

DEFINING THE STRATEGIC PARTNERSHIP BETWEEN SOUTH AFRICA AND CHINA

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Invited by: International Centre for Trade & Sustainable Development & Gordon Institute of Business Science (GIBS), University of Pretoria

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Ladies and Gentleman

I am pleased to share a few thoughts this morning on an important strategic relationship for South Africa, namely with the Peoples Republic of China, and to consider some of the economic aspects of that relationship.

South Africa's economic objectives

Let me start with our country priorities. South Africa's critical challenge is that of development - to address very high levels of unemployment, poverty and inequality.

Before the onset of the recent recession, we had one of the highest levels of joblessness of any industrialising nation. Over the past decade, the South African economy has grown at a faster rate but the labour-absorbing capacity of the economy lags behind the needs of the country. Between a third and a quarter of the working-age population able and prepared to work, have not been absorbed into productive employment opportunities.

Associated with large unemployment has been the underdevelopment of rural areas, with poverty, weak infrastructure development and low levels of economic activity characterising the spatial areas where a considerable number of South Africans live.

When the first signs of global recession emerged late last year, the impact on South Africa was delayed but the full consequences of the recession have now hit our shores. And its impact has been both deep and damaging. The global economic crisis led to a sharp drop in demand for South African minerals and has contributed to plunging the economy into a recession. Exports have fallen, the economy has contracted, domestic sales are down in real terms and company liquidations have risen.

There is however two indicators above all that summarises the challenges that the recession has accentuated and which I think constitute a particular focus for the strategic relationship.

The first is industrial output. The volume of manufacturing output has not only declined sharply, it is now back to levels last seen in early 2004. The economy faces real signs of de-industrialisation. Unless we are able to reverse this trend, permanent damage will be caused to our industrial base and the country and continent will languish at the bottom end of international value-chains.

The second is employment. In the last nine months, according to official statistics, total employment shrunk by close to one million jobs or 7% of employment. Unless we are able rapidly to reverse this, we face deepening social problems and rising poverty.

Sketched against this background, the South African government under the administration of President Zuma has identified South Africa's priorities over the next five years.

The first priority is to generate more decent work opportunities. This will require more inclusive economic growth as well as success in our endeavour to ensure a clearer link between economic policy instruments and employment outcomes. It will be a critical driver of our external economic relations as much as our domestic policies.

The second priority is to promote rural development, including through land reform and rural economic regeneration.

The third priority is to repair our health system, improve the quality of health-care and improve access by rolling out health-infrastructure to larger numbers of people in both rural and urban areas.

The fourth priority is to build an effective education system that will equip citizens with the skills required in a modern dynamic economy.

The fifth priority is to fight crime and corruption and to ensure an effective police and criminal justice system, coupled with more effective delivery.

Our main efforts in the immediate period will be to minimise the impact of the economic downturn on South Africa's productive capacity as well as jobs and poverty-reduction measures. Simultaneously, we seek to identify opportunities for new areas of growth and economic participation and to progressively set South Africa on a new labour-absorbing growth and development trajectory.

We have identified certain critical activities that can assist us on the road to economic recovery and also lay the basis for higher and more sustainable growth. These include:

- major infrastructure programmes in energy, rail, road transport and building the country's social infrastructure such as hospitals and schools in both urban and rural areas,
- A renewed focus on industrial policy which focus on productivity, competitiveness and local industrial development and promotes private sector investment projects which have a high labour-absorbing impact;
- the Expanded Public Works Programme, which is a public-sector employment initiative;
- improving productivity in the public and private sectors by means of large-scale skills development programmes and offering training as an alternative to retrenchment;
- green jobs aimed at activities that counter the effects of climate change.

In order to succeed in achieving these objectives, we will need the collective and sustained energies of all sectors of South African society. Equally, the support of our key bilateral partners will be sought as we take on these enormous challenges.

Africa-China Economic Relations

Ladies and Gentleman

Clearly there are many things which we need to do domestically. It will be up to South Africa to rebuild its economy and to achieve its goals on decent work. In an interconnected world however, we cannot only focus on the domestic. This brings me to a point of the existing China-Africa and China-South Africa economic relationship.

