CHAPTER 5

The Political Economy of South Africa–China Trade and Economic Relations

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INTRODUCTION

A little more than two decades have now passed since the establishment of diplomatic ties between China and South Africa. The year of 2018 is also auspicious since it marks the centenary of the birth of Nelson Mandela who was the architect of establishing such ties based on the ‘One China’ policy; while also in the process of downgrading relations with Taiwan. Since the formalisation of relations in 1998, as has been noted, “China’s relations with South Africa have clearly advanced significantly at both the political and economic levels” (Shelton 2008, 271). Relations have traversed frontiers of progress from a bilateral to a ‘Strategic Partnership’ in June 2004, and then culminating in a ‘Comprehensive Strategic Partnership’ framework for development and cooperation in August 2010. An important outcome of the initial framing in terms of the ‘Pretoria Declaration on the Partnership Between the People’s Republic of China and the Republic of China’ was the launching of a Bi-National Commission (BNC) in December 2001 in Beijing.

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The BNC has certainly served as a catalyst for broadening the ambit of relations between China and South Africa which includes a common global political outlook and internationalist ethos which has been very consequential for “...building a new form of South-South cooperation which could be very effective in advancing African interests and reforming the existing global political and economic order” (Shelton 2008, 273). The foundational elements of the China-South Africa model have been strengthened over the years, including putting in place the joint inter-ministerial working group on China-South African Cooperation in 2013. Importantly, in July 2017 President Xi Jinping made his third state visit to South Africa, the only country to receive three such visits; while a month later, President Cyril Ramaphosa also paid a reciprocal visit to China.

In the realm of economic relations, China has been South Africa’s largest trading partner for nine years in a row; and for eight consecutive years, South Africa has also been China’s largest trading partner in Africa. Two-way trade totalled $39.7 billion in 2017 which is almost 20 times the 2002 figure of $2 billion. China’s direct investment in South Africa reflects a diverse portfolio and exceeds $25 billion cumulatively. South African companies are also the biggest African investors in China, with direct investment exceeding $800 million in more than 200 projects in a lucrative but difficult and challenging Chinese market. Based on a High-Level People-to-People Exchange Mechanism, Chinese tourism to South Africa has grown significantly, twinning arrangements have been established between the countries’ cities and provinces, and five Confucius Institutes have been set up at South African universities. In addition, there are more than 2600 South African students studying in China, reflecting a year-on-year increase of 11.5% (Wenjun 2018).

There has been improved cooperation and coordination on the global stage, especially at the levels of the UN, the G77, and G20. The two countries worked closely together when South Africa hosted the 10th BRICS Summit from 25 to 27 July 2018. This event was preceded in 2017 with the setting up of the first Africa Regional Centre of the BRICS New Development Bank in Johannesburg (IGD, UNISA 2017). And since 2012, South Africa and China have jointly chaired the Forum on China–Africa Cooperation (FOCAC) as a platform for enhanced China-Africa growth and development. The high-water mark of the FOCAC process was South Africa hosting the 2015 Summit where President Xi announced a package of ten cooperation plans worth $60 billion. A new opportunity frontier will be opened for a potential African nexus and
promising connectivities of China’s Belt and Road Initiative (BRI) which joins different regions and countries, at different stages of development in an open and inclusive cooperation platform. Another opportunity frontier which will test the resolve of both China and South Africa is the establishment of the African Continental Free Trade Area (CFTA) in Rwanda in March 2018. The CFTA will become operational on 1 July 2020 and as such, will be the largest free trade area of its kind involving 54 countries of the continent (le Pere 2020).

However, the record of cooperation and growing synergies between the two countries should not mask serious challenges on the fronts of their domestic arenas and foreign settings. While China’s drive to growth and modernisation has lifted some 680 million Chinese citizens out of poverty over the last three decades, it is experiencing growing levels of inequality, widening cleavages between urban and rural areas, worrying levels of environmental degradation, natural calamities, and pollution, and growing external imbalances. For its part, South Africa’s promising democratic transition has been marred by rising levels of racialised poverty, unemployment, and inequality while almost a decade of ‘state capture’ has exposed how egregious corruption, fraud, mismanagement, and abuse of public resources have crept into the anatomy of state-owned enterprises and various levels of government, thereby fatally undermining the neutrality of public power and compromising a fragile social contract of transformation that was supposed to inaugurate a better life for all (Thompson and Wissink 2018).

