industry, at USD 38 billion as of 2008, is by far the largest of all ASEAN countries. Here too, Chinese firms have shown increasing levels of activity. The greatest ongoing contributions from China have been towards Indonesia's energy infrastructure in the form of power plants. No less than nine power plants are currently under construction in Indonesia through the guidance and labour of Chinese contractors. Companies such as Chengda Engineering, Sinhydro, Sinomach and Shandong Electric Power Construction are presiding over 2,000 MW in new electrical capacity valued at around USD 3.5 billion, set to come online in the near future. Showing the adaptability of Chinese contractors, Shenhua Goa Power will not only construct a power plant, but an adjacent coal mine as well to supply it with over 1.5 million metric tonnes of coal per annum.

There is yet more good news for Chinese contractors operating in ASEAN. As of 1 January this year, the ASEAN-China Free Trade Agreement became fully operational. To further cement its commitment to expand economic activity between south-east Asian countries, China signed an agreement to initiate a USD 10 billion China-ASEAN Investment Cooperation Fund, with an accompanying USD 15 billion line of commercial credit specifically targeted at infrastructure development. As the members of ASEAN countries develop and prosper, so too will Chinese contractors who have been rapidly increasing their presence in the region.

Chinese contractors are playing a leading role in the African market. Chinese firms have advanced from holding only 7% of the market in 2000 to 27% as of 2007, giving it the number one

#### Top Asian and African Countries for Chinese Contracting, Labour and Design Activity 2008

ASEAN	Value (USD mn)	Regional %
Indonesia	2,278	25%
Vietnam	1,982	22%
Singapore	1,862	20%
Malaysia	789	9%
Africa	Value (USD mn)	Regional %
Algeria	2,405	19%
Sudan	2,222	18%
Nigeria	1,423	11%
Angola	1,190	9%

Source: China Statistical Yearbook; THE BEIJING AXIS Analysis

ranking. Of Africa's 57 countries, China has registered construction activity in 53. The basics of modern infrastructure are still needed in Africa, and such is exactly China's area of expertise. General building comprises 36% of all projects, water supply 21%, transportation 13% and power just shy of 10%. Many of the contracts received have been those initiated by government agencies, and have been financed by grants. The Chinese government actively fosters diplomatic relations in Africa by giving financial aid for infrastructure development, with preference given for Chinese contractors. Even where diplomacy has not been a factor, China's builders are nonetheless frequent winners of open tenders, beating out even local firms on the basis of low cost.

Although China's infrastructure projects in Africa are often accompanied by strategic resource deals, it is not China's largest oil trading partners Angola or Sudan who top the list for Chinese construction activity, rather it is Algeria. Over USD 2.4 billion was contracted to Chinese firms in 2008, out of a total industry value USD 12 billion. This is in large part due to the reputation of Chinese construction firms, notably China State Construction Engineering Company (CSCEC). After the devastating earthquake Algeria experienced in 2003, many buildings collapsed, yet those built by CSCEC remained standing. The result: more large projects awarded to China. Ongoing Chinese projects in Algeria include several railways, nuclear power facilities, and a 12,000 kilometre highway under construction in conjunction with a team of international firms.

#### The China advantage

There are several key features that give Chinese contractors an edge over their predominantly Western competitors in developing countries. First and foremost is cost. Chinese labour is cheap, reflected in the comparatively lower price Chinese firms are able to offer cash strapped developing countries. It is estimated that the salaries of workers, designers and consultants from China are only 5% that of those from the US and Japan.

Input costs are also significantly less. This is because Chinese contractors procure their equipment and materials inexpensively from China. Many leading state-owned Chinese contractors operate their own manufacturing bases to produce the

### Number of Top International Contractors and Design Firms Based in China — ENR 1991-2009



Source: ENR — Ranked annually are the top 225 contractors and 200 design firms based on revenue earned abroad.

required materials, which are then incorporated into their supply chains. In this way, essential equipment such as turbines, generators and transformers are obtained at a fraction of the price. The use of Chinese inputs for the construction process is often more advantageous than using even locally produced materials within the developing country. For example, procuring cement from Angola may cost as much as USD 0.20 per kilogram yet in China cement costs a mere USD 0.08 per kilogram. In addition, adequate quantities adhering to the necessary standards may be unavailable locally. As a result, western firms spend more. Overall, European firms spend up to four times as much on labour and materials than Chinese firms.

The experience and adaptability of Chinese contractors confers another advantage in developing nations. Before going onsite overseas, Chinese workers often undergo intensive training to adapt to the new environment. Once again, western companies largely avoid this due to costs and because bringing over domestic labour is less prevalent. In the process, Chinese workers acquire multiple skills for involvement at each stage of the construction process. Adaptability may also be enhanced as a result of the living conditions afforded to employees. Managers, engineers and labourers are often given the same quarters, an approach which may increase understanding among the staff hierarchy as well as reduce costs.

Beyond foreign policy initiatives, which generate projects for Chinese construction firms abroad, increased Chinese OFDI is also a factor. When expanding operations internationally, Chinese businesses have shown a preference for contracting their compatriots. For example, when Haier, a Chinese producer of household appliances, made plans to build a factory in the US, it chose a Chinese contractor to assist in the building process. China's OFDI stood at over USD 50 billion in 2008 and it is growing. Given Chinese preference for businesses based in their own country, a considerable share of this investment may find its way back to China by way of Chinese contractors.


#### Challenges and the future of Chinese design

The next step toward China's mastery of international building will be by way of design, an expansion upon the low-tech re-

quirements of traditional construction. China's engineering and design firms remain far less pervasive abroad than its contractors. Much of this lag may be attributed to the general incompatibility of China's regulatory system with those worldwide. Strict oversight on quality control, tendering processes, and certification differ significantly from most foreign markets, meaning that Chinese design firms have become accustomed to a very different work process. China's building codes still partially resemble the Soviet-style standards inherited at the founding of the People's Republic. Furthermore, 60% of Chinese design firms remain state-owned, and have been less responsive to changing methods and technologies required by the competitive international market.

Key to progress in China's design capability has been the experience gained from foreign involvement domestically. Despite onerous certification requirements, the number of foreign contractors registered in China increased from 16 in 2001 to 166 in 2008. In the run-up to the Beijing Olympics, Chinese engineers and designers received a crash course in modern infrastructure development. The traditionally stratified building methods of Chinese firms—where the design and building processes are delegated to separate entities—are gradually giving way to more modern EPC (Engineering Procurement Construction) and EPCM (add Management) techniques increasingly common overseas, where the same firm oversees multiple phases of a project. This extension will greatly assist China's ability to compete for projects in the petrochemical and metallurgical industries, where knowledge of the intricacies of specially made high-tech components are not easily transferred between contracted entities.

Bolstering the transition of China's design firms is a wave of newly trained engineers. In 1999, the Chinese government implemented policy initiatives to increase the number of university students. Since then, the number of engineers has increased, to top 700,000 graduates per annum. As these new engineers gain experience, they will eventually replace current managers who—in their thirties and forties—are used to the old ways of strict regulation, with its separate design and construction responsibilities. With nearly one million new minds trained on an yearly basis, Chinese firms are certain to incorporate more innovative techniques as they revamp the developing world as well as other international landscapes.

With improving design capabilities, and through its distinguished contractors, China is set to influence economic development internationally. As the ambitious economist Jeffrey Sachs once put it, "China gives fewer lectures and more practical help". It has long since been the goal of global leaders to eradicate uneven living standards and to blur the division between developed and developing economies. Silently and largely unrecognised, Chinese contractors and design firms press on, doing their part, one brick at a time. 

**Charles Avery, Analyst**

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## Transition to the Future: Mining and Mineral Processing in China

China's mining and mineral processing sector has for years been one of the most significant markets for the world's technology leaders. Increasingly, however, the tables are turning. Innovations within China compel more exports of its mining and processing technology globally. In the process, China is regaining its lost position as the world's technology leader, to include in mining and minerals processing. *By Lilian Luca.*

Over the past ten years, companies from emerging markets such as China, India, and Brazil have begun contributing a great deal more to their respective industries globally by introducing innovations developed domestically. As *The China Analyst* noted in more detail in a previous article ('CIMC: A Success Story for China Inc', Jan. 2010), emerging market innovators often bring cost-savings and feature innovations that market leaders in the West frequently ignore.

Examples of such innovators include China's CIMC (containers), ZMPC (port cranes), Lenovo (PCs) and Galanz (microwaves); India's Tata Motors (small, efficient cars) and Infosys (IT outsourcing); as well as Brazil's Embraer (aerospace) and Mexico's Cemex (cement). These companies have attacked entrenched worldwide leaders in their respective industries by focusing their creative efforts on mid- and lower-priced segments around the globe, cutting costs dramatically across value chains and introducing features that are market- and segment-specific.

The Chinese mining industry is not as world-renowned as are Chinese manufacturers of computers, electronics and white goods. Yet the pace of change is as frenetic in China's mining industry as it is in the nation's other industries; as progress unfolds, international miners will hear more and more about Chinese mining companies and their operational and technological methods. This article will attempt to give a general overview of the current state of technology in the Chinese mining and minerals processing industry, and will outline the trends to watch in the near future.

China has been at the forefront of global technology and innovation for most of its long history until the Industrial Revolution which began in England in the mid to late 18th century. In primary school, we learn of early Chinese innovations such as fireworks, gunpowder, the compass, grafting and paper. Somewhat lesser known are China's contributions to mining and mineral processing technology, although these are equally impressive. The Chinese have been mining coal since at least 4,000 BC in the area of Shenyang (in Liaoning province), have been smelting copper as early as 2,800 BC around Tonglushan (in Hubei province), and were the first to cast iron around 550 BC—a process undiscovered in Western Europe until medieval times.

China's economic stagnation of the past two centuries and relative isolation up until 1978—when the 'open door' policy was introduced by the Chinese government—meant that local mining and mineral processing firms have only recently had the chance to converge with international firms in terms technology, efficiency and pace of innovation. Worldwide leaders in mining technology (Atlas Copco, Caterpillar, Terex, etc.) and processing technology (Outotec, Bateman Engineering, Sie-

mens VAI, Metso Minerals, etc.) have been very successful in selling technological solutions to Chinese companies over the past 20-30 years. More recent introductions include copper smelters for Jiangxi Copper Corporation and Tongling Nonferrous Metals Group by Outotec, which utilise Flash Smelting and Flash Converting technologies; titanium oxide slag smelting technology for Chinese Yunnan Metallurgical Group by Bateman Engineering; Sino Gold's introduction of BIOX bioleach processes for gold from Gold Fields; as well as many others.

Specific to copper processing are the issues of extraction from poor quality ores, cost and scale efficiency, and environmental considerations that increasingly draw the attention of Chinese companies to advanced processing technologies. Solutions have been proffered in the form of Outotec's Flash Smelting and Hydrocopper, UBC/Bateman Engineering's Galvanox copper sulphides mixture leaching technology, and Teck Cominco's CESL Copper Process for copper sulphide oxidation.

During the boom times over the past decade, Chinese mining and processing leaders massively expanded in scale and amassed significant cash reserves. In a quest to climb the technology ladder and to advance with the latest, most efficient, scalable processes—and in a financial position to afford many of the best worldwide solutions—China has transformed into one of the most attractive markets for mining technology and engineering companies. Additionally, they are becoming increasingly active in the global acquisition of mineral assets, a process that will further push Chinese mining and processing technology abroad via partnerships between Chinese resource and engineering firms.

Not all technologies are equal from the perspective of the Chinese market. The priorities have shifted in accordance with market trends, geological conditions, the state of the economy and the country's development priorities. Thus, until quite recently, high demand was placed on the lowest-cost production techniques, emphasising maximum extraction from poor-quality ores through the utilisation of massive scale processing facilities. Since, the Chinese market for mining and ore processing technologies has shifted toward diversification. The reduction and control of environmental damage, a movement toward medium-scale production, and the advancement of safety measures are becoming more popular as the industry expands its scope. Partially contributing to this shift are medium-sized players increased access to financing, and the Chinese government and society's stricter views on protecting the environment.

Chinese companies are already world leaders in select, niche markets such as rare-earth metals production (see *The China*

*Analyst*, January 2010). Pioneers of Chinese mining and minerals processing, rapidly advancing technologically and gaining an increased share of the world market, include CITIC Heavy Industries (cost-effective large grinding mills), Lianyungang Huanghai Machinery (drilling equipment), LONGi Magnet (separation equipment), BGRIMM and Huabao Industry (lead flash smelting), ENFI Engineering and Shandong Dongying (oxygen bottom-blow smelting and copper-nickel flash smelting), and others.

Currently, Chinese mining and processing technology companies have three main avenues for gaining market share worldwide, each driven by different factors: installations in China (local cost and marketing advantages); projects for Chinese mining companies abroad (long-standing relationships and technological familiarity) and developing country mining and processing companies (cost concerns and inexperienced local players).

Yet as Chinese companies are becoming more assertive abroad—and as their technological advances become more prominent globally—there is a strong case that even global majors will outsource the technology and engineering requirements of their new projects to Chinese companies. After all, China is the ‘workshop of the world’. The nation’s expansion in the mining industry and its knack for development may soon make it the world’s workshop for mining technology as well. History is coming full circle. China is regaining its lost position as world technology leader to include in mining and minerals processing. 

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*The author is grateful for materials provided by China Mining Journal; Bateman Engineering (‘Copper Hydrometallurgy Processing Technologies’ by Linus Sylwestrzak); and Mr. Bo Zhao from China Nonferrous Metals Association (see interview below).*

*The article by Linus Sylwestrzak on copper hydrometallurgy technologies, along with ‘Solvent Metals Extraction and Solvent Extraction Equipment’ by John Riordan (Bateman Engineering GM: Hydrometallurgy) can be accessed in the Articles subsection under the Knowledge section of THE BEIJING AXIS website, [www.thebeijingaxis.com](http://www.thebeijingaxis.com).*

## Insider’s View: Bo Zhao on the State of Chinese Mining Technology

Bo Zhao is the Deputy Director of the China Nonferrous Metals Industry Association’s Copper Department. He shared his thoughts on the state of China’s nonferrous metals mining and processing technologies in an interview with Lilian Luca.

### What are the most striking examples of copper mining and processing technology innovations in China?

*There are quite a few examples, among which I can mention:*

- *The outstanding engineering and equipment technology level in the Dexing open-pit mine that belongs Jiangxi Copper Company, a world-leading copper producer*
- *The block caving technologies introduced and constantly improved by Zhongtiaoshan Nonferrous Metals Group in its Tongkuangyu copper mine, an example of a world-leading large scale underground mine*
- *Jinchuan Group’s Drill Jumbo, LDH (Load Haul Dump) machine and advanced trucks for underground ore hauling*
- *The Oxygen Bottom Blowing Smelting Technology which was researched and developed jointly by China ENFI Engineering Corporation and Shandong Dongying Fangyuan Nonferrous Company, and has a very successful adoption rate in China. This technology has the advantages of low energy consumption, flexible production capacity and lower upfront investment costs, showing great potential in energy efficiency and emission reduction*

### What copper leaching technologies are the most popular in China, and for what reasons?

*Copper hydrometallurgy has been widely adopted in China, the most popular technologies being heap leaching and in-situ leaching, chosen for cost effectiveness and low-grade effectiveness, while bioleaching and autoclave leaching have not been applied widely, mainly due to cost reasons.*

### What are the factors that Chinese copper mining companies consider when acquiring new technology?

*When introducing new technology, Chinese mining companies would usually consider a multitude of factors, but the most important factors are the adaptability of the technology, the cost of intellectual property transfer, and the feasibility of domestic supply of equipment.*

# Macroeconomic Monitor: China's Quiet Confidence

Premier Wen Jiabao has said that 2010 will be a very difficult year for China's economy, yet in Q1 its performance was remarkable, with GDP growth again well into double digits. Although consumption and trade grew in March despite the occurrence of a trade deficit, concerns linger in regard to the possibility of a bubble in the housing market and to the health of Chinese banks. With tighter monetary policy seemingly imminent, the calm of Q1 2010 may not last long. *By Barry van Wyk.*

China's Gross Domestic Product (GDP) grew by 11.9% in Q1 2010, outstripping the 8.7% annual GDP growth achieved in 2009 and the 10.7% of Q4 2009. China's Premier Wen Jiabao stated in March that he expected 2010 to be a very difficult year for the economy, yet the growth for Q1 was the fastest in almost three years. There are indeed areas of concern, most notably the threat of a bubble forming in the property market and potential instability in the banking sector. The data for Q1 should, however, inspire quiet confidence among China's leaders on the state of the economy, especially as China is expected to contribute a full third to this year's global growth and is set to overtake Japan as the world's second-largest economy.

## A confident start to the year

The 11.9% growth rate for Q1 2010 is impressive, although the figure is measured against Q1 2009—a time when China's economy was at its crisis-induced nadir. In March, however, China registered a USD 7.2 billion trade deficit, the first since 2004. China's trade surplus for the whole quarter decreased by 76.7% y-o-y, yet government officials characterised March's deficit as a temporary blip partially caused by labour shortages which had the greatest affects on exporters of clothes, shoes and bags. China's exports gained 24% y-o-y in March, following a 46% increase in February. Imports leapt by 66% in March, after a rise of 45% the previous month (see the charts below). The rise in imports followed a near quadrupling of vehicle imports in March, as well as increases in raw material prices as net imports of crude oil reached the second-highest level on record while iron ore imports in Q1 also reached record levels.

A return to double-digit GDP growth and rising prices of imported commodities have strengthened calls for the government to raise interest rates and allow the Chinese currency, the Renminbi, to appreciate in Q2. China has maintained the value of its currency at around 6.83 to the US dollar since July 2008, but after conducting stress tests in March to gauge the poten-

China Quarterly GDP Growth 2007–2010 Q1, % y-o-y

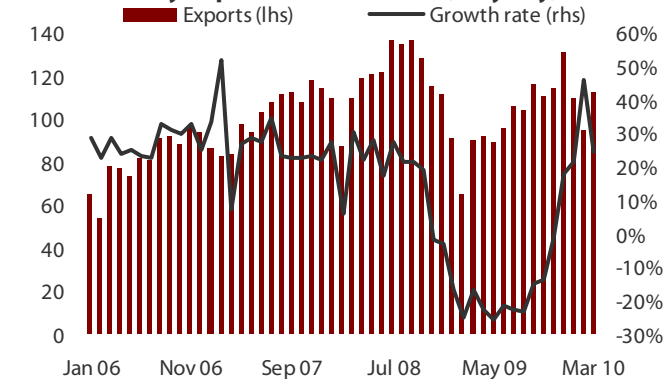


Source: China Monthly Economic Indicators; THE BEIJING AXIS Analysis

tial impact of appreciation on local companies, it is expected that the yuan will begin a gradual increase at the end of Q2 and may gain as much as 5% to the USD by the end of the year. The issue of China's currency has been a contentious political issue between China and its major trade partners, yet within China itself the debate is essentially between the People's Bank of China (PBOC), which favours an appreciation to help limit inflation, and the Ministry of Commerce, which resists appreciation due to the anticipated detrimental effects on China's exporters.

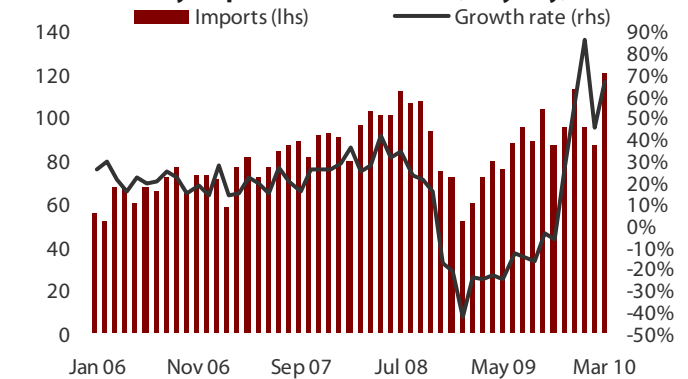
Although consumer prices increased 2.4% y-o-y in March, lower than the 16-month high of 2.7% in February, the World Bank joined a chorus of economists calling for China's leaders to raise interest rates and allow the yuan to appreciate in order to control the prospect of inflation as well as dangers of asset price bubbles. China's leaders have until now gently rebuffed such calls. In March, Premier Wen rejected claims that China's currency was undervalued, but with growing signs of robust recovery in China and measured recovery in the rest of the world, indications are that the PBOC may finally be getting the upper hand in the debate.

China Monthly Exports 2006-2010 Q1, % y-o-y, USD bn



Source: China Monthly Economic Indicators

China Monthly Imports 2006-2010 Q1, % y-o-y, USD bn



Source: China Monthly Economic Indicators

China's industrial output increased 18.1% y-o-y in March, down from 20.7% in the first two months of the year, and investment growth decreased in Q1 (see chart below). Urban fixed-asset investment in Q1 rose by 26%, which is the slowest growth rate in a year. Yet along with China's fast-growing exports, consumption has continued to expand with retail sales growing 18% y-o-y in Q1 and 21.5% y-o-y in March (see chart to the right).

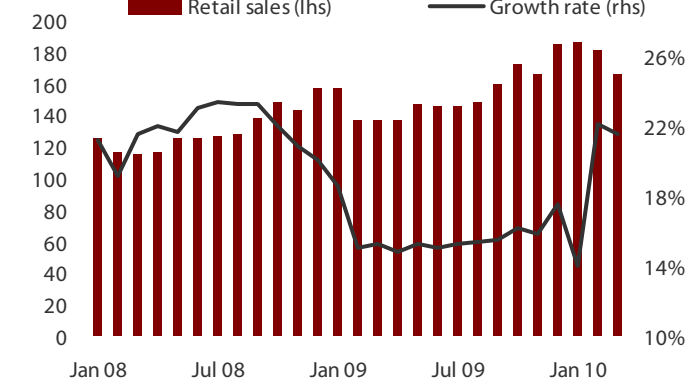
**Lingering concerns**

Government attempts to curb excessive lending growth resulted in Chinese banks issuing only RMB 510.7 billion (USD 74.8 billion) in new loans in March (see chart below to the right). The figure was substantially lower than the RMB 700.1 billion (USD 102.5 billion) in loans extended in February, and the total amount for Q1 this year (RMB 2.6 trillion) was well in arrears of the RMB 4.6 trillion extended in the same period in 2009, although still constituted 35% of the government's full-year lending target of RMB 7.5 trillion. After a record lending spree of RMB 9.59 trillion in 2009, China's banks need to restore capital. Yet the president of the Industrial & Commercial Bank of China (ICBC) in April stated that China's four largest publicly traded banks, ICBC, China Construction Bank (CCB), Bank of China (BOC), and Bank of Communications (BoCom) still require RMB 480 billion in order to comply with regulatory requirements. This figure is more than four times the amount that ICBC, BOC and BoCom plan to raise this year.

The danger exists that the government may be required to bail out banks that extended loans for risky local government projects during 2008 and 2009, as many local governments had used so-called investment vehicles to circumvent restrictions on bank lending. Although China's banking regulator stated in March that it will nullify all guarantees provided by local governments for loans taken out by their financing vehicles, the extent of the risk facing China's banks is still uncertain, although some analysts have estimated that the resulting non-performing loans could amount to as much as RMB 2.4 trillion.

Record growth in property prices in March increased fears of a bubble in China's housing market. Residential and commercial real estate prices in 70 cities increased 11.7% y-o-y, and investment in real estate during Q1 increased by 35% to RMB 659.4 billion (USD 96.5 billion). In the first two months of the year the

**China Monthly Retail Sales Jan 08-10 Q1, % y-o-y, USD bn**



Source: National Statistics Database

government raised mortgage rates and re-imposed a sales tax. In March it was announced that developers will have to pay a higher deposit for land purchases while banks will be prohibited from lending to builders found to be hoarding land or holding back home sales in anticipation of higher prices. The rapid increase in house prices will add further impetus for the government not only to impose new property taxes but to also increase interest rates, especially if rising home values push April's consumer price index past 3%.

**Quiet confidence**

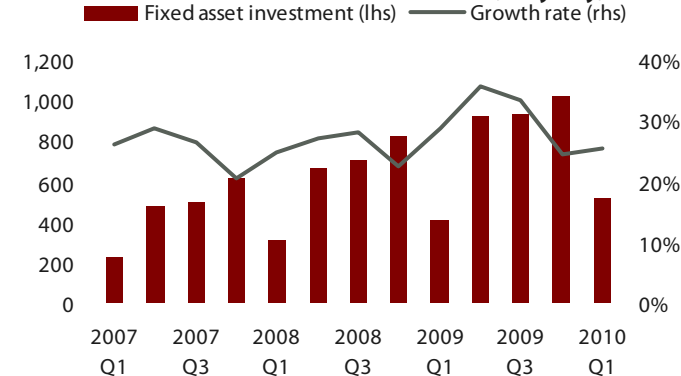
The performance of China's economy in Q1 was another impressive milestone on its road of recovery from the lows of the global financial crisis in early 2009. Robust growth at home has been complemented by less strident relations with China's major trading partners, notably the US, on issues such as the value of China's currency. As China prepares for another year in which its economic value to the rest of the world will be immense and obvious for all to see, China's leaders have every reason to be quietly confident.

Yet Q1 2010 is likely to have been the last quarter before the implementation of tighter monetary policy. All the factors now point in this direction due to the need to limit inflation and a housing market bubble, and to prevent overheating. Indeed, the last quarter may have been the culmination of China's recovery with the realisation that its time to move on.

**Barry van Wyk, Consultant**

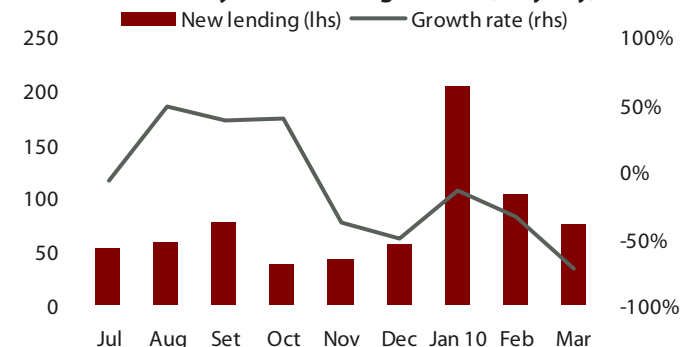
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**China Total Fixed Asset Investment 07-10, % y-o-y, USD bn**



Source: National Bureau of Statistics of China

**China New Monthly Bank Lending 2009-10, % y-o-y, USD bn**



Source: China Central Bank; THE BEIJING AXIS Analysis

China Consensus: China GDP Growth Forecasts for 2009 and 2010 by Selected Analysts, % y-o-y

<i>Highest to lowest</i>	Latest forecast (April 2010)	Previous forecast (December 2009)	Previous forecast (July 2009)	Previous forecast (April 2009)
Goldman Sachs	11.9	9.4	9.0	8.3
CASS	11.6	8.3	9.0	8.3
RBS	11.0	8.5	8.0	7.0
JP Morgan	10.8	8.6	8.4	7.2
Citibank	10.5	n/a	7.6	7.6
Nomura	10.5	n/a	8.0	8.0
OECD	10.2	n/a	7.7	6.3
Merrill Lynch	10.0	9.2	8.7	8.0
HSBC	10.0	8.1	8.1	7.8
Morgan Stanley	10.0	n/a	9.0	7.0
Standard Chartered	10.0	8.5	7.4	6.8
Deutsche Bank	9.8	8.8	7.9	7.0
EIU	9.7	8.2	8.0	6.0
Credit Suisse	9.6	n/a	8.0	8.0
Barclays	9.6	8.6	7.8	7.2
Asia Development Bank	9.6	8.2	7.0	7.0
<b>THE BEIJING AXIS</b>	<b>9.5</b>	<b>8.3</b>	<b>7.7</b>	<b>6.8</b>
World Bank	9.5	8.4	7.2	6.5
UOB	9.5	8.3	7.0	6.5
UBS	9.0	8.5	8.4	7.5
IMF	9.0	8.5	7.5	6.5
Calyon Bank	9.0	n/a	8.5	7.7
BMI	8.8	n/a	8.3	6.8

Source: Press; Various; THE BEIJING AXIS Analysis



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## China Business News Highlights

The first quarter of 2010 saw major developments in China's resource and automotive sectors. Geely is now the owner of Europe-based Volvo, while CNOOC and Sinopec have acquired billions in oil reserves to fuel China's economic growth. In finance, bank lending has been curbed and the exchanges are bracing for short selling. *By Charles Avery.*

### Sector news

#### Inside China

A record number of **patents** were issued in China for the year 2009. The China State Intellectual Property Office announced that over 580,000 patents were issued last year, an astonishing 41% increase over 2008. The new record is in part due to government efforts to expand public awareness of intellectual property rights. However, new intellectual property legislation has been criticised by foreign firms with China-based research facilities due to new security clearance and licensing requirements for internationals.

**Property prices** in China jumped 11.7% in March over the same period last year. February was comparatively slow, with only a 0.9% uptick in prices. The data is based on surveys of 70 Chinese cities and is inclusive of both residential and commercial property. The cities with the largest gains were on the island of Hainan. Here, Haikou and Sanya experienced gains of 53.9% and 52.1%, respectively.

Guangdong province, China's foremost manufacturing centre, has initiated a 21% **increase in the minimum wage**. In the capital, Guangzhou, the lowest allowed monthly wage will rise to RMB 1,030 (USD 191), while other cities and counties will be allowed to offer as low as RMB 660 (USD 97) per month. Some producers fear that rising labour costs may harm their competitiveness.

### Headlines

#### All green lights for China's automotive industry



*Reason to smile:* Recent events with Geely, GM and BYD are emblematic of China's thriving automotive industry.

China's largest privately-owned auto manufacturer, Zhejiang **Geely** Holding Group, will acquire **Volvo** from Ford Motor Company for USD 1.8 billion. The purchase is a milestone for China's automotive industry and marks the end of two years of negotiations in the run-up to the Geely-Volvo deal. The USD 1.8 billion price tag is far less than the USD 6.5 billion paid by Ford in 1999. Geely's management stated that Volvo would remain a separate entity with its own management team based in Sweden. Manufacturing activity was also to continue in Europe in order to maintain continuity with key European suppliers.

China has been the largest market so far this year for **General Motors** after achieving **record sales in March**. Sales in this month were 68% higher than a year earlier, at 230,048 vehicles. In the same month, GM only sold 188,011 units in the US, up 21%. Its home market remained the largest for GM in 2009, with US sales at around two million in comparison to China's 1.83 million for the year. The automaker's smaller models, such as the Chevrolet Cruze and New Sail have attracted the most attention from Chinese consumers due to their fuel efficiency and to the reduced excise tax on small cars in China.

Shenzhen-based **BYD**, a manufacturer of both automobiles and batteries, will **boost its capital spending** by nearly two-thirds to meet elevated demand for its vehicles. Its car sales doubled to 450,000 last year. A further 800,000 are targeted for 2010. Also in the works are plans to revamp three manufacturing facilities for the launch of the E6, a model which it intends to export in the second half of 2010 as the first all-electric car in the US. Sales of the E6, along with the hybrid F3DM, will begin in Shenzhen later this year.

### Sector news

#### Energy

**China National Offshore Oil Corporation (CNOOC)** will spend USD 2.5 billion to acquire a stake in **Tullow's Ugandan oil assets**. In question are over one billion barrels of oil that have been confirmed to lie beneath Uganda's Lake Albert region. Other African countries with CNOOC assets include Nigeria, Kenya and Equatorial Guinea. The Chinese firm expects to increase production to over 275 million barrels in 2010, from less than 230 million in 2008.

The oil-rich tar sands in Alberta, Canada have caught the interest of China's **Sinopec**. In one of the largest investments in North America, the Chinese firm will pay **ConocoPhillips** USD 4.65 billion to acquire a 9% stake in **Syncrude Canada**. Syncrude is the largest project in the tar sands, generating 13% of the nation's oil output at around 350,000 barrels annually. The expensive technological outlays required by the tar sands are becoming more economical due to the rising price of oil.

