Deepening China-South Africa Economic and Trade Cooperation

The year 2023 marks the 25th anniversary of the establishment of diplomatic relations between China and South Africa. Over the past quarter-century, the bilateral relationship has withstood the test of time and international vicissitudes. Under the cooperation of both governments, China and South Africa have achieved a "triple jump" from a partnership to a strategic partnership, and then to a comprehensive strategic partnership. This progression has continually moved towards higher quality, broader fields, and deeper levels, revealing the inherent momentum of cooperation between the two nations.

ACHIEVEMENTS OF CHINA-AFRICA ECONOMIC AND TRADE COOPERATION

As the comprehensive strategic partnership between China and South Africa deepens, bilateral economic and trade cooperation has flourished. The scale of cooperation has rapidly expanded, the scope of cooperation has further broadened, the forms of cooperation have become increasingly diverse, and the levels of cooperation have continuously improved. The fruitful achievements have played a significant leading and demonstrative role in China-Africa economic and trade cooperation.

Bilateral Trade

Firstly, bilateral trade has grown rapidly. As the political foundation of China-South Africa cooperation continues to strengthen, economic and trade cooperation between the two countries has entered the fast track, becoming a highlight of practical cooperation between China and South Africa. Over the past 25 years, bilateral trade has increased from $1.4 billion in 1998 to $56.7 billion in 2022. Since 2009, China has been South Africa’s largest trading partner for 14 consecutive years, and since 2010, South Africa has been China’s largest trading partner in Africa for 13 consecutive years, with China-South Africa bilateral trade accounting for one-fifth of China-Africa total trade (Fei, 2022).

According to the General Administration of Customs of China, in 2022, the trade volume between the two countries increased against the trend to $54.35 billion, a year-on-year increase of 50.7%, of which South Africa’s exports to China were $33.23 billion, a year-on-year increase of 59.6%.
According to the statistics reported by the General Administration of Customs of China, South Africa’s main exports to China include iron ore, steel, agricultural products, chemical products, and wood and pulp. South Africa’s main imports from China include machinery and equipment, steel products, chemicals, textiles, and vehicles and ships. In recent years, South Africa’s high-quality agricultural products such as beef, citrus, red wine, oysters, and rooibos tea have been smoothly exported to China, and its high-quality products and services have been fully displayed in the Chinese market through large-scale exhibition platforms such as the China International Import Expo, the Canton Fair, and the China-Africa Economic and Trade Expo (Ministry of Foreign Affairs of China, 2022).

It is worth mentioning that recently, the South African corn export channel to China has been officially opened. China’s corn imports are gradually shifting from mainly relying on countries such as the United States and Ukraine to South Africa (Chartered Institute of Procurement & Supply, 2023). South Africa has rich agricultural resources, and its agricultural products are of high quality, diverse, and competitively priced. China’s demand for corn imports from South Africa is gradually increasing, making it one of China’s important sources of corn imports, opening up a new space for mutually beneficial agricultural cooperation along the “Belt and Road” countries and regions.

**Bilateral Investment**

In the meanwhile, investment cooperation between South Africa and China has achieved remarkable results. South Africa is one of the largest investment destinations for Chinese companies in Africa. The continuous warming of China-Africa trade has driven more Chinese enterprises to invest and start businesses in South Africa, making “Made in China” more closely aligned with the local market. According to the Chinese Embassy in South Africa, by the end of 2021, Chinese companies had invested more than $25 billion in South Africa. More than 200 various types of Chinese-funded enterprises and institutions registered with the Chinese Embassy in South Africa have created over 400,000 local jobs, involving sectors such as energy, communications, finance, and manufacturing (Zhao, 2022).

In the energy sector, Longyuan South Africa’s De Aar wind power project has met the electricity needs of 85,000 local households (IOL News, 2023); Goldwind Technology has introduced advanced renewable energy technology to South Africa (African Review, 2020). In the communications sector, Huawei South Africa has become an important partner of all major telecom operators in South Africa in terms of 5G, making a positive contribution to the development of 5G in South Africa (Reuters, 2022); China Telecom has laid more than 1,100 kilometers of optical fibre cables in South Africa. In the financial sector, the China Development Bank and Chinese banks such as Bank of China, Industrial and Commercial Bank of China, and China Construction Bank have actively raised funds to support various investment projects and promote economic development in South Africa.

In the manufacturing sector, Beijing Automotive Industry Holding Co. Ltd. (BAIC) and FAW have invested in factories in the Coega Development Zone in Port Elizabeth (Embassy of China in South Africa, 2017); Hisense, Skyworth, and Sungrow’s products cover various fields such as home appliances, medical equipment, and intelligent transportation. Chinese companies not only provide funds for South Africa’s development of manufacturing, but also provide support with modern high-tech technologies, helping to transform its resource advantages into market competitiveness. Chinese brand cars and home appliances are produced in South Africa, and these high-quality and affordable products have entered ordinary African households, achieving complementary advantages and mutual benefits in capacity cooperation between the two countries.

