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South Africa-China multi-lateral co-operation: BRICS and FOCAC

The 21st Century has witnessed the emergence of a number of non-western powers, many of which have entered into formal partnerships, driven predominantly by a common development agenda. A prominent engagement within this new context is the China-South Africa relationship which, in recent years, has been strengthened through both bi-lateral exchanges as well as various multi-lateral frameworks. Two major partnerships include BRICS, an association of five major emerging economies - Brazil, Russia, India, China, and South Africa, and FOCAC, the Forum on China–Africa Cooperation - a triennial ministerial meeting whose aim is to enhance co-operation between China and African states at multiple levels. South Africa's inclusion in the BRICS grouping bestows on it a prestigious position in the continent as well as in the global arena. At the upcoming FOCAC VI in 2015, it is expected that South Africa as co-chair will yet again show its commitment in taking initiatives to resolve Africa's challenges. This Policy Brief discusses the importance of South Africa's growing role in these groupings with a focus on how its membership can contribute to South Africa's sustainable development and help it to garner opportunities.

South Africa within BRICS

The grouping originally known as BRIC, a coming together of major emerging markets, became BRICS when South Africa joined it in 2010. It was China that invited South Africa to join the original group of BRIC and South Africa's accession makes the grouping more representative of the new economic and political powers. The BRICS member countries' activities set to present an alternative to the development co-operation model offered by traditional Western donors.

Although there are great disparities between BRICS member countries with regard to geographic locations, history, culture and socio-economic conditions, BRICS has exerted itself to form a collective identity in order to tackle various challenges at the global level. Common interests shared among member states include the promotion of investment and trade, technological transfer, and finance infrastructure.

South Africa's economic engagement with the BRICS member countries is expected to provide an opportunity to achieve inclusive growth which will bring about social opportunities such

as employment, one of the cornerstones of South Africa's domestic policy. In this context, it is important to determine the nature of current investments and trade within BRICS and where South Africa can position itself in order to achieve sustainable development aligned with the BRICS agenda.

Intra-BRICS trade and investment

Intra-BRICS trade among member states has the potential to be mutually advantageous. Brazil (iron ore, crude oil and agricultural products) and Russia (petroleum and petroleum products, natural gas, metals) are commodity exporters; China and India are largely commodity importers as well as global manufacturers. China has become the largest trading partner of all member countries, however, and the trade with member countries is largely in China's favour.

From South Africa's perspective, intra-trade depicts a mixed picture with opportunities and challenges. Since its admission, trade between South Africa and BRICS member states has been gradually in favour of South Africa. However, South Africa's trade with member states including, China, the largest trading

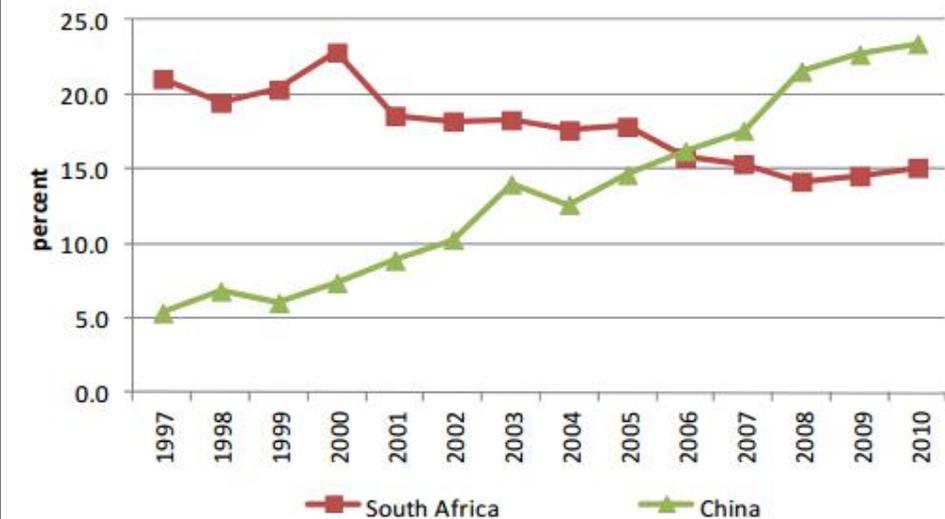
partner, comprises mostly of a few commodities such as iron ore and coal products. Since other BRICS member countries such as Brazil and Russia also export primary products, South Africa does not have an absolute advantage. In this regard, South Africa's introduction of the Mineral and Petroleum Resources Development Bill will contribute to raising levels of beneficiated mineral output, and high value intermediate or finished products. Nevertheless, as of January 2015, the Bill was sent back to the South African National Assembly for further review.

