



**What is China's approach to
resource investing in Africa and
what does it mean to everyone else**

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Principal

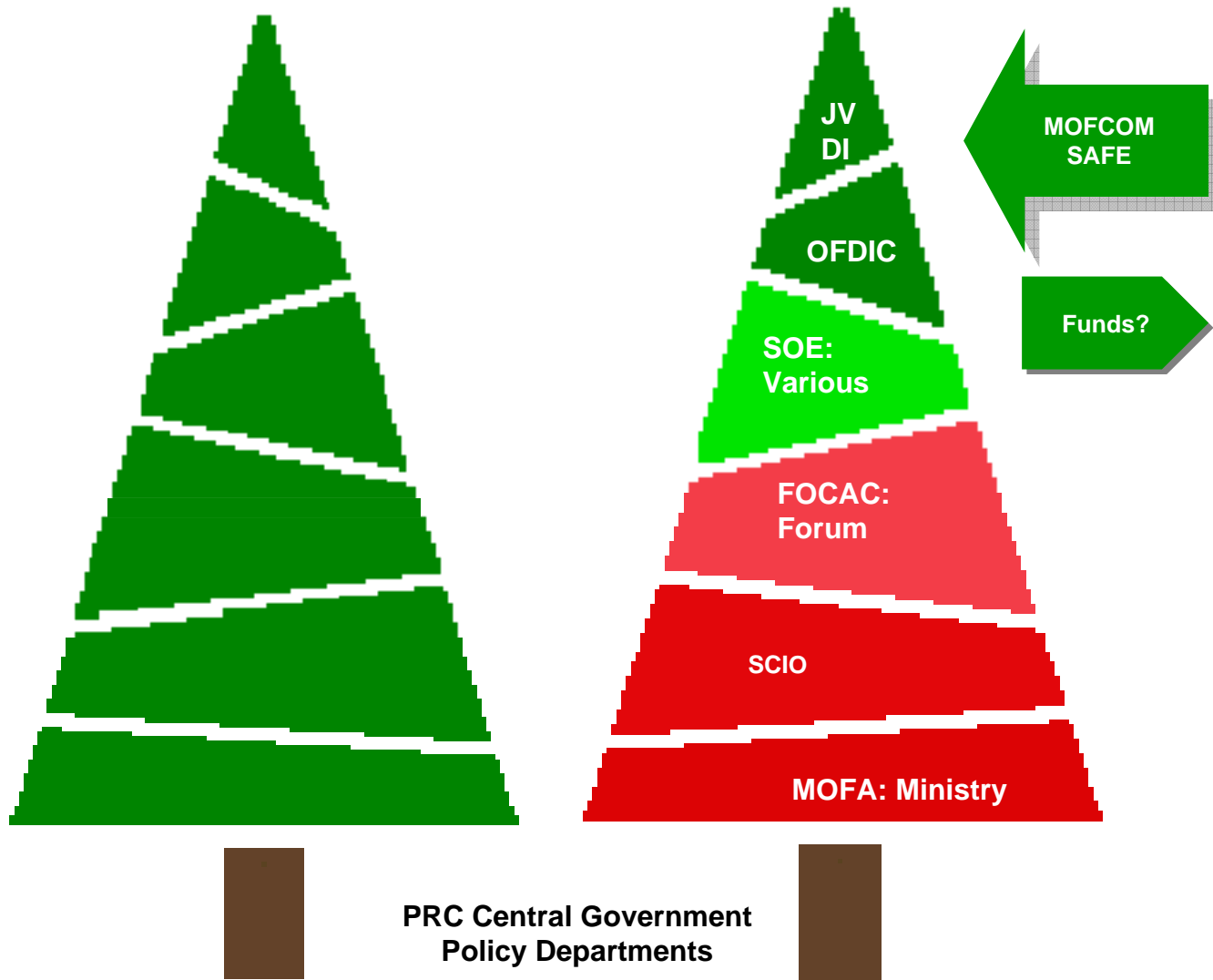
SAMI Funds



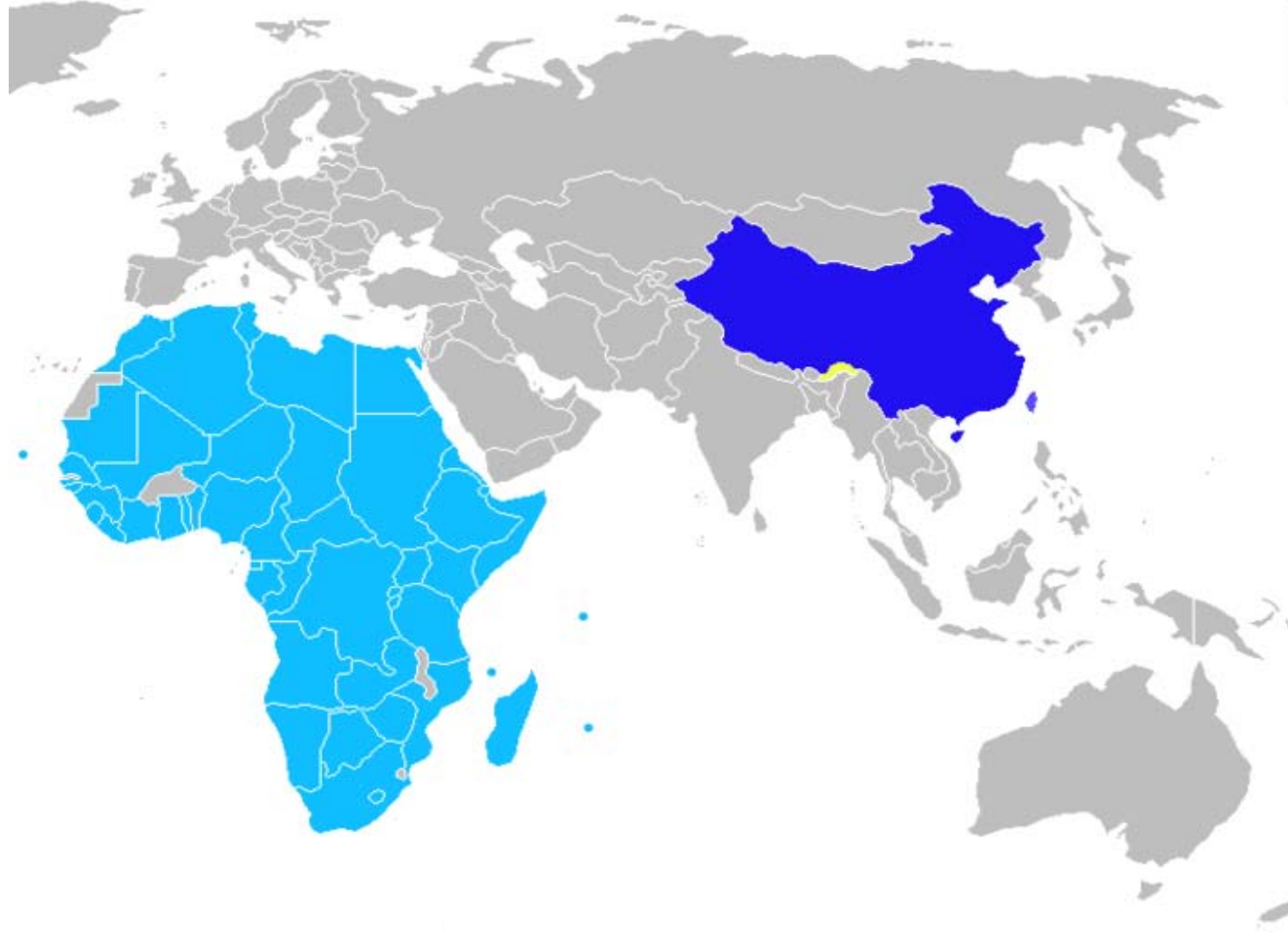


China's Investment Approach to Africa

The China Investment decision tree.

