

The Sino-Africa Relationship and Its Future Evolution

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Opportunity, Risk and Risk Management
 in Africa
 (PICC and Hollard Insurance)
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China-focused
 International Advisory and Procurement

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The Beijing Axis - China-focused International Advisory and Procurement



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

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Africa Axis - Africa-focused International Advisory and Procurement



- Founded in 2010, has successfully worked with many international and African MNCs
- Operates in four synergistic cross-border African businesses
- Provides services across various sectors, with a core focus on the MINING, RESOURCES, INDUSTRIAL ENGINEERING and OTHER SERVICES sectors
- Provides solutions to international/African firms as they go global
- Provides solutions to Asian/International firms as they venture into Africa

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Key global factors

The backdrop

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

The issues now

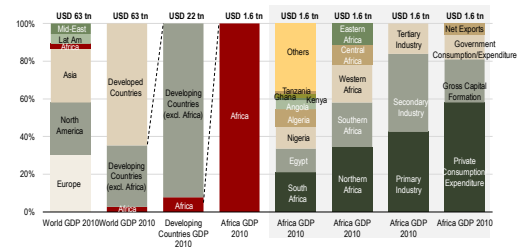
- Europe broken ... fragile developed markets – and knock-on effects?
- China's landing – soft or hard? Implications for growth and resource demand?
- Tapping into the China story vs. over-reliance on China and need to diversify economic ties
- Strategic intelligence – to make decisions in boardrooms around the world in order to reposition

Source: The Beijing Axis Analysis

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Africa's economic fundamentals and current global position reflect its potential for long term economic growth and development

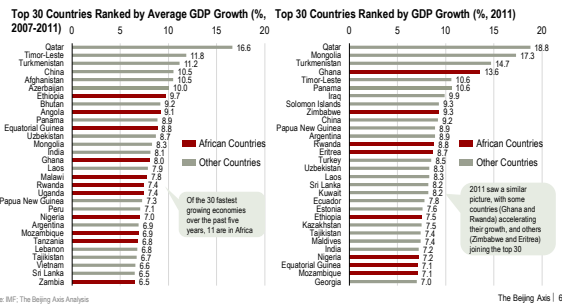
Breakdown of Africa's Share in the Global Economy (USD tn, 2010)



Source: IMF, UNCTAD, The Beijing Axis Analysis

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Africa is home to some of the fastest growing economies in the world

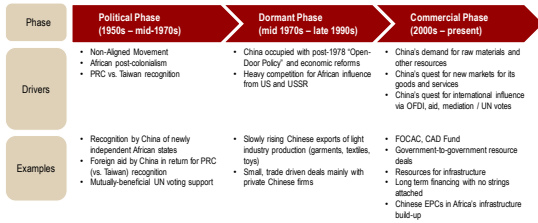


Agenda

1. Political and Economic Aspects of the Sino-Africa Relationship
2. China's Outbound Investments into Africa's Resource Sector
3. The Future Trajectory of Sino-Africa Relations
4. Final Word

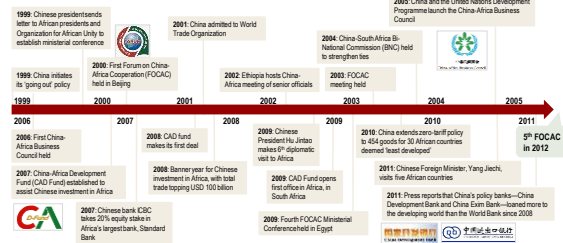
China-Africa relations have steadily progressed through three distinct phases. The current phase is mainly driven by China's increasing need for resources and Africa's need to modernise

Phases of Sino-Africa Relations

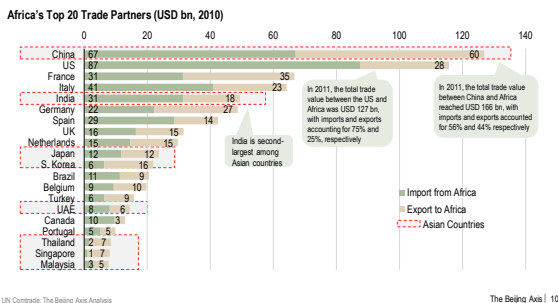


China-Africa relations have accelerated in the last decade, with Chinese high-level diplomatic visits to Africa often preceding heightened trade, investment, loans and aid