Externally, both countries must confront the headwinds of a changing global order, punctuated by growing volatility, uncertainty, complexity, and ambiguity. For example, we are witnessing rising military tensions, disruptive trade and commercial relations, political paralysis in dealing with climate change, a rise in social protests, corrosive nativist identities, and intractable proxy conflicts. Moreover, geo-economic fault lines have come to define the current arena of conflict and rivalry as much as military confrontation. Geo-economics thus represents a new “logic of conflict and grammar of commerce” (Luttwak 1990, 7). An essential underpinning of geo-economics points to how the economic ties that bind countries together are commanded and manipulated to protect or pursue power and hegemony in terms of flows of goods, capital, investment, services, and data (Frankopan 2018). Both South Africa and
China will therefore be challenged to adjust their relations to accommodate these new realities. This will require bold leadership, determination, institutional development, and judicious economic management.

A Conceptual Reflection

In a pathbreaking collection, Chris Alden and Daniel Large have attempted to reframe and recast the ontological and epistemological underpinnings of China-Africa studies, with a focus on first-order methodological and theoretical questions (Alden and Large 2019). Among a variety of the rich veins highlighted at the coalface of China-Africa studies, they provide an analytical register for understanding the vectors of autonomous agency which could be the basis of an emancipatory agenda and an ontological gestalt that signifies a different existential moment in international relations. The same agency and ability to act autonomously could shape a different normative discourse in China–South Africa relations in ways that challenge the nostrums and dictates of the Western realist and neoliberal orthodoxy. The challenge for both countries is how they negotiate their way through the difficult and problematic shoals that buffet their difficult domestic regimes and demanding foreign policy settings, particularly when it comes to ensuring that globalisation still matters for developed and developing countries alike and that shared prosperity is not quixotic.

Changing Dynamics in China

China is the world’s second largest economy with a GDP of $13.4 trillion in 2018 and accounts for 16.3% of global GDP. However, in the aftermath of the 2008 financial crisis, the country is in the process of undergoing a profound transition which will require strategic and tactical adaptation by its major trading partners. China’s relations with the United States have become especially fraught since “China has staked its claim as a rising power to be reckoned with. Its rise has triggered structural shifts in the coordinates of global power in ways that have induced hostile responses from established powers such as the US” (Qobo and le Pere 2019, 7). Even among other major powers in the Eurozone, China is viewed through a lens of ambivalence, that is, variously as a threat, a competitor, and a partner. This has disruptive effects and unintended consequences on the already fragile stability of global order. Graham Allison has eloquently
demonstrated such effects and consequences by examining the impulses that flow from the ‘Thucydides’s Trap’ where a rising China is bound to clash with an immovable America (Allison 2017).

For China to keep its rising global profile, it has had to make serious domestic policy interventions. Here there are two critical aspects to its transition and restructuring at the domestic level. The first is that China is beginning to restrict the expansion of credit and reduce levels of indebtedness in its domestic economy. The second is the deceleration of domestic demand for raw materials and natural resources (Unay 2013). South Africa has been a principal source of raw materials and natural resources for China and as the future unfolds, the former will face serious challenges in how it redefines its relations with China in terms of the established principles of mutual benefit and support, cooperation, friendship, partnership, sincerity, and constructive dialogue.

China has sought to rebalance and recalibrate its economy in the aftermath of the 2008 global financial crisis, and since then it has been attempting to move up the value-added chain by 2025. Not only South Africa, but the major country circuits of China’s economic partnerships among developed and developing countries will have to make incremental changes to how they deal with the fast-changing domestic political economy of China. New forms of value addition in China will require that it shift away from energy, heavy industry (iron, steel, non-ferrous metals, basic machinery, and automobiles), and construction to more sophisticated industries and sectors (Frankopan 2018).

The breakthrough landscape of its post-industrial cycle includes next generation IT; high-end digital control machine robots and tools; aerospace development; oceanographic engineering equipment and high-technology shipping; advanced rail transportation; energy efficient and new-energy automobiles; new forms of energy generation with a focus on renewables; agricultural machinery; biopharmaceuticals; and high-performance medical equipment. All these interventions feature prominently in the Made in China 2025 initiative as well as the 13th Five-Year Plan (Kennedy 2015). This will be underpinned by accelerated indigenous innovation and large-scale investment in human capital through intensive training of professionals at the best universities in China and abroad; while also putting in place incentive schemes and programmes to attract the best and the brightest of foreign professionals, scientists, and researchers to employment in China (Morrison 2019).
South Africa and other emerging markets could benefit and learn from the Chinese model of indigenous innovation which will be driven by ‘global champions’. This includes granting favourable access to capital for technology acquisitions; investing in and encouraging joint ventures; giving preferential treatment to high-technology imports; and helping to facilitate lower technology and technology transfer to developing countries by promoting Chinese technology standards in production. In addition—and while a source of great intellectual property acrimony with the United States—China has made significant company acquisitions or has struck dramatic deals in areas as diverse as high-tech agriculture (agro-chemicals, seeds, and packaging), cloud computing, aviation, mobile telephony, digital imaging, robotics, base metals, shale gas, oil sands, hydropower, and clean energy (OECD 2018).