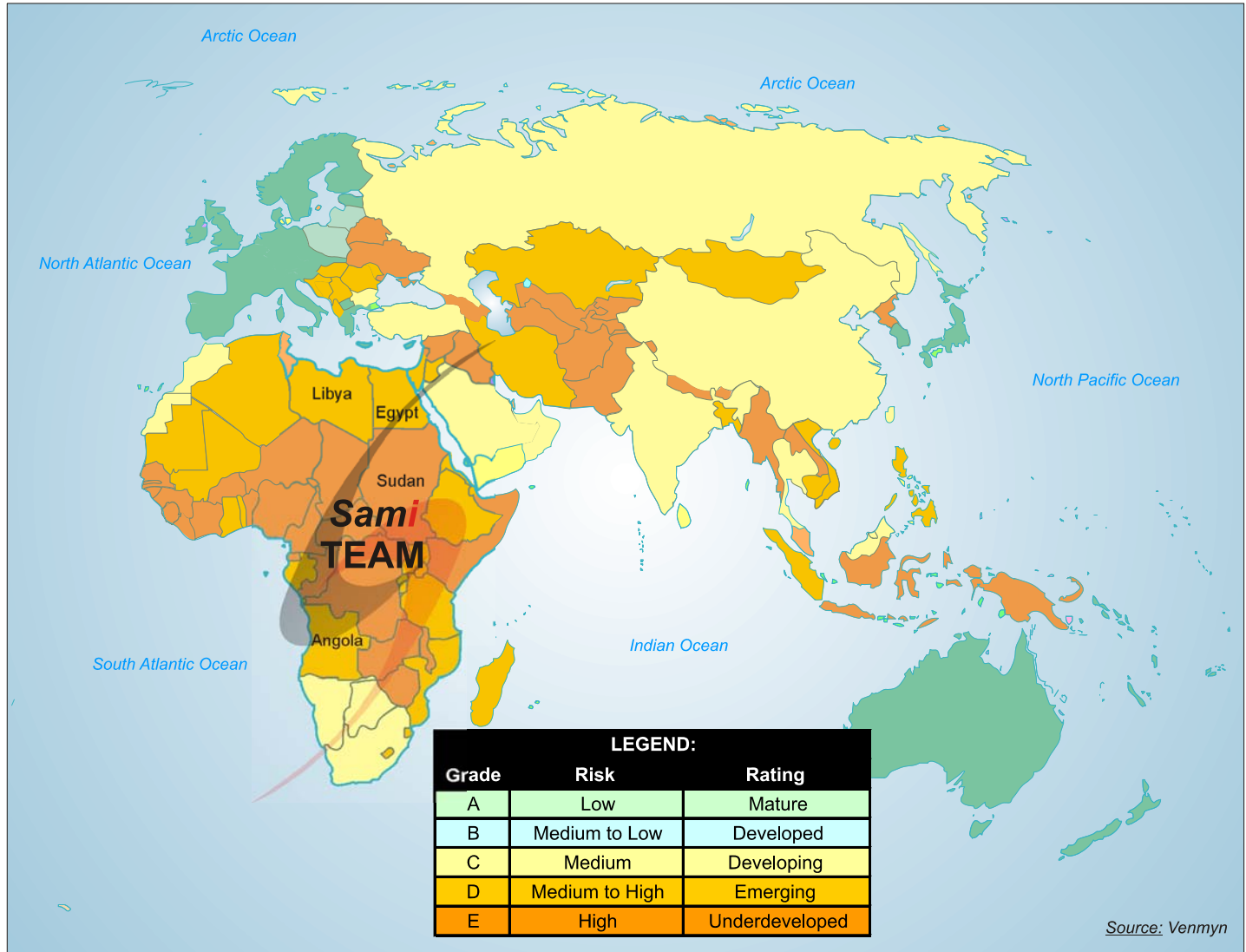


FOCAC Membership 2009?



Source: Zh.wikipedia

How does China see African Risk



Mature markets seemed to have less risk, clear entry barriers, but fewer opportunities.

Immature markets have high risk, fewer entry barriers, but more opportunities.

The problems with China's G2G strategy?

