

**Business Development and Investment Opportunities in South Africa, Paper presented by
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**Macau and South China Business Communities
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Consul General Ms Tembi Tambo, Leaders and members of the Macau and South China Business Community, Distinguished Guests, Ladies and Gentlemen. Thank you for coming this evening and giving me the opportunity to address you. Let me start off by extending warm greetings from beautiful sunny South Africa. We hope to welcome you to SA for the world's greatest competition - the FIFA World Cup in June next year. The awarding of this event has been one of the key catalysts to massive infrastructural investment that permeates throughout SA today. Over the next few years, government plans to spend over \$75 Billion US dollars in infrastructure investment.

The topic of my address this evening is "Business Development and Investment Opportunities in South Africa".

Distinguished guests, there are indeed many reasons for investing in South Africa and doing business with this strong regional power in Africa. Our potential is best understood when viewed in the context of our geographical location. Let me say upfront that Macau and South China in general is an important investment and trade partner of the future. We see opportunities to partner with you in investing and trading with the continent. South Africa is the economic giant in the African continent, contributing nearly 40% to the continent's total GDP. In the manufacturing sector, 75 out of the 100 main African companies belong to South African. Although SA accounts for only 6% of Africa's Population, it is responsible for 25% of Africa's GDP, 40% of Africa's Industrial output, over 45% of Africa's minerals production, 50% of Africa's purchasing power and over 50% of Africa's energy consumption. In light of these facts, my organization believes that South African companies offer huge opportunities for Macau and South China companies. These includes investing in an advanced economy with a sophisticated telecommunications infrastructure, technology and skills base which could be used as a base for market access in the region as well as in the continent as a whole. It is important to note that 22% of China's exports to Africa go to South Africa - the next country imports half this figure. While Angola tops the list of African exports to China at 37%, South Africa boasts the second highest exports to China at 14%. However, as we all know African exports to China are dominated by oil and mineral products. SA is a potential hub for future beneficiation and value add in the continent.

These statistics present unique opportunities, so in my view there are opportunities for investment in the mining sectors - and upstream beneficiation -which is recognised as a priority by the national government. There is also scope to exploit opportunities in the industrial sector as manufacturing in South Africa remains concentrated.

The intensity of South Africa's economy presents unique opportunity in energy and particularly clean technologies; with the broader public infrastructure programme opening up new opportunities - whether in construction, transport, bulk water supplies and public housing.

In its September 2008 China -Africa Strategic Business Review the Executive Research Associates, notes that besides the ICBC-Standard Bank deal Chinese investments in South Africa remains limited. They further note that South African investments in China have grown over US\$ 800 million. The Chinese companies who have invested in SA are mostly subsidiaries of State Owned Enterprises who are taking advantage of the South African growing markets and South Africa's strategic position as a base for expansion to the rest of the region and the continent. Chinese companies are investing in a wide range of sectors, including: banking, electronics, telecommunications, shipping, light manufacturing, mining and construction. The China Construction Bank has the largest local operation with almost R1 Billion in assets. Although with no formal institutional presence as yet, the Export/Import Bank of China (state owned) and the China Everbright Bank have representatives in South Africa. During the past two years, the Export/Import Bank of China has made loans totalling US \$ 2.5 billion in Zambia and Angola.

South Africa is a middle-income, emerging market economy. In 2008 gross domestic product (GDP) was just over \$500 billion and growth was 3.1%. The forecast for 2009 is that it will not exceed 2%, which is the lowest level since 1998, but this figure remains higher than all developed economies and higher than most emerging market economies during the current global financial turmoil.

No other comparable emerging economy, with the possible exception of South Korea, has been as successful in giving rise to such prominent multinational companies. The South African economy has given birth to firms such as Anglo American, Old Mutual, ABSA Bank, Standard Bank, Sanlam and SABMiller. You may not know this but whenever you buy a product from the luxury good stores Cartier, Dunhill and Mon Blanc, you are buying from a South African company!

Richemont was founded by a South African farmer and entrepreneur from Stellenbosch! Both Hong Kong and South Africa's economic success has been founded on entrepreneurship.

This year we expect the South African current account deficit to average around 6.7%. One of the reasons that it remains relatively high is the ongoing commitment by the public and private sectors to large infrastructure investment programmes that require the import of capital goods. Inflows are still sufficient to cover the deficit but the composition changed in 2008 with less portfolio investment entering the economy.