The ambition of the BRI and the sheer magnitude and scale of China’s external engagements puts it in a very strong position to challenge Western hegemony in new forms of trade and technology innovation. As has been argued China now has the capacity to “…establish its technical standards as ‘global defaults’ in a number of fields” (OECD 2018, 27). A compelling example is China’s Digital Belt and Road which aims to harness big data to address and solve challenges of sustainable development. The aim is to introduce smart buildings, smart electricity grids, and smart transport logistics to reduce greenhouse gas emissions and water needs among BRI-participating countries (Brown 2017). Energy solution technologies is another area where China is fast building a competitive and comparative advantage, especially in ultra-high voltage lines, solar power cells (where it controls 60% of global production), advanced wind power, hydroelectric R&D, and batteries (where China controls 62% of global cobalt mining) (OECD 2018).

Another aspect that South Africa and Africa for that matter will have to come to terms with is developing synergies and linkages with BRI connectivities based on policy, infrastructure, trade, finance, as well as people-to-people education, cultural, and scientific exchanges. How the BRI will be rolled out in Africa has implications for ongoing FOCAC plans, programmes, and commitments as well as the embryonic CFTA. South Africa’s role in any negotiations that will seek to create BRI synergies and linkages will be critical, given the high levels of confidence and trust that exists between it and China. There are currently six economic
corridors of the BRI and Africa has the growth and development potential to become the seventh based on the scope and promise of the CFTA (Zhou and Esteban 2018).

BRI investment projects are spread over the current 94 participating developed and developing countries and these projects are expected to add over $1 trillion for infrastructure funding over the ten-year period from 2017 to 2027. The Silk Road Fund (with a capitalised pledge of $40 billion) is the main funding vehicle of BRI projects but state-directed development and commercial banks also play a strategic role, complemented by a multilateral formula that brings in multilateral development banks and public–private partnerships. As an integrated development ecosystem, the BRI is also intended to support China’s ascent to greater value addition in terms of high-technology and enhanced services provision (Zhou and Esteban 2018). As part of its internal restructuring, China intends to relocate 80 million manufacturing and low-technology jobs to external BRI geographies as an integral part of this exercise in value addition. Its ‘hardware-first’ strategy is therefore meant to promote external demand for raw materials and Chinese technology and skills (Morrison 2019).

Between 2005 and 2017, China’s global construction projects were valued at $480 billion for BRI countries, with Africa receiving $170 billion of this total. This takes on added significance as part of global patterns to shift low-technology abroad and China is following a similar logic of moving its capacities in iron, steel, cement, clothing and textile, machinery and equipment, and automobile assembly to BRI developing countries. However, it must be borne in mind that BRI investment projects must be debt funded across some very problematic business environments, and financial and debt burdens will be hard to avoid. Many African countries already labour under the burdens of Chinese debt-funded infrastructure projects at a time when they face extreme fiscal stress due to declining global commodity demand and resulting falling public revenues (Qobo and le Pere 2018).

There is emerging evidence of the high-risk quotient associated with BRI projects. Various aspects of the cumulative value of BRI assets and programmes can be described as ‘troubled’. Troubled programmes are worth $370 billion of global transactions; while a major area of concern is BRI troubled assets worth $102 billion (OECD 2018, 29). This ‘troubled’ nature includes the collateral value of the investment being below its liabilities; loans that are non-performing; and cancelled deals due to
review delays or political opposition. It is a cold reality of BRI geo-politics that many of its participating countries are found in very unstable regions, which are subject to political violence, war and conflict, insurrections, and sanctions.

**Changing Dynamics in South Africa**

The strong China political and economic connections have certainly helped to prevent South Africa from sinking into a deeper morass of economic decline. With support from China, the NDB has provided South Africa with loans totalling $2.3 billion at the end of 2019. In addition and at South Africa’s urging during the 2015 FOCAC summit, China made commitments to assisting it and African countries with improving industrial capacity cooperation, especially the beneficiation and value addition of products at source (although this issue did not feature as prominently at the 2018 FOCAC summit in Beijing).

While difficult to predict, the future of the South Africa-China engagement will be determined by the extent to which South Africa is able to address a steadily eroding domestic order and problematic global image. Since its democratic transition in 1994, the new government of the African National Congress (ANC) has made a conscious attempt to address the deprivations of South Africa’s apartheid legacies, especially as these concerned reconstituting its domestic political economy through a raft of public policy interventions that would serve as catalysts of transformative facilitation. The aspiration was to develop the foundations of both a developmental and competition state (Thompson and Wissink 2018).