#### Telecommunications

**Ericsson** recently signed a USD 1 billion deal with China's largest telecommunications operator, **China Mobile**, along with a USD 800 million contract with number two, **China Unicom**. Ericsson, a network equipment provider, is looking to expand its 20.8% world market share by targeting China.

## Mining

The **East China Mineral Exploration and Development Bureau (ECE)** signed a preliminary agreement in March to acquire **Itaminas** of Brazil. For around USD 1.2 billion, ECE will gain access to the 1.3 billion tons of iron ore held as reserves at the Brazilian firm's Sarzedo mine. Three million metric tons of iron ore concentrate are produced annually by the mine, although after investment, it is expected that this output can be increased to around ten million. Due diligence is to be performed before finalisation of the deal can be completed.

China's 40-year-old pricing system for iron ore—typified by annual prices and extended negotiations—has been scrapped in favour of contracts linked to the spot market. Coinciding with this is the decision of China's government to **prohibit the import of low grade iron ore**. As of April this year, all incoming ore must have iron content above 60%. Although this will have worldwide implications for the industry, as China's imports account for 70% of all maritime iron ore trade, it will effect India's low-grade producers most.

A new **Indonesian coal railway** valued at USD 4.8 billion has been assigned to **China Railway Group**. The contract with Indonesia's **Bukit Asam Transpacific Railway Corporation** includes design, construction and management responsibilities over a time period of 24 years. The 307 kilometre transport line will stretch across South Sumatra. Indonesia is the world's largest exporter of thermal coal, with 15% of its 2009 exports shipped to China.

## An eventful quarter for Rio Tinto in China



*En route to Guinea:* Chinalco's new stake with Rio Tinto in the Simandou mines will help meet China's insatiable demand for iron ore.

Anglo-Australian miner **Rio Tinto** and **Chinalco**, a Chinese metals conglomerate, signed a deal in March worth USD 1.35 billion. As compensation for its funding, Chinalco will receive a 47% stake in the **Simandou mines** located in the west African state of Guinea, known as one of the world's largest sources of high-grade iron ore. Given its annual production capacity of 200 million tonnes, the mineral site has the opportunity to rival the world class mines of Western Australia and Brazil. To bring Simandou up to speed, the Chinese firm will direct investment toward the mine as well as the processing plant, railway and port facilities. China accounted for about a quarter of Rio Tinto's 2009 revenues, and Chinalco owns 9% of the Rio Tinto equity.

Less than two weeks after the announcement of the Chinalco deal, however, four Rio Tinto employees were sentenced to prison for accepting bribes after originally being charged with espionage. The primary defendant, an Australian national named Stern Hu who managed Rio Tinto's China sales, will be imprisoned for ten years after being found guilty of accepting nearly USD 1 million in bribes. The three other accused Rio Tinto employees received between seven to 14 year sentences. Rio Tinto, who originally insisted on their employees' innocence after an investigation, eventually dismissed the four just before the verdict was rendered stating clear evidence of their guilt.

## Greater voting power at the World Bank for China

China has been given greater authority in international affairs after the **World Bank increased its voting share** to 4.42%, behind only the US and Japan. Previously, China held 2.77% of the voting rights. Japan's influence at the World Bank is now just beyond that of China, at 6.84%, while the US retains the most power at 15.85%. Coinciding with this decision was the upward movement in the aggregate voting power of developing countries to just over 47% of total World Bank votes. Decisions issued by the bank require an 85% approval rate for passage. The shift in the international organisation's power structure is symbolic of the movement in economic might away from the traditionally developed world.

## Finance

A trial period commenced in late March of this year to allow **short selling and margin trades** on the exchanges of Shanghai and Shenzhen. This move has been considered a prelude to the announcement of the initiation of trading in **stock-index futures**, set to begin in mid-April. These risky, alternative investments are being introduced to add a level of depth to China's relatively young stock markets.

In an attempt to stem inflation, China's regulators are **tightening monetary policy**. Commercial banks' reserve requirements were increased by 0.5% to 16% in January. Authorities are expected to target an 18% increase in loans for this year, down from a surge of over 30% in 2009. In response, China Construction Bank, China's second largest, has decreased its loan quota by 20% y-o-y, to RMB 750 billion (USD 110 billion) for 2010.

**CITIC**, a Chinese industrial and financial conglomerate, has accumulated a **RMB 9 billion (USD 1.32 billion) investment fund**, of which an anticipated two-thirds will be directed toward the rejuvenation of state-owned enterprises. Already targeted as recipients of investment are Kuaijishan, a Chinese brand of liquor, and the data service provider Wind Info.

The world's largest bank by market capitalisation, **Industrial and Commercial Bank of China (ICBC)**, will issue USD 3.7 billion in convertible bonds, as well as issue new stock on the exchanges of Hong Kong and Shanghai. 2009 lending activity strained the bank's balance sheet.

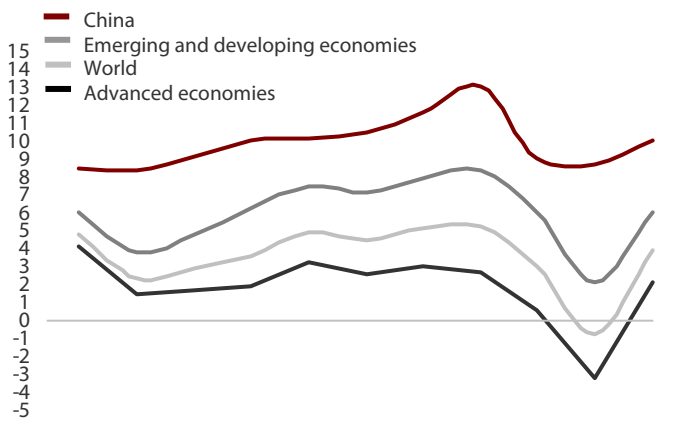
# China Facts & Figures

China Facts & Figures is a cross-section of medium- to long-term data illustrating growth, transformations and trends in select Chinese economic indicators. In this edition we also analyse China's growth composition for 2009 and investigate the geographic and sectoral distribution of urban employment in China during the first three quarters of 2009. *By William Dey-Chao.*

China Selected Economic Indicators						
General statistics	2005	2006	2007	2008	2009	Trend
Population (mn)	1,308	1,314	1,321	1,330	1,334	
Nominal GDP (USD bn)	2,244	2,645	3,242	4,522	4,917	
GDP per capita (USD)	1,716	2,012	2,454	3,400	3,566	
Real GDP growth (%)	10.4	11.1	13	9.6	8.7	
Prices and exchange rates						
CPI inflation (% , December over December)	1.6	2.8	6.5	1.2	1.9	
PPI inflation (% , December over December)	3.2	3.1	2.0	-1.1	1.7	
Exchange rate (RMB per USD, average)	8.19	7.97	7.61	6.9	6.82	
Fiscal data						
General government fiscal balance (% of GDP)	-1.2	-0.8	-0.6	-0.4	-2.8	
General government expenditure (% of GDP)	18.5	19.2	19.9	20.8	23.4	
General government revenue (% of GDP)	17.3	18.3	19.9	20.4	20.6	
Money supply and credit						
Broad money supply (M2, % of GDP)	160.7	163.9	163.6	158	180.7	
Broad money supply (M2, % year-on-year change)	17.6	16.9	16.7	17.8	27.7	
Balance of payments						
Exports (total value, % of GDP)	37.3	40.1	41	32.1	24.44	
Imports (total value, % of GDP)	31.7	32.2	32.2	25.5	20.45	
Exports (goods and non-factor services, % increase in USD value)	27.6	26.9	25.2	17.3	-16.0	
Imports (goods and non-factor services, % increase in USD value)	17.4	19.8	22.2	19.4	-11.2	
Current account balance (USD bn)	160.8	249.9	372	440	372	
Current account (% of GDP)	7.2	9.4	11	10.1	7.8	
FDI (USD bn)	72.4	72.7	83.5	92.3	90.03	
External debt outstanding (USD bn)	283.8	325	373.6	420	386.8	
Central bank gross FX reserves (USD bn)	819	1066	1528	1980	2399	

Source: China Monthly Indicators; IMF; World Bank; THE BEIJING AXIS Analysis

## World GDP Growth, % y-o-y, 2000-2010F

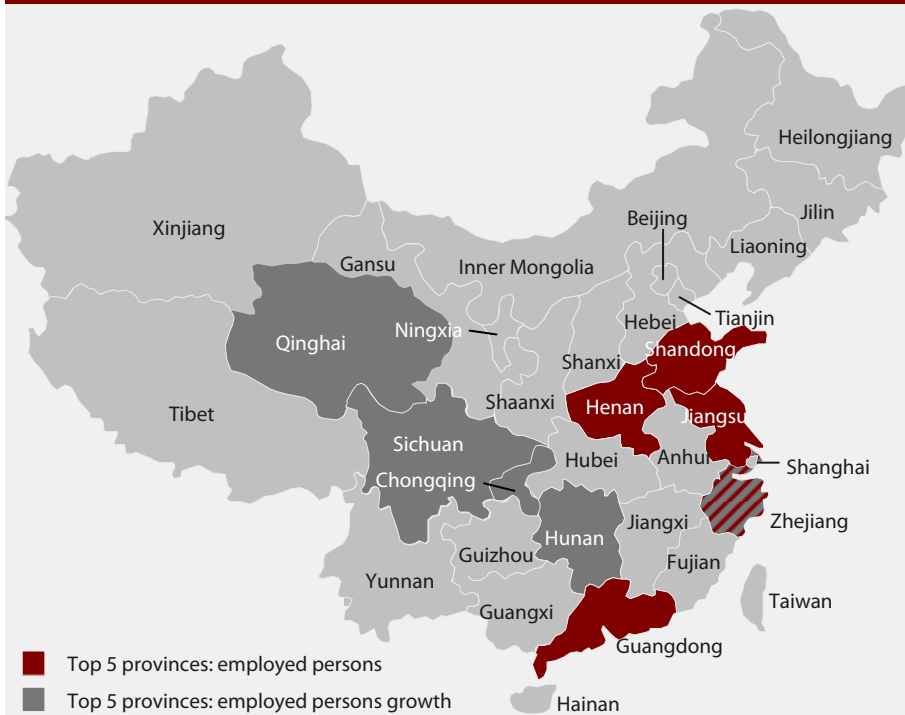


Source: IMF; National Bureau of Statistics; THE BEIJING AXIS Analysis

## Composition of China's Q1 2010 GDP growth

In Q1 2010, China's GDP grew at a rate of 11.9%, the fastest since 2007. Investment remained the major driver of the economy, contributing 57.9%, while final consumption also still played an important role, contributing 52%. The contribution of net exports still remained negative at -9.9%. Yet a shift in the composition of growth can be observed due to a gradual recovery in exports, favourable labour market conditions, continued fiscal support for households supporting final consumption, and a gradual deceleration in gross capital formation. This deceleration is occurring as government-led investments are wound down while fiscal and monetary policy is tightened in order to avoid overheating, inflation and asset price bubbles.

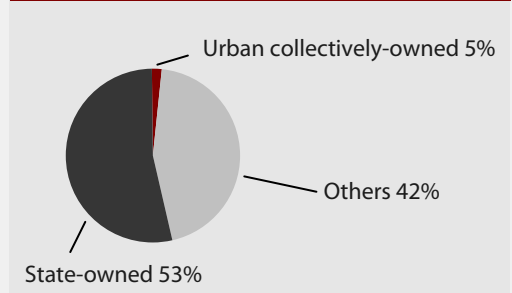
Employed Persons in Urban Units\* by Province Q3 2009



Employed Persons in Urban Areas (1,000 Persons)

Region	Q3 2008	Q3 2009	Growth rate (%)
<b>China total</b>	<b>120,777</b>	<b>121,989</b>	<b>1.00</b>
Eastern area	59,416	60,392	1.64
Central area	33,953	33,907	-0.14
Western area	27,407	27,689	1.03

Employed Persons in Urban Areas by Sector Q3 2009



Region	Employed Persons in Urban Units (1,000 persons) Q3 2008	Employed Persons in Urban Units (1,000 persons) Q3 2009	y-o-y Growth Rate (%)
Anhui	3,427	3,435	0.23
Beijing	5,642	5,704	1.11
Chongqing	2,318	2,414	4.13
Fujian	4,589	4,581	-0.17
Gansu	1,925	1,931	0.30
Guangdong	10,073	10,070	-0.04
Guangxi	2,856	2,932	2.65
Guizhou	2,154	2,106	-2.23
Hainan	753	754	0.08
Hebei	4,959	4,988	0.60
Heilongjiang	5,073	4,766	-6.04
Henan	7,090	7,171	1.14
Hubei	4,727	4,732	0.12
Hunan	4,354	4,548	4.45
Inner Mongolia	2,477	2,476	-0.05
Jiangsu	7,087	7,075	-0.17
Jiangxi	2,879	2,899	0.70
Jilin	2,624	2,621	-0.11
Liaoning	4,978	5,086	2.16
Ningxia	625	623	-0.24
Qinghai	455	482	5.93
Shaanxi	3,408	3,448	1.17
Shandong	9,140	9,095	-0.49
Shanghai	3,654	3,703	1.34
Shanxi	3,776	3,731	-1.21
Sichuan	5,291	5,477	3.51
Tianjin	2,003	1,998	-0.25
Tibet	195	201	3.10
Xinjiang	2,758	2,578	-6.50
Yunnan	2,938	3,014	2.58
Zhejiang	6,531	7,332	12.26

What is the current employment situation in China?

China's economy expanded at an impressive rate in 2009 largely due to the massive economic stimulus package implemented by the government. Yet as is the case with the US, Japan and Europe, rising unemployment is a major concern in China. In 2009 China's unemployment rate increased by 0.1% to 4.3%. This increase can mostly be attributed to large job shedding that occurred in export-oriented manufacturing firms at the beginning of the year.

At the end of 2009, the total number of employed people in China reached 779.95 million, 5.15 million more than in 2008. Urban employment accounted for 40% of total employment with a total of 311.20 million people, a net increase of 9.10 million from 2008. By the end of Q3, the coastal regions had the highest number of urban employment. Yet provinces in western China were growing the fastest in terms of urban employment during this period.

China aims to keep the urban unemployment rate below 4.6% in 2010 and create over 9 million new jobs in urban areas. During the first three months of 2010, the labour market has shown some improvement as demand for migrant labourers in coastal regions started to increase.

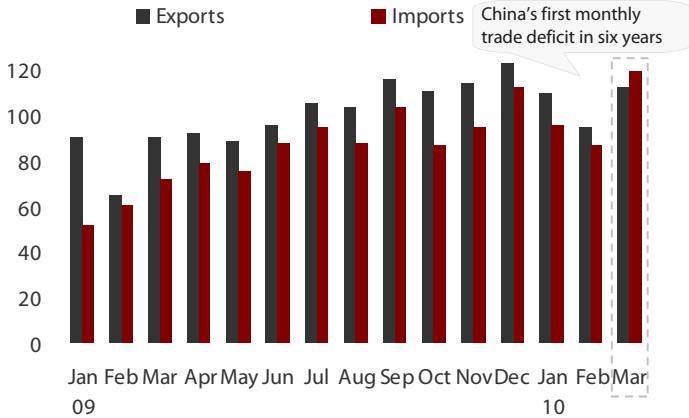
\* Note: Employed persons in urban units refers to all persons working in government agencies at various levels, political and party organisations, social organisations, enterprises and institutions, and who are receiving wages or other forms of payment.

Source: China Monthly Indicators; National Bureau of Statistics; THE BEIJING AXIS Analysis

# China Trade Roundup

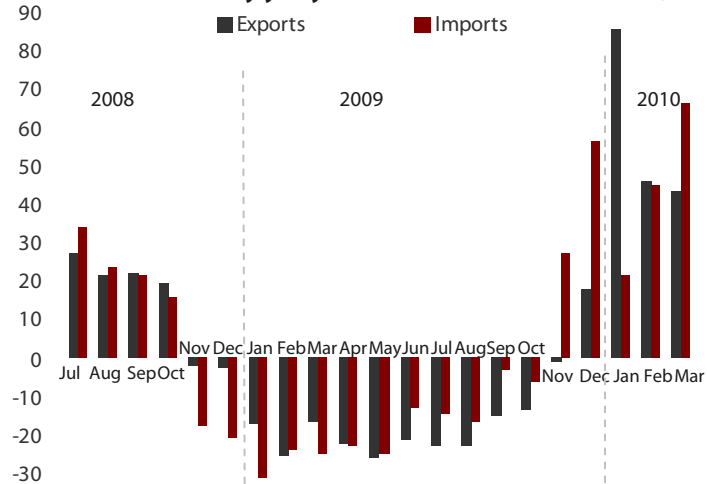
China Trade Roundup illustrates recent trends in China's trade performance and the outlook going forward with a summary of the latest trade data. In this edition, we also examine China's recent rebound in trade and analyse the contribution of different countries and regions of the world to China's total trade. *By William Dey-Chao.*

## China Total Trade Jan 2009-Mar 2010, USD bn



Source: National Bureau of Statistics; China Customs; THE BEIJING AXIS Analysis

## China Trade Monthly y-o-y Growth Rates 2008-Q1 2010, %



Source: National Bureau of Statistics; China Customs; THE BEIJING AXIS Analysis

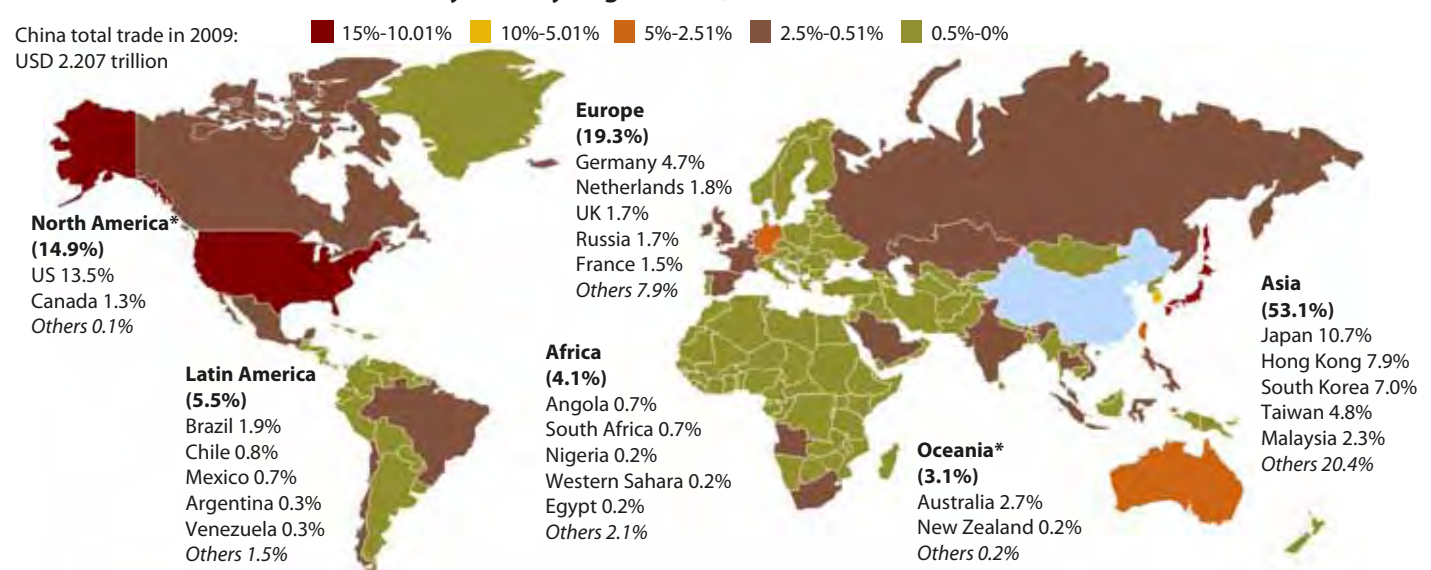
## China's trade performance and outlook

China's exports rebounded strongly towards the end of 2009, and in Q1 2010 monthly y-o-y growth rates exceeded pre-crisis levels as the gradual recovery of the global economy helped sustain the rebound in Chinese exports. During Q1 2010, China's imports and exports collectively amounted to USD 617 billion, an increase of 44% compared to the same period last year. During Q1 2010, China's trade surplus decreased to USD 14.5 billion, which represents a 77% reduction from the same period in 2009. Total exports for the period increased by 26% compared to the same period last year, amounting to USD 316.1 billion, while imports increased by 64% y-o-y, amounting to USD 183.4 billion.

In March 2010, China's total trade increased by 30% from February to reach USD 231.4 billion, while the figure for March increased by 43% over the same month last year. In March China also registered a monthly trade deficit of USD 7.2 billion, the first since April 2004. Chinese exports reached USD 112.1 billion in March, a 24.3% y-o-y increase, while imports increased by 66% y-o-y to USD 119.3 billion.

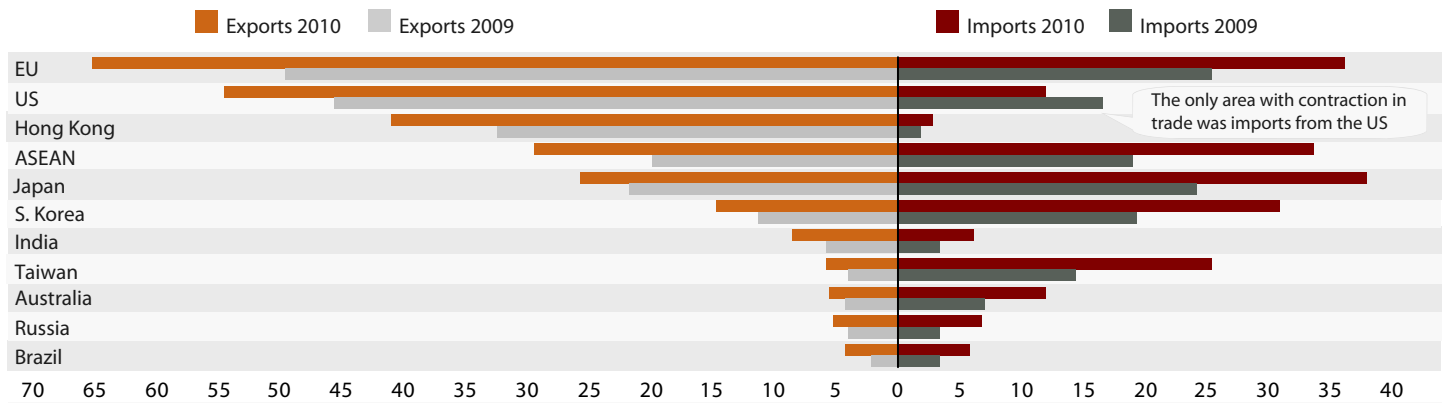
March's trade deficit has been attributed mainly to fewer exports of labour-intensive products, surging import volumes and rising commodity prices. In addition, the March deficit illustrates that demand in China remains strong, driven in part by a flood of bank lending in 2009 and other government stimuli. As a result, prices for crude oil, iron ore and other raw materials China imports have been rising. Western economies that are the leading export markets for Chinese goods, moreover, are only expected to begin a substantial recovery later in 2010.

## Contribution to China's Total Trade by Country/Region 2009, %



Source: All China Marketing Research; THE BEIJING AXIS Analysis. \*Limited regional data available.

### China Total Exports & Imports by Country/Region Q1 2009 vs. Q2 2010, USD bn



Source: China Customs; THE BEIJING AXIS Analysis

### Recent export / import levels

During the end of 2009 and the beginning of 2010, global economic recovery boosted China's exports to its leading trade partners by an average of 40% y-o-y. Total exports to leading countries/regions in Q1 2010 amounted to USD 259.8 billion, accounting for 82% of China's total exports. The EU (USD 65.3 bn) and US (USD 54.4 bn) were still the largest importers of Chinese products, respectively accounting for 21% and 17% of China's total exports. However, Brazil (USD 4.3 bn) and Taiwan (USD 6.0 bn) displayed the highest growth rates during this period, respectively growing at 90% and 62%.

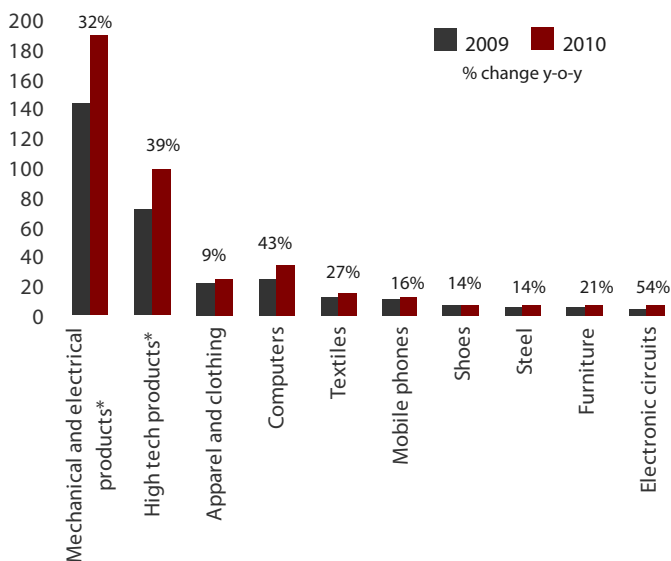
During Q1 2010, the major Chinese exported commodities grew by an average of 27% y-o-y. Electronic circuits (USD 6.6 bn) and computers (USD 34.0 bn) were the two commodities that displayed the highest growth rate for the period, growing 54% and 43%, respectively. Mechanical and electrical products (USD 189.1 bn) were China's top exported products, accounting for 45% of total exports for the period.

Boosted by strong domestic demand, Chinese total imports

from its major trading partners increased by an average of 60% y-o-y. Total imports from leading countries/regions in Q1 2010 amounted to USD 208.6 billion, which accounted for 69% of China's total imports for the period. During Q1 2010, Japan (USD 37.9 bn) and the EU (USD 36.0 bn) were the top exporters to China, respectively accounting for 13% and 12% of China's total imports for the period. Russia (USD 6.7 bn) and Taiwan (USD 25.4 bn) experienced the highest growth rates, at 94% and 77%, respectively, over the same period. The US (USD 11.8 bn) was the only country among China's major trading partners which experienced a reduction in exports to China compared to the previous year.

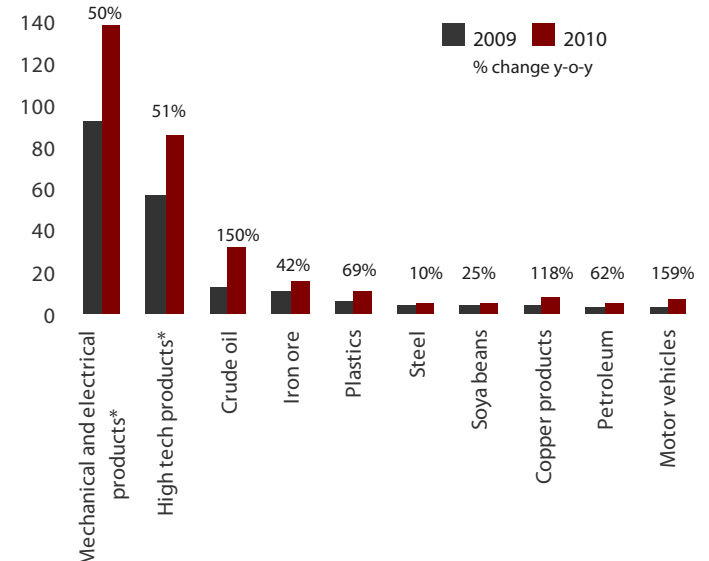
During Q1 2010, the growth rate of major Chinese imported commodities averaged 74% y-o-y. Motor vehicles (USD 6.8 bn) and crude oil (USD 31.3 bn) displayed the highest growth rate for the period, respectively growing by 159% and 150%. Mechanical and electrical products (USD 137.7 bn) were China's top imports, accounting for 30% of total imports for the period.

### Leading Chinese Exports Jan-Mar 2009-2010, USD bn



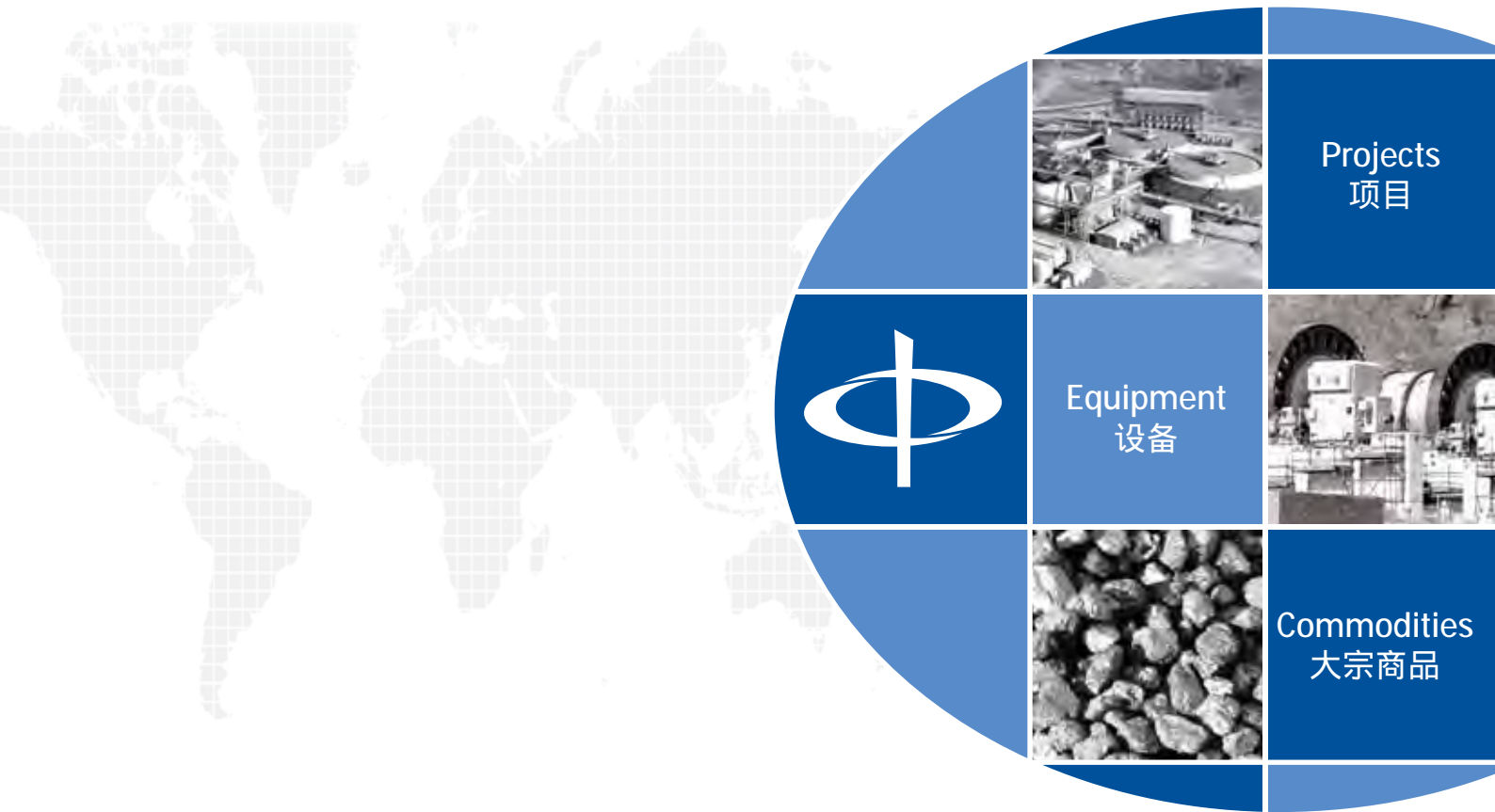
\*Might include duplicate data.  
Source: China Customs; THE BEIJING AXIS Analysis

### Leading Chinese Imports Jan-Mar 2009-2010, USD bn



\*Might include duplicate data.  
Source: China Customs; THE BEIJING AXIS Analysis

# A China-focused Global Procurement House



## Is China in your supply chain?

Bateman Engineering N.V. and THE BEIJING AXIS China Sourcing Unit are pleased to announce the formalisation of an equity joint venture - **Bateman Beijing Axis**.

