Chinese Economic Diplomacy in South Africa 1994-2015: A Partnership or a Chinese Neo-Colonial Endeavour?

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ABSTRACT

This thesis embarked on an analysis of China’s economic diplomacy in South Africa, the purpose of which was to establish if Sino-South Africa economic relations are an example of a partnership or Chinese neo-colonialism in Africa. The thesis sought to do this by means of qualitative research with elements of quantitative research in its analysis of the trade balance between China and South Africa from 1994 – 2015. In addition, the thesis examined the investment and aid relations between China and South Africa using theoretical perspectives of structuralism and liberalism. The study established that according to composition of trade, China benefited from exporting value added goods to South Africa and received cheaper resource imports from South Africa. This resulted in the trade balance being skewed towards China. However, South Africa benefited from a stable Chinese market from the export of its goods at a time when its traditional markets such as the European Union (EU) and the United States of America (USA) faced economic turmoil in 2008. Moreover, South Africa benefited from its relations with China in international affairs. This was in the form of support of the country’s ambition in international relations, including its effort to join BRICS and supporting South Africa to be the main power broker in Africa. These benefits impacted on South Africa’s ability to exercise complete sovereignty in domestic affairs on various matter such as the Dalai Lama case. This was an indication that even though both states were promoting an equal partnership, South Africa as the smaller partner in these relations, would at times need to bend to China’s will. However, both states have provided each other with political support in the international political economy and thus these relations are a partnership whose ramification provide benefits for both even though these benefits are heavily in favour of China.

DECLARATION

This thesis contains no material which has been accepted for an award of any other degree or diploma at any university or equivalent institution, and that, to the best of my knowledge and belief, this thesis contains no material previously published or written by another person, except where due reference is made in the text of the thesis.

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LIST OF ACRONYMS AND ABBREVIATIONS

ANC	-	African National Congress
Armscor	-	Armaments Corporation of South Africa
AU	-	African Union
BASIC	-	Brazil, Argentina, South Africa, India and China group
BEE	-	Black Economic Empowerment
BNC	-	Bi-national Commission
BPA	-	Balance of Payment Account
BRICS	-	Brazil, Russia, India, China, South Africa group
CCP	-	Chinese Communist Party
CDB	-	China Development Bank
COSATU	-	Congress of South African Trade Unions
CREB	-	China Resources (Jilin) Brewery
DBSA	-	Development Bank of Southern Africa
DFA	-	Department of Foreign Affairs
DTI	-	the Department of Trade and Industry
EU	-	European Union
FGD	-	Foundation for Global Dialogue
FDI	-	Foreign Direct Investment
FOCAC	-	Forum on China-Africa Co-operation
G20	-	Group of 20 largest industrialized and emerging economies
GDP	-	Gross Domestic Product
GNU	-	Government of National Unity

HSRC	-	Human Sciences Research Council
ICBC	-	Industrial and Commercial Bank of China
ICT	-	Information and communication technology
IDC	-	Industrial Development Cooperation
IFP	-	Inkatha Freedom Party
IGO	-	Inter-governmental Organisations
IMF	-	International Monetary Fund
IPE	-	International Political Economy
ISCOR	-	Iron and Steel Corporation (South Africa)
JISCO	-	Jiaquan Iron and Steel
JVs	-	Joint Ventures
LDC	-	Less Development Countries
MNC	-	Multinational Corporation
NDB	-	New Development Bank
NEC	-	National Executive Committee
NEPAD	-	New Partnership for African Development
NGC	-	National General Council
NGO	-	Non-Governmental Organisation
NP	-	Nationalist Party
ODA	-	Official Development Aid
PRC	-	People’s Republic of China (mainland China)
R&D	-	Research and Development
RCA	-	Revealed Comparative Advantage

RDP	-	Reconstruction and Development Policy
ROC	-	The Republic of China (Taiwan)
SAB	-	South African Breweries
SACP	-	The South African Communist Party
SADC	-	Southern African Development Community
SAIIA	-	South African Institute of International Affairs
SMEs	-	Small and Medium Enterprises
SOEs	-	State Owned Enterprises
TNC	-	Transnational Cooperation
UK	-	United Kingdom
UN	-	United Nations
UNSC	-	United Nations Security Council
USA	-	United States of America
WTO	-	World Trade Organisation

CHAPTER ONE: INTRODUCTION, AIM, THEORETICAL OVERVIEW AND METHODOLOGY

1.1 Introduction and Background

The turn of the 21st century has seen the prioritization of South-South cooperation, in which states of the Global South (that is, states with developing and less developed economies, for example China, South Africa, India and Nigeria) have increased economic relations with each other in a bid to boost economic growth and development while reducing dependency on the Global North (industrialized or developed economies).[1] Two states that have been heavily immersed in this endeavour are South Africa and China.

Over the past two decades, both South Africa and China have been the leading economic powers from the Global South. The Chinese economy is the second largest economy in the world behind the United States (US), having witnessed double-digit economic growth in the past 20 years. This has contributed not only to its appetite for resources from the Southern African Development Corporation (SADC) region (including South Africa) and the rest of Africa but also to its investment portfolio in the region.[2] South Africa, on the other hand has been the leading economic power in Africa for years (only overtaken by Nigeria in 2014) and the largest economy in the SADC region.[3] China is the leading infrastructure investor in southern Africa. It has established various projects seeking to support SADC states in dealing with *inter alia*; transport infrastructure backlogs. For example, the Chinese Development Bank funded construction of the Tanzania-Zambia Railway in 2013. Moreover, China is the leading trade partner to SADC's largest economy, South Africa, with a trade volume of R270 billion in 2014.[4] Therefore, the SADC region remains critical to China's economic interests. Likewise, China remains a critical market for SADC economies.

1 CSO Partnership for Development Effectiveness, *Issues on South-South Cooperation*, (CSO Partnership for Development Effectiveness: Brazil, 2014).

2 "Aspects of Chinese Investment in the African resources sector", www.scielo.org.za, accessed November 21, 2016. http://www.scielo.org.za/scielo.php?script=sci_arttext&pid=S0038-223X2011000700010.

3 Jannie Rossouw, *South Africa's role in macroeconomic convergence in SADC*, (South African Reserve Bank: South Africa, 2006), 155.

4 Ross Anthony et al, "African Regional Economic Communities' Engagement with China". *University of Stellenbosch* No Vol, No issue (2014).

South Africa is the most advanced economy in the grouping and the largest contributor to SADC's Gross Domestic Product (55.5% in 2013).[5]

From the above, it seems evident why South Africa and China, as two economic powerhouses, would gravitate towards each other to explore economic opportunities. Following the end of apartheid in the early 1990s, South Africa needed to reformulate its foreign policy goals including economic cooperation with the international community. China was an ideal country with which to build relations, given that it was on an economic rise, the size of its market was vast and growing, and there were historically amicable relations between the ANC and the Chinese Communist Party. The ANC held central to its objectives the reforming of the South African economy, and the need to pursue a foreign policy that would help it to achieve its domestic goals. In the early 1990s, South African sought to pursue a "Two China policy", with communist China and Taiwan. However, largely due to China's economic supremacy and size over Taiwan, South Africa eventually pursued formal relations with China in 1998.[6] This will be discussed further in chapter two.

Before continuing with the discussion, it is important to understand some of the key terms that will come up in this study.

1.1.1 Conceptualization of ´Economic Diplomacy´ and ´Neo-Colonialism´

Both 'economic diplomacy' and 'neo-colonialism' have varied meanings and interpretations; therefore, it is necessary to define these concepts for purposes of this study.

Economic diplomacy will be examined more fully in Chapter Two. However, it is defined here briefly as the use of a full spectrum economic tool by a state to achieve its national interests. Primarily, these tools are trade, investment and aid.[7] Peter A.G. van Bergeijk and Selwyn Moon assert that there are three elements of economic diplomacy. The first element is the use of political influence and relationships to

5 SAIIA, "Regional Economic Integration in SADC: Current Status of Key Economic Indicators-Regional Economic Trends", *SAIIA* (2013).

6 Sven Grimm, Yejoo Kim, and Ross Anthony, Robert Attwell and Xin Xiao, "South African relations with China and Taiwan - Economic realism and the 'One-China' doctrine". (Centre for Chinese Studies; Stellenbosch University, 2013), 6-8.

7 Nicholas Bayne and Stephen Woolcock, "The New Economic Diplomacy: Decision making and Negotiation in International Economic relations", Ashgate (2007)

stimulate trade and influence investment. The second element is the use of economic assets and relationships to increase economic security. Lastly, economic diplomacy is concerned with the consolidation of an optimal political climate and international political economy for mutual inter-state relations.[8]

Neo-colonialism describes the change in relationships between former colonial powers and colonies following decolonization. Whereas under colonialism, colonial powers had vested political power in and controlled the colonial economies, neo-colonialism is characterized by economic dominance and political influence rather than political governance of colonies.[9] However, there are similar features between traditional colonialism and neo-colonialism. The first pertains to trade, where neo-colonial powers import cheap unprocessed goods and in exchange, export manufactured goods and daily necessities to former colonies. Furthermore, neo-colonialism is characterized by the fact that goods produced by less developed states cannot compete with goods produced by advanced states in both price and quality and thus a state of dependence is created. This dependence is further fueled by the third element of neo-colonialism, where the economic relationship is structured in a way that results in less developed states focusing on certain industries or sectors only and therefore are lacking in diversification of their economies (fueling further dependence).[10]

Neo-colonialism thus differs from colonialism, which in a traditional sense encompasses three elements. The first element involves the colonial power's partial or full control over the political environment of the colony.[11] In addition to this is the fact that there is often a substantive settler population in the colony, to ensure complete political and economic control over the colony and lastly, the complete control over all resources within the colony which are exported to the colonial power.[12]

8 Peter A.G. van Bergeijk and Selwyn Moons, "Economic Diplomacy". 2

9 Jian Junbo and Donanta Frasheri, "Neo-colonialism or De-colonialism? China's engagement in Africa and the implications for world order". (Fudan University: Institute of International Relations, 2014), 186.

10 Jian Junbo and Donanta Frasheri, "Neo-colonialism or De-colonialism". 186.

11 Ryan Kelly, "How China's Soft Power Is Building a Neo-Colonial System in Africa", accessed June 25, 2018. http://www.ketagalanmedia.com/2017/10/09/how-chinas-soft-power-is-building-a-neo-colonial-system-in-africa/.

12 Ryan Kelly, "How China's Soft Power Is Building a Neo-Colonial System in Africa."

In essence, traditional colonialism speaks to the lack of territorial sovereignty of a state that is subject to the complete control of another state.

According to Kwame Nkrumah, who coined the term ‘neo-colonialism’, neo-colonialism is a system whereby the economically weaker state’s economic system is controlled by a more powerful state and thus its political policies are shaped by that very external power.[13] In other words, while the weaker state maintains territorial integrity as a key determinant of its sovereignty, their political and economic environments are controlled by the larger economy.

Kelly states that China has used its immense economic muscle to extend loans that would assist debt-ridden African states to finance their budgetary needs and reduce their dependence on Western sources of finance such as the International Monetary Fund (IMF) and World Bank.[14] However, Chinese assistance has come at a cost for many African states, with Chinese (rather than local) labour being used, creating resentment of Chinese by locals. Moreover, it has been argued that China has used its economic power to dictate the foreign policy of African states in terms of the One China doctrine. An example of this is São Tomé and Principe’s demand for $100 million from Taiwan in order to maintain diplomatic ties with Taiwan.[15] After the island state refused to meet that demand, São Tomé decided to relinquish relations with Taiwan and recognised Mainland China as the sole legitimate ruler of all of China, including Taiwan. It received aid and loans from China as a reward.

Moreover, Kelly also argues that China has used its economic influence to steer the Africa bloc to vote with it on resolutions in the United Nations (UN). Countries like Angola, Sudan, Nigeria, Democratic Republic of Congo and Ghana have all received loans and voted with China between 83 percent-93 percent of voting occasions in the UN.[16] However, according to the *Economist*, research indicates that China is not the only country that uses aid for votes, with the USA also choosing to give more aid to those African countries that vote with it on UN resolutions.[17]

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13 Ibid

14 Ibid

15 Ibid

16 Ibid

17 Economist, “A despot’s guide to foreign aid”, https://www.economist.com/middle-east-and-africa/2016/04/16/a-despots-guide-to-foreign-aid. Accessed July 21, 2018.

These concepts are important in drawing clear distinctions to what will be examined in this study, a critical analyses into China's economic diplomacy in South Africa as a neo-colonial endeavour or partnership.

1.1.2 Purpose of Study and Research Question

The rise of Chinese economic interests in Africa has raised questions about China's intentions and the consequences, both negative and positive, of China's increased economic presence on the continent.[18] Moreover, China's Beijing Consensus contrasts with the Washington consensus. The former can be defined as trade, aid and investments by China and Chinese firms with no conditions attached other than those that maximise Chinese interests. On the other hand, the latter sets stringent conditions for trade, investment and financial aid, including adopting liberal economic policies and protecting and promoting human rights. China's policy has resulted in a situation where China has been able to pursue its resource agenda in Africa without holding African leaders to account for their governance practices.[19] An argument also exists that the increasing dependence on China by corrupt African governments has increased the rise of China's influence over African governments in terms of prioritizing Chinese firms in government contracts.[20] Given this reflection on China-Africa relations generally, it is therefore prudent to explore the economic relations between China and South Africa specifically to ascertain whether or not this suggested 'dependence' is apparent in their relationship. Is China a neo-colonial power or an economic partner to South Africa?

It is apparent that even though South-South cooperation seeks to produce mutually beneficial relations among developing states, Sino-South African economic relations may have benefited China more than they have benefited South Africa. According to Ensor, South Africa's trade deficit reached R36bn in 2013.[21] This can largely be attributed to the composition of trade. In 2012, 90 percent of South African exports to China consisted of minerals, while 100 percent of Chinese trade exports to South

18 Wharton University of Pennslyavania " China's Investments in Africa: What's the Real Story?", http://knowledge.wharton.upenn.edu/article/chinas-investments-in-africa-whats-the-real-story/. Accessed July 21, 2018.

19 Global Policy, "The New Neo- Colonialism".. http://www.globalpolicyjournal.com/blog/19/08/2014/new-neo-colonialism-africa. Accessed April 04,2017

20 Global Policy, "The New Neo- Colonialism".

21 *Business Day* (2014)

Africa were value added manufactured goods.[22] This presents a potential problem of unequal trade balance, whereby South Africa exports mineral goods that are relatively less expensive than value added manufactured goods that are imported from China. This suggests that the benefits of trade are skewed towards China, to the detriment of South Africa. Moreover, uneven terms of trade present a further problem in that the skewed trade relations that favour China creates a dependency on China as a market for South Africa, which could lead to an unhealthy influence over South African political decision making, especially on foreign policy. An example of this was the decision to deny the Dalai Lama a visa to South Africa on the basis that it would attract criticism from China and present a potential diplomatic spat. Based on the above discussion, the purpose of this study is to examine the extent of Chinese economic diplomacy with South Africa in an effort to ascertain whether it is a mutually beneficial partnership between the two states or a Chinese neo-colonial endeavour.

The research question guiding this study is: Does China's economic diplomacy with South Africa reflect a mutually beneficial partnership or is it characterised more by a neo-colonial relationship?

In support of this main question, the following sub-questions will be investigated:

- How, if at all, has the establishment of formal Sino-South African diplomatic relations shaped the trajectory of Chinese economic diplomacy in South Africa post-1994?
- How, if at all, has China's use of investments, aid and trade left South Africa more independent from or reliant on China?
- Given the nature of Sino-South African economic relations, what, if at all, are the benefits or consequences of this economic diplomacy on the political relationship between Beijing and Pretoria?

1.2 Literature Review

The literature review will consist of five categories, the first of which consists of the debates surrounding the concept of economic diplomacy in the discourse of

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22 L. Ensor, "Bilateral trade with China". L. Ensor, "Bilateral trade with China on the increase

international political economy. These include Baldwin; Kishner, Lee and Hockings[23], Watson[24] and Bayne and Woolcock[25] and Bergeijk and Moon.[26] According to Lee and Hockings, differences in conceptualizations of economic diplomacy emerged in the 1980s as an attempt to break away from the state-centric focus on economic diplomacy.[27] The state-centric view of economic diplomacy espoused by thinkers such as Watson denote that it is primarily a tool used by states to advance their foreign policy agendas, through negotiation and the use of both positive and negative statecraft such as financial aid and sanctions, respectively. However, academics such as Bayne and Woolcock maintain that with the rise of globalization and a interdependent global economy, state actors are not the only agents engaged in economic diplomacy and that private actors such as multinational corporations (MNCs) have emerged as critical players in diplomatic networks.[28]

According to Peter A.G. van Bergeijk and Selwyn Moons, there are three elements of economic diplomacy. The first element is the use of political influence and relationships by governments and diplomatic missions to stimulate trade and influence investment in such a way as to address market failures and mitigate the cost and risks associated with cross border economic activities. The realm of economic diplomacy is hence greatly connected to commercial policies; therefore, non-state actors such as NGOs and TNCs have a role to play influencing political relationships.[29]

The second element that Bergeijk and Moons prescribe is the use of economic assets by governments and diplomatic missions and relationships to increase the cost of war and conflict, so that states rather choose cooperation rather than conflict. Given greater economic relations and interdependency, states will choose mutual beneficial relations rather than conflict in order to increase economic security. This component

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23 Donna Lee and Brian Hockings, "Economic Diplomacy", in Robert A. Denemark (ed.) The International Studies Encyclopedia, Vol. II, pp 1216-1227. Wiley Blackwell, The International Studies Encyclopaedia (2010), 1216-1227.

24 Watson, Adam, Diplomacy: The Dialogue Between States. London: Routledge, 1982.

25 Nicholas Bayne and Stephen Woolcock, "The New Economic Diplomacy: Decision making and Negotiation in International Economic relations", Ashgate (2007)

26 Peter A.G. van Bergeijk and Selwyn Moons, "Economic Diplomacy".2

27 Donna Lee and Brian Hockings, "Economic Diplomacy", in Robert A. Denemark (ed.) The International Studies Encyclopedia, Vol. II, pp 1216-1227. Wiley Blackwell, *The International Studies Encyclopaedia* (2010), 1216-1227.

28 Nicholas Bayne and Stephen Woolcock, "The New Economic Diplomacy: Decision making and Negotiation in International Economic relations", *Ashgate* (2007)

29 Peter A.G. van Bergeijk and Selwyn Moons, "Economic Diplomacy".2

of economic diplomacy involves the use of structural policies (for example capital controls), bilateral trade and investment agreements in order to achieve a particular trade pattern. However, economic assets can be used for political reasons to coerce states to behave in a certain way through the use of embargoes and sanctions. [30]

Lastly, economic diplomacy is concerned with ways to consolidate the optimal political climate and international political economy to facilitate and institute the objectives of mutually beneficial economic relations among states. This sub-field involves the role of multilateral institutions such as the World Trade Organization and supranational regional institutions such as the European Union (EU). [31]

Another group of scholars such as Sotero[32]; Moore[33]; Owing[34], Zondi[35], Virk[36], Lipton[37] and Kwa[38] examine South–South Cooperation from a different perspective. Owing argues that the central tenet of South-South Cooperation is premised on the issue that developing countries can pursue a horizontal level of cooperation as equals. However, he argues that such a horizontal level of relations is difficult to realize when one considers the dominance, for example, of Brazil in Latin America.[39] Kwa concurs with Owing's contention and points out that while trade has increased between developing countries, there has been decline in imports from less developed countries (LDCs, states with a low industrial base and a low human development index) going to emerging economies, while exports from emerging markets to LDCs have increased.[40]

30 Ibid
31 Ibid
32 Paulo, Sotero, "Emerging Powers: India, Brazil and South Africa (IBSA) and the future of South –South Cooperation, Special Report. USA: Woodrow Wilson International Centre of Scholars, 2009
33 Candice, Moore, "BRICS Partnership: A Case of South- South Cooperation? (Pretoria: Institute of Global Dialogue, 2012).
34 "Is South-South cooperation just a catchphrase?" Scidevnet. Accessed July 20, 2016. http://www.scidev.net/global/cooperation/scidev-net-at-large/south-south-cooperation-catchphrase.html.
35 Siphamandla Zondi, "Turning BRICS Agenda into Reality", In BRICS Journal, Issue 3, March/April, 2017
36 Kudrat Virk, "South Africa and the BRICS", in Adekeye Adebajo and Kudrat Virk, op. it., 449-474.
37 Melerle Lipton, "Are the BRICS Reformers, Revolutionaries or Counter-revolutionaries", South African Journal of International Affairs, Vol. 24, No. 1, 2017.
38 Aileen Kwa, "The Challenges confronting South- South Trade in "South-South Cooperation: The Same old game or a New Paradigm", *South Centre*. (2006).
39 "Is South – South cooperation just a catchphrase". Scidevnet.com. Accessed July 15, 2016. http://www.scidev.net/global/cooperation/scidev-net-at-large/south-south-cooperation-catchphrase.html.
40 Aileen Kwa, "The Challenges confronting South- South Trade" (2006).

This highlights the unequal trade movement existing between less developed economies and emerging markets.

Chinese trade relations in the SADC region has attracted the attention of another group of authors such as Oliver[41]; Xuejun[42] ; Brautigam[43]; Kimenyi et al.,[44] and Van de Looy.[45] According to Kimenyi et al., Chinese trade with SADC and the broader African continent has a unique tenet in that it invests in infrastructure development in exchange for free access to African markets and reduced costs of African commodities.[46] This is highlighted by Global Investment Trends stating that China is the leading emerging power in terms of trade with the African continent, with 52 percent of African trade being with China, mainly in agriculture, manufactured goods and raw materials.[47] Moreover, the growth of the Chinese economy has presented greater demand for African resources and influenced the investment drive of China on the continent. However, Brautigam cautions about the danger of over reliance on Chinese demand for African resources, with a slower economic growth due to the restructuring of the Chinese economy into a consumer economy.[48] The ramification of this has included the reduction of Chinese investment and begs the question of whether or not Africa, without the aggressive investment and penetration into the continent by the Chinese, would be able to develop at the pace it has.[49] Moreover, criticism has arisen over the quality of Chinese involvement in infrastructure development in Africa. A good example is the Lusaka to Chirundu road in Zambia,

41 Stuenkel Oliver, "South Africa's BRICS Membership: A win-win situation?", *African Journal of Political Science. School of Social Science*, (2013), 311-312

42 Tian Xuejun, "A new Era China- Africa Relations", *The Thinker: University of Johannesburg.* (2016), 23.

43 "China in Africa: the Real Story: Lusaka-Chirundu Road and Summer Research", *China Africa Story* accessed November 20. 2016 at http://www.chinaafricarealstory.com/2011/04/Lusaka-chirundu-road-summer.html.

44 Kimenyi et al, "The Brics and the New Scramble for Africa". Foresight Africa: The Continent's Greatest Challenges and the Opportunities for 2011. (The Brooking Institution, 2011).

45 Judith, Van de Looy, "Africa and China: A Strategic Partnership?". *African Studies Centre Leiden*, The Netherlands, 2006

46 Stuenkel Oliver, "South Africa's BRICS Membership", (2013), 311-312; and Tian Xuejun, "A new Era", (2016), 23.

47 Global Investment Trends Monitor, "The Rise of BRICS FDI and Africa". *United Nations: Conference on Trade and Development. United Nations* (2013), 2.

48 "China in Africa: the Real Story: Lusaka-Chirundu Road and Summer Research". Chinaafricarealstory.com, accessed May 24, 2016. http://www.chinaafricarealstory.com/2011/04/Lusaka-chirundu-road-summer.html.

49 Chinaafricarealstory, "China in Africa".

built by a Chinese Company, which was poorly constructed, with a huge portion of it being washed away just a year after construction.

Fourth, a further category of scholars like Draper et al[50]; Cassim et al.; Qobo and Soko[51]; and Valasamakis[52] have examined South Africa's trade relations generally. Valasamakis, together with Qobo and Soko argue that South Africa is in a unique position as a leading actor on the continent. However, it is susceptible to Chinese influence just like any other country in the region.[53] Moreover; the authors note that while South Africa is seen as an advocate of the continent's interest, there is a mercantilist influence in how it behaves; with advancing economic interests in the continent and with SADC as a primary concern. This therefore explains the role of South Africa's commercial sector and its developmental and financial institutions, namely the Industrial Development Cooperation (IDC) and the Development Bank of Southern Africa (DBSA), in providing funding to various infrastructure development projects in Southern Africa. The IDC and DBSA have both invested over $2 billion towards industrial infrastructure, tourism and mining in 17 African countries.[54]

The next category of authors such as Gumede[55]; Xiong[56] and Alden and Shan Wu[57] analyse Sino–South African trade relations. Gumede posits that Sino–South African trade relations have been dominated by the process of neo-colonialism, which has led in some instances to the deindustrialization of some sectors of the economy. An example is the South African textile industry, which has virtually collapsed. However, Alden and Shan Wu argue that these relations remain mutually beneficial, with South

50 Draper et al, "South African International Trade Policy: Implication for regional Integration". In the Regional Integration in Southern Africa. Vol 1 (Botswana:Friedrich Ebert Foundation, 2006).

51 Qobo and Mills Soko, "The Rise of Development Finance Institutions: South Africa, BRICS and Regional Strategy", *SAIIA* (2015).

52 Antoinette Valasamkis, "The Role of South African Business in South Africa's Post-Apartheid Economic Diplomacy", *University of Birmingham* (2012).

53 Antoinette Valasamkis, "THE ROLE OF SOUTH AFRICAN BUSINESS", (2012), 4. And Mzukisis Qobo and Mills Soko, "The Rise of Development Finance Institutions (2015), 2.

54 Qobo and Soko, "The Rise of ",7.

55 William, Gumede, "Challenges facing China – South Africa relations", *Foreign Policy Centre*, 2016.

56 Hao-Fei, Xiong, "China – South Africa Relation in the Context of BRICS". *Department of International Relations: University of Witwatersrand*, 2012.

57 Chris Alden and Yu-Shan Wu, "South African – China Relations: Evolving Cooperation, Collaboration and Competition", *SAIIA* (2014), accessed May 26 2016. http://www.saiia.org.za/opinion-analysis/south-africa-china-relations-evolving-cooperation-collaboration-and-competition

Africa benefiting from the Chinese appetite for resources and China benefiting from an open link to other African markets.[58]

Other scholars such as Asongu et al.[59]; Tull[60], and Kolstad and Wiig[61] examine China's economic diplomacy strategy in Africa. Asongu et al. argue that Chinese economic diplomacy is a complex issue. China has used Foreign Direct Investment to expand its reach on the continent and secure critical markets for its goods.[62] Moreover as, Tull notes, Chinese investment and financial aid is unlike the Washington consensus in that it comes without any preconditions such as the assurance of human rights protection by the state. This has had various consequences for Sino-Africa relations.[63] The most notable is the increased desire of African leaders for China's presence on the continent and the growing discontent with traditional Western trade partners.

