CHAPTER 6

Manufacturing for Intra-Africa Trade: A Focused Response to China’s Dominant Position in Africa for South Africa

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INTRODUCTION

Overall China’s commercial footprint in South Africa is weighty, wide-ranging and multifaceted. South Africa is China’s largest export destination in Africa (albeit Nigeria is close behind) and the largest source of imports from Africa (having usurped Angola in 2011). South Africa hosts the most outbound foreign direct investment (FDI) from China into Africa, even when China’s largest investment in Africa—the sizable USD5.8bn purchase by the Industrial and Commercial Bank of China’s (ICBC) purchase of 20% of Standard Bank Group—is excluded. South Africa has also amassed the largest share of China’s greenfield investment in Africa (tallying nearly twice the size of its nearest rival on the continent cumulatively since 2001)—investments made by nearly 100 different Chinese firms across a range of sectors.

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Despite a plethora of measurable and real gains, much space remains to further leverage the China–South Africa partnership. The next phase of China–South Africa ties and partnership must more forcefully and single-mindedly prioritize tactics for further industrialization, job creation and technology transfer. Policy attention is necessary to mobilize Chinese investment in manufacturing industries, led by its private sector firms, in a manner that supports South African and African growth and development, and better integrates South Africa’s economic structure for intra-Africa trade. Attracting greater Chinese engagement and investment in South African manufacturing, which includes not only the transfer of capital, but crucially the movement of firm-specific assets such as technology, managerial ability, corporate governance and access to markets. Herein lies a unified, clear and unwavering overarching policy objective. Indeed, the size, growth, competitiveness and productivity of South Africa’s manufacturing sector is critical to ensure that economic growth is sufficiently labour absorptive to support development.

Chinese firms have developed the experience and know-how, emerging as the largest manufacturer in the world—known as the world’s factory—championed by globally competitive manufacturing firms. The countries own recent history suggests Chinese policymakers are familiar with the nature of the goal. In addition, the timing is good: the Chinese economy is in the process of transformation—expanding more slowly in a less factor- and investment-led manner, shifting towards a pattern of growth driven by services and consumption; propelled by innovation and with market forces determining the allocation of resources. Acknowledging the ground is shifting under the long-standing status quo, attempting to ring-fence China’s South African engagements from these ongoing trends is nigh impossible. South Africa must proactively construct (to position itself) its policy framework to both ameliorate the more harmful impacts of China’s internal adjustment and to benefit most from the current developments underway inside the Mainland.

At the same time, Africa’s promising structural drivers and the launch of the continental free trade area are alluring. Already some of China’s fastest growing export markets are in Africa; China’s exports to Africa have expanded by 10% and 7% in 2018 and 2019, respectively; from 2009 to 2015 nine of China’s fifteen fastest growing export markets were in Sub-Saharan Africa. Setting up production facilities in some of these fast-growing export markets—even if the starting point is on lower value-added assembly operations in the host nation—is a logical consideration
for many Chinese firms. Perhaps even a number of regional minded hubs are required to service Africa’s internal demand. That said, South Africa must position itself to this end and align diplomacy and concomitant metrics to measure progress, clearly stating its half of the win-win bilateral partnership with China is tied to this end. South Africa has plenty to lose if Chinese firms choose to set up operations elsewhere—in Asia or Africa—further eroding South Africa’s position in intra-Africa trade.

**China Manufacturing Path and Learnings for South Africa**

China’s reforms and opening up, started in 1978 kickstarting a transition from a centrally planned economy to a market economy, including a structural reduction of its tariffs and non-tariff barriers (Zhu, 2011:14) accompanied by liberalization of its foreign direct investment regimes and economic reform (Chai 2002: 25). The results have been spectacular: The share of exports in China’s GDP has surged from less than 7% in 1979 to a peak of 35% in 2007, attracting significant inwards FDI and accumulating the world’s largest FX reserves, through the forty-year period. From less than 25% in 1979, today China’s manufactured goods account for over 90% of all exported goods of the country. Moreover, the relative share of high-technology goods increased from less than 5% of total exports in 1990 to as much as one-third in 2008 (Yang 2014: 8) (Fig. 6.1).