Besides, since joining the “Belt and Road” initiative in 2015, South Africa has seen significant improvements in its infrastructure development (China-Africa Institute, 2019). These projects have played a crucial role in enhancing South Africa’s connectivity with other countries and the development of the African Continental Free Trade Area. The “Belt and Road” initiative aligns well with South Africa’s “Economic Reconstruction and Recovery Plan”, as well as the African Union’s Agenda 2063. The construction of “Belt and Road” projects helps accelerate the establishment of the African Continental Free Trade Area and promotes the process of African integration. In addition to the “Belt and Road” initiative, a new international cooperation platform, the BRICS cooperation mechanism, brings significant development opportunities to developing countries. On the 25th anniversary of the establishment of diplomatic relations between China and South Africa, South Africa has also taken over from China as the rotating chair of the BRICS countries.
PROSPECTS FOR FUTURE COOPERATION

As a Chinese proverb goes, “When hearts are in harmony, no plan will fail.” The year 2023 marks the beginning of the full implementation of the spirit of the 20th National Congress, as China embarks on a new journey towards building a modern socialist country. China’s new development will bring more opportunities to countries around the world, including South Africa. On the 25th anniversary of the establishment of diplomatic relations, China-South Africa relations are set to reach new heights. We must view and promote bilateral economic cooperation from a strategic perspective, continuously enriching the content of cooperation and innovating ways of cooperation. Guided by the important consensus reached by the governments of the two countries, China and South Africa will deepen cooperation in the field of economy and trade, striving for higher quality, broader areas, and higher levels.

Timely advancement of China-South Africa bilateral free trade agreement negotiations

Free trade agreements (FTAs) serve as vital institutional safeguards that stimulate economic and trade cooperation. They provide a framework that allows countries to engage in trade with fewer restrictions, fostering a more open and competitive market environment (Baier and Bergstrand, 2007; Anderson and Yotov, 2016). In the context of China and South Africa, the negotiation of a bilateral FTA could be a significant step forward in their economic relationship.

The negotiation process for such an agreement involves the careful crafting of terms that can reduce both tariff and non-tariff barriers. By addressing these barriers, an FTA between China and South Africa could facilitate a more seamless and efficient trade process. The negotiation of an FTA could create a favourable institutional environment that could elevate China-South Africa trade to a new level. This environment, characterised by clear rules and procedures, could provide businesses with the certainty and stability they need to invest and operate. It could also foster a more level playing field, encouraging competition and innovation.

However, it is important to note that the negotiation of an FTA is a complex and time-consuming process. It requires a deep understanding of each country’s economic landscape and a careful balancing of interests. For China and South Africa, timely advancement of these negotiations could be key to unlocking the full potential of their economic partnership.

Elimination of non-tariff barriers in China-South Africa trade

Non-tariff barriers can often pose significant challenges to international trade. These barriers can take various forms, such as complex customs
procedures, stringent technical standards, and restrictive sanitary and phytosanitary measures (Grundke and Moser, 2019; Kinzius, Sandkamp and Yalcin, 2019). For China-South Africa trade, the elimination of these barriers could greatly enhance the flow of goods and services between the two countries.

Within the framework of the World Trade Organisation (WTO), China could increase its preferential support for South Africa. This could involve offering more favourable tariff rates for South African goods, or providing technical assistance to help South African exporters comply with Chinese standards and regulations.

Moreover, it is a recommendation that China could actively promote trade facilitation measures for South African goods, particularly those with competitive advantages. For instance, South Africa is known for its high-quality agricultural products. By simplifying import procedures and reducing regulatory barriers, China could provide a larger market for these products, benefiting both South African producers and Chinese consumers.

Furthermore, optimising inspection and quarantine measures could also facilitate trade. This could involve streamlining procedures and improving the efficiency of inspections, without compromising the safety and quality of imported goods. Similarly, simplifying customs clearance procedures could make it easier for businesses to import and export goods, further boosting trade between the two countries.

Further expansion of cooperation in emerging fields
In accordance with the principles of complementary advantages and mutual benefit, both countries could strengthen the alignment of development strategies, innovate and optimise cooperation methods, focus on areas such as 5G, digital economy, high-tech, e-commerce, smart cities, green low-carbon, supply chain security, and promote the establishment of entrepreneurial investment cooperation mechanisms.

The first step is to align the development strategies of both countries. This involves understanding each other’s priorities, identifying areas of common interest, and setting shared goals. For instance, both China and South Africa have shown a strong commitment to digital transformation and sustainable development. By aligning their strategies in these areas, they could work together to achieve their goals more effectively.

Innovation is another crucial aspect of cooperation in emerging fields. This could involve exploring new ways of working together, such as joint research and development projects, technology transfer agreements, or co-investment in startups and innovation hubs. For example, China’s expertise in 5G technology and South Africa’s strengths in software development could be combined to create innovative solutions for smart cities.

