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# South Africa A leading light

Africa's most affluent nation is committed to expanding relations with China, and offers exciting possibilities in every province.

**S**outh Africa proudly stands as the economic powerhouse and gateway to investment in Africa. With a GDP four times bigger than any neighboring nation, it accounts for over a quarter of the continent's wealth. Chinese investors, who ploughed around U.S.\$40 billion into the region in 2005 alone, have been heavily supporting this dominant position. As a result, economic growth in South Africa has averaged a steady 3.5% since 2000, during which time trade with China has increased by a staggering 400%.

This strong economy has enabled South Africa to develop much more quickly than its neighbors, particularly in terms of its infrastructure, which is excellent compared to the rest of the continent. The country can also boast a legal system that protects business interests, as well as a political stability which escapes many other parts of Africa. In terms of resources, South Africa has an abundance of precious stones, particularly gold, diamond and platinum, raw materials and fruit and agricultural products. It also has untapped reserves of manpower.

Reassuring for Chinese investors is the fact that South African President Thabo Mbeki has given his full support to expanding relations between the two countries. Speaking in Beijing last year, Mbeki said: "China's commitment to Africa has been demonstrated through tangible and concrete results, particularly in terms of human resource development, debt relief and investment. Africa is also committed to China's development and this is evident through the supply of raw materials and technology transfer."

Sydney Mufamadi, Minister of Provincial and Local Government notes: "If one looks at the development trends in the Chinese economy, it is clear that there is much room for expansion of trade relations

between us and China, not only in terms of goods and services between the two countries, but also with the flow of investments in both directions. A

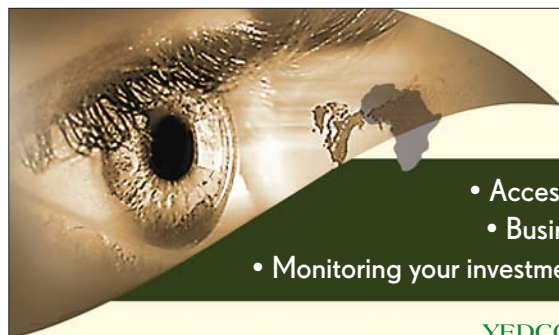
Sydney Mufamadi, Minister of Provincial and Local Government



number of South African companies have established offshore operations in China, and Chinese companies continue to do the same in South Africa, so there is a synergy in our two economies. Mutual exchange of technology and raw materials is important, because although we differ in size and scope, we are both emerging economies. There is enormous potential for China to be active throughout South Africa."

Today, South Africa is divided into nine provinces, each with wildly differing climates, resources and landscapes. The one thing they all have in common, however, is their huge investment potential. Free State, for example, located in the heart of the country, provides an enviable gateway to South Africa's important industrial centers, such as Durban, and the commercial province of Gauteng. Characterized by its high altitude and flat interior, Free State has rich deposits of gold and diamonds and an abundance of crops that means its investment opportunities are remarkably varied.

In an effort to take increased advantage of these blessings, the Free State Development Corporation was set up to boost the province's biggest sectors, including agriculture, mining, petrochemicals and pharmaceuticals. "We are looking to add value to both our mining and agricultural products," says Free State Premier Frances Marsoff. "We are promoting the area as a unique place for investment, especially for



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the Chinese business community." Considering its huge reserves of gold and diamonds, mining remains one of Free State's most attractive business propositions. "There are huge opportunities here in surface mining, secondary mining and refinement, especially jewelry making," says Marshoff. "There are also considerable opportunities in small-scale operations, especially regarding old diamond mines."

Free State is known as the "food basket" of South Africa and Marshoff explains she already has grand plans for this hugely important sector. "We are developing at least four bio-diesel plants in our province and are now looking for large-scale investments in agriculture. The mechanisms are already in place to encourage investors. Farming should not be overlooked either as we have agreed to supply China with beef and are currently negotiating on this."

