

Macro Forum insights and perspectives

November 2016



Welcome

This latest issue of our Macro Forum Insights and Perspectives comes to you in the immediate aftermath of the US presidential election, one of the most polarising and divisive exercises in democracy we have seen, even when compared with the challenges faced by more nascent democracies in our growth markets. In addition to some reflections on what the outcome of the election may mean for our markets, we have a focus article on the current situation in Nigeria and South Africa, the two giants of the African economy, as well as an article looking at the impact of IMF intervention on Sub-Saharan Africa. We conclude with a reflection on the continued emergence of a new axis of trade across our markets.



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Pollsters trumped again!

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In recent weeks, we have been asked by many media outlets and many of our investors and stakeholders for our views on the impact of the US presidential election result on prospects for our growth markets. There is little doubt that this has been the most polarizing and tense election that the US has ever seen, with the two candidates having the highest negative ratings of any major party nominees since polling began. In fact, when asked, many Americans will freely acknowledge that they voted for one candidate principally because they did not want the other candidate to get into office. Perverse though it may sound, it is the candidate hated least - rather than most liked - who wins. This is unsurprising when you consider that half the electorate believes one candidate to be a misogynist racist, while the other half believes the other candidate represents the entrenched corruption of the Washington system. Whatever their reasoning, the American electorate has now spoken. Just as with Brexit back in June, the pollsters have once again been confounded by the result, and January 2017 will see Barack Obama replaced by Donald Trump in the Oval Office.

Trump will take office with a strongly polarised electorate - more than any president in the post-war era. Questions will remain for months - if not years - over his legitimacy to govern given his background and lack of public sector experience. In the short term, Clinton's backers are sure to react with anger and frustration, and Trump's "deplorable" supporters will have to learn to be gracious winners, reaching out to mend the huge rift in American society that this election has revealed. With the Republicans sweeping House and Senate in addition to winning the Presidency, the Trump administration actually has a greater ability than Obama did to pass landmark legislation on immigration, taxes, infrastructure investment and the like. There is also likely to be upwards of 3 Supreme Court appointments during Trump's tenure, vitally important to US civil society as Supreme Court appointments

will have effects for decades. The question now will be whether issues around Trump's legitimacy cause fractures amongst his own supporters in the other branches of the Executive, derailing what would otherwise appear a path to effective decision making.

So what does Trump mean for our markets? In the immediate aftermath of the Brexit vote, we highlighted that the referendum result would confirm the existence of significant political volatility in developed markets, and that the prospect of a Trump win at the time seemed less remote. We further forecast that a move to "risk off" in developed markets could benefit emerging markets as investors looked to alternative sources of yield and re-assessed the risk:reward proposition in the rest of the world. With the significant inflows into EM equities and credit seen in the period since June, this forecast seems to have been broadly accurate. But can we say with any certainty that this trend will now continue as the US follows the UK's lead?

In the short term, we see significant volatility in all markets, and a flight to traditional safe havens as people look to park excess liquidity in gold, CHF and JPY. Hard currency bond yields should also tighten and equity markets will see some sharp declines, mostly as a function of the fact that a Trump win was not priced into yesterday's market close and traders will be shocked. However, our suspicion is that plenty of traders will view any material decline in equities as a buying opportunity, and that immediate falls may well reverse over the coming weeks. This short term reaction will principally be driven by uncertainty and fear rather than by a sober review of the impact of Trump's policies. In common with other safe haven currencies, we would expect the Dollar to appreciate against EMFX in the short term, although we see the prospect of a US rate rise in December having receded with this result, and consequently the Dollar may weaken as (and if) it becomes clear to what extent Trump intends to pursue some of the more isolationist trade policies he has advocated during the election.

Trump's win certainly raises questions about America's willingness to continue to act as the architect of global free trade,

and in the absence of American leadership and advocacy of global liberal values, leaves the prospect of a vacuum, with no country with the credibility to fill the shoes of the US. Mexico is perhaps most vulnerable to a migration of capital from its economy and to a continued collapse in the value of the peso, and whether the wall is physical or virtual, the Trump administration is likely to look to bring some of Mexico's existing trade surplus with the US back onshore. In addition, the major Trans-Pacific Partnership trade deal is likely to be scrapped, the US will probably seek the renegotiation of NAFTA, and whilst we would not expect tariffs to be imposed in the immediate short term, the nature of the trading relationship with China and other major exporters is going to be reviewed.