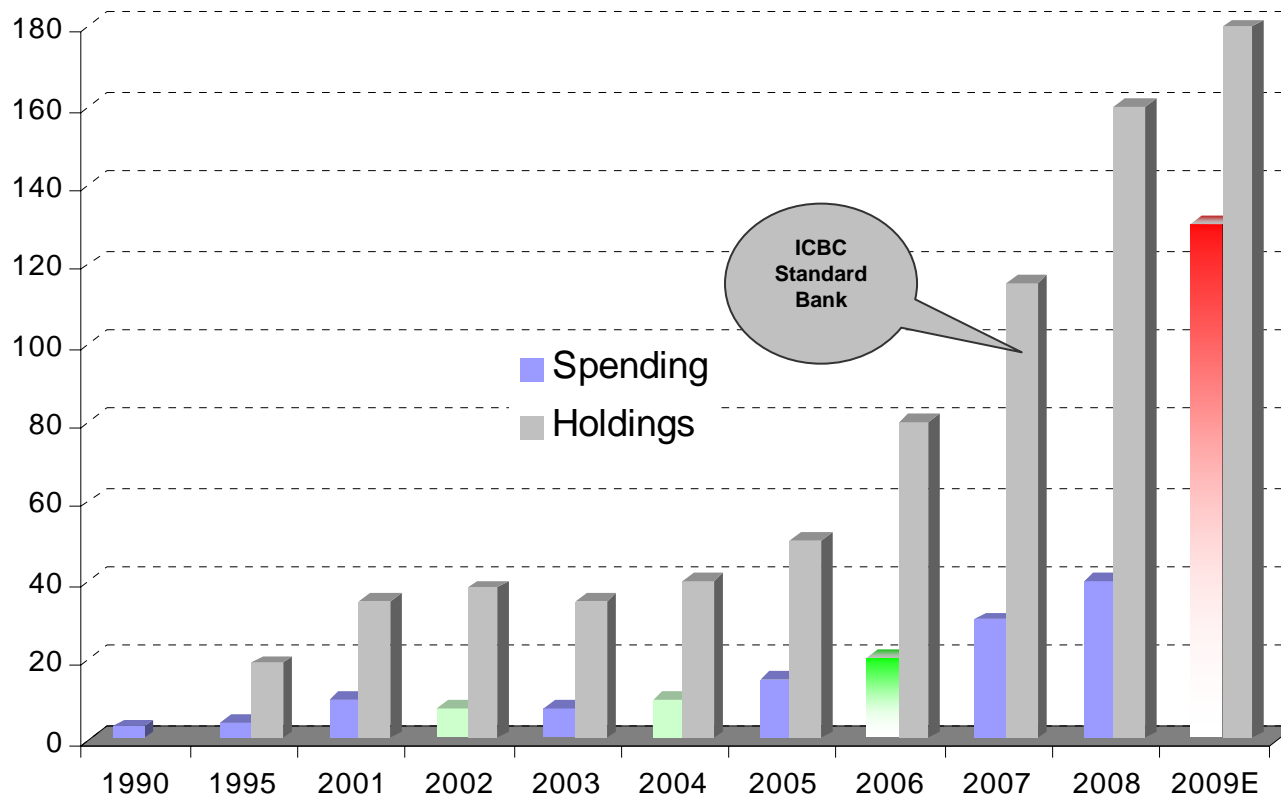


- Government's change while China's relationship focus is personal
- Unpopular governments are not seen differently from others (political insensitivity)
- Strategy is not consistent with the maturation of Africa's political and economic growth.

China is changing its investment strategies.