As evident in the literature reviewed, it is apparent that little attention has been paid to the possible challenges posed by Chinese economic diplomacy with South Africa. This study therefore seeks to provide an in-depth analysis of Sino- South Africa economic diplomatic relations, with a view of establishing whether this relationship is a mutually beneficial partnership in line with the aspirations of South-South cooperation, or whether it is an example of perceived Chinese neo-colonial goals on the African continent. [64]

1.3 Theoretical Framework

The study of economic diplomacy has long invited debate among foreign policy and International Political Economy (IPE) theorists and analysts on how to understand the complexities of the international economic system. There are three dominant schools

58 Chris Alden and Yu-Shan Wu, "South African – China Relations (2014).
59 Simplice Asongu and Jacinta C. Nwachukwu and Gilbert A. A Aminkeng, "China's Strategies in Economic Diplomacy: A Survey of Updated Lessons for Africa, the West and China", (Cameroon: African Governance and Development Institute, 2014), 4-5).
60 Tull, D. M., "China's engagement in Africa: scope, significance and consequences", (The Journal of Modern African Studies,2006) 44(3) ,459-479.
61 Kolstad, I., & Wiig, A., (2011). "Better the Devil You Know? Chinese Foreign Direct Investment in Africa", (Journal of African Business,2011), 12(2), 31-50.
62 Asongu et al, "China's Strategies in Economic Diplomacy".5.
63 Tull. M., "China's engagement in Africa".
64 Africa-China Report Project, "South Africa-China relations at 20 years, Part II: Retracing economic engagements".http://africachinareporting.co.za/2017/11/south-africa-china-relations-at-20-years-part-ii-retracing-economic-engagements/. Accessed July 22, 2018.

of thought that can be utilized to understand economic diplomacy, namely realism/mercantilism, liberalism and structuralism.

The traditional realist or mercantilist perspective places states at the centre of economic diplomacy, in what is often referred to as 'high politics'. Due to changes in the international system because of globalisation, the liberal perspective calls for an analysis that includes non-state actors. Structuralism, on the other hand, recognises the structure of the global economy and the consequences of this structure on how states interact. Each of these theories will be explored briefly below.

1.3.1 Mercantilism

Mercantilism and realism have been seen as complimentary theories within international relations. Mercantilist theorists advocate an anarchic global system that places states as unitary actors in the global economy.[65] Moreover, they propagate a conflictual international structure whereby competition, and not cooperation among states is the norm in international trade. Called the 'zero-sum' approach to international trade, this theory proposes that the gain of one state comes at the expense of another. Therefore, states are placed at the centre of ordering economic activity with a view of increasing their wealth relative to other states. This ideal is met by supporting local industries in trade, while placing protectionist measures to limit imports.[66] The purpose of economic diplomacy in this theory is to negotiate trade deals that maximise exports while limiting imports thus generating a favourable balance of payment sheet. Given, the examination of China's economic diplomacy in South Africa, critics of Sino-South Africa economic relations m ay argue that it is zero-sum relationship skewed in favour of China over South Africa.

1.3.2 Liberalism

Customarily, foreign policy and international relations generally have been viewed as being largely the function of states and are defined around conflict and war[67]. These arguments emerge from the realism theory of international relations; however, this has

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65 Robert Jackson and George Sorensen, *Introduction to International Relation: Theories and Approaches* (Oxford: Oxford University Press, 2003), 178-179.

66 Camilla Curtin, "The Politics of Global Trade: Why do some Developing Countries trade more but earn less?" (Master's thesis, University of Johannesburg, 2008), 22.

67 Christopher Hill, *The changing politics of foreign policy* (Houndmills: Palgrave Macmillan, 2003), 98.

been challenged by the liberalist theory, which propagates that states prefer cooperation rather than conflict.

Liberal theorists argue that there are a number of other actors in international relations besides the state, such as state-owned entities (SOEs), Multinational Corporations (MNCs), non-governmental organizations (NGO) and Inter-governmental organizations (IGOs). These actors are recognised to have a stake in the international system and therefore pursue opportunities of cooperation to meet their interests.[68] Furthermore, liberalism asserts that international trade is mutually beneficial to states through the comparative advantages of trade. The comparative advantage principle states that when State A has relatively more resource capacity than State B, and State B has relatively better manufacturing/productive capacity than State A, trade between the two states should result in mutual benefits.[69] One can argue that South Africa is State A and China, State B. The mutual benefit of trade as observed by liberal thinkers is known as 'Positive Sum' and is in contrast to the 'Zero Sum' position on trade held by Mercantilist thinkers. Liberal thinkers would therefore position the fact that South African raw material goods in exchange for China's manufactured goods is good example of mutual beneficial trade, as both states specialize on goods they have a comparative advantage in. Moreover, the liberalism holds its heart the positives of trade. Trade has been used as a tool to advance co-operations and interdependence. In the case of Sino-South Africa economic relations it would be interesting to how liberal assumptions on trade have panned out in regards to China's use of economic diplomacy tools in relation to its interests with South Africa.

The phenomenon of globalization has seen a rise in the free movement of goods and services and factors of production that has rendered, according to liberals, borderless states, where economic integration has become a pattern[70]. Neo-Liberals assert that the international economic system has produced a greater interdependence between states in what realists call an anarchical global system[71]. Liberals argue that states promote reciprocal relations in whom they pursue relations and associations that will

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68 Steven Krasner, *The accomplishments of International Political Economy, in International Relations Theory* (New Jersey: Princeton University Press, 1999), 184-197.

69 Kegley and Wittkopf, *World Politics*, 308.

70 Jackson and Sorensen, *Introduction to International Relations*, 182.

71 Larry Swatuk, *Between choice in a hard place: contending theories of international relations* (Halifax: Dalhousie University, 1991), 62.

realise mutual benefits in trade, finance, environmental affairs, communication and technology, while collectively guarding against threats to international development and prosperity.

The role of non-state actors in relation to the role of the state in international relations is about their ability to provide goods and services. However, beyond this they influence foreign policy through lobbying, offering consultancy and advisory services to the state as well as stimulating public dialogue and help in shaping public opinion on trade.[72] Interdependence is thus not limited to intergovernmental relations, but is inclusive of non-state actors.

1.3.3 Structuralism

Structuralism focuses on the relationship of exploitation and dependency between developed and developing countries; although some structuralist thinkers have also argued that emerging markets too have a tendency to exploit less developed countries.[73]

Structural theorists argue that the consequences of the structure of the global economy emerge from a division of states into three main groups, namely: developed economies, emerging economies and less developed economies. According to dependency theory, the technological and financial supremacy of the developed world leads to an exploitation of poor or developing states. These developing states depend on financial investment and aid from the developed states in exchange for natural resources.[74] The relationship between South Africa and China is interesting given that both these states are classified as being semi-periphery.[75] However, as noted above, it has been argued among some authors that semi-periphery economies have a tendency to exploit other states of lesser economic clout.[76] South Africa, it may be argued, is less powerful economically than China and thus may be vulnerable to a dependency on and exploitation from China.

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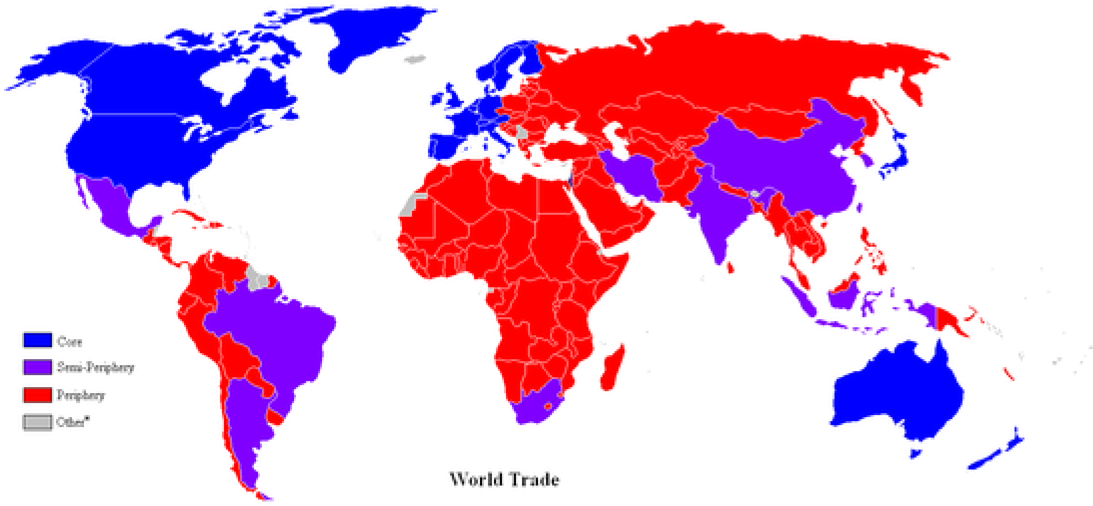
72 Louise Vincent, Non-state actors in International Relations, *in Power, wealth and global equity* (Cape Town: University of Cape Town Press, 2006), 169.

73 Theotonio Dos Santos, *The Structure of Dependence* (Colorado: Lynne Rienner, 2003), 169.

74 Scott Burchill, *Liberal Internationalism* in S. Burchill and A. Linklater et al Theories of International Relations (Hampshire and London: Macmillian Press Limited, 1996), 51.

75 Revolvy, LLC. "Semi-periphery countries", accessed May 8, 2017. https://www.revolvy.com/main/index.php?s=Semi-periphery%20countries.

76 Ibid.



Source: Expedition Earth

Figure 1.1: Map of Core, Semi Periphery and Periphery Countries

According to dependency theorists, dependency among states has occurred in three ways. The first is colonial dependency (including neo-colonial); financial-industrial dependency (the use of FDI) and lastly through exploitation by multinational corporations (MNCs)[77]. These forms of exploitation have shaped the international system as well as how states have responded in the international system. The dependent state's capital formation, orientation of production as well as both its social and political structure is influenced if not shaped by the more advanced state.[78] Given this assertion, this study will provide some analysis into whether China-South African relations are an example of this.

Structuralism differs from the mercantilist and liberal assertions on trade, arguing that industrial states dominate the flow of international trade and increase the inequality of trade between rich and poor states. They argue that trade is one of the leading influences in the distribution of wealth and that trade being controlled by developed states has resulted in an unequal distribution of wealth. Thus structuralists disagree with the liberal position that trade creates wealth for all states. To structuralists, trade

77 Dos Santos, *The Structure of Dependence,* 169.
78 Ibid, 169-175

is used by wealthy countries as a tool of exploitation of poor countries, robbing them of their resources. The resulting effect is an emasculation of poor countries of their ability to use different paths of economic development.[79]

Structuralists also posit that other challenges that face developing countries include the need for an export market in order to raise enough finances to buy input goods needed in the extraction of resources.[80] This reinforces their inability to move up the value chain. The very extraction of resources is financed by MNCs originating from industrial states. This leads to the repatriation of profits out of less developed states, where the funds are most needed for social and economic development. Furthermore, international trade produces another disadvantage for developing countries. Many of them produce one raw material and thus are dependent on commodity prices, which are often unstable and are affected largely by demand from wealthy states[81], while the prices of manufactured goods rise constantly over time. This has implications on the balance of payment account, which will be analysed in relation to Sino–South African relations.

The theoretical paradigm through which this study will be undertaken is the structuralism and the liberalism approach, as noted above. The former prescribes that the capitalistic structure of the global economy identifies two functional areas which relate to the role that states play in the international economy, namely the ‘core’ and ‘periphery’ states. Wallerstein’s World Systems Theory (sub-theory of Structuralism) prescribes that states be grouped into mainly two types of level of development, namely, the “core” and “periphery” states. The former are those states that are technologically advanced, producing value-added goods and where income is high, while the latter states include those whose production is labour intensive and are dependent on commodity and agricultural exports and depend highly on external investment as domestic savings remain low. However, the significance of structuralism is not limited to simply a division in the functional areas in which states play a role in the international economy, but also pays attention to the relationship between these groups of nations.

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79 Ibid.

80 Curtin, “The Politics of Global Trade: Why do some Developing Countries trade more but earn less?” 42.

81 Ibid

Liberalism, prescribes that in the liberal agenda of free trade, no capital control will yield a positive sum gain for all countries. The purpose of using both liberalism and structuralism lies in that the former produces an assumption that trade and investment must yield equal benefits for both parties, whereas the latter argues that trade is unequal and that it results in the exploitation of the less developed economy.

In short, the structuralist argument views economic relations as being fuelled by exploitation while the liberal argument considers trade as being a positive sum game. Both the structural and liberal theories are critical lenses through which to analyse Sino-South African economic relations in this study.

1.4 Research Methodology

This interpretive study is predominately qualitative in nature and focuses on Chinese economic diplomacy in Sino – South African economic relations between 1994 and 2015. According to Nel, a qualitative study entails the conceptualisation and operationalization of theories in order to explain certain realities.[82] Mouton also points out that there is a central difference between qualitative and quantitative methodology. The former entails a focus on the description of the programmes in their natural setting, while the latter focuses on the quantifiable outcomes of a process.[83] This study will present a description of Chinese economic diplomacy with South Africa, aided by an analysis of quantifiable data in a bid to ascertain whether Sino-South African economic relations can be defined as Chinese neo-colonialism or a partnership.

The method of data collection in this study constitutes desktop research and content analysis. This study utilizes primary and secondary sources such as books, journal articles, published literature, research reports and government reports. In addition, the study will utilise quantitative elements in the form of statistics from the Institute of Race Relations, Afrobarometer, Human Sciences Research Council (HSRC) Stats Portal, Statistics South Africa, International Monetary Fund (IMF), World Bank and World Trade Organization (WTO). These statistics will be used to demonstrate trends and changes in trade volume and benefits between China and South Africa.

82 Danielle Nel, "Revisiting Three Political Risk model: An Empirical Test." (Master's thesis, University of Johannesburg, 2007).

83 Johann, Mouton, "How to succeed in your Master's & Doctoral Studies". (Pretoria: Van Schaik Publishers, 2001),161.

The sources will be collected by conducting document reviews. The primary sources such as the trade statistics will be analysed by comparing the data for each 5/6 year period starting from 1994 and ending in 2015. The study will examine the composition of trade as well as the revealed comparative advantage in a bid to examine whether trade volumes between China and South Africa highlight a core-periphery relationship or a relatively equal partnership.

One of the tools that can be used in evaluating trade benefits and volume is the Balance of Payment Account (BPA). The balance of payment account assesses a country's trade and investment account with the rest of the world and has implications for economic growth and debt depending on whether or not a country has a deficit, surplus, or balanced account.[84] BPA is critical in assessing the composition of the trade balance and capital flows between South Africa and China, in order to gather empirical evidence of Chinese economic diplomacy not only in South Africa, but also the rest of the SADC region. Moreover, in analysing the trade flows of both states, the study will utilize the Balassa index to analyse the revealed comparative advantage of each country's main export products in order to ascertain how each country fairs in international trade, and the implications of this on Sino-South Africa trade relations. It will also present key empirical findings in the composition of trade and investment by both South Africa and China. Most of the above will be accessed through internet research and library visits. The trustworthiness of the information presented in this study will be ensured through proper indication of sources and its legitimacy will depend on the authority of the original documents used particularly in terms of these secondary sources.

The conceptual framework that will be employed in the study is the use of the instruments and issues of economic diplomacy that are expounded upon in chapter two. While several instruments exist, those that will form the key focus of this study are the following:

- Negotiations between the governments with the aim of fulfilling national economic goals;

[84] Thomas, Pugal, "International Economics". (New York Uuniversity: McGraw-Hill Irwin, 2012), 381.

- Export promotion, investment, money, information and the formulations of regulations to govern the global economy;
- Investment and aid; and
- Attempts at political influence

As noted previously also, the theoretical paradigms of liberalism and structuralism will be utilised in order to answer the question of whether or not the China-South African economic relationship reflects a mutually beneficial partnership or neo-colonial tendencies on the part of China.

1.5 Scope and Limitation of Study

The purpose of limiting the scope of this study within the time period of 1994-2015 is because formal relations between China and South Africa occurred post-1994, with an attempt by the newly elected ANC government to pursue a two-China policy. However, as stated earlier, upon pressure from China, South Africa rejected Taiwan in 1998, in pursuit of sole political relations with China. It is pivotal to this study to examine the transition of this relationship in order to examine Sino-South African economic diplomatic relations.

1.6 Ethical Considerations

This is a desktop study and does not involve interviews; therefore, no ethical approval is required. It is also understood that it is the responsibility of the author to ensure that all data and information is presented accurately.

1.7 Chapter Outline

Chapter one is comprised of the introduction and background, brief conceptualisation, purpose of the study, literature review, theoretical framework and methodology. In Chapter Two, the concept of ‘economic diplomacy’ will be more fully examined. Chapter Three will discuss the origins of formal Sino–South African economic relations and how this set the stage on how China would pursue its economic agenda in South Africa. In Chapter Four, the focus will be on Chinese use of investments, aid and trade with South Africa as well as the benefits and consequences on the political relationship between Beijing and Pretoria. Chapter Five will conclude the study and present the key findings as well as offer suggestions for further research as determined by the findings.

CHAPTER TWO: CONCEPTUALIZATION OF ECONOMIC DIPLOMACY

2.1. Introduction

This chapter will examine the concept of 'economic diplomacy' and its role in ordering international relations primarily among states, but not limited to state relations (one must consider the role of non-state actors as well in the exercise of economic diplomacy). The chapter will begin by giving focus to what the wider concept of 'diplomacy' entails, before giving specific focus to economic diplomacy and its sub-forms, such as commercial and business diplomacy (involving non-state actors, for example Transnational Cooperation (TNCs)). In addition, this chapter will further provide an analysis of the complex role of economic diplomacy in the ever-changing global political economy, including the rise of globalization and South-South cooperation.

2.2. Defining Diplomacy

Diplomacy, in a traditional sense, is concerned with the management of relations between states and between states and other actors.[85] State actors include Heads of State and Government, Ministers, Heads of diplomatic missions and other organs of state that interact in the international system.[86] On the other hand, non-state actors such as Non-Governmental Organizations (NGOs) form part of civil society that seek to influence their governments' foreign policy and diplomatic actions. Diplomacy is a tool used for advising, shaping and implementing foreign policy (a plan of action adopted by one nation concerning to its diplomatic dealings with other countries). What is central to both state actors is the pronunciation, coordination and securing of particular or wider interests, using correspondence, private talks, exchanges of view, lobbying, visits, threats and other related activities. [87]

At its core, diplomacy is seen as a peace seeking endeavour, in which states seek to resolve conflict and avoid war, in pursuit of a negotiated resolution.[88] There are various functions of diplomacy, namely: ceremonial, management, information/communication, international negotiation, duty of protection and

85 Adam Watson*, Diplomacy: The dialogue between states* (Methuen, London, 1984), 223.
86 Bayne and Woolcock, *The New Economic Diplomacy,*3.
87 Ibid
88 Adam Watson, *Diplomacy: The Dialogue,* 1984, 223.

normative/legal.[89] However, the primary function of traditional diplomacy entails the ceremonial function of formal representation, protocol and participation in both a national capital and international institutions, for the purpose of regulating and managing bilateral and multilateral relations. The management of interests for most states lies within the realm of financial interests, economic interests, resource issues and tourism, along with the ability to deal with threats arising due to issues such as global terrorism and economic crises.[90] According to Ernest Satow, diplomacy pertains to the application of intelligence and tact between officials representing government.[91] This definition implies that diplomacy is exclusively in the realm of the governments and diplomatic missions, and that other non-state actors are not partakers of in the act of diplomacy between states.

While formal diplomacy remains an integral part of international relations, diplomacy has changed in both scope and activity, to include new players and structures. More generally, there has been a widening content of diplomacy. At one level, the changes in the substantive form of diplomacy are reflected in terms such as 'oil diplomacy', 'resource diplomacy', 'knowledge diplomacy', 'global governance' and 'transition diplomacy'.[92] Authors such as Hockings argue that diplomacy must be understood as an evolutionary force; it faces constant change, however, there is no major shifts in its form. Diplomacy has moved away from closed, elitist activity undertaken by political appointees. Post-Cold War, it has transitioned into open diplomacy, with a strong emphasis on multilateralism.[93]

The primary actors of traditional diplomacy were ambassadors, and foreign affairs ministers. However, modern diplomacy has shifted to personal diplomacy defined as

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89 Ibid

90 Ibid

91 Ernest Satow, "Satow's Guide to Diplomatic Practice",,",Ed. Lord Gore-Booth. 5th ed. (London: Longman, 1979),

92 Bernard Burrows, "Diplomat in a Changing World" (Memoir Book Club, Spennymoor, 2001).
Oil diplomacy: Involves the diplomatic relations between oil exporting and oil importing states with the objective of ensuring a balance between demand and supply of oil in global economy. Resource diplomacy: entails the use of control over natural resources compelled with military power to control how other states behave. Knowledge diplomacy: ability and willingness to work together and share learning across disciplines and borders. When people achieve the right mixture of creativity, communication and co-operation, remarkable things can happen. Global governance: Entails the governance of the global economy and security which occurs in inter-r governmental organisations such as the UN.
Transition diplomacy: involves the actions of a third party to facilitate negotiations between to two political parties in order to facilitate transition of power in a country

93 Bernard Burrows, "Diplomat in a Changing World", 2001.

the direct involvement in diplomatic engagements by heads of state and governments. The consequence of personal diplomacy exercised by heads of state and government has put into question the relevance of heads of diplomatic missions in the communication and representation of state interests.[94] However, beyond this is the role of various non-government players, such as civil society and TNCs. An example of this is the role played by the business sector in beginning the negotiations between ANC and the apartheid government. [95]The plurality of players has rendered the lines between domestic and foreign issues redundant in diplomacy, with the former influencing the latter through the involvement of a wider range of players in modern diplomacy. This is clear shift away from conventional diplomacy.

Classical realists hold the view that diplomacy is fundamentally a political tool that speaks to how states conduct relations with one other. The primary purpose of diplomacy is to ensure peaceful relations among states.[96] Realists such as Hans Morgenthau state that the central driving force for diplomacy lies in the national interests of states.[97] Thus, realists argue that diplomacy is derived from domestic state objectives. Moreover, classic theorists aver that the realm of diplomacy is primarily concerned with the implementation of a state's foreign policy - the function therefore lying mainly with the foreign relations ministry. Classic thinkers add that diplomacy operates through negotiations, in which states seeks to manage the anarchical global system, in which contentious situations are sought to be resolved through peaceful dialogue rather than through brute force. [98]

More liberal and contemporary thinkers such John Stuart Mill rebut stat-centrist conceptualizations of diplomacy, arguing that in a globalized international system, states are not the only actors in the international system and that diplomacy as a tool, is not limited to state use.[99] With the rise of other actors (TNCs and NGOs) in diplomacy, the scope of its objective is beyond just state national interests; rather, it can involve matters such as environmental issues, human rights, fair trade and food

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94 Harold Nicolson, Diplomacy, 3rd ed (Oxford University Press, London, 1963). pp. 244–262.
95 Harold Nicolson, Diplomacy, 244-262
96 Ian Hurd, "Law and the Practice of Diplomacy," Canada's Journal of Global Policy Analysis 66, no. 3, (2011): 581-596
97 Ian Hurd, "Law and the Practice of Diplomacy," 581-596
98 Väyrynen, R. „Preventive Action: Failure in Yugoslavia", International Peacekeeping, 3/4 (1996), 21.
99 Ian Hurd, "Law and the Practice of Diplomacy", 581-596.

security, to name a few.[100] This also means that diplomacy as a process does not just occur between foreign consulates and embassies, as classic views would have one believe. Academics such as Raymond Saner believe that diplomacy is an ever-changing activity and given how the world has changed since the advent of globalization, alternative actors continue to arise in the sphere of diplomacy that are independent of the state.[101] This has an important implication as it can arise that a government's agenda is different to that of an alternative actor. In addition to this challenge, is the fact the civil servants operating in diplomatic missions are being increasingly confronted with such actors and changes in diplomacy, and may lack the necessary training to adapt from traditional diplomacy.[102]

The understanding of what diplomacy means has consequences on how one understands economic diplomacy (sometimes referred to as economic statecraft), which has a specific concern in terms of global political economy. The reason why economic diplomacy is referred to as economic statecraft is due to fact that the state is seen as central actor in applying economic sanctions, embargoes and aid in order to influence another state's behaviour.[103]

2.3. Understanding Economic Diplomacy

According to Bayne and Woolcock, economic diplomacy is not limited to the secretive and often elitist engagement of only state actors, but rather includes various players including civil society movements, whose objective is to achieve mutually beneficial economic relations.[104] Economic diplomacy is primarily concerned with international economic issues such as trade, investment and aid.[105] Trade constitutes the exchange of good and services between states (Current Account of Balance of payment record); investment relates to the purchase of foreign economic assets either through security exchange or direct investment (Capital Account of the Balance of Payment record); and financial aid (to assist states it times of low liquidity) is the function of institutions

100 Ian Hurd, "Law and the Practice",581-596

101 Raymond Saner, "Zur Kultur eines Berufs:Was ist ein Diplomat?" in Enrico Brandt, Christian Buck (eds) "Auswärtiges Amt: Diplomatie als Beruf", (Germany:Leske & Budrich, Opladen, 2002).

102 Rik Coolsaet, "The transformation of Diplomacy at the threshold of the new millenium", (University of Ghent (Belgium, 1998), 3-5.

103 Raymond Saner & Lichia Yiu, "International Economic Diplomacy Mutation in post-modern times", (Netherlands: Netherlands Institute of International Relations, 2003), 12.

104 Bayne and Woolcock, *The New Economic Diplomacy*, 2.

105 David Balaam, "*Introduction to International Political Economy"*, 2014.

such as the IMF and the World Bank.[106] At the end of World War II, global leaders led by the United States sought to establish an international world order based on liberal ideas of cooperation, particularly economic cooperation. The objective was that peace would be achieved only if states cooperated economically. Thus, given the economic benefits of trade, states would rather seek diplomatic channels of conflict resolutions, rather than the barrel of the gun.

The Bretton Woods system was therefore established which would shape how states interacted in a rules-based international system.[107] The goal was to increase diplomatic relations while maintaining state sovereignty over domestic affairs. This balance was maintained as long as the domestic policies of states did not impact negatively on other states. States therefore had autonomy over the kind of socio-economic policies they employed. However, as stated previously, the rise of globalization has rendered states less immune to the domestic issues and events that occur in other states. A good example of this is the 2008 housing bubble crisis in the United States, which led to the great recession and a crash of global financial markets. Consequently, economic diplomacy is not just simply about promoting national economic interests, but also has to do with the governance of the global financial system. This system involves various stakeholders such as the private sector, financial institutions and NGOs.[108]

According to Hill, "whereas prior to this period, global economic diplomacy was dominated by permanent officials from a few powerful countries, we now see a process that is shaped not only by diplomats, but also by business, civil society, non-government organisations and international organisations."[109] However, others have sought not only to influence state policies, but to participate in international forums of negotiations, independent from states. An example of non-state influence on the economic diplomacy of state actors is the role the South African civil society played in the 1970s and 1980s in placing pressure on world governments to impose sanctions on the apartheid government in order to pressure the regime to end apartheid and

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106 Ibid

107 John Ruggie, *International Regimes, Transactions and Changes; Embedded Liberalism in the Postwar World Economic Order* (London: Routledge, 1982), 379-415.