China’s experience and learnings offer a powerful scaffolding for South Africa–China relations. Chinese leadership in the 1980s moulded China’s development strategy in a manner that emphasized the importation of advanced technology and equipment, financed through innovative measures designed to attract foreign capital. The catalyst were Special Economic Zones (SEZ) and later Export Trade Development Zones (ETDZ). Sectors prioritized were those where Chinese firms were deficient (Rosen 1999). The end: to produce products primarily for export (Jia 1994). The means: foreign capital. In fact, foreign partnership and investment was so central that more strident critics claimed that the SEZs were effectively creating foreign colonies by selling territorial rights to foreign investors (Reardon 1991). Between 1979 and 1991, about 70% of all FDI in China was placed in Guangdong and Fujian provinces, where these SEZs and ETDZs were located (Zhang and Felmingham 2001: 85; RoyChoudhury 2010: 116).
China’s export industries benefited from an abundance of relatively well-educated and efficient labour, tremendous economies of scale and agglomeration effects, growing integration into the global economy and financial system, serviced by first world infrastructure in export-orientated special economic zones, the inflow of foreign capital, skills and expertise and direct and indirect government support (Adams et al. 2004: 9–11; Pettis 2013). Directly, the project created 30 million jobs from 1995 to 2007 (Kyota 2016: 66), primarily by private-owned firms (RoyChoudhury 2010: 119). Even though exports of manufactured goods surged most obviously, the SEZs also created a significant positive spillovers for non-manufacturing industries, which depend upon manufacturing exports through vertical inter-industry linkages. Most importantly, the SEZs unleashed competition amongst different parts of China and accelerated liberalization inside the SEZs and, by the early 1990s, across the rest of China (Leong 2013: 551).

**The Implication of Fast-Growing Chinese Sales to Africa**

Today China is the world’s largest exporter. Across Africa, Chinese goods have penetrated markets deeply, increasing from 3.7% of Africa’s total
imports in 2001 to 17.0% in 2018. Around two-thirds African countries list China as their largest source of goods. In contrast to China’s growing penetration, Africa’s traditionally large trading partners, such as France, the UK and the US, have seen their market share decline. Similarly, South Africa’s share of Africa’s total imports peaked in 2003 at 8.0% and has subsequently slipped to 4.6% in 2018. Granted, South Africa remains countries like Namibia, Mozambique, Zambia and Zimbabwe’s largest trading partner, but its foothold is being diminished. A foreboding trend that requires confronting head-on (Fig. 6.2).

Unlike the rapidly growing Asian economies, whose rising incomes have been associated with structural shifts from agriculture to industry, African countries have tended to by-pass manufacturing, shifting from agriculture to services, with relatively sluggish industrial employment growth (Kumar and Bergstrom 2013: 54). Indicatively, the share of African manufacturing in GDP rose from 6.3% in 1970 to a peak of 15.3% in 1990 and has since significantly declined, to around 10% last year. However, manufacturing—where it exists—remains an important driver of structural transformation in Africa: contributing, in absolute numbers, to greater value added and employment, higher labour productivity growth and better quality of jobs than those in many services and

![Image of a graph showing the share of total trade (per cent) from 2001 to 2017 for United States of America, India, South Africa, and Japan.](source/ITC)

**Fig. 6.2** Rising penetration of Chinese exports (*Source* ITC)
agriculture (Naude 2018: 144). Conversely then, growth without industrialization has meant that Africa’s growth has not been sufficiently labour absorptive to allow the type of upward income migration of the majority of the population necessary for structural and socially important change. Another discouraging feature of African manufacturing is that it is dominated by firms in the informal sector. Unfortunately, these firms are not on the same escalator as modern firms with access to technology, markets and finance (Fig. 6.3).

The divergent path between Asia and Africa is glaringly evidenced in Africa’s poor intra-regional trade relations. A mere 13.5% of Africa’s total trade occurs amongst African nations, which is lower than Latin America (16.5%), and much lower than Asia (58%). Herein lies the rub: The overlap between African demand and supply is negligible. The dearth in the production of finished goods means that Africa is reliant on imports. Meanwhile, Africa currently has a narrow export basket—notably base metals and mineral products—originating from a tight-knit group of nations, purchased by countries like China, the US and other developed markets. Consider that Africa accounts for just 2.7% of the

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**Fig. 6.3** African manufacturing an informal affair—share of manufacturing employment (Source Rodik 2016)
world’s imports of mineral products. Therefore, as this juncture, Africa’s own markets do not generally matter to Africa.