China and Africa share a long-standing relationship. The early years of the PRC coincided with the quest for African independence and China played an important role in supporting African aspirations. Similarly, it was with the support of African

states that the PRC was able to win a seat on the UN Security Council in 1971. In 1998, South Africa and China established formal diplomatic relationships. More recently, the founding of FOCAC demonstrated renewed vigour in China-Africa relations, of which economic affairs has emerged as a key feature.

Our agenda for economic relationships is wide, and covers both trade and investment but it encompasses issues of south-south cooperation as well as reforms of global governance and financial institutions. Important as these relationships are, I wish to focus particularly on the trade and investment dimensions in these remarks.

Chinese investment to the African continent has risen sharply over the past few years as part of a larger outward investment drive by China, on the back of substantial domestic savings and large foreign exchange reserves.

Investment flows between South Africa and China have grown in recent years. Investments in China by companies based in or linked to South Africa is estimated at between \$600m and \$800m. South Africa is the only African country to have a significant investment presence in China. Of course, many of these companies while SA in origin, may now have their primary listing in London.

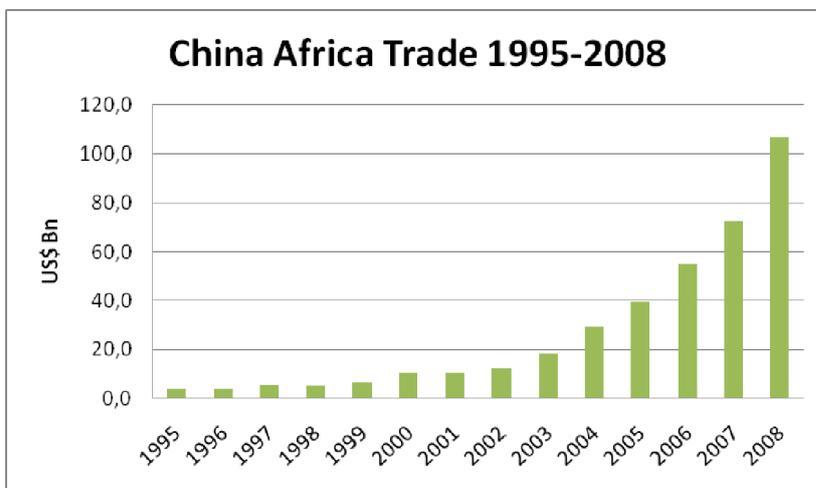
Chinese investments in SA has grown strongly, with the largest investment made by the Industrial and Commercial Bank of China (ICBC) when it purchased a 20% stake in Standard Bank for about R50 billion. Apart from this significant investment, Chinese investment in South Africa has focused on an increasingly diversified portfolio.

Trade

Ladies and Gentleman

There has been a significant increase in the value of bilateral trade between the African continent and China, from \$4 billion in 1996 to \$50 billion in 2006 and \$107 billion in 2008.

Slide 1



Source: WTO, World Trade Data statistics online (1995-2007); MOFCOM, English website of General Economic Affairs, (Jan-Dec 2008).

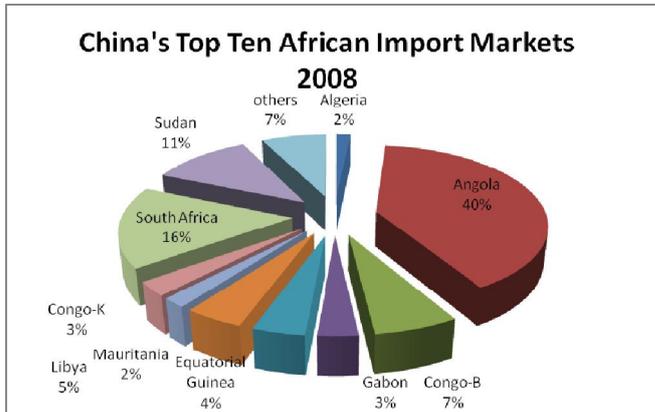
In respect of China-South Africa trade relations, China is now South Africa's largest trading partner having taken over the lead from historical EU trade partners.

If one examines China's top African trading partners then South Africa's role is a significant one.