108 David Balaam, *Introduction to International Political Economy,* 2014.

109 Christopher Hill, *The changing politics of foreign policy*, 2003, 8.

negotiate a political settlement with liberation movements.[110] This is a classic example of how non-state actors have used economic diplomacy as a tool to advance national economic interests globally. This brings one to the role of TNCs in advancing the diplomatic interests of states.

Balaam states that TNCs have become powerful actors in the realm of economic diplomacy, given their control over foreign direct flows and technology developments, both of which impact heavily on a state's productivity.[111] Moreover, some within academic circles, such as Gary Younge, argue that TNCs have become as powerful as states.[112] This is substantiated by the fact that of the top 100 economic entities in the world in 2013 (in terms of revenue for companies and GDP for states), 51 were TNCs, while the rest were states. Moreover, given their economic clout, TNC's can influence policy decisions made by governments in a bid to secure their own interests; this is the case with major TNCs that operate in mostly poor and developing economies. An example of this is how Walmart bribed members of the Mexican government in 2002 over zoning rights and a reduction of environmental impact study costs.[113] However, it is argued that comparing TNCs to countries is problematic, given that using revenue may only give TNCs like Walmart the perception of size, and begs the question as to why not look at net profit or the kind of technology the TNC can provide the host country with. Moreover, TNC's are not sovereign powers, with a population, territorial integrity and are also subject to laws created by states.[114] In addition, those who make an argument for TNC diplomatic power only use monetary terms for this and ignore equally important nonmonetary issues such as security and environment, which both lie within the realm of states. States process the territorial sovereignty and makes laws, while also processing the citizens (labour force) and military to ensure security. Given the power that states and TNCs have, both parties must engage in diplomacy in a time where their power and interest face greater

110 "The British Anti-Apartheid Movement". http://www.sahistory.org.za/topic/britsh-anti-apartheid-movement. ,SA History accessed January 23,2017.

111 Balaam, *Introduction to International Political Economy*, 450-452.

112 "Who's in control – nation states or global corporations?". https://www.theguardian.com/commentisfree/2014/jun/02/control-nation-states-corporations-autonomy- neoliberalism. The Guardian, accessed January 23,2017.

113 "Is Walmart Too Big, Powerful, Influential to Obey the Law?". https://www.huffingtonpost.com/richard-trumka/walmart-mexico-bribery_b_1455680.html. Huffington Post, accessed January 23, 2017.

114 Balaam, Introduction to International Political Economy, 450-452.

challenge and change, which brings one to the role of business diplomacy and commercial diplomacy.[115]

2.3.1. Business and Commercial Diplomacy

According to Stopford and Strange, economic diplomacy is 'triangular', incorporating three kinds of diplomatic patterns that have emerged over time.[116] On the one hand is classical diplomacy, which occurs between and among states, with TNCs being used as tools of diplomacy by states. The second type is business diplomacy, which entails TNCs negotiating with other TNCs for the purpose of sharing bargaining power and building cooperation in areas of common interest. States can help facilitate this kind of diplomacy as a means to advance their own goals. An example could be the Chinese-South Africa Business Forum whose members are businesses across both states and business councils led by the economic state departments, which were established to foster greater relations between the private and public sectors.[117]

The third type of economic diplomacy is the sub-field of commercial diplomacy[118], which involves state-business diplomacy. Both states and TNCs hold important resources that give them bargaining power. States would like access to investment resources and technology that is provided by TNCs. On the other hand, TNCs would like access to markets and the labour force that states can provide.[119]

Economic diplomacy entails negotiations between the governments with the aim of fulfilling national economic goals; diplomatic activities by states therefore involve engaging and courting TNCs, in order to gain the investment needed to drive productivity and employment. On the other hand, TNCs negotiate with states in order to access national markets to sell goods and make use of labour in that country. It must be noted that the more skilled a state's labour force is, the more bargaining power that state has in these negotiations. The less skilled the labour force, the more a state can expect resource-driven investment and low manufacturing-driven investment.

115 Ibid.

116 Joseph Stopford and Susan Strange, *Rival States, Rival Firms: Competition for World Market Shares* (Cambridge, London: Cambridge University Press, 1991).

117 "China – South Africa Business Forum", http://www.transportworldafrica.co.za/tag/china-south-africa-business-forum/. Transport World Africa accessed January 23, 2017.

118 Indira Nooyi, 'Business and Diplomacy Working Together address to Conference of Indian Ambassadors', 2010.

119 Olivier Naray, Commercial Diplomacy: A Conceptual Overview, (The Netherlands: The Hague, 2008), 2.

Both sides need each other and thus must cooperate to produce agreements that will create positive sum gains. [120]

From the above, it is evident that commercial diplomacy falls under economic diplomacy as a sub-field. Economic diplomacy, however, is seen as involving wider scope in policy matters. A good example of this is aid, which involves a deal between the aid provider and the recipient of aid.[121] This is outside of the scope of commercial diplomacy between states and enterprise. Furthermore, negotiations between multilateral financial intuitions such as the IMF and the World Bank involve broad economic issues that involve inter-governmental involvement, and are not issues that are concerned with commercial diplomacy.[122]

2.4. Instruments and Issues of Economic Diplomacy

A great deal of debate centers on whether economic diplomacy falls under the realm of soft power or hard power. The former entails the use of attraction rather than coercion. It is concerned with persuasion and negotiation to convince the other party to agree to or at least abide by a set of norms and aspirations, while the latter entails the use of coercion through the use of threats or incentives (carrot or stick) to force another party's hand.[123] The instruments used under the issue of economic diplomacy can help in establishing whether it is a matter of soft power or hard power.

Economic diplomacy can necessitate the use of instruments such as informal talks or voluntary cooperation. Moreover, it can involve the formulation of rules and agreements through either bilateral or multilateral forums. This pursuit of negotiations and dialogue with the purpose of promoting exports and setting up diplomatic missions in other states speaks to the soft ends of economic diplomacy. Given that diplomacy involves persuasion and compromise, many argue that it can therefore not be considered as hard power.[124] However, economic diplomacy can also be employed using more confrontational instruments such as the use of sanctions and embargoes.

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120 Balaam, *Introduction to International Political Economy*, 450-452.

121 Indira Nooyi, 'Business and Diplomacy Working Together address to Conference of Indian Ambassadors', 2010.

122 Bayne and Woolcock, *The New Economic Diplomacy*, 98.

123 Andrew Heywood, *Global Politics* (Hampshire & New York: Palgrave Macmillian, 2011), 214.

124 Joseph Nye, *Soft Power* (New York: Public Affairs, 2005).

These tools are seen as economic diplomacy, given their use as strategic tools to bring parties to the bargaining table. [125]

According to Bayne and Woolcock, it is believed that deals the issues with which it deals can define economic diplomacy. Primarily, it is concerned with policy issues around the movement of goods and service (export promotion), investment, money, information and the formulations of regulations to govern the global economy.[126] However, it also concerns political relations between states and can be used to influence how states make political decisions as stated by Bergeijk and Moon.[127]

Export promotion is essential for states to grow their wealth. Mercantilists contend that a state seeks to increase exports while limiting imports in order to be relatively wealthier than another state.[128] Therefore, trade is seen as being a zero-sum game. One gains relative to another. An example of this is Chinese diplomatic efforts undertaken with the express purpose of increasing Chinese exports to Africa, in exchange for access into Chinese market and investment.[129] In terms of investments, as already observed when analysing commercial diplomacy, the states need access to capital formation, which is provided by the private sector. Moreover, states as actors can use domestic TNCs as a tool to negotiate economic deals in exchange for greater FDI.[130] Fundamentally, economic diplomacy is centred on trade, finance and global environment. This does not mean it may not have other influences or concerns that may be secondary. Moreover, as already mentioned in chapter one, Bergeijk and Moon's provide three elements of economic diplomacy in their definition of the concept. The first element of economic diplomacy is the use of political influence and relationships to stimulate trade and influence investment. The second element of economic diplomacy is the use of economic assets and relationships to increase economic security. Lastly, economic diplomacy is concerned with the consolidation of an optimal political climate and international political economy for mutual inter-state relations.[131]

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125 Ibid
126 Bayne and Woolcock, *the New Economic Diplomacy*, 4.
127 Peter A.G. van Bergeijk and Selwyn Moons, "Economic Diplomacy".2
128 Camilla Curtin, "The Politics of Global Trade". 2008,10
129 Ibid.
130 Balaam, *Introduction to International Political Economy,* 450.
131 Peter A.G. van Bergeijk and Selwyn Moons, "Economic Diplomacy".2

Another instrument that can be used in economic diplomacy is market size and access. States with large populations have better bargaining power when engaging in talks on either bilateral or multilateral platforms, given that their population present a lucrative benefit for goods and services. Moreover, states can use this in order to influence the actions of other states by threatening their loss to these large markets. States such as China use their lucrative market size (1.3 billion people) to get deals that will benefit their strategic economic goals in exchange for access to its market. However, beyond just market size, also lies human capital strength. China, for example, offers a large workforce at a cheaper wage cost; hence, productive output is high relative to other states. The size of one's market offers a bargaining tool for states engaging in economic diplomacy and can be used both as an incentive and threat. It therefore falls within the realm of hard power.[132]

Economic diplomacy can occur at different levels of engagement between states and other stakeholders. The level at which it occurs can impact both the issues dealt with and the effectiveness of the diplomacy. These levels of diplomacy are namely: bilateral, regional, plurilateral (agreements between two or more nations but not that many nations) and multilateral levels of economic diplomacy. There are, however, cases in which states take unilateral action in order to force another state to act in specific manner. It is not a form of economic diplomacy, as its manifestation is not a result of negotiations; however, it can lead to such diplomatic engagements.[133] An example of this would be if a state implemented a unilateral policy of trade liberalization or protectionism or set capital controls to limit inward or outward investment. Such examples include the USA unilateral policy, which constitutes of the African Growth and Opportunity Act (AGOA), aimed at the liberalization of the American market for African goods and service. America used the threat of excluding South Africa from the list of African states that can export its products duty tax free, if it did not open up its market to American chicken products.[134] It is not difficult to gauge what South Africa's

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132 Jens Lamprecht, "Bargaining power in multilateral Trade negotiations: Canada and Japan in the Uruguay Round and Doha Development Round"(Doctorate Thesis: London School of Economics and Political Science,49.

133 Bayne and Woolcock, *The New Economic Diplomacy*, 8.

134 "Imported chicken is slaughtering the local industry says poultry association" http://city-press.news24.com/Business/imported-chickem-is-slaughtering-the-local-industry-says-poultry-association-20160623. City Press. accessed February 1, 2017.

response was: after extensive negotiations, South Africa gave in to USA demands. This brings one to the bilateral level of economic diplomacy.

Bilateralism forms the most basic level of interstate economic relations and remains a fundamental part of economic diplomacy. It can be both informal and formal. The informal talks deal with a wide range of issues on which states seek to find common ground.[135] These talks do not, however, produce binding actions; rather, they produces voluntary commitments by both parties. However, bilateral level of economic diplomacy can produce binding trade or investment treaties. The benefit of bilateral economic diplomacy is that domestic interests can be better articulated and achieved due the fact that only two states are party to negotiations. Nevertheless, much larger economies have an advantage and may seek to impose their will over the smaller party.[136] It is believed that bilateral level of economic diplomacy is the building block to the shaping of rules that will govern regional or multilateral agreement, especially those of large economies.[137]

The rise and importance of regional dimension has often varied, given the perception of the ineffectiveness of multilateralism. The rise in popularity of regional trade agreements have often been motivated by impatience with the slow and complicated process of the multilateral process of the WTO. While multilateral forums make it difficult for states to articulate their domestic interests and reduce individual state bargaining power, regional platforms of economic diplomacy can quicken access to new markets in regions.[138] Moreover, national interests have a better chance of acceptance in a regional setting if states have similar levels of development and policies. Furthermore, there is also a benefit for emerging businesses that seek to operate in the international market, to start at the building block regional markets. Furthermore, regionalism can be beneficial to pooling the sovereignty of states in order to have greater impact and bargaining power on multilateral levels of negotiation.[139] Therefore, economic diplomacy is more effective when states pool their national

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135 Bayne and Woolcock, *The New Economic Diplomacy,* 8

136 Ibid

137 Balaam, *Introduction to International Political Economy.*

138 Loiuse Fawcett, 'Regionalism in Historical Perspective', in Louise Fawcett and Andrew Hurrell, eds., *Regionalism in World Politics: Regional Organisation and International Order* (Oxford: Oxford University Press, 1995), 9-36.

139 Fawcett, 'Regional In Historical Perspective', 9-36.

interests and articulate them from a unified front. This is specifically an effective tool for small economies.

While bilateralism and regional level economic diplomacy entail binding agreements, plurilateral forums such as the Group of 20 largest industrialized and emerging economies (G20) and the BRICS grouping have been crucial in creating an environment where states can voluntarily cooperate on issues that concern their national interests in the global economic system.[140] These plurilateral settings bring together states with similar levels of development and domestic interests on a more multilateral level of engagement. An example of this is the formation of the BRICS development bank to rival the IMF and World Bank. The New Development Bank (NDB) is thought to be a tool of economic diplomacy by the BRICS members calling for reforms of multilateral institutions such as the IMF.[141]

Given the limited involvement of states in plurilateral forums, multilateralism involves a widened access of state involvement. However, it can be a slow and drawn out process, in which reaching agreements on matters such as trade and investment can take time, given the competing domestic interests that exist.[142] The most effective role of multilateral economic diplomacy is that it can lead to the formulation of rules that will govern how the global economy will operate. However, non-state actors such as NGOs have argued that multilateral institutions such as the WTO, IMF and United Nations are impervious and undemocratic, with small economies complaining that they are often put at a disadvantage given their lack of bargaining power and the dominance of large economies such as the USA and China.[143] On the other hand, developed economies also complain that international rules have overrun domestic policies. Important issues such as international trade and climate change may not be resolved given the deadlock that exists among states. An example of this would be the Doha Development Round, which to date has issues that are unresolved.

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140 Stephany Griffith-Jones, "A BRICS Development Bank: A Dream coming true?" (New York: UNCTAD, 2014), 3-4.

141 Ibid

142 WTO, 'Report of the Committee on Regional Trade Agreements to the General Council', (WT/REG/18), 2007.

143 "WTO Doha 'Development' Trade Rounds Collapse". http://www.globalissues.org/article/663/wto-doha-development-trade-round-collapse-2006 Global Issues accessed February 1, 2017.

It is clear that states use a multilevel economic diplomacy in order to maximise national interest promotion. What must be highlighted is that different issues may warrant the usage of different levels of economic diplomacy.[144] Some states use all these dimensions of economic diplomacy (bilateral, plurilateral, regional and multilateral) for various issues, for example, in export promotion.

2.5. Conclusion

The main objective of this chapter was to provide a framework and overview of economic diplomacy, with the purpose of providing an analytical framework that will govern this study. However, before providing this framework of economic diplomacy, the concept of diplomacy was defined. The various types of diplomacy have been outlined. The role of non-state actors in diplomacy has also been described. The inclusion of these in a globalized world has altered the understanding of diplomacy and the role of traditional states in diplomacy. This recognition of changing diplomacy gives one a context in which to examine economic diplomacy.

The chapter has explained that Economic diplomacy entails the use of negotiations and bargaining in order for states to advance its economic interests, with particular focus on trade, investment and aid. It is seen as a critical realm of foreign relations office. However, through change over time, it too has seen the rise of non-state actors (NGOs and TNCs). The role of these players has created complex nuances of economic diplomacy. When one examines the role of TNCs, it becomes apparent that TNCs are critical players in the global economic system, given their access to capital formation and technological advancements. However, they need sovereign states that provide labour and the security to protect investment made by TNCs. Therefore, there is a need for state-business diplomatic relations. This has led to the extension of economic diplomacy to commercial diplomacy, in order to better harmonize the contending interests of states and TNCs, thus making TNCs powerful players.

This chapter also established that economic diplomacy can be conceptualized by the issues that it seeks to address and the instruments that are used in the process of diplomacy. The former speaks to issues such as export promotion, the transfer of money and investments. States seek cooperation in order to have access to markets, but also to tap into the resources of other states for their own enrichment. Economic

[144] Ibid.

diplomacy has thus been seen as an issue of soft power, choosing rather persuasion than coercion and thus the very act of diplomacy speaks to the sharing of common values and interests. On the other hand, while the tools of negotiations in informal talks or formulation of binding agreements need a level of cooperation and speak to the common interests of states, economic diplomacy can also be described along hard power lines. The tools that are used can be incentives, such as greater access to markets or threats such as sanctions. Both seek to coerce the other party to yield to a certain position. However, there remains an on-going debate on the validity of hard power as a tool of diplomacy, rather than simply a tool that necessitates diplomatic talk among conflicting parties.

Lastly, this chapter revealed that economic diplomacy can occur on various levels in in the international system. The least diplomatic level of economic diplomacy is the unilateral level of economic diplomacy, which speaks to the hard power element of diplomacy, while the more traditional realms, being bilateral, regional and multilateral platforms, offer both advantages and disadvantages on the clout of economic diplomacy as exercised by states and other actors.

There can be no doubt that economic diplomacy is important in global economic affairs. What is of interest to this study is how a powerful emerging economy such as China has used economic diplomacy in its dealings with South Africa and what, if any, are the benefits and consequences of this for both parties? Furthermore, how does it affect one’s understanding of economic diplomacy? The next chapter will begin to tackle this question through a discussion of the origins of formal Sino–South African trade. This chapter will analyse the formation of Sino-South African formal economic relations and how this set the stage for how China would pursue its economic agenda in South Africa and vice versa.

CHAPTER THREE: THE FOUNDATION OF SINO-SOUTH AFRICAN POLITICAL AND ECONOMIC RELATIONS (1994-1998)

3.1. Introduction

China and South Africa's economic and political relationship has been described as one of the most important bilateral relationships in the developing South. This has led to an extensive debate about the benefits and the consequences of this relationship. Before one can embark on an analysis of this relationship, it is important to give its historical context, as this will allow one to better understand the modalities that currently shape China's economic diplomacy with South Africa. This chapter will therefore provide an overview of the driving principle that the Mandela administration employed in formulating South Africa's foreign policy from 1994-1998. In addition, it will examine how the South African government sought to establish relations with China, while maintaining diplomatic relations with Taiwan, and how this policy was received by China. Lastly, it will examine China's response to South Africa's foreign policy position and the consequence thereof on South Africa's foreign policy and the principles that would shape it in the post-Mandela era, and how these two states would interact thereafter.

3.2. South African Foreign Policy Principles under Mandela

Before the 1994 democratic elections, South Africa had been given the status of a pariah and rogue state due to its racial segregation policy of apartheid. It was isolated from major intergovernmental organisations and diplomatic relations.[145] The diplomatic isolation was further enhanced by economic sanctions and divestments as a strategy of pressuring the apartheid regime to end apartheid and give way to a democratic system.[146] The ANC as the government-in-waiting had the task of translating its liberation diplomacy into formal diplomatic and economic relations when it assumed power, in order to deal with the economic disparities produced by apartheid.

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145 Christopher Alden and Garath le Pere, "South Africa's Post-Apartheid Foreign Policy: from Reconciliation to Revival?", (Oxford University: Oxford University Press, 2003),12

146 Alan Sharpe, "Taking The high ground", (South Africa: Diverse Publikasies newspaper,1996),26

Given that the ANC's liberation was built on its pursuit of human rights in South Africa, the issue of human rights was touted as the central principle that would characterise its foreign policy.[147] The new South African administration, having benefited from the worldwide human rights campaign against apartheid, felt it had a moral obligation to promote and secure a universal devotion to basic human rights and to help those who were oppressed.[148] Prior to the 1994 election, Mandela in an article entitled "South Africa's Future Foreign Policy", laid down six fundamental pillars that would shape the ANC-led government's foreign policy[149]:

- The first pillar affirmed that human rights were central to international relations and extended beyond just political rights and were inclusive of economic, social and environmental suffrages:
- the second pillar held the importance of promoting democracy as the only *modus operandi* in achieving just and lasting solutions to the problems of mankind:
- the third pillar held that universal peace must be the goal for all nations and that any conflict must be resolved using non-violent mechanisms:
- the fourth pillar called on African concerns and interests to be reflected in the foreign policy choices that South Africa embarked upon:
- the fifth pillar placed an emphasis on the fact that the economic development of South Africa depended on growing regional and international economic cooperation in an interdependent world. [150]

This framework, as proposed by Mandela, sought to promote the importance of democracy and human rights - two ideals that South Africa had a duty to promote. Moreover, in doing so, South Africa would carve out a role as a moral leader on the continent.[151] These pillars were to exist whilst South Africa simultaneously sought to meet the Republic's economic interests.

147 Alan Sharpe, "Taking The high ground",12
148 Ibid.
149 Nelson Mandela "South Africa's Future Foreign Policy", in Foreign Affairs, (South Africa: ANC,1993), 86-97.
150 Nelson Mandela "South Africa's Future Foreign Policy"
151 *Ibidi*

The challenge for South Africa was that its foreign policy could be classified as idealistic. Motivated by the desire to prevent wars and build a peaceful world, it sought the "what ought to be" approach.[152] However, international relations were far more complex than what the government had perceived.[153] The South African government was, in reality, plagued by uncertainty as to what would drive its *de facto* foreign policy goals under the Mandela administration. Was it human rights, a moral obligation, or achieving its economic interests? Could South Africa secure the achievement of a holistic foreign policy agenda, or would there be a trade-off? The question raised by academics and some who were part of the Government of National Unity (GNU) came to the fore in many cases during the Mandela administration, such as the questions around South Africa's relationship with Cuba and Libya, among others. One such as example that highlights how, at times, Mandela's idealistic foreign policy was out of step with the regional context, was the fallout that occurred with Nigeria over the execution of human rights activist – Ken Saro Wiwa in 1995. This was despite failed attempts by Mandela to convince Nigeria's General Sani Abacha not to execute Wiwa and nine other Ogoni leaders accused of treason. Wiwa was executed and South Africa reacted by calling on the Commonwealth to suspend Nigeria for two years and for sanctions to be imposed.[154] However, South Africa failed to gain the support of other African states, who accused Mandela of taking unilateral actions against the spirit of African solidarity. However, central to this study is the discussion of the 'Two China policy'.

3.3. South Africa's "Two China Policy"

The debate on the nature of the Sino-South African relationship begins with understanding the complex events that led to the formation of these formal relations. The debate around dual recognition of the People's Republic of China (mainland China, PRC) and the Republic of China (Taiwan, ROC) was a critical test of South Africa's foreign policy. It would be the first of many tests on the complexities that lay in the idealist-centred foreign policy and how South Africa responded to the reality it now faced.

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152 Chris Landsberg, "The Diplomacy of Transformation: South African Foreign Policy Statecraft" (Johanneburg: Pan MaxMillian South Africa, 2010), 98-99.
153 Chris Landsberg, "The Diplomacy of Transformation". 98-99.
154 Chris Landsberg, "The Diplomacy of Transformation". 105-106.

The GNU formulated its economic policy, called the “Reconstruction and Development Programme” (RDP) as the blueprint on how South Africa would tackle its vast economic challenges. The then Minister of Foreign Affairs, Alfred Nzo, stated that central to South Africa achieving its domestic economic objectives, was the need for foreign policy strategy that would seek out trade and investment links.[155] Given this objective, the ROC had been one of the few states that South Africa had diplomatic and economic relations with. It was seen as a key player in the South African economy, not only by the National Party, but also by members of the ANC government such as Alfred Nzo. There were no standing diplomatic relations with the PRC at the time,[156] but, while Taiwan had substantial economic links and had already been providing assistance to South Africa’s economic reconstruction and development through trade and investments, South Africa also wanted to establish formal political and economic relations with China. Both Mandela and Nzo expressed South Africa’s wish to maintain cordial relations with both Taipei (ROC) and Beijing (PRC) in the interest of South Africa’s economic welfare and establishing a new world order.[157] However, the decision to establish ties with communist one party China was a contradiction given South Africa’s emphasis on human rights as a dominant feature in its foreign policy. Moreover, it held the position that global peace was best served through democratisation of states. South Africa’s interest in China was a clear deviation from this principle and points to the importance of China to South Africa’s economic interests.[158] However, there were other factors that raised the issue of the Two China question; hence, one must examine how the Two Chinas came to be.[159]

The ROC was established in 1912 and covered what is known as mainland China. At the end of the Second World War in 1945, the ROC added the islands of Formosa (Taiwan) and Perscadores (Penghu) to its territorial authority.[160] However, in 1949, the Chinese revolution occurred, which led to important political changes in China. The

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155 TLO Archives, Pretoria: the ROC Embassy's telex No. 925 regarding the current situation of ROC-RSA; Bilateral negotiations and future prospects (Pretoria: ROC Embassy, 1997), 1.

156 James Barber, *Mandela's World: The International Dimension of South Africa's Political Revolution 1990-1999*. (Oxford: James Currey Ltd, 2004), 107.

157 James Barber, Mandela's World: The International Dimension. 107.

158 Ibid

159 Ibid.

160 Deon Geldenhuys, “South Africa and the China Question: A case for Dual Recognition”, East Asia Project, (Department of International Relations: Witwatersrand University, 1995), Working Paper Series 6

first of these was the establishment of the People's Republic of China on mainland China under the leadership of the Chinese Communist Party's (CCP) Chairman Mao Zedong. In addition, the revolution led to the defeated Kuomintag (Nationalist) forces fleeing to the island of Taiwan, where they maintained power over the islands of Taiwan, Perscardores, Kinmen, Matsu and various islets. The Nationalists maintained their claim as the rightful rulers of mainland China.[161]

At the beginning of the Cold War until the early 1970s, the ROC was recognized by most Western countries as the legitimate government of China, even though it only governed neighbouring islands.[162] Taiwan argued that it had established its seat of government temporally following the "illegal" seizure of power by the CCP in 1949. Taiwan occupied China's UN seat and the USA's seven fleet was stationed in the region to keep the PRC from trying to invade Taiwan. In reaction to the rule of mainland China, Taiwan decided to give up its claim to the country, rather focusing on developing the island state. The USA, along with other global powers, started improving relations with the PRC. The trend led to the UN expelling the Nationalist government and recognizing the PRC as the rightful ruler of mainland China. The United States eight years later recognized the PRC and severed diplomatic ties with Taipei. The consequence of this action was an acceptance by the superpower of China's "one China" policy, and adjusting their foreign policy in line with this principle.[163] The significance of the USA's foreign policy position was that the world's leading superpower had moved to recognise the PRC's legitimacy and One China policy, and that it would be difficult for South Africa to ignore this global trend led by the largest economy in the world.