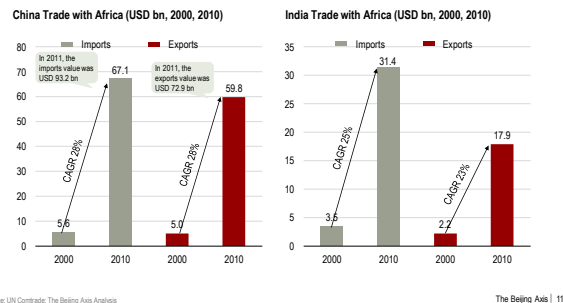
Key Phases of China-Africa Relations



A number of Africa's most important trade partners are from Asia, with China being the largest one

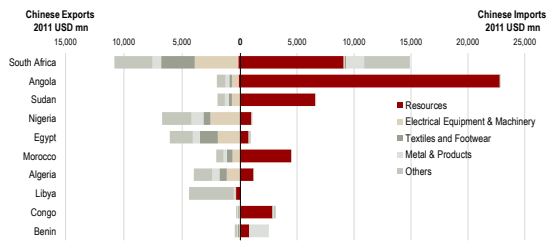


While both Chinese and Indian trade with African countries has risen dramatically in the last decade, China significantly outperforms India in terms of Africa trade volumes



China's trade relationship with Africa is characterised by importing raw materials from Africa in return for Chinese manufactured goods

China's Trade with Its Top 10 African Trading Partners (USD mn, 2011)

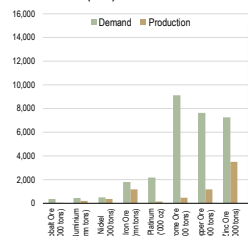


Note: The top ten countries comprise more than 70% of China's total trade with Africa
Source: UN Comtrade; The Beijing Axis Analysis

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China's demand outstrips domestic supply across a number of commodities. As a result, imports are needed to compensate for the deficit

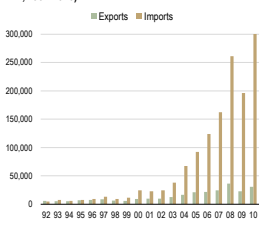
China's Implied Demand and Domestic Production of Commodities (2010)



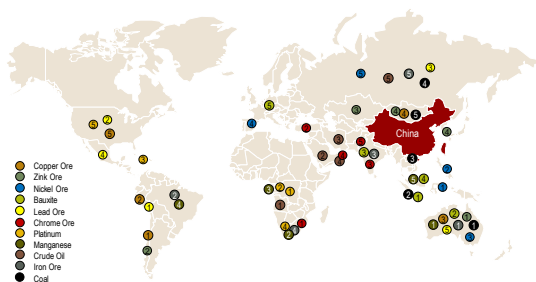
Source: USGS; BP; WGC; USDA; Vortex; The Beijing Axis Analysis

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China's Mineral Product Imports and Exports (USD mn, 1992-2010)



Raw material producers around the world are benefiting from this trend - Africa is a key supplier of these raw materials to China

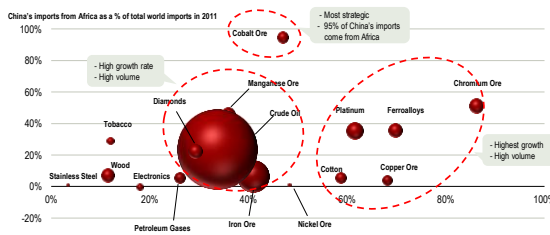


Note: The number inside the dot represents the importer's world rank
Source: UN Comtrade-database; The Beijing Axis Analysis

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Africa is a key supplier of cobalt, manganese, chromium, platinum and crude oil to China

China's Imports of Selected Commodities from Africa (USD bn, 2001-2011)

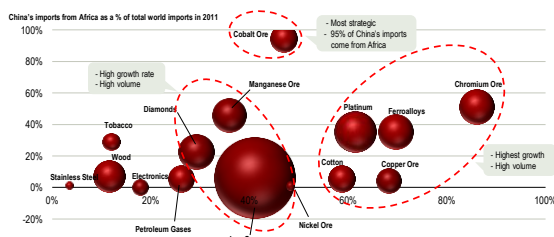


Note: Bubble size is based on the commodity's share of China total commodity imports from Africa in 2011
Source: UN Statistical Database; The Beijing Axis Analysis

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A more in-depth view of China's import structure from Africa is attainable after excluding oil

China's Imports of Selected Commodities from Africa, excl. Crude Oil (USD bn, 2001-2011)



Note: Bubble size is based on the commodity's share of China total commodity imports from Africa in 2011
Source: UN Statistical Database; The Beijing Axis Analysis