The developmental dimension was intended to aggressively confront spatial forms of racialised differential incorporation and socio-economic gaps that had defined the apartheid architecture; while the competition dimension was meant to locate the country’s economic reform processes squarely within the ambit of export-led globalisation and market liberalisation. After more two and half decades, however, while progress in some of these dimensions has been registered, the overall record shows that South Africa has fallen short on the scope and ambition embodied in both dimensions, particularly when it comes to relieving the plight of the majority of the population who continue to suffer from the scourges of poverty, inequality, and unemployment (Seekings and Nattrass 2015).

South Africa’s foreign policy was anchored on serving the ends of development and competition through an avowed multilateralism that
was morally defined and ethically driven in the course of the presidencies of Nelson Mandela and Thabo Mbeki. The currency of this normative internationalism has depreciated and has become more pronounced under the presidency of Jacob Zuma, where ‘state capture’ has become a metaphor for a ruling ANC aristocracy and elite class in the public sector that have been seduced by the trappings of power and self-enrichment as exemplified by the egregious abuse of public resources, rampant corruption, and poor governance (le Pere 2017). It was thus left to the incoming President Cyril Ramaphosa to correct the pathologies and dysfunctions within the state and society that have become so pervasive and deeply embedded in South Africa’s stressed body politic and ailing economy. Throughout this period—marked by a descent into a patrimonial and predatory type of politics—South Africa’s international standing and image had suffered great harm. Among international investors and political partners alike, there was a creeping loss of trust and confidence in the country as it faced a long Gramscian interregnum of morbid symptoms reproducing themselves.

It is in the economic realm where the depth of the problems Ramaphosa had to confront was clearly visible. At the beginning of 2019 and with a nominal GDP of $360 billion, economic growth was forecast at 1.7% while Ramaphosa promised long-awaited reforms that would lift the economy out of the doldrums and fix anaemic state-owned enterprises. At the end of that year, the country was skating perilously close to recession and was encountering serious structural and management problems in the reliable supply of energy (where the euphemism of ‘load-shedding’ which cuts electricity has now become part of the daily vocabulary). And for the first time since 2009, South Africa was stuck in a low-growth trap of under 1%, despite the refrain of promised growth-enhancing reforms (Joffe 2019).

Factionalism within the ruling party was to prove a potent constraint on Ramaphosa’s attempts to change the course of the economy, especially in dealing with systemic corruption across all areas of government and state institutions. As has been observed “…the extent of rent-seeking within the ANC itself, creates a powerful lobby against reforms to the supply chains and management of the state-owned enterprises as well as within the state itself” (Joffe 2019). To add to Ramaphosa’s woes, while public debt was 30% of GDP in 2008, the Treasury’s estimate is that it will rise to 74% of GDP in 2023 thereby signifying an astonishing collapse
of the country’s macro-economic fundamentals, especially in view of the fact that debt service costs are expected to rise at 14% a year.

Such costs, it has been asserted “…will be larger than the budget for public health care, larger than the combined budget of the criminal justice system and military, and greater than the allocation for financing economic development” (Bernstein 2019). In addition, fiscal sustainability has been compromised by the government’s inability to rein in its spending—which will grow from $120 billion in 2019 to $147 billion by 2022—together with the continuous demands of bailing out poorly run and debt-ridden state-owned enterprises. In July 2018, the state-owned electricity utility, Eskom, announced a government-backed loan of $2.5 billion from the Export-Import Bank of China, supported by the China Development Bank. The loan was ostensibly to be used to complete the construction of a coal-fired power station, but its details have been shrouded in secrecy since Eskom is mired in debt of $30 billion.

An editorial in the influential Sunday Times thus lamented that “Ramaphosa has been slowly developing a reputation for indecisiveness. Making things worse for him is that his administration has, on a number of occasions, failed to provide clarity on critical policy issues and government programmes” (Sunday Times 2020).

The current government thus operates under a penumbra of confusion and uncertainty where almost daily there are persistent demands for an unequivocal reversal of the current malaise. These include robust institutional reform to keep the rating agencies at bay as the country veers close to junk status; a determined programme of business restructuring, especially the stifling red-tape; dealing with the problems of electricity generation and distribution; increasing the productive capacity of the economy; putting in place more open and user-friendly tourist and skilled immigrant visa regimes; assisting tech-dependent companies by urgently setting in motion the auctioning of spectrum; and providing clear directives on property rights and the nationalisation of the South African Reserve Bank. Anything less than this would be an unmitigated disaster for the country in a social environment scarred by growing despair and a crisis of confidence and leadership.