To improve access to local and international markets for these products, Marshoff also recognizes the need to enhance Free State's

range and a warm Indian Ocean lapping its pristine beaches, Durban has naturally become a popular holiday destination. It is also one of the

Russell Curtis, Acting Head and Key Client GM, DIPA



fastest growing urban centers in the world, with two major ports.

Russell Curtis, acting head and key client general manager of the Durban Investment Promotion Agency (DIPA) notes how Durban has been voted the best-run municipality in Africa. "Durban offers a fantastic combination of business and pleasure," he says. "We have everything here, from golf courses to some of the best ports and business facilities in the world. We have a huge, highly-skilled workforce backed by a modern telecommunications infrastructure that includes a state-of-the-art fiber optic wireless broadband network."

While the ports and tourist industry are the backbone of KwaZulu-Natal's economy, Curtis points to several other opportunities waiting to be fully exploited. "Let us not forget we also have a solid manufacturing base, a processing industry, plus thriving agricultural and transport sectors." The province will receive a further boost in 2009 with the completion of a new international airport. "When you consider all of this, it is no surprise we have the highest economic growth rate in the country—and the best year-round climate."

Ndabo Khoza heads the KwaZulu-Natal Tourist Board and says that a fascinating cultural mix enriches this tourist paradise of idyllic beaches and mountains. "We are home to the very distinct Zulu culture after which the province is named," says Khoza. "There is also a significant Indian influence which gives us an interesting cultural and religious tapestry. Since the Chinese are a highly cultured people, we have a lot to offer them in this respect."

This complex ethnic mix means there is always something happening in KwaZulu-Natal. Khoza says: "Many Africans come to see the events held here. The colorful Shaka Day Festival, which commemorates the Zulu monarch, takes place every September and is

**"The Chinese are a highly cultured people, so we have a lot to offer them in this respect."**

Ndabo Khoza, Chief Operations Officer, KwaZulu-Natal Tourist Board

infrastructure. "There are many opportunities opening up in infrastructure management and maintenance. We are keen to push this as it is in our own interests to give our products the best chance of reaching markets swiftly and safely, both here and abroad."

One bonus Free State has that money cannot buy is its prime location in the heartland of South Africa. "Access to all the major cities is one of our biggest advantages. Six other provinces border us and we have a good road network which means we are within a two-hour drive of all the most important commercial centers of the country."

Other industries set for lift-off are property and tourism. Real estate in the province remains a remarkably open and accessible proposition for foreigners and the potential in tourism is now starting to be fully recognized. "We have just established a tourism authority and heavily promoted Free State as an excellent tourist destination in 2005," adds Marshoff. "In 2000 we signed an important agreement with Shanghai to promote Free State and we are nearing the end of negotiations that will push this even further."

One important region Free State trades with is



Frances Marshoff, Premier of the Free State Province

the Eastern province of KwaZulu-Natal, known as South Africa's tourist center and home to the bustling city of Durban. With a sub-tropical climate, the magnificent Drakensberg mountain

hugely popular, for example. We would like to attract more international visitors to this type of event, and one way we can do that is by staging more world sporting events."

## Preparing for World Cup fever

One event sure to put the region on the map is the 2010 Soccer World Cup that Khoza says presents a whole host of exciting possibilities. "We are very aware of the need to focus most of our attention on utilizing the World Cup to promote tourism and will be encouraging people to see the animals in our game reserves."

The province is also reaching out to a business audience. As Khoza says: "Many investors you speak to say they did not have time to see the region properly but they will definitely be returning for a proper holiday with their families. This is something we need to encourage as this promotes both investment and tourism."

South Africa's other regions all have their own distinct investment potential. North West is rich in platinum, the Northern Cape is rich in diamonds, Mpumalanga in coal, Limpopo in copper and the Western Cape in manganese. Sydney Mufamadi, Minister of Provincial and Local Government, appeals to Chinese investors not to ignore the potential in these regions. "By investing in all of our provincial regions, the Chinese have a useful staging-post for investing in the entire African continent," he says. "China is already our fifth largest trading partner and we want this relationship broadened across all regions."



