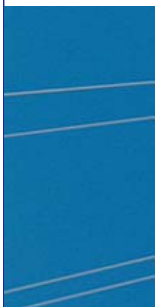


# Africa's natural resources in the spotlight again



Marion Muehlberger

Think Tank of Deutsche Bank Group

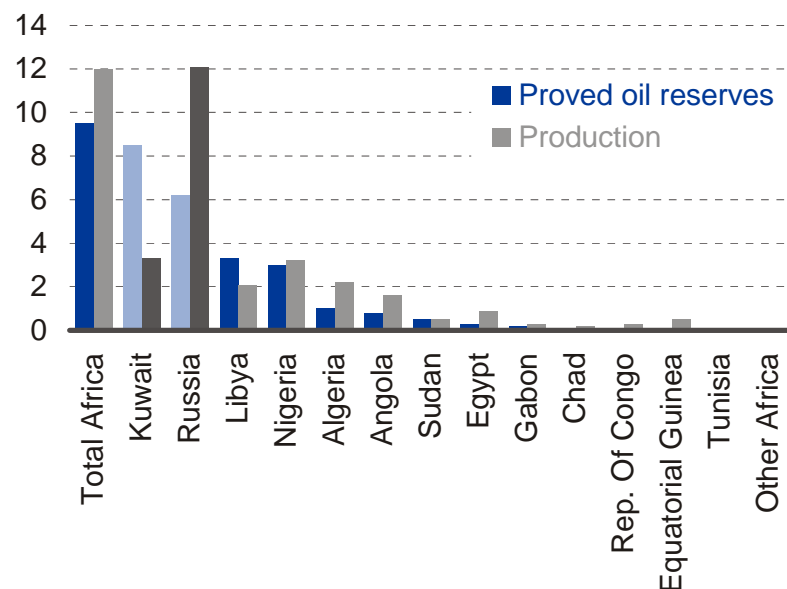
**Deutsche Bank Research**



# Africa has 10% of the world's proved oil reserves and 8% of the world proved gas reserves

## Libya, Nigeria & Algeria have two-thirds of African oil reserves

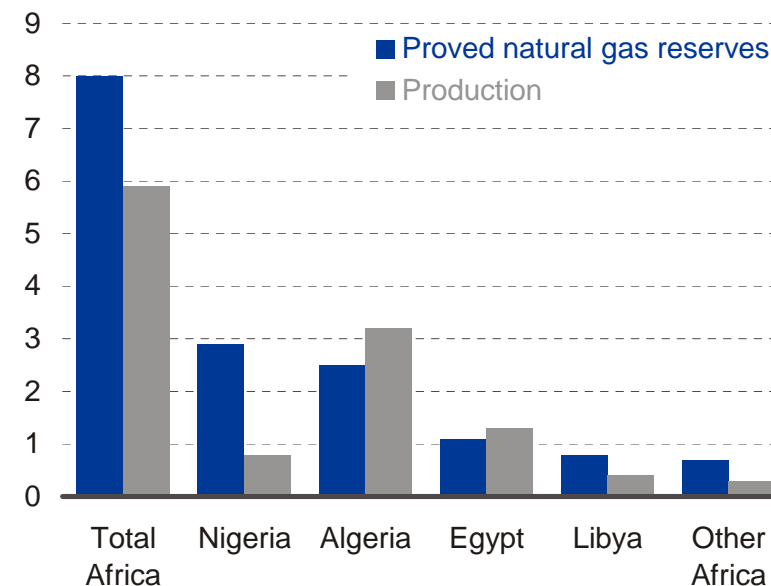
% of world total, 2005



Source: BP Statistical Review of World Energy, 2006

## Nigeria, Algeria & Egypt have 80% of Africa's gas reserves

% of world total, 2005



Source: BP Statistical Review of World Energy, 2006

## Africa is also rich in mineral resources

**Africa has 60% of the world's diamonds, 40% of the world's phosphat and 30% of the worlds cobalt resources**

% of world resources

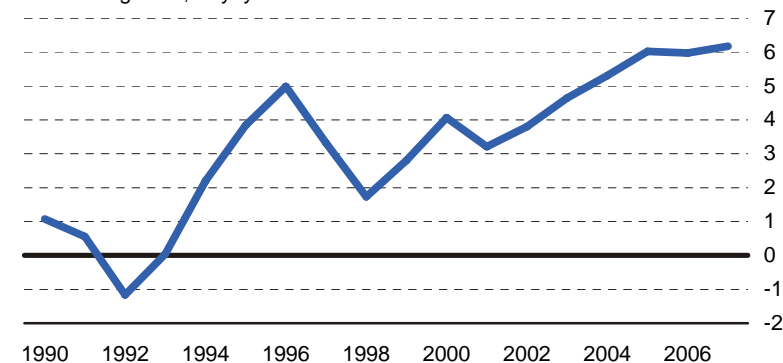
South Africa	Diamonds (12), Gold (19), Manganese (5), Nickel (6), Phosphat (8), Platin (88)
Congo, DR	Diamonds (26), Cobalt (45), Copper (2), Zinc (1)
Guinea	Bauxit (30)