**Perspectives on Cooperation and Partnership**

Even though some equilibrium—albeit more symbolic than real—has been restored in the escalating and punitive trade wars between China and
the United States, business and investor confidence have been severely undermined, with world-wide consequences. The IMF lowered its global output forecast for 2019 from 3.3 to 3% (down from 3.6% in 2018). This is the lowest decline in global growth since the 2008 financial crisis. Moreover, the IMF further anticipates that the big four engines of global growth, namely, the United States, China, the Eurozone, and Japan will show no appreciable improvement in their aggregate growth rates for the next five years (Giles 2019).

The downward spiral is evident in Germany as the Eurozone’s apex economy whose growth forecast was reduced from 0.8 to 0.5% for 2019; and from 1.8 to 1.1% for 2020 (Wearden 2019). In the case of China, its economy has slowed significantly. From 2008 to 2010, its real GDP growth averaged 9.7% but declined for the next six consecutive years, falling from 10.6% in 2010 and 6.7% in 2016; and then declining further to 6.1% in 2019. The IMF further projects that its growth will fall to 5.5% by 2024 (IMF 2019) but this outlook did not reckon with the far-reaching effects of the Coronavirus which could cut China’s growth further to 4.1% in 2020.

Compounding the virus’s severity on China’s economy and society has been its global repercussions which are perhaps symptomatic of the impact this will have on South Africa–China relations. In 2019, South Africa’s exports to China were mainly mineral products valued at $7 billion, followed by iron and steel products at $4 billion. Vegetable and citrus product exports were valued at $500 million (Thukwana and Mashego 2020). The recalibration and restructuring of the Chinese economy will certainly mean lower demand for South African goods, resulting in a Chinese demand gap. The opposite also applies since many South African industries depend on baskets of Chinese inputs and finished products such as clothing and textiles, footwear, electronic appliances, mobile telephony, tools and machinery, and motor vehicles.

Recent testimonies by South African companies with operations in China are indicative of a negative outlook as South African companies feel the effects of the Coronavirus. Naspers, with headquarters in South Africa, is a multinational company whose principal operations are internet communication, entertainment, gaming, and e-commerce. The company has a 31% stake in China’s media giant, Tencent. Early in February 2020, it suspended all company travel to and from China until further notice. Vitality Health International of the Discovery Group, which has a 25% stake in the Chinese health insurer, Ping An Health, has withdrawn all
employees from China. Similar protocols of returning employees to South Africa have also been applied by Standard Bank which has operations in different areas of China, including Beijing, Guangdong, and Wuhan (Thukwana and Mashego 2020).

These testimonies are suggestive of the importance of China to South African companies and it might be useful here to review the nature of the historical and contemporary girders that uphold the strategic, policy, and operational eco-system of South Africa–China relations. This takes on added importance in view of the extent to which the Chinese experience has become an instructive model of growth and development across Africa. For instance, when speaking about Chinese initiatives, Alden has argued that those “...being promoted in Africa are drawn in the main from the transformative policy approaches and implementation strategies that were behind the rapid development of the modern Chinese economy over the last four decades” (Alden 2019, 284).

Alden and Wu (2014) provide an insightful overview of the textures that have shaped the evolution of South Africa–China relations. They note some of the critical features of what they term a ‘unique partnership’ that operates at bilateral, continental, and multilateral levels and has its origins going back to the nineteenth century, beginning with South Africa hosting Africa’s largest and oldest Chinese community. After diplomatic ties were established in January 1998, they write that “…formal diplomatic engagement between South Africa and China was one marked by co-operation and cautious optimism” (2014, 7). Following the initial heady Mandela period, his successor, Thabo Mbeki, was distracted in nurturing relations with China since his focus was on big pan-African initiatives such as the African Renaissance and the New Partnership for Africa’s Development (NEPAD). In addition, Mbeki had a critical view about the asymmetries regarding China’s role in Africa, cautioning against Africa becoming a supplier of commodities to China in exchange for manufactured goods. There was also disquiet about South African businesses facing increasing competition from Chinese burgeoning interests at home and in Africa (2014, 8).

After Mbeki’s exit from the political stage in December 2007, which was followed by a brief interregnum by Kgalema Motlanthe, it was under Jacob Zuma that ties with China were significantly ‘upgraded’, culminating in the ‘Comprehensive Strategic Partnership’ in August 2010 in the course of Zuma’s first state visit to Beijing. This visit was especially auspicious since it included 370 business representatives and the signing
of more than 12 investment agreements in railways, power transmission construction, mining, insurance, telecoms, and nuclear power. Crucially, Zuma was able to successfully lobby the Chinese to support South Africa’s membership in the BRICS grouping (2014, 10).