So with the rules of trade with the US potentially re-written, the growth markets will need increasingly to turn to other growth markets for support - the South:South axis will become stronger as a result. Later in this edition, we have a focus article on the growing importance of the South:South trading axis. Self-evidently this will not be enough to sustain growth in economies still heavily reliant on feeding the desires of the US consumer, but with 40% of global trade now on this axis, it gives a clear sense of the growing inter-dependency of the nations of the 'South' and the gradual reduction in reliance on the US. And as Trump starts the process of finding candidates for the thousand or so political appointments that need to be filled by January, it may well be that we see a change in the tonality of the message from his camp. After all, if the US really wants to bring production back onshore, and at the same time retain the standard of living and levels of consumption made possible by globalisation, it will have to re-engage with the growth markets. Why? Simply because demographics demand it. If the US is to become an exporter again, then it must recognise that 80% of the growth in the world's middle class is going to come from emerging markets. And even Donald Trump knows that when you promise to "make America great again", you need to be seen to deliver on that promise, and simply making household goods more expensive by imposing tariffs is unlikely to make many of his voters feel that great.

Africa

Is the African superpowers' flu turning into pneumonia?

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How the mighty have fallen. There is no doubt that the economic fortunes of South Africa and Nigeria, once the leaders of the 'Africa Rising' narrative have suffered from adverse external factors, but to many commentators it seems that many of their current issues are self-inflicted. The importance of these two giants to the perception of the African continent amongst investors cannot be over-stated. With around US\$600bn in combined GDP, they represent 40% of the Sub-Saharan economy, and have historically secured around 70% of total private equity investment. If they cannot reverse their current growth trajectory, what does this mean for the rest of Africa?

South Africa and Nigeria have several characteristics in common. They are the two largest economies in Africa, they both have a growing consumer class, rising urbanisation, and the potential to benefit from a 'demographic dividend'. However, both are prone to cycles, exogenous shocks, and share some idiosyncratic political and cultural challenges. Their current problems may have had different points of origin, but both economies find themselves up against strong headwinds today. For investors, this could be both a short term problem as these headwinds place pressure on corporate profit growth, but could also be an opportunity for contrarian investors, particularly those with the ability to take a longer term view!

South Africa

Homegrown or Imported Challenges?

South Africa's woes are almost entirely homegrown. For years now, the country has struggled with slow growth caused by structural impediments including high unemployment, labor challenges, industrial action, and electricity shortages. Although inflation has largely been kept in check, the currency's penchant for roller coaster antics has become a widely watched indicator of EM volatility. That said, the volatility, at least in part, reflects liquidity with daily FX trades in the Rand equating to almost 20% of South Africa's GDP, a very high level relative to other currencies. This certainly drives enhanced sensitivity to exogenous events like changes in the Fed rate, but local factors have still managed to influence volatility, none being more prominent in people's minds than those linked to the revolving chair in the Finance Ministry.

'Musical chairs'

In December 2015, President Zuma replaced well-respected finance minister Nhlanhla Nene with a largely unknown politician, Des van Rooyen. The market reacted in shock with a steep depreciation in the Rand. Three days later and in reaction to pressure from the fallout, Zuma replaced van Rooyen with a previous, well-respected finance minister, Pravin Gordhan. Fast forward almost a year, and the National Prosecuting Authority (NPA) brings fraud charges against Gordhan, with the timing of the announcement and perceived 'frivolity' of the fraud charges immediately questioned, with allegations of political interference both within the ANC as well as from commentators and opposition parties. President Zuma has been accused of seeking unfettered access to the South African treasury – with Gordhan being the one person standing in the way.

Now, in early November, the charges have been withdrawn due to the inability to prove criminal intent, only to be shortly followed by news that Gordhan will be charged again before the end of the year! The new charges will relate to the so-called 'Rogue Unit' – a special division set up during Gordhan's tenure as South African

Revenue Service head to investigate tax evasion and other tax-related matters. It is therefore difficult to predict if we could see a new round of finance minister 'musical chairs' in the near future in light of recent events.