Bateman Beijing Axis (BBA) does intelligent procurement in a way that balances total cost, delivery time and quality. For international clients we do China procurement for projects and equipment; for Chinese clients we procure commodities and raw materials.

BBA has significant experience in sourcing components, finished goods, raw materials, specially designed/engineered equipment and services from mainland China. BBA offers comprehensive procurement solutions, with an emphasis on solid project management, holistic risk management and strategic relationship management. By leveraging the knowledge and networks of Bateman Engineering and THE BEIJING AXIS, BBA also provides bulk commodity trading solutions.

For more information, please go to [www.batemanbeijingaxis.com](http://www.batemanbeijingaxis.com), or contact:

Cheryl Tang in Beijing at [cheryl.tang@batemanbeijingaxis.com](mailto:cheryl.tang@batemanbeijingaxis.com) or +86 10 6440 2106; or

Nitesh Dullabh in Johannesburg at [nitesh.dullabh@batemanbeijingaxis.com](mailto:nitesh.dullabh@batemanbeijingaxis.com) or +27 11 201 2453



A Joint Venture between Bateman Engineering N.V. and THE BEIJING AXIS Ltd.

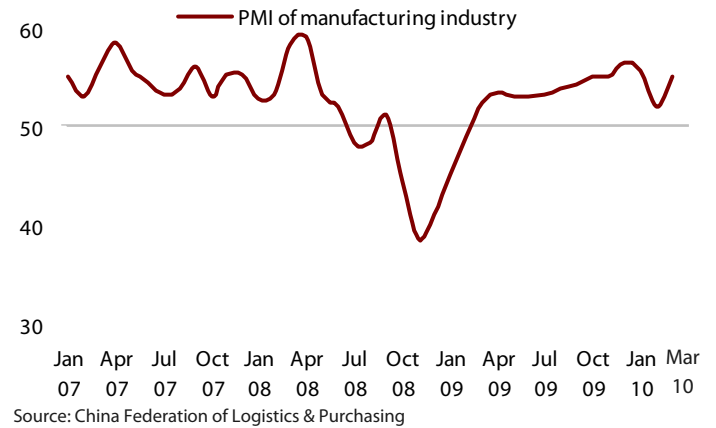
# China Sourcing Strategy

Although China is geographically very large, overseas procurement managers usually do not have to travel far and wide to visit different suppliers. This is partly due to industrial clustering in China. In this edition we look at China's industrial clusters to see how local manufacturing capacity of various goods has been concentrated in order to enhance competitiveness. *By the Bateman Beijing Axis Sourcing team.*

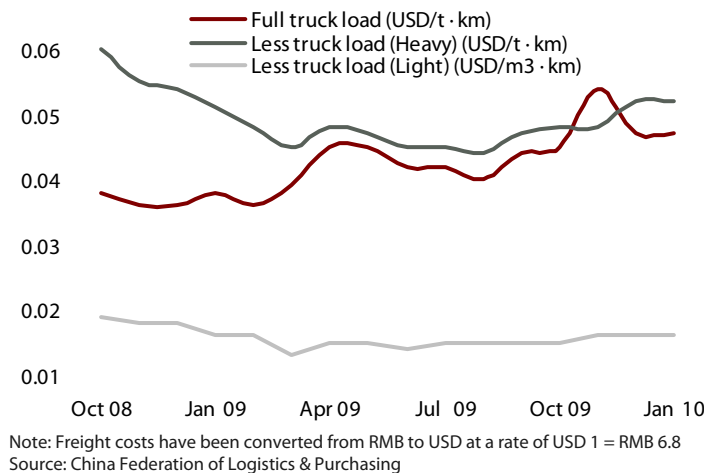
## Recent Developments

- In Q1 2010, China's total trade amounted to USD 617.85 billion, an increase of 44.1% y-o-y. Exports grew by 26% y-o-y; imports by 64.6% y-o-y. China's trade surplus amounted to USD 14.49 billion, a decrease of 76.7% y-o-y
- China's total trade in Q1 for the first time exceeded the value at the onset of the financial crisis (Q1 2008). Compared with Q1 2008, China's total trade value grew by 8.2%; exports increased by 3.4% and imports by 13.8%
- According to the World Trade Organisation (WTO), China has overtaken Germany as the world's leading exporting country. China's export volume in 2009 accounted for 10% of the global total. China is the world's second-largest importing country with 8% of the global total, after the US
- In March 2010, China exported 3.33 million tons of steel, a growth rate of 99.4% y-o-y
- A new round of talks on the value of the RMB commenced in March 2010. The central parity of RMB against the USD rose from USD 1 = RMB 6.8268 on 2 March 2010 to reach a peak of USD 1 = RMB 6.8259 on 7 April, a 10-month high. Since this time the RMB weakened slightly, reaching RMB 6.8264 on 21 April
- The CFLP manufacturing Purchasing Managers Index (PMI) in March 2010 increased to 55.1%, 3.1% higher compared to February 2010. All 11 sub-indices rose in March. The indices for output, new orders, new export orders, order backlog index, procurement volume index, import index, and purchase price index all grew by over 4%. The indices for production, new orders, procurement volume, and purchase price all exceeded 55%. Among the 20 industries surveyed in March, only Beverage Manufacturing, Non-Ferrous Metallurgical Smelting and Rolling Processing, Timber Processing and Furniture Manufacturing PMI did not exceed 50%. The PMI for the Manufacture of Communication and Transportation, Electrical Machinery and Equipment, General Equipment and Metalware all exceeded 60%
- China's truck load (road transportation) freight rates have generally followed rising global trends which have increased due to the traditional annual transport boom season in December and January
- The containerised freight index for Europe and the Mediterranean consistently increased during the first quarter, with demand growing much faster in comparison to other regions. A small fluctuation occurred around China's Spring Festival (first 20 days of February), yet by late March to early April demand returned to the levels of January. Compared to the levels observed in 2009, the indices for services to other regions have not fluctuated much up to the end of the first quarter, indicating that exports to these regions are still in the process of recovering

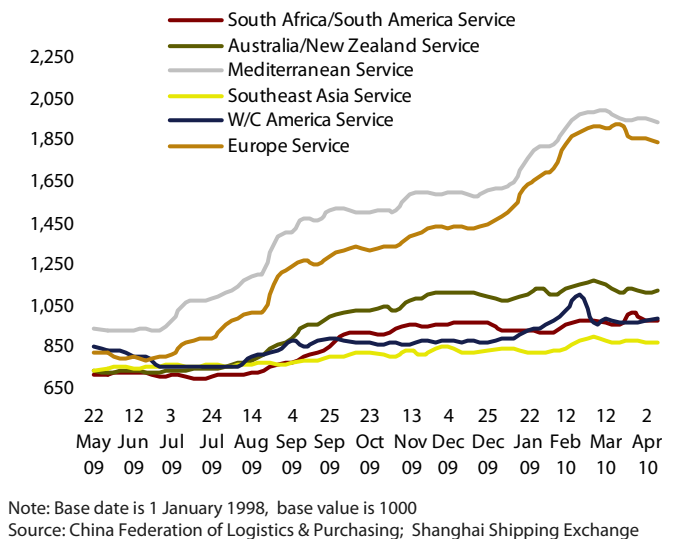
## Purchasing Managers Index January 2007–March 2010



## China Truckload Freight October 2008–January 2010



## China Containerized Freight Index May 2009–April 2010



## WHY and WHAT to Source - China's Leading Industrial Clusters\*

In development since the 1980s, China's industrial clusters have gradually enhanced the competitiveness of Made-in-China products by geographically concentrating R&D, manufacturing, procurement and sales of certain products. China now has relatively mature industrial clusters in terms of quantity and scale, industry coverage, supportive systems (such as industry associations), advanced supply chains linking with upstream and downstream industries, and local government support. Currently, China's industrial clusters are concentrated in the Yangtze River Delta, Pearl River Delta and Bohai Bay area. The map below illustrates China's leading industrial clusters and the provinces where they are located. These provinces are also China's foremost exporting provinces as the industrial clusters are normally geared for export.

**Hebei 河北**  
2009 exports: USD 15.69 billion, Rank: 10

1. Hejian Heat Insulating Material Industrial Cluster
2. Xianghe Furnishings Industrial Cluster
3. Qinghe Cashmere Industrial Cluster
4. Botou Casting Industrial Cluster
5. Yongnian Fasteners Industrial Cluster
6. Taocheng Engineering Rubber Industrial Cluster

**Shanxi 山西**  
2009 exports: USD 2.84 billion, Rank: 24

1. Taiyuan Stainless Steel Industrial Cluster
2. Qingxu Radiator Industrial Cluster
3. Dingxiang Forging Industrial Cluster
4. Taigu Coking Industrial Cluster

**Henan 河南**  
2009 exports: USD 7.35 billion, Rank: 18

1. Gongyi Aluminium Products Industrial Cluster
2. Gongyi Refractory Material Industrial Cluster
3. Changyuan Crane Industrial Cluster

**Jiangsu 江苏**  
2009 exports: USD 199.24 billion, Rank: 2

1. Shengze Silk and Textile Industrial Cluster
2. Changshu Clothing Industrial Cluster
3. Kunshan IT Industrial Cluster
4. Danyang Optical Industrial Cluster
5. Jiangdu Leather Shoes Industrial Cluster
6. Pizhou Wood Processing Industrial Cluster
7. Wuxi New Area Microelectronics Industrial Cluster
8. Wuxi New Area PV Solar Energy Industrial Cluster
9. Xishan Electric Vehicle Industrial Cluster
10. Yixing Wire and Cable Industrial Cluster
11. Yixing Environmental Protection Equipment Industrial Cluster
12. Yixing Purple Sands Tea Sets Industrial Cluster
13. Jingjiang Shipbuilding Industrial Cluster
14. Donghai Silicon Material Industrial Cluster
15. Jiangyan Energy Equipment Industrial Cluster

**Fujian 福建**  
2009 exports: USD 58.33 billion, Rank: 6

1. Huian Snack Food Industrial Cluster
2. Jinjiang Athlete Leisure Shoes Industrial Cluster
3. Xianyou Classic Furnishings Industrial Cluster
4. Fengli Children's Wear Industrial Cluster
5. Jinjiang Zipper Industrial Cluster
6. Nanan Hardware Plumbing Industrial Cluster
7. Putian Jewellery Processing Industrial Cluster



**Guangdong 广东**  
2009 exports: USD 358.96 billion, Rank: 1

1. Huadu Automobile Industrial Cluster
2. Shenzhen Infocomm Products Industrial Cluster
3. Dongguan Electronic Products Industrial Cluster
4. Zhongshan Electromechanical Industrial Cluster
5. Zhongshan Packing Industrial Cluster
6. Ancient Town Decorative Lighting Cluster
7. Shaxi Casual Cloths Industrial Cluster
8. Shantou Underwear Industrial Cluster
9. Xintang Jeans Industrial Cluster
10. Chenghai Toy Industrial Cluster
11. Xinxing Kitchen Ware Industrial Cluster
12. Yuncheng Stone Industrial Cluster
13. Huidong Women's Shoes Industrial Cluster

**Hubei 湖北**  
2009 exports: USD 9.98 billion, Rank: 14

1. Yichang Phosphor Chemical Industrial Cluster
2. Xiantao Non-Woven Fabrics Industrial Cluster

**Hunan 湖南**  
2009 exports: USD 5.49 billion, Rank: 19

1. Liuyang Fireworks and Crackers Industrial Cluster
2. Liling Arts and Crafts Ceramics Industrial Cluster

**Shanghai 上海**  
2009 exports: USD 141.88 billion, Rank: 3

1. Jinshan Chemical Engineering Industrial Cluster
2. Kunshan Circuit Board Industrial Cluster

**Jilin 吉林**  
2009 exports: USD 3.13 billion, Rank: 23

1. Tonghua Medicine Industrial Cluster
2. Tonghua Iron and Steel Industrial Cluster

**Liaoning 辽宁**  
2009 exports: USD 33.44 billion, Rank: 8

1. Faku Architectural Ceramics Industrial Cluster
2. Dashiqiao Magnesium Products Industrial Cluster
3. Dandong Instrument and Meter Industrial Cluster

**Shandong 山东**  
2009 exports: USD 79.50, Rank: 5

1. Rizhao Aquatic Products Industrial Cluster
2. Wendeng Home Textile Industrial Clusters
3. Haiyang Sweater Industrial Cluster
4. Linqing Bearings Industrial Cluster
5. Jiaonan Textile Machinery Industrial Cluster
6. Fuyang White Board industrial Cluster
7. Penglai Wine Industrial Cluster
8. Zhangqiu Transportation Equipment Industrial Cluster
9. Dezhou Solar Energy Water Heater Industrial Cluster
10. Linyi Plant Protection Mechanical Equipment Industrial Cluster
11. Qingcheng Steel Pipe Industrial Cluster

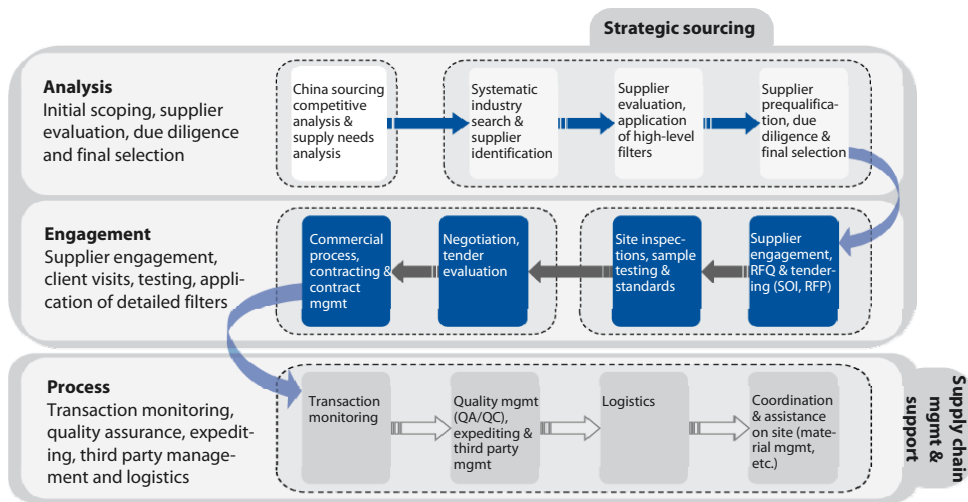
**Zhejiang 浙江**  
2009 exports: USD 133.02 billion, Rank: 4

1. Yiwu Small Commodities Industrial Cluster
2. Shengzhou Tie Industrial Cluster
3. Shaoxing Light Textile Cluster
4. Shaoxing Printing and Dyeing Industrial Cluster
5. Hernal Leather Industrial Cluster
6. Hernal Warp Knitting Industrial Cluster
7. Chongfu Fur and Leather Industrial Cluster
8. Xiaoshan Chemical Industrial Cluster
9. Ouhai Lockset Industrial Cluster
10. Zhuji Hosiery Industrial Cluster
11. Yongkan Hardware Industrial Cluster
12. Yongkan Electric Tools Industrial Cluster
13. Yutao Molds Industrial Cluster
14. Pinghu optical-mechanical-electrical Industrial Cluster
15. Longwan Valve Gate Industrial Cluster
16. Leqing Mesolow Electrical Appliances Industrial Cluster
17. Cixi Small Home Appliances Industrial Cluster
18. Zhuji Pearl Industrial Cluster
19. Ninghai Stationery Industrial Cluster
20. Wenling Plastic Shoes Industrial Cluster
21. Anji Bamboo Products Industrial Cluster
22. Luqiao Solid Waste Utilization Industrial Cluster
23. Lucheng Lighter Industrial Cluster
24. Pingyang Plastic Woven Packing Industrial Cluster

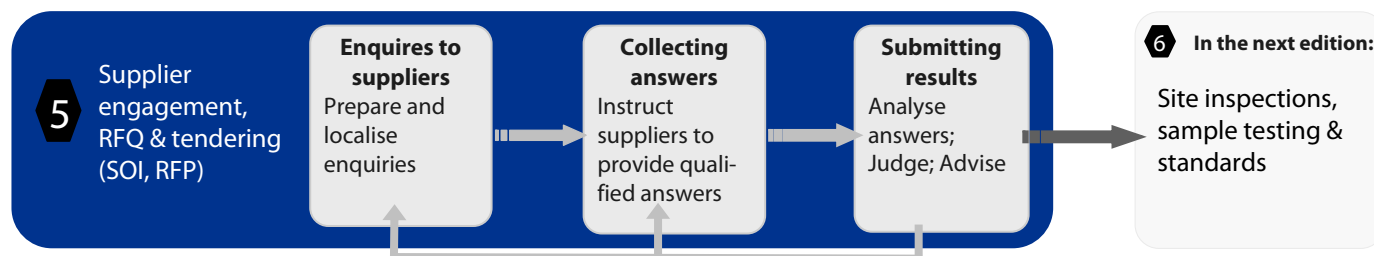
\* This map is based on a list compiled by the China United Research Centre for Social Science (中国社会科学联合研究中心). The clusters and the provinces in which they are located correspond to the 100 leading industrial clusters of China. Chongqing, Anhui, Guizhou, Shaanxi, Heilongjiang and Xinjiang each have only one industrial cluster listed in the top 100, whereas Inner Mongolia, Gansu, Qinghai, Tibet, Yunnan, Guangxi, Jiangxi, Sichuan, Beijing, Tianjin, Ningxia and Hainan all have no industrial clusters listed in the Top 100.

HOW to Source in China

Process Flow of the Bateman Beijing Axis China Sourcing Unit (CSU)—Supplier Engagement, RFQ & Tendering (SOI, RFP)



This section discusses the process flow of Bateman Beijing Axis (BBA) from the point of receiving enquiries to the services included in the solution process and the benefits provided to clients. In this edition we discuss Supplier Engagement, focusing on interaction with the suppliers. With a competent and culturally-astute on-the-ground presence, BBA not only ensures supplier accuracy, timely delivery and efficiency, but also engages with clients to assist them with making sound judgement based on our experience. As a rule, BBA operates by establishing a relationship of trust and confidence between the two parties.



Bateman Beijing Axis Guidelines on Engagement with Chinese Suppliers

- *A good introduction and initial engagement*

Because of a degree of physical and cultural divide persisting between business people in China and elsewhere in the world, many Chinese suppliers are still concerned about potential risks inherent in the export business and hence sometimes do not respond actively when receiving foreign enquiries. BBA normally prepares a comprehensive introduction of the client and the background of the enquiry in order to illustrate to suppliers the rigidity of the enquiry so that they can be more cooperative and supportive.

- *Flexible workflow*

BBA will select a methodology based on the complexity of the required result. Thus BBA can obtain quick quotations with a simplified RFI/RFQ as well as implement competitive bidding processes with strictly controlled procedures. BBA has set up a database for standard enquiry templates which require varying levels of information.

- *Clear operational procedures*

Once the optimal methodology has been identified, BBA will methodically instruct the supplier and probe them to verify that they completely comprehend what is required. Should any of the suppliers be unable to answer all relevant questions, BBA will determine the root of the problem, explore alternative solutions and present these to the client.

- *Expediting the outcome*

From confirming the receipt of the enquiry to engaging with the suppliers and up to the point when we receive the answer/offer/proposal/bidding documents, BBA takes full advantage of on-the-ground operations. We will listen to and get an understanding of Chinese suppliers' difficulties if they failed to submit the information required and provide an explanation to the client.

- *Verification of the results*

BBA will check, double check and triple check the answers, both the commercial parts and technical parts, to ensure everything is in order.

- *Document management and maintenance*

BBA has a system in place to control the information flow and quality of deliverables by recording and archiving all the key processes and correspondence between Chinese suppliers and BBA and the client, including letters of interest, RFQ, technical communications, proposals, formal and informal letters dealing with any disagreements, etc.

- *Building an ongoing relationship*

Through the interaction with the services of BBA, most of the suppliers find it easier and less risky to supply to clients. BBA will actively build up relationships and connections / 'guanxi' with the suppliers, which will be very helpful for facilitating enhanced cooperation in the future.

## China Sourcing Blog Highlights

In Q1 2010, the China Sourcing Blog (CSB) considered the prospects offered by the new ASEAN-China free trade agreement, compared China and India's sourcing potential by dissecting the two countries' logistical and industrial capabilities, and examined some of China's internal challenges with an investigation on recent movements and job prospects of the country's millions of migrant workers. *By Charles Avery.*

The China Sourcing Blog (CSB) is THE BEIJING AXIS' online platform to track the latest trends on sourcing and on the Chinese economy. Taking on a multi-faceted, dynamic subject and carefully scanning everything from the mainstream media to the distant corners of the Internet, CSB strives to get to the bottom of China sourcing and the broader Chinese environment in which it operates. The following is a selection of CSB postings over the last four months.

*Posted: 2 April*

The US Trade Representative's office released a report in April outlining the legal obstacles faced by foreign firms for entry into the Chinese market. The most onerous, according to the report, are [controls on media and telecommunications](#).

*Posted: 22 March*

In one of the more recent protectionist quarrels that has occurred, China was accused of unfair bias in favour of local companies in its [government procurement practices](#). Is the complaint justified? The procurement practices of governments from Japan to Liechtenstein were examined to find out, and based on additional WTO data, we reached some interesting conclusions.

*Posted: 9 March*

Not everyone is convinced by China's high GDP growth figures, and Jim Chanos is perhaps the most outspoken critic. In this posting CSB provided a [refutation of the China bears](#) by pointing out that rising asset prices regarded as bubbles may actually be attributable to changes in China's demographics.

*Posted: 9 March*

Before accession to the WTO and the implementation of its 'go abroad' policy, China's brands remained largely unknown internationally. Yet this is changing. Recent surveys have included numerous Chinese companies in their lists of [international brand rankings](#).



*On the road to where exactly?* Millions of migrant workers have left the industrial centres of Guangdong province and are able to consider other options.

*Posted: 1 March*

The promise of a better life often lures China's citizens away from the countryside toward factories in the urban centres of the east. However, these industrial zones have recently experienced labour shortfalls as rising rural incomes have altered people's incentives to move. In this posting CSB investigated the reasons why millions of [China's migrant workers](#) are choosing to stay - or go.

*Posted: 22 February*

Despite China's considerable impact on the world economy, [international use of the Renminbi](#) still occurs infrequently. Data from several sources, however, suggests that this may be changing. CSB explored prevailing trends in the world's currency markets as the Chinese government gradually moves to expand the use of the Renminbi worldwide.

*Posted: 27 January*

[China's steel industry](#) experienced a difficult period in the financial crisis, and anti-China legislation in the West, as well as in nearby India and Russia has forced Chinese steel producers to shift their strategies. CSB looked at how the industry has adapted by targeting new markets.

*Posted: 26 January*

In a posting comparing the [sourcing potential of China and India](#), CSB evaluated factory performance as well as China and India's levels of infrastructure development. China and India can compete well on factory performance, yet when it comes to infrastructure and logistics, China still holds the advantage.

*Posted: 20 January*

The world's largest free trade agreement came into effect at the onset of 2010. The deal between China and the members of ASEAN involves 1.9 billion individuals who are now economically linked in an arrangement which may yet rival NAFTA and the EU. CSB looked at the potential of the [ASEAN-China free trade agreement](#).

*Posted: 29 December*

For Chinese companies the Russian business environment can sometimes seem like a maze of cultural and regulatory barriers. In this posting, the second of a three-part series, CSB shed some light on [Russia's GOST R certification](#) and how it provides the basis for the successful navigation of a challenging market.

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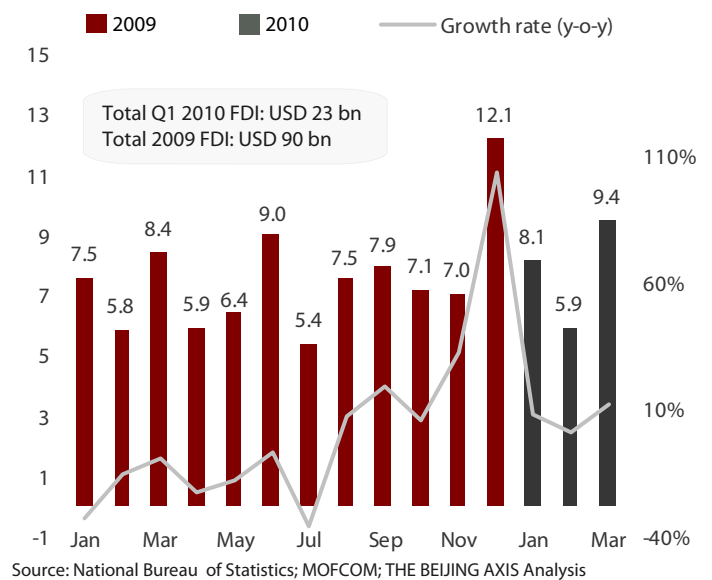
# China Capital: Inbound and Outbound Foreign Direct Investment

China's investment climate experienced a minor contraction in foreign inflows in 2009, yet the outlook has turned positive again as of Q1 2010. In this edition we examine the latest deals and trends in FDI and OFDI, and take a closer look at the mineral resource sector as an indicator of the expansion of China's OFDI. *By William Dey-Chao.*

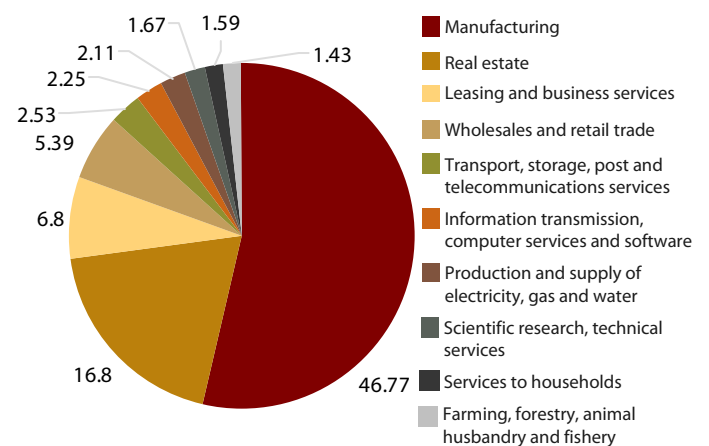
## China Foreign Direct Investment Highlights

- In 2009, China's actually utilised FDI amounted to USD 90 billion, down 14.8% from the previous year due in large part to the impact of the global financial crisis
- In 2009, 23,435 overseas-funded ventures were established in the non-financial sector in China
- A total of 5,459 overseas-funded ventures were established in Q1 2010, up 19.9% from the corresponding period in 2009
- China's FDI, although down on a y-o-y basis, was still higher when compared to investment flows in other areas of the world. Total FDI decreased by 35% in developing countries, for example, and declined still further in the developed world
- During Q1 2010, China's FDI increased by 7.7% y-o-y to USD 23.4 billion. China's FDI in March alone stood at USD 9.4 billion, up 12.0% y-o-y
- In 2009, FDI was mostly spent in China's manufacturing sector. Although overall investment decreased by 6.26% y-o-y, this sector still attracted USD 46.7 billion last year, accounting for 51% of total FDI. The service sector attracted USD 37.87 billion, down 0.67% from 2008, accounting for 42% of total FDI
- China's FDI in 2009 originated primarily from other Asian countries, with USD 41.6 billion, or 69% of the total, coming from Hong Kong alone, reflecting Hong Kong's position as a springboard for investment into mainland China. During the first quarter of 2010, Hong Kong (USD 13.9 billion), Taiwan (USD 1.7 billion), and Singapore (USD 1.2 billion) were the three largest sources of FDI into mainland China
- The rise in China's FDI during Q1 continued despite recent concerns raised in some quarters of the western media over the regulatory environment for investment in China. The case of Google was perhaps the most prominent example of this, although it is unlikely that Google's departure will have more widespread consequences. In order to encourage more FDI inflows, China's government made further commitments to improve business conditions while restricting funding to environmentally unsound projects. Under the new rules, foreign investments in high-tech industries, the service sector and in energy-efficient and environmentally-friendly projects are encouraged, especially within China's central and western provinces. Additionally, the new regulations offer reduced tax rates on imported items for scientific and technological development to qualified foreign-funded R&D centres. The legislation also provides a range of financing options to foreign investors by allowing qualified companies to go public, and to issue corporate bonds or medium-term bills in China

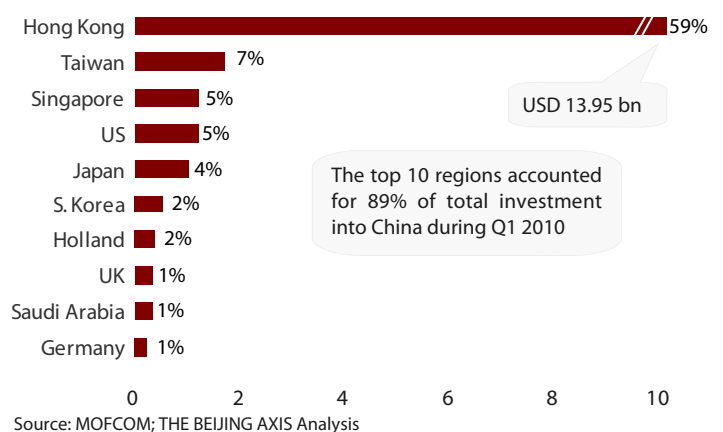
## China Actually Utilised FDI 2009-March 2010, USD bn



## China FDI Top 10 Sectors 2009, USD bn



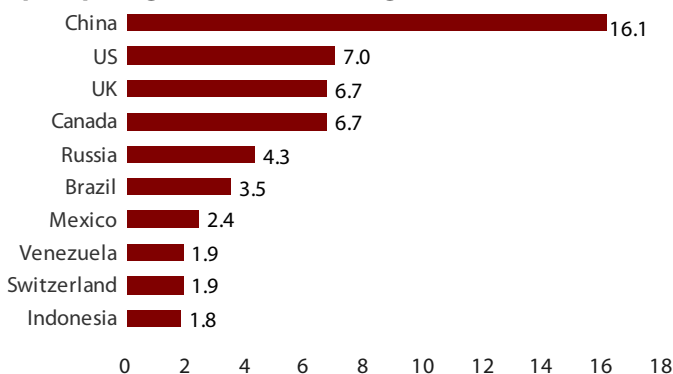
## Top 10 Sources of FDI to China Q1 2010, USD bn