Alden and Wu then highlight three critical areas of strategic engagement. The first is at the continental and multilateral levels. In international affairs, there has been close cooperation such that “[t]he strengthening of South Africa-China co-operation on global affairs has been a hallmark of the relationship” (2014, 12). The manifestations of this have been through the conduits of four multilateral platforms, namely, the UN Security Council, FOCAC, BRICS, and the G20. In its first two tenures as a non-permanent member of the Council (2007–2009 and 2011–2013), South Africa’s voting patterns closely corresponded with those of China. They also note the significance of South Africa working closely with China on Africa’s security issues when it came to the framing of common positions on the Security Council. Their second area of focus is evolving and increasingly complex trade patterns, whose growth has been propelled by China’s accession to the World Trade Organisation in December 2001, South Africa’s granting China market economy status, and establishing the ‘Strategic Partnership’ in 2004. Two-way trade grew during the Zuma administration so much so that China became South Africa’s largest trading partner on a country basis; and this trade was especially important in helping South Africa to weather the effects of the global financial crisis in 2008 (2014, 15).

As far as the third area of investment is concerned, Alden and Wu note a paradox, namely, that until 2007 “South African companies have invested more in China than their Chinese counterparts had done in South Africa” (2014, 18). In 2009, it was estimated that Chinese businesses in South Africa represented 78 (or 1%) of 4100 officially registered foreign concerns in the country. Compared to over $800 million that South African companies had invested in China, by the end of 2002 Chinese firms had only invested $160 million in their 98 projects in South Africa. Alden and Wu qualify China’s investment anomaly in South Africa by noting that as a maturing economy, investment opportunities are limited, exacerbated by a difficult regulatory regime, a rigid labour market, and a highly unionised environment (2014, 18).

In an early exposition (2007), Naidu noted certain ‘complications’ that were already testing South Africa–China relations. These included that Chinese investment was resulting in a flood of cheap products, thereby
endangering and crowding out local industries and undermining the South African government’s efforts in job creation and poverty reduction. Other concerns are also raised such as: the nature of unequal exchange which reduces South Africa to an exporter of primary commodities to help meet China’s domestic demand; China’s growing trade and investment interests in Africa which pose a challenge to Mbeki’s African Renaissance project and initiatives aimed at improving good governance; the extent to which South Africa’s quest for a permanent UN Security Council seat could be compromised by different and competing visions of South–South cooperation; and possible strains and tensions that might emerge from competitive trade practices which might be construed as protectionist and unfair in WTO terms. In view of these considerations and chastened by realpolitik, Naidu reaches a sobering and prescient conclusion that “…the present nature of Sino-South African relations extends beyond just expediency—if anything the relationship masks more of the hidden threats than the mutual opportunities. As this relationship grows, the inequality already evident in it will also increase” (2007, 199).

In the broad context of the ferment in China–Africa relations, le Pere and Shelton consider the prospects for a Free Trade Agreement (FTA) between South Africa and China (2007, 173–179). The essential logic of such an FTA would be the removal and/or the reduction of barriers to market access and related regulatory restrictions that actually or potentially affect South Africa’s exports and business investments in China. They discern three positions that could shape the contours of such an FTA. The first is the ‘idealists’ who see the size and dynamism of the Chinese market as a great opportunity for the fairly sophisticated South African financial, industrial, and commercial sectors. For ‘idealists’ this interface could be a catalyst for an enhanced and robust strategic partnership and will be material in how China supports South Africa’s global South and multilateral agenda. This could include support for South Africa’s expanding role in NEPAD and the African Union, as well as its desired candidacy for a permanent seat on the UN Security Council. An FTA could also be consequential for more substantive forms of South–South cooperation and addressing the growing cleavages between rich and poor countries by demanding greater equity and fairness in trade.

The second position is held by the ‘pessimists’ who fear that increased trade with China and the penetrative power of its companies will lead to a major loss of employment in South Africa and blunt its competitive edge in sectors like manufacturing, and clothing and textiles. Representing
a neo-mercantilist view, the pessimist contention is that FTAs between
countries which are at different and unequal stages of development will
typically result in the less developed country—South Africa in this case—
bearing the burden of the adjustment costs. There are thus few benefits in
an FTA for the South African economy but higher risks and onerous costs.
Questions are also raised about South Africa’s decision to grant China
market economy status since this will effectively undercut local manu-
facturers and thereby give Chinese producers an unfair advantage. This
includes the dumping of cheap products on the South African market
and other unsavoury business practices.