State Capture'

Adding to the political turmoil in recent weeks has been the much anticipated 'State of Capture' report on alleged state graft which Zuma, van Rooyen and minister of Mineral Resources, Mosebenzi Zwane tried unsuccessfully to prevent the release of. The report focuses on the relationship between Zuma and a wealthy business family, the Guptas, who it is alleged had undue influence over the recent ministerial changes in addition to having benefitted from their influence in the award of state company contracts. The report calls for a judicial enquiry and this is likely to be a protracted affair. All of this adds further to the calls from civil society and opposition parties for Zuma to resign or for the ANC to recall him, but at this stage we see limited probability that his hand will be forced.

Rollercoaster ZAR Reaction

The consequence of the Gordhan episode, unsurprisingly, is that the Rand has been 'oversold' relative to our fundamental value analysis. Prior to the Gordhan fraud charges, the ZAR was appreciating towards our view of fair value at c. ZAR12-13 to the US\$. It slipped with the announcement of the Gordhan charges and recovered on the NPA withdrawing charges. The ZAR strengthened again on the release of the State of Capture report. We can expect to see a reversal again should charges be reinstated or if new charges are brought against Gordhan and, if when the music stops, he is out of a seat. However, the ongoing interplay between the developments around the Gordhan case, State of Capture report, and economic indicators will have a direct impact on the probability of a ratings agency downgrade, something that Gordhan fought so hard to stave off back in June.

Nigeria

It's More Than Just Oil

Nigeria is experiencing the worst recession in 20 years with Q2 2016 GDP falling c. 2% year-on-year. Foreign reserves fell to the lowest levels in 11 years and inflation is at a decade high of 18%. Oil production dropped by 35% from 2.15 mbpd in 2015 to 1.4 mbpd in 2016 due to the impact of militancy in the Southern oil producing region. The economy relies heavily on oil – 70% of government revenues are earned from oil and oil accounts for 90% of exports. The slow pace in diversifying the economy, together with the ongoing oil price slump and a drastic drop in oil production has seen Nigeria suffer a shock with further weakness expected through to the end of 2016 and into 2017.

The Central Bank of Nigeria ('CBN') abandoned its US\$ currency peg on 20 June 2016, after 16 months of economic deterioration. This was clearly unsustainable and the Naira ('NGN') lost over 50% of its value once the peg was removed in June. The Naira is now trading around NGN315 to the US\$. This is in line with our view on fair value. However, the NGN is still trading at a significant discount to the official rate in the parallel market, and the differential between the official and parallel market rate highlights the lack of liquidity in the market which has not seen any significant improvement due to rationing by the CBN. Our FX model suggests these are structural liquidity issues rather than representative of the Naira's fair value, but this is cold comfort for companies and individuals seeking to access dollars in Nigeria.

The country has plans to diversify the economy, to widen its tax base (6% of GDP vs SSA average of 14%), and to

increase revenue from other sources to decrease reliance on oil. In addition, planned investments in infrastructure (which will be largely funded by debt), reflect a recognition by Government of the need to restore confidence in the economy and prop up growth. Should the oil price strengthen in 2017 or production volumes return to more normal levels, this would boost reserves and help stabilize the Naira. That said, we see no obvious short term catalyst for a spike in oil prices, making production growth the key driver the Government can influence. How easy it will be to restore public order in the Delta in a period of declining real wages and high unemployment is unclear. The planned infrastructure projects should also improve the ease of doing business in Nigeria and improve investor confidence in what is a challenging market logistically. However, all of these improvements will take time and will require significant public sector investment, suggesting that in the short term, conditions will worsen further as real incomes continue to decline.

So Is the Glass Half Empty or Half Full?

It's not all doom and gloom for Africa's superpowers. Despite today's headwinds, the long-term drivers of investment for both countries remain intact. In South Africa, notwithstanding the impact of political events, economic indicators are offering early signs of a recovery including a decline in the rate of inflation acceleration and potential monetary policy easing. In Nigeria, a recovery in the oil price together with implementation of

the government's expansionary budget which is expected to yield results in 2017 will offer some relief to the economy. Positive effects will then filter through for consumers and into other sectors of both economies. Clearly though, both will continue to cast a long shadow over the Continent into 2017, which may well lead to more attractive asset pricing in markets that are less impacted by the economic factors affecting the local giants but nonetheless suffer from a degree of contagion in investors' minds.