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The upshot

- China's engagement with Africa is partially responsible for Africa's dynamic growth over the past decade
- Sino-Africa relations have strengthened in the last decade, with high-level Chinese diplomatic visits to Africa often preceding heightened trade, investment, loans and aid
- While China's role in Africa trade outperforms those of other Asian nations, it still mostly focuses on the resource sector
- Continuous and robust domestic consumption will drive growth moving forward - China will retain its influence in resource demand even as its growth rate slows

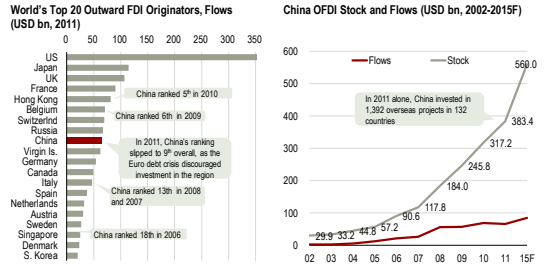
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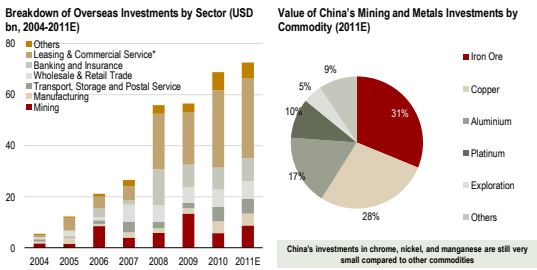
China was the world's ninth-largest investor in 2011, ahead of other Asian countries, except for Japan. China's OFDI stock is expected to reach USD 560 billion by 2015



*Note: China OFDI flows for 2011 do not include financial investments from September-December 2011
Source: WIR 2011; The Beijing Axis Analysis

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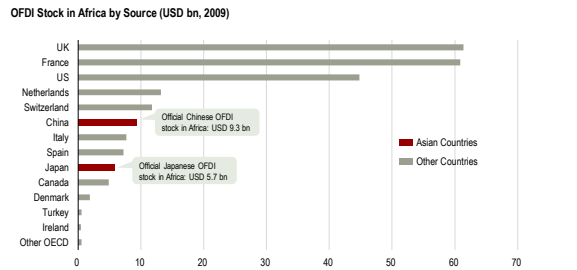
Resources occupy a key position in China's OFDI story – Taking into account the SPVs, the mining industry ranks high in overall investments



*Note: Commercial services include investments in holding companies, regional headquarters or SPVs that are often established in offshore centres to invest in other countries and sectors.
Source: MFCOM; The Beijing Axis Analysis

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China already has a major role in Africa. It has invested much more in Africa compared to Japan, although China still trails behind some of the traditional colonial powers



Source: UNCTAD; The Beijing Axis Analysis

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Apart from equity investments, China funds a significant number of key projects in Africa via grants, loans and export credit lines

Major Chinese Loans, Grants, and Development Aid in Africa (2002-2010)

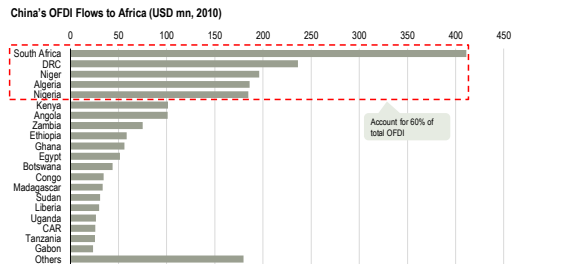
Country	Project Type	Value (USD mn)	Financing Aid Type
Angola	Comprehensive infrastructure in energy and railways	7,450	Inter-governmental loans and repayments of
	Healthcare and related infrastructure	3,500	Government-sponsored investment
	Safe drinking water	200	Concessional loan, EXIM
DRC	Telecommunications	9.98	Concessional loan, EXIM
	Extensive infrastructure from mining, roads, railways, housing, medical centres and universities	6,000	Concessional loan, repayments in future copper and cobalt production
	Healthcare and related infrastructure and hospitals	3,000	Government-sponsored investment
	River water	33.8	Preferential loan, EXIM
Mozambique	Dam & plant infrastructure	2,300	Concessional loans
Uganda	Government offices	20	Grants, donations
Tanzania	ICT infrastructure	160	Concessional loan, EXIM
Ethiopia	Infrastructure, hydropower, agricultural facilities	2,000	Loans, grants
Equatorial Guinea	Not specified	2,000	Concessional loans, credit lines

During 2002-2007, China's economic assistance to Africa amounted to USD 3.3bn. Of this, USD 17.8bn went to infrastructure projects and USD 9.4bn to the natural resource sector