### China Outbound Foreign Direct Investment Highlights

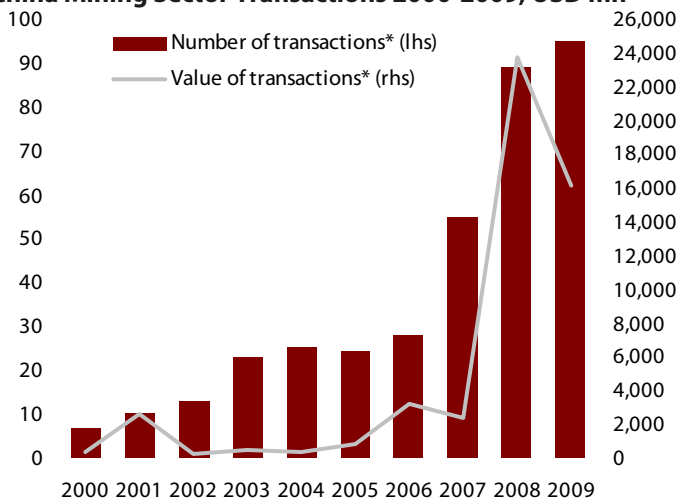
- According to Thomson Reuters data, Chinese outbound foreign direct investment in 2009 amounted to USD 43.3 billion, an increase of 6.5% from the previous year, with a record-breaking 298 M&A deals (see chart to the right)
- Chinese companies are currently ranked third among foreign M&A investing countries, up from 12th earlier in the 2000s, now trailing only France and the US
- China was the top investor in the Asia Pacific region in 2009, accounting for 52% of the region's total M&A
- China was the largest M&A investor abroad in the energy and power sector in 2009 and was the second-largest investor in the raw materials sector
- During the first two months of 2010, Chinese OFDI amounted to USD 4.6 billion, a figure greater than that for the entire first quarter of 2009
- China's approach to expansion in OFDI can be categorized by four specific strategies: *market seeking*— expansion in search of new and bigger consumer markets; *efficiency seeking*— expansion in search of cheaper, more efficient operations and labour; *resource seeking*— expansion in search of natural resources to meet domestic demand; and *strategic asset-seeking*— expansion in search of knowledge, technology, and foreign brands

### Top Acquiring Countries in Mining Sector 2009, USD bn



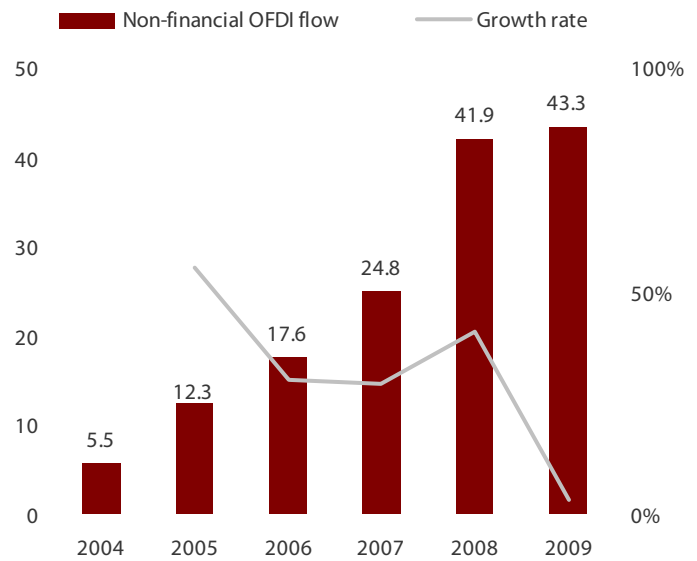
Source: Ernst & Young's Global Mining & Metals Center; THE BEIJING AXIS Analysis

### China Mining Sector Transactions 2000-2009, USD mn



Source: Ernst & Young's Global Mining & Metals Center; THE BEIJING AXIS Analysis  
\*Data may include domestic deals

### China Outbound FDI Flow 2004-2009, USD bn

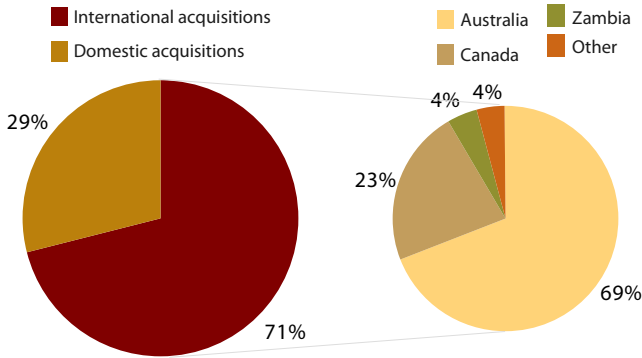


Source: National Bureau of Statistics; MOFCOM; Thomson Reuters

### Chinese Investment in Mineral Resources

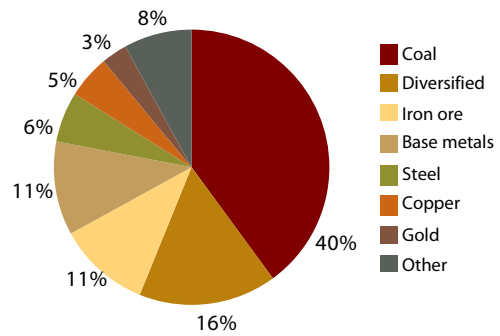
- In 2009, Chinese mineral resources investment amounted to USD 16.1 billion. This value constituted slightly more than a quarter of all global investment in this sector
- Though there was a decrease in total transaction value, China managed to overtake Canada (which dropped to the number four spot) as the number one acquiring nation of mineral resources in 2009 (see chart to the left)
- Over the last decade a total of 369 deals with a combined value of over USD 50 billion were completed by Chinese firms in the mining and mineral resources sector
- The high volume of transactions in the mining sector can be attributed to a recent expansion in Chinese activity, with a full 80% of all China's transactions executed in 2008 and 2009 attributed to this sector (see chart to the bottom left)
- The global financial crisis in 2009 contributed to the mining sector's increased dependence on mid-sized deals. 2008 figures were supplemented by the large USD 14.5 billion acquisition of a 12% stake in Rio Tinto by Chinalco
- The rapid expansion of Chinese overseas M&A can be attributed in large part to the Chinese government's 'go abroad' strategy which aims to utilise China's massive foreign exchange reserves to acquire resources needed to fuel the nation's rapid expansion
- The economic downturn of 2009 opened new investment opportunities for Chinese firms as quality, low cost assets previously inaccessible became available. Hence China was able to make numerous acquisitions in Australia and Canada. In total, 92% of all China's acquisition activity in 2009 occurred in these two countries
- China is poised to continue its expansion into the mineral resources market in 2010. The unwavering objective of striking deals—fueled by the need for resources and the desire to diversify abroad to hedge against domestic risks—are key drivers of this development

### China Mining Acquisitions by Country 2009



Source: Ernst & Young's Global Mining & Metals Center

### China Mining Acquisitions by Commodity 2009



Source: Ernst & Young's Global Mining & Metals Center  
\*Includes domestic deals within sector

### China OFDI: Top Deals in 2010

**Acquiring Company:**  
 Wuhan Iron & Steel Co. (WISCO)  
**Target Company:**  
 Brazilian Steel Mill Project  
**Commodity/Industry:**  
 Steel  
**Target Country:**  
 Brazil  
**Transaction Value:**  
 USD 5 bn

Partially attributable to President Hu Jintao's state visit to Brazil in April 2010, WISCO signed a major investment agreement to undertake the construction of a steel mill outside Rio De Janeiro. The project will be conducted jointly with the Brazilian logistics company LLX Logistica which will hold a 30% stake in the venture. The plant is expected to yield five million tonnes of steel annually. (Also see interview in *Regional Focus Latin America* section)

### China FDI: Top Deals in 2010

**Acquiring Company:**  
 Au Optronics Corp.  
**Target Company:**  
 Flat Panel Plant Project  
**Commodity/Industry:**  
 Electronics  
**Target Country:**  
 China  
**Transaction Value:**  
 USD 3 bn

Taiwanese electronics manufacturer Au Optronics Corp. is expected to take over a flat panel plant currently under construction in the city of Kunshan, which will produce 7.5 generation panels. The company is thought to be acquiring the project from its co-owners, a Kunshan city development body and the Taiwanese firm Pou Chen. AU Optronics previously sought governmental approval to establish its own plant in China.

**Acquiring Company:**  
 Sinopec  
**Target Company:**  
 Syncrude  
**Commodity/Industry:**  
 Oil  
**Target Country:**  
 Canada  
**Transaction Value:**  
 USD 4.65 bn

Sinopec reached final agreement with Canada-based ConocoPhillips for the purchase of a 9.03% stake in Syncrude. Syncrude holds the world's largest oil sands project, located in Canada's Athabasca region, producing a daily volume of 350,000 barrels of synthetic crude oil. This is one of China's largest investments to date in North America.

**Acquiring Company:**  
 Kohlberg, Kravis, Roberts & Co. and TPG Capital  
**Target Company:**  
 China International Capital Corp.  
**Commodity/Industry:**  
 Financial  
**Target Country:**  
 China  
**Transaction Value:**  
 USD 1-1.5 bn

Private equity firms Kohlberg, Kravis, Roberts & Co. and TPG Capital will take a 34.4% stake in China International Capital Corp., one of China's leading investment banks. The stake was previously owned by Morgan Stanley. The purchase would combine two giants of the private-equity world together with a player in China's fast-growing capital markets.

**Acquiring Company:**  
 CNPC and Shell  
**Target Company:**  
 Arrow Energy Ltd.  
**Commodity/Industry:**  
 Natural gas  
**Target Country:**  
 Australia  
**Transaction Value:**  
 USD 3.2 bn

A joint USD 3.2 billion offer by Shell and CNPC for the Australian coal-bed methane producer Arrow Energy Ltd. plans to export 8 million tonnes of liquefied natural gas (LNG) from the Curtis project in Australia. The deal is pending shareholder and government approval.

**Acquiring Company:**  
 Blackstone Group and Capital Group  
**Target Company:**  
 China Shouguang Agricultural Product Logistics Park  
**Commodity/Industry:**  
 Real estate  
**Target Country:**  
 China  
**Transaction Value:**  
 USD 600 mn

A consortium headed by the Blackstone Group and Capital Group pooled funds to purchase the China Shouguang Agricultural Product Logistics Park, a major agricultural trade center. The acquisition marks the second major investment in China for the Blackstone Group, which purchased a 20% stake in chemical maker China National BlueStar in 2007.

China Cross-border Investment Dealsheet: Major Deals January-April 2010

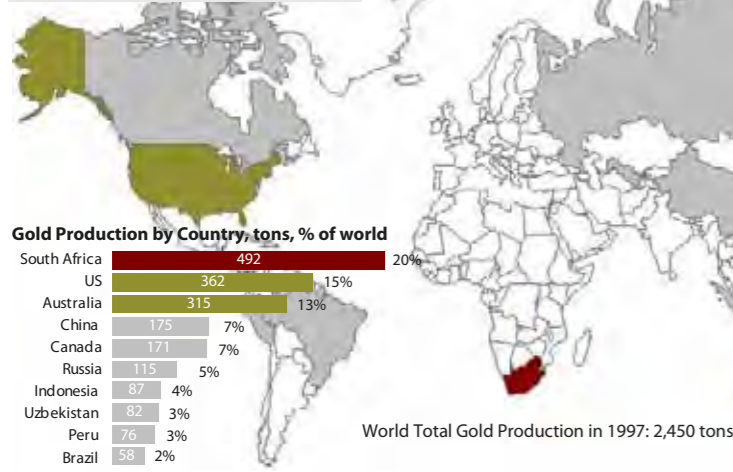
Date	Acquirer / Investor	Target / New company	Country	Value (USD)	Stake	Status
Apr 10	Henan Yuguang Lead and Gold Co. Ltd.	Kimberley Metals Ltd. and Sorby Hills Project	Australia	USD 12.48 mn and USD 5 mn	15% and 25% respectively	Ongoing
Apr 10	Wuhan Iron and Steel Company	Steel Mill in Rio de Janeiro	Brazil	USD 5 bn	70%	Ongoing
Apr 10	hiSoft Technology International Limited	Echolane	US	n/a	100%	Agreement signed
Apr 10	Zijin Mining	Inter-Citic Minerals	Canada	USD 18.73 mn	19.9%	Ongoing
Apr 10	Tencent Technology	Digital Sky Technology	Russia	USD 300 mn	10.26%	Ongoing
Apr 10	China National Coal Import & Export Co.	Metro Coal Ltd.	Australia	USD 28 mn	51%	Agreement signed
Apr 10	MCC	Anglo American	South Africa	USD 1 bn	n/a	Ongoing
Apr 10	Sinopec	Syncrude	Canada	USD 4.65 bn	9.03%	Offer accepted
Apr 10	Jinchuan Group	Crowflight Minerals	Canada	USD 151 mn	n/a	Ongoing
Apr 10	Bright Food Group Corp.	Sucrogen	Australia	USD 1.6 bn	100%	Ongoing
Mar 10	Beijing Perfect World Network Technology Co. Ltd.	C&C Media	Japan	USD 21 mn	100%	Agreement signed
Mar 10	East China Mineral Exploration & Development Bureau	Jupiter iron ore project	Brazil	USD 1.2 bn	100%	Agreement signed
Mar 10	Insigma	SOLXYZ	Japan	USD 2.9 mn	5%	Agreement signed
Mar 10	Linktone Ltd.	InnoForm Group	Singapore	USD 70 mn	75%	Concluded
Mar 10	PetroChina & Shell	Arrow Energy Ltd.	Australia	USD 3.3 bn	50%	Approved by gov.
Mar 10	Chinalco	Joint Venture with Rio Tinto in Guinea	Guinea	USD 1.35 bn	44.65%	Agreement signed
Mar 10	Geely Automobile	Manganese Bronze	Britain	USD 21.5 mn	To 51% from 31%	Ongoing
Mar 10	CNOOC	Bridas Corp.	Argentina	USD 3.1 bn	50%	Ongoing
Mar 10	CNOOC	Tullow Oil Plc's three blocks in Uganda	Uganda	USD 2.5 bn	33%	Subject to gov. approval
Mar 10	China Sci-Tech	Lady Annie Copper Project	Australia	USD 119.4mn	100%	Approved by gov.
Mar 10	Xiangguang Copper Ltd.	Rocklands Mine	Australia	n/a	15%	Ongoing
Mar 10	Sichuan Hanlong Group	General Moly Inc.	US	USD 74.6 mn	25%	Agreement signed
Feb 10	CNOOC & Sinopec	Azerbaijan oil field of Devon Energy	Azerbaijan	USD 3 bn	5.6%	Ongoing
Feb 10	CITIC 1616 Group	Companhia de Telecomunicacoes de Macau, S.A.R.L	Hong Kong	USD 180.23 mn	20%	Agreement signed
Feb 10	Sinopec	2 Oil Sands of Athabasca Oil Sands Group	Canada	USD 1.7 bn	60%	Concluded
Feb 10	Yifang Digital Technology Co. Ltd.	Pegasus Technologies Ltd.	Israel	USD 60 mn	100%	Concluded
Feb 10	Ctrip.com International Ltd.	Travel service unit of Wing On Travel	Hong Kong	USD 88 mn	90%	Ongoing
Feb 10	China International Marine Containers (CIMC)	Friede Goldman United (F&G)	Russia	USD 75 mn	75%	Ongoing
Feb 10	China National Nuclear Corporation (CNNC)	Khan Resources	Canada	USD 52.9 mn	100%	Ongoing
Feb 10	China Metallurgical Group Corp. (MCC)	Resourcehouse Mining Group	Australia	USD 200 mn	5%	Agreement signed
Jan 10	Jinchuan Mining, Beijing Songshan heli Mining Investment	Tanzanian Royalty Exploration	Tanzania	n/a	n/a	Ongoing
Jan 10	China National Nuclear Corporation (CNNC)	Azelik uranium mine of Ideal Mining Limited	Niger	USD 53.3 mn	37%	Ongoing
Jan 10	Hainan Airlines	Leasing business of Allco Finance Group	Australia	USD 150 mn	100%	Agreement signed
Jan 10	Zijin Mining	Indophil Resources NL	Australia	USD 498 mn	100%	Approved by FIRB
Jan 10	Shanda Interactive Entertainment Ltd.	Mochi Media	US	USD 80 mn	100%	Ongoing
Jan 10	Yunnan Copper Co.	JV with ActivEX Limited	Australia	USD 3 mn	70%	Agreement signed
Jan 10	China Railway Materials Commercial Corp (CRM)	African Minerals (AML)	Africa	USD 256 mn	12.5%	Agreement signed
Jan 10	Sichuan Taifeng Group	IMX Resources	Australia	USD 21.7 mn	19.9%	Agreement signed

Source: Various; THE BEIJING AXIS Analysis

# Mapping China in the Gold Mining Industry

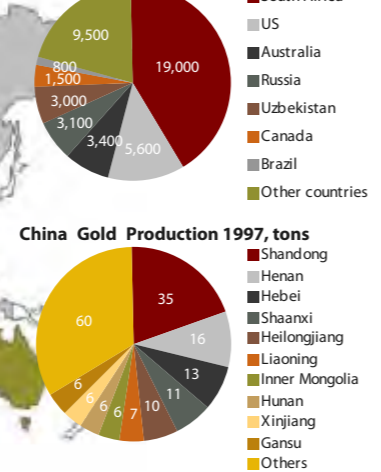
In the last decade China has become one of the gold mining industry's most important players. Although lacking sufficient funding and access to advanced technology in years past, today China boasts some of the world's largest gold mining companies, is the world's largest gold producer and is set to surpass India as the world's largest consumer. In this edition of *Mapping China* we take a closer look at the relevant production, consumption and reserves data for China as well as the industry's other most influential countries, and summarise the key facts and trends that have transformed China into the main driver of the global consumption and production of gold. *By the Bateman Beijing Axis KM & Research Unit.*

## World Gold Production - 1997



Source: USGS; THE BEIJING AXIS Analysis

## World Gold Reserves 1997, tons



Source: USGS; China Gold Council; THE BEIJING AXIS Analysis

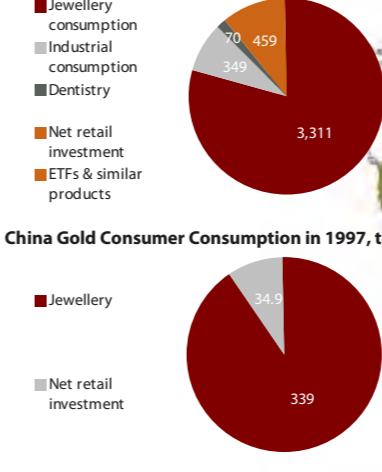
## Key facts and trends

- Total world gold mine production increased to a record level in 1997, reaching 2,450 tons
- South Africa, although its gold output has been declining, remained the largest producer of more than 80 gold-producing nations, followed by the US, Australia, Canada, and China
- China's economy appeared relatively unaffected during the Asian financial crisis
- China's annual gold output had been continuously increasing but China was also a big gold consumer
- China's gold market was controlled by the government. All gold mined in China was purchased by the People's Bank of China at a fixed price

## Key facts and trends

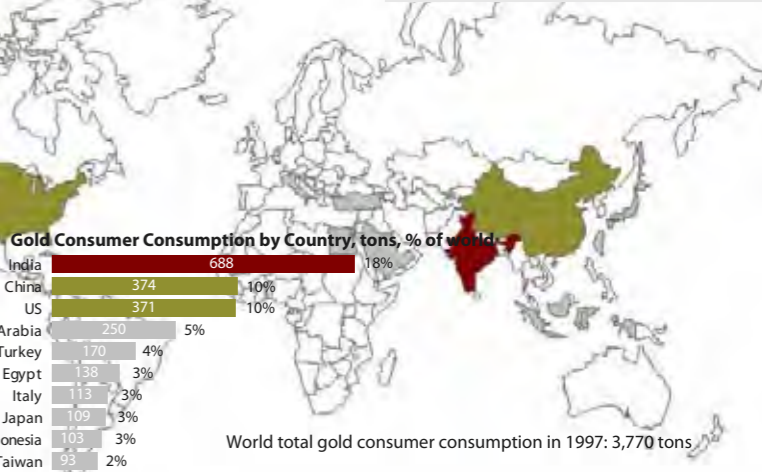
- Jewellery consumption was a major driver of world demand for gold in international markets as well as in China
- India was the world's largest consumer of gold before China and the US
- Although China's statistical data on gold imports were not released by the government, analysts stated that production fell short of the demand for gold
- In 1997 gold prices in the international market were lower than domestic gold selling prices that were set by the Chinese government.
- Many traders smuggled gold bullion into China from Hong Kong to capitalise on the differentials between these prices

## World Gold Consumption by Usage 1997, tons



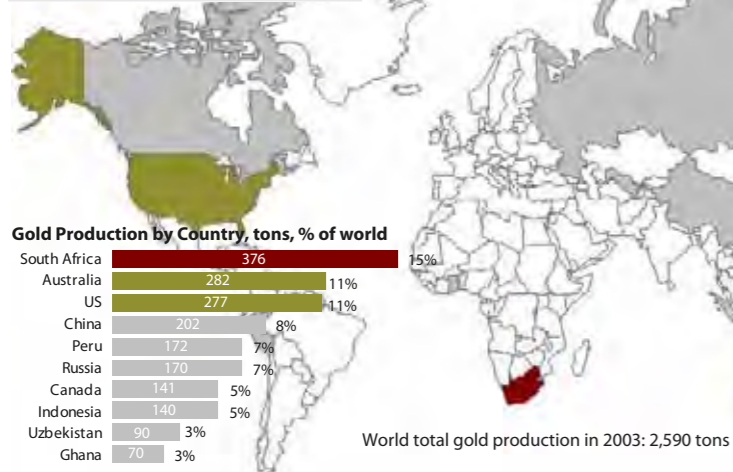
Source: World Gold Council; THE BEIJING AXIS Analysis

## World Gold Consumption - 1997



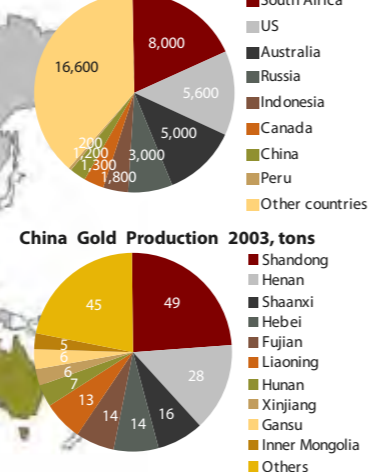
Source: World Gold Council; THE BEIJING AXIS Analysis

## World Gold Production - 2003



Source: USGS; THE BEIJING AXIS Analysis

## World Gold Reserves 2003, tons



Source: USGS; China Gold Council; THE BEIJING AXIS Analysis

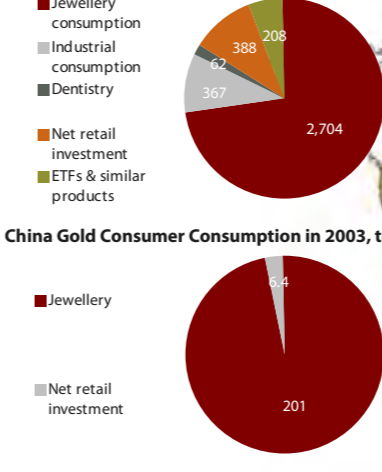
## Key facts and trends

- Gold production continued to expand. Increased production from mines in Asia offset closures, lower ore grades and operational difficulties in north America and South Africa
- China produced an estimated 202 tons of gold in 2003, becoming the world's fourth-largest gold producer
- China's gold sector was conditionally open to foreign investors since advanced technology and modern management were required to improve its productivity
- Sino Gold Mining Ltd. was the only foreign gold producer, operating the Ji-anchang Mine in Shaanxi province
- The government established a gold exchange in Shanghai

## Key facts and trends

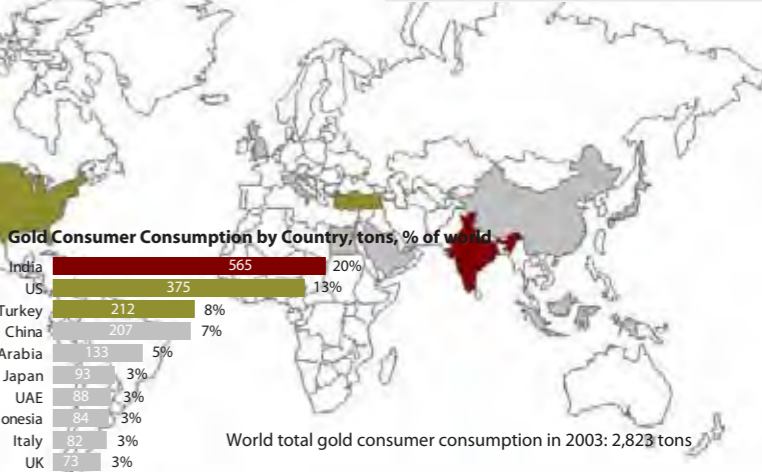
- Jewellery kept driving global demand but Exchange Traded Funds (ETFs) started playing a more important role in gold consumption
- China ranked as the fourth-largest gold consuming country in the world behind India, the US and Turkey
- Bank of China opened gold trading to individuals in 2003 in Shanghai, encouraging individuals to participate in the trading of gold, illustrating the huge potential for growth in China
- Gold consumption started experiencing a sharp increase when the government removed trade restrictions
- The Shanghai Gold Exchange ended about 50 years of government control

## World Gold Consumption by Usage 2003, tons



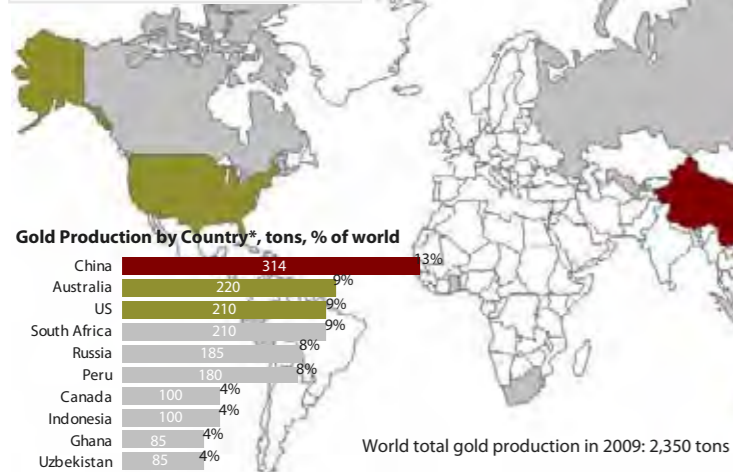
Source: World Gold Council; THE BEIJING AXIS Analysis

## World Gold Consumption - 2003



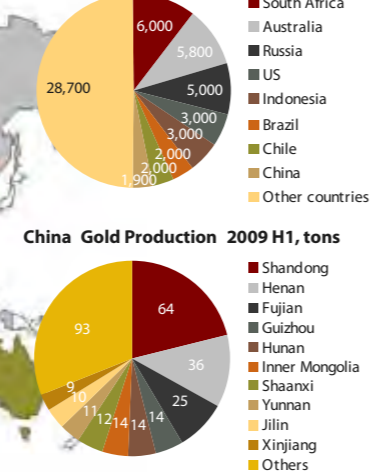
Source: World Gold Council; THE BEIJING AXIS Analysis

## World Gold Production - 2009



Source: USGS; THE BEIJING AXIS Analysis Note: \*China figure is real. The rest are estimated.

## World Gold Reserves 2009, tons



Source: USGS; China Gold Council; THE BEIJING AXIS Analysis

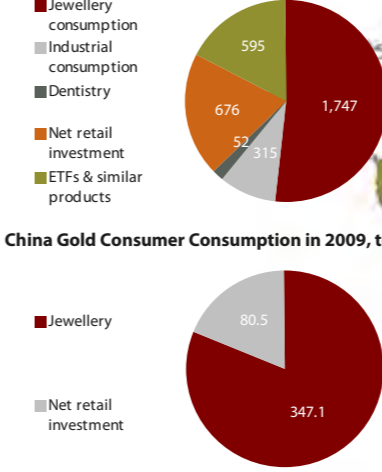
## Key facts and trends

- China increased its gold-mining output by 84% over the past decade to become the world's largest producer in 2007
- However, it only has 4% of known global reserves
- China's 2009 mine output did not match jewellery and investment demand
- China removed gold exploration from the catalogue of foreign investment sectors in 2007 in a move to tighten its provisions for foreign exploration and mining rights
- Chinese miners are now more competitive since acquiring sufficient funding, access to advanced technology and good equipment
- The trend of Chinese gold mining companies going global is gradually intensifying

## Key facts and trends

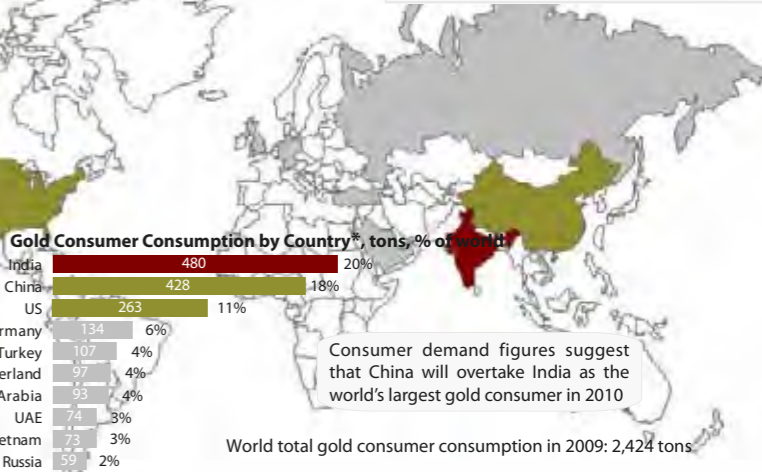
- Investment demand rising steadily while jewellery consumption loses share
- Demand for gold in China reached 428 metric tons but domestic mines contributed only 314 metric tons. This shortfall makes China's gold industry reliant on imports
- The Chinese government is set to further encourage and facilitate gold buying by the Chinese public as gold is considered a good investment
- The likelihood of growing demand and the country's reliance on imports should support the gold price over the long term
- China's gold jewellery and investment demand is expected to double in the next decade

## World Gold Consumption by Usage 2009, tons



Source: World Gold Council; THE BEIJING AXIS Analysis

## World Gold Consumption - 2009



Note: \*Provisional figures Source: World Gold Council; THE BEIJING AXIS Analysis

# Zijin Mining Group: Leading China's Next Golden Age

Lower production costs, a sharp increase in mineral production and ample access to financing are some of the key drivers behind the rapid increase in overall competitiveness for Chinese gold mining companies within the global mining industry. We take a closer look at Zijin Mining Group, China's largest gold producer and a forerunner of a trend that is set to lead China's next golden age. *By Javier Cuñat.*

Prior to 2002, the gold market in China was tightly regulated, from production of the precious metal to its retail distribution. It was not until full membership of the World Trade Organisation (WTO) in December 2001 that the Chinese government began encouraging investment in the industry, resulting in the modernisation of equipment and technology and in improvements of local mining expertise. Despite this late start, today China is the world's largest gold producer and second-largest consumer. In fact, in order to cope with the past decade's growing domestic demand, China's total gold mine output has risen 84% to reach a new record of 313.98 tons in 2009. The champions of China's gold industry have risen to the challenge of increased demand, have adapted, and as a result, have expanded rapidly.

In 1992, Zijin Mining Group, formerly known as Fujian Province Shanghang County Mining Company, had 76 employees. Production was a mere 8.05 kg of gold, from a total asset base of USD 683,000. Realised sales equaled USD 307,000, which generated profits of only USD 8,800. In 2009, twenty years later, its output had risen to 75.37 tons of gold, equivalent to 12% of China's total goldmine output. Total assets expanded to USD 4.34 billion, as did sales revenues which increased to USD 3.068 billion (or 36% of all China's corporate gold revenue). Net profits achieved astounding gains—rising to USD 593 million—causing the firm's net equity to reach 3.16 billion.

Zijin is now China's largest gold producer as well as its largest owner of metal-mineral resources and its third-largest producer of copper. Zijin Mining's other accolades include ranking 243d among the *Financial Times'* Global Top 500 Companies, listing in the top 10 for gold producers worldwide and becoming the world's fourth-largest gold mining company by market capitalisation, behind only Barrick, Goldcorp and Newmont.