We have seen demand for quality assets in both markets remain steady. Our recent exit from Tekkie Town (which is subject to regulatory approvals), a shoe retailer in South Africa, and our investment in Azura, a large (459MW) gas-fired power generation facility under construction in Nigeria, are examples of how local knowledge and sector insights can be powerful tools for seeing the value during times of low visibility and high uncertainty.

In 1997 it was the Asian debt crisis, in 2008 it was the global financial crisis, in 2011 it was the Arab Spring. Investing in growth markets will always be punctuated by geopolitical headwinds and global exogenous shocks, but the silver-lining is that this creates opportunities to find high quality investment opportunities. The outlook may be blurred for Nigeria and South Africa as they navigate through their respective sets of issues, but these giants will eventually awaken from their slumber with their long-term fundamentals still intact.



Africa

IMF intervention – headache or panacea?

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Whether directly or indirectly, there can be little doubt that the International Monetary Fund has played a crucial role in the macroeconomics of Sub-Saharan Africa. It has provided direct bilateral support to countries in order to manage their macroeconomic imbalances, and it has indirect but material influence on lending by other donor agencies. However, this support does not come without strings attached and with growth in SSA set to slow to 1.4%, its lowest level in more than 20 years, now seems an appropriate time to ask whether engagement with the IMF is always in a country's best medium term interest. Specifically, was the average annual real growth in SSA of 4.0% simply reflective of the global macroeconomic cycle over the last decade, or can it be said to have resulted from the IMF's intervention during and prior to that period?

A long history of financing and cooperation

Back in the 1980s, as a condition of emergency lending, the IMF required recipient countries to implement a series of standardized free market reforms known collectively as the Washington Consensus. The structural adjustment programmes, or SAPs, imposed deep cuts on public spending and required implementation of privatisation initiatives as well as trade and financial liberalization.

Many blamed these policies for destroying already limited state provision of schools and hospitals, police and security, and in turn this led to a policy reset at the IMF allowing for tailor-made solutions, including fiscal and monetary accommodation as an immediate response to financial crises.

In the early 2000s, the Heavily Indebted Poor Countries and the multilateral Debt Relief Initiatives led to the write-off of US\$100bn of debt in 30 African countries in exchange for economic reforms. The median ratio of general government debt to GDP of most major SSA countries fell as a result from 80% to 30%.

Today, the fund is increasingly active in SSA, with 17 current loan programmes

to countries in the region and more being discussed. Some of the key programmes include:

- Côte d'Ivoire: \$725m facility expired in Dec 2015; IMF mission to return to Abidjan soon for discussions about new 3-year funded arrangement.
- Kenya: \$1.5bn in funding was approved in March 2016, Kenya is under a 24 month standby arrangement and standby credit facility.
- Mozambique: Reviews and disbursements under Standby Credit Facility. \$285m suspended following discovery of undisclosed debt.
- Ghana: \$918m facility in place until April 2018. Third review and disbursement approved in Oct 2016.
- Zambia: Country have started formal discussions with the IMF. Programme unlikely to emerge before end of the year.

So with IMF intervention across the region at such a high level, it is worth looking at current case studies to see whether the reform requirements are helping to restore macro stability in economies that implement them correctly.

Ghana

Signs of bottoming out after recovering remarkably in recent months.

There is no doubt that the introduction of an IMF programme and the associated inflow of funds raises investor confidence, which slows down capital flight, reduces the risk of further downgrade of sovereign ratings, and helps improve the prospects of exchange rate stabilization. However, borrower countries often struggle to adhere to strict budget deficit limits set by the IMF, and the fiscal reforms – including public sector wage freezes and elimination of fuel subsidies – sometimes give rise to economic and social crises which can culminate in serious social disturbances, leading to political instability.

One of the most recent illustrations of the IMF's immediate positive impact has been in Ghana. Ghanaian governments tend to have a bad habit of implementing significant increases in public spending in the run-up to elections. Following the 2012 election, public debt had risen to more than 70% of GDP leaving Ghana's economy on shaky ground particularly when commodity prices then fell. (Ghana is an exporter of cocoa, gold and oil). When

coupled with electricity shortages, this caused economic growth to halve from 8% in 2012 to 4% in 2014. Ghana had no choice but to abandon its home grown reform programme and go to the IMF for help.