In contrast, Africa’s markets are mattering more and more to China. Chinese exports to Africa have risen 12-fold since 2001—Africa’s exports to Africa have only doubled over the same period. Worryingly, for the first time, China’s overall trade with Africa surpassed total intra-Africa trade in 2018. Intra-Africa trade peaked at USD182bn in 2013 and subsequently fell to a low of USD125bn in 2016. Since then, intra-Africa trade has increased by 9% y/y and 5% y/y in 2017 and 2018, respectively, tallying USD144bn in 2018. Meanwhile, China’s total trade, led by fast-growing exports, tallied over USD200bn in both 2018 and 2019 (Fig. 6.4).

Focusing in on South Africa, according to China’s General Administration of Customs, South Africa is one of a dozen African countries that does have a trade surplus with China. A trade surplus that narrowed from 2012 to mid-2016 and has since been broadly stable hovering around USD10bn per annum, but rising to USD18bn in 2019 (Figs. 6.5 and 6.6).

Admittedly the narrative deviates considerably when South Africa’s customs data is used rather than China’s. According to the South

![Fig. 6.4 China–Africa trade balance (Source CEIC)](source: CEIC)
Fig. 6.5  China–South Africa trade data (monthly, annualized) (Source China’s General Administration of Customs and CEIC)

Fig. 6.6  African nation’s bilateral trade balance with China (Source ITC)
African Revenue Service, South Africa’s exports to China came in below USD10bn in 2018—far lower than the USD27bn reported by China—implying that South Africa runs a trade deficit with China. Even including South Africa’s sales to Hong Kong, which may be used as a conduit for products destined for the Mainland, the adjustment is minor, and the trade deficit remains steadfast (Fig. 6.7).

The real point of departure in the respective trade data—at least until 2015—is due to a relatively obscure product sub-group, which is labelled by the Harmonized System (HS) for classifying goods as “Commodities Not Elsewhere Specified” (HS9999999). From virtually zero exports of this product sub-group from South Africa to China, Chinese customs started to report the manifest of South African exports of this product group in 2008, surging rapidly to a peak of over USD30bn in 2013. In fact, before crashing to zero in 2015, HS999999 sales more than doubled South Africa’s other exports to China. Meanwhile, South Africa reported zero exports of HS9999999 to China. Then, quite dramatically and clearly owing to a reclassification, China reported a large jump in the import of gold for non-monetary use in powder, unwrought or semi-manufactured forms—from South Africa, rising from zero in

Fig. 6.7 Deviation in China and South Africa’s reporting of South Africa sales to China (Source SARS and General Administration of Customs)
2014 to USD15bn in 2015. In contrast, curiously, the South African side continues to report zero exports of these three forms of gold—powder (HS710811), unwrought (HS710812) and semi-manufactured (HS710813) (Fig. 6.8).

For purpose of comparison, back in 2011 when China’s imports of commodities not elsewhere specified (HS999999) reached the scale that distorted the bilateral data, Switzerland was in a similar position and eventually—just like South Africa—China’s imports of HS999999 fell from tens of billions to zero corresponding with a similar rise in HS7108 occurred. The difference though between South Africa and Switzerland is that the Swiss statistics captured some of the reclassification, reflecting in a sudden surge in the exports of aforementioned sub-groups of gold sales whilst South Africa’s statistics have not captured this reclassification (Fig. 6.9).

This contestation aside, what is undisputed is that the disease of a narrow basket of products infects South Africa—akin to the rest of Africa—when it comes to relations with China. South Africa’s export basket is heavily skewed towards commodities. Despite stated intentions to alter the status quo and rebalance trade, South Africa’s exports to

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**Fig. 6.8** Commodities not elsewhere specified vs three forms of gold (*Sources: SARS, General Administration of Customs and ITC*)
China remain mineral products, like iron ore, coal, chrome, manganese and lead are material; base metals like iron & steel, copper, nickel and aluminium, and other commodities like platinum, wood, paper & pulp, leather & hides and fruit & nuts (Fig. 6.10).

Worryingly, South Africa is falling down the pecking order in China’s hierarchy of trade partners: in 2013 South Africa was China’s 12th largest source of goods—albeit accounting for just 2.4% of China’s total imports—and has since fallen outside the top 20 and down to 1.3%. Meanwhile, several other emerging markets, like Brazil, Malaysia, Thailand and Vietnam have seen sales to China increase rapidly over the past decade (Fig. 6.11).