Botswana	Diamonds (22.6)
Namibia	Uran (7.1), Zinc (1.2)
Morocco	Phosphat (32), Zinc (1)
Zambia	Copper (3.4), Cobalt (3.6)
Gabon	Manganese (3.4)
Niger	Uran (2.4)

Source: Bundesanstalt für Geowissenschaften & Rohstoffe, 2006

# Africa has clearly benefited from the global commodity boom

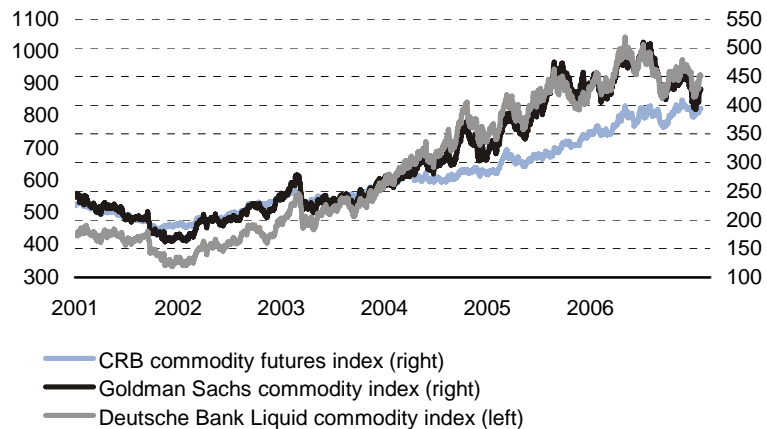
## Sub-Saharan Africa growing strongly

Real GDP growth, % yoy



Source: EIU, IMF, DB Research

## Is the commodity boom slowly coming to an end?



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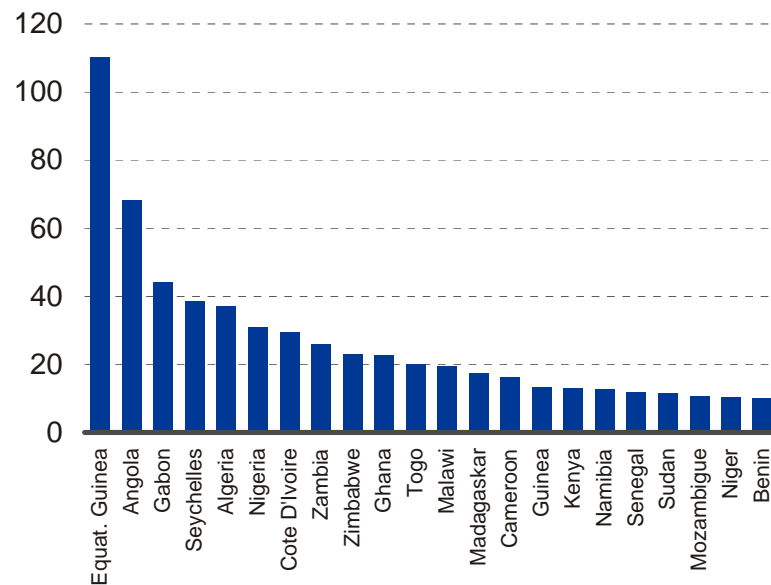
- Current economic upturn partly triggered by strong commodity prices
- Sub-Saharan Africa to grow at around 6% this and 5.5% next year
- But economic dynamism increased in many countries: e.g. cut-flower business in Kenya and Uganda, Nigerian film industry “Nollywood”
- Commodity boom has been lasting for 5 years now – is the slowdown ahead?
- Deutsche Bank remains bullish on precious metals and soft commodities, but only mildly bullish on industrial metals and energy