South African economic policy has been described as “fiscally conservative but pragmatic, focusing on controlling inflation, maintaining a budget surplus, and using state-owned enterprises to deliver basic services to low-income areas as a means to increase job growth and household income”. Due to the increasing challenges facing all economies, it has not been possible to maintain the budget surplus and in 2009 it is expected that there will be a small budget deficit of 3.8% of GDP. Public debt is currently 23% of GDP which is down from 48% in 1996.

Challenges remain with regard to high levels of unemployment, skills shortages and infrastructure that is under pressure. These will no doubt have to be priorities in the coming years by government. As South African business, we do not believe that there will be any major shifts in the general direction of fiscal and monetary policy in the near future. We do expect that the next ANC government will accelerate service delivery to the poor and give more focus to improving the lives and conditions of the poor. This is something that business will support. . The markets have already factored in the pending political changes taking place in the country. Rather, the incoming government will continue to define its role as a developmental state and implement pragmatic policies that seek to integrate the first and developing world components of our economy.

Ladies and Gentlemen, there is no country in the world that has not been affected by the events of last year that saw the dramatic decline of world financial markets and the falling into recession in many economies. South Africa is no different and faces very significant socio-economic challenges in the period ahead. We have recently seen some job losses in sectors, such as mining and automotive as well as manufacturing.

There are nonetheless a number of positives that we can build on as a country. The banking and financial sectors in SA have proved to be strong and resilient in the midst of the current global economic crisis. We also have had the capacity to use counter-cyclical fiscal policy in our most recent government budget to counteract the slowdown in the South African economy. The business community is working closely with our social partners, including the government and labour unions, to develop and adjust our response to the global economic crisis.

The measures that are being implemented to minimise the impact of the crisis are concentrated on protecting the poor and on building and expanding infrastructure. The measures embrace elements that seek to promote economic growth and sustainable businesses, assist and protect workers and the vulnerable, and help our country to meet its developmental objectives.

Business in South Africa associates itself with the warnings given by our Minister of Finance on the need for a less protectionist approach to the global crisis. We should not espouse measures today which we will deeply regret tomorrow.

It is with this in mind that we are continuing to actively promote the deepening of existing international partnerships and the development of new ones. The focus being placed on infrastructure development, as one means to combat the crisis, provides some exciting opportunities for investors. There are many projects already underway in the transport, telecommunications and energy sectors. These will have spin-offs across the board and for business in general. As I mentioned earlier on, we are of course also looking forward to hosting the FIFA Soccer World Cup in 2010 in South Africa. In preparation for this event, there has been considerable infrastructure development of stadiums and in related sectors, such as tourism. We are hopeful that this event will draw the world's attention to South Africa and have ongoing benefits for years to come.

I would now like to discuss some more specific business development and investment opportunities in South Africa that could be of interest to you. This information will be focused upon some priority sectors that have been identified by both the government of South Africa and the local business community. Plans have been put in place to support these sectors, including through the Industrial Policy and Action Plan, as well as encouraging investment.

Ladies and Gentleman, South Africa prides herself of a world class financial sector, respected legal system, communications infrastructure, energy supply and transport sectors; as well as a stock exchange that rates in the top twenty in the world; and a modern infrastructure supporting an

efficient distribution of goods to major urban centres throughout the region.

In addition, any potential investor in South Africa needs to be aware of the policy on Broad-Based Black Economic Empowerment or BBBEE. The objective of BBBEE is to address imbalances in the economy that resulted from the Apartheid regime that was in power until 1994. It covers a range of different aspects related to participation in the economy by previously disadvantaged communities, such as ownership, management, skills development and procurement. There was a land-mark decision made last year to include South Africans of Chinese-origin in the group that can benefit from BBBEE.

While the focus of my presentation here tonight has very much been on the opportunities available in South Africa, I would encourage you to look at South Africa more broadly. We are the gateway to an exciting region - Southern Africa or SADC (Southern African Development Community).

Regional integration is one of the priority issues for BUSA as well. On 17 August, we witnessed the launch of the SADC Free Trade Area by the regional Heads of States. Just last week we welcomed the decision taken by leaders of the Southern African Development Community (SADC), Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC) to form a single free trade area that would span from Cape to Cairo. This is an important step towards the formation of the African Economic Community. The 26 member countries of the three trade groups had a combined population of 527 million and total gross domestic product of \$624 billion (R7 trillion). Our members welcomed the political commitment shown towards increasing intra-regional trade and economic linkages between the countries of Southern and Eastern Africa.