Source: Overseas Development Institute; Congressional Research Service; The Beijing Axis Analysis

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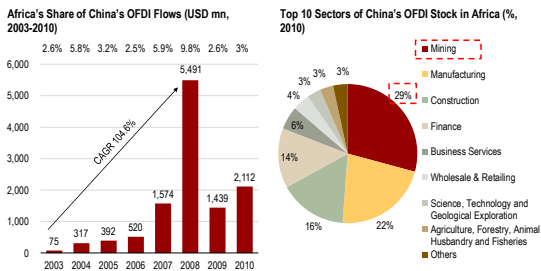
China's outward FDI into Africa is concentrated in a few countries. In 2010, South Africa, DRC, Niger, Algeria, and Nigeria collectively accounted for nearly 60% of Chinese OFDI in the continent



Source: MFCOM; The Beijing Axis Analysis

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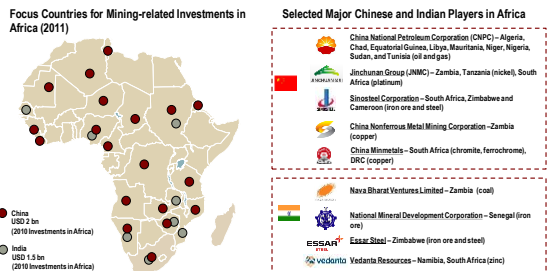
China's total OFDI flow to Africa has risen dramatically since 2003, with investments well diversified across a number of sectors



Source: Chinese Statistical Bulletin of OFDI, Xinhua, The Beijing Axis Analysis

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China is Asia's leading investor in Africa's mining sector. Recently, India has been increasing its presence in the region



Note: Includes oil and gas.
 Note: The dots do not represent a particular investment, only focus countries for mining-related investments.
 Source: Various, The Beijing Axis Analysis

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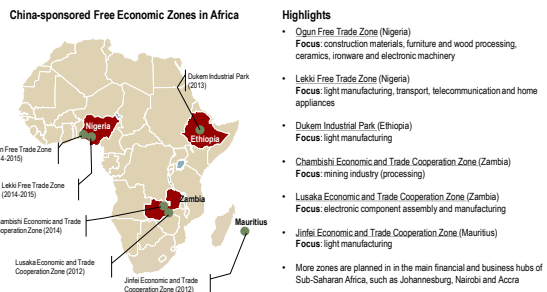
As China often secures access to mineral resources and oil in exchange for infrastructure development, Chinese EPC companies have become dominant in Africa



Note: CTRC construction not featured because its scope is limited to only two countries in Africa, Algeria and Angola, and seemingly through only two projects.
 Source: ENR, The Beijing Axis Analysis

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Apart from resources, China is setting up free economic zones across Africa in order to supply various products to both local and international markets



Source: Various, The Beijing Axis Analysis

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The upshot

- China's outbound capital will continue to hit the headlines - Africa has not yet seen the full impact of this
- Overseas investment is moving beyond trade facilitation and natural resources, driven by an increasing need to reach high-growth markets and to pursue advanced technologies. Link and align these trends to the existing strategy
- Chinese investors proceeding more cautiously and are becoming more selective about asset quality. Valuation, cost escalation, operations in unfamiliar jurisdictions, and operational risks are the major concerns
- During the past decade, Chinese contractors have captured an increasing share of Africa's contracted revenue, from as low as 7% in 2001 to as high as 38.7% in 2010, playing the dominant role on the continent
- China's investments into Africa do not only carry a resource agenda. China is setting up free economic zones in Africa that span across various industries, including light manufacturing, construction materials, transport and electrical machinery

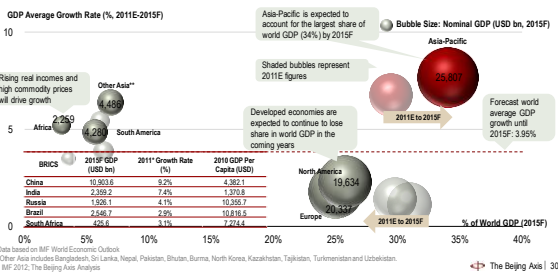
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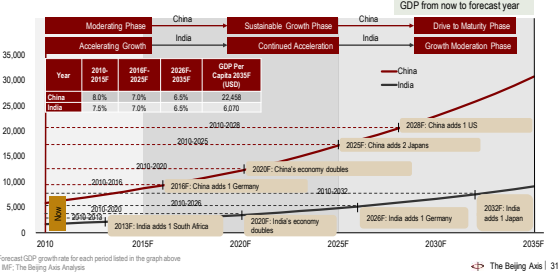
Emerging economies are outperforming the developed world in terms of economic growth. Asia is leading this transformation in the global balance