Worse still, the near-term outlook is muddied by trade tensions between the US and China, which may, to some extent catch certain African nations in the crosshairs. In addition, the balance of probability tilts towards a further breakdown in relations rather than a genuine resolution since the inking of Phase One in early 2020. First, the more difficult issues have yet to be addressed, and there seems to be limited space for Beijing to make any additional concessions regarding the remaining (and far more stubborn and entrenched) issues. Second, China hasn’t really been given much, apart from the US side has pledging to
Fig. 6.10  African and South African sales to China in 2018 by product group (Source CEIC)

Fig. 6.11  South Africa export size and growth to China relative to peers (Source MOFCOM)
reduce its 15% tariffs on USD 120 billion worth of Chinese goods to 7.5% and suspend plans for other tariffs; resentment will build. Third, China has over-committed, agreeing to purchase a staggering USD200bn in goods and services from the US by the end of 2021—an increase of 100% y/y in 2019 and 45% y/y in 2021. If these are too be met, third countries from both the developed and developing world need to be prepared. Meeting the target forces China to shift purchases of oil seeds, for example, away from Brazil, Argentina, Ethiopia, Tanzania and others. The same applies to fish and lobster away from Russia and Canada; cars from the EU or Japan; industrial machinery at the expense to the EU, Japan and Korea; and pharmaceuticals from Switzerland. We could go on.

Obviously over the medium- to long-term, prioritizing accelerating sales growth to China should not be ignored. The opportunity is large as China’s rising purchasing power and social transformation is already bringing sweeping economic changes (Zhu 2011: 68). And more is to come: whilst forecasts range and vary according to definitions, nearly 35% of the population, or around 480m consumers, will meet definitions of upper middle-income and high-income by 2030 (EIU 2016). That represents a sharp increase from 132m at present. The emergence of this large population, with a personal disposable income of at least USD10,000, will alter the consumer landscape in China. Rising discretionary income will drive changes in consumer tastes and preferences (Jappelli and Pistaferri 2010: 484).

**Rebalancing of China Implies an Adjustment to the Status Quo**

What is more pressing though is that how China connects to the rest of the world is changing, and African nations are yet to fully just. Simply put, China’s “New Normal” matters. On the face of it, trade with China is a multi-billion-dollar juggernaut. However, it is foolish to ring-fence this from current developments underway inside the Mainland. China’s slowdown, rebalancing, de-risking of the financial system, and emphasis on the Belt and Road initiative, along with distraction of the Trade War has already diverted China’s attention from Africa. Evidence suggests that the broader China–African relations are already seeing a more selective and focused engagement is emerging from China (World Bank 2013: 16–21; Zhang and Chen 2017: 3). Yet, more importantly, irrespective
of the specific growth printed in 2020, China is amid a profound long-term economic transition, that will likely see growth trend towards 3–4% in 2025. Hence, China’s economic performance should be seen in the context of cyclical movements around a decelerating trend—upswings will be shorter than before, and downswings longer.

Given the rich representation of South Africa across the spectrum of global commodities, it is no surprise that South Africa is sensitive to changes in China. China primarily imports raw materials from South Africa. China imported USD25.5bn from South Africa in 2019. In fact, since 2016 around one-third of China’s purchases from Africa have originated from South Africa. China accounts for a largest proportion of global imports in the natural resources that South Africa traditionally exports, such as iron ore (55%), aluminium ore (33%), copper ore (62%) and coal (53%). As such, China’s demand and increasingly supply fluctuations shape the prices of South Africa’s primary exports and terms of trade. Moreover, Drummond and Liu (2013: 5) estimate that a one percentage point increase in China’s domestic investment growth is associated with an average 0.8 percentage point increase in South Africa’s export growth—higher than the 0.6 pp acceleration for SSA. World Bank (2013) estimated that one percentage point reduction in China’s growth results in a 0.37 percentage point decline in output growth in South Africa.

The trade data clearly bears this out: South Africa’s exports to China peaked at USD48bn in 2013, and has averaged USD25bn each year over the past three years (coming in at USD26.5bn in 2019). China’s role in global commodity markets is changing as it undertakes a transition from a growth pattern that is highly intensive in its use of natural resources, driven by investment and the development of heavy industry, to a more sustainable path that uses these resources less intensively (Mi et al. 2018: 1007; Roberts et al. 2016: 147). China’s lower growth rate and changing demand composition are already affecting commodity prices, with particularly strong impacts on global mineral markets (Pigato and Tang 2015: 10).