Both Beijing and Taipei had since 1949 competed to exert their influence in global affairs, with the goal of affirming their claims as the genuine governments over mainland China and the islands under the Nationalist rule. However, the rule recognition of the PRC over Taiwan led to a trend of states severing ties with Taiwan in favour of the PRC. By 1996, only 30 countries maintained recognition of Taiwan. Among these states was apartheid South Africa. Taiwan and South Africa established diplomatic relations after both were declared pariah states; the latter due to its racial

161 Ibid
162 Raymond Suttner, "One China and Taiwan is part of it", (South Africa: New Nation,19) 11
163 Suttner, "One China and Taiwan"

policies that had been declared a crime against humanity.[164] Taiwan's involvement with South Africa was an interesting one, as it provided substantial financial assistance to Africa and its firms through investment, while also contributing to the ANC in its struggle against apartheid. [165]

The end of apartheid led to many states being keen to inaugurate diplomatic ties with South Africa; among these was the PRC. However, the PRC held a firm policy position that it could only enter into formal diplomatic relations with a state that recognized it as the sole legitimate ruler of all of China (including Taiwan). South Africa could either maintain relations with its bedfellow Taiwan or severe relations with Taiwan in favour of the One China doctrine. The latter would be in contradiction with its foreign policy principle of human rights promotion and democracy, as China's record on human rights was poor.[166] Nonetheless, China was a strategic player in international relations, given its permanent seat in the UN Security Council, and being home to one-fifth of the world population. South Africa's ambition to play a leading role in international affairs would be made more tangible with China as a partner. Furthermore, the fact that China was the fastest growing economy in the world, home to the world's largest population, and being in control of Hong Kong after been given over by Britain in 1997, made it a lucrative market for South African goods.[167]

South Africa chose to pursue a Two China policy even though no country had achieved that goal. The Mandela administration had based this objective on the basis of universalism, believing that it was critical for South Africa to pursue relations across ideological differences.[168] Mandela stated that it was unthinkable for South Africa to abandon states that had given it assistance during the transition into democracy and in the same breath it saw the political and economic importance of pursing diplomatic relations with China.[169] Some members of the South African government believed that South Africa, following its struggle with apartheid and the political "miracle" of transition into a democracy that upheld human rights for all, was in unique position to do what

164 Song-Huann Lin, "The Relations between The Republic of China and The Republic of South Africa" (Doctorates Thesis: University of Pretoria, 2001).
165 Ibid.
166 Christian Youla, "The Foreign Policies of Mandela and Mbeki: A clear case of Idealism vs Realism?" (Master's thesis: Stellenbosch University,2009). 37.
167 Youla, "The Foreign Policies", 41.
168 Ibid
169 Barber, *Mandela's World: The International Dimension.*106.

smaller economies like Burkina Faso could not do: maintain relations with Taiwan and establish diplomatic relations with China at the same time. This was further aided by the belief that its powerful position in Africa as the most advanced economy in Africa and the international standing of the government and the iconic Mandela himself, would give it the ability to pursue this policy. However, China kept their position, that if South Africa wanted to have diplomatic relations, it had to sever relations with Taiwan and recognize the PRC as the legitimate ruler of all of China.

The Mandela administration was in a fix. South Africa had established an extensive relationship with Taiwan during apartheid, whereas the communist PRC had no ambitions to establish relations with apartheid South Africa. The political and economic links built by South Africa and Taiwan were entrenched, with Taiwan happy with establishing links with South Africa in exchange for economic benefits. The consequence of this was the rise of Taiwan as South Africa's sixth largest trading partner; total trade volume stood at R6, 1 billion, with a R2, 3 billion surplus in the favour of South Africa in 1996. On the other hand, trade with China stood at R1, 6 billion, a quarter of the size of the South Africa-Taiwan trade.[170] Furthermore, by 1994, Taiwanese investment portfolio stood at R1, 4 billion, resulting in the creation of 40,000 jobs in over 280 factories. In addition to this, Taiwan, through its trade mission, had made further commitments towards trade investment, technical cooperation and financial assistance totaling R1, 1 billion in democratic South Africa.[171]

The economic impact of Taiwan in South Africa both during apartheid and the transition to democracy made the impending choice of relinquishing relations with the ROC a difficult one, given that the new government had the difficult task of transforming the South African economy and releasing millions from poverty. The ROC contribution and further commitments were in line with the goals set out in the RDP framework; thus, the two China question was a contested issue within government and among other stakeholders in South Africa.[172]

Mandela and Nzo continued to affirm their commitment to a "Two Chinas policy", arguing that the dispute between the PRC and ROC was for the two sides to resolve

170 Geldenhuys, "South Africa and the China Question",14
171 Ibid
172 Terence Corrigan, "Mbeki: His time has come. An introduction to South Africa's new President. (Johannesburg: South African Institute of Race Relations, 1999).42.

and that South Africa's foreign policy need not be a proxy in the conflict.[173] However, the dual recognition policy was not favoured by all quarters of the ANC, its alliance partners (South African Communist Party - SACP and Congress of South African Trade Unions - COSATU) and members of government, such as Deputy President Thabo Mbeki. President Mandela, the Nationalist Party (NP), the Inkatha Freedom Party (IFP), some of the cabinet ministers including Minister of Defence Joe Modise, and the then Director-General of the Department of Foreign Affairs, Rusty Evans, favoured maintaining the status quo. In contrast, the ANC, the SACP and COSATU, as well as the Department of Trade and Industry (DTI), and most of the senior officials of the Department of Foreign Affairs (DFA) were in favour of the rapid establishment of diplomatic relations with the PRC.[174]

The opponents of South Africa's delay to switch diplomatic relations argued that it was against South African national interests.[175] They stated that China's market size and its potential power in global affairs as a permanent member of the UN Security Council meant that South Africa, in its quest to be a prominent player in international relations, could not be found offending the PRC.[176] Moreover, they argued that the economic balance was fast shifting in favour of the PRC, given its impressive economic double digit economic growth, market size and growing role in global affairs. All of this was seen as a recipe that would see China grow into world power; hence, it was in South Africa's interest that it not delay the switch.[177] Among the various interests groups that exerted pressure on the South African government to change to course, the SACP was most active in its pursuit for a foreign policy change.

The tripartite alliance stated that maintaining relations with Taiwan was a perpetuation of a historic injustice, given that the diplomatic relations were established by the apartheid regime. The influence of the alliance partners was evident in a letter written to Mandela and conveyed by an SACP delegation led by its chairman, Joe Slovo, to the PRC in August 1993.[178] The letter stated that South Africa would correct the injustice committed by the apartheid regime, when it denied mainland China

173 Nel, P. & McGowan, P.J. *Power, Wealth and Global Order An International Relations Textbook for Africa.* (Cape Town: SAIIA, 1999). 213.
174 Nel, P. & McGowan, P.J. "*Power, Wealth", 213.*
175 Ibid
176 Ibid
177 Song-Huann Lin, "The Relations between The Republic of China".302.
178 Ibid

recognition in favour of recognizing Taiwan. The correction would come in the form of giving China sole recognition. The PRC's official Xinhua News Agency published the letter. However, the ANC denied writing the letter.

The influence by the alliance partners was seen in the ANC's working document entitled "Summit on Foreign Policy for a New Democratic South Africa", which was published in 1993. The document favoured human rights and the need for South Africa to break with the past and reshape its foreign policy. It further argued that in terms of recognition of states, South Africa would be guided by the UN practice and international law.[179] The former implied that South Africa would follow in the steps of the UN by relinquishing recognition of the ROC and recognizing China as the legitimate power in all of China. Furthermore, given the SACP's ideological identity as a Communist party and its historical links with the PRC, it could not understand why relations with Taiwan continued post-1994.[180] The SACP had a great dislike for the ROC, because it had relations with the apartheid regime. The SACP expressed its displeasure to even the highest decision-making body of the ANC, the National Executive Committee (NEC), with leaders such as the deputy chairman of the SACP, Blade Nzimande, and the chair of the Portfolio Committee on Foreign Affairs of the South African National Assembly, Raymond Suttner, leading the charge against the two China policies.[181]

The SACP played a critical role in the normalization of relations with China. A number of delegations were sent to the PRC for bilateral consultations. Besides the aforementioned 1993 delegation meeting led by Joe Slovo, the next high level delegation meetings were hosted early 1996 and in November 1996. The latter meeting was led by ANC Deputy Secretary-General Cheryl Carolus.[182] Nonetheless, Nzo maintained that a Two China solution was still achievable. He argued that South Africa could maintain relations with the ROC, while developing diplomatic relations with the PRC. However, SACP pressure was noticeable when the Foreign Affairs Minister admitted that South Africa was in the process of establishing formal diplomatic

179 Song-Huann Lin, "The Relations between The Republic of China".302.
180 Ibid.303
181 Ibid
182 The Citizen, "No reason for SA to cut ROC ties: Nzo". (Johannesburg: The Citizan, 1995).

relations with the PRC - an admission that indirectly affirmed that South Africa would give up on its attempt to have dual relations.[183]

The legislative arm of state also weighed in on the debate about the Two China question. Suttner was open about his pro-PRC position, using platforms such as the 1995 workshop on the RSA's China policy held by the Foundation for Global Dialogue (FGD) and the South African Institute of International Affairs (SAIIA) to express his views and influence public discourse on the matter.[184] Suttner believed that it was essential for South Africa to reposition its foreign policy, given the fact that apartheid-era foreign policy was shaped by the fact that only a few countries had interests in having relations with the rogue apartheid regime. Consequently, now that South Africa had become a democracy, it no longer had the challenge and was open to do business and relate with a greater scope of states.[185] However, unlike many of his peers in the SACP, Suttner argued that while South Africa should establish official relations with Beijing and reduce relations with Taipei, relations with Taipei could continue without official diplomatic relations. There were also extensive business interests that would shape the switch of its foreign policy position, given that China maintained the rigid position that South Africa had to choose. China would flex its economic power and the key tool of that was Hong Kong, which it took back control over from Britain in 1997. Therefore, the delay by South Africa threatened its economic interests with Hong Kong.

3.3.1. The power of business relations

Sino-South African relations during the Mandela presidency had mostly consisted of having informal representatives in each capital. Regardless of this, the two countries had established trade relations, with major actors such as Volkswagen, South Africa Breweries and ISCOR having business ties with China.[186] South African iron in particular became a major source for trade in the Chinese economy. However, beyond this, important to the GNU was South Africa's interests in Hong Kong, which were in jeopardy given the delay in relinquishing ties with Taiwan. China made it clear that

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183 The Citizen, "No reason for SA to cut ROC ties".

185 P.J. McGowan & P. NelPower, "Wealth and Global Equity: International Relations Textbook for Africa". 3rd ed. (Lansdowne: Institute for Global Dialogue and the University of Cape Town Press, 2006). 392.

186 The Economist Group, "The World in 1997"(United Kingdom: London,1997). 64.

South Africa could lose its access to Hong Kong if it did not recognize China as the sole legitimate power of all of Chinese territory (including Taiwan). This would have various consequences for the South African economic agenda.[187]

China argued that should South Africa not make a choice by the time British control over Hong Kong ended, it could find its Consulate being downgraded to 'semi-formal' (this happens when the consulate-general of South Africa is recalled and the host nations calls for the reduction of diplomats stationed in Hong Kong) or closed down completely.[188] The consequence of that would be the need to renegotiate landing rights with Beijing. In addition, South African could face import duties on its goods and the visa free travel to Hong Kong revoked; a situation that would harm its business interests.[189]

China used Hong Kong strategically to force the hand of states to deny the existence of Taiwan as a sovereign state. China used its 'One China, Two Systems' policy as a diplomatic tool, by using the incorporation of Hong Kong to apply pressure on states to recognize China's sole sovereignty over Taiwan.[190] Moreover, this tool was given greater effect through the basic law that governed the incorporation of Hong Kong under China, which stated that future external relations with the ROC would have to be approved by the PRC. The PRC's Hong Kong policy was effective in placing pressure on South Africa to put more urgency into making a decision. It meant that a decision not in favour with the PRC's policy over Taiwan would allow China to deny Hong Kong the right to have diplomatic relations with South Africa. The impact of this strategy can be seen in how most South African government agencies pressed Mandela and his Cabinet to not delay the inevitable before the deadline of the 1st July 1997.

South Africa had extensive historic links with Hong Kong, particularly when one analyses trade links and trade relations: trade volume with China when adding Hong Kong would be greater than that with Taiwan. By 1995, China was South Africa's fifth largest trade partner (R6,47 billion, if one includes Hong Kong trade volume with South Africa), while Taiwan was only South Africa's eighth largest trade partner (R5,77

187 The Economist Group, "The World in 1997", 64.
188 Ibid
189 Christopher Alden, "Solving South Africa's Chinese Puzzle" (South AfricA, 1997). 90.
190 Christopher Alden, "Solving South Africa's Chinese Puzzle". 90.

billion).[191] Moreover, equally important was the investment footprint of Hong Kong in South Africa, which was only second to Japan in terms of Asian investment in South Africa. The economic significance of Hong Kong was further highlighted by the South African Consul-General to Hong Kong, stating that diplomatic relations with Hong Kong needed to be normalised in order to safeguard South African interests in terms of trade, landing rights and future of the consulate.[192]

Beyond this, the business sector in the country led by public parastatals such as Armscor, Denel, Eskom and Iscor were interested in establishing a foothold in mainland China, which at the time achieved 12.2 percent economic growth, making it the fastest growing economy between 1991 and 1995.[193] The interest was further amplified by the fact that even China's enemy Taiwan, had extensive economic interests in China. Taiwan had invested over $2.7 billion in 1991, resulting in 237 factories, this rose to $35 billion in 1996 (11,700 factories). It was the second largest investor in PRC behind Hong Kong; given this, it was hard for Taiwan to request South Africa not to do business with China. This strengthened calls for South Africa to make the change.[194]

Long before the 1976 Tiananmen Square incident, apartheid South Africa had tried to cultivate its relationship with the PRC; as long back as the 1960s. Undisclosed trade links through Hong Kong to Beijing were established with trade items such as military hardware, maize, uranium and other minerals. Furthermore, state owned enterprise Armscor sought to expand its arms trade with the PRC by establishing representation in China in the 1980s. Armscor would from the day it sent representatives to China, sell R230 million worth of weapons to the PRC. In addition to this, by 1994, Iscor had sold 4 million tonnes of iron to China.[195] In order to ensure the safety of its iron exports in China, Iscor invested R35 million in an iron ore storage facility in China's north-eastern coast. South Africa and China also had energy cooperation; South Africa's Eskom assisted China in the commissioning and operationalization of its nuclear power plant at Daya Bay in Guangdong Province. According to an agreement reached

191 Ibid
192 Ibid
193 The Economist Group, "The World in 1997", 64.
194 Mainland Affairs Council, Executive Yuan. "Crossing Historical Divide' Recollection of Ten-Year's Cross-Straits Inter-exchanges and the Prospect". (Taipei, 1997).173.
195 The Sunday TImes, Business Times "Iscor spends R35m at Chinese port to raise iron-ore exports" (South Africa: Johannesburg, 1994). 4.

by Eskom and China Light and Power Company in 1993, the two companies agreed to exchange information, expertise, technology and personnel training. In terms of the agreement, four Eskom workers would work at the power plant, while some Chinese personnel would receive training at the Koeberg nuclear power plant near Cape Town.[196]

Besides the public enterprises involvement with China, the private sector had interests that it saw as being in jeopardy by virtue of a lack of foreign policy certainty. An example of this was the opening of a branch by Nedbank to assist in the facilitation of investment in the lucrative Chinese market.[197] Beyond this, there were other instances of business relations between the South African private sector and their counterparts in the PRC. The most noticeable of these was the Volkswagen AG and South African Breweries (SAB). The former established a joint project with the PRC's First Automobile Works in Changchun in North East China. Volkswagen South Africa, as contracted, was a sub-supplier of export semi-knocked-down (SKD) A2 Jetta vehicles to Changchun in North East China in the first phase, before local manufacturing of vehicles could start. Between 1992 and 1995, Volkswagen South Africa supplied 27,720 SKD A2 Jetta vehicles worth approximately R960 million.[198] However, it is SAB that had the greatest business relations with the PRC. SAB entered into a business partnership with Chinese breweries in the PRC's province of Liaoning, Northeast China.[199] The joint venture was called China Resources (Jilin) Brewery (CREB). Between 1994 and 1997, SAB through CREB acquired joint control of five breweries worth a total of $41,7 million. These included one brewery each in Jilin City and Sichuan Province, the Shenzhen C'est Bon Food and Drink Company in Guangdong Province and two breweries in Shengyang City (formerly Mukden) and Dalian in the province of Liaoning.[200]

In addition to this, other businesses had shown keen interest in taking advantage of the opportunities the Chinese market had to offer. These included but were not limited

196 Business Day, “Eskom helps Chinese power authorities”. (South Africa: Johannesburg, 1993), 4.
197 Song-Huann Lin, “The Relations between The Republic of China”.161.
198 M. Havenga, "The Dilemma of the Two Chinas: An Economic Perspective" (ed.), (Johannesburg:SAIIA).43-44.
199 Avis Companion “The sleeping giant awakes” Vol.2 (Johannesburg: Avis Companion, 1998). 49-50.
200 Avis Companion “The sleeping giant awakes”. 49-50.

to JCI, Investec Bank and MIH Holdings. MIH owns M-Net, Supersport, Multichoice and M-web. The China Central Television (CCTV) network had signed an agreement with MIH Holdings to co-produce television programmes in 1997.[201] In the very same year, the PRC's trade vice-minister, Shi Guang-sheng and the South African Department of Trade and Industry (DTI) signed $550 million worth of business transitions. The agreement states that South Africa would sell diamonds, iron ore, steel, coal, copper, cobalt, paper and other goods worth $269 million to China. By 1998, over 17 South African companies had fully fledged operations in China, which amounted to R4 billion in outflow investment to China.[202] This highlighted the South African business sector's appreciation for the importance of China, the potential that lay in its economic growth, and the appetite that it carried for imports such as iron ore. This raised the concerns held by Corporate South Africa about the lack of official diplomatic links with China and how that would threaten existing and future business transactions.

Given the importance of Hong Kong and the business complex with China, South African businesses continued to press the South African government to normalize relations with China. The anxiety was amplified when in May 1996, China's President, Jiang Zemin, intentionally excluded South Africa from his African tour. The exclusion was an embarrassment for South Africa, given it economic significance in Africa and the towering image of the Mandela brand. This was done to expose that neither Mandela's popularity nor the favour South Africa had gained for its peaceful transition into democracy would deter China from upholding its non-negotiable position on Taiwan. While Zemin's tour was in motion, China would, through the South African media try to drive public pressure on its government by announcing various economic co-operation projects.[203] One such project was the so-called Dragon City complex representing China's intention to invest $14 billion and creating over 500,000 jobs in South Africa. China argued that South Africa would benefit from economic relations with China and that the sooner it switched, the better its RDP agenda would benefit.[204]

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201 Business Day, "MIH, Chinese network strengthen ties for MIH's investment in the PRC" (Johannesburg: Business Day, 2000), 1.

202 Ibid

203 Christopher Alden, "Solving South Africa's Chinese". 90.

204 Song-Huann Lin, "The Relations between The Republic of China".341

Taiwan, fearing that South Africa was cracking under the pressure placed by the PRC, made last minute proposals of renewed commitments to support South Africa's economic development agenda. The ROC sent Vice Premier Hsu Li-teh to visit South Africa from 26 August to 3 September 1996 to pledge more trade, investment, economic aid programmes and various co-operation projects, including a proposal for a $3.5 billion petro-chemical complex joint project in the Eastern Cape.[205] However, even though Mandela assured the Vice Premier that South Africa would not give up on its diplomatic relationship with Taiwan, the conclusion was near and regardless of how much Mandela sought to achieve duel recognition, the result of a fact finding mission such as the impact of Hong Kong and other factors pointed out that South Africa could not set a new precedent.

On 27 November 1996 at 4pm, President Mandela announced at a press conference that South Africa had decided to end diplomatic relations with Taiwan and establish official diplomatic ties with China as from 1st January 1998. He stated that while diplomatic ties with Taiwan would end in December 1997, South Africa would maintain other forms of relations such as economic links, which continue even now.[206]

3.4. Conclusion

The main objective of this chapter was to examine the complexities that characterised the establishment of Sino-South African diplomatic relations, in order to understand what has driven the economic relations between the world's second largest economy and Africa's second largest economy. Firstly, this chapter examined the foreign policy fundamentals that influenced South Africa's approach to the Two China question. While South Africa placed human rights at the centre of its foreign policy framework, this objective would be met with the challenge of South Africa also asserting its economic interests. The chapter highlighted the inherent contradictions guiding the Mandela administration's foreign policy. The question around establishing relations with the PRC, which had a poor human rights record, was subject to great moral debate. However, it highlighted the challenge of pursuing idealistic foreign policy, while trying to deal with the economic reality of South Africa.

205 Ibid. 318.
206 Christian Youla, "The Foreign Policies", 38.

Moreover, this chapter examined how while South Africa had committed itself to the principle of universality, in that it could get into any diplomatic relations, this would and was challenged by the China. China made it plain that it would only enter into official relations with South Africa if South Africa relinquished diplomatic ties with Taiwan and recognized the PRC as the sovereign power over all of China (including the ROC). This call contravened the principle of universality that South Africa promoted. While Mandela put forth a moral argument to justify that South Africa could not “abandon” Taiwan and that rather South Africa would give dual recognition, he and some within his cabinet overestimated South Africa’s soft power when it came to the Chinese position of “One China”.

Various reasons were explored in this chapter to reason why South Africa eventually accepted China’s policy and ended ties with Taipei. Chief among them was the issue of Hong Kong. South African business firms had established extensive relations with Hong Kong. The incorporation of Hong Kong with China was used by China to exert pressure on the South African government to make the right decision in China’s view, arguing that South Africa could find its diplomatic relations with Hong Kong and business relations jeopardised by its insistence of dual recognition. This led to many in the alliance and business sector urging government to change route.

In addition, China had extensive economic potential; it was home to the largest population (market) and the fastest growing economy. This, coupled with existing economic relations, meant that South Africa could not afford to have bad relations with China. South Africa’s own international governance ambitions meant that it had to move in accordance with global trends and it could not delay the decision. The economic merits of the switch, including the unpopularity of Taiwan given its relationships with apartheid regime, led to alliance partners such as the SACP deputy chair Blade Nzimande and Foreign Affairs parliamentary committee chair Raymond Suttner pressing the executive to change route - a decision that Mandela made on 27 November 1996. The Hong Kong issue motivated the timing of the decision.

It would seem from the above that China used its economic muscle to influence the domestic sovereignty of South Africa in determining the formulation and the implementation of its foreign policy at least in regard to the Two China Policy. The next chapter will examine the use of the tools in China’s economic diplomacy with South

Africa as well as any political influence Sino-South Africa economic relations may have had on the decision making of the South African government since 1998.

CHAPTER FOUR: CHINA'S ECONOMIC DIPLOMACY POST-1998

4.1. Introduction

As noted, China's foreign policy in Africa has been described by some political commentators and politicians as being neo-colonial on the one hand and on the other as being positive to the development of the continent (away from the influence of Western powers). This chapter will begin by examining trade volumes and composition of trade between China and South Africa, between 1994 and 2015. Moreover, the chapter will analyse China's investment and aid patterns in South Africa between 1994 and 2015. Lastly, this chapter will seek to establish the possible political ramifications of China's economic diplomacy in South Africa. This will be done using the instruments and issues of economic diplomacy as expounded on in Chapter Two.

4.2. Instruments and issues of economic diplomacy in Sino-South Africa relations

This chapter will provide an application of how China has used the instruments and issues of economic diplomacy in South Africa wIth the view of establishing how these instruments may have shaped bilateral relations and caused both benefits and disadvantages for both states, if at all. As noted previously, these instruments are:

- Negotiations between the governments with the aim of fulfilling national economic goals;
- Export promotion, investment, money, information and the formulations of regulations to govern the global economy;
- Investment and aid; and
- Attempts at political influence

4.2.1 Bilateral government negotiations post-1998

From the previous discussion, one could argue that China has used economic diplomacy in South Africa in the past in order to further its interests for trade and investment as characterised by the political interactions between the two countries before the formalization of diplomatic relations in 1998. It is further understood that, the immediate post-1998 relations that occurred have paved the way for the kind of trade relations South Africa and China currently experience.

The Mandela years saw South Africa wrestle with the need to balance economic reality with its own political idealism and the desire to decide its own international partners. However, South Africa finally agreed to let go of its pursuit of a “Two China policy”, recognising the People’s Republic of China as the sole legitimate power over all Chinese territory, including Taiwan.[207] This was affirmed through the Joint Communiqué on the Establishment of Diplomatic Relations signed in December 1997. This indeed marked the beginning of formal ties between the two states. The subsequent high level meetings that took place would indicate the value of the relationship to both sides, with South Africa keen to establish a positive reputation with China after the Two China question.[208] In April 1998, South African deputy president Thabo Mbeki visited China, followed by other high level meetings: National Assembly Speaker Frene Ginwala (October 1998), President Mandela (May 1999), President Mbeki (December 2001) and Naledi Pandor, Chairperson of the National Council of Provinces (October 2002).[209] Visits by senior members of the executive and legislative arms of the South African government indicated South Africa’s sentiment on the importance of China to its economic and political interests and showed its desire to break with the past and pursue strong bilateral relations with China.

At the same time, China also undertook its own high level visits to South Africa. In February 1999, Vice President Hu Jintao, Chairman Li Peng of the Standing Committee of the National People’s Congress (November 1999), President Jiang Zemin (April 2000), Chairman Li Ruihuan of the National Committee of the People’s Political Consultative Conference (April 2001), Premier Zhu Rongji (September 2002) and Vice Premier Li Lanqing (January 2003) all visited South Africa within the first five years of the formal diplomatic relations.[210] The visits by senior members of the Chinese government were about solidifying Sino-South African relations and strengthening bilateral trade relations and cooperation. China saw South Africa as a key gateway into Africa. President Zemin stated the need for "[both states] to treat one

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207 Sanusha Niadu, “South Africa’s relations with the People’s Republic of China: mutual opportunities or hidden threats, *State of the Nation.* (South Africa: South African Institute of International Affairs, 2006), 466.