## Zijin Mining Key Earnings Contributors with Forecasts

	2007	2008	2009f	2010f	2011f	2012f
<b>Sales volume</b>						
Gold (tons)	53.2	54.8	72.1	61.9	61.7	64.9
Mine-produced gold	24.8	28.5	29.6	31.1	32.2	32.2
Refined gold (smelting)	27.5	28.8	42.5	32.7	32.7	32.7
Copper (tons)	49,285	60,200	75,562	90,358	107,715	126,659
Zinc (tons)	122,211	107,294	113,774	152,117	180,519	191,659
<b>Unit cost</b>						
Gold (RMB/g)	55	66	62	63	65	65
Copper concentr. (RMB/t)	10,523	10,942	10,942	11,489	11,696	11,907
Zinc bullion (RMB/t)	22,239	12,555	9,667	9,841	10,019	10,199
<b>Financial summary (RMB mn)</b>						
Revenue	14,871	16,322	20,956	24,181	25,391	26,993
Gross profit	5,576	5,993	6,800	10,565	11,413	12,251
EBIT	4,653	4,594	5,523	8,167	8,893	9,570
NI	2,520	3,066	3,541	5,459	5,706	6,030
EPS (RMB)	0.19	0.22	0.24	0.38	0.39	0.41
Growth	53%	14%	12%	54%	5%	6%

Source: Company data; Morgan Stanley Research; THE BEIJING AXIS Analysis

## Going (not only) for gold

There are many factors, both internal and external, that have played a role in Zijin's outstanding operational and financial performance of the last decade. While the substantial increase in the price of gold, the under-exploration of the metal within China and domestic government support are all relevant, other success factors deserve greater attention.

Zijin is characterised by its large, rapidly growing production capacity along with its steady increase in diversified resources. Resources are obtained, both through acquiring reserves within China and through the expansion of asset holdings overseas.

As a result of its well-grounded investment plan in exploration—revisited annually by management—the company has been transformed into one of China's largest owners of metal-mineral resources, with new reserves acquired every year for the past decade. Zijin emphasises strategic gold and copper assets, although it maintains an assortment of mineral holdings as its geological exploration continues to produce new findings. Successful discoveries have converted Zijin into a truly diversified precious metals and nonferrous metals player (see table below).

The Group has also made a strong push to constantly increase its production capabilities and scale, both through organic expansion and via mergers and acquisitions. In 2003, Zijin moved ahead of its competitors, acquiring a number of gold/copper mines in China before the commodities boom and the resulting increase in metal prices. This enabled the company to consistently increase its output since 2004 amid the upward movement in metal values. Although the commodity boom

## Zijin Mining Resource Holdings

Resources	2003	2004	2005	2006	2007	2008	2009
Gold (t)	235	315	375	455	638	701	715
Copper (kt)				6,700	9,370	9,640	10,629
Zinc & lead (kt)				2,780	3,710	5,280	5,230
Nickel (kt)				593	670	670	607
Molybdenum (kt)				323	310	390	393
Platinum and palladium (t)					151	151	
Tin (kt)					100	100	100
Iron ore (mn t)					168	168	186
Silver (t)					678	1,700	1,855
Coal (mn t)					300	300	459
Tungsten (t)					62.5	100	173
Bauxite (mn t)					44	44	
Gallium (kt)					7	7	
Iron pyrites (mn t)							186

Source: Company data; Morgan Stanley Research; THE BEIJING AXIS Analysis

### Current Market Capitalisation of Top 10 Gold Mining Companies

Company	Ticker	Mkt cap. USD mn (2010.4.19)	Turnover USD	Net income USD	Gross margin (%)	Net margin (%)	Total debt USD	ROE (%)	ROA (%)
Barrick Gold	ABX	38,503	8.136 bn	-4.274 bn	53.21	-52.58	6.335 bn	-28.81	-16.7
Goldcorp	GG	28,578	778.3 mn	66.7 mn	56.41	8.75	735.7 mn	1.58	1.19
Newmont Mining	NEM	25,605	7.705 bn	1.297 bn	60.43	27.58	4.809 bn	14.54	11.18
<b>Zijin Mining Group</b>	<b>601899</b>	<b>18,437</b>	<b>3.068 bn</b>	<b>518 mn</b>	<b>32.45</b>	<b>19.33</b>	<b>598 mn</b>	<b>20.65</b>	<b>14.5</b>
Newcrest Mining	NCM	16,743	2.28 bn	223 mn	38.33	12.59	406 mn	6.85	5.53
Kinross Gold	KGC	12,326	2.412 bn	312.6 mn	55.79	17.45	692.2 mn	6.00	5.46
AngloGold Ashanti	ANG	14,122	3.768 bn	-320 mn	25.32	-7.11	1.931 bn	-11.97	-3.00
Lihir Gold	LGL	10,070	1.087 bn	-234 mn	37.9	16.43	50.9 mn	5.86	5.16
Agnico-Eagle Mines	AEM	9,326	629.9 mn	86.5 mn	50.09	13.74	727.0 mn	3.28	2.27
Gold Fields	GFI	8,867	3.228 bn	170.4 mn	26.44	12.98	1.113 bn	8.76	6.34
<i>Average</i>		<i>18,258</i>			<i>43.64</i>	<i>6.92</i>		<i>2.67</i>	<i>3.19</i>

Source: Company data; THE BEIJING AXIS Analysis

subsequently subsided, Zijin has nonetheless been able to realise profit margins much higher than the industry average. Through growing sales volumes, the company has been able to raise its earnings despite the difficult environment for commodity producers.

Zijin has also progressively accelerated its international expansion and is constantly improving its ability to make international deals. The company spent USD 300 million over the past five years in eight overseas projects. Examples include the strategic acquisition of a 75% stake in ZGC, the largest gold producer in Tajikistan, as well as the purchase of Peru's Rio Blanco copper and molybdenum mine and a zinc and lead mine from Russia's Tuva. More recently, Zijin agreed to pay USD 501 million for Indophil Resources NL to gain a stake in Southeast Asia's largest untapped copper and gold deposit.

Despite the size of the Indophil deal, Zijin still pursues smaller projects to bolster its reserve base. In April 2010 the firm announced a USD 18.24 million investment in Inter-Citic Minerals, a junior Toronto miner. This north American acquisition demonstrates the company's increasing internationalism. Given the firm's exceptional cash flow position, further acquisitions for Zijin are anticipated in Southeast Asia, Africa, Latin America and in the Democratic Republic of Congo.

#### Digging deeper for lower costs and finances


Double-digit sales volume growth, coupled with efficient cost control methods to produce favourable unit costs have allowed Zijin to outperform the competition in terms of profitability. In 2009, Zijin's gold bullion production costs were a mere USD 271 per troy ounce, while its production costs of gold concentrate stood at USD 202 per troy ounce—both very competitive when compared to its global peers, especially since Zijin's cut-off point for low grade ores is at less than 1 gram per ton. According to analyst reports, Zijin's mineral production costs are 30% lower than those of its international gold producing peers.

The low production costs enjoyed by Zijin can be partially attributed to less expensive operational requirements for mining firms within China. Although the overall costs associated with the development of new mines—such as those imposed by input expenses and tougher safety regulations—are increas-

ing in China, Zijin's cost differential in China remains substantial. Additionally, gold mines within China are usually open pit (for example, at Zijinshan Gold and Copper mine—Zijin's core mining operation and the largest gold mine in China). In contrast, mines in South Africa and Australia have become increasingly deep, greatly adding to production costs for the firms operating in these locations.

Access to finance has also been a key success factor for Zijin. As part of its expansion strategy domestically and internationally, Zijin listed on the Hong Kong Stock Exchange (2899) in 2003. It was the first mainland gold mining firm to list overseas. The company then decided to issue more shares, and in April 2008 had its IPO on the Shanghai Stock Exchange (601899). In Shanghai Zijin sold 1.4 billion A shares to raise a near equivalent amount of around USD 1.4 billion. These sales of equity, along with low debt holdings and a remarkable financial performance over the years have enabled the company to self-finance further investment in exploration, and to expand both abroad and at home.

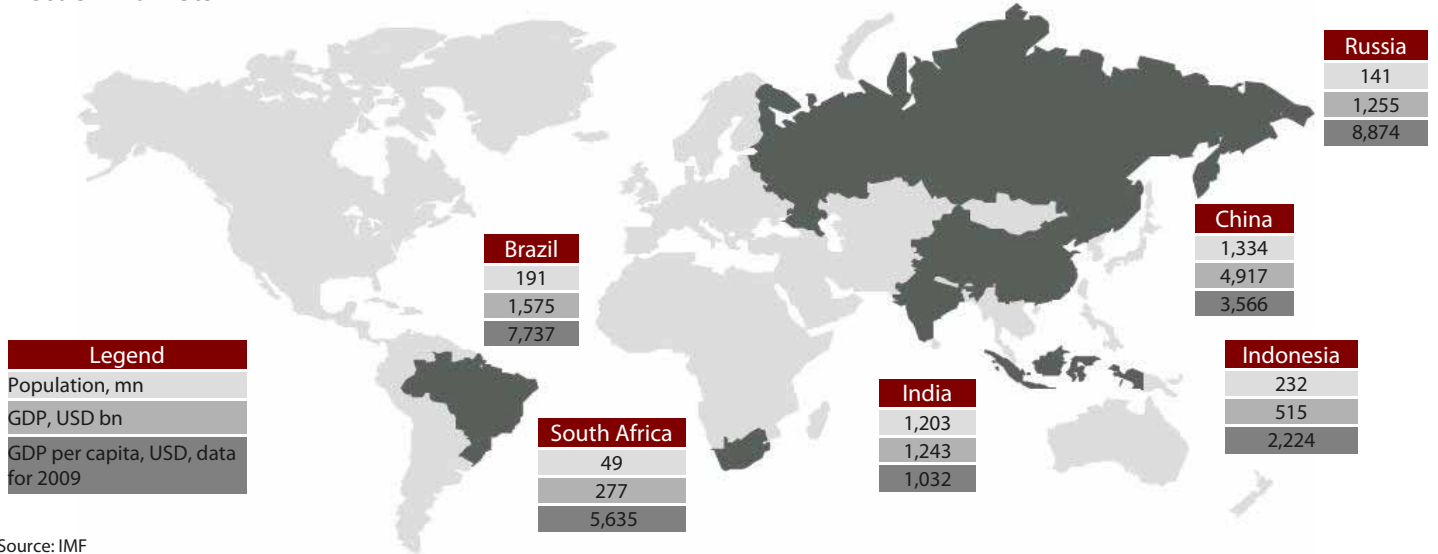
#### Looking ahead

The rising price of gold has greatly benefited firms which mine the precious metal, both within China and internationally. In the long term, China's continued impressive economic growth and the consequent rise in individual income levels will result in the further expansion of China's gold consumption. As gold's appeal increases within China, companies such as Zijin—through its numerous competitive advantages—is set to progressively outperform its international peers in the industry. We are on the verge of China's next golden age, and Zijin will feature prominently in it. 

**Javier Cuñat, Manager: Sourcing Strategy & KM/Research**  
[javier.cunat@batemanbeijingaxis.com](mailto:javier.cunat@batemanbeijingaxis.com)

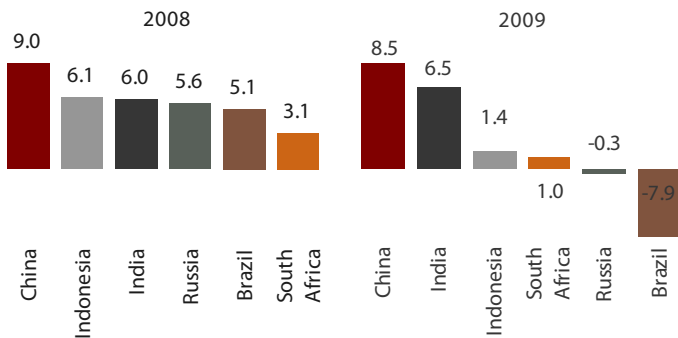
# Quarterly Overview: BRIICS

- In Q1 2010, China achieved impressive annualised growth of 11.9%, with India following behind at 7.2%. Statistics for the rest of the BRIICS countries were not yet released at the time of publication
- The BRIICS economies again diverged in the speed of recovery from the global financial crisis. While China, India, Brazil and Indonesia achieved impressive GDP growth in Q4 2009 with even greater growth expectations for Q1 2010, the economies of Russia and South Africa have lagged behind
- All major BRIICS raw materials exporters have benefited from China's rebound, but the domestic industrial sectors of Russia and South Africa are still underperforming due to structural deficiencies in their economies, with low consumer confidence and unemployment symptomatic of a weak recovery
- Inflation is not (yet) a big concern in any of the BRIICS countries, with worldwide capacities still under-utilised. The Chinese government is keeping a close watch on perceived bubbles in the housing and stock markets



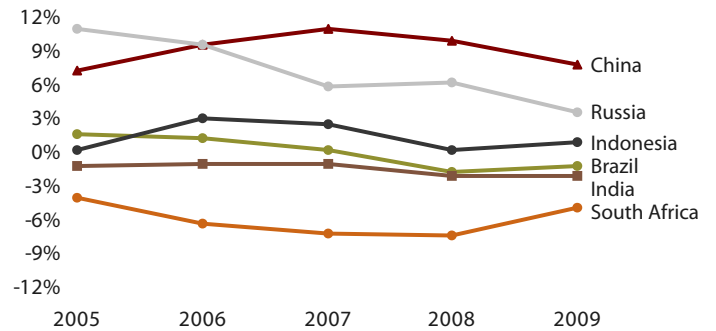
Source: IMF

## Real GDP Growth for BRIICS Countries 2008-2009, %



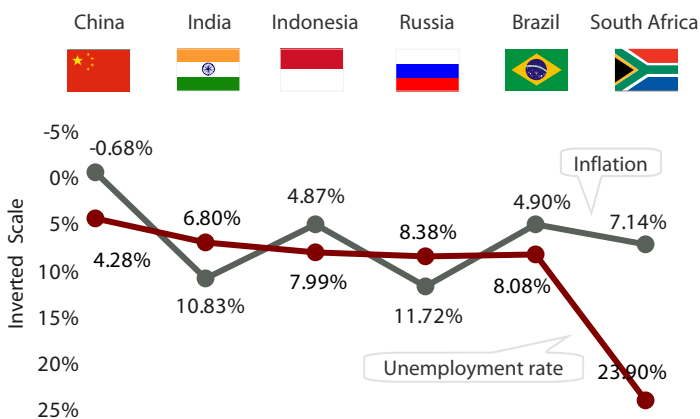
Source: IMF; Trading Economics

## Current Account Balance as % of GDP 2005-2009



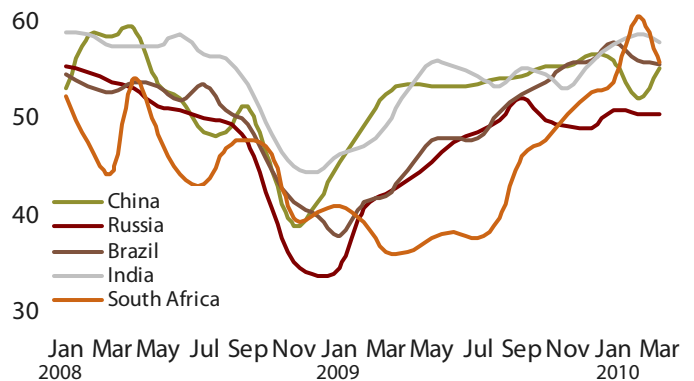
Source: IMF

## Unemployment and Inflation in BRIICS Countries 2009, %



Source: IMF; Various; THE BEIJING AXIS Analysis

## PMI of BRIICS\* Countries 2008-Mar 2010



\*No data for Indonesia  
 Source: HSBC; VTB Capital; SA Kagiso PMI; NBSC; THE BEIJING AXIS Analysis

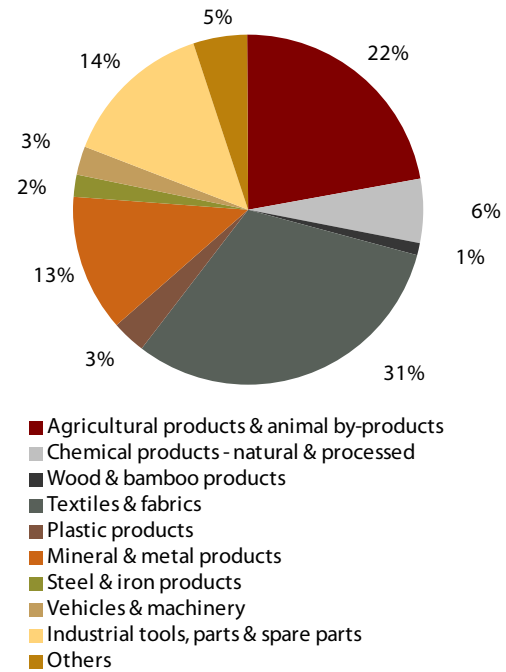
# Regional Focus CHINA–AFRICA

Encouraged by China’s ‘go abroad’ policy, government financial support, growth in both consumption and in resource demand, and by the need for external assistance to foster African economic development, the China-Africa relationship has entered a new phase in 2010. In the first quarter of the year, trade and investment activity has increased further. A series of high level official visits—to include three senior Chinese officials visiting 11 African countries, and trips by Zimbabwean and South African leaders to Beijing—has increased mutual political affinity and strengthened bilateral relations. *By Jackie Li.*

## China-Africa Highlights

- In 2009, bilateral trade between China and Africa amounted to USD 91 billion, a 15% decrease y-o-y. However, the first two months of 2010 showed a considerable recovery, with 93.9% growth y-o-y to USD 17.67 billion
- For January and February 2010, China exported USD 8.7 billion to Africa, a 42% increase y-o-y. African exports to China equalled USD 9 billion, three times more than the same period in 2008
- In March, the China Economic and Social Council (CESC) established the China-Africa Economic and Technology Cooperation Committee (CAETCC), a working platform to deepen bilateral relations and to promote China-Africa economic and technological cooperation
- China and South Africa signed a series of trade agreements worth around RMB 2.3 billion (USD 400 million), covering exports of various edibles, fabrics, copper, manganese and chrome from South Africa to China
- A consortium of China National Electric Equipment Corporation (CNEEC) and Shenyang Blower Works Electro-Mechanics Import and Export Co., Ltd signed an Engineering Procurement Construction (EPC) turnkey contract with Botswana Power Corporation (BPC) to construct the Morupule B power station in Palapye

## Imports of Products Allowed Zero-Tariffs from African LDCs to China by Category



Source: China customs; Standard Bank; THE BEIJING AXIS Analysis. Full details on all zero tariff commodities can be found in “Economics, BRIC and Africa”, 7 April 2010, by Simon Freemantle and Jeremy Stevens

## African Least-developed Countries (LDCs) Granted Zero-Tariff Exports to China 2010



## Zero-Tariffs on African Commodities

- Zero-tariffs were first agreed upon during the second FO-CAC meeting in 2003. In 2005, China first implemented zero-tariffs on 190 commodities imported from the Least Developed Countries (LDCs) in Africa. During the third FO-CAC meeting in 2006, zero-tariff commodities were expanded from 190 items to 440 items. Today, there are 454 commodities under zero-tariff treatment imported from 30 LDCs in Africa
- Zero tariff commodities are largely manufactured and processed products such as plastics, chemicals, industrial tools, vehicles, machinery, and spare parts
- The policy aims to strengthen the competitiveness of African imports into the Chinese market, increase African commodity exports to China and encourage the establishment of benefitions in Africa. At the end of June 2009, the cumulative value of preferential commodities imported by China from LDCs reached USD 890 million
- The policy poses new exporting opportunities for LDCs in Africa, both over the short and over the long term. In addition, it contributes to job creation and industrial development in Africa

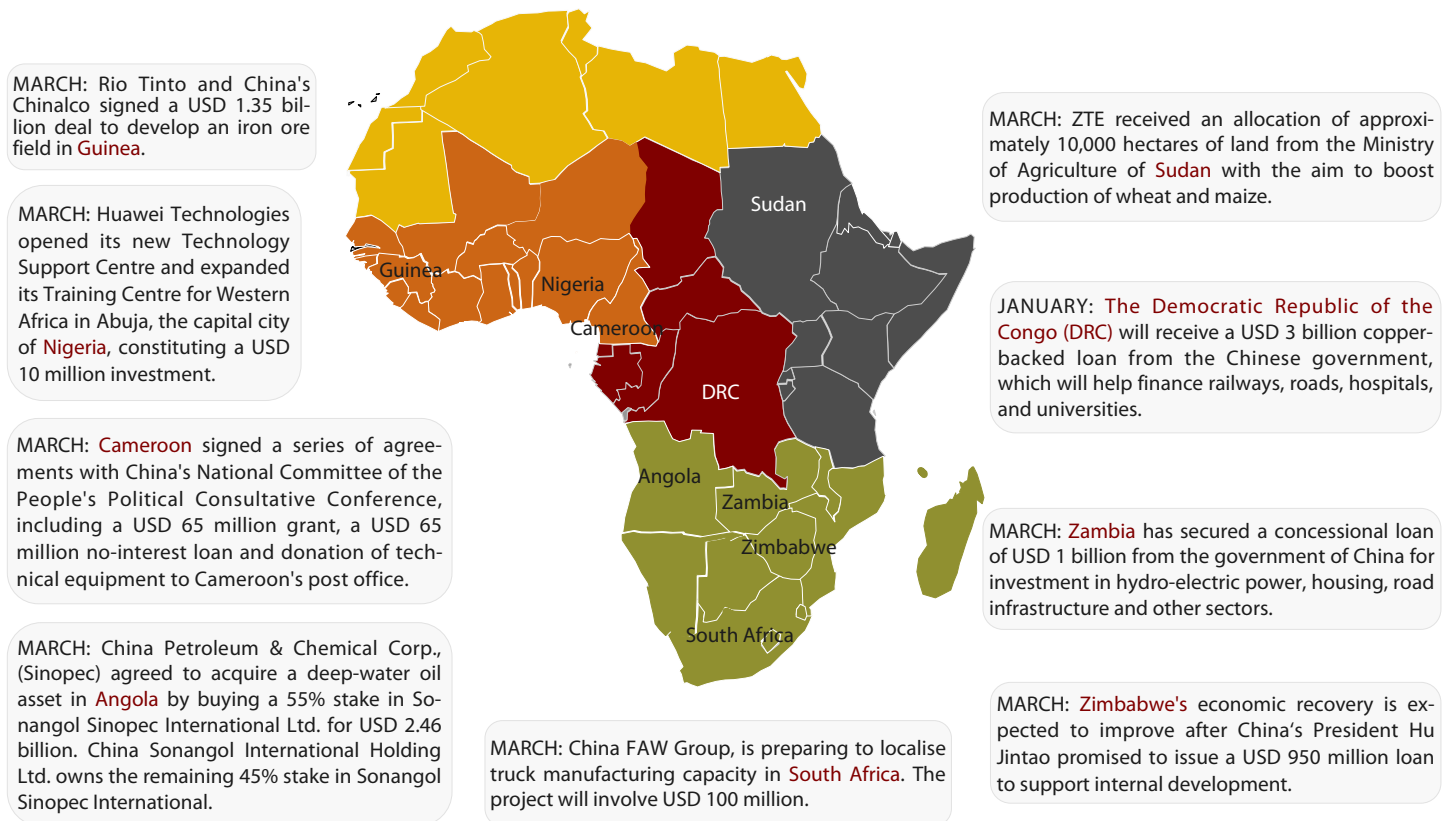
Source: All China Marketing Research; Xinhua Net; China Customs; People.com; ETCN; Reuters; The Business Diary; THE BEIJING AXIS Analysis

### China-Africa Investment Highlights

- Amid the global financial crisis, foreign direct investment (FDI) from China to Africa accelerated. In the first three quarters of 2009, FDI from China to Africa achieved a staggering 77.5% increase y-o-y to USD 875 million. It is estimated that total FDI from China to Africa reached USD 1 billion in 2009
- The Export-Import Bank of China (Eximbank) expressed its commitment to continuous investment in Africa despite the perceived risks and the reduced returns to industrial investments. Eximbank's president Li Ruogu is confident that although financial risks do exist, Eximbank will still invest in the continent as part of its China-Africa long-term strategy
- African banks are actively seeking cooperation with those from China. After an MOU was signed with China Construction Bank (CCB) last year, South Africa-based First Rand signed an MOU with the China Africa Development Fund (CAD Fund) in March; EcoBank, a Pan African Bank, also signed a cooperative agreement with Bank of China in February, coinciding with the African Development Bank's February visit to China. Furthermore, the World Bank may seek to co-invest with China in African manufacturing projects
- Wuhan Iron and Steel Co. (WISCO) invested USD 68 million to acquire a 60% stake in China-Union Investment (CUI) from the CAD Fund. CUI owns the Bong Iron Ore mine in Liberia with proven iron ore reserves of over 1.3 billion
- China National Offshore Oil Corp. (CNOOC) is set to purchase USD 2.5 billion of Ugandan assets owned by Heritage Oil Plc. In addition, Shaanxi Yanchang Petroleum Group has already bought 15% of Sino Union Energy Investment Corp. which operates oil blocks in Madagascar
- Jia Qinglin, a senior Chinese Communist Party leader, visited three African countries in March. During his visit to Cameroon, an agreement was signed to build a USD 500 million bus manufacturing plant to serve western and central Africa. Other agreements signed in Cameroon included a USD 65 million interest free loan and the donation of technical equipment to Cameroon's post office
- Discussions on the establishment of a Suez Economic and Trade Cooperation Zone (SETC) between the Egyptian government and Tianjin Economic-Technological Development Area (TEDA) may soon be finalised. TEDA has secured major investments from multinational companies such as IBM and Toyota and is expected to set up its first marketing office in the zone in June 2010
- China National Nuclear Corp. (CNNC) said it will acquire a 37.2% stake in Azelik uranium mine in Niger through an acquisition of Ideal Mining Ltd. for upwards of USD 53.3 million. It is CNNC's first acquisition in Africa
- China has agreed to provide a USD 2.9 million grant to finance development projects in Zimbabwe after the two countries signed an economic and technical cooperation agreement in March

### Major Chinese Investments and Loans to Africa January to March 2010

■ Western Africa    ■ Northern Africa    ■ Central Africa    ■ Eastern Africa    ■ Southern Africa



Source: Xinhua; Reuters; Bloomberg; China View; Herald Reporters; People.com; All Africa News.

## China-Africa Trade and Investment Country Profile: Ghana

Ghana is richly endowed with natural resources and has twice the per capita output of the poorest countries in West Africa. After periods of economic and political instability after independence in 1957, Ghana now tops African human development rankings and aims to reach middle-income status by 2015. The pace of this rise toward modernity may yet hinge on Ghana's trade with China. *By Nitesh Dullabh & Mitch Cosani.*

Ghana was formed via the merger of Gold Coast—a former British colony—and the Togoland trust territory, and in 1957 was celebrated as the first independent country in sub-Saharan Africa. It then experienced periods of turbulence before obtaining political stability under the leadership of Jerry Rawlings in the early 1980s. Now a multi-party democracy, Ghana shows great potential for development. Although still structured around a decades-old Economic Recovery Programme—with its persistent low-productivity farming practices, poor infrastructure and unresolved land tenure issues—the African nation's economy is set to expand. The world's businesses have taken note, no less those hailing from China. Ghana's future development will be largely influenced by China's foreign direct investment and trade in the natural resources sector.

### China prospecting: Ghana's mining industry

Mining plays a significant role in Ghana's economy. The nation contains the second-largest area of gold deposits in Africa behind only South Africa, with gold accounting for around 90% of Ghana's total mineral exports. Apart from gold, bauxite and diamonds are produced in significant quantities. The country also counts among the world's top five nations for manganese ore production. A number of international mining houses have operations in Ghana, including Gold Fields, Newmont Ghana and AngloGold Ashanti. According to figures released by the Ghanaian Chamber of Mines in June 2009, overall revenue in 2008 from the country's mining sector reached a total of USD 2.3 billion, an increase of 28% y-o-y. Gold revenue stood at USD 2.2 billion, with output up 4% y-o-y to 2.6 million ounces. Revenue from manganese ore increased 69% to USD 62.34 million, while revenue from bauxite remained flat at USD 19.81 million.



*In the pipeline:* Natural resources are a major factor in Ghana-China relations. The new focus will be on recently discovered offshore oil.

Although the mining industry has been successful in attracting foreign capital, it has been accused of exploiting loopholes in legislation, of damaging the environment and of human rights abuses. Criticism has come not only from environmentalists and human rights activists, but also from the Ghanaian government.

The basic law governing the mining industry is the Minerals and Mining Act of 2006 (Act 703). Under the law, the president holds the power to grant mining rights. However, pressure to amend the law has come from farmers who want a say in the authorisation of their lands for mining activity. Change in this direction is gaining increasing favour in the country as a way to crack down on the rampant exploitation of the environment by miners.

Ghana's mining sector nonetheless holds significant potential. The country is regarded as relatively stable, with clear regulatory standards governing the industry. Ghana already boasts world-class gold mines and manganese ore facilities. Given gold's high price and its role as Ghana's principal mining asset, forecasts for Ghana's mining sector show greater potential than those of its African neighbours.

### Ghana's relations with China

China has agreed to cooperate with Ghana in the areas of agriculture, investment, trade and infrastructure. In the area of agriculture, exchanges have been facilitated in irrigation, agro-processing, agricultural technology and agricultural infrastructure development. In the area of trade, agreements have been made to promote more balanced commerce between China and Ghana.

Infrastructure is arguably the area of greatest cooperation between Ghana and China, with several agreements drawn up over the years for Chinese firms to undertake construction projects in Ghana. These have included the construction of roads, buildings, and most recently, a hydroelectric dam. Further examples of this cooperation extend to the construction of a national theatre, the Afeji Irrigation Project, a vocational training centre, the Dangme East District Hospital, and to the provision of cotton-textile machinery, methane gas equipment and technical expertise for the Nobewam Farmland Irrigation Project.

In the first nine months of 2009, Chinese companies launched 14 projects in Ghana and topped the list of foreign firms registered in terms of Foreign Di-

rect Investment (FDI). This trend is in line with China's growing footprint in Africa. According to the Ministry of Commerce of the People's Republic of China, Chinese investment in Africa rose 77.5%, to USD 875 million from January to October 2009. While Beijing and Accra have enjoyed relatively strong and stable bilateral relations since the 1960s, the backdrop of a recent surge in Chinese activities in Ghana warrants a closer examination of China's presence in the African nation, and on its implications for China's overall West Africa and pan-African strategies.

In October 2009, the state-owned China National Offshore Oil Company (CNOOC) made a bid for a share of U.S.-based Kosmos Energy's assets in Ghana's Jubilee oil field. Ghana is clearly rising in terms of its strategic and economic importance to China, as these recent moves further consolidate China's stake in Ghana's future development. Oil, cocoa and manganese, to name but a few, form part of China's shopping list that runs the gamut of commodities that Ghana and the rest of Africa can supply.

On 30 December 2009, the Agreement on Economic and Technical Cooperation between China and Ghana was signed at the Ghanaian Ministry of Finance and Economic Planning in Accra. According to the agreement, China will provide two concessional financial facilities including a grant and an interest-free loan to the government of Ghana in 2010.

**Growing trade and investment**

Trade and investment flows between Africa and China have increased dramatically in the past decade. Coinciding with its growing manufacturing prowess, Chinese equipment and products have become Ghana's major imports.

China's official statistics reveal that, as of the end of October 2009, trade between Ghana and China totalled USD 189.4 million. UN Comtrade figures indicate that the value of Ghanaian imports from China increased just over three-fold in four years—from USD 510.4 million in 2004 to USD 1,747.9 million in 2008. China now ranks first among Ghanaian import countries with a 16.8% share of

total incoming trade. However, the gap between the import of Chinese goods and Ghana's exports is widening. In 2004, Ghana's exports to China totalled only USD 80.38 million with imports of USD 510.40 million—a USD 430.02 million difference. More recent figures see a continuation in imbalanced trade, with Ghana exporting USD 93.40 million to China in exchange for USD 1,747.9 million as of 2008; this despite numerous Chinese foreign direct investments into its African counterpart. Some Ghanaians argue that while China benefits from free trade on the African continent, it imposes tariffs and stringent import standards on African goods.