Regional GDP Comparison (USD bn, 2015F)*



China and India will add significant nominal GDP over the next 10 years and beyond, yet the type of growth will differ

China's and India's Forecast Nominal GDP (USD bn, 2010-2035F)*



Future developments in Sino-Africa economic relations

- China's share of trade with Africa has exploded in the last decade, making it Africa's largest trade partner
- While China's trade and investment growth in Africa will be driven by its own need for resources, the need to develop consuming markets that will buy Chinese goods and services is equally important
- This will help open Africa's huge potential for private consumption, as the need for manufactured goods will remain strong while Africa continues to develop its own manufacturing capabilities
- China is playing an increasing important role in job creation and supply to the local market, evidenced by the establish of free economic zones in the main financial and business hubs of Sub-Saharan Africa
- Another area of opportunity is Africa's infrastructure sector, as decades of underinvestment and mismanagement have resulted in underperforming sectors in railways, roads and power. A substantial amount of work has been done in the last decade with the help of Chinese investment, but much more needs to be achieved

Current and future trends in China's development affirm the deepening of ties with Africa

Current and Future Trends	Description	Implications for Africa
1. Slower economic growth does not mean no growth	China will reengineer itself towards a more moderate growth phase with a different set of drivers. Commodity demand remains solid	Moderate GDP growth and sustainable demand for commodities
2. It's all about strategic policy choices - Beijing 'gets' this	Rates of growth in resource demand during the super-cycle 2004-2008 were unsustainable. Chinese policy makers allow a moderation in GDP growth looking for sustainability	China will remain the global engine for resource demand
3. Moderating commodity demand (moving towards sustainability)	Commodity demand in China will be moderate but China remains the single biggest global engine of resource demand and will be that for a long time to come	Understand the variability, volatility and exceptions
4. Exceptions will occur	There will be some (individual commodity) exceptions to high growth commodity demand. It is necessary not to generalise about 'China potential' but to understand the detailed supply/demand of each individual commodity	Increasing China's outbound investment in the region
5. Balance of risks shifting	The one-way supply/price risk for buyers in a seller's market has now begun to shift towards two-way risk where buyers and sellers will share risk	
6. Increased volatility	Volatility could increase as the market grapples with the reality that China not be a one-way bet. Markets will adapt to the reality of more moderate but more sustainable demand	
7. Chinese outbound investment will continue	China's outbound capital will continue to hit the headlines. Overseas investment is moving beyond trade facilitation and natural resources	

China's significant financing potential and EPC capabilities provide a 'win-win' situation for Africa's growing need for infrastructure development

What does China have to Offer?	How does Africa Benefit?
1. High Economic Growth - Growing Domestic Demand	Raw Material Export Market for Africa
2. Significant Capital and Financing Appetite	Need for Foreign Capital Influx
3. Strong EPC Capabilities Across All Disciplines	Need for Infrastructure Development
4. Renowned Africa/International Project Experience	Limited Domestic EPC Capabilities
5. Hedge Against Global (Western) Risk	Protection from Fragile Developed Market

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Final word

- There are new markets that matter – a new competitive landscape is unfolding. China, India, Asia and Latin America to be central in this reconfiguration
- China-Africa partnership complex, very important for both sides; but China-Africa story is also relevant to the entire world as these 2 fastest growing areas of the global economy interact
- For China it is clear that Africa is a strategic imperative:
 - Resource supply lines
 - Markets for products and services, jobs
 - Political influence and geostrategic objectives
- Africa increasingly sees China/Asia for its full potential:
 - Sell resources into large, high-growth markets
 - Seek capital and development partners
 - Find new areas for growth and project development
 - Access new technology and talent
- Appreciate the 'outward-looking' stance of Asian players – new global leaders are emerging in Asia and they will act in global markets including Africa
- This new world brings about key trends, new realities and strategic issues – all actors are now (re)interpreting this future to understand the drivers of 1) broad trends and 2) exceptions – get close, be informed and strategic

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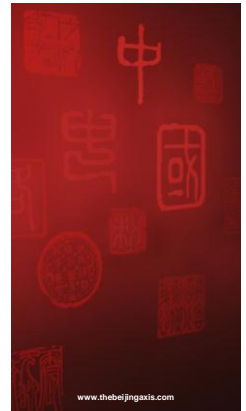


THANK YOU!

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