



# Looking North

**SOUTH AFRICA** FACES MANY CHALLENGES AT HOME, BUT THE EXPANSION OF INDUSTRIES ABROAD IS ENCOURAGING, WRITES MARK MOBIUS

**T**HE FLIGHT FROM DUBAI TAKES seven hours, down across the Gulf of Aden over Addis Ababa, Nairobi and Mogadishu. First stop is Johannesburg, where most of the large company offices are located. Things are not going so well on the South African political and economic front. The stock market is down, inflation is up and the currency is weakening after having strengthened against the US dollar. Inflation has jumped to 10 per cent, influenced by rises in petrol and food prices, causing the Central Bank to raise interest rates. One thing contributing to higher inflation is the flood of people crossing the border from Zimbabwe to stock up on goods no longer available in crisis-hit Zimbabwe, which is in turn creating shortages in South Africa.

At Tiger Brands, one of the leading branded food companies, executives say their profit margins are being squeezed but they're wary of increasing prices for fear of losing market share. Consumers are moving down to more basic items. The country is suffering from electricity shortages as well. Eskom, the state-owned power utility, is asking for a 53 per cent tariff increase to fund a multi-billion rand programme to add more capacity and upgrade. The additional inflow of immigrants from neighbouring countries such as Zimbabwe has created tension with locals also seeking jobs, resulting in riots.

Politics in South Africa is a conundrum. Jacob Zuma defeated president Thabo Mbeki to become head of the ANC. As Zuma travels the country schmoozing with constituents in every walk of life, his approval rating goes up, while Mbeki's goes down. The ANC has opposed Eskom's 53 per cent price hike and accused the company of a lack of planning to avoid the energy crisis.

But not all is negative in South Africa. One of the most attractive aspects is the extension of industries north into other parts of Africa. Mobile-phone company MTN, headed by CEO Phuthuma Nhleko, has expanded all over Africa and has more customers in Nigeria than in its own country. And now the company is subject to merger talks with Reliance Communications of India. Black empowerment is a significant theme



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African company extending its operations globally. Not only does the bank prosper in South Africa, but it has operations in Nigeria, Ghana, Tanzania and Kenya. In addition, it purchased Bank Boston's operations in Argentina and has extensive retail operations there. Probably most significant is their alliance with ICBC, China's largest bank. In 2007, ICBC purchased 20 per cent of Standard Bank's capital and started co-operation on facilitating trade between Africa and China. In addition, the pair jointly set up a natural resource fund for investment in Africa.

At insurance giant Sanlam, operations are being extended to other parts of Africa at an increasing pace. It is most active in neighbouring Botswana, but also in Kenya, Tanzania, Zambia, Ghana and Namibia and, most recently, Nigeria. Outside of Africa, it's has a 26 per cent share of a joint venture in India, which it expects to extend to 100 per cent once the Indian laws allow it. Instead of sticking to life and general insurance it's moving more aggressively into asset management businesses. One executive says, "Difficult stock markets mean that customers realise that anyone can make money when stock markets are going up but when things are not so good they entrust their investments to the professionals."

There are a number of good companies in Cape Town, so we had a good reason to head there after a week in Joburg. Cape Town is one of my favourite places and probably one of the most beautiful places in the world. Maybe it's the fresh sunshine; maybe it's Table Top Mountain; or the unique multicultural society with Malay, white and black cultural influences. Yes, Malay. When the Dutch ruled this part of Africa, they took Malay workers from their Indonesian colonies.

Cape Town's contrasts are incredible. Once you depart from the modern Cape Town airport, almost the first thing you see are shacks made of old cardboard and corrugated iron alongside a few houses with cinder block walls. Then you enter the city on a modern highway and check into your hotel, which matches anything you can find in Hong Kong, Singapore or Tokyo, with the service to match.

There is hope of oil offshore and I notice four drilling rigs undergoing repairs. Cape Town harbour's infrastructure has positioned the city as the natural choice for repair and maintenance. Nevertheless constraints remain, including delays in the signing of a lease between the National Ports Authority and Man Ferrostaal for the upgrading of the A-berth, according to Steve Hrabar, chairman of the SA Oil and Gas Alliance. Another key limitation is skills development, according to independent energy adviser Jack Holliday. "It's a catch-22," says Holliday. "You can't get work without the skills, and you need work in order to get the skills. That's why we need a step-by-step approach."

But with all its challenges, South Africa is still a great place to visit. And I look forward to returning as soon as possible. ■

#### LOCAL LIFE

##### FROM TOP

Victoria & Albert Waterfront in Cape Town; Mark Mobius with local children; a Cape Town supermarket

in the government's programmes and every company in South Africa is required to have an affirmative action scheme that includes training, ownership and executive positions. MTN is one successful example of that transition.

Barloworld is a major agent for heavy Caterpillar equipment, not only in southern Africa, but also in Siberia and Spain. Their forklift business extends to Belgium, Holland, the US and the UK. The main challenges include finding trained personnel and electric power. For example, motor vehicle repairs suffer when the power goes out. On the upside, the firm's sales of Caterpillar and Perkins generators are doing very well thanks to electricity shortages. When we visited, one mining company had just ordered US\$75 million worth of generating equipment.

Sasol is a firm with unique gas-to-liquid technology. This know-how comes from Germany's conversion of South Africa's extensive coal reserves to gas and liquid fuel during Second World War. The firm has been successfully producing gasoline and diesel for sale in South Africa in this way and is now extending its reach to Nigeria and Qatar, where there are copious quantities of gas available. With the current high oil prices, coal-to-liquid technology makes a lot of sense. One of the firm's targets is China, which has huge coal reserves.

Standard Bank is another example of a South