208 Ibid

209 Ibid

210 Ibid

other as equals, develop sincere friendship, strengthen solidarity and cooperation, and seek common development."[211]

China and South Africa would further solidify their bilateral relationship during the visit of President Jiang Zemin to South Africa in 2000. President Mbeki and President Zemin signed the Pretoria Declaration, which in the letter of its content described the relationship as one of "partnership".[212] Furthermore, in pursuit of greater cooperation in political and economic issues; the two sides established the South Africa-China Bi-National Commission (BNC). On the return state visit in December 2001, Mbeki and Zemin would co-chair the first BNC meeting. The role of the BNC was to co-ordinate efforts to strengthen trade and investment opportunities between both states and to also share expertise. Beyond the role of these two leaders, talks were undertaken by members of cabinet from the departments of foreign affairs, economic co-operation and trade, public security, justice, science and technology and energy and security. Moreover, in order to further simplify these channels, the commission would set up four sub–committees, primarily: foreign affairs, economy and trade, science and technology, and national defence.[213] Mbeki expressed (after China had been accepted into the World Trade Organisation), that both sides were keen to explore new ways and means of continuing and increasing investments in each countries' economies in a manner that improved trade relations and ensured greater volumes of imports and exports from both countries.[214]

The second BNC in 2004 further consolidated the relations between the two emerging powers. China and South Africa agreed to support peace, stability and development through the Addis Ababa Plan and the Forum on China-Africa Co-operation (FOCAC).[215] In addition, both countries assisted each other in consolidating their influence on the continent through support for the New Partnership for African Development (NEPAD) and the establishment of a Southern Africa Custom Union-China free trade deal. China would support South Africa's efforts as a leader on the continent and in return, South Africa as regional power would act as the gateway for

211 "President Jiang Zemin's Visit to Six African Countries". http://www.fmprc.gov.cn/mfa_eng/ziliao_665539/3602_665543/3604_665547/t18035.shtml. Ministry of Foreign Affairs of the People's Republic of China. Accessed March 22, 2018.

212 Ibid

213 Ibid

214 Ibid

215 Sanusha Niadu, "South Africa's relations", 467.

China to the rest of the regional market. This sentiment about South Africa was upheld in the first communiqué of the BNC. Furthermore, what is interesting is that the communique expressed that both countries recognised “their position as important partners” in international affairs; this with the view of establishing a new political and economic order, where developing countries would have a greater say. Furthermore, rather than the existing American unipolar system, they committed to multilateralism as the key to peace and security.[216] The creation of bodies such as the BNC highlighted the importance of political relations for the promotion of trade and investment. The subsequent section will analyse trade relations between the two states.

4.2.2. Trade relations: Sino-South African export promotion

Sino-South African bilateral trade has come far since the 1994 South African democratic transition. The volume of bilateral trade in 1994 stood at $870 million.[217] Trade between South Africa and China was extensive even though formal diplomatic relations had only been formalized in 1998.

The composition of trade from 1994 through to 2017 is an important indicator of how trade between both states has taken shape. It assists in outlining what the implications are of that on the trade relationships between both countries. In 1994, an estimated 77.1 percent of the PRC’s exports to South Africa were manufactured goods, also known as value added goods (more expensive than primary goods).[218] On the other hand, South African exports were dominated by mining resources and precious metals At first glance it may appear that this trend of trade follows a structuralism form in which the poor countries export cheap resource in exchange for value added manufactured good. However, South Africa has comparative advantage in resource production, while China has a comparative advantage in the production of manufactured goods, given its low wage bill and a huge work force.[219] When one examines figures 4.1 and 4.2, two key observations can be made. Firstly, one sees

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216 Ibid

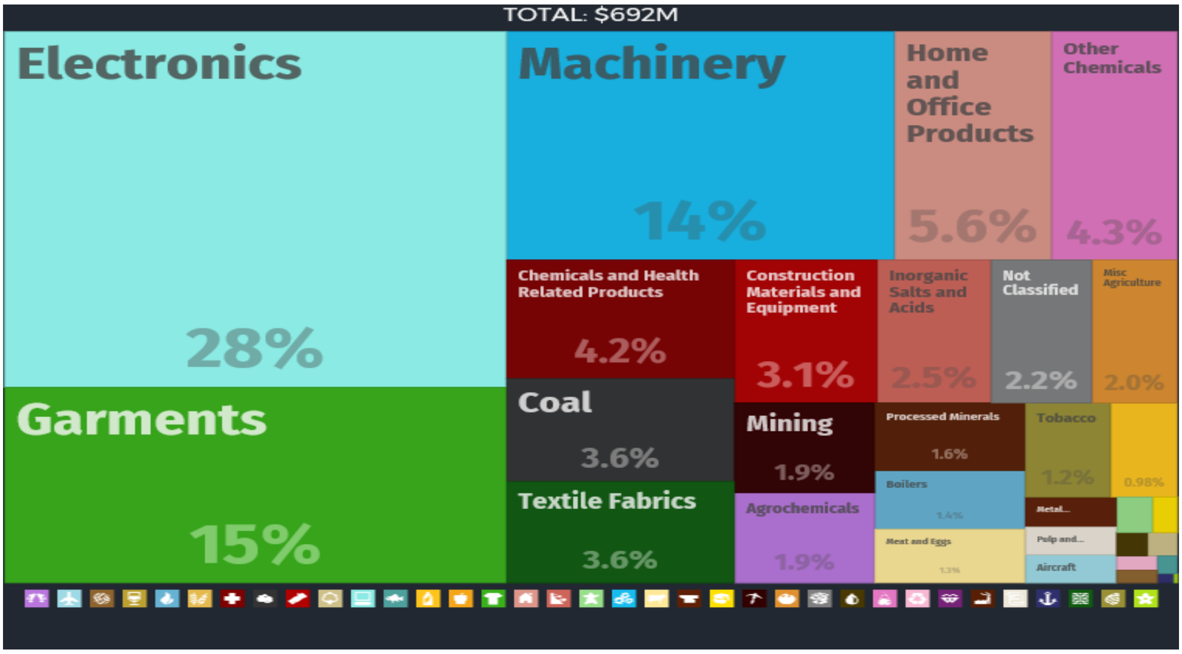
217 “What does South Africa import from China-1994”? http://atlas.media.mit.edu/en/visualize/tree_map/sitc/import/zaf/chn/show/1994/. OEC, accessed August 15, 2017.

218 Ibid

219 “What does South Africa import from China-1998”, http://atlas.media.mit.edu/en/visualize/tree_map/sitc/import/zaf/chn/show/1998/. accessed August 15, 2017.

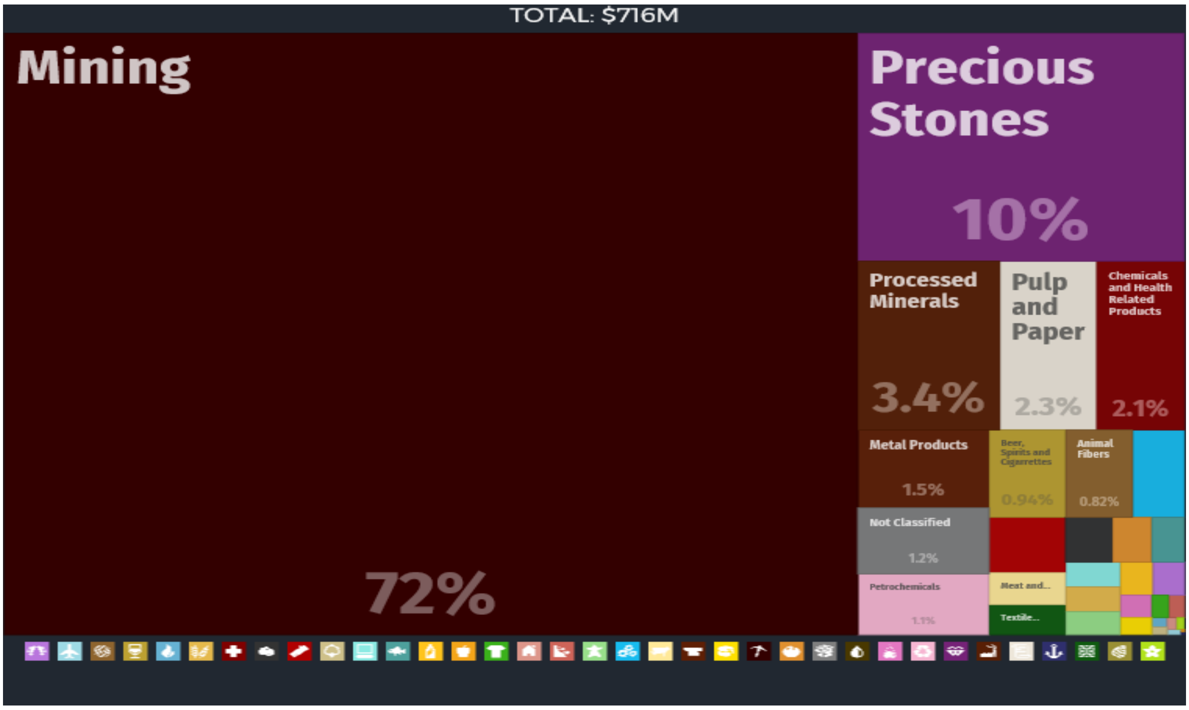
that trade between 1994 and 1998 increased from $870 million to $1.4 billion, representing a 38 percent increase in trade between South Africa's first democratic election and the first year of formal Sino-South Africa diplomatic relations. Furthermore, by 1998, not much had changed in terms of the composition of trade between the two emerging powers. According to Figure 4.1, China's exports to South Africa were dominated by manufactured goods (mainly electronics, garments, and machinery, home and office products). South African exports continued to be dominated by mining goods (72%). South Africa trade surplus with China was reduced to just $24 million.[220] This surplus is important given the fact that at the time South Africa continued to depend on developed countries for its demand for manufactured goods. Moreover, the fact that South Africa was benefiting from trade could indicate that trade in this instance was a positive sum game for both states.

[220] Ibid



Source: OEC, 2017

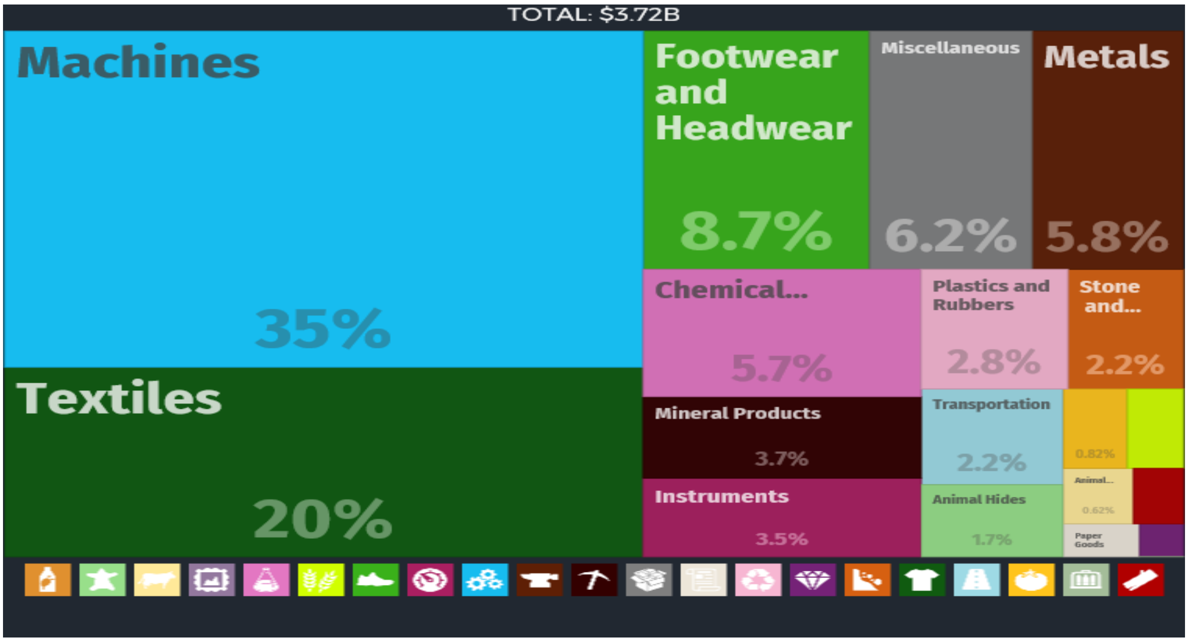
Figure 4.1: China's exports to South Africa (1998)



Source: OEC, 2017

Figure 4.2: South Africa's exports to China (1998)

According to Figures 4.1- 4.4, trade between 1998 and 2004 (after formalisation of relations with the PRC and representing the first five years of the Mbeki presidency), increased by 74.4 percent (annual average growth of 12.4%), to reach $5.4 billion. This indicated significant commercial co-operation between the two emerging economies. Interestingly, unlike in 1994 or 1998, South Africa no longer had a trade surplus but rather a deficit, with China's exports to South Africa reaching $3.7 billion.[221] On other hand, South Africa's exports to China reached $1.68 billion.[222] Chinese exports from 1998-2004 increased by annual average growth rate of 13.5 percent, while South African exports to the PRC saw a nine per cent increase during the same period. This growth trajectory highlighted the increased pace of trade between both states after the formalization of diplomatic relations.

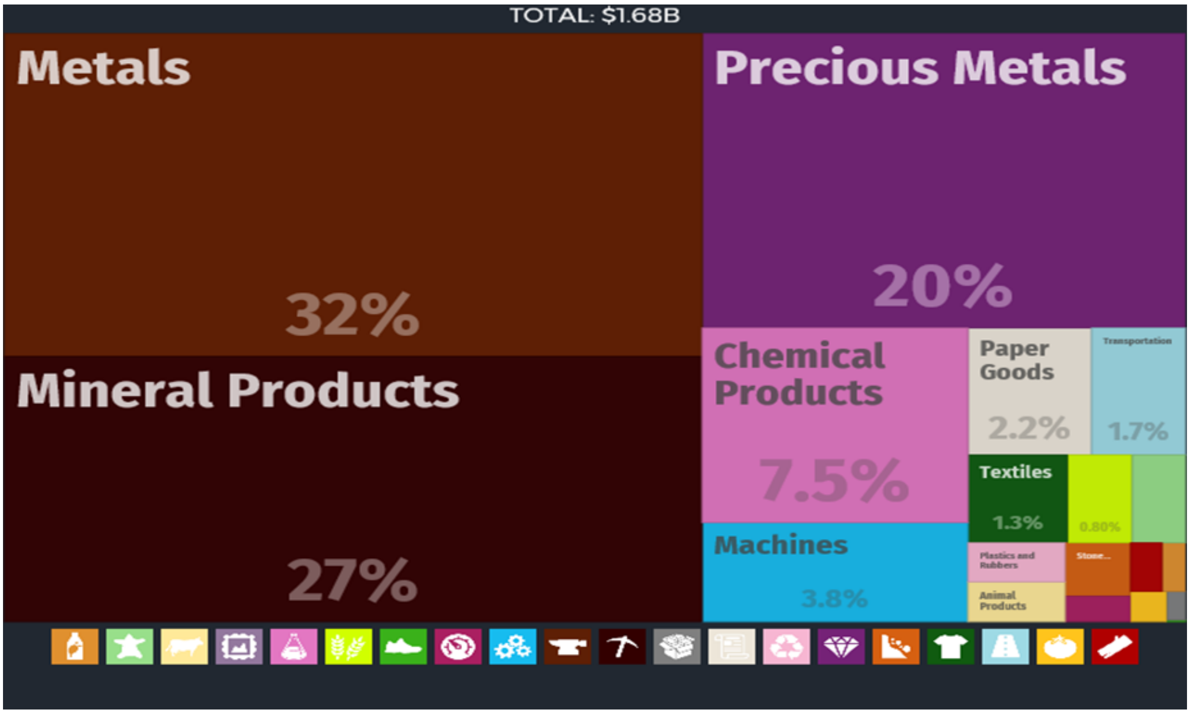


Source: OEC, 2017

Figure 4.3: China's exports with South Africa (2004)

221 "What does South Africa import from China". http://atlas.media.mit.edu/en/visualize/tree_map/sitc/import/zaf/chn/show/2004/ accessed August 15, 2017, OEC.

222 "What does South Africa export to China". http://atlas.media.mit.edu/en/visualize/tree_map/sitc/import/zaf/chn/show/2004/ accessed August 15, 2017, OEC.



Source: OEC, 2017

Figure 4.4: South Africa's exports to China (2004)

Chinese export growth to South Africa outstrips South African export growth to China. This is attributed to the shift of the trade balance in favour of China. Chinese demand for South African products was and continues to be dominated by huge demands for metal products, mineral products and precious metals, all accounting for 79 percent of SA exports to China in 2004, while Chinese exports were dominated by machinery, textiles and footwear-headwear, making up 63 percent of exports to South Africa.[223] Interestingly, the opening of South Africa's economy to China has been largely blamed for the destruction of the domestic textile industry in South Africa, with cheaper textile products from China flooding the market.[224] South African exports to the rest of world have always been dominated by resources minerals; this trajectory with China correlates with this. The huge demand for South Africa's mineral resources has largely been driven by China's own double digit growth during that period and can explain why imports demand rose close to 10 percent per year. Furthermore, what one can observe is that trade composition remained the same during this period, with value

223 "What does South Africa import from China". http://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/zaf/chn/show/2004/. OEC Accessed August 15, 2017.

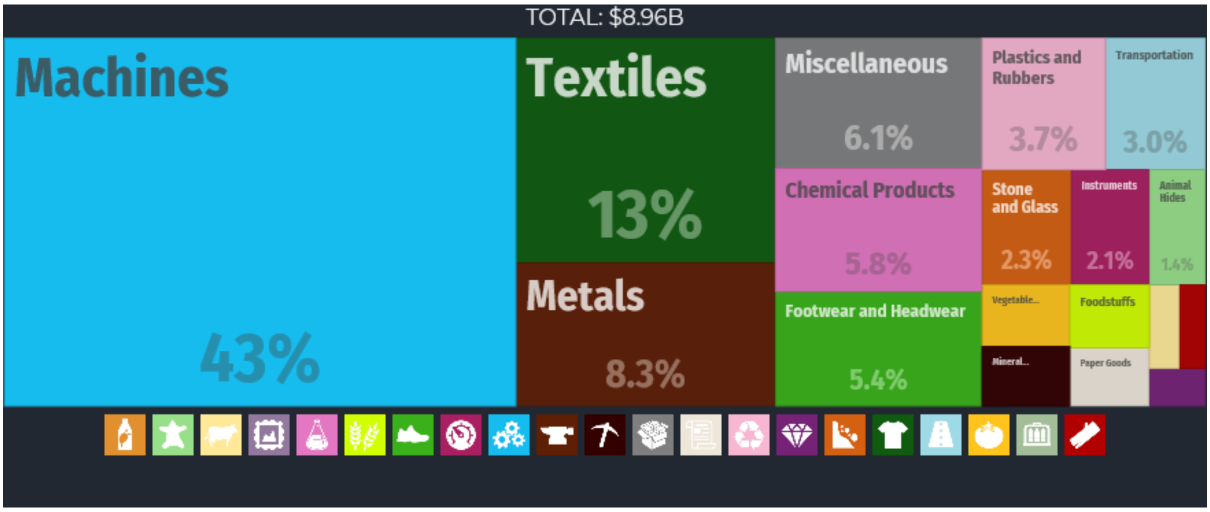
224 Ibid

added products outweighing primary goods. Value added goods will always outweigh primary goods in terms of their market price; hence, trade balance surplus tends to favour the country that exports value added goods. In this case, that would be China, while South Africa faces a trade balance deficit.

In addition, 2004 marked the year South Africa met its commitment in the Pretoria declaration, to recognise China as a market economy. In line with WTO rules, one of the criteria needed for countries to enter free trade agreements was the status of market economy. South Africa's recognition in terms of this was a critical win for Beijing commercially and politically, given that both the USA and Europe still recognised it as a non-market economy.[225] South Africa being an influential developing country could through this move motivate other developing countries to follow suit, allowing China to pursue greater access for its goods in the developing South. China viewed South Africa as not only a regional leader but also a global leader and voice for the developing South; hence, the South Africa's recognition of China as a market economy could be used to influence other developing and emerging economies to follow suit.

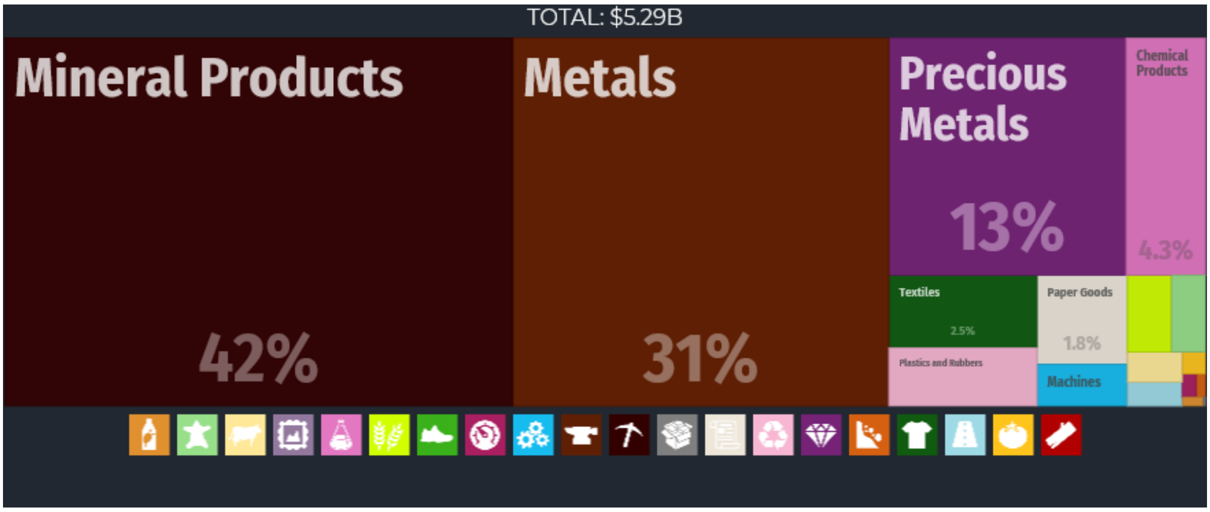
In 2006, while addressing the 14th National Congress of the South African Students Congress, President Mbeki said there was danger of entrenching such an unequal relationship between China and Africa. He argued that it was wrong that China was digging up raw materials in Africa and selling manufactured goods back to Africa. He likened this to colonial tendencies of former colonial powers. Ironically, China became an even more prominent trade partner to South Africa, while South Africa remained China's largest trade partner in Africa, accounting for 20 percent of China's trade with Africa.[226] The key reason for this trajectory was China's double-digit growth, growing demand for steel products and its growing push to expand its business influence in the developing South. The trade relations between South Africa and China espoused the criticism laid by South Africa's head of state.

225 Sausha Niadu, "South Africa's relations". 468.
226 "Mbeki warns on China-Africa ties". http://news.bbc.co.uk/2/hi/business/6178897.stm. BBC. accessed August 16, 2017.



Source: OEC, 2017

Figure 4.5: China's exports to South Africa (2009)

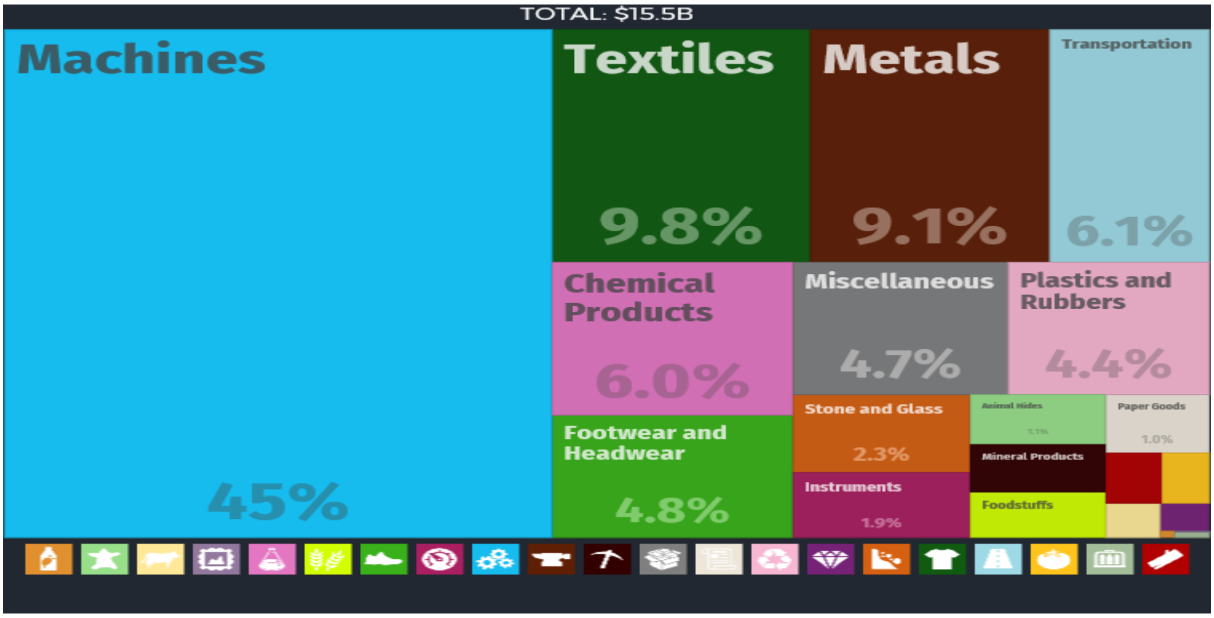


Source: OEC, 2017

Figure 4.6: South Africa's exports to China (2009)

When one examines Figures 4.5 and 4.6, which depict the trade relations between the two countries in 2009, one sees that Sino- South African trade grew to $14.3 billion. Machinery and mineral products drove the growth in trade. Trade between the two countries grew extensively by 62 percent when one compares trade in 2009 to 2004, representing an annual average growth rate of 12.4 percent. Chinese exports to South Africa grew by 11.8 percent, while South African exports to China grew by 13.7

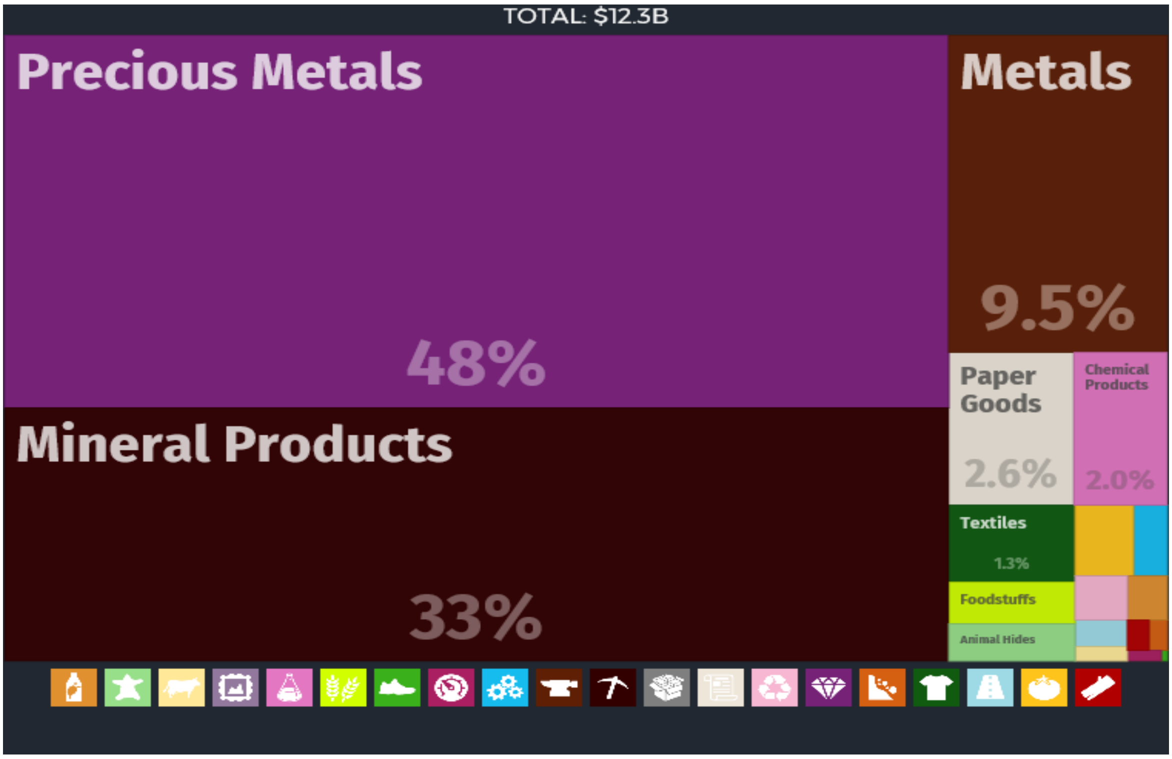
percent.[227] While Chinese exports slowed down during these five years, South African exports to China grew. One of the reasons for the higher growth in South African exports to China was greater demand for resources by China, which benefitted South Africa. China rose to be South Africa's largest trade partner and China became a leading destination for South Africa's export products. On the other hand, South Africa became the leading market for Chinese goods. Clearly, these economies seemed to have much to benefit from this relationship. South Africa could loosen its dependency on traditional Western economies, which were its traditional trade partners, while China was able to build greater relations with South Africa to advance its influence on the continent and international affairs. However, South Africa faced the challenge of exporting cheap primary goods in exchange for value added manufactured goods. The volatility of commodity prices and currency volatility meant that South Africa's economy was vulnerable of external economic factors and while it spoke of diversifying the economy, trade patterns with China made it difficult to do that.