One region performing excellently is the tiny North-Eastern province of Gauteng (Place of Gold). “We account for 10% of Africa’s entire GDP and over a third of South Africa’s GDP so

**Paul Mashatile, MEC for Finance and Economic Affairs, Gauteng Provincial Gov.**

we are a pretty important region,” says Paul Mashatile, MEC for Finance and Economic Affairs in Gauteng. Spearheading the region’s investments is the Gauteng Economic Development Agency (GEDA), which acts as the first point of contact for investors and entrepreneurs interested in the province. GEDA’s key objective is to identify market investment opportunities and respond to requests from both domestic and foreign investors. “Put simply, we take on a project management role for prospective investors,” says GEDA CEO Keith Khoza. “This means we can unlock government processes in terms of work and residence permits, but we also help people draw up business plans by introducing them to agencies and financial contacts. We are basically a one-stop-shop for investors.”

GEDA has already done much of the hard work in finding areas that are ripe for investment but which are also in need of development in the region. In this way, both investors and the province benefit. In recent times, GEDA has also recognized the need to boost Gauteng’s exports which Khoza says still lag behind its imports. “We have created a trade facilitation arm which focuses on export promotion. If you look at our current balance of trade, our exports are not doing anywhere near as well as our imports because of low interest rates.

“The Chinese economy is so diverse that investment opportunities are virtually unlimited. Chinese interest is rising here all the time and we have a major delegation interested in building an air conditioning plant here.” Khoza recognizes that the key to attracting Chinese investors is to prove the infrastructure is sufficiently modernized to allow easy access to markets. “We are very keen for the Chinese to invest in construction, especially freeways. Technology is also something they are advancing with, so it is important we can demonstrate a decent competence in this area through the development of broadband.”

Investment has been encouraged by establishing sister agreements between the two countries. “Gauteng is already twinned with Beijing, which means we make a concerted effort to identify specific investment opportunities between the two. We are also looking at cooperating with Shanghai and Lining, where I’ve been able to establish particularly good relations.” Khoza also highlights how investment in Gauteng is essential to the prosperity of Africa as a whole. “We’re the biggest economy in the entire continent. The growth of the state economy is dependent on the growth of ours to a large extent. It is in everyone’s interests that investment remains strong and consistent here to help develop the rest of Africa.”

With all the focus on trade, it is easy to forget there are huge cultural barriers between the two nations that need to be respected which is something GEDA also works on. Khoza says: “Importing and exporting depends on people understanding each other and this is important not only for trade, but for our tourism industry as well. One simple way is to ensure that everything is translated correctly.”

One of the companies taking advantage of this rich diversity is the Alexkor mining company. Its strength lies in quality—80% of its mining is done offshore where the best diamonds are found. Within the next few years, the company will be opening its doors to foreign investment for the first time, according to CEO Mzamani Mdaka. “We are currently in the process of recapitalizing the business. The community and state will become shareholders and within the next two years, we will be ready to privatize.” The investment potential is enormous, with an estimated six million carats waiting to be exploited.

Finally, South Africa is also looking to other parts of the continent to see how it can reach out to China. Yedcor was established in the Ivory Coast and focuses on the trading of commodities, mineral resources and mines across Africa. “Today we are the fastest growing and most effective business service in Africa,” says chairman and CEO Desnos Yed. “Our success is down to professionalism, our code of ethics, continental knowledge and an elite workforce well known among business leaders both in Africa and internationally.

“One of the other keys has been powerful lobbying of local and international governments. The Chinese come to make money in Africa. They are driven by domestic pressure to find raw materials and we are happy to help supply them.”

This open and welcoming spirit is being adopted across South Africa and will ensure that its relationship with China will go from strength to strength.

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# Trading places

China-South Africa trading relations are taking on a new momentum.