The country currently has access to an Extended Credit Facility (US\$918 million) that is in place until April 2018. The third review was approved early in Oct 2016 with disbursement of an additional \$116 million, which brought the IMF's total disbursement to Ghana under the Facility to \$465 million. Early September, Ghana issued a €750 million 5-year Eurobond five times oversubscribed at 9.25%. The reflected 150bps improvement from the \$1.5 billion bond issued a year ago is a clear demonstration of the positive investor sentiment about Ghana following IMF engagement.

Despite Ghana's relative popularity among investors and the IMF's backing, the country still has some issues: the government's debt service cost to revenue ratio, at 27.7%, is one of the highest in SSA. Local unrest was seen in 2015 in response to some of the required reforms, but the general perception is that life is getting better. Inflation is declining (21.2% yoy in September), GDP growth should reach 5.5% this year and the deficit for 2016 is expected to reduce to 5.3% of GDP versus 7.2% last year.

So Ghana sees benefits from relative FX stability and decelerating inflation, but at the price of monetary tightening and fiscal consolidation that impacts GDP growth negatively in the short term. With an eye on next month's presidential and parliamentary elections, investors are hoping Ghana will resist election pressures to spend out of budget, something Mozambique failed to do and to disclose.

Mozambique

A year of embarrassment when the financial tide went out

"You only find out who is swimming naked when the tide goes out", Warren Buffett famously observed. Mozambique is a small economy with nominal GDP of only US\$15 billion. 2016 has been a difficult year for the country, with growth negatively affected by the deterioration in global commodity prices and lower agriculture output due to "El Nino". GDP growth has fallen, with the latest forecast downgraded to 4%. The metical has depreciated by approximately 70% against the USD, having already depreciated by 36% in 2015. Gross foreign reserves have almost halved and import cover at 2.6 months is well below the level recommended by the IMF, and is expected to continue decreasing. The country's public sector debt statistics have also deteriorated, most notably driven by a \$1.4 billion increase in public debt, the existence of which was not disclosed until April 2016.

Mozambique's government debt is now at 85% of GDP from its low of 37% in 2011, a level which followed the receipt of

multilateral debt relief. And with this recent development, international partners including the IMF and the World Bank have suspended financial aid and the major ratings agencies have downgraded the country.

This build-up of unsustainable debt levels contrasts with the relative macroeconomic stability and growth that were seen before the summer of 2015. The country recorded high levels of growth over the prior decade primarily because of the larger volumes of foreign direct investment in natural resources. Mozambique took advantage of low global interest rates and high commodity prices to issue billions of dollars of debt benefiting from the credibility offered by the engagement with the IMF. Today, the IMF requires sound macroeconomic policies and initiation of the audit process to reengage with the country. Yet the IMF's previous policies failed to prevent the build-up in public debt.

This demonstrates that while intentions in Mozambique were good, policy effectiveness remains weak, even with continued IMF engagement.

Headache or Panacea?

It is fair to conclude from our experience across SSA that IMF programmes do usually result in a slowdown in GDP growth, and a rise in civil unrest as reforms are implemented. However, based on the recent experience in Ghana, we believe that the new tailored approach adopted by the IMF is working well to mitigate many of the historical issues. A successful engagement with the IMF can lead to improved macro credibility and is certainly a signal of policy credibility to the market. Catalytic financing can help when the country's fundamentals are sound and investors like Actis can make investments conditional on IMF involvement, investing only if the IMF makes liquidity available to the country.

So short term pain, long term gain does indeed seem to be a realistic description of what a country will experience when taking the IMF's medicine, but at least in Ghana, we see good progress in getting past that initial unpleasant taste!



South-South Trade

A new trade axis emerges

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Back in 2004, the UN stated that a “new geography of trade is emerging and reshaping the global economic landscape”. What they noticed was the formation of the growth markets of the southern hemisphere into an economic entity in their own right, a phenomenon they called South-South to rival the more traditional North-North and North-South developed country trading relationships. Defined by increasing levels of investment and trade with each other, the UN had rightly observed a growth phenomenon in the south that would ultimately change how we view the existing world order.

Fast forward to today and we have seen fundamental and increasingly important shifts in the global socio and macro-economic environment. With the numerous challenges the North has had to face, we can now see increasing and tangible indicators of how the South has gained macro share, driven particularly by the extraordinary growth stories of China and India.