Source: OEC, 2017

Figure 4.7: China's exports to South Africa (2015)

227 What does South Africa import from China". http://atlas.media.mit.edu/en/visualize/tree_map/hs92/import/zaf/chn/show/2009/. OEC. Accessed, August 16, 2017 and "What does South Africa export to China". http://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/zaf/chn/show/2009/. OEC. Accessed August 16. 2017.



Source: OEC, 2017

Figure 4.8: South African exports to China (2015)

Under President Jacob Zuma, South Africa's foreign policy continued to emphasise the importance of relations between South Africa and emerging powers such as China, India, Russia and Brazil. President Zuma would not share the same caution in relating with China as his predecessor.[228] The global recession meant that South Africa needed to pursue greater trade links with the developing world, as traditional trade partners, mainly the EU and USA, had been struggling to get out of the economic slump. In 2010, Zuma paid a visit to China, where the Beijing Declaration was signed.[229] The agreement called for the strategic relationship between the two states to be moved to a higher level. By this time, South Africa and China had been co-operating in various fields and sectors. China would later that year invite South Africa to join the BRIC group of the largest emerging economies, regardless of South Africa's relatively small economy and population. China perceived South Africa as being a strategic partner and economic player in Africa, and one that could help aid China's

228 "Zuma in China for state visit". http://www.fin24.com/Economy/Zuma-in-China-for-state-visit-20100823. Fin24. Accessed 16, 2017.

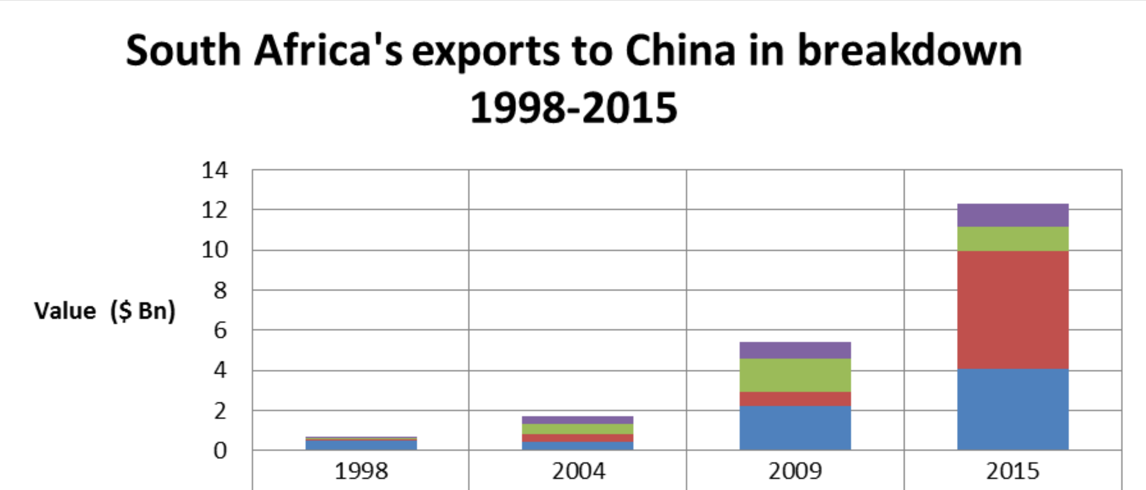
229 "Zuma in China". http://www.fin24.com/Economy/Zuma-in-China-for-state-visit-20100823. Accessed 16, 2017.

economic and political influence.[230] However, economic challenges among developed countries led to China's acknowledgement of South Africa's economy and its invitation into BRICS would help it join a powerful pantheon of nations. This highlighted the mutual need by both states to maintain strong trade links. [231]

Given this context, when one examines Sino—South African trade in 2015, one sees that trade increased to $27.8 billion (China's exports=$15.5 billion and South Africa's exports=$12.3 billion) according to figures 4.7 - 4.8. China's exports grew by 42 percent, recording the lowest growth period since the 1994-1998 periods (annual average growth rate of seven per cent).[232] The major factor has been the restructuring of the Chinese economy, which sought to turn its export driven economy into one that is consumer based, given its 1.3 billion population. Furthermore, South Africa had since the 2008 recession been experiencing low growth, which has seen a reduction in demand for imported goods. In the same light, between 2009 and 2015, South Africa's exports grew by 56.7 percent (annual average growth of 9.5%). South African exports to China also slowed when compared to the 2004-2009 period.[233] The slower growth in demand for South African goods is in line with the pace of economic growth in China, which was between nine and ten per cent. The difference in export gains between to the two countries may have seen South Africa outstrip China; however, China gained a trade surplus of $3.2 billion. The trade surplus in favour of China highlights that while both states enjoyed an extensive relationship, the bilateral trade favoured China to the detriment of South Africa, given that 90 percent (45% machinery) of Chinese exports were manufactured (value added goods), while 90.5 percent of South Africa's exports to China were primary goods (48% precious metals). Furthermore, while South Africa had a comparative advantage in the production of metal products, China exports as much metals products as South Africa did to China.

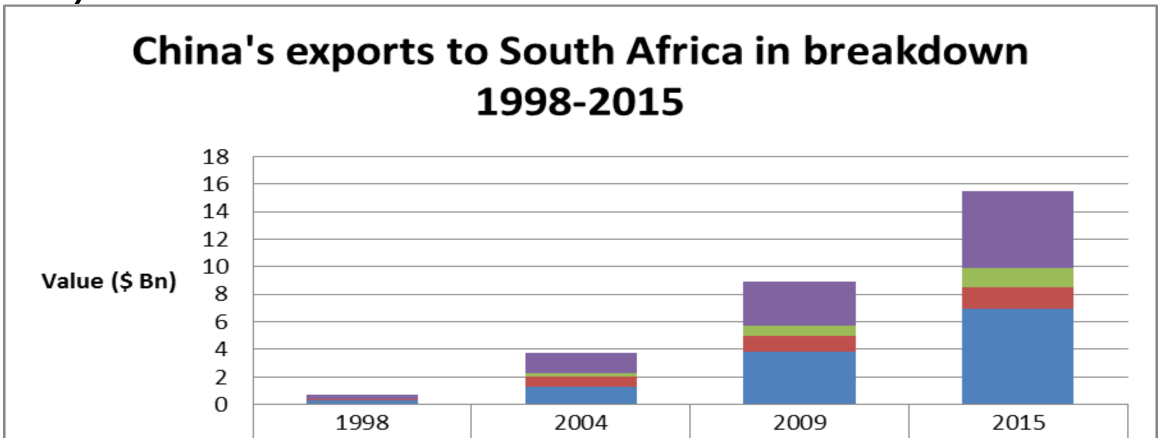
230 Ibid
231 Ibid
232 "What does South Africa import from China". http://atlas.media.mit.edu/en/visualize/tree_map/hs92/import/zaf/chn/show/2015/. OEC. Accessed August 16, 2017 and "What does South Africa export to China". http://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/zaf/chn/show/2015/. OEC. Accessed August 16, 2017.
233 Ibid

Figure 4.9: Consolidated breakdown of South Africa’s exports to China (1998-2015)



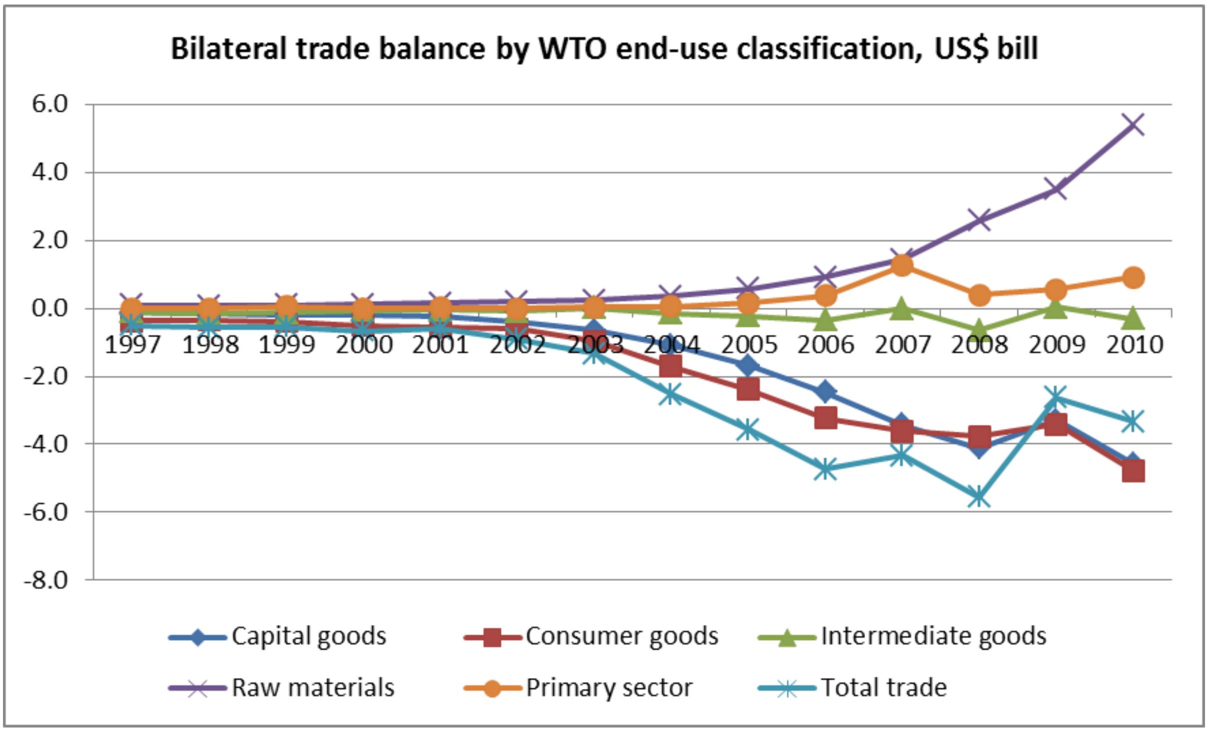
	1998	2004	2009	2015
Other	0.016	0.353	0.846	1.169
Metal products	0.035	0.538	1.64	1.169
Precious metals	0.072	0.336	0.688	5.904
Minerals	0.515	0.454	2.222	4.059

Figure 4.10: Consolidated breakdown of China’s exports to South Africa (1998-2015)



	1998	2004	2009	2015
Other	0.284	1.459	3.199	5.596
Metal products	0.013	0.216	0.744	1.411
Textiles	0.104	0.744	1.164	1.519
Machines	0.291	1.302	3.852	6.975

Figure 4.11: Sino-South Africa Bilateral trade balance



Source: UN Comtrade data. Categorization determined by World Trade Organization UN Comtrade data. Categorization determined by World Trade Organization based classification system.

Figure 4.11 highlights the bilateral trade balance between South Africa and China and how South Africa moved from having an equal trade balance with China in raw materials, capital goods, consumer goods, intermediate goods, primary sector goods and total trade early on, to a less equal one with China coming to dominate trade in capital goods, consumer goods and intermediate goods, with the exception of raw materials. When one looks at the Figure 4.11 one sees that South Africa had a strong surplus in terms of raw materials, which highlights the fact that while raw materials dominated South African exports to China, South Africa faced a growing trade deficit in consumer goods such as high technology goods and textiles from China. Even in intermediate and capital goods such as machinery needed to produce end products, South Africa faced a trade deficit. While South Africa enjoyed surpluses in the primary sector and raw materials, these were offset by China's surplus in manufacturing sector goods and highlights why total trade from 2002-2010 was skewed in favour of China.

Sino-South African trade has been marked with a mixed set of results in terms of benefits to both states. The leading criticism against South Africa's economic relations with China has been the role of the bilateral trade in the deindustrialization of the South African economy post-apartheid, the reason being the perceived flooding of Chinese manufacturing imports into the South African market.[234]

In the same light, entering diplomatic relations with China caused debates among key stakeholders in the South African economy, for example the South African sponsored free trade agreement between China and SACU drew criticism among the local business sector and the trade unions.[235] The former argued that Chinese imports were killing local businesses that could not compete with the cheap imports, while the latter argued that as an extension to that, local jobs in the manufacturing sector were being lost. China rose from South Africa's 10th largest import partner for manufactured goods, with a share of two per cent, to the dominant source of imports with a share of 18.5 percent by 2010. This was ahead of countries such as Germany, the USA and Japan.[236] Moreover, in 1995, China was the principal source of imports in just three of the 45 manufacturing industries [clothing, footwear and other manufactured goods (toys)]. This has increased since the formalization of Sino-South African trade relations. China is ranked as the principal source of imports to South Africa in 27 of the 45 manufacturing industries. In sectors including knitted and crocheted fabrics, clothing, leather and leather products, footwear, household appliances, electrical lamps, furniture and other manufacturing, China made up between 48 percent and 77 percent of total South African imports of those products. However, China has not been the dominant player in certain industries such as the agricultural and resource-based products (beverages; dairy products; other food products; printing and related services; grain milling and animal feeds; coke oven and petroleum products; meat, fish, fruit, vegetables, oils and fat; and sawmilling and paining of wood).[237] These are goods where China has a revealed comparative disadvantage in their production.

Chinese dominance in labour intensive industries has also led to concerns over China's role in the South African economy. However, just because China has been a dominant player in such industries does not necessarily mean that Chinese imports have replaced domestic production. Two reasons support this line of thinking. Firstly,

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234 Lawrence Edwards and Rhys Jenkins, "The impact of Chinese import penetration on the South African manufacturing sector". (University of Cape Town: SALDRU, 2013), 2.

235 Lawrence Edwards and Rhys Jenkins, "The impact of Chinese import, 2.

236 Lawrence Edwards and Rhys Jenkins, "The impact of Chinese import, 6.

237 Lawrence Edwards and Rhys Jenkins, "The impact of Chinese import, 8.

China may have very well in many cases replaced other exporting countries' share of manufactured products.[238] Moreover, Chinese exports to South Africa having been dominated by machinery, may rather stimulate production and output growth in downstream industries.[239]

Interestingly, Chinese imports have been blamed for the rapid decline in manufacturing jobs, due to cheaper Chinese goods dumped in the South African market. Data collected by Stats South Africa and UN Comtrade shows that during 1992-2001, China contributed only 14 percent of job losses due to import penetration. However, between the years 2001-2010, China contributed to 70 percent of the South African job losses in the manufacturing sector due to import penetration.[240] The loss of jobs as a result of import penetration during the 2001-2010 periods stood at 110,318, while jobs lost due to productivity growth as a result of new technology and innovation, stood at 226,124. Jobs losses to productivity growth were just more than double those caused by import penetration (three times that caused by Chinese imports).[241] On the other hand, South Africa only managed to create 9,951 jobs in the 2001-2010 period, due to exports to the rest of the world, of which 41 percent were due to exports to China. Sino-South African net employment stood at 73,671 losses in jobs, which again is only around a third of jobs losses due to productivity growth that has seen more capital intensive production increase as labour intensive activities decrease.[242]

It is not difficult to see why political players in South Africa have been skeptical about Sino-South African trade relations. However, the above paragraph highlights that the factors influencing South African job losses are more complex than just simply apportioning blame to doing business with China. The composition of trade may highlight an unequal trade relation, but can one really attribute that to Chinese imports?

238 Ibid

239 Ibid

240 UN Comtrade data. Categorization determined by World Trade Organization UN Comtrade data. Categorization determined by World Trade Organization based classification system.

241 Lawrence Edwards and Rhys Jenkins, "The impact of Chinese import,10.

242 Ibid.

4.2.2.1. Balassa Index: Revealed Comparative Advantage

As noted in Chapter One, David Ricardo's theory of comparative advantage states that countries must produce and export those goods for which they have a comparative advantage in the production process, and import those goods for which they have a comparative disadvantage.[243] In other words, countries must sell the goods that costs less to make, and buy the product that costs the most to produce in comparison to another country. Liberals state that trade is therefore a positive sum game because the specialization allows countries to sell what they are good at producing and use that income to buy goods that they do not have the comparative advantage to produce. The author will analyse this phenomenon of export Revealed Comparative Advantage (RCA) advanced by Béla Balassa and Mark Noland called the Balassa Index. In simple terms, it is the revealed comparative advantage an index uses to calculate the relative advantage or disadvantage of a certain country in a certain class of goods or services as evidenced by trade flows. The index is based on the Ricardian comparative advantage concept.[244]

Leaders of both China and South Africa have argued that given their comparative advantages in the sectors they specialize in, theirs is a relationship that is mutually beneficial. This against the criticism laid by certain sections in South Africa who argue that China is dumping cheap goods and exporting far beyond its fair share of goods and that is hindering the development of value added industries in South Africa. One will thus examine this debate using the Balassa index in order to test how empirically true this criticism is. [245]

Basic formula

RCA=industry's % of China or SA total export**/**% of industry's global total exports

A comparative advantage is "revealed" if RCA>1. If the RCA is less than unity, the country is said to have a comparative disadvantage in the production of that commodity. The information one would need to calculate this is the percentage

243 Elsa Leromain and Gianluca Orefice, "New Revealed Comparative Advantage Index: Dataset and Empirical Distribution.". (CEPII, 2012), 7.
244 Elsa Leromain and Gianluca Orefice, "New Revealed Comparative advantage", 7.
245 UN Comtrade data. Categorization determined by World Trade Organization UN Comtrade data. Categorization determined by World Trade Organization based classification system.

contribution that industry contributes to total exports.[246] Secondly, one would need to know the percentage contribution of the product in terms of global trade flows in order to determine the Revealed Comparative Advantage a country has in the production of that product. This will now be applied to China and South Africa's top three export industries (2004, 2009, and 2015) to see what it will reveal about their bilateral trade relations.[247]

In 2004, China's exports totaled $749 billion, with machinery constituting 44% of its exports, followed by textiles and miscellaneous manufactured goods (14% and 8.6% respectively). In 2004, machinery constituted 40% of the global trade flows, with China contributing $326 billion in machinery exports. China's revealed comparative advantage is 44/40=1.08. This means that China exported 1.08 times its fair share of machinery to the rest of the word. It has a slight revealed comparative advantage in machinery. This is due to the competiveness of the machinery industry, with other global players dominating the industry. However, in textiles and miscellaneous goods, China recorded a higher RCA than in machinery. The former represented 5.85% of global trade flows, with China exporting $102 billion worth of textile products. With textiles contributing 14% of Chinese exports while global contribution stood at 5.85%, China exported 2.39 times more than its fair share of textiles (14/5.85=2.39 RCA). China's cheap large labor force has allowed it to dominate the global textile industry, including in South Africa. The latter represented 2.25% of global trade flows. China's exports in miscellaneous goods totaled $63 billion. When one calculates its RCA, China had an RCA of 3.72. It dominated the market by exporting 3.72 times its fair share of global trade flows. [248]

This reveals that in 2004 China was moving with global trends as the world becomes more technologically advanced, with increased production of machinery and new technology. However, argument of an unfair dominance in textiles is valid given that China was exporting 2.39 times its fair share. Trade in terms of textiles became a zero-

246 Ibid
247 Ibid
248 "What does China export (2004)". http://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/chn/all/show/2004/. OEC, August 16, 2017.

sum gain, with China dominating states such as South Africa with cheaper textile exports.

On the other hand, South Africa's exports in 2004 totaled $55.5 billion, with precious metals, metals and mineral products accounting for the top 3 export industries (23%, 19% and 14%).[249] In 2004, precious metal accounted for 1.71% of global trade flows. While it constituted a small percentage of global trade flows, for South Africa it represented almost a quarter of its exports, at $12.8 billion. South Africa had a RCA of 13.4%. This asserts the dominance of South Africa in the precious metals sector, with South Africa exporting 13.4 times its "fair" share of precious metals to the rest of the world.[250] Respectively, South Africa also enjoyed an impressive revealed comparative advantage in the production of metals and mineral products. The former contributed 3.49% of totaled exports in 2004 ($10.7 billion), which was almost twice as much as metals. South Africa achieved a revealed comparative advantage of 3.72. South Africa also dominated the mineral products industry, exporting $7.8 billion worth of mineral products, while mineral products only represented 2.33% of global export flows. South Africa had a RCA of 6, which meant it exported 6 times its fair share of mineral products to the rest of the world. [251]

Interestingly, South Africa's comparative advantage in goods that it specialized in was higher than China. However, South Africa was dominating global trade flows in goods that accounted for a small percentage of global trade flows, an indication that South Africa was out of step with global trade trends, even though China's had a huge demand of resource exports from South Africa. This could explain why South Africa has continued prioritize Chinese relations.

When one observes the RCAs that both South Africa and China had in the respective industries, one can deduce how in 2004, the same composition laid out in this chapter occurs. Both countries' dominant exports were in areas which they had comparative advantage. In accordance to the Ricardian theory, it made sense for them to specialize in these sectors and trade with each other. Interestingly, China's fourth largest export

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249 "What does South Africa export (2004)". http://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/zaf/all/show/2004/. OEC, August 16, 2017.

250 Ibid

251 Ibid

product had a 1.27 revealed comparative advantage, with metals constituting 6.5% of China's exports in 2004 ($48.5 billion).[252] The RCA reveals that China had a greater comparative advantage in the production of metals than machinery, its largest export industry. Even though China had a lower RCA for metals, the value of its exports was 4.5 times that of South Africa. On the other hand, South Africa's fourth largest export industry was machinery, contributing 8.4% of its exports to the rest of the world, which South Africa had a revealed comparative disadvantage of 0.6. South Africa only sold $4.8 billion, making Chinese exports of machinery 68 times larger than South Africa's machinery exports.

In 2009, Chinese exports had grown to $1.3 trillion, representing a 73% growth. This growth was supported by exponential growth in machinery exports of $621 billion, representing 46% of exports, up by two per cent in terms of contribution to total exports to the rest of the world since 2004. The increase helped to increase its export RCA from 1.08 to 1.30. Machinery contributed 35.5%, down from 40% in 2004. The reduction in global machinery exports to global trade flow and increase in Chinese machinery contribution helped also to improve its RCA. This meant an increase in China's share of global machinery exports in 2009.[253] China's second and third largest export industries remained textiles and miscellaneous goods (13% and 7.7% respectively). Both of these goods registered a reduced contribution to Chinese exports in 2009. The former, valued at $175 billion, gave China a revealed comparative advantage of 2.40, which meant that China really had not seen a shift in its share of textiles, and remained a dominant export country.[254] The latter was valued at $105 billion, with China registering a 3.26 RCA. This was slightly down from 2004, but still saw China export more than three times its fair share in miscellaneous goods.[255]

Like 2004, China continued to export its fair share of machinery products, even though the global share of machinery fell, given a slowdown in major manufacturing economies like Germany and Italy. China continued to dominate the textile industry as

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252 bid

253 "What does China export (2009)". http://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/zaf/all/show/2009/. OEC, August, 16, 2017.

254 Ibid.

255 Ibid

demand for cheap Chinese exports were dumped into the global economy, including South Africa, strengthening the argument that Chinese's textile exports were harming local textile businesses in South Africa.

In 2009, South Africa's total exports rose to $77.3 billion, representing a 39% increase from 2004. Again precious metals dominated South Africa's exports (25% of total exports, up by 2% from 2004). South African precious metal exports were valued at $19.3 billion and it achieved a RCA of 15.5. This was an increase from 2004, with precious metal exports making up only 1.6% of global trade.[256] By 2009, mineral products replaced metals as the second largest export product, with a total value of $15.1 billion (20% of total South African exports); mineral products represented 2.1% of global trade flows, which was larger than precious metals. The mineral products share of total exports in South Africa grew by 7% and saw South Africa having a 7.11 RCA, showing that South Africa exported seven times its 'fair' share of mineral products. On the other hand, metals registered no change percentage contribution to total exports, valued at $11 billion. Metal exports in the global economy contributed 8.5% of total export flows; this was four times larger than mineral products and eight times larger than precious metals. This was driven in part by Chinese demand for metals and China's own export of metals in the global economy. However, in 2009, South Africa had lost half of its revealed comparative advantage in metal exports, with a comparative advantage of 1.83. South Africa moved from exporting 3.72 times in fair share of metal, to only 1.83 times its fair share by 2009.[257]

Some will argue that China's metal exports may have contributed to this, but judging by the fact that China only increased its RCA slightly, this may be due to other metal exporting countries increasing their exports. In 2009, one can see that China's largest export industry again was metals and South Africa fourth largest export was machinery. However, while China registered slight improvement in its metal exports RCA, South Africa regressed and saw a worsened revealed comparative disadvantage in machinery exports.[258] The growth in China exports revealed a comparative advantage. South Africa's declined RCA is significant given that China's

256 "What does South Africa export (2009)", http://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/zaf/all/show/2009/. OEC, August 16, 2017.