**Chinese Will Focus on Africa’s Markets for Exports, Buoyed by CFTZ**

The more long-standing force at play though is that accelerating real wage growth and rising unit labour costs in China from the mid-2000s
has created the incentives for Chinese production and jobs from export-oriented labour-intensive—especially light manufacturing industries to low-income countries (Xu et al. 2017: 3). For the time being, the preferred respond to the challenges of rising costs and tighter demand by means of adjustments in existing operations—upgrading technology, controlling costs, expanding markets or product ranges—rather than by establishing production operations in a new location.

Simultaneously, facing soft demand abroad in advanced economies, Chinese exporters have worked hard to diversify the markets towards emerging markets, and tapping into fast-growing consumer markets. Africa is now the destination for 4.2% of China’s total exports, slightly less than 4.6% in 2016. Still, this is double that of a decade ago, and more than Africa’s share of global GDP of 2.8% in 2018. In all likelihood, Chinese exporters will tighten their hold on Africa’s consumer markets and by 2024, exports to Africa could surpass USD200bn.

Looking further ahead, as wage rates in China continue to rise and firms refocus their attention on domestic demand, countries in Africa will be well positioned to exploit emerging opportunities for investment in export-oriented manufacturing (Pigato and Tang 2015: 5). It is a logical progression that outbound investment in manufacturing will follow Chinese sales, and some of China’s fastest growing export markets are in Africa.

This is exactly what South African corporates should be leveraging, thinking of ways to collaborate with Chinese firms in Africa—especially as industrial restructuring in coastal China forces some labour-intensive firms to relocate to other parts of the developing world, including Africa. Importantly, the Africa Continental Free Trade Area (AfCFTA) fits many criteria to indeed be the catalyst for China–Africa ties. Potentially, inside these more open economies will be opportunities in consumer-facing industries such as retail, telecommunications and banking; infrastructure-related industries; across the agriculture-related value chain; and in resource-related industries. The AfCFTA is a medium-to long-term opportunity for Africa, potentially attracting manufacturing business migrating from China. In many respects, whether the AfCFTA will succeed as a driver for African development will largely depend on its impact on regional integration, buttressing trade and developing nodes of growth. Even more powerful benefits will come if the dismantling of tariff barriers occur in conjunction with improving the efficiency of customs, tackle bureaucratic delays and reduce opportunities for corruption; and
improving the management of economic corridors and invest in physical infrastructure and logistics networks (De Soyres et al. 2018: 33).

Looking at Africa makes sense: Sub-Saharan Africa is the only region expected to have accelerated in 2019 (from 2018) and is expected to be the second fastest growing region over the next five years (IMF 2020). Sub-Saharan Africa is forecast to expand by an average of 4.0% over the next five years, more than twice the speed of advanced economies. Relatively robust economic growth in Africa will be led by rapid growth in some key economies such as Ethiopia, Ivory Coast, Tanzania, Mozambique and Ghana. In addition, over half of Africa’s economies will likely expand by at least 4.0% in the next five years. This improved cyclical story weds neatly to the favourable structural forces playing out, like favourable demographics, urbanization and industrialization, and rising incomes and a growing middle class, which remain intact (Abaogye and Nketiah-Amponsah 2016: 298). Hence, it is well understood that African economies continue to present a host of compelling opportunities for trade and investment (Fig. 6.12).

Fig. 6.12  Distribution of GDP growth in Africa (Source IMF)
**Threat to South Africa Exports to the Rest of Africa, and Its Manufacturing Sector**

Canvassing the continent, South Africa plausibly has the most to lose from greater competition with China, home to a relatively developed industrial sector—certainly the most scalable in Africa, accounting for one-third of Africa’s manufacturing capacity. With an estimated USD16.5bn in imports from China in 2019, South Africa is the largest consumer of Chinese products in Africa—ahead of Nigeria and Egypt. South Africa purchases around 14.9% of all the goods China sells to Africa. Promisingly, unlike South Africa’s export data, in terms of South African purchases from China the data from both China and South Africa is consistent (Fig. 6.13).