Growth markets accounted for a half of the world’s merchandise exports in 2014, growing from one third in 2000. China tripled its share of world exports between 2000 and 2012. South-South trade - the exports and imports of goods and services between growth markets in the southern hemisphere - has risen from an 8.1% share of world trade in 1980 to 26.7% in 2011. Forecasts suggest that this could increase to over 40% in the next 20 years.

This is important. As North-North trade continues to decline from 46% of world exports to now around 30%, the southern growth market power block is becoming much more important as a driver of global trade and development. Through the demonstration of “soft power”, growth markets are gaining strength through mutual assistance and support through aid, development funding, trade, investment and infrastructure. By sharing information and technological innovations to bridge the knowledge gaps between developing countries, growth markets are converting these insights to drive an increasing rate of industrialization in the countries that are least developed.

The agent of change

China’s commitment to investment across Asia, Africa and Latin America is the big driver of change in the south. Through redirecting its domestic over-capacity and capital to southern neighbors in the form of increasing external infrastructure investment, China is attempting to ensure its own future economic security by making itself the long term beneficiary of increasing trade flows and reciprocal economic benefits with countries it is investing in, most visible in the supply of natural resources back to China.

In September 2016, we saw a further strengthening of China’s role in global trade when it was announced that the Chinese Yuan would be included in the basket of currencies of the IMF’s Special Drawing Rights, meaning that central banks around the world can elect to hold in reserve the Yuan and thereby future trade agreements wherever they might be in the world can be agreed and conducted in Yuan. It is expected that this will reduce the importance of the US dollar in these markets and facilitate an ever greater role for China.

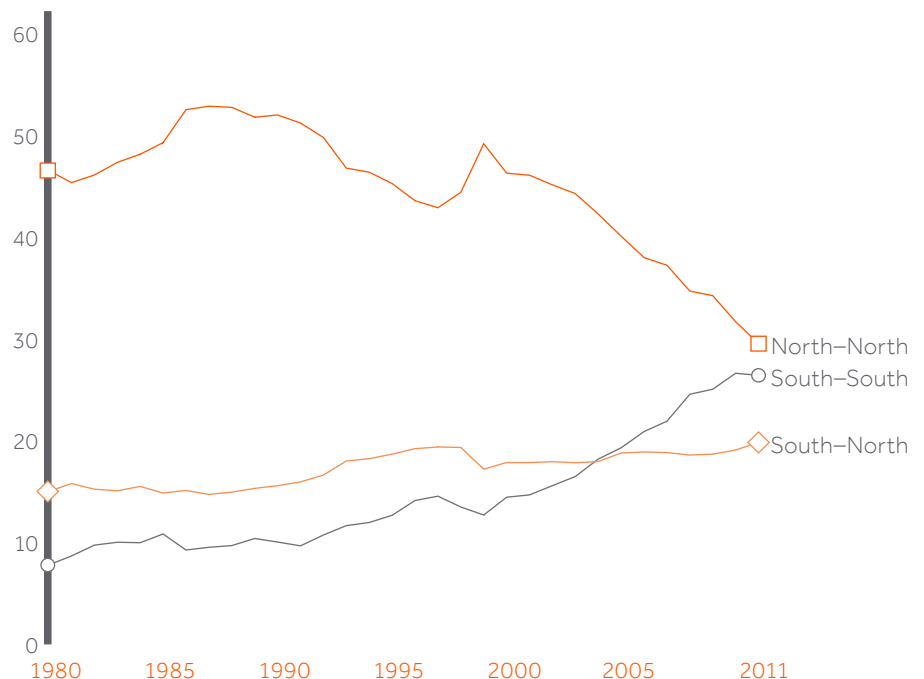
In a classic case of history repeating itself, in 2013 China announced the creation

of the Silk Road economic belt and the Maritime Silk Road to improve the connectivity between China and the land masses of Asia, Eastern Africa and Europe, anticipating cumulative investment in the next decade of up to \$1trillion. Also called “One Belt, One Road”, the parallels with ancient silk routes that began during the Han dynasty (207 BCE to 220 BCE) are striking.

Africa is perhaps the most significant beneficiary of China’s “South-South” investment. Over the period from 1992 to 2011, trade between China and Sub-Saharan Africa rose from \$1bn to a staggering \$140bn. China is clearly looking to capitalize on the fact that with 15% of the world’s population, Africa only accounts for 3% of global trade. China now takes more African exports than the USA.