# Vulnerability to a downturn in commodity prices is high

## A commodity price shock would hit several countries hard

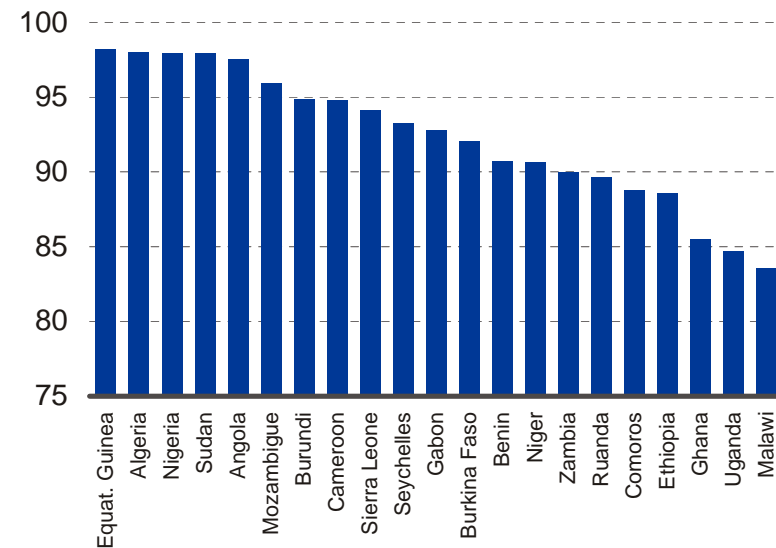
Primary commodity exports in % of GDP



Sources: WDI, IMF, DB Research

## Export earnings would fall significantly

Primary commodity exports in % total merchandise exports

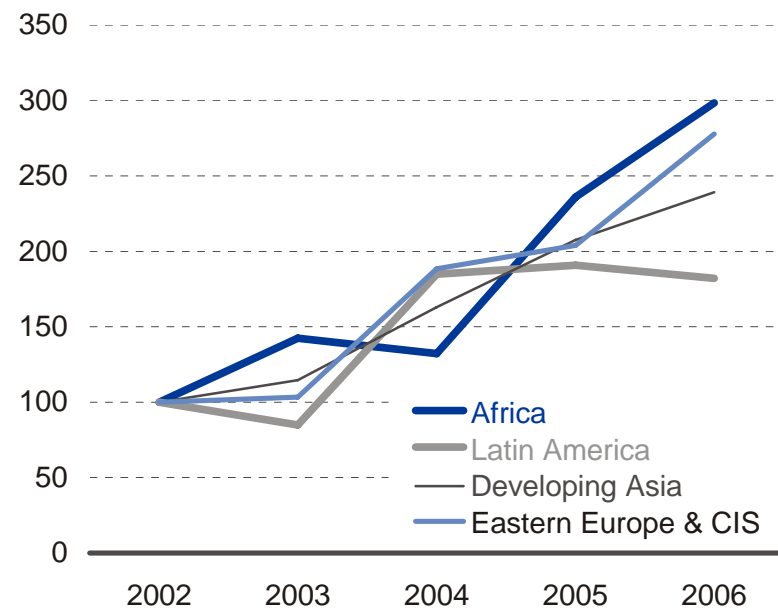


Sources: WDI, IMF, DB Research

## Significant FDI inflows into Africa over the last years

### FDI inflows into Africa growing fastest

Index: 2002=100



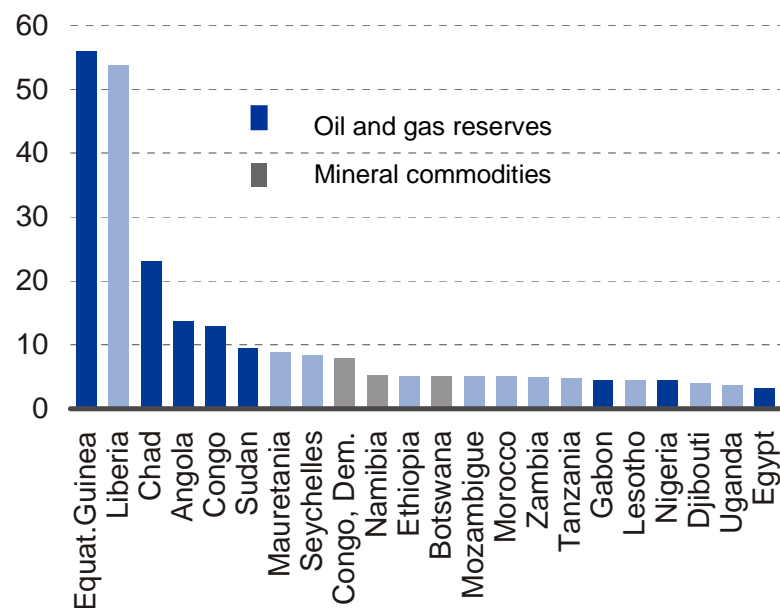
Sources: UNCTAD, DB Research

- FDI inflows into Africa since 2002 increased more than those into other regions
- FDI inflows surged to record levels as a result of large investments in oil-rich countries and buoyant cross-border M&A activity
- But in absolute terms Asia remains the top target for FDI in the developing world

