

## China looks to African metals and minerals for the long term

Chinese investment is replacing that from the West in many key sectors, especially with regard to metals. Minerals and energy and Chinese businesses are prepared to take the long term view.



Chinese businessmen are taking a long-term view and pursuing strategic expansion in Africa even though China's multiplying investments on the continent have lost some luster in the global downturn. Beijing and Chinese companies have pledged tens of billions of dollars to Africa in loans and investments mostly to secure raw materials for the world's fastest-growing large economy. That long-term interest remains intact, despite a worldwide economic slump that has hit China's exports to the rich world and a sharp decline in Africa's mineral shipments to China.

China-Africa trade has surged by an average 30 percent a year this decade, soaring to nearly \$107 billion in 2008. "China is in Africa for the long term, and strategically," said David Shinn, a former U.S. ambassador to Ethiopia and Burkina Faso who teaches at George Washington University's Elliott School of International Affairs. "They will not veer from this, in my view," he said.

Far from retreating, many Chinese businessmen are hunting for bargains.

Chinese and Indian firms have expressed interest in taking over Zambia's top cobalt producer Luanshya Copper Mines since it halted operations in December, Zambian state media reported.

South Africa's Standard Bank, itself 20 percent owned by the Industrial and Commercial Bank of China (ICBC), said last month it was advising Chinese mining clients on buying opportunities in Africa and elsewhere. "They are looking at 2009 and saying 'This is a time we see as a very big buying opportunity. We've got the backing from government, we've got the financial means'," Thys Terblanche, the bank's head of mining and metals investment banking, told Reuters.

Beyond mining, Chinese state companies are pushing ahead with strategic energy sector investments and infrastructure; private outfits are continuing to expand in technology areas. "Some developed Western countries hit by the financial crisis are reducing their investment in Africa. Objectively, this is a powerful opportunity for Chinese businesses to expand their investment and market share in Africa," Cui Yongqian, a former Chinese ambassador to the Republic of Congo and Central African Republic, told a China-Africa trade forum this month.

Trade with Angola, China's biggest source of African crude oil, reached \$25.3 billion in 2007 and Beijing has offered Luanda \$5 billion in oil-backed loans. Shenzhen-based Huawei Technologies, China's biggest telecoms equipment maker, is pushing south from its established stamping ground in North Africa. "I see no reason why they would want to decrease their investments in the telecommunications sector, because that's profitable for them," said George Washington University's Shinn. "It will vary according to sector and country ... It's very dangerous to generalize about the China-Africa relationship," he said. "They will certainly make tactical retreats where the economy requires it."

### LONG-TERM VIEW

Even China's slower economic growth far outpaces that of other major economies. Beijing says it can achieve 8 percent growth in 2009. The IMF says it may cut its forecast to about 5 percent, from the 9 percent it predicted in October. While competitors lay off workers and delay new



projects, China Non-Ferrous Metals Corporation is opening a copper smelter this month in Chambishi town, which Zambia has transformed into a tax-free economic zone to attract Chinese investment.

Zambian President Rupiah Banda and China's Trade Minister Cheng Deming launched a second economic zone this month near the capital Lusaka, where Chinese firms will assemble electrical goods such as television sets and cellphones for export. "Zambia is still an attractive investment destination (and this will give) confidence to existing firms operating here not to start scaling down their operations," Banda said. Zambia's Copper Belt is witnessing a growth in Chinese deals. "In Zambia, mining investment is large-scale and long-term," said Xing Houyuan, director of multinational business at China's Academy of International Trade and Economic Cooperation, which is affiliated to Beijing's Commerce Ministry.



"I don't see any likelihood of a pullback ... Companies won't give up investment plans because of the short term. The biggest impact is likely to be on projects that are still in the planning stage, where the money had not really been committed yet," Xing said. In Liberia, China Union has just signed a \$2.6 billion contract to develop the Bong iron ore deposit.

## CONGO AND GUINEA

China also insists the slowdown will not dampen interest. "We will continue to have a vigorous aid program here and Chinese companies will continue to invest as much as possible in Africa because it is a win-win solution," Chinese Foreign Minister Yang Jiechi said in South Africa in mid-January. However, the global slowdown has forced some Chinese businesses to close operations in Africa and prompted a re-think of some of the multi-billion-dollar mega-deals that blazed a trail across the world's poorest continent.

Democratic Republic of Congo and Guinea are cases in point.