A free trade area between COMESA, SADC and the EAC has a number of potential positive outcomes. The creation of a larger market for the region is particularly welcomed and there are many well-known benefits of greater integration. I mention these developments, specifically because they make business sense for closer cooperation between China and SA as we are now clearly the gate way to one of the largest growing economic markets in the world - bearing in mind that Africa's economic growth has been averaging above 6% in the past decade.

South African business clearly recognises the importance of a strong and vibrant regional economy for our ongoing development and growth. It is with this in mind that we have watched with close interest the recent changes in Zimbabwe where a government of national unity has been

put in place. We are hopeful that over time it will be possible to resolve the political issues there that have resulted in economic collapse. BUSA and our members with interests in Zimbabwe stand ready to assist with rebuilding the economy. We will be working with partners from other countries who share our interests and who want to make a positive contribution to the region.

As you know, the relationship between China and Africa has been going from strength to strength in recent years. Trade between China and Africa reached a record level of \$106.8 billion in 2008 according to China's Ministry of Commerce. China is now Africa's second single largest trading partner - second only to the United States. This reflects an average year-on-year growth rate of over 30% since 2000. Investment levels have also been increasing with China's cumulative investment in Africa over \$10 billion between 2000 and 2008 including ICBC's 20% acquisition of Standard Bank for \$5.5bn. China is now the single largest lender to Africa, the single largest investor in infrastructure and by some counts the single largest foreign investor in Africa. There are now over 1,000 large Chinese enterprises present in Africa and are coming to dominate in sectors such as infrastructure, construction and ICT.

Last week, the China-Africa Development Fund (CADFUND) opened its first African office in Johannesburg. The CADFUND is mandated to invest \$5 billion into various sectors in Africa. It has already invested \$400m in multiple projects and has become a very confident investor into African economies. Bank of China, China Construction Bank and China Export-Import Bank all have branches or representative offices in Johannesburg servicing their clients in the southern African region.

Leading South African firms that have invested in China include SABMiller, now the largest beer brewer in China; Naspers which has sizeable media interests that include the instant messaging service QQ and is listed on the HK Stock Exchange through Ten Cent, Sasol which is progressing with a multi-billion dollar investment in coal-to-liquid petrochemical technology in Ningxia province; and Standard Bank which has recently opened an office in Beijing. Our firms are building sizeable and sustainable businesses in China.

We are very pleased to see that Chinese authorities and the business community continue to explore ways to increase their interaction with African partners, including through the possible extension of the list of imports that can enter China duty free and the conclusion of some bilateral agreements. BUSA and the NEPAD Business Foundation have been working closely with our partners in the South African Government as well as in other countries to identify other such mutually beneficial initiatives. These will be discussed in the preparations under way for the

Forum on China-Africa Cooperation or FOCAC that will be held towards the end of this year in Egypt. This summit will give businesses - both Chinese and Africa - the opportunity to plan a roadmap for increased collaborative investment into the future.

South Africa appreciates that due to the unique history of Macau there could be particular opportunities for strategic partnerships in Lusophone African countries. The MacaHub located here in Macau has facilitated large amounts of Chinese investment to Mozambique and Angola in recent years. Local gaming mogul Stanley Ho is reportedly in talks with Angola's state-owned oil company Sonangol to boost Chinese investment in Angola's energy and banking sector. Stanley Ho has already invested in Montepio Geral in Guinea Bissau and has launched a small bank Moza Banco in Mozambique last year. I'm confident that with these investments, we'll see increased investment from Macau in these countries tourism and gaming sectors.

South Africa is uniquely placed to provide a base for investors exploring projects in both these countries. There are excellent transport links with Mozambique and work is underway to make crossing the border between the two countries even simpler. South Africa has daily flights to Angola as well. A number of our banks have set up branches in these countries which can assist in streamlining financial transactions. There is also a growing base of South African firms with experience in operating in Mozambique and Angola who could be potential partners for Chinese initiatives. Chinese firms are well positioned to focus on the "hardware", that is construction and infrastructure, whilst South African companies are able to provide the "software" of advisory and services having a wealth of experience in operating in Africa's environment of business. I believe that our firms should seek to forge collaborative and mutually beneficial partnerships for doing business in Africa.

Conclusion

Distinguished Guests, Ladies and Gentlemen, that brings me to the end of my formal presentation this evening. I would however welcome your questions and the opportunity to engage on issues of specific interest to you. I believe that the prospects for cooperation between South Africa, Macau and South China are extensive. I have appreciated the chance to highlight some of these possibilities. I must conclude by thanking Consul General Tambo for her sterling work to promote closer cooperation between our business communities and express my hope that the seed planted today will grow like a tree planted near the river side.

I thank you.

