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South Africa's relations with China and Taiwan: Economic realism and the 'One China' doctrine

In 1998, after the fall of apartheid, South Africa commenced diplomatic relations with the People's Republic of China (PRC). This 'normalisation' of South Africa's China policy came with a condition to recognise Beijing's 'One China' policy proclaiming Taiwan an inalienable part of China. At the heart of the relationship between South Africa, China and Taiwan exists an economic pragmatism which exists in tandem with a policy of diplomatic isolationism. Nevertheless, while trade with Taiwan has continued, South Africa has been loath to strengthen the relationship, in part due to a fear of alienating its relationship with China. Given that relations with China have steeply increased in importance, cautious behaviour of the South African government is reasonable. However, in the case of economic diplomacy towards Taiwan, South Africa appears to not use available policy space. This can be seen as reflective of a South African foreign policy accused of being beholden to China.

South Africa's relations with China have seen a significant growth over the last 15 years—much in line with China's engagement in the rest of the African continent. While in 1992 Sino-South African trade totalled US\$ 14 million, it had grown to US\$ 26.6 billion in 2010, making China South Africa's biggest trading partner. South Africa is one of the top ten recipients of China's Official Finance to Africa and from 2000 to 2011 and received an estimate of US\$ 2.3 billion.

In 2012, China upgraded South Africa to the relationship of 'Comprehensive Strategic Partnership' – a title China has designated to indicate a deepening of political, economic and trade co-operation, which includes a promotion of trade balance and value-added activities on the South African side.

Trade patterns between South Africa and China are comparable with Chinese relations with other African states: China imports mostly raw material from South Africa, while South Africa imports mostly manufactured goods from China. The quality of relations with South Africa, however, are different in that South Africa is also a source of investment in China, often via the Special Administrative Region Hong Kong (see box 1). South African investment into China is dominated by large companies including Naspers (media), SABMiller (breweries), and Sasol (chemical); there is no South African FDI to speak of in Taiwan.

In 2011, the Development Bank of South Africa and the China Development Bank signed a financial cooperation agreement for

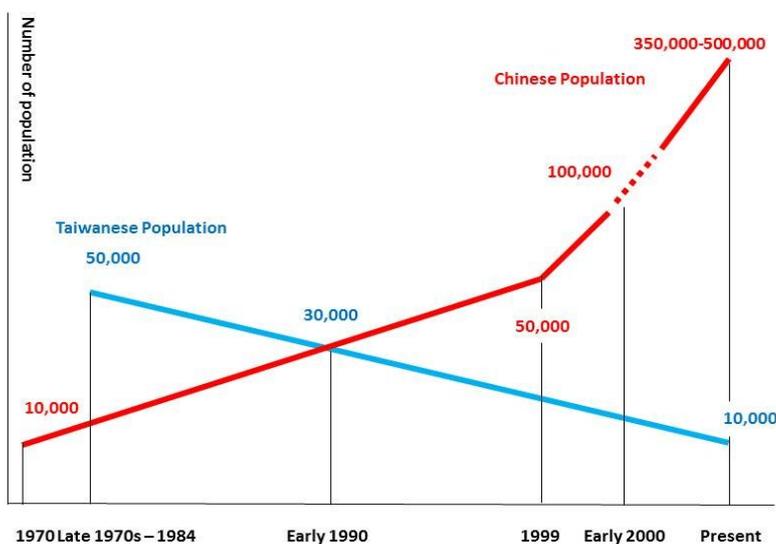
US\$ 2.5 billion, the two banks will invest in mining, infrastructure, transport, communication, energy, and agricultural projects in South Africa.

From Taiwan to the PR China: Economic and social shifts

Clearly eclipsed by economic relations with mainland China, Taiwan (officially: Republic of China) has nevertheless remained a significant destination for South African exports, the vast bulk of which comprised of raw and semi-processed materials such as coal, iron and aluminium. In 2011, Taiwan ranked as South Africa's 15th largest export destination. South Africa also remains an export market for Taiwan, ranking as its 29th most important market. Like many European, American and East Asian economic relationships with South Africa, the economic advantage falls on the Taiwanese side, insofar as the bulk of materials leaving South Africa have little value added while its imports – comprising mainly of computer components, textiles garments and machinery – produce greater value for Taiwan. Thus, even while the overall trade balance falls in South Africa's favour, the 'commodities out—manufactured goods in' pattern detracts from this figure. The overall trade pattern has declined since the 1980s. For instance, while in 1985, South Africa accounted for 2 per cent of imports and exports for Taiwan, today it accounts for only 0.3 per cent.