DR Congo rode the boom in commodities to attract a wave of foreign investment in its rich but long-neglected copper, cobalt, gold and other mineral resources after post-war elections in 2006. Now that dream is fading. "We have one processing mill and several workshops in Congo. We have closed them. There are many



Chinese-invested firms in Congo and I understand most of them have shut down their operations," said a marketing director at a private firm in China's eastern province of Zhejiang, which supplies cobalt and nickel compounds for use in mobile phone batteries. "I don't think we will resume production in the factories in Congo any time soon. We expect the economic slowdown could worsen in this year and weigh on the prices further," he said, requesting anonymity because he was not authorized to speak to the media.

Africa's heavy dependence on resource exports means it feels any squeeze more painfully. Global trade fell an annualized 3.7 percent between September 2008 and November last year, its biggest drop since 2001. Congo's franc has fallen 20 percent against the dollar in less than four months and foreign reserves are at a five-year low. The government is seeking a \$200 million bailout from the International Monetary Fund's Exogenous Shocks Facility. A much-trumpeted \$9 billion package of Chinese loans, investment and infrastructure projects in return for Congolese minerals contracts may be cut back to \$6 billion, a diplomat in Kinshasa said, partly to appease the IMF which has expressed voiced concern at Congo taking on such huge debts. Guinea, the world's top exporter of bauxite aluminum ore, had hoped for its own multi-billion-dollar deal with China to build hydropower dams, roads and bridges in return for the economic climate has worsened, hampered by Guinea's instability and a coup last month after the death of President Lansana Conte, said Ahmed Tidiane Diallo, director-general for mining projects at the Mines Ministry. Gabon, similarly eager to cement a 1.6 trillion CFA franc (\$3 billion) contract to develop the 360-million-tonne Belinga iron ore deposit, has accused its Chinese partners of dragging their feet amid the uncertain economic environment.



## ***China's Ore Lust is Long Term Not Near Term***

China is making moves to secure long term supplies and current markets provide a scenario in which this can be done at bargain prices says analyst and commentator Keith Goode. And, as almost always with China, all may not be as it seems on surface.

One of Australia's best known analysts and share market commentators, Keith Goode, of Sydney-based Eagle Advisory Service (ERA), reckons China is clearly on a quest now to control ore bodies outside of China to achieve a goal not focused now on three years ahead but for the next 20 to 40 years. This, he said, was being achieved either by funding companies or controlling them - acquisitions in today's dire climate being achieved at bargain prices. Goode makes a sweeping assessment of the changing times in China and the impact this is having on global commodity prices and Australian miners and mine developers in particular. It was made available today to Mineweb at the same time that shareholders of Gindalbie Metals Ltd (ASX: GBG) in Perth agreed to a \$A162 million placement with Chinese partner Ansham Iron & Steel Group to keep its Karara magnetite-iron ore project in Western Australia's mid north on track. Ansham's equity in Gindalbie lifts from 12.6% to 36.28%. Outside the meeting several shareholders said Gindalbie had no other option given that normal equity raising and resource financing has virtually dried up.