Broken down, South Africa represents the single largest **export market for** China in Africa, representing 17% of Chinese exports to Africa.

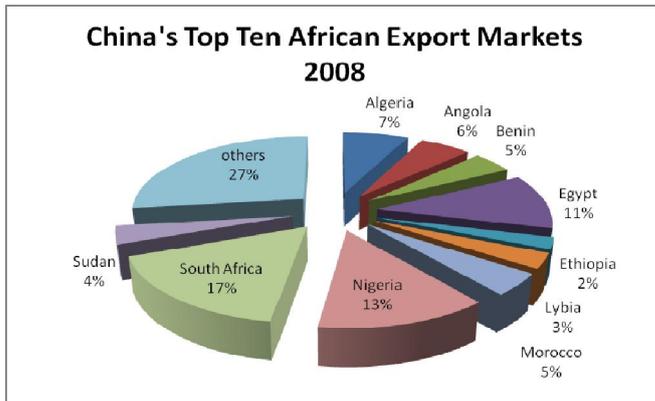
After Angola, South Africa is the 2nd largest **exporter to** China, representing 16% of African imports to China.

Slide 2



Source: WTO, World Trade Data statistics online (1995-2007); MOFCOM, English website of General Economic Affairs, (Jan-Dec 2008).

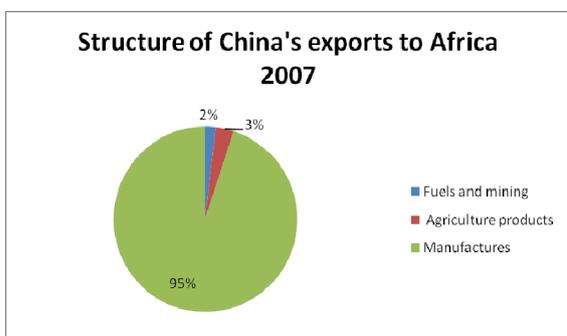
Slide 3



Source: WTO, World Trade Data statistics online (1995-2007); MOFCOM, English website of General Economic Affairs, (Jan-Dec 2008).

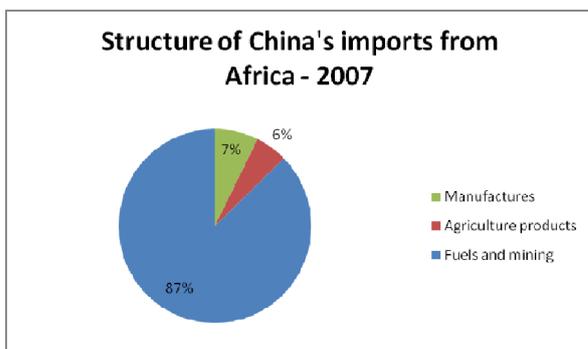
Whilst the increased trade between China and Africa is clearly indicative of deepening economic relations, I would like to pause here to reflect on the structure of the trade relationship a bit more closely.

Slide 4



Source: WTO, World Trade Data statistics online (1995-2007)

Slide 5



Source: WTO, World Trade Data statistics online (1995-2007)

To illustrate the challenge, I would like to share with you the top 10 products based on the HS tariff code, imported by China from the African continent as a whole, during 2008, using the data from the International Trade Centre (ITC), a

joint initiative between the WTO and UNCTAD. Its Africa data comes from the UN Commodity Trade Statistics Database. The top 10 imports from China are:

1. Crude petroleum oil
2. Iron ores & concentrates; including roasted iron pyrites
3. Manganese ores and concentrates etc
4. Cobalt ores and concentrates
5. Copper ores and concentrates
6. Wood in the rough
7. Chromium ores and concentrates
8. Unrefined copper; copper anodes for electrolytic refining
9. Ferro-alloys
10. Cobalt mattes & other products and articles of cobalt (incl waste & scrap)

In comparison, I list the top 10 products imported by the African continent from China, during 2008

1. Cellphone handsets
2. Textiles – woven cotton fabrics
3. Trucks
4. Computers
5. Bulldozers
6. Motorbikes
7. Shoes
8. Textiles – synthetic woven fabrics
9. Tyres
10. Ships

So whilst it is clear that there is robust trading activity between the African continent and China, it is also clear that the current trade structure reflects Africa

as primarily a source of raw materials, mainly of extractive industries products and as a market for Chinese manufactured goods. In 2007 for example, 93% of China's imports from the continent were agriculture, fuel and minerals and 95% of exports were manufactured goods.