**S**ince diplomatic relations between China and South Africa were established in 1998, bilateral trade has grown exponentially. Exports for Africa's leading economy reached ZAR8.7 billion (U.S.\$1.2 billion) in 2005—an increase of nearly ZAR2 billion on the previous year—highlighting China's growing importance as an export market. In the twilight of November's Beijing Summit of the Forum on China-Africa Cooperation (FOCAC), a new era of diplomatic relations based on "friendship, peace, cooperation and development", which will mean stronger partnerships and, of course, boundless potential for trade and investment.

China's impact on the global economy since it joined the World Trade Organization five years ago has made the world sit up and take notice. What's more, the rise of this powerhouse shows no signs of slowing down. South Africa's Department of Trade and Industry (DTI) is therefore very keen to promote trade with China. As its chief, Director General Tshediso Matona notes: "The first important step was to recognize that China now has a market economy. The ultimate aim is bilateral free trade, which we are still negotiating."

Currently, South Africa's exported goods focus on a range of primary materials, including metals, minerals and other commodities. Top exports include flat-rolled stainless steel products, and ferro alloys, as well as cobalt, copper and manganese products

especially in terms of automotives. Matona says; "We have one of the most competitive and effective business environments and economies in the world. As a result trade is increasing in all sectors, with many public-private partnerships being formed."

Industry is well developed, thanks to cheap power—it has one of the cheapest electricity prices in the world—efficient logistics and excellent infrastructure, in road, rail, telecommunications and air links between the major cities. Sharma adds: "We have cheap coal-to-liquid technology being exported to China by SASOL. Production costs are very low."

According to the DTI, South Africa does not exclude any investor category or origin, it is very open and it has a very clear legal system. Matona says: "We have outstanding market access thanks to our Customs Union strategy that includes "duty-free, quota-free" trade agreements with the U.S. and the E.U., and we are negotiating with China and India. We are also part of IBSA (India, Brazil and South Africa) as well as the Southern African Customs Union (SACU) and Southern Africa Development Community (SADC) initiatives in the region. We basically cover the whole world, which is a very powerful trade tool."

Corporate tax is currently 29%, although this is slated to fall in the near future.

## "Our trade and tourism exchanges are the rekindling of an old friendship."

Tshediso Matona, Director General, Department of Trade and Industry

However, the time has come for China to import more value-added products, says the DTI. Iqbal Meer Sharma, the DTI's Deputy Director-General for International Trade and Economic Development says: "The South African economy is often seen as mining-based. It was true in the past but not anymore. Nowadays, mining only contributes to about 9% of the GDP, while around 65% comes from manufacturing and services.

"We have a range of trade offerings: manufactured goods; agro-processed goods, such as fruit and wines; and unique technologies, such as GTL and CTL, with which to establish a broad-based, long-term collaboration."

The Chinese will certainly find South Africa a warm and sunny prospect for investment and the countries have much in common. South Africa has also enjoyed a dramatic entrance onto the global landscape, shaking off the debilitating shackles of apartheid to become the continent's leading light. As Matona notes: "There are many links between the ANC and the Communist Party of China (CPC). We have a lot of values in common, such as a multi-sector economy, rich history and culture, hospitality, vast land, open spaces and wildlife. Our trade and tourism exchanges are the rekindling of an old friendship."

As Africa's most sophisticated market, South Africa is extremely business-focused. It is already a major manufacturing player,

"We need the Chinese market to sell our products, so we are working hard to attract investors into value-added facilities and training programs," says Matona. "We have a whole set of incentives to offer them, including tax breaks. Our proposition has a lot of value."

The DTI is also keen to show China how it has helped implement growth strategies that will ensure South Africa realizes its full economic potential. Black Economic Empowerment (BEE) for example, is an important initiative that seeks not only to redress the inequalities of the past but also meet the needs of all of South Africa's economic citizens, in a sustainable way. In its BEE strategy document, the DTI asserts that "BEE is a growth strategy, targeting the South African economy's weakest point: inequality." Women too are an important part of South Africa's economy and culture, often holding government posts and high-ranking professional positions.

The DTI is now poised to deal with any investor enquiries in the following sectors: agro-processing, automotive, marine rail and aerospace, business process outsourcing, IT services, capital equipment, chemicals, clothing, textile, cultural industries, electro-technical industries, mining and tourism.