The share of machinery and mechanical appliances in South Africa’s basket of goods is higher than that of the rest of Africa, driven by hefty purchases of telephones and automatic processing machines, exemplifying South Africa’s large population of 58 million people and greater consumer purchasing power of that population. In contrast, the share of transport equipment and base metals is lower, underlying the less weighty role of

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**Fig. 6.13** Consistency in data for China’s export sales to South Africa *(Sources: SARS and General Administration of Customs)*
Chinese loans and construction in the China–South Africa narrative than elsewhere on the continent (Fig. 6.14).

Much like in other emerging markets with nascent manufacturing sectors, say Mexico for example the inflow of Chinese products has had a profound impact on a host of domestic industries in South Africa. Granted, South Africa’s own particular political and socio-economic difficulties have also served as headwinds (Naude 2018: 147). However, Edwards and Jenkins (2014: 454) conclude that Chinese penetration of the South African displaced imports from other countries, but declines in domestic production accounted for the bulk of the increase in imports from China. Losses in sales are particularly high in textiles and clothing, footwear and leather, electrical and electronic products and some types of machinery. The impacts have been seen not only in textiles, but also clothing, toys and household appliances (Morris and Einhorn 2008: 370), and, more recently, high-technology and machinery equipment (Edwards and Jenkins 2014: 4). In short, imports from China do provide headwinds to employment, prices, inflation and wage growth (Sandrey and Jensen 2007). It is clear that in the face of increased competition from imports,
domestic firms were unable to defensively innovate by upgrading capital stock, and upgrading skills.

It is also worth considering that the lack of dynamism of South Africa’s manufacturing sector has been a key factor explaining slow growth and high unemployment in South Africa (Rodrik 2008). Concerns have been expressed over the “deindustrialisation” of the economy (Maia 2011). Given that since 2008, 3.5 million people have entered the labour force, but only 1.6 million additional jobs have been created. The unemployment rate has risen from 22.5% in 2008 to 29.1% in 2019. Nearly 6.2 million people are unemployed, or 9.3 million if those who have stopped looking for work are included. (Including these discouraged workers, South Africa’s unemployment rate is 38.5%). Of those looking for employment, as around 60% have not worked in the past five years—more than twice the number of just a decade ago. What is clear, over the past few years, economic growth has been too low to generate sufficient jobs. The manufacturing sector has the potential to absorb a notable share of the labour force. Consider, for example, Ethiopia where China’s investments in manufacturing have been robust: employment levels grew from just about one million workers in 2004 to more than 5.6 million workers by 2015 (Naude 2018: 145).

Most important, failure to get the partnership right may marginalize South Africa from intra-Africa trade. Chinese goods have eroded the competitiveness of South African exports to its neighbours (Renard 2011: 24). Being crowded out from Africa’s growing consumption and rising middle class is an acute concern; the risk is real as it is here where the overlap of products is largest and where South African firms have disproportionately exported their manufactured goods (Edwards and Jenkins 2014: 8). Put differently, South Africa’s long-term relevance to China is wedded to South Africa’s relevance to Africa. Therefore, the manner in which South Africa coordinates its industrial and trade policy, and infrastructure, with other leading African economies, is critically important.

**Chinese Manufacture-Based Private-Owned Firms Have Already Started to Enter South Africa**

Importantly, there is a material difference in the sector distributions of private- and state-led investments in Africa. First, private firms preferentially invest in high-income and middle-income countries. Second, private firms
tend to invest in manufacturing and services industries whilst SOEs are more likely to invest in construction and mining (Lu et al. 2011: 224). Third, private firms are attracted to host-country strategic assets and are averse to economic and political risks when choosing investment locations abroad, whilst, state-owned enterprises follow the strategic needs of their home country and invest more in natural resource sectors, being largely indifferent to the political and economic conditions in the host countries (Amighini et al. 2012: 20). Private companies are not creating establishments in government-sponsored special economic zones (SEZs), which are in fact struggling to survive (Pigato and Tang 2015: 8).

This is somewhat unique to South Africa. By and large, elsewhere in Africa, Chinese banks—specifically China Development Bank and the Export-Import Bank of China—offer loans to African countries and SOEs to build infrastructure projects such as roads, dams, railways or industrial plants built by Chinese companies, manifesting in imports of related equipment and machinery, wide trade deficits; and gradual repayment of interest and sometimes principal’s on loans back to China. However, Chinese loans to South Africa are relatively marginal—accounting for 2.3% of Chinese loans to SSA from 2000 through 2017 (Atkins et al. 2018). As a result, engineering, procurement and construction contractors have not been the lynchpin for China’s engagements in South Africa; rather private-owned firms have held the reigns (Fig. 6.15).