A major shift in the relationship has been a substantial decrease in FDI which Taiwanese enterprises provided to South Africa in

Diagram 1: Estimates of Chinese/Taiwanese population in South Africa



Source: Compiled data by the author

the 1980s and 1990s. At the time, as labour costs rose in Taiwan, companies shifted their manufacturing base abroad. Previously, apartheid South Africa and Taiwan developed robust political as well as economic relations, based on shared anti-communist, nationalist ideologies and pariah status within the international community. Apartheid South Africa became a destination for Taiwanese investors, who had invested over US\$ 100 million by 1987. The majority of this was centred in the textile industry at the fringes of the apartheid 'homelands', i.e. close to available 'cheap' labour. This was paralleled by a population shift, with about 50,000 Taiwanese migrating to South Africa during the peak of their influence.

The political and economic shifts in South Africa in the mid-1990s had a significant impact on these trends. While it is

Box 1: Hong Kong in South Africa's economic Asia link

The hand-over of Hong Kong from British colonial rule to becoming a Special Administrative Region (SAR) of China was the official reasoning for changing diplomatic recognition from Taipei to Beijing. Trade and investment often goes through Hong Kong, which consequently features quite substantially in trade statistics; Macau is negligible (see Diagram 2).

Hong Kong has the best accessibility for South African business in terms of economic openness, a similar legal and institutional setting based on the British model, and the use of English as the official language. Financial transfers through Hong Kong are substantially easier than via mainland China, which still exercises currency controls, and the SAR lends itself to be a logistical hub as it is a free port. One soft factor in the decision for Hong Kong as a business hub presumably is also the quality of life in a British-influenced, social club-dominated setting.

commonly assumed that the Taiwanese disinvestment and migration from South Africa in the late 1990s was due to the governments political de-recognition of the ROC, there is little evidence for this claim. During the transition period, President Mandela, had assured Taiwanese investors that they would be able to continue their businesses. Rather, socio-economic shifts following the fall of apartheid were the main factors for the exodus. The increased power of labour unions and subsequent wage increase demands allegedly contributed to 70 per cent of investors leaving; another 30 per cent left due to an increase in crime threats to physical safety (see Diagram 1).

In tandem with this, South Africa witnessed a subsequent increase in mainland Chinese immigrants, whose number leapt from 50,000 in 1999 to an estimated of over 350,000 today. A large number of the more recent Chinese migrants were, unlike the wealthier Taiwanese manufacturers, petty traders for whom union engagement is not relevant and who were also seemingly more willing to shoulder the risk of crime.

South Africa's natural resources, market size and political stability attract Chinese businesses. Chinese FDI to South Africa sticks out in that it focuses strongly on services (not least so: finance) and manufacturing (e.g. vehicles and household appliances) and in that they are often joint ventures in the mining sector. The latter is a function of a policy of 'black economic empowerment' in South Africa which requires 'black-owned enterprises' as business partners. This investment consists predominantly of large state-owned and private mainland companies who have invested in commodities, finance and telecoms. Medium-sized enterprises of the Taiwan variety, however, are largely absent amongst Chinese investors.

While Taiwan, since the 1990s, might offer a good quality of life, cultural (not least: language) factors and, political quarrels with Beijing, make it a far less obvious choice when establishing a regional base for business. Increasing pressure on Hong Kong's position could come from further liberalisation in China, such as the launch of a free trade zone in Shanghai, and also infrastructure expansion in neighbouring Guangdong province.

However, investors often still see Hong Kong as the preferred destination to establish their business headquarters for the above reasons. Hong Kong SAR inter alia houses Naspers' Asian investment (media), SAB Miller (breweries), Sappi Trading (pulp and paper), Sasol Chemical, and Standard Bank Asia (finance). Numerous small businesses are also to be found. The South African Consulate in Hong Kong hosts (local) staff of the Department of Trade and Industry (DTI), who engage in business promotion and networking activities.