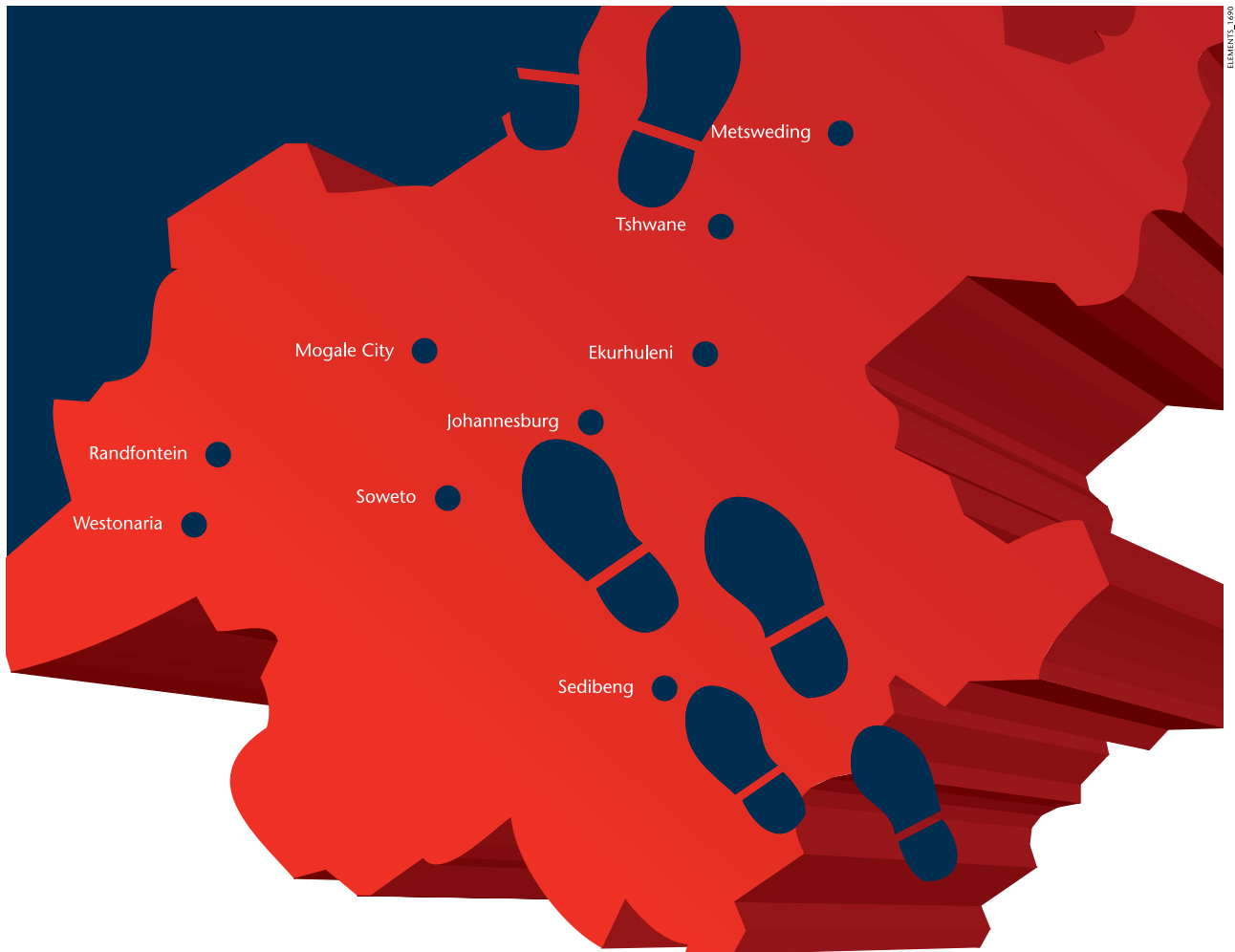
Its professional team offers a full range of information and facilitation services, customized sector programs and foreign economic representation.