This structure is largely the same for the SA-China relationship notwithstanding our position as Africa's industrial centre. While there are some gaps between the official statistics of the two countries, the pattern in both sets of trade figures point to the same structure of trade. Using the SARS figures, which as with all countries exclude gold and arms data, the following contains the list of the top 10 products imported from SA by China during 2008:

1. Iron ores & concentrates; including roasted iron pyrites
2. Manganese ores and concentrates etc
3. Chromium ores and concentrates
4. Ferro-alloys
5. Platinum, unwrought or in semimanufactured forms
6. Flat-rolled products of stainless steel, of a width of 600mm or more
7. Copper ores and concentrates
8. Copper waste and scrap
9. Crude petroleum oils
10. Polymers of propylene or of other olefins, in primary forms

The list of the top 10 articles imported from China by SA in turn are as follows, for 2008:

1. Cellphones
2. Computers
3. Printing machines
4. Televisions and video projectors
5. Shoes from rubber or plastic

6. Electric generators
7. Kettles, heaters and hairdryers
8. Coal coke
9. Bags and suitcases
10. Shoes - leather

What the current structure of trade shows is the importance of Africa as a supplier of raw materials and oil to the Chinese economy.

China has legitimate concerns about security of access to raw material supplies and we have seen significant investment by Chinese companies in the primary sector and in developing infrastructure to enable the commercial exploitation of mineral and oil deposits.

In addition, at a strategic level, it is clear that China is thinking long-term and developing its own procurement and market networks with the continent, bypassing the traditional channels via London or New York.

The reasons for this focus on resources are not hard to fathom. As Clem Sunter remarked. "Whereas Britain put 30 to 40 million people through an industrial revolution in the mid-to-late 19th Century and had the colonies to draw its raw materials from; whereas America put 150 million people through an industrial revolution at the turn of the 20th Century and had its own raw materials; China is putting 1.3 billion people through an industrial revolution with neither colonies nor substantial indigenous resources besides coal."

Some have seen only danger in the growth trajectory of China, while others have seen opportunity for the African continent in this reality. I will return to this theme in my conclusion.

Insofar as the bilateral relationship between China and South Africa is concerned, it is underpinned by a number of government-to-government initiatives which commenced with the establishment of a Bi-National Commission in 2002 of which the Joint Economic and Trade Committee (JETC) is a sectoral committee. The Partnership for Growth and Development (PGD) is intended to address trade and investment challenges faced by both nations and has been anchored around three pillars, namely, market access, mineral beneficiation and infrastructure development & facilitation.

Some of the other focus areas of cooperation between the two countries under the JETC include:

- Identifying joint projects that may be supported by financing arrangements including concessional loans, preferential export buyer's credit and the China-Africa Development Fund (CADF).
- Co-operation in human resources development; and
- Co-ordination in support of NEPAD and FOCAC.

Outcomes of 4th Ministerial FOCAC- Sharm-el Sheik

Ladies and Gentleman

The 4th Ministerial FOCAC meeting reflected on the achievements since the 2006 Beijing FOCAC. The respective heads of state adopted the Sharm-el Sheik Declaration and Action Plan articulating new areas of co-operation between the two sides over the next three years.

I wish to highlight the address by Chinese Premier Wen Jiabao to the Summit and the 8 commitments to Africa that he made. They relate to

- A partnership in addressing climate change including the development of clean energy sources.

- cooperation with Africa in science and technology including joint projects and post-doctoral training
- building up financing capacity, including through special loans for small and medium-sized African businesses
- opening up China's market to African products
- enhancing cooperation with Africa in agriculture
- deepening cooperation in medical care and health
- enhancing cooperation in human resources development and education
- expanding people-to-people and cultural exchanges

The Action Plan stressed the need for co-operation and co-ordination in the light of the international economic crisis. In addition, tackling issues related to climate change, sustaining the call for the reform of international governance structures and promoting the Millennium Development Goals and DOHA development round negotiations were emphasised.