Optimising cooperation methods is also important. This could involve improving the legal and regulatory framework for cooperation, simplifying administrative procedures, and providing support for businesses and researchers from both countries. For instance, the establishment of an entrepreneurial investment cooperation mechanism could provide a platform for Chinese and South African entrepreneurs to connect, share ideas, and collaborate on new ventures.

Encouraging Chinese enterprises to expand investment in South Africa
South Africa’s agricultural sector, while rich in resources, faces challenges in terms of efficiency and competitiveness (Aye, Gupta and Wanke, 2018; Ngobeni and Muchopa, 2023). High production costs and lack of advanced technology have limited the sector’s potential, restricting the expansion of South African exports to China. Thus, it is recommended that Chinese enterprises are actively guided, and encouraged, to invest in South Africa, to help South Africa improve the local deep processing capacity and level of resource-based products and agricultural products, and to innovate the trade and investment model and path to South Africa to promote the upgrading of China-South Africa trade structure.

Specifically, Chinese enterprises, with their technological prowess and experience in managing efficient supply chains (Kunkel et al., 2022; Sheng et al., 2023), can play a pivotal role in transforming South
Africa’s agricultural industry. By investing in South Africa, these enterprises could introduce advanced technologies and efficient practices, helping to improve the productivity and competitiveness of the local agricultural sector. This could involve investing in modern farming equipment, introducing innovative farming techniques, or providing training and support for local farmers.

Moreover, Chinese enterprises could cooperate with South Africa to enhance the deep processing capacity of its resource-based products and agricultural products. This could involve setting up processing facilities in South Africa to add value to raw materials, creating high-quality products that can command higher prices in international markets. For example, instead of exporting raw agricultural products, South Africa could export processed foods, which have a higher value.

In addition to direct investment, Chinese enterprises could also explore innovative trade and investment models. For instance, they could form joint ventures with South African companies, or establish research and development centres in South Africa to develop new products and technologies. These initiatives could help to promote the upgrading of the China-South Africa trade structure, shifting from a focus on raw materials to higher-value products and services.

**Exploring the expansion of the scope of RMB settlement**

As a key player in Africa, South Africa presents a substantial opportunity for exploring the expansion of the Renminbi (RMB) settlement (see the report of China Daily for the current progress of RMB settlement). This strategic move could significantly mitigate South Africa’s challenges related to foreign exchange shortages. This process could be facilitated by a series of strategic measures.

Firstly, it is recommended to actively create conditions for RMB settlement in South Africa. This could involve establishing RMB clearing banks in South Africa, which would allow for the direct clearing of RMB transactions, reducing costs and increasing efficiency. It could also involve promoting the use of RMB in trade and investment transactions between China and South Africa, as well as encouraging South African businesses and financial institutions to issue RMB-denominated bonds and other financial products.

Secondly, it is advisable to further explore currency swap agreements with South Africa. Such agreements would allow the two countries to exchange their currencies, providing a buffer against foreign exchange risk and enhancing financial stability. This would also facilitate bilateral trade and investment, as businesses would be able to conduct transactions in their own currencies, reducing their exposure to exchange rate fluctuations.

In the short term, it could be beneficial to trial barter trade and local currency settlement trade. Barter trade involves the direct exchange of goods or services, without the need for money. This could help to alleviate South Africa’s foreign exchange shortage problem, as it would reduce the need for foreign currency. Similarly, local currency settlement trade, where trade transactions are settled in the local currencies of the trading partners, could also help to alleviate foreign exchange shortages.

**Jointly opposing trade and investment protectionism**

At present, the impact of the international financial crisis continues to emerge, and the task of promoting a comprehensive recovery and sustainable development of the world economy is still arduous (Zhao et al., 2022; Zhao et al., 2023). Both China and South Africa need to take practical actions to promote trade and investment liberalisation and facilitation.

It is important to recognise that protectionism, characterised by restrictive trade policies such as tariffs and quotas, can hinder global economic growth and development. It can lead to inefficiencies, limit competition, and ultimately harm consumers through higher prices and reduced choices (Feenstra, 1992; Barattieri and Cacciatore, 2023). Therefore, China and South Africa could jointly oppose such protectionist measures. They could do this by advocating for free trade and open markets at international forums, and by resisting the imposition of unjustified trade barriers.

**CONCLUSION**

In conclusion, it is paramount for both nations to proactively foster conducive conditions for cooperation. This involves maintaining robust communication and coordination within multilateral frameworks such as the United Nations, G20, BRICS, the Belt and Road Initiative, and the China-Africa Cooperation Forum. By aligning with the international community, China and South Africa could collectively bolster macroeconomic policy coordination, advocate for the reform of the international financial system, and enhance the global economic governance mechanism. These concerted efforts will undoubtedly contribute to the comprehensive recovery of the global economy, setting a promising trajectory for the future of international economic relations.
REFERENCES