# Natural resources remain an important factor in attracting FDI

## Commodity-related FDI

FDI inflows in % of GDP, 3-year average



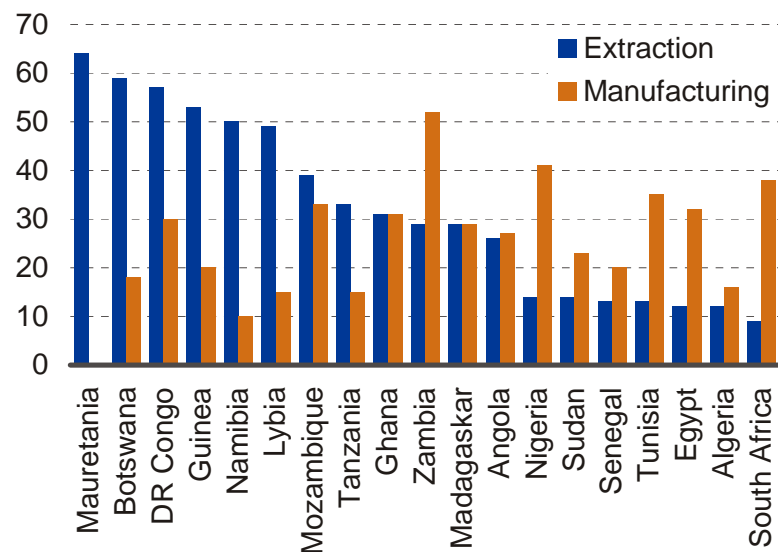
Sources: IMF, UNCTAD, DB Research

- African countries still attract FDI mainly for their natural resources and the size of their domestic economy (Nigeria, Egypt, South Africa)
- But FDI has also been supported by better governance and improvements in business environment