A closer examination of the imbalanced volume in Ghana-China bilateral trade reveals that it is largely because of the uneven position of the two sides on the demand and supply chain. According to an official report from the Economic and Commercial Counsellor's Office of the Chinese Embassy in Ghana, the principle items that China exports to Ghana are electronics, telecommunications equipment, power-supply equipment and textiles. On the other hand, major exports from Ghana to China include crude oil products, cocoa, cotton, gold, timber, and industrial diamonds. China manufactures and processes goods with a high-end value, whereas Ghana continues to trade low-end value goods such as agricultural products and raw materials. If these inequalities persist in the future, local manufacturing industries in Ghana may suffer from continuous in-

flows of cheap Chinese goods that could yet dominate local markets.

**China invests with energy**

Rapidly rising FDI flows from China have added a new dynamic to Ghana-China relations. This is for the most part due to the Chinese Government's 'go abroad' policy as well as to the favourable domestic environment in Ghana. In 2006, the National Development and Reform Commission (NDRC)—the macroeconomic planning agency under the Chinese State Council—published a report with the heading 'Africa is the ideal market for *Zhongguo Zhizao* [goods made in China]'. In 2008, the NDRC released the official 'Catalogue of Industrial Guidance for Foreign Investment' and 'China's Energy Conditions and Policies' in order to emphasise the significance of the African continent and to encourage Chinese companies to explore market opportunities in Africa.

In 2007, according to the Chinese Department of Commerce, China topped Ghana's FDI list with a cumulative total of 316 registered projects. It also ranked fourth with an investment value of USD 219 million. In H1 2009, the Ghana Investment Promotion Centre (GIPC) had China topping the list of countries for registered projects, at 21, and second for project value at USD 8.2 million. Low-interest loans which accompany Chinese infrastructure projects contribute to Ghana's employment level and stabilise the nation's economy.

Ghana Imports 2004-2008					
Unit: USD (mn)	2004	2005	2006	2007	2008
Total	4,074	5,754	6,498	7,978	10,351
From China	510	672	803	1,228	1,747
China's share of total	12.5%	11.7%	12.4%	15.4%	16.8%
Ghana Exports 2004-2008					
Unit: USD (mn)	2004	2005	2006	2007	2008
Total	2,622	2,802	3,735	4,322	5,625
To China	80	96	80	53	93
China's share of total	3.1%	3.4%	2.1%	1.2%	1.7%

Source: UN Comtrade; Ghanaian Ministry of Trade and Industry

**China OFDI to Ghana 2004-2008**

Unit: USD ('000s)	2004	2005	2006	2007	2008
Flow	340	2,570	500	1,850	10,990
Stock	6,310	7,330	8,090	41,870	58,020

Source: MOFCOM

In addition to its abundance of gold, diamonds, timber and cocoa, the recent discovery of offshore oil has resulted in new and greater opportunities for Ghana to accelerate its economic development. In 2007, oil was found off Ghana's coast with the potential to generate USD 1.2 billion in revenue annually for a period of twenty years. This discovery was also good news for China. China's consumption of oil has doubled since 1996 and is now second only to the US, with roughly one-third of China's imported oil coming from Africa.

Since sub-Saharan Africa is considered under-explored when it comes to resource extraction, it is an ideal place to extend China's energy supply chains to satisfy its rapid economic development and its surging appetite for natural resources. Chinese firms have therefore been proactively bidding for Ghana's oil exploration activities, in competition with ExxonMobil and other large international oil players. By fostering diplomatic relations with Ghana, China is set to share Ghana's oil wealth. However, some negative sentiment toward Chinese oil companies still persists as stakeholders and external media maintain that Chinese companies are not as experienced at deep-sea oil projects, and that their labour and environmental records are substandard.

As a new player in the West African oil fields, China will continue to compete with giants from India, the US, the EU, and the UK. In fact, a recent news article in the Chinese media revealed that in response to China's growing influence in Africa, the Indian state-owned Oil and Natural Gas Corp. Ltd. (ONGC) and GAIL (India) Ltd. began talks with Ghana National Petroleum Corp. (GNPC) to acquire stakes in hydrocarbon blocks in the country. China may still be a late-comer to the African offshore oil business, but through its economic strength and relatively sound relations with Afri-

can governments, China could yet out-compete others for a substantial share of West Africa's natural resources.

**Conclusion**

China's emergence as Africa's largest trading partner has attracted the world's attention. China's recent activities in West Africa, especially in Ghana, are particularly significant. Clearly, China benefits through imports of natural resources and raw materials, as well as through exports of Chinese goods. Yet it is still unclear whether this model will or will not work for all African countries. While Chinese investment may yield significant opportunities and returns for Ghana, it could also prove to be the country's undoing. The determining factor will be if China's investments contribute to the development of Ghana's own industrial capabilities or if they leave only a void where resources were once present.

As a result of China's significant involvement in Ghana's mining industry and its domestic market, China weighs heavily in the African nation's future development. China's investments in Ghanaian oil fields may provide yet more opportunities to accelerate Ghana's economic growth, and to internally develop its industrial might. However, an overflow of Chinese goods or improperly planned natural resource extraction could ruin Ghana's prospects for modernisation. It remains to be seen whether Ghana can translate these investment opportunities into sustainable development for its economy.

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**Ghana's Participation in the 2010 World Expo in Shanghai**

The Ghanaian Ministry of Trade and Industry (MOTI) on 6 April 2010 announced that it will begin accepting Expressions of Interest for companies to participate in the Ghana-China Business Partnership for the 2010 Shanghai Expo.

The programme is being facilitated by MOTI, the Ghanaian Office of the Commissioner General, Togbe Afede IV and the China-Africa Business Council.

Under the Ghana-China Business Partnership programme, the Government of Ghana, through the facilitation of Togbe Afede, MOTI and the Embassy of the People's Republic of China in Ghana, will prepare and send a delegation of around fifty Ghanaian companies and businesses from various sectors to China every month for a period of six months.

The programme schedule is as follows for the various sectors:

- May 8 - May 15: Agro-processing and plantation agriculture
- May 22 - May 30: Agricultural machinery
- June 5 - June 13: Construction and transport sector
- June 19 - June 27 and July 3 - July 11: Textiles and publishing/printing
- July 17 - July 25 and July 31 - August 8: Electronics/plastics
- August 14 - August 22 and September 4 - September 12: Pharmaceuticals and health tourism
- September 18 - September 26 and October 2 - October 10: Tourism, hospitality and real estate

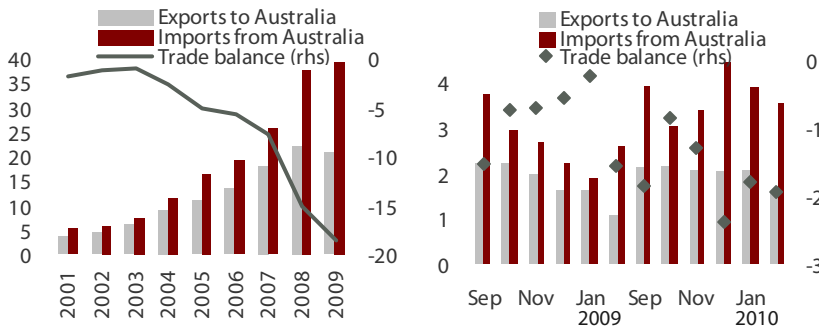
# Regional Focus CHINA-AUSTRALIA

Total China-Australia trade grew by 9% y-o-y in 2009, and the first quarter of 2010 was characterised by the signing of multi-billion trade contracts, iron ore negotiations and investment deals. With the resumption of free trade discussions, Beijing and Canberra have reaffirmed their commitment to the development of a strategic framework that will be supportive of both economies. *By Barbie Co.*

## China-Australia Highlights

- Iron ore negotiations between China and the three major producers—BHP Billiton, Rio Tinto and Vale—are still deadlocked, with BHP Billiton and Vale eager to raise prices by 90% from 2009 levels. Moreover, the companies are seeking to shorten the price commitment from one year to three months
- In March, Stern Hu and three other Rio Tinto employees pleaded guilty to accepting bribes from private steel mills. The Shanghai No. 1 Intermediate People's Court subsequently sentenced Hu to ten years in prison and USD 147,000 in fines. The rest of the accused received sentences ranging from 7 to 14 years
- China and Australia resumed free trade talks after a 14-month hiatus which was characterised by political and economic tensions. The 14th round of negotiations took place in Canberra from 24 to 26 February, with the next round planned for Beijing at a yet undetermined date. The Australian Department of Foreign Affairs and Trade reported that "many difficult and sensitive issues...remain to be resolved", however, the engagement was largely perceived as constructive
- The Australian firm Resourcehouse has signed the country's largest export contract to date (USD 60 bn) to supply 30 mn tons of coal annually to China Power International Development Ltd. (of China Power Investment Corp.) over 20 years

## China-Australia Annual and Monthly Trade 2001-2010, USD bn



Source: China Customs; All China Marketing Research; THE BEIJING AXIS Analysis

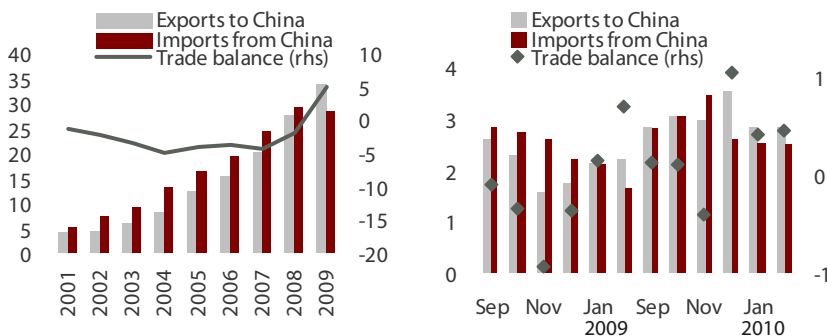
## China-Australia Trade Highlights

- With the newly altered Australia-China annual trade chart\*, Australia continued to have a trade surplus with China in 2009; however, it was at a sharper difference of USD 4,926.4 mn rather than USD 1,688.0 mn in fiscal year 08-09 as prepared by the ABS. According to China Customs (CC), China's trade deficit with Australia was significantly larger in the past two years, with the gap widening more by USD 3,396.1 mn from 2008 to 2009
- CC monthly figures show continuously diminishing Australian imports (from USD 4,437.4 mn to USD 3,536.1 mn) and total trade (from USD 6,480.6 mn to USD 5,122.5 mn) from Dec 2009 to Feb 2010. ABS statistics illustrate that the trade balance's uncharacteristic dip below 0 in Oct and Nov 2009 has now moved back to a surplus with China, reaching USD 944.3 mn in Dec 2009 and USD 303.7 mn and USD 355.4 mn in Jan and Feb 2010, respectively

\*Starting with this edition, the Australia-China Annual Trade chart will be aligned with the calendar year (which is used by CC) instead of the Australian fiscal year in order to facilitate more appropriate comparisons

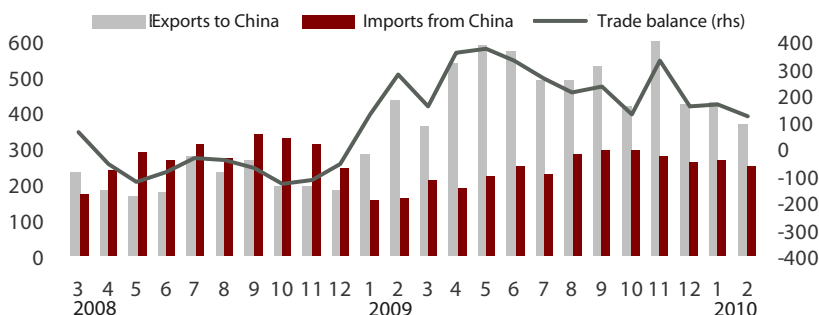
Source: Australian Bureau of Statistics; China Customs; Various Press; THE BEIJING AXIS Analysis

## Australia-China Annual and Monthly Trade 2001-2010, USD bn



Source: Australian Bureau of Statistics; THE BEIJING AXIS Analysis

## State Watch: Queensland-China Trade 2008-2010, USD mn



Source: Australian Bureau of Statistics; Dept of Foreign Affairs and Trade; THE BEIJING AXIS Analysis

## State Watch: Queensland (QLD)

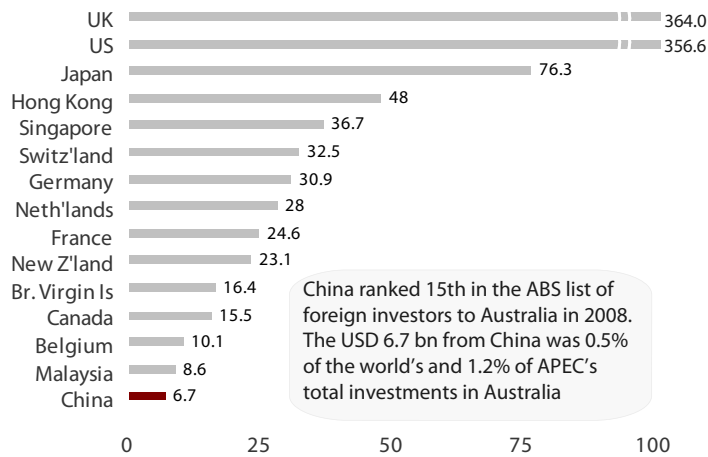
With a real gross state product (GSP) of USD 167.2 bn in 08-09, QLD is Australia's third-largest economy. Key contributors to its GSP are the business services (20%), government services (17%) and wholesale and retail trade (14%) sectors. Mining makes a surprisingly small contribution of 6%. QLD is a net exporter with exports reaching USD 32.3 bn and imports USD 21.9 bn. Key exports are coal (USD 22.5 bn), beef (USD 2.3 bn) and copper (USD 1.4 bn). In 08-09, China was its second-largest trading partner, after Japan.

### China-Australia Investment Highlights

- The Chinese firm Minmetals is presently conducting a review that could potentially revive its Avebury nickel mine operations in Tasmania. Prior to its shutdown in 2008, Avebury yielded an estimated 8,500 tons of nickel a year, which were then dispatched to China for the use of Jinchuan Group, a Chinese refiner. The recovery of nickel prices from the trough of USD 8,850 in October 2008 to the current LME price of USD 25,900 per ton is expected to prompt an increasing number of mine owners to initiate reviews to reactivate nickel mine operations
- Anglo-Australian mining giant Rio Tinto signed a USD 1.35 billion deal with Chinese state-owned enterprise Chinalco to jointly develop an iron ore project in Guinea. Chinalco would obtain a 44.65% stake in the Simandou project, which is touted to be the world's largest undeveloped iron ore deposit with an estimated 2.3 billion tons of high quality iron ore. Industry observers see this as a significant step forward in repairing this specific Sino-Australian relationship, which has been strained since the collapse of a USD 19.5 billion deal and the recent criminal prosecution of former Rio employees in China
- Two Chinese firms—Hebei Iron and Steel Group and Tianjin-based RockCheck Steel Group—are among the prospective financiers of Aurox Resources Ltd.'s Balla Balla magnetite iron ore mine. Aurox plans to sell a 50% stake in the project, which is valued at USD 1.2 billion. The mine is expected to produce 6 million metric tons of iron ore concentrate a year by 2012, with a planned second-stage expansion worth USD 671.6 million

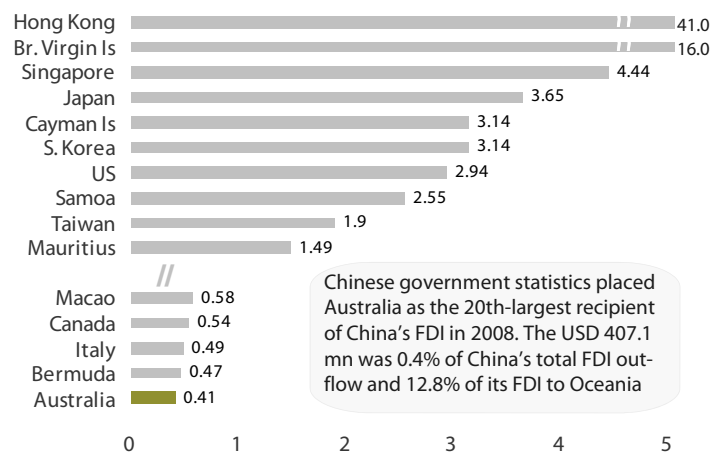
Source: Australian Bureau of Statistics; FIRB; Various Press; THE BEIJING AXIS Analysis

#### Foreign Investments in Australia by Country 2008, USD bn



Source: Australian Bureau of Statistics THE BEIJING AXIS Analysis

#### China's Total Foreign Direct Investments 2008, USD bn



Source: Nat'l Bureau of Statistics; All China Marketing Research; THE BEIJING AXIS Analysis

#### Developments in China-Australia Foreign Investment, December 2009-April 2010

Month	Acquirer / Investor	Target / New company	Amount USD	Stake	Status
Apr 10	China Nat. Coal Import & Export Co.	Columboola JV: Metro Coal Ltd.	28.0 mn	51%	Signed
Apr 10	Chongqing Steel	AU iron ore mine: Asia Steel Holdings	258.0 mn	100%	Approved
Apr 10	Bright Food Group Corp.	Sucrogen	1.6 bn	100%	Ongoing
Apr 10	Henan Yuguang Lead and Gold Co. Ltd.	Kimberley Metals Ltd. & Sorby Hills Project	USD 12.48 & USD 5 mn	15% and 25%	Ongoing
Mar 10	China Sci-Tech	Lady Annie Cu proj.: Cape Lambert Grp.	119.4 mn	100%	Ongoing
Mar 10	PetroChina Company Ltd (JV: Shell)	Arrow Energy Limited	3.2 bn	100%	Pending Approval
Mar 10	Xiangguang Copper Co. Ltd.	Rocklands Mine: CuDeco Limited	n/a	15%	Ongoing
Mar 10	HD Mining & Investment	Yalgoo: Venus Resources	7.5 mn	50%	Approved
Mar 10	Sichuan Taifeng	IMX Resources Ltd.	13.6 mn	13%	Ongoing
Mar 10	Yunnan Tin Group	Tasmanian tin operations: Metals X Ltd.	46.7 mn	50%	Ongoing
Feb 10	China Metallurgical Group. (MCC)	Resourcehouse Mining Group	200.0 mn	5%	Pending Approval
Feb 10	Meijin Energy Group	Rocklands Richfield Ltd.	180.6 mn	n/a	Ongoing
Jan 10	Hainan Airlines Group	Leasing Business: Allco Finance Group	150.0 mn	100%	Completed
Jan 10	Zijin Mining Group	Indophil Resources NL	498.0 mn	n/a	Approved - AU
Jan 10	China Yunnan Copper Australia Ltd.	Pentland Project: ActivEX Limited	3 mn	n/a	Signed
Dec 09	China Uranium Development Co.	Energy Metals Limited	71.4 mn	66%	Completed

Source: Various press; THE BEIJING AXIS Analysis

## Liquefied Natural Gas: An Emerging Pillar in the China-Australia Resource Agenda

China's increasing appetite for Australia's liquefied natural gas (LNG) underscores its commitment to wean itself from coal and oil and diversify its energy supply mix. This has helped to cultivate a less volatile yet viable energy resource alternative that is expected to satisfy both China's economic imperatives and its environmental obligations. *By Barbie Co.*

China's seemingly insatiable appetite for resources is bolstered by its growing trade and investment activities around the world. Its reliance on Australia's wealth of minerals and fuels is particularly noteworthy as multi-million dollar contracts dominate industry fora on a regular basis.

The latest deal to emerge was the LNG contract between the China National Offshore Oil Corporation (CNOOC) and BG Group Plc. Billed as Australia's largest ever LNG supply contract by volume, the estimated USD 40-60 billion deal will enable CNOOC to purchase 3.6 million tonnes of LNG per annum (mtpa) for 20 years from BG's Queensland Curtis LNG project.

Just months before, PetroChina and ExxonMobil signed a USD 45 billion trade contract for LNG from the US company's North West Shelf Gorgon development in Western Australia. Then touted as the single largest resource deal between China and Australia, the supply and purchase agreement includes the terms of a 2.25 mtpa supply of LNG to PetroChina from the Gorgon gas fields, which have an estimated gas deposit of 40,000 billion cubic feet (bcf) and a potential lifespan of 60 years.

With two other supply agreements under its belt (CNOOC-North West Shelf Australia LNG and Royal Dutch Shell-PetroChina), China aims to improve the share of natural gas in its energy mix to 10% by 2020. As it currently stands, China's energy consumption composition is dominated by coal (68.7%), with the remainder divided between crude oil (18.7%); hydro, nuclear and wind power (8.9%); and, natural gas (3.8%).

### China's LNG programme

The Chinese government began the systematic development of its oil and gas industry in the 1950s when it founded the Ministry of Petroleum In-



*Precious cargo:* China's growing interest and demand for LNG from Australia has important implications for their bilateral relationship

dustry to take charge of the exploration, production, transportation, and marketing of crude oil and natural gas as well as refined and chemical products. Eventually, the natural gas sector came to be dominated by three major state-owned companies: China National Petroleum Company (CNPC, established at the dissolution of the Ministry of Petroleum Industry, also the parent company of PetroChina), China Petrochemical Corporation (Sinopec Group) and CNOOC.

With natural gas production of 2,180.7 bcf in 2008, CNPC is China's largest natural gas company in both the upstream and downstream sectors. The company boasts four major gas zones: Changqing, Qinghai, Southwest and Tarim. Together these four produce 65% of China's total natural gas output. CNPC's subsidiary, PetroChina, is the largest oil and gas storage and transportation service provider in the country. It has been strategically developing China's oil and gas pipeline network, and at the end of 2009 their pipelines had reached a total length of 50,627 km, of which 28,595 km are natural gas pipelines.

Sinopec Group is a Fortune Global 500 petroleum and petrochemical company. It has an increasing interest in developing the country's natural gas sector, and its gas production grew by 2% from

293.07 bcf in 2008 to 299.01 bcf in 2009. Sinopec's gas fields are largely located in the northeast region of the Chinese province of Sichuan.

CNOOC is the China's largest producer of offshore crude oil and natural gas. Its major production areas are in Bohai Bay, East China Sea, Southeastern China Sea and Southwestern China Sea. The company also has overseas assets in Southeast Asia, Australia, Africa, the Middle East and the Americas. Without providing a breakdown to oil and gas production, CNOOC reported a net production of 3.43 bcf in 2009.

A glance at these companies' annual reports would show that oil remains the dominant component of their portfolios, as natural gas has not been a traditional energy source in China. China's production and demand of the resource, however, has been steadily increasing so that in 1995, CNOOC was appointed by the State Planning Commission to undertake a study of the national LNG programme and import strategy. This led to the identification of potential locations for future LNG receiving terminals – Zhujiang Delta, Fujian Province and Changjiang Delta.

In 2006, the milestone Guangdong Dapeng Project (located in the Zhujiang

Delta) began its operations, receiving its first shipment of LNG from the North West Shelf project. This heralded the beginning of what would be a rapidly increasing trade of the energy resource between China and Australia.

**Meeting demand**

Production and demand for natural gas grew steadily until it came to a head in 2007 when China's consumption of natural gas exceeded production by 10.6 bcf and the country became a net importer of natural gas. This can be explained by the commencement of LNG imports in 2006, which paved the way for a slightly higher than usual consumption growth rate of 23.9% in 2007, as opposed to the average of 16%. 2008 consumption continued to grow by 16.1%.

Presently, China draws its LNG from a variety of sources. Yet Australia remains its largest source of LNG, with its volume and value larger than those of the next three supplying countries combined. Since 2006, Australian LNG exports to China have grown at an astounding CAGR of 72.1%. Based on the four active agreements that have been signed, China is expected to receive around 11.15 mtpa of LNG by 2015 from projects in Western Australia and Queensland.

**Implications for China and Australia**

The LNG industry is rife with opportunities and advantages for both China and Australia. The use of LNG diversifies both

**China and Australia's LNG Supply Agreements, as of April 2010**

Buyer	Seller	Project	Destination terminal	Volume (mtpa)	Term (years)	First shipment
CNOOC	North West Shelf LNG	Browse	Dapeng, Guangdong	3.3	25	26 May 2006
PetroChina	Shell Eastern LNG	Gorgon	Rudong, Jiangsu	2.0	20	2015
CNOOC	BG Group	Queensland Curtis LNG	Yangshan, Shanghai	3.6	20	2014
PetroChina	ExxonMobil	Gorgon	Shenzhen, Guangdong	2.5	20	2015

Source: Department of Parliamentary Services, Australia; THE BEIJING AXIS Analysis

countries' energy mix, making them less dependent on coal and oil. This also enables them to fulfill environmental obligations of lowering greenhouse gas emissions and using cleaner energy.

China's foray into the LNG sector will also enable it to increase its knowledge base and technological capability in order to potentially compete in the LNG market in the future. As a relative newcomer to the industry, China is still in a process of learning and technology transfer. It has not yet reached the levels of Japan, South Korea, the US or Western Europe in terms of infrastructure and technical knowledge. Yet burgeoning natural gas demand is an important subject in the government's agenda that will be developed over time.

Given the nature and complexity of the LNG market, it will serve to stimulate related sectors such as terminals and shipbuilding. The dearth of proper ports as well as liquefaction and regasification terminals that can process and store LNG has driven a construction frenzy along the north-western and eastern

coastlines of Australia as well as along the southern and eastern coastlines of China.

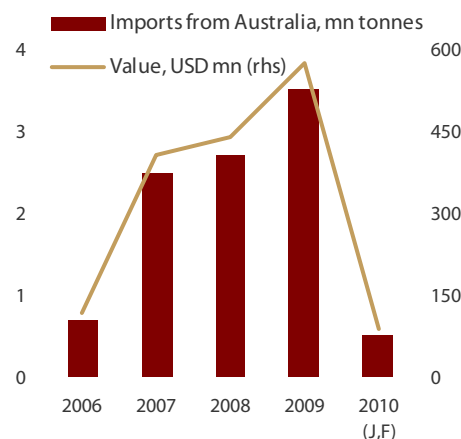
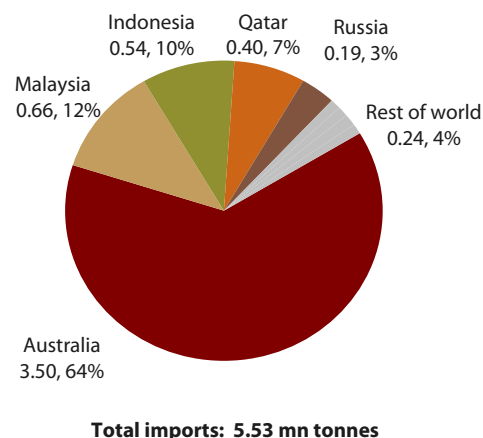
China's shipbuilding sector also stands to benefit as more LNG vessels are manufactured to meet increasing shipping demands. Higher value-added vessels are specially manufactured to store the gas, which can only be turned to liquid if it is cooled to -162° Celsius. China is one of the few countries that boasts LNG vessel manufacturing technology. In fact, China State Shipbuilding Co. has just launched three self-developed models of LNG ships earlier this year, bringing the total number of LNG vessels manufactured since their inception in 1997-1998. The current agreements and the promise of future deals are also contributing to the stimulation of jobs in both countries.

**Conclusion**

China's growing interest and demand for LNG from Australia has wider implications for their bilateral relationship. Given China's mounting concern over the use of coal on the environment and its increasing demand for energy, there is a strong argument to support an even greater reliance on imported LNG. Proximity, supply and an already established tradition in resource deals puts Australia on a stronger footing with China. Provided that prices continue to be competitive or become more so, LNG is and will become an ever more important pillar in the China-Australia agenda.

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**China's LNG Imports by Country 2009 & Imports from Australia 2006-2010**



Source: China Customs; All China Marketing Research; THE BEIJING AXIS Analysis

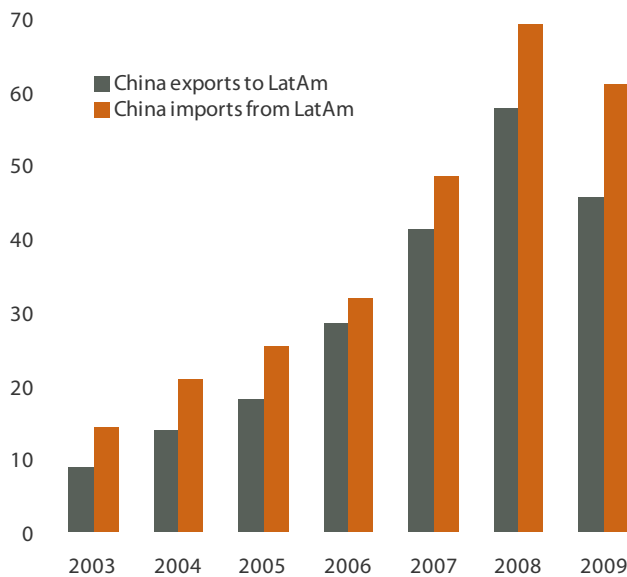
# Regional Focus CHINA-LATIN AMERICA

Trade and investment between Latin America and China decreased in 2009, yet the prospects for 2010 are once more very promising. In this edition we take a look at China's bilateral trade and investment relationship with Brazil, its largest trade partner in the region, including an interview with Tatiana Rosito, Director-General for Economic and Trade Affairs at the Embassy of Brazil in Beijing. *By William Dey-Chao.*

## China-LatAm Highlights in Q1 2010

- In April 2010, Chinese President Hu Jintao attended the second BRIC summit held in Brazil. His trip was to also include visits to Venezuela and Chile, two of China's other major trade partners in the region, yet the Chinese president had to return home shortly after his visit to Brazil due to the earthquake which took place in western China
- Argentinean President Cristina Fernandez de Kirchner was expected to visit China in January 2010 for talks to deepen the strategic relationship between the two countries. Yet the trip was postponed to the end of 2010. At present Argentina and China are involved in a trade dispute involving a Chinese ban on the import of Argentinean soybean oil, a measure which was passed on 1 April. Dialogue between the two countries since then seems to have progressed somewhat as a Chinese government official subsequently revealed that China has agreed to allow all incoming cargo ships from Argentina to unload soybean oil at Chinese ports. Then ban was announced shortly after Argentina issued an antidumping case on several Chinese products

## Bilateral Trade China-LatAm\* 2003- 2009, USD bn



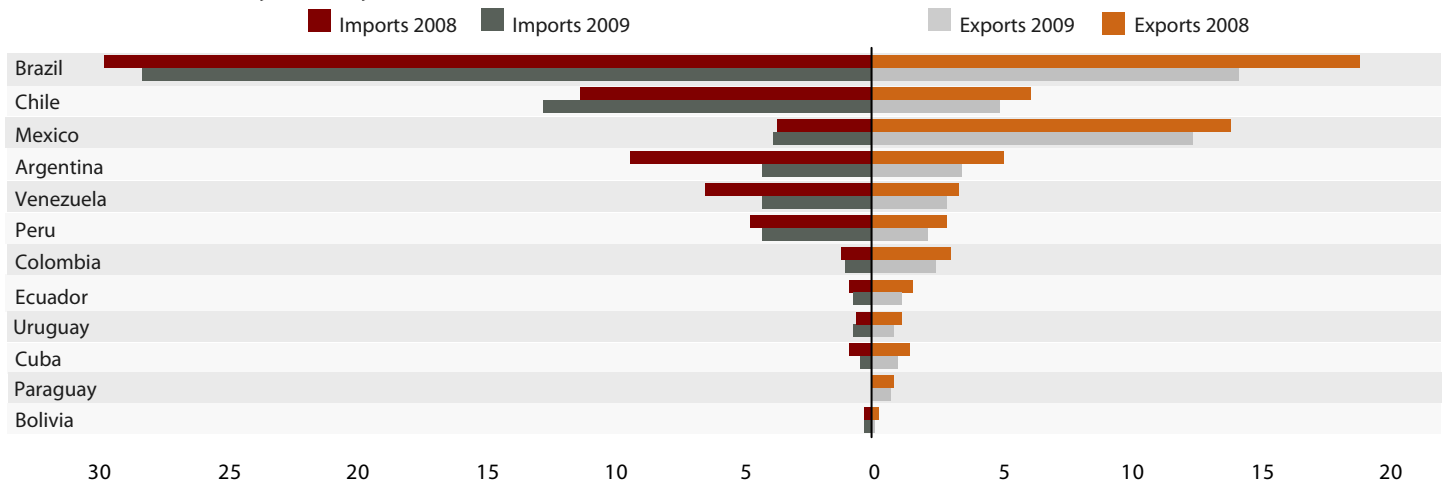
## China-LatAm Trade Highlights

- In 2009, China's total bilateral trade with LatAm decreased by 16% y-o-y to USD 106.69 billion
- In 2009, Mexico and Colombia remained the LatAm countries with the largest trade deficits with China, at USD 8.4 billion and USD 1.4 billion, respectively. Conversely, Brazil (USD 14.1 billion) and Chile (USD 7.8 billion) held the largest trade surpluses with China in the region
- China's exports to LatAm decreased by 21% in 2009 y-o-y to reach USD 45.5 billion, an amount equivalent to 4% of China's total world exports
- China's imports from LatAm also decreased, although at a more moderate rate of 12%, to reach USD 61.2 billion for 2009. Imports from Latin America comprised 6% of China's total intake from other nations
- Bilateral trade is expected to expand in 2010 as domestic demand increases in China with a greater need for raw materials, while demand for Chinese manufactured products accelerates in LatAm. According to the UN Economic Commission for Latin America and the Caribbean (CEPAL), China is forecast to receive 19.3% of LatAm's total exports in 2010 to become the region's foremost trading partner

\*Note: Latin America here refers to the Latin American Integration Association (LAIA). LAIA's members are Argentina, Bolivia, Brazil, Chile, Colombia, Cuba, Ecuador, México, Paraguay, Perú, Uruguay and Venezuela.