The third position of ‘realistic optimists’ acknowledges the vast oppor-
tunities that come with economic globalisation for competitive economies
but raise first-order questions about the ability of South Africa to manage
the complex policy demands that come with such opportunities, espe-
cially given its exposure and vulnerability as an export-oriented economy.
China’s high growth rates, expanding economy, and diverse consumer
market will become increasingly important to South Africa as an export
and investment destination. However, the ability of South African compa-
nies to operate in the Chinese market must be leavened with a healthy
dose of realism and must not be underestimated since there are more
than 400,000 multinational enterprises that are well established in China.
They have enough of a muscular presence to compete in a complex and
diverse landscape of highly efficient and competitive domestic producers
and traders. While there are opportunities, South African companies
must also be mindful of the impediments to doing business in China.
These include non-tariff barriers such as import licenses, registration
and certification requirements, and restrictive technical and sanitary stan-
dards; a weak rule of law regime where the enforcement of contracts
will prove to be difficult; cultural preferences where Chinese consumers
prefer their own products and services; and a difficult investment envi-
ronment which is complex, competitive, and opaque. The three positions
point to the demands for clear analytical and policy thinking about South
Africa’s specific objectives vis-à-vis an FTA with China as well as a care-
fully constructed calculus of the expected impact, costs and benefits of
increased two-way trade with China which is inherently asymmetric and
underscores the structural constraints of unequal exchange.

Finally, in an inventive application of the Heckscher-Ohlin model,
Phungula (2013) examines the patterns of trade between South Africa and
China. The model derives from the two Swedish economists’ theoretical
postulate that relative resource factor endowments and abundance intensities drive patterns of trade between countries and provide the essential logic of why countries trade in the first place. For example, a capital rich country with high labour costs will tend to export capital intensive products while a country with cheap labour and costly capital will depend on labour-intensive exports. Based on Ricardian comparative advantage, trade will thus be driven by the differences not only in factor endowments but also in the relative prices of different goods and services among trading countries.

This observation is important in helping to explain the patterns of trade between South Africa and China: South Africa exports natural resources to China, while China exports finished products to South Africa based on the causal matrices of the Heckscher-Ohlin model. Hence, South Africa’s trade deficits with China will persist and endure. South Africa must, therefore, undergo major macro-economic reform and structural transformation of its economy in the pursuit of value addition and movement up regional and global value chains. If not, this pattern of trade is bound to reproduce and replicate itself over time as we have seen, with serious implications for relieving the high levels of poverty, unemployment, and inequality.

The persuasive and demonstrable effects of the Heckscher-Ohlin model draw attention to the need for South Africa to get its domestic political economy in order if its relations with China are to have greater meaning and efficacy in terms of addressing its raft of growth and development challenges, notwithstanding encomiums of a win–win partnership and strategic dialogue with China.

**Future and Evolving Challenges**

The future of South Africa–China relations will be profoundly shaped in the crucible of two fronts: firstly, in addressing their domestic growth and development challenges as set out in the conceptual reflection. However, there are the ‘second generation’ challenges of how the two countries could develop common synergies and joint strategies in addressing Africa’s integration prospects, especially the deadweight forms of extractive state rentierism and embedded patronage systems which have historically stunted the continent’s growth and development potential. The record shows that both South Africa and China have enhanced Africa’s growth and development prospects; in South Africa’s case since its
expanded commercial engagements since 1994 where it accounts for 34% of the intra-African market; and in the case of China, over the institutional life of the FOCAC process since 2000 (Le Pere 2015).

President Cyril Ramaphosa has assumed the presidency of the African Union for 2020 and among other goals, he has made the operational agenda of the CFTA one of his key focal areas. Here is a unique opportunity for South Africa and China to forge a common framework for helping to drive continental integration. The CFTA is a major achievement in its scope, promise, and ambition. However, its adoption occurs at a turbulent and uncertain moment in the global trading system as well as in transnational economic relations. This is because the very foundations of the liberal international order are coming under increasing threat and pressure and a variety of centrifugal forces are at work. Global norms are being eroded and multilateral institutions are being further weakened amid growing cleavages of power and interest (Kissinger 2014). We are witnessing rising military tensions, disruptive trade and commercial relations, environmental degradation, the abuse of cyber sources of hard and soft power, corrosive nativist identities, atavistic bigotry and racism, opportunistic narcissism, and intractable proxy conflicts (Frankopan 2018).

Such a depressing mix of global problems, however, should not discount the importance of the CFTA in the overall political economy of the continent and the opportunities that arise for enhanced South Africa-China cooperation in this enterprise. The passage of the CFTA is a product of protracted negotiations in pursuit of a common continental vision and draws its inspiration from the Lagos Plan of Action for the Economic Development of Africa (1980) and the Abuja Treaty Establishing the African Economic Community (1991). It is signing in Kigali, Rwanda on 21 March 2018 represented a bold step in creating a conceptual and political edifice for accelerating the trade and economic integration of the continent. Thus far 54 out of 55 countries have signed the framework to create a single market for goods and services which includes the unhindered movement of people, investment, and other production factors. At last count, there were 25 countries which have ratified its various instruments, thus making Africa the largest free trade area in the world in terms of the number of participating members.