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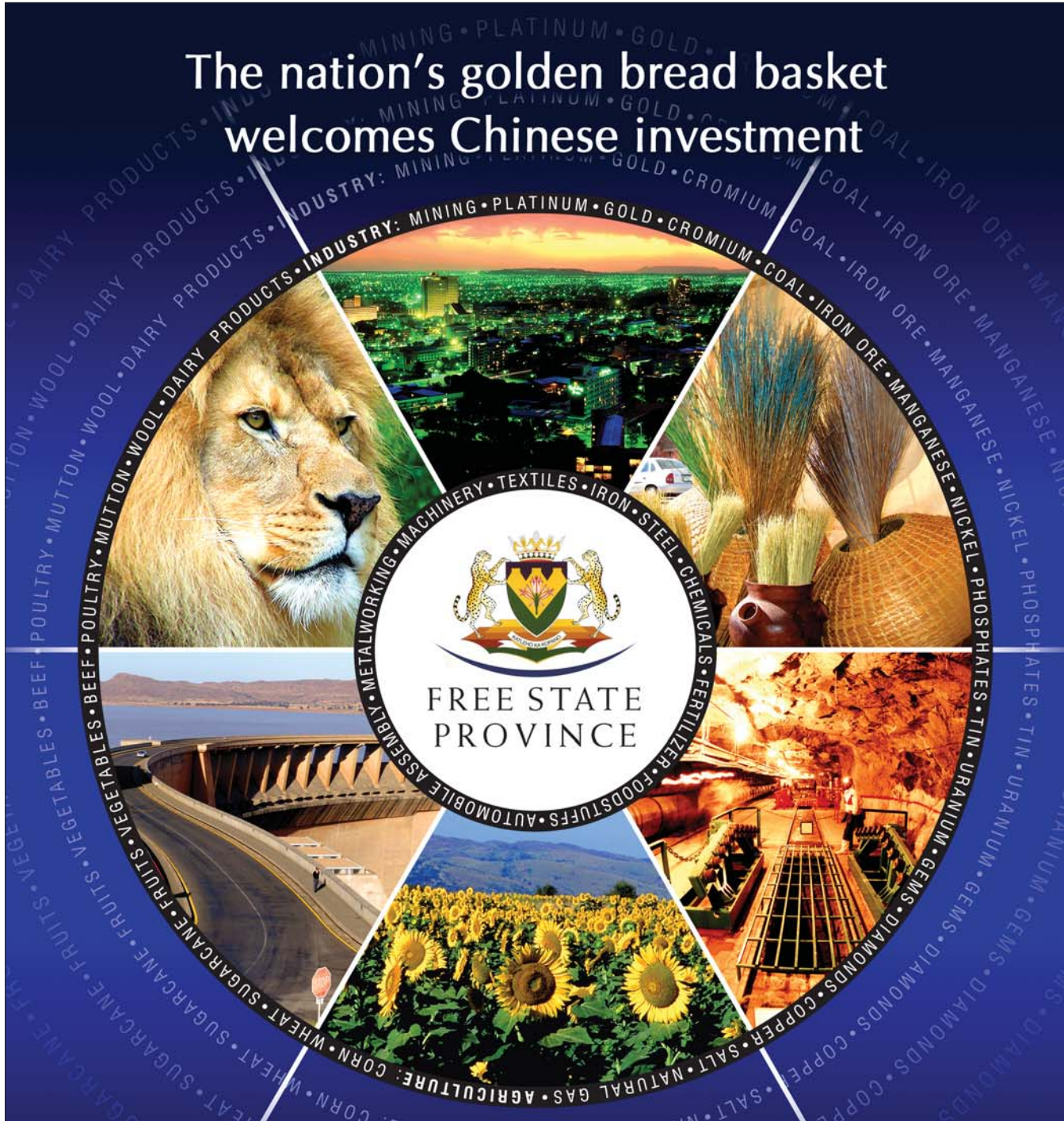
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# The nation's golden bread basket welcomes Chinese investment



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