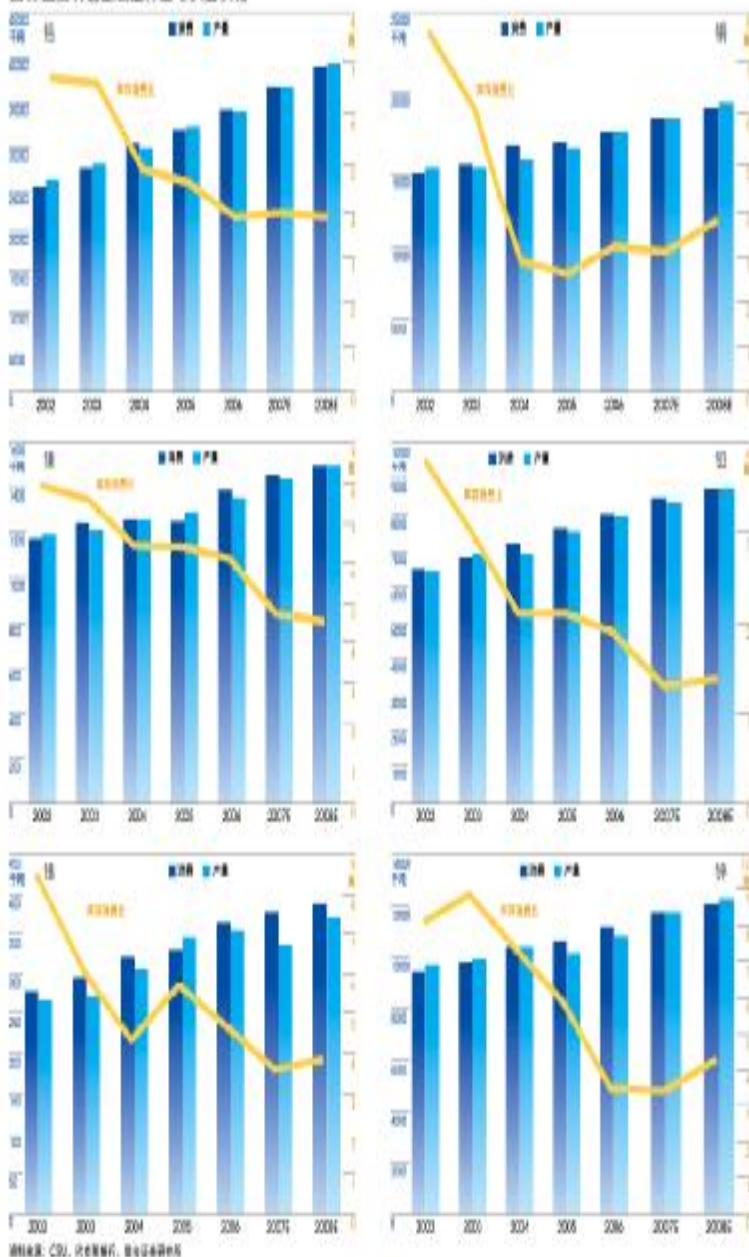


Goode said ERA has seen several positive releases relating to China along the lines of metal restocking immediately ahead of Chinese New Year, rising spot iron ore prices (almost doubled from the \$US40/t lows of early November to about \$US75-80/t). Jinchuan forecast an increase to 125,000 tonnes of nickel production (from 110,000t) in 2009. "But virtually none of that appears to have been reported in the Australian press," he said. Like other observers ERA was "possibly too optimistic" with scenario expectation of the early stages of a commodity market recovery occurring in March or April this year. However, it is still very early in 2009 to push that recovery expectation out to 2010, especially as China has not really started yet. Goode cited salient points he noted at the China Mining Conference in Beijing last November, including the deep resentment China had

about being held to "ransom" by the likes of BHP Billiton and Rio Tinto with iron ore prices that were seen as seeking excessive profits.

On metal demand ERA saw the following:

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**Iron ore:** Expected imports should flatten out in 2009-2010 to about 2008's figure of 435 Mt. The current Chinese iron ore grades average ~28%Fe, and are falling at about 1% pa (cut-off is at about 20%Fe and some marginal mines may close). Prices may fall 20-25% 2009, while imports may start increasing again from 2011, to possibly 50-60% of requirements by the end of the 5-year period to 2016.

**Copper:** Domestic production should be 900,000t in 2009 and 1 Mt in 2010. Copper imports in 2008 were estimated at 4.5 Mt. So China will need foreign counterparts to meet demand.

**Nickel:** Apart from Jinchuan, and some minor production, demand has to be met by imports.

**Lead and Zinc:** Automotive industry demand is expected to lift by 15% in 2009 to 13.8 M vehicles (which is slower after the 20% in 2008 and 25% pa in the two years before then). There is increasing demand for producing electric cars and motorized bikes which need battery power storage.

**Gold:** China is consuming more than it can produce.

**Platinum group metals:** Older vehicles are being phased out and there is an increasing move to new vehicles for auto catalysts.

**Aluminium:** Lower consumption in 2009, but China needs overseas resources to achieve the required targets. The required bauxite grades are available in India, Laos and Australia, while 2007 figures showed the biggest imports, 230 million tonnes, came from Indonesia.

Goode said many theories have been produced recently on what is going in with China's commodity markets. He said ERA believes China deliberately started slowing down its commodity consumption about five months ahead of the Olympics, by closing down smelters to prevent any impact on power outage at the Olympics.

Any smelters that closed had to conform to higher emission standards before they could re-open, which meant that it has taken longer, some of the smaller ones have been unable to re-open, and consolidation is occurring. "China recognizes that to be competitive it has to consolidate its smelting industry. Individual smelters in China reputedly number more than 1,000." Shougang -- reputedly China's largest steel producer - said it had 575 mines-plants operating on an average grades between 30-35% Fe that feed into numerous smelters. These needed consolidation. Goode said factory closures are not necessarily all due to the financial crisis. Factory closures were already occurring in November 2007, as foreign companies began to move factories to India and Vietnam due to rising wages. Increased pressure occurred in 2008 due to rising material costs, higher wages and the fact that the RMB currency became possibly the world's strongest currency having risen by 20% against the \$US in the past three years -- during which time, the \$A fell from 7 to 4 RMB