Source: All China Marketing Research; THE BEIJING AXIS Analysis

## China-LatAm Trade by Country 2008 vs. 2009, USD bn



Source: All China Marketing Research; THE BEIJING AXIS Analysis

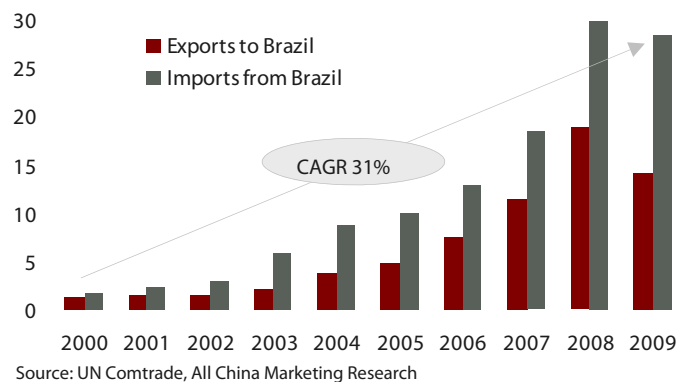
### China-LatAm Investment Highlights

- China's primary interest in the Latin American region is to gain further access to natural resources and new markets through increased trade and investment. This is evident from the range of deals signed in Q1 2010 between China and various Latin American countries
- In March, the Nanjing-based East China Mineral Exploration & Development Bureau (ECE) signed a USD 1.2 billion agreement with owner Bernardo de Mello to buy the Itaminas iron ore mine in Brazil for USD 1.22 billion. The mine produces around 3 million tons of high-grade iron ore per year
- Also in March, China National Offshore Oil Corporation (CNOOC) announced it was taking a 50% stake in the Argentinean oil and gas group Bidas Corporation for USD 3.1 billion. CNOOC, China's largest offshore oil exporter, hopes to complete the deal by mid-2010. Bidas has oil exploration and production operations in Argentina, Bolivia, and Chile
- In December 2009, China Minmetals, China's largest diversified metals-trading company, joined forces with Shunde Rixin Development Company and announced the development of an iron ore mine in Chile valued at USD 1.9 billion. According to the agreement, Rixin will acquire 70% of the iron ore mine, while Minmetals will help sell the ore

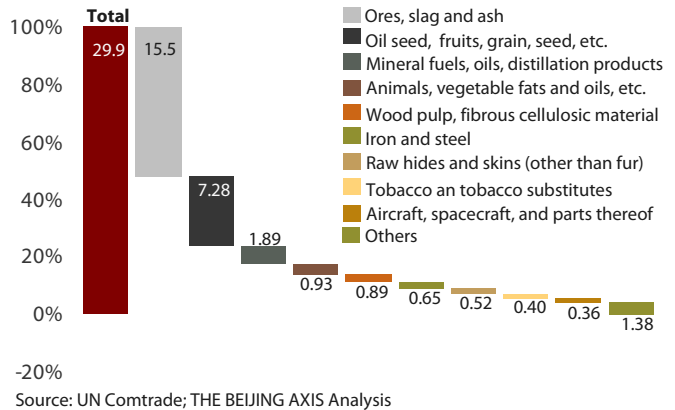
### China-LatAm Country Watch: Brazil

- China's relations with Brazil continue to strengthen, with China overtaking the US to become Brazil's largest trading partner in 2009. The relationship is fueled by China's interest in natural resources and by Brazil's need for consumer goods and investment
- In April 2010 China's President Hu Jintao visited his Brazilian counterpart Luiz Inacio Lula da Silva in Brazil for further talks on the promotion of the China-Brazil strategic partnership. President Hu Jintao put forward a three-point proposal for the rapid advancement of bilateral ties, which encompassed the enhancement of political trust, the promotion of cooperative facilities and the upgrading of strategic cooperation in international affairs. The two sides also signed the 2010-2014 Joint Action Plan as well as a number of cooperative documents
- China's total trade with Brazil reached USD 42.4 billion in 2009. This is a decrease of 12% compared to the same period in 2008, yet bilateral trade between the two countries has been growing at a compound annual growth rate of 31% since 2000
- In 2009, China's imports from Brazil decreased by 5% y-o-y to USD 28.31 billion, which represented 46% of China's total imports from Latin America. In 2008, 52% of China's total imports from Brazil were mineral ores, 24% were seed, grain, and fruits, and 6% were mineral fuels, oils and distillation products
- Brazil imported USD 14.1 billion from China in 2009, representing a 25% decrease y-o-y. Brazil accounted for about 31% of China's total exports to LatAm. In 2008, Brazil's imports from China mainly consisted of electronic equipment (which represented 25% of total imports), nuclear equipment (16% of total imports) and optical, photographic, technical, and medical apparatuses (7% of total imports)
- In 2008, China's FDI flow to Brazil reached USD 22.38 million. Since the beginning of 2009, however, Chinese investment in Brazil has greatly expanded. During Q1 2010, China invested more than USD 2 billion in Brazil's mining industry. China has also signed a number of infrastructure and energy-related deals to greatly enhance Chinese investment in Latin America's largest economy (*Statistical Bulletin for China's OFDI, 2008*)

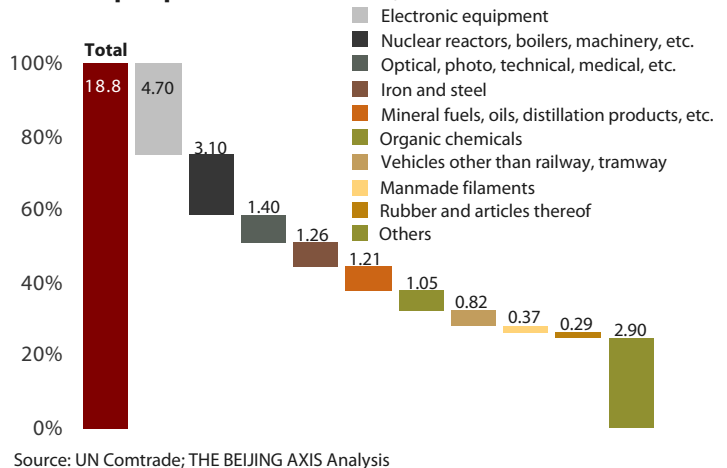
China Total Trade with Brazil 2000-2009, USD bn



China Top Imports from Brazil 2008, USD bn



China Top Exports to Brazil 2008, USD bn



## Tatiana Rosito on the State of the **China-Brazil Economic Relationship**

Tatiana Rosito, Economic and Trade Counsellor at the Embassy of Brazil in Beijing, aims to bridge the distance between Brazil and China by fostering more exchange of visits and human ties. She discusses the broadening bilateral relationship and outlines a range of new business opportunities and next steps in relations between two of the world's leading developing economies. *By William Dey-Chao and Barry van Wyk.*



**B**razil and China actually have a long history of cooperation, how did relations develop up to the present stage?

There was increasing cooperation between Brazil and China in the 1980s, notably in science and technology and especially in space technology, and in 1988 they launched a partnership for jointly manufacturing satellites, which is recognised as one of the most successful examples of South-South cooperation in the domain of high technology. Three satellites have already been launched under this partnership, with more to follow.

A major milestone in 1993 was the establishment of a Strategic Partnership which was China's first with a developing country. During the following decade, there was a significant increase in bilateral economic relations: trade grew by over 50% per year between 2000 and 2009. Some growth in bilateral investments has also occurred, but the bulk of it is starting to happen now.

In 2004 both Presidents Lula and Hu exchanged state visits with large delegations. Many fields of cooperation that have been consolidated since then were in fact initiated in 2004. The Brazil-China High-level Committee (known as COSBAN) was also formed in 2004 to provide a framework for bilateral relations, and this committee now has 11 sub-committees. So both in the economic and diplomatic arenas, we have seen a strengthening of the bilateral relationship in the last few years. In 2009 China became Brazil's largest trade partner, and the financial crisis has actually reinforced the relationship.

One of the highlights of President Lula's state visit to China in May 2009 was the

signing of an agreement between Sinopec, Petrobras, and the China Development Bank (CDB) for long term supply of crude oil to China. This deal involves the supply of 200 000 barrels per day of oil to China for ten years while CDB will provide financing of USD 10 billion to Petrobras. Further landmark deals signed in 2009 facilitated the re-opening of the Chinese market for Brazilian poultry and agricultural exports. Agreements were also signed between CDB and BNDES, the Brazilian Development Bank, and the Chinese automaker Chery has announced that it would be investing in Brazil, which has indeed occurred since then.

More frequent exchanges have also been established between Brazilian states and Chinese provinces, and an increasing number of Brazilian governors have visited China. As a future host city of the Olympic Games, trade and investment relations between Rio and Beijing are set to increase. There is strong interest among Chinese companies to help build infrastructure related to the Football World Cup and the Games in Brazil, and there is strong interest from Brazil as well to learn from the Chinese experience.

**What new developments arose from President Hu Jintao's trip to Brazil in April this year?**

President Hu's visit had two main focus areas: the second BRIC summit in Brasilia and a state visit to Brazil. The highlight of the state visit was the signing of the Brazil-China Joint Action Plan 2010-2014 which outlines objectives and targets for cooperation in 11 different areas ranging from politics, the economy, trade, culture, energy and mining to science and technology, innovation and finance.

A considerable number of commercial deals were announced during the trip, for example the investment of USD 5 billion for the construction of a steel mill in Porto do Acu by Wuhan Iron and Steel Corporation and EBX Group, with partial funding from CDB. More details were announced of deals in the telecommunications sector involving the Chinese firms Huawei and

ZTE, and a few agreements were signed in the space area between the Brazilian national space research institute and several institutes in China. Lastly, an agreement was announced in which Sinopec took a 20% stake in two oil blocks in northern regions of Brazil. Other agreements were also concluded in the area of intellectual property and in the sanitary and phyto-sanitary areas.

Energy and mining have lately been the strongest areas of economic bilateral cooperation and over the next few years we expect to see more Chinese companies participate in the Brazilian market both in services and in exploration and production. Chinese companies are also very interested to invest in the Brazilian oil sector. There is a mutual interest for Chinese companies to secure more oil from Brazil and for Brazilian companies to obtain financing from Chinese companies.

**What are some of the challenges for Chinese companies doing business or investing in Brazil? Or for Brazilian companies in China?**

I think the greatest challenge is the distance, both physical and cultural, between the countries. It is difficult to establish human ties and trust when you are so far from each other. But Brazil is a multi-cultural and multi-ethnic country. The main challenge is to make a start in a country that is so far, to find the right partners, to understand the legal structures and judicial system and so forth.

Foreign companies in Brazil also need to take into account the different levels of governance in Brazil, namely the federal government, the state governments, and the local governments. Each of these have their own jurisdictions and issues, and sometimes they also have overlapping attributions, for example when it comes to tax policies. Hence foreign companies in Brazil need to be sure they understand the particular requirements of the tax law and the labour law.

Nevertheless, Brazil is one of the world's largest recipients of foreign direct invest-

ment, hosting most of the largest multinationals for a long time, so these issues are not real obstacles, but only require more dedication – and the same is true for Brazilian companies investing in China. The challenge is really to get people to travel more and meet each other so they can see all the opportunities and appreciate the complementary nature of the two countries' economic structures.

**What is the current extent of Brazilian investment in China?**

Up to the time of President Hu's recent visit to Brazil, Brazilian investment in China actually exceeded Chinese investments in Brazil. Now we have over 40 companies in China. The largest Brazilian multinationals are here: Embraer, which has a joint venture with AVIC in Harbin since 2002 to produce regional aircraft; Vale has a big office in Shanghai, while Petrobras has one in Beijing. There are several companies related to the automotive sector that have plants in China, for example lochpe-Maxion, a maker of wheels; Fras-le, making brake pads; and Marcopolo, which produces buses. Weg makes engines and compressors. Then there is Embraco, a compressor company which has a joint venture with a Chinese company; the metal segment of Votorantim, a large conglomerate, is also here with a zinc oxide factory.

There are also many other Brazilian companies with offices in China, such as trading houses and banks like Banco do Brasil and Itaú, which have representative offices in China. The Brazilian stock exchange also has a representative office in Shanghai, and there are many other Brazilian trading companies in China. There is also the interesting case of Brazilians who have moved to China and established shoe factories in southern China's Guangdong province near Dongguan. Many of them transferred their plants from the south of Brazil to China from where they export mostly to the US and European markets.

**What new opportunities are there in Brazil for Chinese investors? And in China for Brazilian investors?**

Infrastructure offers many opportunities in Brazil. In transportation, Chinese companies are interested in bidding for the construction of the high-speed train linking Rio and Sao Paolo. Brazil also has a major ongoing project to overhaul the railway system, and due to the experience

and scale achieved in this sector in China, there are many opportunities here for Chinese companies in Brazil. In addition, Brazil plans to build more than 12,000 km of new railways in the next few years, and we already have 20,000 km of existing railways and some of these need modernisation.

Apart from railways, there are also opportunities for Chinese companies in Brazil's energy sector in terms of the construction of power plants. China's CITIC Group is already involved in the construction of a thermal power plant at Candiota in southern Brazil. China's CDB has provided finance for this project as well as for a large gas pipeline at Gasene in the north-east of Brazil.

There are also a lot of opportunities in the ports sector in Brazil. China has built a modern ports system, and this enables them to put this experience to good use in Brazil. Related to this is the maritime industry, and Petrobras is currently building a large new fleet so there is a lot of demand in Brazil for offshore oil platforms and ships. Apart from infrastructure, Brazil has a vibrant middle class and a growing consumer market, which appeals to many industry and service sectors.

As for new opportunities in China, China has growing demand for food and feedstock, and Brazil has a very large surplus of agricultural goods, especially soya beans but also meat. Brazilian exports of meat to China are still insignificant, but exports of poultry have increased since the opening of the market last year. We believe that the growth of China's middle class will come with an increasing appetite for meat, and Brazil can supply both bovine and swine meat. We also believe we can sell more coffee, sugar, dairy and orange juice to China. Apart from that we believe manufacturing companies may find niches to increase their exports to China and also to increase their investment, enlarging their presence in the East Asian integrated supply chain. In the domain of services, there are unexplored opportunities for Brazilian expertise in automated banking services, for example.

**Where do we go from here for Brazil-China political and economic relations?**

We now need to start implementing the Joint Action Plan 2010-2014 that has just been signed. This plan provides a general

orientation and has established specific objectives for each area of cooperation. So in terms of next steps, the first step is the second meeting of COSBAN this year to review the areas of cooperation. All the investments that have been announced now also need to be implemented.

One important aspect of the Brazil-China relationship going forward is its enlarged dimension. Brazil and China now are not only discussing bilateral issues but also regional and global ones. So one very important dimension of this is the coordination of Brazil and China in global fora like the G20 and the BRIC group. The presidents of both Brazil and China now recognise that we are on a different level in the bilateral relationship not only because of the strong bilateral trade and investment ties but also because of global coordination between the countries with the main aim of reforming the global governance system and establishing a more multi-power democratic order in the international arena.

A lot has been made of the BRIC formation, yet one interesting thing to say about it is the fact that BRIC countries are not against anything, they have a very positive agenda. They are a group of very different countries on many levels, but they have common interests especially in the reform of global governance and institutions, and in increasing the voice of developing countries. The BRIC group is also a vehicle for increasing economic exchanges and to seek new avenues for cooperation between the four countries.

We would like to see more Chinese companies going to Brazil and more Brazilian companies going to China. There are lots of opportunities for companies on both sides, and not only for companies but also for tourists, students and scholars. We feel really strongly about bridging the distance between the two countries by building human ties. Brazil is open, its a multicultural country, and Brazilians are increasingly excited about trade and investment with China, but also about increasing their understanding of this distant land and people. We hope we can serve both sides by helping Chinese companies find partners in Brazil and by helping Brazilian companies find partners in China. The distance really should not be an obstacle for all these exchanges. The opportunities are great and if you do not take them, somebody else will. 中

# Regional Focus CHINA–RUSSIA

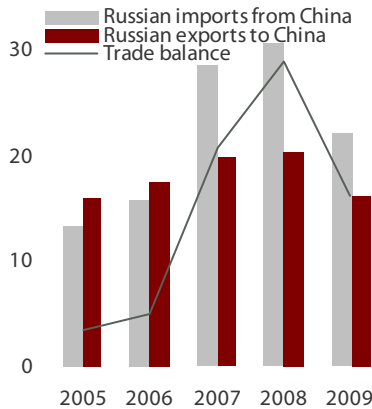
Following the resource-seeking or ‘going global’ trend of Chinese companies, Russia—a country with a vast array of natural resources—is set to become the next target market after Australia, Canada and Africa. Hence the China-Russia relationship will become a more important component of each country’s foreign outlook, especially in terms of trade and investment. *By Julia Wang.*

## China-Russia Highlights

- At the invitation of Russian Prime Minister Vladimir Putin, Chinese Vice President Xi Jinping visited Russia from 20-24 March 2010 to facilitate further China-Russia bilateral economic cooperation
- During Xi Jinping’s visit, 15 cooperative agreements involving USD 1.6 billion were signed with the local government in Vladivostok on March 20. The agreements advanced economic, technological, energy and infrastructure cooperation between Russia and China
- During a meeting between Xi Jinping and Valentina Matviyenko, the mayor of St. Petersburg, both sides expressed their intention to promote cultural exchanges and advance further economic cooperation. As sister cities, St. Petersburg and Shanghai have established enhanced inter-city ties in the areas of economic relations, finance and technology. The World Expo in Shanghai is expected to create more opportunities for cooperation between these cities. Based on the agreements signed during Xi Jinping’s trip, additional cooperation can be expected regarding tourism and infrastructure development in upcoming years
- Russia and China are planning to use more of the Renminbi and Ruble in bilateral trade. The People’s Bank of China has expressed its willingness to expand the use of the Renminbi and the Ruble in bilateral trade, thereby reducing the risk from exchange rate fluctuations. The amount of bilateral trade currently settled with the Renminbi is less than 1% of the total trade volume, and presently there are only a dozen Russian banks that have business relationships with Chinese credit agencies. Yet it seems that the global financial crisis has accelerated the trend of using local currencies as payment between China and Russia. At the beginning of February, the Russian company Sportmaster, a retailer of sporting goods, said that they were preparing to use the Renminbi and Ruble to settle payments with their Chinese suppliers

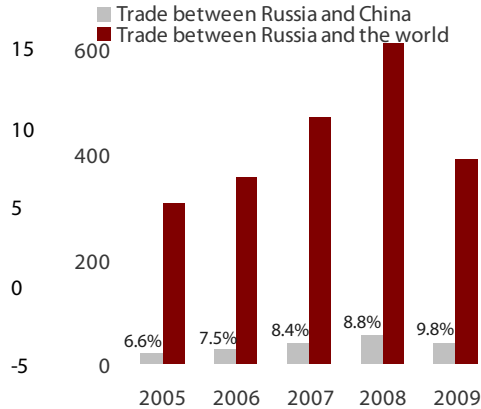
Source: Xinhua; THE BEIJING AXIS Analysis

### Bilateral Trade Between China and Russia 2005-2009 USD bn



Source: MOFCOM; THE BEIJING AXIS Analysis

### Russia-China Trade vs. Russia-World Trade 2005-2009, USD bn



## China-Russia Trade Highlights

- Throughout 2009 and the first two months of 2010 China maintained its position as Russia’s largest source of imports. In this same period it also became Russia’s third-largest export market
- In the first two months of 2010, the volume of trade between China and Russia was USD 6.69 billion, an increase of 37.4% compared to the same period in 2009
- In 2008, China surpassed Germany to become Russia’s largest source of imports. That same year, Russia’s trade deficit with China reached USD 14.27 billion
- Impacted by the global financial crisis, in 2009 bilateral trade between Russia and China declined for the first time since 2005 to USD 38.14 billion, a decrease of 30.7% compared to the previous year
- The proportion of the two countries’ trade compared with Russia’s world trade has shown stable growth since 2005, an indication that China-Russia trade is becoming more important for both countries (see chart to the left)

Source: MOFCOM; THE BEIJING AXIS Analysis

### Russia Monthly Trade with China Jan 2009-Feb 2010, USD bn



Source: MOFCOM; THE BEIJING AXIS Analysis

### Russia Investment Highlights

- In 2009 Russia received USD 81.93 billion in capital inflows, 21.0% less than in 2008. FDI into Russia amounted to USD 15.91 billion, a decrease of USD 11.12 billion, or 69.9%, compared with 2008. By the end of 2009, FDI stock in Russia was valued at USD 109.0 billion. As for outward FDI, Russia's cumulative investments abroad amounted to USD 65.08 billion by the end of 2009, of which OFDI stock totalled USD 44.63 billion, 39.0% less than in 2008
- The top five recipients of Russian FDI were Cyprus, the Netherlands, Germany, the British Virgin Islands and the UK, while Russia's OFDI stock resides primarily in Cyprus, the Netherlands, the US, the UK, Switzerland and various CIS countries
- Due to increased Chinese investment in Russia's energy sector in 2009, China became the eighth-largest holder of FDI stock in Russia with a total of USD 0.94 billion. The upwards movement in China's FDI ranking is considered a significant milestone in the development of the China-Russia investment relationship

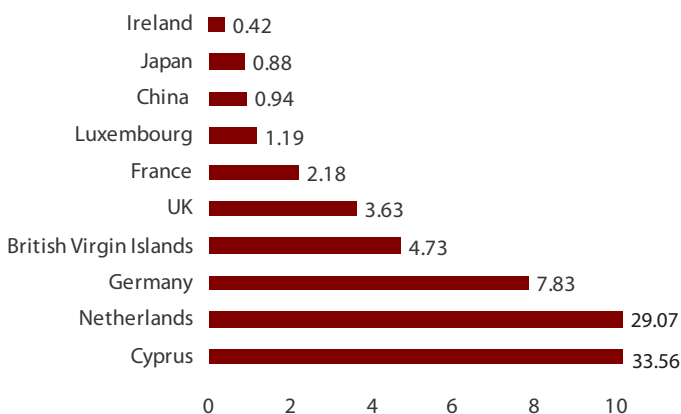
Source: ROSSTAT; THE BEIJING AXIS Analysis

### China-Russia Resources Highlights

- On March 22 2010, FinTronics Holding Company Limited, the leading ATM service provider in mainland China, offered to acquire an 80% controlling interest in CSJC Gold Mining Company Omchak at an aggregate price of USD 300 million. Omchak and its subsidiaries are engaged in geological exploration and in commercial gold mining, and has eight gold projects located in eastern Russia. Upon the transaction's completion, the natural resources sector will become one of FinTronics core business segments
- On March 23 2010, two Chinese companies—CNEEC and ICBC—signed an agreement to finance an EPC contract with ARICOM, a London-based iron ore mining company with operations in Russia. The investment will allow ARICOM to explore KSG (Kimkan, Sutara and Garinskoye) iron ore resources located in remote areas of eastern Russia. The total investment of the KSG iron ore project will amount to around USD 2 billion. CNEEC will be responsible for engineering, procurement and construction, while ICBC will provide financing for the first phase of the three-phase iron ore project
- Mechel opened a representative office in China on 5 March 2010. The office will support and promote the company's expanding business in China. Since 2007, Mechel has successfully supplied iron ore concentrate, coking coal and ferroalloys to China in exchange for coal equipment. Additionally, Mechel has signed a contract with Minmetals for the construction of a mill to produce rail and structural steel at the Chelyabinsk Metallurgical Plant

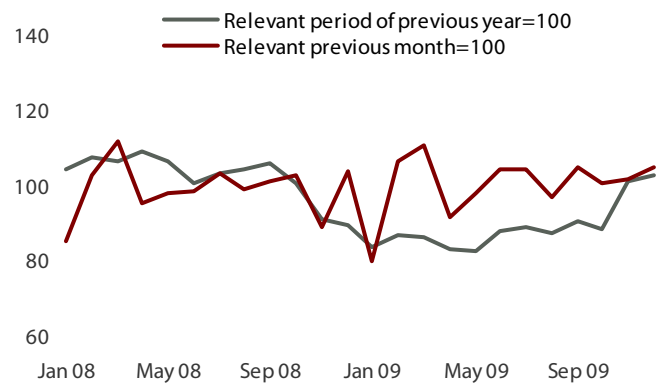
Source: Various; THE BEIJING AXIS Analysis

### Russia FDI Stock by Country as of Dec 2009, USD bn



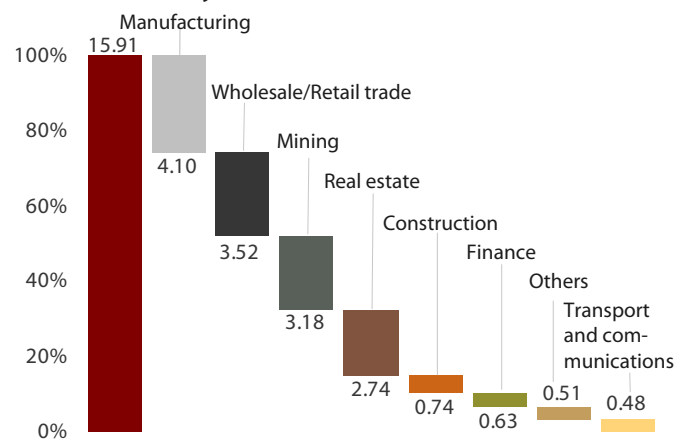
Source: ROSSTAT; THE BEIJING AXIS Analysis

### Russia Industrial Production Index Jan 2008-Dec 2009



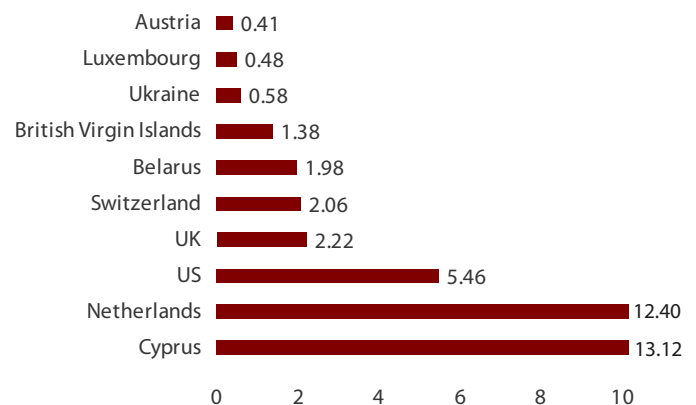
Source: ROSSTAT; THE BEIJING AXIS Analysis

### Russia FDI Inflow by Sectors Jan-Dec 2009, USD bn



Source: ROSSTAT; THE BEIJING AXIS Analysis

### Russia OFDI Stock by Country as of Dec 2009, USD bn



Source: ROSSTAT; THE BEIJING AXIS Analysis

## Rusal's IPO in Hong-Kong: First Sign of a Coming Wave?

The Initial Public Offering (IPO) of Russia's Rusal on the Hong-Kong Stock Exchange was the world's second-largest so far in 2010, and as it was the first for a Russian company in Hong Kong it was also an historical landmark. 2010 will shed more light on a topic actively discussed by financial observers: was it just a one-time event, or is it indicative of a looming Russian interest in raising capital in Asia? *By Nikita Popov.*

On January 27, 2010, United Company Rusal (Rusal), the largest aluminium and alumina producer in the world, commanding 12% of the global aluminium market in 2008, made its initial public offering on the Hong-Kong Stock Exchange. This action was intended to reduce the company's excessive debt holdings, which at the time of the IPO amounted to a staggering USD 15 billion. In its Asian debut, Rusal's shares traded for HKD 10.8 (USD 1.4) apiece, allowing the company to raise HKD 17.4 billion (USD 2.24 billion). 10.8% of Rusal's equity went to the auction block that day, the first time an Asian stock exchange hosted the IPO of a Russian company.

### Debt weight

At the time of the IPO, Rusal's debt were at critical levels. Bankruptcy threatened the company, prompting drastic measures. The Hong-Kong IPO presented an opportunity to alleviate the pressure from creditors, hence the majority of the USD 2.1 billion raised was used to reduce this overwhelming burden. Distributions of the funds included a USD 1.5 billion sum paid to various international creditors, a USD 278 million payment to a Russian private investment group called ONEXIM, and a USD 253 million remuneration to a handful of domestic Russian creditors.

Additionally, USD 152 million was used to settle commission payments for international banks. Thus, Rusal's debt position was decreased to USD 12.9 billion, which still looks indecently high but is within the bounds set by Rusal's debt restructuring plan announced in July 2009. The IPO, moreover, was only one piece of Rusal's larger strategy to limit its dependence on debt.

### Hesitant Hong Kong

In the run-up to the IPO, it was uncertain whether Rusal would even be able to



*Line of fire:* Though burdened by debt, Rusal remains the most powerful company for aluminium and alumina production globally. The Krasnoyarsk Aluminium Smelter is the second-largest smelter in the world, in 2008 it produced one million tonnes of primary aluminium.

gain approval from the authorities in Hong Kong at all. Of concern was Rusal's most pressing debt obligation with a formidable creditor: Vnesheconombank, a 100% government-owned Russian bank. Rusal's obligation to repay USD 4.5 billion had a rapidly approaching due date—November 2010. The Hong-Kong Stock Exchange Listing Committee viewed this liability with concern, and it delayed Rusal's ability to list until a solution could be found.