As recently as October 2016, we saw the launch of the fully electrified Ethiopia-Djibouti railway, linking Addis Ababa with the port of Djibouti on the Red Sea, fully funded by Chinese banks and built by Chinese companies, an example of how China is using infrastructure investment to open up the continent to intra-African trade. And this isn’t the first example, following on from previous openings of

The rise of South-South Trade - Share of world merchandise trade (%)



Note: North in 1980 refers to Australia, Canada, Japan, New Zealand, the United States and Western Europe.

Source: Figure 2.1, UNDP Human Development Report 2013, *The Rise of the South: Human Progress in a Diverse World*

modern railway lines in Angola and Nigeria as well as the ongoing construction of the Mombassa-Nigeria railway in Kenya.

Over 2000 Chinese companies have invested in, or are looking to invest in Africa. Nearly all investment goes into energy, mining, construction, manufacturing and services. China is Africa's biggest lender for infrastructure financing. The Export-Import Bank of China has signed up to major projects with the African Export-Import Bank and with the government of Tanzania. The plan is to construct industrial parks and economic zones for light industry and processing of raw material and commodities worth up to \$1bn. In another example, Chinese companies have become the biggest builders of hydropower dams in Africa and have broadened this recently to the construction of water treatment stations and water supply projects. Yet it's not all big infrastructure investment. Small and medium sized Chinese investment is growing in the form of business services, be it in restaurants, hotels or small manufacturing/export companies.

Of course, these examples of south-south cooperation have to be a win-win for both sides. South Africa—China's largest trading partner in Africa—is benefiting from increased investment in manufacturing and in newer industries such as e-commerce. In October 2016, Eskom, the South African electricity utility and the China Development Bank signed a \$500m credit facility agreement that will allow Eskom to complete its planned capital expansion projects. China, in return, is also benefiting by opening its markets to investment from a number of South African companies such as Sasol, De Beers, Naspers MIH, SAB Miller and First Rand.

New Kid on the (African) Block

Growth in India has created the demand for new markets and resources. Focus has zeroed in on Africa and trade between India and Africa has increased from \$5bn in 2005 to a likely \$100bn this year. We are now seeing India as an increasingly important player in African investment, particularly in pursuit of energy security. India continues to search for new suppliers away from the more volatile western Asian oil suppliers. India has been investing in Nigeria, Sudan, Cote d'Ivoire and Ghana to name but a few. The current 20% of oil imports India receives from Africa is most likely to continue growing.

In July 2016, Prime Minister Modi made his first tour to Africa, signing agreements with Mozambique, Tanzania, South Africa and Kenya, all East African Indian Ocean facing countries and strategically positioned to counter China's growing presence in these areas. 19 agreements were signed, including deals in information technology, water resource management, food security and healthcare along with the usual natural resource projects.

In the same way that China is fostering long term relationships and benefits through infrastructure construction. India is doing the same thing but focusing also on education, vocational training and skills development in Africa. The model is a "pro-people" model, providing the necessary personal skills necessary in order to deliver the anticipated benefits of a long term trading and economic relationship between the two regions.

South-South and Actis

At Actis, South-South isn't primarily about trade, although we are starting to see how China-Africa investment is affecting some of our portfolio companies in South Africa. Actom, the largest manufacturer and distributor of electro-mechanical equipment in Africa is increasingly looking to source technology out of China, including pre-paid meter technology. The reciprocal benefit for Chinese companies is access to the fast-growing African electricity market through the Actom platform. Coricraft, a South African manufacturer and retailer of high quality furniture and homeware, imports c. 50% of its product range and materials from the East, of which 20% is sourced from China, and c. 20% from Indonesia.

Instead, South-South is about using our global presence and investment experience in the southern hemisphere to focus on the transfer of knowledge and expertise between our portfolio companies as complementary trading patterns continue to emerge. Such exchanges help us build connectivity between our investments and facilitate their market entry and procurement strategies to take advantage of these trends. An example is the joint sourcing by our energy platforms of Chinese manufactured solar panels to ensure we are as cost competitive as we can be.

We closely watch South-South co-operation through trade and investment. We recognize the ongoing global shift in trading and investment patterns and also understand that this is not just a China-India-Africa story. We could talk about the reciprocal relationships between Latin America and Eastern Asia just as easily. A "new geography of trade" has indeed emerged.



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- Actis office
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- Other Actis target markets since 1998