Box 2: China –Taiwan Relations

Prior to the 1980s, Chinese economic engagement with Taiwan was politically un-wanted. Maoist China forbade trade with Taiwan; similarly, a nationalist Taiwanese government forbade trade with Mainland China. With Deng Xiaoping's rise to the Chinese leadership in 1979 and the introduction of market reforms, a policy of "peaceful reunification" arose in conjunction with indirect trade between the two territories. By the time Taiwan had lifted martial law in 1987, trade, which was still officially banned, had reached a volume of US\$ 1.5 billion. Taipei tried to further limit trade but it proved ineffective; lured by China's vast market and sharing common language and cultural affinities, business opportunities were ripe: big business lobbied Taiwanese politicians and smaller companies set up offshore companies to do business with China. By 2006, cross-Strait trade had reached US\$ 100 billion.

Although there were no official travel links during this period, in the same year 4.4 million Taiwanese visited China; 600,000 businessmen and women travelled to and investments in the mainland; and half a million Taiwanese already lived in Shanghai and adjacent areas. By 1997, mainland China was the sec-

ond largest market for Taiwanese exports and by 2001, the first. Both entities became members of General Agreements on Tariffs and Trade (GATT) and later, in 2002, the World Trade Organization (WTO) - Taiwan signing as 'Chinese Taipei'.

With the election of Taiwanese president Ma Yin-Jeou in 2008, relations have further improved. Ma is member of the Nationalist Party (Guomindang) and succeeded pro-independence president Chen Shui-bian. The Economic Cooperation Framework Agreement (ECFA), signed in 2010, aims to reduce tariffs and commercial barriers; it is expected to boost bilateral trade by US\$ 110 billion. Taiwan's growing economic dependence on the mainland has been more successful in integrating Taiwan and China than any other measure taken since their split in 1949.

From this perspective, Taiwan's economic engagement with South Africa is perfectly acceptable to the PRC – as long as it excludes state recognition. In fact, many Taiwanese companies whose goods are sold in Africa, run their manufacturing bases in China. This highlights an economic pragmatism shared on all three sides; this situation looks set to increase as Taiwan abandons its pursuit of trying to win over foreign states to officially recognise its sovereignty.

Diplomacy

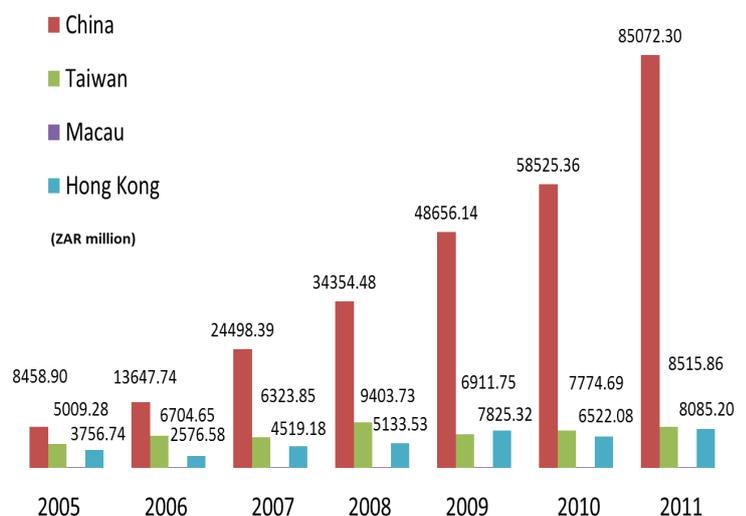
Official relations between Pretoria and Beijing are close, which affords numerous high level visits, trade delegations, party-to-party meetings and joint membership of new global bodies, such as the BRICS group and the G20. State visits are frequently accompanied by business delegations, which facilitates networking with key-decision-makers. The effective promotion of business is also conducted via party-to-party meetings (between the Chinese Communist Party and the African National Congress).

Chinese and South African regional provinces have been seeking ways of deepening their relations through sister-city relationships (replacing earlier sister city relationships between Taiwan and South Africa). Since 1998, Beijing and Gauteng, Shandong Province and the Western Cape, and Shanghai and KwaZulu-Natal have established twinning relationships. At China's behest, South Africa joining the BRICS grouping has also strengthened the relationship. As a reflection of China's engagement with Africa as a whole, an immense amount of energy and money is spent on promoting Chinese 'soft power', including Confucius Institutes, scholarships, conferences, media promotion, and so forth.