Latest data estimates that China’s FDI stock in Africa is USD50bn in 2019—up from USD13bn in 2010 (UNCTAD 2019). Thus, in terms of FDI stock, China ranks behind countries like France, the Netherlands, the UK and the US. In addition, on this score, China’s interests in Africa are less than two times bigger than South Africa’s USD36bn according to official statistics recorded by the South African Reserve Bank. However, the story certainly doesn’t end there: take a data set that estimates capital investment based on the total investment the company is making at the time of the project announcement or opening, for instance. Such a data set includes capital raised locally, recognizes that investments may be phased over a time, and firms may channel their investment through different countries for tax efficiency. Here the data is divergences from the official data on FDI flows. On this score, Chinese interests in Africa reached USD95bn in 2017, having expanded at an average of 33% p.a. since 2003 (Fig. 6.16).

Of this greenfield investment, 13% of have been made inside South Africa. This explains why there is evidence on the ground that Chinese
Fig. 6.15  Chinese cumulative loans to Africa, by country (Source Atkins et al. 2018)

Fig. 6.16  Cumulative Greenfield investment by geography and sector (Source FDI Intelligence)
firms have already established operations in a diverse range of sectors across South Africa despite official Chinese FDI stock only accounting for 5% of South Africa’s total. On aggregate, their foray into South Africa is a sea-change from the path of Chinese firms interests in other parts of Africa, which has traditionally been weighted towards commodity acquisitions and large-scale government-to-government negotiated construction contracts. Instead, the private-led footprint reinforces broader global trends and reflects both the relative wealth of South Africa and the maturity of South Africa’s economy, institutions, corporates and depth of financial markets.

In the past, the key motivations for manufacturing firms to invest in Africa were to circumvent US and EU trade restrictions on Chinese products. Today, this is no longer the case. Much like China’s investments elsewhere, the most often cited motivations for investing in Africa is to gain access to the local consumer markets or avoid competition in an increasingly saturated Chinese market (Gao 2014: 366). The resource seeking motivation is relevant for manufacturing FDI to high-income countries with relatively high fuel abundance, and to low-income countries with primary resource abundance (other than fuels) (Amighini et al. 2013: 311).

**Prospects for South African Manufacturing and Policy Priorities**

Even though African countries are relatively open to Chinese investment, which has been identified by Beijing as an important consideration in assessing total outward investment strategies, the business environment in Africa remains challenging. According to a survey of attractiveness for outbound investment, each of the seven African nations assessed—Tunisia (48), South Africa (49), Egypt (51), Algeria (61), Kenya (65), Nigeria (66) and Angola (67)—ranked in the bottom third, out of 67 countries. Another survey, the Global Foreign Direct Investment Country Attractiveness Index, reported that South Africa’s rank had deteriorated from 43 in 2013 to 48 in 2019. Furthermore, South African manufacturing faces several stubborn obstacles. These issues include: access to finance, access to trade finance, complexity of tax system, customs and trade regulations, corruption, availability of qualified labour, labour regulations, employee health, reliable electricity supply, cost of electricity, transport costs, loss due to transport (breakage, theft, delays), physical infrastructure, ability
to own land/premises and physical crime (Kumar and Bergstrom 2013: 58).

That said, South Africa has advantages. First, labour cost; for instance: the average wage in South Africa masks the country’s high wage inequality. And, more than 5 million workers currently earn the minimum wage. Second, South Africa has an abundance of natural resources, essential inputs in production such as skins for footwear, timber for the furniture industry and land for agribusiness. Third, South Africa has an already substantial domestic market. Fourth, South Africa has favourable access to the region—a region which is experiencing rapid growth in their consumer markets, urbanizing rapidly and enveloped in favourable demographics. Fifth, South Africa has superior institutions underpinning the economy.