According to the United Nations Conference on Trade and Development (UNCTAD), the BRICS member countries already received an estimated 20 per cent of the global foreign direct investment (FDI) which stood at US\$ 322 billion in 2013. The four countries all became top 20 FDI destinations in 2013; China and Russia are ranked 2nd and 3rd after the United States of America (USA), Brazil (7th) and India (16th) emerged as new investment destinations. South Africa, despite its comparatively smaller economy, has also performed well, its inward FDI rising by 126 per cent. BRICS member states have also become global investors, accounting for 10 per cent of global FDI in 2012. However, intra-BRICS investment has not yet reached a substantial level. FDI of BRICS member states is largely concentrated in developed countries such as the USA and the European Union (EU) countries and their respective neighbouring states/regions, while South Africa has contributed 20 per cent to the intra-BRICS FDI flow. Even though Chinese investment in South Africa has increased remarkably during the past decade, and has become diversified ranging from finance to manufacturing, other member countries' FDI flow into South Africa is still negligible.

Future prospects

South Africa's BRICS membership has the potential to contribute to the diversification of investment and trade partners. South African enterprises have already started exploring large new markets using this platform as entry points and exploiting opportunities to expand into new regions. Thus, policies that can facilitate the activities of South African enterprises overseas, especially in the BRICS member states' respective regions,

Figure 1: Changing share structure of 10 Sub-Saharan African countries manufacturing imports, 1997-2010



Source: UN Comtrade, 2012

should be followed.

Despite these opportunities, there are several challenges that should be noted. Member states can be competitors in terms of attracting FDI. China, a significant source of global FDI, has increased its outward FDI into India, Russia and Brazil. In fact, these countries have become major recipients of China's FDI (India 5th, Russia 6th, Brazil 7th), while South Africa still remains insignificant, ranked at only 29th.

The BRICS member countries and South Africa share similar challenges, such as a slow-down in GDP growth (even though the member countries have outperformed compared to other parts of the world) and domestic constraints, such as internal inequality. These factors will affect the future of BRICS, and raise questions about the general stability of the emerging economies. Additionally, the fact that the BRICS grouping is still a relatively new phenomenon makes it difficult to determine to what degree South Africa will reap future benefits.

South Africa's engagement with China within FOCAC

FOCAC will hold its sixth ministerial meeting in the last quarter of 2015, in South Africa. FOCAC was established in 2000 in Beijing; at the first ministerial meeting under the joint initiative of China and Africa, with the purpose of further strengthening co-operation between China and African states. The main objectives of FOCAC are to promote consultation, enhance understanding, expand consensus and strengthen friendship in order to promote economic co-operation and trade.

One of South Africa's roles at FOCAC VI will be to influence the trajectory of the longstanding commitment and one that has been reiterated at previous FOCAC meetings, to support further infrastructure development in Africa as well as promote greater product beneficiation in the resource sector. South Africa's activism has over the years borne fruit in terms of incorporation of measures calling for beneficiation as a feature of Chinese investments in the South African resource sector, improved terms of trade and greater adherence to environmental and labour standards by Chinese companies operating in South Africa.

Prior to the upcoming FOCAC VI meetings, it is noteworthy to remember South African President Jacob Zuma's statement at the fifth FOCAC meeting held in Beijing in 2012. He claimed that China-Africa relations were "unsustainable" as they stood and enunciated the view that the current economic foundation of the relationship needed a shift from the pattern of unequal exchange if it were to thrive in the long run. The current relationship should shift from investments in the extractive sectors, such as mining, oil and gas and forestry, or the infrastructure sectors that often opt for Chinese companies' competitive advantage in exchange for resources as a payback. In this context, the twinning of South Africa's responsibilities as chair of the African Union and the host of the upcoming FOCAC VI provides room for expectation that Pretoria will make its influence even more prominent in both South African and African matters.

South Africa-China: co-operators

China's approach to Africa's development which matches South Africa's commitment to pursue regional infrastructural development indicates a strong point of convergence between the two countries. With regard to commitments echoed at the 2012 FOCAC ministerial meeting, there has been a call for more resources to least developed countries in light of the crippling global financial crisis and encouraging closer integration and technical co-operation at all levels (state, regional and sub-regional institutions, and private sector and civil society) and China has played a significant role in providing financial support.