# FDI still mainly flows into extraction business, but manufacturing comes second

## Manufacturing-led FDI not negligible

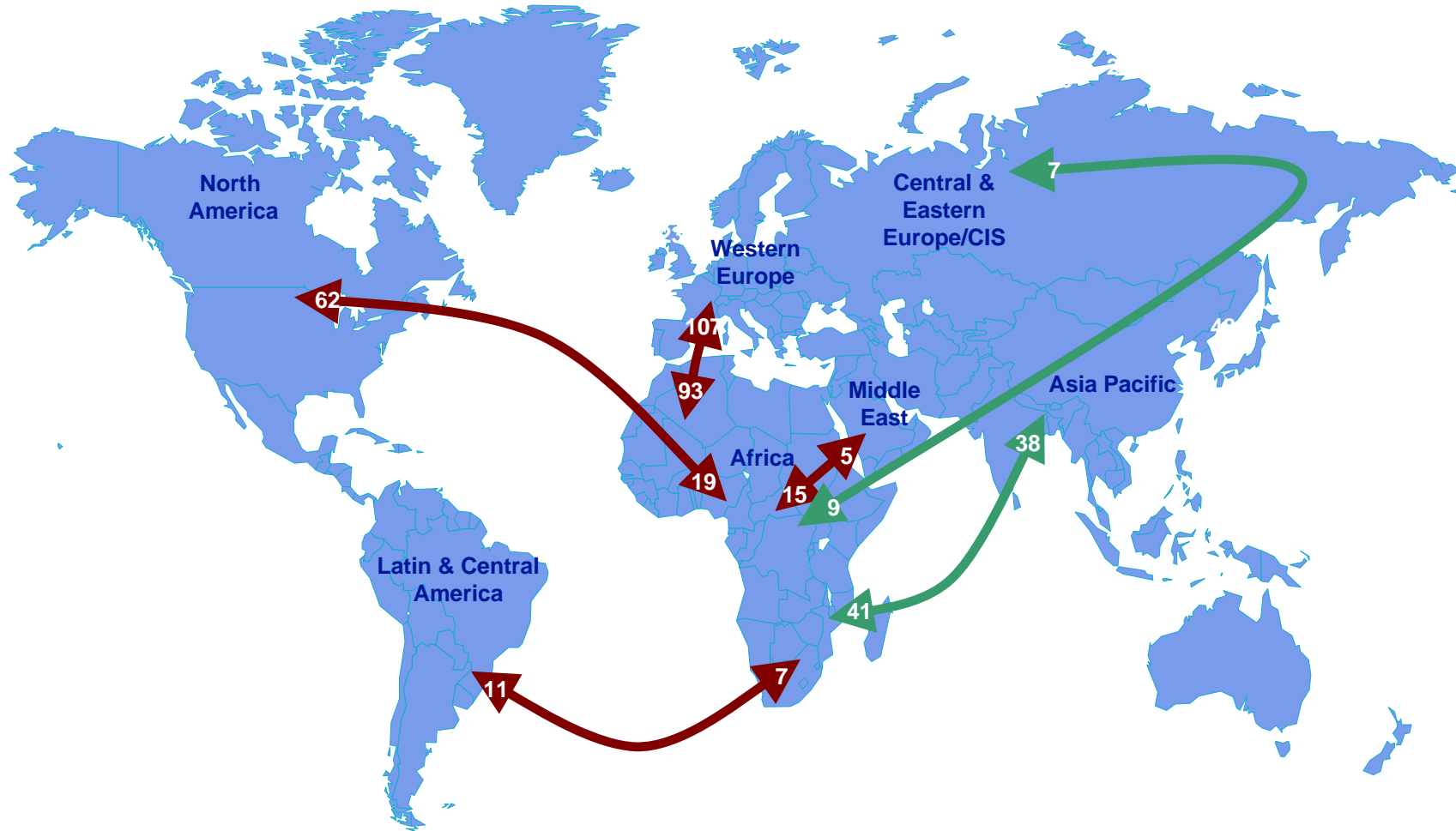
% share of total FDI flows since 2002



Source: LOCOmonitor

- Notable exceptions of resource-rich countries that also receive a lot of FDI in the manufacturing sector are Zambia, Ghana, Angola, Nigeria, Tunisia, Egypt and of course South Africa
- Improvements in business climate crucial for attraction of FDI in sectors other than extraction

# Asia's importance as Africa's trading partner to rise



Source: IMF, Direction of Trade Statistics

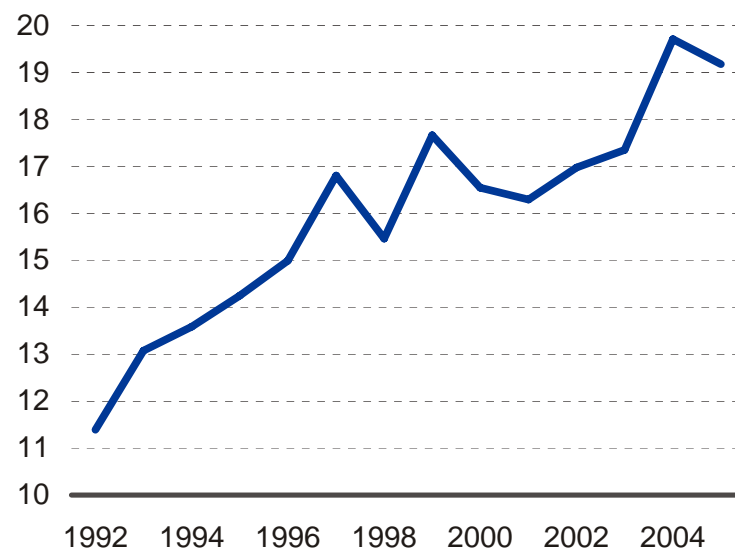
Trade flows amongst the different global regions in 2005 in USD bn

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## Asia's trade share with Africa is increasing steadily

### Asia's trade share nearly doubled within the last 13 years

% of total African trade



Source: IMF Direction of Trade Statistics

- While Asia's, North America's and Latin America's trade share have nearly doubled within the last 13 years, Europe's trade share declined from 65 to 48%
- Half of the 79bn USD bilateral trade between Africa and Asia is trade with China
- Bilateral trade with China alone is expected to increase to around 60bn USD this year (> 10% of total African trade)

## China's major offensive in Africa has started

- Africa is an important supplier of resources and an increasingly important market for Chinese products (over 800m potential consumers)
- China-Africa summit in November 2006 - Kick-off for a new era in African-Chinese relations
  - Chinese President Hu Jintao promised to double development aid to China until 2009 and extend USD 3bn soft loans and USD 2bn export credits
  - Foundation of an African-Chinese chamber of commerce
- Africa trip of Chinese President Hu Jintao in February 2007:
  - Promise of another USD 3bn soft loans
- Chinese model is certainly no panacea for Africa, but China shows that is worth looking into Africa
  - China is supplying cheap credit and plugging chronic gaps in infrastructure
  - Western countries concerned about negative impacts on reform pace, debt sustainability

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