257 Ibid

258 Ibid

three largest exports to South Africa were metals, constituting 8.4% of exports to South Africa ($750 million). South Africa exported $1.65 billion worth of metal products to China, a $900 million trade surplus favoring South Africa. While machinery was South Africa's fourth largest global export product, it was only South Africa's seventh largest export to China at only $44.8 million. [259]

South Africa's 2009 export numbers indicate continued dominance in export markets that had seen a reduction in the share of global trade, this is understandable given the global recession of the time and its impact on global demand for commodities. However, China continued to provide South Africa with a crucial market for its resource exports. The impact of this means that even though South Africa's textile industry was negatively impacted by Chinese textile exports, South Africa's mineral exports were boosted by growing Chinese demand and that this indicates trade relations with China were beneficial in a time where global demand was weak. This period coincides with greater efforts by South Africa and China to increase cooperation in trade.

In 2015, China's economic dominance in the global economy was evident by its global export flows valued at $2.37 trillion. The role of machinery exports in China grew even further compared to 2009, from 46% to 48%, at the value of $1.13 trillion. This represented 90% growth in machinery exports to the rest of the world. The third industrial revolution, which was known as the period of mass digitalization the development of computers and information technology since the mid-1950s-2010) as shifted the value chain away from primary gods to high tech good such as machinery that has dominate the global value chain. Consequently, China has found itself as a leader in this regard, with machinery exports representing 36% of global export flows.[260] The implication of this is that China's comparative advantage improved slightly to 1.33 from 1.30 in 2009. China's second and third largest exports to the rest of the world were textiles and metal products. In terms of the textiles exports, China registered $246 billion worth of exports, representing about 10% of China's exports to the rest of the world. Textiles represented 4.6% of global exports. China had a comparative advantage of 2.02 in the production of textiles and a 1.29 comparative

259 Ibid

260 "What does China export (2015)". http://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/chn/all/show/2015/. OEC, August 16, 2017.

advantage in the exporting of metal products, which were valued at $180 billion. China has proven itself to be an efficient exporter in a variety of products, including natural resources, thus posing a challenge to countries like South Africa that depend on export products such as metal products. [261]

In contrast, South Africa had a total export of $93.7 billion, which was an increase of 21.2% from 2009. South African trade was impacted by internal economic challenges in the mining sector and reduced global demand, which has led to South Africa's struggle to return to pre-recession export growth. Precious metals contributed 32% of South Africa exports in 2015 and South Africa continued to enjoy a high level of revealed comparative advantage (13.2%). However, one must keep in mind that those South African exports are 13.2 times its fair share of precious metals, which only makes up only 2.4% of global trade. South Africa continues to dominate products in the lower value chain and this is evidence of this.[262] This is again seen when one looks at the next two largest export industries in South Africa: mining products and metals (18% and 11%). In the terms of the former, South Africa exported $17.1 billion worth of mineral products. While mineral resources counted 18% of South Africa's exports, they only accounted for 2.9% of global export flows. South Africa therefore exported 6.09 times its fair share of mineral products. However, when one looks at metal exports, South Africa exported $10.1 billion worth of metals, which, while accounting for 11% of South African trade exports, only accounted for 7% of trade higher than both precious metals and mineral goods. South Africa had a reduced RCA of 1.42, down from 1.8 in 2009. This means that by 2015, South Africa only had a slight edge over China in the production of metals.[263]

2015 export numbers in for both China and South Africa reflected the same trend when compared to 2004 and 2009. China's buoyancy in machinery production had grown given its access to cheap labour and the fall in economic growth and production in major manufacturing countries like Germany and Japan. It would continue to look to South Africa as a steady market for its goods in exchange for South African mineral exports. Interestingly, what may be seen as a structuralist relationship of exploitation

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261 "What does South Africa export (2015)". http://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/zaf/all/show/2015/. OEC, August 16, 2017.

262 Ibid

263 Ibid

could really be a relationship built on positive sum game. This is based on how Chinese demand for South Africa mineral exports helped support South African economic growth during the global recession, and on the other hand how China would benefit with gaining access to the South Africa's market for its cheap exports.

Moreover, what the RCA has revealed is that the trade relations between the two in which China exports value added goods and South Africa export primary goods is not a unique bilateral relationship, but rather reflects the two countries export production in the global economy. Thus, undue consequences of a trade balance favouring China could be due to internal structural deficiencies in South Africa that had led to its dependence on primary resources as a source of export income. It is an example of the current global trend rather than purposeful attempts of exploitation by China.

4.3. The use of investment and aid in Sino-South Africa relations

China has used its investment portfolio and its strong government business sector relations to support its ability to shape relationships that ensure mutual cooperation across the world in order to maximize its opportunities in the global market for its exports and versa visa.

4.3.1 Sino-South Africa investment flows

China and South Africa enjoy an extensive trade and investment relationship, in which a growing presence of China in South Africa and Africa at large has been met with mixed reaction.[264] However, it is undeniable that China is an important player in the African economy. This section seeks to examine FDI investment flows between China and South Africa and how this has shaped the nature of the relationship.

With the growth of China's economic profile as the second largest economy in the world and the largest country by trade volumes, its investment flows have played a critical role in increasing its economic dominance and playing a part in its economic diplomacy around the world. Since the economic reforms of 1979, China has undergone five phases of government policy and regulatory approaches that have impacted the scope of its outflow investments around the world. During 1979-1983, the Chinese government identified the use of outward investments as one of 13

264 "South Africa and China: Behind the smoke and mirrors". https://mg.co.za/article/2016-01-11-south-africa-and-china-behind-the-smoke-and-mirrors/. Mail and Guardian, February 01, 2018.

priorities that would open the Chinese economy to the rest of the world.[265] This initial period was marked by huge regulatory controls over the outward investments undertaken, with all projects (only state enterprises) being approved on a case by case basis by the State Council. By 1985, 113 state-owned enterprises had set up foreign operations. The second phase, 1984-1991, was marked by greater regulations. In 1984 and 1985, regulations were published allowing enterprises (still restricted to state-owned) to apply for permission to operate abroad, as long as they had a suitable prospective JV partner. [266]

The period of 2000-2005 marked the year of '*Zou-chu-qu*'. The slogan of 'go out' was adopted by China in 1998 and became critically important, given China had just been accepted in to the WTO.[267] The 10th Plan of 2001-2005 listed outward FDI as one of the four key issues to promote China's globalisation, resulting in further deregulation of outward flows and higher thresholds for decentralised approval. There was also additional support for enterprises, including low-interest loans and risk insurance for enterprises acquiring resources or capabilities (R&D, technology and competitiveness) abroad.

The last phase is known as the forex abundance phase, which saw the 'go out' policy being re-affirmed in the 11th Plan of 2006-2010, and given China's huge foreign exchange reserves, the cap on the aggregate outflow of FDI was removed, though the capital account remained regulated and the Yuan was not freely convertible. Project proposals were still evaluated individually.[268]

On the other hand, China has encouraged inward investment in exchange for preferential benefits *vis-à-vis* domestic firms, with special interest in extracting investments in agriculture, infrastructure and the high tech industry. Investments flows are important factors in determining export products produced by the host country, and one can see by the dominance of machinery exports, the role of high tech investment in China. When Chinese economic reforms began in 1979, one of the first laws passed was a Law on Joint Ventures (JVs) to enable inward foreign investment.

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265 Stephen Gelb, "Foreign Direct Investment Links between South Africa & China, (The EDGE Institute: Johannesburg, 2010), 3.
266 Stephen Gelb, "Foreign Direct Investment", 4.
267 Ibid
268 Ibid

JVs were encouraged in order to facilitate the transfer of technology and know-how to Chinese firms. At the same time, the first four Special Economic Zones were established, giving foreign firms preferential tax and administrative treatment. In 1986, the regulations reduced taxes and liberalised profit remittance controls. Wholly-owned subsidiaries were allowed only if they used advanced technology or exported most of their output. As a result, in 2002, JVs (including co-operative enterprises) comprised 61.5% by value and 66% by number of projects of inward FDI stocks.[269]

The Chinese government developed policies that made provision for preferential interest rates for overseas activities that achieved either one of the four types of foreign investments that were of interest to China. The first were projects that sought to cover the shortfall of resources needed in the Chinese economy, as well as projects focused on manufacturing and infrastructure, which would support Chinese exports in technology and equipment.[270] Lastly, China provided preferential interest rates for Research and Development (R&D) and projects that sought to increase Chinese competiveness in the global market. The government’s micromanagement of China’s outward investments flows has been seen as a strategic move, in which China made use of soft loans and aid in exchange for natural resources. [271]

The lack of Chinese experience in the global economy due to it being a closed economy until economic reforms in 1979, has rendered many of its domestic companies having difficulty in operating overseas due to experience, poor overseas management skills, and schizophrenic political attitudes. In relation to Africa, China has often favoured African resource based investments.[272] Given the low regulation environment in Africa, China can buy mining assets and ship in Chinese labour. On the other hand, running a manufacturing firm in the USA is more complex, given the regulations that permeate there, unlike Africa. However, what is most interesting is the level of state co-ordination of investment between government, SOEs and private companies. Many of the companies that have become leaders in China’s outward investment trajectory, find their formulation out of ministries, where government is the

269 “China Joint Ventures: The 101”, https://www.chinalawblog.com/2017/05/china-joint-ventures-the-101.html. accessed September 03, 2018, Dan Harris.

270 Stephen Gelb, “Foreign Direct Investment”, 4.

271 Ibid

272 Ibid

majority shareholder, and where the advantages often include a monopoly status and profitable government contracts.[273]

The reforms in China's own economy has made way for some private firms; however, the relationship and links with government authorities mean that many of these companies are influenced by government in terms of the kind of investment decisions they make.[274] Moreover, the Chinese government is a key supplier of capital for investment opportunities and thus is able to exercise greater say in how these companies operate. More concerning is the role of SOEs, which unlike private firms, are state-owned assets and makes up a part of state institutions. Interestingly, Chinese SOEs can be seen as political players, acting on behalf of the Chinese government in the negotiation of investment deals with other states. Given that their operations are politically determined; their push for joint venture structures in overseas investment is a government imperative, which as state institutions must pursue. Western governments such as the USA and UK have therefore often been sceptical about Chinese SOEs' roles in strategic sectors, given the role of Beijing and the fact that in 2009, it had claimed to provide about $38.2 billion (about 68%) of the total Chinese OFDI while the private enterprises accounted for only 0.6% ($345 million) of the total investment flows.[275] China's investment presence is a well-coordinated effort between government, SOEs and private companies, making doing business more complex given the inter-wielding of the public and private sector in China.[276] The role of SOEs and the coordination of government and SOE relationship highlight China's strategic economic diplomacy strategy in using economic assets such as SOE's to influence other states' positions.

On the other end, South Africa has one regulation of outward FDI: South African residents, including corporations, are still subject to exchange controls, though these have been eased extensively though very gradually since 1995.[277] The ceilings for taking capital abroad were progressively raised from R20 million ($4.3 million) in 1997 to R1 billion ($132.2 million) in 2003 and then scrapped entirely in October 2004,

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273 Ibid
274 Ibid
275 "Western critics should not be so skeptical of Belt and Road". http://www.atimes.com/western-critics-not-skeptical-belt-road/. Asia Times, accessed January 25, 2017.
276 Nargiza Salidjanova, "Going Out: An Overview of China's Outward Foreign Direct Investment".(Cape Town: USCC, 2011).
277 South African Reserve Bank, Quarterly Bulletin, various issues.

though approval was still necessary for new investments. Since 2008, approval was required only for new investments above R50 million ($7.75 million at the time) and in 2009, the threshold was raised so that at present approval is required only for new investments larger than R500 million ($59.25 million). Companies investing abroad get no direct support from government, except for risk insurance.[278]

The South African policy framework is largely laissez-faire regarding the entry per se of foreign firms – no official approval is required for foreign firms to enter the economy, except in a few sectors such as banking. Foreign investors are subject to the same laws and regulations as domestic investors. Policy interventions affecting corporate behaviour and performance are largely concerned with domestic redistributive aims and do not discriminate between domestic and foreign investors.[279] For example, all firms in the mining sector must comply with a set of licensing and royalty requirements, which affect all Greenfield operations, both domestic and foreign, while foreign entrants acquiring shares in already operating mines are unaffected. Firms must comply with Black Economic Empowerment (BEE, or affirmative action) policies and codes if they are in regulated sectors, (including mining), or are larger than a threshold size (in employment terms), or intend to bid for procurement contracts in the public sector and, increasingly, in the private sector as well. In some sectors, such as ICT, foreign firms have lobbied for and won concessions on BEE, allowing them to substitute actions such as promoting blacks into senior management or extending local procurement to black-owned suppliers, rather than extending black ownership as domestic firms are required to do.[280] This has enabled foreign investors who prefer to hold 100% ownership of subsidiaries, to maintain this position.

Given the context of both countries' investment policies and modalities, it is interesting to observe some of the key Chinese FDI outflows to South Africa. As explained below, there are fewer than 50 Chinese firms currently operating in South Africa. By far the largest in value terms is the Industrial and Commercial Bank of China (ICBC), following its acquisition in October 2007 of 20% of Standard Bank of South Africa in a deal with a reported value of $5.5billion. Next in size are six Chinese mining companies, amongst which the largest is Sinosteel, involved in two joint ventures: a 60% stake in

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278 Stephen Gelb, "Foreign Direct Investment", 6.
279 Stephen Gelb, "Foreign Direct Investment", 19.
280 Ibid

ASA Metals and a 50% holding in Tubatse Chrome. ASA Metals, a chrome mine and smelter in Limpopo province, was set up in 1997 with unknown initial investment. In mid-2008, ASA Metals' CEO claimed R4 billion assets under his control, valuing the Sinosteel stake at R2.4 billion (around $380 million).

The operation has been expanded during 2006/2007 but nonetheless - if the R4 billion claim is accurate - it seems almost certain that this operation alone had a value greater than either R340 billion or R710 million ($112 million), the value of all Chinese assets in South Africa at the end of 2005. Moreover, Tubatse Chrome is a 50:50 operation with Samancor established in late 2006, implying it would have appeared in the 2007 data for the first time. Sinosteel's stake in Tubatse reportedly cost $230 million (R1.57 billion at end-2007). This suggests that Sinosteel alone had assets in South Africa in the order of $600 million at the end of 2007.[281] Three other Chinese mining companies – Zijin, Minmetals, and Jiaquan Iron and Steel (JISCO) – made investments between December 2005 and September 2007 of $16 million, $6.5 million and $30 million respectively, a total of $52.5million in 2006, implying it would have appeared in the 2007 data for the first time. Sinosteel's stake in Tubatse reportedly cost $230 million (R1.57 billion at end-2007). This suggests that Sinosteel alone had assets in South Africa in the order of $600 million at the end of 2007. Three other Chinese mining companies – Zijin, Minmetals, and Jiaquan Iron and Steel (JISCO) – made investments between December 2005 and September 2007 of $16 million, $6.5 million and $30 million respectively, a total of $ 52.5 million. [282]

These key Chinese investments highlight three key elements. Firstly, China's key investments in South Africa have been largely in the mining sector, which speaks to the first type of projects that China is interested in funding and pursuing: projects that fill its resource gap. China's economic rise has seen an increase in its demand for natural resources. Therefore, major investments in South Africa have been about China securing access to these resources.[283] There is a correlation between China's natural resource investment focus and the fact that 90% of South African exports to China are natural resources. Furthermore, the acquisition of 20% of Standard Bank,

281 Stephen Gelb, "Foreign Direct Investment", 9.
282 Sabrina Woltmann, "Impacts of China's investments in South Africa". (Master's thesis, Aalborg University: Department of Culture and Global Studies, 2013), 43.
283 Sabrina Woltmann, "Impacts of China's investments". 43

as alluded to above, highlights the role that SOEs play in advancing China's investment profile around the world. The acquisition in key South African companies highlights the aggressive Chinese push to own assets within South Africa, and particularly create greater negotiation power through emphasizing its economic stake and importance to South Africa. However, China continues to lag behind traditional investment powers such the EU and the UK. Between 2007 and 2008, there were more than 4100 foreign companies operating in South Africa; however, Chinese companies made up just one per cent of these companies, the majority of Chinese firms being SOEs.[284]

The composition of Chinese FDIs outflow to South Africa highlights the success of China to meet its own objectives and goals in supporting the four key types of projects as identified. The main sectors are mining with more than a third (33.4%), manufacturing just under a third (27.9%), finance and business services being 27.1%, communication and transport being around 7%. [285] In 2010, the services sector contributed 36% (including financial sector representing 24% of the total); the manufacturing sector about 26% and the primary sector about 38%. While crucial investment projects remained resource-centred, China's investment portfolio in South Africa was rather diverse, with investments in construction, mining, automobile, electrical machinery and financial services. This represents also China's most competitive industries globally.

The firms are spread across all sectors, with the largest sectorial grouping in infrastructure and construction. Other sectors with five or more firms are the mining, automobile, electrical machinery and financial services sectors. The latter three will be discussed in more detail below. As discussed above, the mining companies contribute substantially in value terms to Chinese FDI in South Africa.[286] There has been much emphasis in the media and the quasi-academic literature on Chinese resource-based investment in Africa, and it is perhaps surprising that there are only six Chinese mining companies in South Africa, particularly as several dozen foreign 'junior' mining companies entered South Africa in the course of the global commodities boom

284 Ibid
285 Ibid
286 Stephen Gelb, "Foreign Direct Investment", 15.

between 2001 and early 2008. This suggests that Chinese firms may have found entry into the South African mining industry particularly difficult.[287]

Interestingly enough, when one observes China's FDI investment in South Africa, one sees that China has never entered South Africa to establish a platform for exports to developed country markets, which has been a common motive for Chinese firms seeking cheap labour resources in other developing regions. Rather, true to its perception that South Africa is a key entrance point between China and the rest of Africa, all five Chinese banks established a presence in South Africa to support trade and investment between China, South Africa and the rest of Africa, including providing services to existing (Chinese) clients, which can be understood as market-sustaining investment. Most of the remaining Chinese firms – three-quarters – appear to have entered South Africa for market-seeking purposes, selling into the domestic South African market as well as the regional Southern African market.[288]

What is interesting is even though South Africa has placed great emphasis on considering China when making decisions regarding investments; Chinese investment is rather small when compared to the EU or the UK. In 2008, Chinese investment flows accounted for 4.2% of total inflows to South Africa. This was significant in an Asian context, where its flows to South Africa made up 42%; however, Europe accounted for 77% of flows to South Africa, of which 57% was from the United Kingdom.[289] Even though developed countries are ceding more ground to Chinese exports to South Africa, they remain the most important FDI sources to South Africa and this makes it even more significant as to why South Africa would place too much emphasis on Chinese investment, when empirically, they remain less significant.

During a 2011 visit to China by South African Deputy President Kgalema Motlanthe, the China Development Bank and the Development Bank of South Africa signed a $2.5 billion agreement, as well as a Memorandum of Understanding on geological exploration and mineral resources. Motlanthe stated "the South African government is willing to remove any unnecessary obstacles to improve the investment environment for Chinese investors in South Africa." This statement is indicative of the priority that

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287 Ibid

288 Ibid

289 SA Reserve Bank, Quarterly Bulletins, various issues; data provided to author by SA Reserve Bank Research Department.

the South African government places on Chinese investment, and the core of the critique that Chinese investment comes at the expense of local production. The South African government's statement highlighted how China has been effective in using its investment muscle to influence South Africa's investment policies. However, it is still debatable given the fact that Western powers continue to dominate inward investment into South Africa. A study on the impact of Chinese investment on South African manufacturing shows that it has negatively impacted labour-intensive industries, and that the impact on employment overshadows the gains from lower producer price inflation and higher rates of investment. In fact, Chinese investment appears to have had a limited impact on South Africa's overall economy thus far and has not reduced the 25% unemployment rate. [290]

While Chinese outflow investment in South Africa is a well-debated subject, South African outflow investment into China presents some interesting observations on the balance of the bilateral investment relationship between both states. South Africa has a small presence in China, with only 32 South African companies holding investments in China.[291] However, given that about seven companies are no longer headquartered in South Africa, the number is down to 25 companies. Interestingly, while all 25 companies are JSE listed, South African companies have a greater and more successful presence in India, where 47 companies have invested and only three companies have withdrawn from the Indian market, unlike seven companies that have since withdrawn from China. This is in part due to the difficulty in doing business in China, where Chinese SOE's continue to have monopoly, unlike a more open and completive market in India.[292]

Like China, South African outflow investment has been dominated by sectors that South Africa has strong capacity in and for the most has a comparative advantage. Of the 25 companies that had investment interests in China, eight of these were in the mining sector, which represented 32% of South African investment in China.[293] Given Chinese demand for mineral resources in South Africa, investment in the Chinese

290 Ibid.
291 Stephen Gelb, "Foreign Direct Investment", 16
292 "China Goes In Circles: Another Attempt To Reform State-Owned Enterprises Doesn't Do Enough", https://www.forbes.com/sites/sarahsu/2017/06/13/china-goes-in-circles-another-attempt-to-reform-state-owned-enterprises-doesnt-do-enough/#4ca21bcd4912. Accessed September 2018, Sarah Hsu
293 Stephen Gelb, "Foreign Direct Investment", 16.

mining sector is seen as a bid to create better opportunities for South Africa to export mineral resources to China. Infrastructure, construction, finance and business services represented the other leading sectors, which the 25 companies operate in. Some of the leading companies' include SABMiller (consumer goods), Richemont (consumer services), DiData and Naspers (both IT/media), Sasol (materials) and Barloworld (machinery).[294]

Interestingly, like China, most South African companies entered China from 2000-2005 (50%). This period is marked by greater diplomatic and trade relations, with China-South Africa trade relations being the largest in Africa during that period.[295] However, there has been a slowdown in new entrance into China; this has largely been due to of the global financial crises pushing South African companies to focus on their African business interests rather than expanding into other markets. Moreover, while China has been blamed for impacting South Africa's labour demand, South African companies have invested in China to exploit its cheap labour in order of expand their tobacco interests internationally. It was both labour seeking and market seeking. This has normally been the trend with many global manufacturing companies moving their production lines to China to exploit the cheap labour.[296] Richemont benefited from both China's cheap labour and its market size and since 1992, it has established a successful expansion of its business interests with 250 sales points in 41 cities in China. However, SAB that has been the most significant South African player in the Chinese economy. What began as a joint venture has led to it becoming the second largest brewery in China. Other examples of South Africa's presence in China are Dimension Data, also known as DiData, which entered China in 1997 through its acquisition of Datacraft, an Australian company with Chinese interests, and Exxaro, which established port facilities for the unloading of iron ore from South Africa.[297]

While gathering knowledge of the type of companies that have entered the Chinese economy, it is key to look at how the mode of entry can present key insights into whether the economic benefits of the Sino-South African diplomatic relations are one sided or mutually beneficial. This is because the type of policies adopted by a host

294 Ibid
295 Ibid
296 Ibid
297 Ibid

country could limit the mode of entry options opened to prospective investors. For example, China limits the entry of wholly-owned subsidiaries in certain circumstances and South Africa's BEE regulations gave strong incentives and still do for foreign investors to seek out joint ventures as a mode of entry into South Africa.[298]

When one analyses data on Chinese entrance into South Africa, one notices that 31% of companies that entered South Africa did that through Greenfield investment. This was particularly high after 2001, and represented a jobs and skills transfer advantage to the South African market. However, 45% of the entrances were through either partial or full acquisition of South Africa companies. Key reasons held by Chinese firms were the need to build local business networks, which they believe would aid the effectiveness of their South African operations.[299]

On the other hand, South African firms in China were equally divided between Greenfield investment, acquisition and joint ventures on the other hand. Interestingly, 12 of 17 Greenfield entrances were in the financial services and infrastructure sector, in a bid for both market seeking and market sustaining objectives. While those in the mining sector sought joint ventures rather than Greenfield, which is common for companies investing in China, overall it has been said that China is a difficult market to enter. In spite of this, South African firms have been able to diversify their mode of entrance and the sectors in which they invest. Moreover, companies doing business in China are able to manage the economic complexities of doing business in China.

Chinese economic diplomacy in South Africa has really been well coordinated given the heightened political interests. The next section examines how this relationship may have influenced South Africa's political position on domestic and international issues.

4.3.2 Chinese AID to South Africa

China's use of financial aid in Africa consists of grants, zero-interest loans, debt relief, and concessional loans (which would all qualify as Official Development Aid (ODA) as well as preferential export credits, market-rate export buyers' credits, and commercial loans from Chinese banks, none of which would qualify as ODA in the traditional sense.[300] China also provides equity funds that assist Chinese companies investing in

298 Ibid
299 Ibid
300 Deborah Brautigam, "Chinese Development Aid in Africa What, where, why, and how much?" Rising China: Global Challenges and Opportunities, 206.

Africa through the China–Africa Development Fund, and has established a fund to on-lend up to US$1 billion to African small and medium enterprises (SMEs) through local African banks, highlighting that China's development aid has often been in line to support its own investment and trade interests. While the China–Africa Development Fund, as support for China's own companies, does not qualify as ODA, the finance for SMEs could qualify if it was provided on appropriate concessional terms.[301]

One way in which China is shaping out its influence in the African continent is through its infrastructure investments on the continent. Many of these investments are supported by grants and loans to governments or 'soft loans' to enterprises from China's development banks.[302] The support of the Chinese government has led to several large projects being implemented by Chinese players, since they have unique financial possibilities. Furthermore, it is claimed that they would invest in more risky projects and focus on long-term agreements with their national affiliates.[303] Given China's appetite to support infrastructure inspiration on the continent, the South African government has worked hard to increase bilateral relations in several dimensions, and political choices have often been aimed at increasing China's investments. South Africa plans to invest have given greater focus to infrastructure, energy and manufacturing, which are expected to generate new opportunities for foreign firms. New taxation regulations were announced, and all this should have been stimulating for the Chinese investors given that these regulations still stand to this day.[304] Besides, it is stated that the grouping of the BRICS (Brazil, Russia, India, China and South Africa) facilitated investment, and the statement of the Industrial and Commercial Bank of China to invest in local renewable energy projects was claimed as political win for the South African government.[305]

South Africa, unlike the rest of the continent, does not rank high in states that receive aid from China, given its level of development in comparison to the rest of the continent. However, China's aid to South Africa has been through the use of the China

301 Deborah Brautigam, "Chinese Development Aid in Africa What" 207
302 Sabrina Woltmann, "Impacts of China's investments". 44.
303 Ibid
304 Theodore. Moran, 2005. "How Does FDI Affect Host Country Development? Using Industry Case Studies to Make Reliable Generalizations". In: Moran T.H. E.M. Graham. & M. Blomstrom (eds.) *Does Foreign Direct Investment Promote Development?* (Washington, USA: Peterson Institute for International Economics, 2005),28.
305 T. Moran, 2005. "How Does FDI Affect Host Country, 28

Development Bank (CDB) in the form of official loans at commercial rates. The CDB, which used to operate exclusively in China, has now expanded its operations overseas, with a substantial African footprint.[306] The CDB has financed over 30 projects at the value of $1 billion. In September 2010, it committed to disburse $5.6 billion in 35 projects across 30 countries. Interestingly, the bulk of loans have gone to South Africa, Angola and Botswana. These have largely been infrastructure driven, with particular focus on the mining sector. Aid is not the dominant tool in China's economic diplomacy strategy towards South Africa, but rather highlights important sectors to China's economic interests such as mining, where it has used infrastructure project funding to support Chinese businesses operating in the South African mining industry. [307]

4.3.3 Beijing's influence on South Africa's political posture

China and South Africa have already highlighted a very important economic relationship, shaped by mutual interests and ambition in the international system. However, one cannot ignore, as examined in Chapter Three, that this relationship was defined by South Africa yielding to the economic and political prowess of its Asian counterparts by relinquishing formal relations with Taiwan in favour of recognising the PRC.[308] The economic benefits offered by China were central to its strategy to pressure South Africa to shift its foreign policy position on the Two China question. It is interesting to see how this relationship, defined by both sides as a 'strategic' partnership, has shaped understanding that a part of economic diplomacy as set out in Chapter Two, is to use economic assets and relationships to increase the cost of war and conflict.[309] Given this context and having analysed the trade and investment relationship that persist between the two emerging economies, one need to examine the political implication of Sino-South African relations, on how the latter has moved on issues of importance to China.[310]

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306 Ibid

307 Ibid

308 "ANC's National General Council (NGC) 2015 discussion document", http://www.anc.org.za/docs/umrabulo/2015/ngc_disc_docsy.pdf. African National Congress. Accessed September 10, 2017.