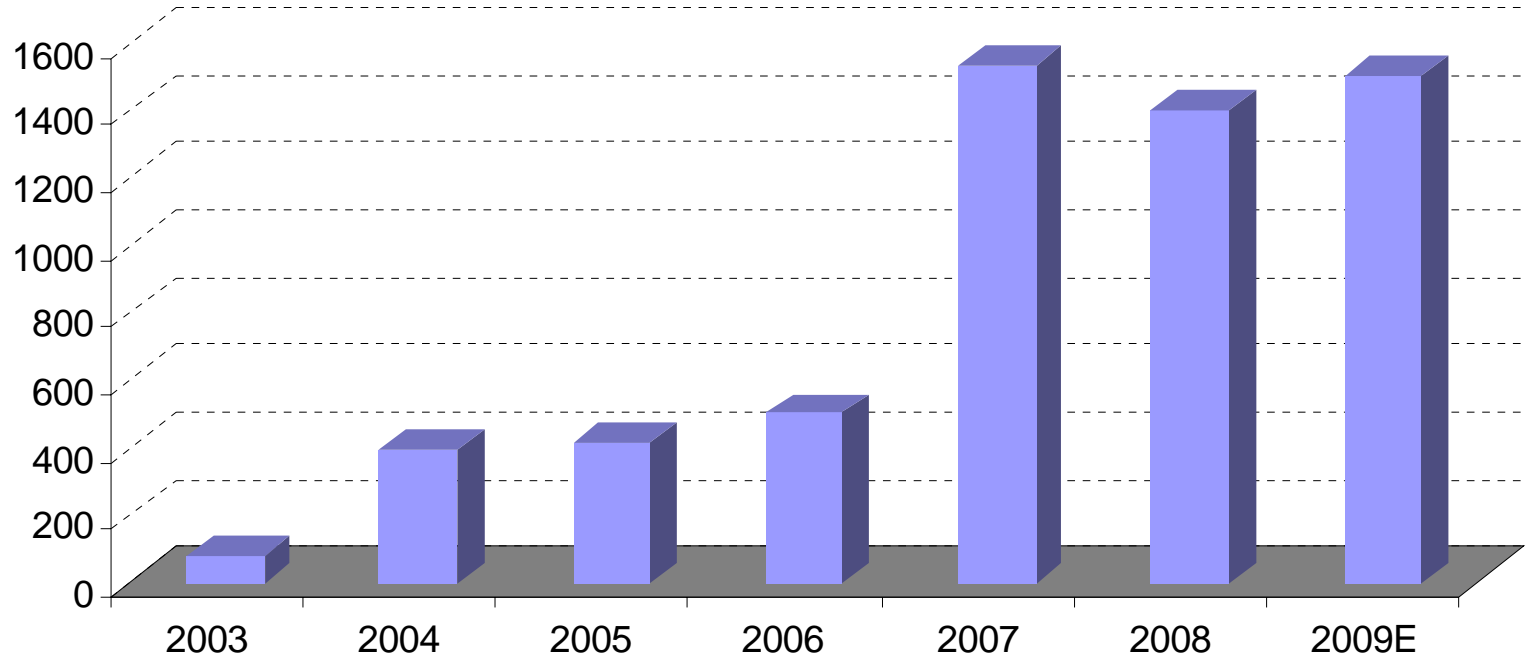
China's OFDI
\$billion



Sources: 90-92 UNCTAD; 03 - 08 MOFCOM; 09E - SCB

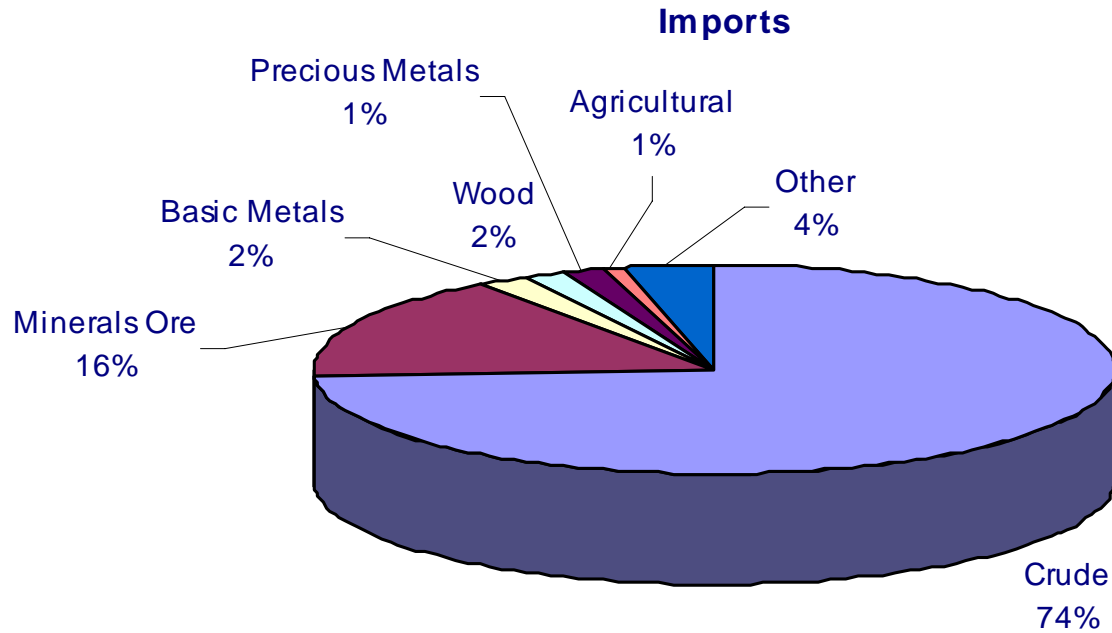
Is Africa seeing the benefit of China's FDI?