Clearly overshadowed by Pretoria-Beijing relations, and despite South Africa's de-recognition, Taiwan has maintained a set of institutions which actively pursue bi-lateral trade with South Africa. This includes official bodies, such as the Economic Division of the Taipei Liaison Office, Taiwan's official delegation to South Africa. Taiwanese institutions in South Africa also comprises quasi non-state actors such as the Taiwan External

Trade Development Council (TAITRA) who act as indirect promotional arms for the government. The Bureau of Foreign Trade designs trade policies which are implemented by TAITRA; 90 per cent of TAITRA's budget comes from the Bureau. The Bank of Taiwan, which maintains a branch in Johannesburg, has entrusted TAITRA with promoting trade and economic growth. The institution engages in trade exhibitions such as the Southern African International Trade Exhibition (SAITEX), where 14 Taiwanese companies producing high-tech products, including solar water heaters also participated.

Diagram 2: SA exports to parts of China



Source: Department of Trade and Industry, South Africa

Despite insisting on a 'One China' policy, Beijing's own relations with Taiwan are pragmatic and much more intense nowadays than, say, a decade back (see box 2).

Yet, de-recognition by South Africa has a significant impact on Taiwan's economic diplomacy. Since South Africa's switch to the PRC, meetings with Taiwanese officials have been down-graded in status, with meetings at Director-General rather than Ministerial level. This delays the process of implementing policies, and also prevents access by Taiwanese officials to key decision-makers in the South African government.

Conclusions: Missed opportunities?

South African handling of the 'One China' policy is reflective of a general foreign policy shift witnessed in post-apartheid South Africa. During the Mandela administration, relations with other nations were motivated by a rather 'idealistic' philosophy in which South Africa was to championed human rights and democracy. This subsequently shifted toward a more developmental agenda in which economic interests have come to the fore. This tacit shift to a more realpolitik-driven agenda has occurred in tandem with the global phenomenon of China's rise and its particular economic focus on the African continent.

In a geopolitical and global scheme, recognising the PRC can thus be understood as a 'normalisation' of South African foreign policy. It is unthinkable to *not* have relations with one of the great economic and political powers of the 21st century. All OECD countries and most other African states have diplomatic relations with Beijing since the 1970s. Many industrialised countries also maintain a liaison office in Taipei, despite recognition of the 'One China' policy, similar to South Africa.

The low-key economic pragmatism which is evident between China, Taiwan and South Africa is reflective of an economic rationality which exists in spite of the charged political dimensions of the relationship. Within this broader picture, however, it appears that a culture of self-censorship amongst South African political elites has emerged, in which they tend to steer clear of any issue that might raise eyebrows in Beijing. This adds to a broader critique of South African foreign policy as over-compensating toward China, exemplified in the recent failure of the South African government to grant the Dalai Lama a visa, which was widely believed to be a result of pressure from Beijing. It is significant that in the case of economic engagement with Taipei, pressure does not appear to be exerted from Beijing. The PRC embassy is quite open about not interfering in Taiwanese business interests in South Africa. Rather, it appears that South Africa's eagerness to receive an economic windfall from China results in South Africa (overly) anxious not to displease China. Thus, following a 'better safe

than sorry policy', South African political and business elites often choose not to exploit potential business and investment opportunities with Taiwan.

Recommendations

It is very rational that South African investors target mainland China's population of 1.3 billion; Taiwan's 23 million are obviously a minor addendum to this vast market. However, the structure of trade remains an issue of concern. The South African side, not least so The Department of Trade and Industry and the Department of International Relations and Cooperation, need to engage in a coordinated manner in order to work on the promotion of exports of added-value (manufactured) goods to China. Furthermore, shifting investments in South Africa to more medium sized enterprises should be a goal. This is work mostly aimed at the levels of domestic policies and the investment climate — and is a task in the greater African context.

Political relations with Beijing are excellent and provide a basis from which to foster South African (economic) interests in a diplomatic manner. Beijing is relatively nonchalant regarding economic relations with Taiwan if it does not touch on diplomatic recognition, hence South Africa need not be afraid to develop its economic links with Taipei. Taiwan has largely abandoned its earlier policy of seeking diplomatic recognition and its current strategy is one with an emphasis on economic diplomacy. This opens policy space that should be used. Engagement with Taiwan - alongside continuous and intensified engagement with Beijing - would be complicit with South Africa's foreign policy of economic development and should be situated within a larger strategy of taking advantage of the economic opportunities in China, but also throughout the East and South East Asia more broadly.

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