That said, to fortify its current position and compete more effectively with other markets across the globe—most notably in developing Asia—South Africa must make good on its commitment for incremental improvements in ease of doing business and competitiveness to create a better climate for partnerships. One of the specific targets set by South African President Cyril Ramaphosa as part of government’s economic reform agenda, is to improve the country’s rank in the World Bank’s annual global Ease of Doing Business survey to top 50, from 82 in the latest assessment. Interestingly, China too has made tremendous progress in these areas, especially in the past three years. Over the past year, China ranked amongst the top 10 performers in implementation of reforms, improving 15 positions to rank 31 out of 190 economies. Improvement to the environment for doing business matters as many African countries are defiantly testing environments, and, as such, many Chinese firms prefer to business in South Africa (Fig. 6.17).

Importantly, Lu et al. (2011: 226) confirm that supportive government policies are important motivators for private firms in making outward FDI decisions. Promisingly, South Africa has hosted the most high-level diplomatic visits from China over the past decade—galvanized more recently by South Africa’s inclusion in the BRICS, which includes a host of annual state- and ministerial-level meetings, and a host of auxiliary bilateral engagements. Enveloping these engagements, both governments have actively and constructively aimed to realize the comprehensive strategic partnership envisaged in 2010 (Alden and Yushan 2014). The confluence of these high-level visits usher in a range of agreements covering various
issues including economic cooperation (Grimm et al. 2014). Additionally, and on the softer end of the power spectrum, South Africa has the greatest number of Confucius Institutes in Africa—used to promote its language and culture and thereby to shape its image (Hartig 2012: 53).

Another plank laying the foundation for close bilateral commercial cords, China has increasingly flexed soft power, encompassing techniques of diplomacy, cultural and educational exchange opportunities, and others to position itself as a model of social and economic success, and develop stronger alliances (Kurlantzick 2007: 17). Again, South Africa has proven to be a fertile territory, which is a critical prerequisite for the general growth of Chinese commercial cords (Fijalkowski 2011: 233). Increasingly over the past 50 years, the number of Chinese people that have moved to, or been born in, South Africa has surpassed half a million
people. The largest number of ethnic-Chinese people in Africa. Whilst obviously a divergent group of individuals, the substantial number of people in South Africa with direct and indirect linkages to China, naturally means that the most significant pockets of Chinese communities in Africa exist inside South Africa (Park 2009: 154–155). Hence, the larger the metropolitan area, the greater number of Chinatowns and Chinese communities (Mhaka and Jeke 2018: 5). These, today, thereby, soften the proverbial landing of Chinese people entering South Africa, ameliorating some of the ethnic differences between Chinese migrants and most South African citizens (Lin 2014: 182). Meanwhile, the communities themselves lower the relative barriers of entry into South Africa by creating social networks made up of relatives and friends and connections that buttress and reinforce the movement of people from China to South Africa (Lin 2014: 195: Zolberg 1999: 75).

**Conclusion**

China is a visible force for development and growth across Africa, led by dazzling growth in bilateral trade and investment. It is upon the crest of state-led investment projects that corporates and individuals have shifted their gaze towards Africa. It seems that this trend will continue to grow—especially as industrial restructuring in coastal China forces some labour-intensive firms to relocate to other parts of the developing world, including Africa. There is no doubt that since the turn of the century, a number of important internal changes, including better macroeconomic management, improved institutional credibility, better quality and economic growth have complimented the emergence of China as an important trading partner and source of capital. However, it is also probably fair to say that Africa’s favourable structural drivers have proven most relevant in attracting the interest of China’s corporates.

The next phase of China–Africa ties must focus on industrialization, job creation and technology transfer through investment in manufacturing industries, led by the private sector in a manner that supports African growth, development and intra-Africa trade. South Africa has a host of advantages. Indeed, for South Africa to attract a larger share of Chinese capital and corporate externalization, the coordination of trade and tax policies is necessary, infrastructure and financial sector development requires further prioritization, whilst public governance and accountability constitute a critical prerequisite and require continual attention.
Most importantly, the quality of human capital requires constant attention as people (in concert with soft and hard infrastructure) play the most crucial role in differentiating Africa from the herd.

Most important, failure to get the partnership right may marginalize South Africa from intra-Africa trade. Chinese goods have eroded the competitiveness of South African exports to its neighbours. Being crowded out from Africa’s growing consumption and rising middle class is an acute concern; the risk is real as it is here where the overlap of products is largest and where South African firms have disproportionately exported their manufactured goods. Put differently, South Africa’s long-term relevance to China is wedded to South Africa’s relevance to Africa.

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