**Africa FDI
\$millions**



Source: UNCTAD

What is China taking from Africa? Does the relationship work?



China is wholly opportunistic.

Crude is the most important Product. In 08' Angola exported 29 MB to China as China's biggest Supplier.

2008 exports totaled US\$56B.

Source: World Trade Atlas

The Challenge for China ?



- ❑ China SOEs / FDI have not demonstrated the skills to manage complex non-domestic investment transactions in heavily regulated international markets.
- ❑ The comfort of dealing from strength, to delegated power brokers (African political leaders?) is both proven and familiar, but a way of the past.
- ❑ China's engagement with weak and unstable governments will naturally backfire when these government inevitably fall.
- ❑ China business leaders have still not adjusted to doing business in places where the democratic government is the functional process.
- ❑ China SOEs / FDI have been reluctant to engage foreign professional advisers to help manage investment transactions on their behalf. (Rio-Tinto is but one example, there are others).
- ❑ China's emerging business leaders— educated in the West & in China are still 10 – 15 years away from the upper rungs of power.

The Challenge for China ?



- Can we compete with China on a G2G level?
- How can we compete on a B2B level with FDIs?
- How do we forge partnerships with Chinese companies?

Who do you call?



SOEs

Minmetals
Sinosteel
BaoSteel
Citic Metals
Citic Resources
China Non Ferrous

FDI:

Various

Banks?

Standard Bank (SA)
China Ex-Imp Bank
IDC (SA)
CCB

Funds?

CAF - \$5B
CIC - \$150B

SAMI - \$250M

What is Resource Investing? Locking in supplies at controlled prices, to satisfy demand for downstream products. Business school definition of "Vertical integration" and it comes in different forms. Asset acquisitions. The stage at which the asset is acquired does not matter as the strategy is friendly and hostile of listed entities. Financial deals to acquire resources. Offtake acquisition focusing on less mature investments. Development deals to acquire resources. It happens in all markets: investments are happening even in less mature markets. Why is RI different from financial investing? They are very good at understanding and developing non-physical structures and assets. They lack the infrastructure and knowledge needed for physical development or delivery. They lack the background to develop resources outside basic financial reporting and infrastructure. Few operate in resource development or in the emerging markets where deals are more likely to be available. Those that do, have had little success transferring financial models onto resource development opportunities. (In other words, we see billions available for exploration - pre-feasibility investment). Why is RI different from financial investing? Objectives and risk profile of a financial investor. Looking for financial returns based on a market tested investment strategies. Very successful in developing market focused system, liquidity products and not successful at packaging resource opportunities as financial products. Objectives and risk profile of a resource investor. Using financial clout (investments) for vertical integration by acquiring offtake. Focus on the resource for end use, rather than the financial returns derived from the asset. Do investors follow a financial investment model? Different needs, different goals, different results. Why does RI make sense? It may not make sense for a financial investor to develop RI strategies. PE fund managers have had little luck and much frustration investing in the resource sector. Key benefits to RI investors: They can manage supplies. They can easily hedge market risk with financial products. They can manage cost base and protect their bottom line. How and where is the RI process being implemented? Across all commodities sectors and



**Thank you very much.
See you at the bar.**

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