It was not until Rusal established an agreement with Sberbank, the largest bank in Russia and Eastern Europe, to extend the repayment of the multi-billion USD loan until 2013 that the committee gave Rusal the go-ahead. The firm was then set to earn its historical place as the first Russian company to list on an Asian stock exchange.

### Unused green shoes

The global coordinators of Rusal's IPO included the French bank BNP Paribas and Switzerland's Credit Suisse. The largest underwriters of the newly-issued Rusal stocks were Bank of America-Merrill Lynch, the Japanese financial holding company Nomura Holdings,

Russia's leading investment banking firm Renaissance Capital, and the Russian banks Sberbank and VTB. Rusal's financial consultant for the IPO was the investment banking firm Rothschild.

As coordinators, BNP Paribas and Credit Suisse received the so-called 'green shoe' option: the right to sell an additional number of shares within a fixed period of time from the onset of trading, a standard practice used to reward the coordinators of an IPO. In the case of Rusal, the organisers had the option to auction off an additional 225 million of the company's shares by the February 26 deadline (within one month after listing) for the option. However, BNP Paribas and Credit Suisse did not exercise their right to sell additional stakes in Rusal due to the lackluster performance of the stock during the IPO.

### The plan goes wrong

In January, Rusal's total capitalisation was evaluated at USD 21 billion, making it the world's highest valued aluminium company. For the purposes of comparison, the market capitalisation of Alcoa (US), one of Rusal's major competitors is around USD 16 billion. However, influ-

enced by the burden of Rusal's debts and fuelled by speculation by many experts as to an over-estimation of the company's equity value, the shares of Rusal began falling just after placement, losing 8% during the first few minutes of trading on Hong-Kong's Stock Exchange.

One week later, on 3 February, Rusal's shares rose for the first time, rising 1.8% to HKD 8.52 (USD 1.23) after a 3.2% jump in global aluminium prices just the day before. Nonetheless, Rusal's shares were still trading below the HKD 10.8 placement price, and once aluminium prices stabilised, Rusal's share price resumed its downward trend.

After one month of trading, the price of Rusal's stock had plummeted 27.3%. BNP Paribas and Credit Suisse even tried to artificially raise the share's liquidity in an attempt to stop the downward trend by buying 205 million shares (12.8% of the total volume of placement) on the open market within the one month period after the initial sale.

These attempts failed to yield any positive results. As a consequence, the 'green shoe' option lost its appeal for BNP Paribas and Credit Suisse, an indication of a pessimistic outlook for Rusal's share price in the near future.

### More to offer

The dismal performance of Rusal has not deterred other Russian companies from looking to Hong Kong for their IPOs, however. According to Lawrence Fok, Executive Vice President of the Hong-Kong Stock Exchange, a few other Russian companies have already submitted their applications this year.

This statement was preceded by the words of Ronald Arculli — the Chairman of the Hong-Kong Exchange — in February this year, when he stated that as many as 20 Russian companies may list in Hong-Kong within next two years. He also pointed out that Chinese investors are not only becoming more increasingly interested in the traditionally popular petrochemical and mineral sectors of the Russian economy, but in its retail, real estate, telecommunications,

finance and transportation industries as well.

### Who next?

IPOs are likely to occur in Hong Kong by two other companies that belong to Rusal's CEO and largest shareholder, Russian billionaire Oleg Deripaska. The first company is Strikeforce Mining and Resources, part of a holding company owned by Mr. Deripaska called Basic Element. Strikeforce Mining specialises in the production and sale of copper concentrate and ferromolybdenum, and boasts the largest output of ferromolybdenum by volume in Russia. Its global market share of the commodity is an impressive 12.2%. The company's Hong Kong IPO is planned for May 2010, yet interestingly enough, has been in the works since 2008. At that time the company had expectations of raising USD 200 million. Now it remains unclear as to what price the public will place on its shares.

Mr. Deripaska's second candidate for Hong Kong's Exchange is Eurosibenergo, Russia's largest private energy company. Eurosibenergo controls 8% of energy production in Russia. Its key consumers are Rusal's plants, utilising over one half of its total energy production. The IPO may take place in the summer of 2010.


### Russian appeal

Rusal's listing on the Hong-Kong Stock Exchange attracted attention to other Russian companies, both private and government-owned. Mr. Arculli is confident that the poor performance of Rusal will not deter Russia's big players. At the moment, investors from different parts of the world show strong interest in buying the shares of Russian companies. According to Nick Koemtzopoulos, managing director of the Equity Capital Markets Group at Credit Suisse, demand for Rusal's shares came not only from Asian investors but also from Europe and the US, who took equal proportions of the aluminium giant's shares.

More broadly, an abundance of IPOs are expected in 2010. According to a Credit Suisse forecast, around 160 IPOs will

raise USD 150 billion in new capital for the EMEA region (Europe, Middle East, Africa) during 2010. At least 4% of this amount will be for the benefit of Russian companies.

Many of these IPOs are expected to take place in Hong Kong. Investment activity is indeed shifting East. The volume of IPOs on the stock exchanges of Hong-Kong and Shanghai took first and third places, respectively, in 2009, with the NYSE squeezing in-between.

Russian companies seeking to raise capital are increasingly turning toward the financial centres of Southeast Asia. Rusal may well only be the first in a wave of many yet to come. 

### Nikita Popov, Analyst

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#### ■ **Application of state-of-the-art process technology**

- Design of commercially viable process plants.

#### ■ **In-house know-how**

- Feed preparation, minerals processing, electrowinning, etc.
- Smelting, molten-metal and slag handling.
- Bulk-materials handling, conveying.
- Environmental control, water and effluent treatment.

Bateman Engineering handles contracts from the largest turnkey projects to expansion projects, retrofits, modifications, audits and staff training.

Bateman Engineering's approach has a core environmental component to ensure that processing facilities provided are aligned to the concept of sustainable development.

We have an 85-year history and a track record of over 1,000 successful projects in more than 50 countries since 1980, often in difficult and remote terrains.

## **Bateman Engineering N.V.**

*Offices in Africa, the Americas, Asia, Australia and Europe*

### **Contact us:**

**[enquiries@Bateman.com](mailto:enquiries@Bateman.com)**

**[www.Bateman.com](http://www.Bateman.com)**

# **BATEMAN**

**– process plants that work**

**OUR CORE VALUES: ACCOUNTABILITY, CUSTOMER FOCUS, COACHING & MENTORING, CONTINUOUS IMPROVEMENT AND TEAMWORK**



INTERNATIONAL ALUMINIUM  
RAW MATERIALS CONFERENCE

*The decade ahead  
Opening the **Red** curtain*



**MAY 24—27 2010**  
**HILTON BEIJING HOTEL**  
**BEIJING CHINA**

Website: <http://conference.az-china.com>  
E-mail: [ros.rath@az-china.com](mailto:ros.rath@az-china.com)  
Phone: +86 10 5907 0270

## Upcoming Events

THE BEIJING AXIS can assist delegates who wish to attend fairs, exhibitions and conferences in China. THE BEIJING AXIS service set includes research, interpretation, negotiation and travel logistics. For more information, please send an email to [info@thebeijingaxis.com](mailto:info@thebeijingaxis.com), or for contact details please see 'About THE BEIJING AXIS' on page 64.

Date	Event	Location
9 - 12 May 10	China International Steel Congress	Beijing
10 - 12 May 10	3rd International Coal and Mining Machinery, Technology and Equipment Expo	Beijing
11 - 13 May 10	Shanghai Tube Expo & Shanghai Pipe Fittings	Shanghai
11 - 15 May 10	Mining and Asia Focus	Shanghai
13 - 14 May 10	2nd Advanced Wind Technology and Investment Summit	Nanjing
19 - 22 May 10	6th Annual China Nuclear Energy Congress	Beijing
20 - 21 May 10	China Bioenergy Technology and Investment Summit	Shenyang
20 - 21 May 10	13th China Chongqing International Investment and Global Sourcing Fair	Chongqing
24 - 26 May 10	China Water Congress	Beijing
24 - 28 May 10	International Aluminium Raw Materials Conference	Beijing
27 - 28 May 10	2nd Annual China Port Expansion and Efficiency Summit	Qingdao
27 - 29 May 10	9th Annual Structured Trade and Export Finance Asia Pacific Conference	Shanghai
27 - 31 May 10	13th China Beijing International High-Tech Expo	Beijing
31 May - 3 Jun 10	5th Asian Stainless Steel Conference	Tianjin
2 - 4 Jun 10	China Sourcing Fair - Electronics Products	Shanghai
3 - 5 Jun 10	6th China International Coal Equipment and Mine Technical Equipment Exhibition (CICEME2010)	Beijing
7 - 10 Jun 10	International Mines Equipment Expo	Shanghai
7 - 10 Jun 10	China Aluminium Fabrication Forum	Shanghai
8 - 10 Jun 10	Mines and Money Beijing	Beijing
9 - 11 Jun 10	Aluminium China	Shanghai
9 - 11 Jun 10	China International Precious Metals Conference	Xian
11 - 12 Jun 10	3rd China International Service Outsourcing Cooperation Conference	Nanjing
12 - 16 Jun 10	10th China International Machine Tool and Tools Exhibition	Beijing
23 - 26 Jun 10	11th China (Guangzhou) International Metal & Metallurgy Exhibition	Guangzhou

Date	Event	Location
24 - 26 Jun 10	China Mining Technology and Investment Summit	Baotou
7 - 8 Jul 10	Aviation Outlook China	Beijing
16 - 19 Jul 10	4th China Qingdao International Stone Products & Machinery Exhibition	Qingdao
22 - 24 Jul 10	China Green & Safe Mining Summit	Beijing
18 - 20 Aug 10	8th Edition of China International Auto Supplies Sourcing Fair (CSAE2010)	Shanghai
26 - 27 Aug 10	China Offshore Wind Summit	Weihai
31 Aug - 3 Sep 10	Infrastructure Investment World Asia	Hong Kong
3 - 5 Sep10	Powerwind	Shanghai
8 - 11 Sep10	China International Fair for Investment and Trade (CIFIT)	Xiamen
16 - 17 Sep10	2nd Annual China Solar Energy Technology and Investment Congress	Kunming
16 - 17 Sep10	China FPSO Summit	Shanghai
16 - 18 Sep10	International Sourcing Fair	Shanghai
10 - 12 Oct 10	4th China International Exhibition for Copper Industry	Shanghai
20 - 24 Oct 10	7th China - ASEAN Expo	Nanjing
26 - 28 Oct 10	China (Beijing) International Automobile Manufacturing Exposition	Beijing
26 - 29 Oct 10	China Coal Expo	Beijing
8 - 10 Nov 10	6th China (Beijing) International Aluminium Industry Expo	Beijing
8 - 10 Nov 10	6th China (Beijing) International Copper Industry Expo	Beijing
8 - 10 Nov 10	6th China (Beijing) International Titanium Industry Expo	Beijing
9 - 11 Nov 10	World Scrap Metal Congress	Shanghai
9 - 13 Nov 10	China International Industry Fair	Shanghai
10 - 13 Nov 10	6th China International Non-Ferrous Metals Industry Exhibition	Beijing
16 - 18 Nov 10	China Mining	Tianjin
16 - 18 Nov 10	Railway Interiors Expo Asia	Hong Kong
23 - 26 Nov 10	BAUMA China 2010 (International Trade Fair Construction Machinery, Building Material Machines, Construction Vehicles and Equipment)	Shanghai
1 - 3 Dec 10	SpeChem China	Shanghai

# THE BEIJING AXIS and Bateman Beijing Axis Careers

THE BEIJING AXIS and its group companies are looking for dynamic, performance-driven individuals to assist us in meeting our business challenges. Applications will be treated confidentially. If you believe you can make a contribution, send your detailed CV with a letter of motivation and references to the Group MD, Kobus van der Wath: [kobus@thebeijingaxis.com](mailto:kobus@thebeijingaxis.com) (Note: international relocation is possible).

## Senior Consultants

TBA China Strategy Group  
*Johannesburg Office (2 positions)*  
*Beijing Office (1 position - CSG Manager)*

### Role

- Lead multiple assignments in the strategy division of THE BEIJING AXIS
- Manage assignments and projects to ensure quality and time objectives are met; ensure the maintenance of professional 'best practice' standards across all projects
- Manage teams of consultants and analysts
- Be a thought leader and promote the development of learning processes and platforms
- Client relationship management
- Ensure alignment of division's objectives with the group's
- Multi-sector assignments with emphasis on resources, mining and industry
- Significant (international) travel

### Requirements

- Strong experience in the formulation and execution of research methodologies and analysis
- Ability to work with diverse cultures and backgrounds
- Interest in and knowledge of China's cross-border business engagement
- Sound judgement, maturity and a systematic mind
- Conceptual thinking and attention to detail
- MBA preferred with more than five years experience in consulting and/or management
- Native English written and verbal communication skills essential
- Willingness to travel

## Manager: Corporate Finance

TBA China Capital Advisors  
*Beijing Office*

### Role

- Lead multiple assignments in the investment advisory division of THE BEIJING AXIS
- Manage assignments and projects to ensure quality and time objectives are met; ensure the maintenance of professional 'best practice' standards across all projects
- Valuation, modelling, participation in overall investment processes
- Manage two to four deal-team consultants and analysts
- Be a thought leader and promote the development of learning processes and platforms
- Improve process efficiencies
- Client relationship management
- Ensure alignment of division's objectives with those of the group
- Multi-sector assignments with emphasis on resources, mining and industry
- Significant (international) travel

### Requirements

- Superior analytical and problem-solving abilities: Valuation, modelling and deal structuring
- Ability to work with diverse cultures and backgrounds
- Interest in and knowledge of China's cross-border business engagement
- Sound judgement, maturity and a systematic mind
- Conceptual thinking and attention to detail
- MBA/CFA/CA or legal background preferred with 3-5 years experience in finance/consulting
- Native English written and verbal communication skills essential
- Mandarin ability essential
- Willingness to travel

## BCT (Bulk Commodity Trading) Senior Analyst

Bateman Beijing Axis  
*Beijing Office*

### Role

- Coordinate and execute BCT operations in China
- Expand and implement BCT process and methodology
- Participate in business development, commodity marketing efforts, and business negotiations
- Manage and execute commodity trading deals
- Coordinate the various parties of trading transactions across the supply chain
- Analyse the needs of Chinese companies for industrial commodities, recommend priority areas for development and international sourcing by our South African, Australian, Latin American and Russian/CIS teams

### Requirements

- Excellent academic background; specialised trading / commodity qualifications preferred
- 3-5 years work experience with well-known commodity trading companies
- Thorough, detail-oriented and responsible
- High energy and drive; ability to coordinate deliverables and teams across different locations
- Ability to multitask and lead simultaneously multiple responsibilities and projects
- Sound knowledge of trading transaction management processes
- Excellent English and Chinese communication skills, including written and verbal communication as well as presentation skills

**Business Development Consultant**

Bateman Beijing Axis  
Johannesburg Office

**Role**

- Identify new prospects using multiple leads
- Build an effective consultative relationship with clients
- Attend job-related training and events to increase knowledge and expand network
- Support and provide consulting services for China-Africa projects
- Undertake research and analysis of different project areas in order to support project work
- Provide assistance in the preparation of proposals and submission of tender documentation

**Requirements**

- Minimum bachelor degree or equivalent qualification
- Proposal writing experience required
- 5 years experience with business development
- Excellent English writing, communication, and analytical skills
- Ability to work with tight deadlines
- Ability to work independently, prioritise tasks and meet deadlines
- Strong negotiation and presentation skills
- Ability to work well under pressure
- Excellent knowledge of Microsoft Office suite
- Knowledgeable on local media
- Knowledgeable and/or experience in business marketing
- Willingness to travel
- Mandarin not essential but regarded as advantage



THE BEIJING AXIS and Bateman Beijing Axis staff in Beijing, April 2010.

THE BEIJING AXIS is an entrepreneurial firm and welcomes applications from individuals with a well-grounded knowledge of their professional fields within a Chinese context. We offer rewarding experience, international exposure and competitive remuneration.

**Consultant: China-LatAm Market**

TBA China Strategy Group  
Beijing Office

**Role**

- Support and provide consulting services for LatAm-China projects by the application of solutions, analysis, and implementation methods
- Actively develop and secure new LatAm-China projects and clients
- Actively develop and secure new LatAm-China projects with current clients
- Undertake research and analysis of different project areas in order to support project work
- Assist in the preparation and submission of tender documentation
- Project manage client trips and oversee overall facilitation

**Requirements**

- Minimum 5 years experience in a relevant or related field
- Bachelor degree in appropriate or related field preferred
- Proven ability to execute projects
- Ability to lead project teams and client representatives
- Strong interpersonal skills, flexible thinker, strong problem-solving skills and team player
- Portuguese, Spanish and English communication skills essential
- Willingness to travel

**Sourcing Engineer**

Bateman Beijing Axis  
Beijing Office

**Requirements**

- Sourcing (or manufacturing) project management skills essential
- Project manage sourcing schedules (i.e. ensure that specialised capital equipment is manufactured to required standards and delivered on time); technical QA/QC knowledge; expediting experience and strong supplier management skills
- Provide support and technical advice/expertise to China Sourcing Unit department colleagues
- A degree in engineering, preferably mechanical/mining-related with a minimum of ten years work experience in an appropriate field
- Excellent English and Mandarin written and spoken abilities
- Willingness to travel

# THE BEIJING AXIS News - Q1 2010

## Community

THE BEIJING AXIS (TBA) sponsored the **Annual Fundraising Dinner of the South African Development Community Diplomatic Women's Association**, hosted at the Westin Beijing Chaoyang Hotel on 24 April 2010. This year's event raised funds for China-based charities focused on the well-being of disabled children.

TBA sponsored the **Chartered Institute of Purchasing and Supply (CIPS) Pan-African Conference and Awards Dinner**, which took place at the Emperor's Palace Convention Centre in Johannesburg, South Africa, on 20-21 April 2010. The occasion also marked the launch of CIPS Southern Africa, and Kobus van der Wath, Founder and Group Managing Director of TBA and Chief Executive of Bateman Beijing Axis (BBA), delivered a presentation at the event entitled 'Low Cost Country Procurement: Examining the Strategic and Operational Imperatives of Incorporating China and Asia into the Supply Chain.'

On 20 March TBA co-hosted the inaugural **Leading Women of Africa-China Dinner** with the Young African Professionals and Students (YAPS) Association at The Capital Club in Beijing. Cheryl Tang, BBA General Manager: China and Barbie Co, Consultant: Group Corporate Office, attended.

## Learning and Getting Around

### Greater China and Asia

On 16 April Cheryl Tang attended **Supply Link 2010** in Manila, Philippines.

On 29-31 March Matt Pieterse, CEO: TBA China Capital Advisors, presented at **Mines and Money** in Hong Kong.

On 29-31 March Haiwei Huang, Manager: China Business Development & International Marketing Coordination and William Dey-Chao, Lead Consultant, attended **China Iron Ore 2010** in Beijing.

On 27 March Cheryl Tang attended the **6th Annual Asia Mining Congress** in Singapore.



Delegates at the inaugural Leading Women of Africa-China Dinner at The Capital Club in Beijing, co-hosted by the Young African Professionals and Students (YAPS) Association and THE BEIJING AXIS.

On 16-18 March Lilian Luca, BBA Chief Operating Officer, attended the **Minex Central Asia Forum** which was held in Astana, Kazakhstan.

On 25-26 March Matt Pieterse attended the **Annual Asian Ferroalloys Conference** which was held in Hong Kong. Matt also delivered a presentation at the event.

On 21-22 January Javier Cuñat, Manager: Sourcing Strategy and Research/KM & International Strategic Development, served as chairperson at the **Asia Gold Mining** conference which was held in Beijing.

During May and June THE BEIJING AXIS and Bateman Beijing Axis will be represented at these forthcoming events in Greater China and Asia:

- 6th Annual China Nuclear Energy Congress 2010, Beijing (19-22 May)
- International Aluminium Raw Materials Conference, Beijing (24-29 May)
- 9th Annual Structured Trade and Export Finance Asia Pacific Conference, Shanghai (27-28 May)
- International Mines Equipment Expo 2010, Shanghai (7-10 June)
- 2010 China Aluminum Fabrication Forum, Shanghai (7-10 June)
- Central Asia Mining Congress, Almaty, Kazakhstan (7-11 June)
- Mines and Money Beijing 2010, Beijing (8-10 June)
- Aluminium China 2010, Shanghai (9-12 June)

### Africa

On 25 March Nitesh Dullabh, BBA General Manager: Africa, delivered a presentation on China sourcing at the **South Africa Capital Equipment Export Council** in Johannesburg.

On 4 February Kobus van der Wath delivered a presentation at the **University of Cape Town's Distinguished Speakers** event entitled 'China's Relentless Rise: Implications for Board Room Discussions in Africa in the Year of the Tiger'.

On 4 February Kobus van der Wath attended a **Macquarie Breakfast** held in Cape Town, South Africa.

On 3 February Lilian Luca, Nitesh Dullabh and Jackie Li, BBA Business Development Manager: South Africa, attended the **Ernst & Young Cruise and Dinner** in Cape Town.

On 3 February TBA and Cadiz Corporate Solutions, the corporate finance division of Cadiz FSG (a leading South African financial services group) jointly held an event in Cape Town to launch a new joint venture called Cadiz Beijing Axis.

On 1 February Kobus van der Wath served on a panel at the **SA Canada Chamber** event entitled 'Beyond Mining: Is Africa choosing its investors wisely?' The event was held in Cape

Town, and Matt Pieterse and Nitesh Dullabh also attended.

On 1–4 February Kobus van der Wath, Matt Pieterse, Lilian Luca, Nitesh Dullabh, Michele Cosani, Manager: South Africa Office, and Jackie Li attended **Mining Indaba 2010**, held in Cape Town. Kobus also delivered a keynote presentation at the event entitled 'China and Africa: A Natural Resource Alliance?'

On 29 January Kobus van der Wath and Lilian Luca attended **Macquarie China Day 2010** which was held in Cape Town.

During May and June THE BEIJING AXIS and Bateman Beijing Axis will be represented at these forthcoming events in Africa:

- Energy Leadership Summit, Pilansberg, South Africa (4-5 May)
- SA-Zambia Business Breakfast, Johannesburg (28 May)
- 3rd North African Steel Conference, Cairo (8-11 June)

### Australasia

On 29–30 March Kobus van der Wath attended the **Rare Earths and Future Metals** conference in Perth.

On 25 March Kobus van der Wath and Doug Horak, Business Development Manager: Australia, attended the **Western Australia Mining Club luncheon** in Perth.

On 23–25 March Kobus van der Wath and Doug Horak attended the **Australasian Oil and Gas Conference** in Perth. Kobus also delivered a presentation at the event, which was entitled 'China's Role in the Global Iron and Steel Sector: A Short, Medium and Long Term Perspective'.

On 23 March Doug Horak attended a **Citi-AJM Global Iron/Steel Dinner** in Perth.

On 22–23 March Kobus van der Wath attended the **Global Iron and Steel Conference** in Perth. Kobus also presented at the event.

On 22 March Kobus van der Wath and Doug Horak attended an **SBB Iron-Steel Cocktail** in Perth.

On 18 February BBA sponsored the **Western Australia Mining Club luncheon** held in Perth.

During May and June THE BEIJING AXIS and Bateman Beijing Axis will be represented at these forthcoming events in Australasia:

- Carbon Capture and Storage World Australia Conference, Melbourne (22-24 May)
- AMEC Convention 2010, Perth (1-3 June)

### Latin America, Europe and North America

On 19 April Javier Cuñat delivered a lecture in Lima, Peru, to a group of companies with a China agenda at the **Estudio Muniz** law firm.

On 16 April Kobus van der Wath and Javier Cuñat attended **EXPOMIN 2010** in Santiago, Chile.

On 8–10 March Matt Pieterse attended the **PDAC Conference** in Toronto.

During May and June THE BEIJING AXIS and Bateman Beijing Axis will be represented at these forthcoming events in Europe:

- World Mining Investment Congress 2010, London (17-20 May)
- 7th Annual Global Commodities Finance Forum, Geneva (9-11 June)

### Team Developments

In February 2010 **Nitesh Dullabh** joined Bateman Beijing Axis as General Manager: Africa. He will be based in Johannesburg. Nitesh has several years of China experience in negotiation, marketing, research and in managing trade and investment relationships in the public and private sectors. Prior to joining Bateman Beijing Axis, Nitesh managed the Specialty Risk practice of March Risk Consultancy. Previously Nitesh also served as South Africa's Trade and Investment Attaché in Beijing and Shanghai. He holds an MBA from Henley Management College in the UK and an MA in International Relations from Rhodes University, South Africa.

In February 2010 **Sandy Zhang** joined Bateman Beijing Axis as Financial Manager. She will be based in Beijing.

In April 2010 **Lynn Liu** and **Jane Huang** joined the Bateman Beijing Axis Beijing office as admin assistant and personal assistant.

In March 2010 **Frank Wu** joined THE BEIJING AXIS as Director. Frank will be based in Shanghai. He is a founding partner of a Shanghai-based boutique investment bank, and holds an MBA from the University of Central England in the UK.

**Doug Horak** joined THE BEIJING AXIS in March 2010 as Business Development Manager, and will be based in Perth.

THE BEIJING AXIS Beijing office welcomed **Fred Xiao** and **Jeff Dong** in March 2010 as Senior Analyst and Analyst.

In March 2010 **Lena Hinterlang** joined Bateman Beijing Axis as Analyst: Administration. She will be based in Johannesburg.

During April, THE BEIJING AXIS welcomed **Leonard Schramm** and **Kelly Durban** as interns at the Beijing office.

**Tarryn de Beer**, Analyst at the Johannesburg office, left Bateman Beijing Axis at the end of March 2010. **Hattie Peng**, long-serving analyst in the Beijing office, left Bateman Beijing Axis in early May 2010. THE BEIJING AXIS and Bateman Beijing Axis wishes them both all of the best for the future and the next stage of their careers.

## About THE BEIJING AXIS

THE BEIJING AXIS (TBA) is a cross-border business bridge to/from China in three principal areas: Strategy, Sourcing and Investment. Our three synergistic cross-border China businesses: TBA China Strategy Group, TBA China Sourcing Unit and TBA China Capital Advisors provide hands-on solutions for international firms as they act in unfamiliar territory in China, or for Chinese firms as they venture out and 'go global'.

- In Strategy, we help clients enter new markets, expand existing markets, develop and implement new strategies, and better understand their customer base and competitive environment through analysis and intervention
- In Sourcing, we help clients build and manage supply chains in China and abroad - for projects, equipment, components, finished products, raw materials and commodities
- In Investment, we help clients raise capital from strategic investors and advise clients on cross-border acquisition, disposal and joint venture transactions

Since 2002 we have successfully worked with many large international and Chinese MNC clients across various sectors and industries, with a core focus on the Chinese mining and resources sector and on China's burgeoning industrial and engineering sector. We are committed to safety and sustainability, and our solutions emphasise 'actions and transactions'. Our principal office is in Beijing with additional offices in Hong Kong as well as in Singapore, Perth, London, Moscow and Johannesburg.

### Three Synergistic Cross-border China Businesses

#### TBA CHINA STRATEGY GROUP



Strategy Formulation  
Strategy Implementation

THE BEIJING AXIS China Strategy Group (CSG) assists CEOs, boards and senior management with their cross-border China strategy formulation and implementation. For international MNCs, CSG is a trusted strategy advisor and implementation partner. For Chinese MNCs, CSG performs strategic business planning and implementation as they develop global businesses. CSG helps clients enter new markets by formulating and implementing innovative and pragmatic business strategies in a manner that adds value and mitigates risks. CSG's strategy formulation and implementation services are often multi-faceted and our clients benefit from combinations of innovative solutions.

#### TBA CHINA SOURCING UNIT



Strategic Sourcing  
Supply Chain Management & Support

THE BEIJING AXIS China Sourcing Unit (CSU) supports international firms as they exploit China's status as a global supply base, while supporting Chinese firms looking at global sourcing. CSU provides comprehensive procurement services across the supply chain with a focus on cost savings, quality control and on-time delivery. We emphasise total cost of ownership and holistic risk management. In 2009, TBA CSU and Bateman Engineering N.V. established a JV, Bateman Beijing Axis (BBA). BBA is a China-focused global procurement house active in projects, equipment and commodities.



#### TBA CHINA CAPITAL ADVISORS



Corporate Finance Origination  
Financial Advisory

THE BEIJING AXIS China Capital Advisors (CCA) provides specialised financial advisory services to Chinese firms that are undertaking outbound cross-border investment or that are vying for international investment. Similarly, CCA advises international firms that are undertaking investments in China or that are looking to attract strategic capital from China. In 2009, CCA entered into a joint venture, Cadiz Beijing Axis (CBA), with Cadiz Corporate Solutions. Cadiz Beijing Axis is a highly competitive corporate advisor for companies in search of capital investment from China, as well as for Chinese companies in search of investment opportunities in Africa.

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For further information, please visit our English or Chinese websites at [www.thebeijingaxis.com](http://www.thebeijingaxis.com).

Previous Editions of The China Analyst

January 2010



**Regulars**  
 Macroeconomic Monitor  
 China Facts & Figures  
 China Sourcing Strategy  
 China Sourcing Blog Highlights  
 China Trade Roundup  
 China Capital and Investment  
 Regional Focus: China-Africa, China-Australia, China-Latin America and China-Russia  
 China Strategy: Mapping China

**Features**

*Fighting for Trade: China and the Threat of Protectionism*  
 China's leaders are worried about protectionism, yet what is the real extent of the threat to China?

*Rare Earths: China's Contribution to Modern Technology*  
 A closer look at the history of the rare earths industry in China, the controversies surrounding it, and some upcoming trends to watch.

September 2009



**Regulars**  
 Macroeconomic Monitor  
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 China Trade Roundup  
 China Capital and Investment  
 Regional Focus: China-Africa, China-Australia, China-Latin America and China-Russia  
 China Business News Highlights

**Features**

*Why, Who and Why Now? Chinese OFDI on the World Stage*  
 Chinese OFDI has become fundamental to China's global integration, yet who is at the forefront of this drive and where is it heading?

*Mining in a Downturn: What's in it for China?*  
 The crisis hit the mining industry hard, yet Chinese companies have remained active with mining acquisitions and strategic stockpiling.

May 2009



**Regulars**  
 Macroeconomic Monitor  
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 China Sourcing Blog Highlights  
 China Trade Roundup  
 China OFDI and M&A  
 Regional Focus: China-Africa, China-Australia, China-Latin America and China-Russia  
 China Business News Highlights

**Features**

*Re-engineering Growth: China's Crisis Exit Strategy*  
 The slowdown has severely impacted China, yet can it be the first nation to recover by reconfiguring its economy?

*China's Stimulus Package: How Green?*  
 Environmental damage is one of China's greatest concerns, yet will it continue its efforts with the environmental regulation?

February 2009



**Regulars**  
 Macroeconomic Monitor  
 China Facts, Figures & Forecasts  
 China Sourcing Strategy  
 China Sourcing Blog Highlights  
 China Trade Roundup  
 China OFDI and M&A  
 Regional Focus: China-Africa, China-Australia, China-Latin America and China-Russia  
 China Business News Highlights

**Features**

*Financial Crisis: China Impact and Response*  
 The slowdown has impacted China's exports, yet with a massive stimulus package, there's much room for hope.

*Financial Crisis: Beginning of the BRIC Era*  
 While not unaffected by the crisis, BRIC countries will emerge from it with a greater role in the global economy.

Other Recent Publications by THE BEIJING AXIS

*The China Compass  
 A Country in Figures*



A TBA publication  
 March 2010

*An Examination of  
 China's Strategy for Out-  
 bound Investment in  
 Mining*

A TBA presentation  
 March 2010



*Low Cost Country Pro-  
 curement: Examining  
 the Imperatives of Inco-  
 porating China and Asia*

A BBA presentation  
 April 2010



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