Taking the relationship further

Ladies and Gentleman

How do we think that these commitments and outcomes can be translated into meaningful opportunities for both sides?

If we take the commitments made by China as a useful platform, there are ways in which the relationship can be strengthened. The over-riding goal should be to foster a more balanced outcome particularly in respect of trade and industrial development. Historically South Africa had a relationship with Europe and North America where our country and our continent were the suppliers of raw materials and the importers of finished goods, particularly capital equipment.

We do not believe that South Africa or China wish to replicate that relationship in the long-term strategic relationship that we are forging. A balanced relationship requires that South Africa can strengthen its manufacturing footprint in the relationship that is being developed as we pursue a broad-based industrialisation strategy to create jobs and promote economic development.

It will require active steps however in a number of areas to steer the bilateral economic relationship to these more balanced outcomes.

First, is improving market access for African exports including South African goods to China. The commitment to open up China's market to African products needs to include measurable progress in sourcing manufactured products, including high value-added products. Instead of all our local raw materials being exported across the globe in unprocessed form, we need to deepen the efforts as envisaged in the Partnership for Growth and Development, to beneficiate more mineral resources into manufactured products that can be absorbed by China's fast-growing economy and consumer-markets. This may require additional ways of actively promoting their export to China.

There may be a number of ways of doing this. China has an opportunity also to include SA manufacturers into its public sector procurement through set asides and in its global supply-chain. Our participation in World Expo in Shanghai next year is an ideal opportunity to find concrete ways of promoting exports of South African industrial products to China.

Second, on investment, it is worth considering that though Chinese investment on the African continent is growing, more can be done to channel investment in mutually beneficial sectors. This would imply a much greater emphasis on investment in value-added manufacturing enterprises and further diversifying the Chinese investment portfolio away from mainly minerals-extraction related

infrastructure to include manufacture of consumer and capital goods in South Africa.

Third, the local industry has to grow more, particularly locally-owned enterprises. For this to take place, local enterprises need access to capital, to markets and to know-how. They need to build on innovation and technology to take account of the more limited local market-size and to provide products on global markets that are distinguishable by their value-add. FOCAC has already placed some emphasis on technology transfer and we think this is an area of priority. But South Africa also has a significant technological base that can be tapped in joint ventures. It relates to our objectives on human resource development, on skills upliftment and on creating sustainable livelihoods for our people. Chinese investments in the local real economy can be promoted through such joint ventures, together with the twin commitments to cooperation in science and technology and to building up financing capacity, including special loans for small and medium-sized businesses. This will provide a basis for the strengthening of locally-owned enterprises.

Fourth, the partnership in addressing climate change including the development of clean energy sources can provide an opportunity for China to help develop the local green economy, through greater imports of SA green technology products.

Fifth, the cooperation with Africa in agriculture will need to focus on ways of improving the productivity and know-how of local agriculture but it can and should extend to the development of the local agro-processing industry that would ensure that increasing productivity in agriculture is the platform for a large food and beverage processing sector that can export its finished products to Asia and Latin America as well as the economies of the developed world.

Sixth, the commitments to technical cooperation should focus on improving joint work on import and export statistics in order to harmonise the statistical base

used by our two countries to measure progress and challenges. It should also take forward the request for strong cooperation between our customs authorities in SARS and the customs authorities of the PRC in respect of under-invoicing and illegal imports particularly for light consumer goods. The evidence of large-scale irregularities by operators in both countries is clear and available and we need as governments to ensure that unethical and illegal activities do not flourish and that firm steps are taken to address these concerns.

Ladies and Gentleman

In these challenges and suggestions, both South Africa and China have enormous gains to make - South Africa because of its place on the African continent and China because of its interests in Africa. China is on a trajectory of growth and development that is shifting the global geo-economic centre of gravity. It can do so in ways that can complement our efforts to lift our continent from a decades-old pattern of simply being the raw materials provider to the world.

This requires active choices and strong cooperation between our governments and economies. That is the essence of a strategic relationship, that it steers outcomes towards mutual benefit.

The South African government looks forward to a maturing of relationships to embrace greater benefits for both nations.