What the above mentioned call for closer technical co-operation ultimately entails, is Chinese-led technical assistance in training, planning and management of regional infrastructure development in Africa. This has been further enhanced by China's pledge to finance and construct a railway link between Nairobi and Mombasa in Kenya with the possibility of extension to Uganda, Rwanda, Burundi and South Sudan; thus contributing to regional as well as national infrastructure development in Africa. This project along with Beijing's offer of US\$ 20 billion in loans in support of Africa's development goes hand in hand with South Africa's vision of being a key player in

regional infrastructure development across Africa. Being the regional powerhouse and having the resident marketing skills and distribution channels to open commercial ventures into Africa, South Africa eases access to other sub-Saharan markets, facilitated through the special International Headquarter Company (IHQ) regime, through which South Africa is positioned as a holding company gateway for foreign multi-nationals investing in Africa.

South Africa-China: competitors

The South Africa-China evolving relationship brings with it questions of divergence and competition as well. Competition from China (mainly in form of manufactured goods) deprived South Africa of about US\$ 900 million in trade with the rest of Africa (2001-2011). South Africa's exports to its 10 main trading partners in Africa would have been roughly 10 per cent higher in the period 2001-2010 if it had not lost market share to China. While China's exports to sub-Saharan Africa rocketed from US\$ 4.1 billion in 2001 to US\$ 53.3 billion in 2011, South African share of total exports to its major trading partners had declined as seen in Figure 1. South Africa's most significant losses were in Angola and Tanzania, and the lowest losses were in Zimbabwe, Zambia and Malawi.

Given that South Africa's major trading partners are members of the SADC free trade agreement, it gives South African products and advantage vis-à-vis Chinese imports. South Africa's exports to Africa are also far more diverse than China's, and lean more towards value-added goods. Roughly 15 per cent of South Africa's exports to Africa are made up of machinery, 8 per cent vehicles, and 6 per cent electrical and electronic equipment and articles of iron and steel, respectively. Around half of all manufactured goods exported by an African country to the rest of the continent are produced in South Africa. In addition to this trade advance, South Africa's investment footprint in Africa is expanding noticeably across the sub-continent. Nearly 100 large South African corporations have substantial operations across Africa, thereby increasing South Africa's influence across the continent. However, the presence of Chinese enterprises across Africa, supported by various institutions, such as the Ministry of Foreign Affairs, China Export Import Bank, and the China-Africa Development Fund serves as a reminder to South Africa that unless it develops a more proactive implementation of an Africa strategy, it will not reap all the benefits from the bi-lateral relationships with other African countries and may even lose influence to China. However South Africa's deep ties with China and the announcement of a "comprehensive strategic partnership" during President Zuma's first state visit to China in 2010 serves to suggest that co-operation between the two countries in the context of trade as well as economic and political influence in Africa may be possible.

Conclusion

South Africa has strengthened its position as one of the emerging countries as well as the representative of the African continent through various multi-lateral frameworks such as BRICS and FOCAC. South Africa's involvement in these multi-lateral mechanisms has brought with it increased opportunities for sustainable development. However, it is obvious that there is also severe competition among member states. South Africa should urgently determine how to benefit from this relationship. There should be guidelines and swift implementation in order to maximise the benefits. South Africa's own interest is also bound up with bi-lateral and multi-lateral mechanisms pursuing common development and prosperity.

Recommendations

- South Africa's role as chair of the African Union (AU) and host of FOCAC VI puts Pretoria in a privileged yet delicate position of trying to balance its broad range of bi-lateral, regional and multi-lateral relations. The main concern is how to balance its own agendas in the relationship with China, while at the same time influencing the trajectory of the longstanding commitment to product beneficiation in the resource sector as well as promoting Chinese led infrastructure development across Africa.
- South Africa could and should play a crucial role in the establishment and drafting of a unified stance on China, given its long and fruitful bi-lateral ties with Beijing and its firm position as Sub-Saharan Africa's regional powerhouse. As chair of the AU, South Africa has already contributed to the drafting of the AUs Common African Position (CAP) on the Post-2015 Development Agenda, launched in February 2014, which could be used as a guideline for the development of such a unified AU stance on China.
- Through the BRICS and FOCAC platforms South Africa needs to further develop its own agenda guiding its bi-lateral relations with China, focusing even further on closing the trade gap that is still in China's favour; calling for value-added resource sector investments and work towards making the investment arena more favourable for foreign companies (in Africa through the IHQ regime). However, this needs to be done within the context of strict policy regulations, enhanced public-private co-operative measures (governments should further lower administrative costs to induce more private

investments) and the enhancement of compliance mechanisms for both domestic and foreign companies as envisaged and implemented by the host government.

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