The functional efficacy of the CFTA is expected to deliver major gains from which both South Africa and China could reap benefits. The litmus test for both countries is to further develop the virtuous circles that have
already been established through the FOCAC process and that could be significantly expanded through the BRI. With a current African market of 1.2 billion people and a GDP of $2.2 trillion, total employment is expected to increase by 1.2%, with great benefits for the manufacturing and agricultural sectors; most countries will register GDP growth of between 1 and 3%; there will be $16 billion in general welfare gains based on increased employment, better domestic resource usage, and access to cheaper products (Le Pere 2020).

Quite importantly, from the current level of 17%, the CFTA is expected to boost intra-African exports to 52% by 2025 through the creation of new trade opportunities and the diversion of trade away from the markets of developed countries towards Africa. This will be salutary for reduction of countries’ trade deficits. In addition, dynamic gains could also be registered from improvements in trade facilitation and customs operations, services trade reform, improved competitiveness, and collaborating on investment, intellectual property, rules of origin, and technology transfer (UNECA, AUC, AfDB, and UNCTAD 2019).

A major opportunity which South Africa and China can jointly help to drive is the structural transformation of Africa in terms of value chain and industrial development. Both countries have similar industrialisation experiences that could be salutary for Africa’s economic diversification. Forging stronger relations with South Africa and China in the context of the CFTA could assist African countries to upgrade their capabilities to make incremental shifts between product spaces which includes the improvement of skills, institutions, and infrastructure that is based on coherent and effective industrial policy (Chang 1994). As elaborated by Rodrik, this entails “strategic collaboration between the private sector and the government with the aim of uncovering the most significant obstacles to restructuring and determining what interventions are most likely to remove them” (Rodrik 2007, 100).

The CFTA can unlock new dynamism in the intra-African market and trade in manufactured intermediate products—where both South Africa and China enjoy a comparative advantage. This certainly could be the catalyst for deeper and wider economic diversification. Africa’s fast-changing demographic profile will demand higher labour-intensive activity that can add 10 million jobs every year to absorb a burgeoning population of youth. Furthermore, ‘smart protectionism’ could also generate resources for diversification. This includes the strategic use of tariffs, subsidies, local content requirements, foreign investment, and
technology transfer (Qobo and le Pere 2018). The CFTA will become operational on 1 July 2020 but it is the institutional deficits, competitive constraints, and production obstacles that must be addressed, and it is in this regard where South Africa and China could make a lasting contribution to the continent’s structural transformation.

Concluding Remarks

Based on our conceptual reflection, both South Africa and China must confront the reality that global capitalism has provoked a dark and gloomy period in the post-Cold War era, best symbolised by the global financial crisis of 2008 and its damaging and destructive aftermath. This points to an underlying existential dilemma related to serious structural, political, and normative deficits in current forms of global governance and multilateral institutions. Consequently, simple Keynesian solutions are not capable of sustaining ‘liberalism’ or ‘capitalism’ amidst violent social disruptions, environmental degradation, trade wars, financial meltdown, rising levels of global poverty, and growing cleavages between rich and poor countries; all of which deprive individuals, societies, and countries of their freedom, creativity, and human potential (Chang 1993).

Within the orthodoxy of their ‘Comprehensive Strategic Partnership’, there must be a rethinking, reimagining, and reworking of the basic roles and functions of their respective political leaderships and private sectors in a common enterprise of mutual growth and development. This becomes even more important in managing difficult and often intractable global externalities, particularly since geo-economics has now come to define the “logic of conflict and the grammar of conflict”. The asymmetric vulnerabilities inherent in any geo-economic calculus thus provide dominant and powerful geo-economic actors like the United States, the Eurozone, and Japan with the leverage to conduct power politics in ways that do not require military means. Such practices are typically accomplished by recourse to economic nationalism and protectionism. A hallmark of current geo-economics is that interdependence is often asymmetric and implies risks, crises, and turbulence that can upset the circuits of trade and commerce, especially as concerns regional and global supply and value chains.

What this ultimately means for both South Africa and China—and indeed, for the Global South of developing countries—is that economic security has been catapulted to the top of the global agenda such that
geo-economic calculations now play out “with disposable capital in lieu of firepower, civilian innovation in lieu of military-technical advancement, and market penetration in lieu of garrisons and bases” (Luttwak 1990:18).

The critical question for South Africa and China is how they will respond in ways that maintain the integrity of their carefully constructed strategic and political edifice while dealing assertively with the difficult dynamics in the political economy of their domestic regimes. As Rodrik has cogently argued: “Responding to the economic and political crises of our day requires that we restore a healthy balance between an open global economy and the prerogatives of the nation state. That requires us to be honest about trade’s consequences—not just the economic opportunities they create for our businesses and consumers, but the stresses they create for our social compacts” (Rodrik 2017, 1).

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