309 Ibid

310 Jo-Ansie van Wyk, South African Foreign Policy Review. (Johannesburg: Africa Institute of South Africa, Vol 1, 2012) 232.

Politically, the ANC and the CPC have built close ties, and leaders from the two nations meet frequently. As noted previously, the China–South Africa Bi-National Commission was established in 2000, and five committees have been set up to address diplomatic affairs, trade, education, science and technology, and defence.[311] A Strategic Dialogue, established in 2008, has met five times. China also set up a Parliamentary Regular Exchange Mechanism in 2011, making South Africa the only African country that has established one with China's National People's Congress. Controversially, the ANC has been accused of accepting donations for their election campaigns from China, with various reports since 1994 also linking funding from the governments of Nigeria, Indonesia, Saudi Arabia, the United Arab Emirates, Libya and Taiwan.[312] The ANC has declined to confirm whether it has received foreign funding sources; however, this raises significant concern over the dilution of its foreign policy interests and its ability to act independently of its funders. This is important as it presents another strand of influence by the Chinese government on South Africa's ruling party and subsequently its foreign policy trajectory, which of late has been critical of Western dominance in international affairs.[313]

Another contentious issue arose with the blocking of the Dalai Lama's visits to South Africa by the South African government. It raised negative observations about China's influence in South Africa's internal affairs. The Dalai Lama visited South Africa and met with former President Nelson Mandela in 1996; however, in the post- Mandela era, he was denied a visa in 2009 under the supposition that it would 'distract' the government from its preparations for the FIFA World Cup games in 2010.[314] Archbishop Desmond Tutu called the decision "disgraceful" and accused the authorities of bowing to pressure from China. The issue flared up again in 2011, when a decision was delayed on whether to grant the Dalai Lama a visa to attend Tutu's

311 "Full text of declaration on partnership between China and South Africa". http://english.peopledaily.com.cn/english/200004/25/eng20000425_39697.html. People's Daily. Accessed 22 September 10, 2017.

312 "Is the ANC selling out our sovereignty?", http://www.politicsweb.co.za/politicsweb/view/politicsweb/en/page71619?oid=122532&sn=Detail. Politics Web .Accessed September 11, 2017.

313 "Is the ANC selling out our sovereignty?", http://www.politicsweb.co.za/politicsweb/view/politicsweb/en/page71619?oid=122532&sn=Detail. Politics Web .Accessed September 11, 2017

314 "Dalai Lama visit to SA hangs in the balance", The Mail & Guardian,http://mg.co.za/article/2011-09-28-dalai-lama-visit-to-sa-hangs-in-the-balance. Mail & Guardian, Accessed September, 17, 2017.

80th birthday. South Africans with strong liberal democratic ideals, including Desmond Tutu and members of the opposition party, Democratic Alliance were increasingly pushing back against what was (and is) perceived as coercion from China, its most lucrative trade partner, whereas the South African government did little to dispel the accusation of bending to Chinese political pressure.[315] "The reason why the Dalai Lama wants to be here is to make a big global political statement about the 'secession' of Tibet from China and he wants to make it on the free soil of South Africa", said then Finance Minister Trevor Manuel. "We should not allow him to raise global issues that will impact on the standing of South Africa." This demonstrates the high degree of influence that China has assumed over South Africa's domestic politics, and sends a worrying signal over whether the ANC is willing to stand up to China on the international stage, or whether it prioritizes investment over political sovereignty. Tutu was particularly stern in his criticism, saying the government's action was reminiscent of the apartheid regime.[316]

The issue of the Dalai Lama would seem to indicate that China's economic assets were a major deciding factor in South Africa's decision. South Africa could not afford any conflict with China, for economic reasons. South Africa's denial of a visa to the Dalai Lama highlights the conflict of South Africa's foreign policy principles as laid out in Chapter Three. On the one hand, South Africa sought to promote human rights and pursue its economic interests. However, the two principles in this matter could not reconcile and highlight how economic relations with China had influenced South Africa's decision in a matter at the heart of human rights. South Africa, like other states that have relations with China, have had to toe the line on the Dalai Lama issue, even if they may not necessarily agree with the Chinese position on the matter.

4.4 China and South Africa cooperation in the global economy

Sino-South African relations not only highlights China's utilization of South Africa in international intergovernmental organisations to create suitable conditions for mutual relationships, but also its use to strengthen its own pursuit of national interests. This

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315 "South African minister: refusing visa to Dalai Lama "a matter between states".http://news.xinhuanet.com/english/2009-03/27/content_11085970.htm. Xinhua News Agency Accessed. September 17. 2017.

316 "Desmond Tutu attacks South African government over Dalai Lama ban". https://www.theguardian.com/world/2011/oct/04/tutu-attacks-anc-dalai-lama-visa. The Guardian. Accessed September 17, 2017.

is evident in how both states engage with each other on the global stage, where the two nations have aligned their goals and rhetoric in order to increase the power of emerging nations and to promote South–South cooperation. South Africa has earned the reputation as a ‘middle power facilitator’, by engaging in multilateral institutions, championing the rights of the developing world, and advocating sustainable development.[317] Chinese scholars claim that China prioritizes South Africa as a leading player on the African continent, as it carries heavy weight in the broader African economy, accounting for approximately 24% of Africa’s GDP. Moreover, of high priority for China’s foreign policy are South Africa’s views on national sovereign rights, its willingness to challenge the Western-dominated international order, and its wish to enhance multilateralism.[318] South Africa participates in various multilateral forums with China, including the G20, the BRICS, FOCAC and BASIC; and its multilateral behaviour is increasingly aligned with China and other developing nations. For example, in the 2015 NGC discussion document, the ANC lays out a markedly anti-Western, pro-Chinese roadmap for its international relations, defending both China and Russia against what it perceives as the ‘wrath’ of US-led Western imperialism’ and accusing the USA of exerting a ‘Cold War’ mentality.[319]

In December 2010, South African diplomats described President Hu Jintao’s invitation to join the BRIC(S) as an “early Christmas present”.[320] Media and political economy analysts went on to interpret China’s invitation as a geopolitical move driven by China’s view of South Africa as the entry point for the African continent with a strong international reputation and somewhat “irreplaceable unique advantages”.[321] With a population of 53 million and an economy 3.5% of China’s, South Africa appears to have been brought into the BRIC(S) mechanism for ideological and geopolitical reasons rather than as a global player on an equal economic footing with its peers. From the start, China used the BRIC forum to call for South–South solidarity and reform of the international and political order in order to diminish Western nations’ hold

317 Haibin Niu, “A Chinese perspective on South Africa as an emerging power: global, regional and bilateral implications”, (Centre for Chinese Studies: Stellenbosch University, 2011).

318 Haibin Niu, “A Chinese perspective on South Africa”.

319 ANC’s National General Council (NGC) 2015 discussion document’, African National Congress.

320 Ibid

321 Sven Grimm, “South Africa: BRICS member and development partner in Africa’, The China Monitor”, (Centre for Chinese Studies: Stellenbosch University, 2013),38-44

on global economic and political governance.[322] The desire to strengthen South–South relations through economic engagement, therefore, fits neatly into this construct.

Moreover, China views South Africa as a strong player in the broader African economy, accounting for 24% of Africa's GDP. China's invitation for South Africa to join BRIC(S) can therefore be viewed as a formal acknowledgment that it views South Africa as playing a leading role in Africa's economic development, and as a strong advocate in multilateral forums such as the United Nations, the International Monetary Fund (IMF) and the World Bank.[323] The two countries have also enhanced their coordination over regional investment and trade deals. South Africa holds strong leverage within the Southern African Development Community (SADC), and China is increasingly utilizing this inter-governmental organization to facilitate trade and investment, as discussed in further detail below. Africa currently hosts six of the ten fastest growing economies in the world, and the BRICS countries are increasingly engaging economically on the continent. According to Standard Bank, BRICS–Africa trade is projected to reach $530 billion in 2015. Trade facilitation is therefore a fundamental driver of South Africa's inclusion in BRIC(S).[324] China has long viewed South Africa as a key ally in its quest to redefine the global order and through the invitation of South Africa; it has pursued greater influence in Africa and the greater developing South. However, this cooperation has not been one sided, with South Africa seeking China's support in UN reform and to push the African agenda in key forums such as the G20, where both states are key players and voices for the developing South.

Sino-South Africa relations have seen the two countries co-ordinate their global responses even in the United Nations, with South Africa's voting patterns in the United Nations showing that it stands with China and Russia, rather than the USA, which it closely aligned with during the apartheid era.[325] During the period 1994–2008, South Africa voted in accordance with the following four goals, which it touted as the pillars

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322 Alison Bradley, "China and South Africa". 8.

323 Sven Grimm, "South Africa" 38–44.

324 Ibid.

325 "Address by Deputy Minister Fransman at a reception hosted by the Human Rights Watch on the theme: South Africa at the African Union—the future of African integration and South Africa's Foreign Policy", (2012), available at: http://www.dirco.gov.za/docs/speeches/2012/frans1017.html. Department of International Relations and Cooperation, The Republic of South Africa. Accessed September 20, 2017.

of its foreign policy: the promotion of human rights and democracy; disarmament and related non-proliferation issues; the consolidation of the African Agenda within the context of North–South relations; and reform of the UN and the promotion of equitable global governance.[326]

In 1994, the ANC government declared that it would undertake steps to "canonize human rights in our international relations".[327] Since 2006, however, South Africa has voted more consistently with China than with the USA on all issues, including human rights. In the 2006 UN General Assembly Session 61, for example, South Africa voted with China 95.6% of the time, but only 8.6% of the time with the USA. In 2008, this divide increased, with South Africa aligning with China 96.7% of the time, but only 3.7% of the time with the USA.[328] During its first tenure on the UN Security Council from 2007 to 2008, South Africa also controversially opposed the UN condemnation of human rights abuses in Myanmar and Zimbabwe; further sanctions against Iran over its nuclear program; and the inclusion of the issue of climate change on the Security Council agenda. All votes were cast in tandem with Russia and China.[329] South Africa's voting record has generated sharp criticism domestically, with Tutu describing the votes as 'a betrayal of [its] noble past'.[330] While human rights were touted as a leading value in South Africa's post-apartheid foreign policy, South Africa placed greater emphasis on economic pragmatism. This highlighted the conflict of the various driving pillars of South Africa's foreign policy, as examined in chapter three.

While there has been clear co-operation between China and South Africa, the influence has not only been one-sided. South Africa has managed to effectively advocate for the African agenda in its relationship with China and in the BRICS forum.[331] South Africa has done this by including more African countries in the discussion held at BRICS summits such as the one in 2014 in Durban, which had a particular focus on Africa. Moreover, the regional office of the BRICS bank is hosted

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326 Suzanne Graham, "South Africa's Voting Behaviour in the United Nations, 1994–2008," (Ph.D. dissertation, University of Johannesburg, 2013)

327 Ibid

328 "South Africa's Janus-faced foreign policy", Think Africa Presshttp://thinkafricapress.com/south-africa/janus-faced-foreign-policy. Think Africa Press. Accessed 15 September, 20 2017.

329 Ibid

330 Ibid

331331 "SA's Brics summit opportunity", https://www.iol.co.za/news/opinion/sas-brics-summit-opportunity-13068317. Accessed September 03, 2018, Shannon Ebrahim.

in South Africa and will have a key role in rolling out infrastructure funding to African countries. South Africa has been influential in driving its Africa-centric foreign policy in BRICS and certainly China. Moreover, beyond the economic angle, South Africa has been a leading peace-broker on the continent and has managed to put on the BRICS agenda, the importance of peacekeeping in Africa, with BRICS countries fully supporting UNSC Resolution 2033 on the close co-operation between the UN and the African Union.[332]

4.5. Conclusion

Bilaterally, the two countries have achieved a remarkable degree of engagement in 17 years of relations. The economic potential of China's influence, and the faltering South African economy, have resulted in the two governments welcoming bilateral trade with open arms. However, South Africa needs increasingly to assert its own national economic interests when receiving investment from China to avoid a new form of colonialism.[333] The Standard Bank deal and China's willingness to hire locally are both positive signs of a more equitable economic relationship; however, the South African government has only displayed a halting willingness to stand up to China in the political relationship. In the face of domestic criticism and global scrutiny, South Africa will need to assert itself more in order to place the bilateral relationship on a sustainable path, and the South African government needs to act in the interests of its domestic needs, rather than bend to the interests of foreign powers.

The central purpose of this chapter was to apply the instruments of economic diplomacy in the examination of China–South African economic relations, with particular focus on the role of Chinese trade, aid and investment flows in South Africa and the impact of this on South Africa's economic and political stances. When one examines Sino-South Africa trade relations, it is clear that while Chinese manufacturing exports may have caused some jobs losses in the South African manufacturing sector, the majority of job losses were caused by productivity changes in the South African economy. Furthermore, it was worth noting that, while Sino-South

332 South African Government welcomes UN Security Council Resolution 2033. http://www.suedafrika.org/en/politics/world-cup-newsdetails/datum/2012/01/13/south-african-government-welcomes-un-security-council-resolution-2033.html. Accessed September 02, 2018.

333 Alison Bradley, "China and South Africa: Emerging Powers in an Uncomfortable Embrace". (Routledge: Journal of Contemporary China, 2016), 7.

African trade between 1994-1998 was characterised as favouring South Africa, the formalization of diplomatic relations and the ascension of China to the WTO, bilateral relations increasingly favoured China, with the trade surplus steadily increasing as the bilateral relations matured. The formalization of China-South African relations shows how China's pursuit of formal diplomatic relations with South Africa, at the cost of South Africa-Taiwan relations, led to a deepening of economic relations, with particular reference to trade, and is an example of the aspect of economic diplomacy that espouses the use of political influence and relationship for trade and investment.

In addition, this chapter, through comparing the trade balance between the two states, observed that the composition of trade saw Chinese exports being dominated by manufactured goods, while South African exports were dominated by natural resources. South African political leaders have lauded the composition of trade as a stumbling block in relations between the two states. While China shares the concern, it defends the trade relations as being complimentary, given South Africa's abundant resources matching China's manufacturing prowess. These contending views examined the total exports of both countries to the rest of the world, with a focus on the top three exports goods, concluding that China and South Africa had a revealed comparative advantage in their respective three exports and that in accordance to liberal thinking, trade between both states was rational. However, what was concerning is that while South Africa had high revealed comparative advantage in the production of natural resources, natural resources only made up a small percentage of global trade flows from 2004-2015. China on the other hand, with smaller revealed comparative advantage in machinery and other manufactured goods, was exporting goods that dominated global trade flows. China, unlike South Africa, exports goods that are higher on the value chain and demand scale.

In relation to the use of economic assets and relationships as instruments of economic diplomacy the author analysed the investment flows between both countries. It was found that China's investment outflows to South Africa reflect a diversified portfolio, with mining being the leading industry; yet, investment in South Africa are not limited to it. Moreover, while South Africa's business presence in China is less co-ordinated between the state and private sector, China's government has been at the centre of shaping how Chinese companies have operated in the rest of the world. The synergy between the Communist Party, SOEs and private companies has been an effective diplomatic tool for China, allowing it to use political relations to further economic gains and vice visa. This co-ordination has allowed companies operating in other countries the ability to pursue aggressive expansion, often at the cost of local business and employees. However, while South Africa has placed greater emphasis on Chinese investments when shaping policy towards investments, it may be an overstated observation, with the EU making up more than 77% of FDI flows to South Africa, while China only accounts for 4%.

Moreover, the use of economic assets in pursuit of mitigating any conflict is further highlighted by the close political relations, the strong relations between the CCP and the ANC, and both countries shared view on how the global order ought to be reformed to reflect the rise of the global South. This means that South Africa has had to give more attention to cultivating a strong relationship with China, even if it has been to the detriment of its moral soft power when it comes to human rights, as illustrated by the Dalai Lama debacle, and UNSC votes. Sino-South African relations are complex given that, while South Africa has had to depend on Chinese demand for its goods, China has had to depend on South Africa for entry into Southern Africa, but also as a strategic partner in its quest to get Africa and other developing countries behind China's claim as a potential superpower. There is mutual interest in maintaining relations; yet, the modalities make the relationship less rosé than politicians may be letting on.

The final element applied in this chapter was the ability to consolidate an optimal political climate and international political economy for mutual inter-state relations. China's push for the inclusion of South Africa into the BRIC group was a pivotal example of the need to consolidate an optimal political climate and international economy, where strengthening South-South cooperation in international governance structures would help it grow its influence. China has viewed South Africa as a key ally, given its role in Africa and stature in global affairs. However, both states had shared interests, such as Bretton Woods's institution reforms, and South Africa viewed China's support for UN reforms as important. Both states have consequently voted with each other in most cases in the UN, indicating close co-ordination of positions on issues.

Both China and South Africa's economic relations have been motivated by commercial and also political interests, with both states seeing each other as key partners in the international system. The diplomatic relationship has been key for South Africa to gain access to China's market and its demand for resources to fuel its economic expansion. While China sought access to the African market through South Africa as the springboard, both countries sought their national interests in pursuit of this relationship, with trade being the catalyst of this relationship.

CHAPTER FIVE: FINDINGS AND CONCLUSION

5.1. Introduction

Throughout this study, it has become increasingly evident that Sino-South African economic and diplomatic relations, remains one of the most important examples of South-South relations, and highlights the complexities of relations between countries in the developing South; of which China and South Africa are key players. Both countries have tried to pivot a relationship based on mutual respect and cooperation. Their relationship has, however, raised questions around how equal this relationship is, especially given China's economic diplomacy strategy as the larger economic and political power between the two states in respect to trade, investment and aid.

This concluding chapter will provide a summation of the key findings of this study, which was guided by the research questions and will subsequently provide suggestions for future research.

5.2. Key Findings

This study aimed to answer the question:

Does China's economic diplomacy reflect a mutually beneficial partnership or is it a neo-colonial relationship?

In short, China's economic diplomacy with South Africa does reflect a partnership, but one whose fruits are not always mutually beneficial to South Africa.

The study was also guided by the following research sub-questions:

How, if at all, has the establishment of formal Sino-South African diplomatic relations played a role in shaping the trajectory of Chinese economic diplomacy in South Africa post-1994?

This question was addressed in Chapter Three. It was found that the establishment of Sino-South African diplomatic relations were central in shaping the trajectory of Chinese economic diplomacy as expounded upon in the subsequent chapter. The Sino-South African relational establishment was built on a contestation between South Africa's pursuit for liberty to have relations with Taiwan and the People's Republic of China simultaneously, and China's "one China" principle. The two contrasting views would not only present a stumbling block, but would provide an essential display of Chinese economic diplomacy towards South Africa under the Mandela regime.

The historical links and financial support given to liberal movements in their fight for liberation against the apartheid system was one such key tool used by China to invoke a sense of obligation by the ANC government to switch diplomatic recognition from the ROC, which had supported the apartheid government, to the PRC. This was a key diplomatic tool used by the Chinese government to sway South Africa away from its attempt of dual recognition.

In addition to this, China presented its own economic might and population size as an important market for South African exports, and made an argument that it would be an important state from which to draw investments. South Africa could not reconcile its national economic interests with the principle of universality that it used to justify relations with Taiwan. Moreover, pressure was further mounted further regarding relations with Hong Kong, which by 1997 would fall under the sovereign rule of China. This had implications for South African businesses that had export and investment interests in Hong Kong. If South Africa did not relinquish ties with Taiwan by the time Hong Kong returned to Chinese control, South Africa would lose its access to Hong Kong. China used this economic muscle as a tool, and ultimately it was central in bringing about division not only among government members, but key players such as unions, alliance partners and the business sector in South Africa. This essentially forced Mandela to recognise China by 1998, and to end diplomatic relations with Taiwan.

However, beyond just an economic rationale, there was also a political power rationale to this. South Africa noted the increase of China's influence in global affairs and South Africa sought to increase its own influence; hence, it saw alignment with China as a key foreign policy imperative towards its influence not only in the Global South, but also in international relations in general. Chapter Three highlighted the economic and foreign policy rational as the foundation in shaping the trajectory of relations, as subsequently expounded upon in Chapter Four.

How, if at all, has China's use of investments, aid and trade left South Africa more independent from or reliant on China?

This question was addressed in Chapter Three and Four, using the conceptual framework established in Chapter Two. China's usage of trade was an example of the first element of economic diplomacy, which is the use of political influence and relationships to stimulate trade and influence investment in such a way as to address market failures and mitigate the cost and risks associated with cross border economic activities. The establishment of formal Sino-South African relations ushered in close co-operation between both states. The first five years of the relationship were characterized with many high-level meetings and the creation of various bilateral structures, which would help the development of trade between China and South Africa.

Both countries saw their relationship as a natural fit, with South Africa providing much needed natural resources and China providing manufactured goods. This chapter examined trade volumes between both countries and found that trade followed this 'perfect fit'. However, given the nature of each country's exports, the trade balance favoured China. Even though demand for South African primary goods was strong and perhaps good for the mining sector, total trade analyses indicated that the Chinese dominance of value added goods versus the dominance of South African primary goods would lead one to assume that on a one-for-one value, trade would be swinging and did swing on the side of China, and this does not necessarily indicate China's undue control over trade.

However, China did become a key trade market for South Africa's key export products, given the fact that South Africa, as indicated by the use of Reveal Comparative Advantage, was a dominant player in precious metals, mineral products and metal products. All three export goods lay low in the value chain, given that they hold less than 10% of global trade. South Africa therefore depended on Chinese value of its resources. This does raise an alarming picture of possible dependency, especially given that the study highlighted that China exports its fair share of value added machinery and other manufactured goods, according to RCA, and it was rather trading in goods that were high in the value chain, with machinery having an average contribution to total global trade of 40%. The need for South Africa as key market of its goods does not stand; leaving room to argue that it seems like it was a one-sided dependency, in which South Africa was made more reliant on China. Overall, utilising the RCA revealed that there is truth to the notion that bilateral trade was complimentary, given the law of comparative advantage.

In addition to an analysis on trade, another tool used by China was investments, with a particular focus on Foreign Direct Investment (FDI). The use of FDI is an example of the second element of economic diplomacy: the use of economic assets and relationships to increase the cost of war and conflict. This study has highlighted China's investment strategy in which it pursued an investment portfolio driven by the need to create suitable demand for its exports and to help facilitate access to important imports. The key player in this strategy was the use of SOEs, which would be used to strengthen China's diplomatic muscle and meet national economic interests of the PRC. China employed the same strategy in South Africa, in which major investments in the mining sector occurred. This is not surprising given the resource gap that South African mineral and metal products helped fill. Keeping in accordance to its diplomatic strategy, China has been a key investor in the mining sector, using its economic assets to influence South African policy in terms of the mining sector, but has also using this to influence general issues that would impact China. However, as to why South Africa gives China pre-eminence is hard to understand, given that China's investments are small in relation to the USA and Europe.

On the other hand, access to Chinese assets has also been used as a tool of influence and given the co-ordination between the state and the business sector in China, South African companies have been able to operate within the close relations between the Chinese and South African governments over the years and any conflict would present a threat to South African interests, as expounded on in Chapter four.

Lastly, the final tool of economic diplomacy, the use of aid, has been used by China as an economic asset in a bid to increase the cost of war and conflict. China has not followed the conventional way of using aid. China has rather used financial aid in a bid to support its own economic interests. By using state-owned development banks, it has supported infrastructure projects in areas close to its investments or that impact its ability to transport its exports to markets. Hence, Chinese aid in the regard has been effective in South Africa in supporting its own economic interests, while also benefiting South Africa's own infrastructure goals. This, alongside trade and investments, has been an effective tool increasing the cost of conflict and ensuring strong relations in which South Africa acts in a manner that is favourable to China.

Given the nature of Sino-South African economic relations, what, if at all, are the benefits or consequences of this economic diplomacy on the political relationship between Beijing and Pretoria?

In as much as political relations have shaped economic relations, the same can possibly be said for the role that economic relations have played in shaping the trajectory of political relations between Beijing and Pretoria. The rise in importance of China as South Africa's largest trade partner and the largest investor in South Africa after the USA and the EU has some interesting impacts on shaping their political interaction over the years. Chapter Four highlighted the fact that South Africa was by the turn of the century, the only country to form a Parliamentary Regular Exchange Mechanism in 2011, which would help ensure legislative support that would make doing business easier between the two states. There was a clear economic motive to this mechanism and it highlighted the importance of bilateral economics in the shaping of closer political links. Moreover, China through the CCP, continued to support the ANC and there have been questions raised about the influence of external players on foreign policy. One indication of this has been the ANC's increased criticism of the USA and other western powers in its foreign policy rhetoric and its exaggerated praise for China's role in international affairs.

Another contentious issue has been the issue of the Dalai Lama, who intended to visit South Africa. However, given the fact that the issue of Tibet remains a thorny subject in China, China was not happy that he would be allowed. In a last-minute move, the government under the leadership of former president Kgalema Mothlante decided to reject his application for a visa, after Beijing made known its displeasure on the visit. The incident highlighted the conflict between South Africa's economic interests and its human rights objectives. Moreover, it exposed China's influence on South African domestic decision and its foreign policy.

However, beyond this, China's economic diplomacy with South Africa has helped shape closer international cohesion between the two states, which is in line with the third element of economic diplomacy, which is to consolidate optimal political climate and international political economy. South Africa and China are seen to be key players in the Global South and international affairs: China, as the largest developing economy, and South Africa as the most advanced economy in Africa. Both states have worked together in forums such as the G20, WTO, FOCAC and BASIC. Both states have the goal of increasing their role and influence in international affairs and want to successfully challenge the dominance of the USA in the global economy. This has translated into both states viewing each other as key allies in doing so. China's invitation of South Africa into the BRIC nations' forum, forming BRICS, can be seen as a bid to bring Africa into the Chinese sphere of influence, through South Africa. Moreover, it sees South Africa as a key gateway to Africa. However, unlike popular belief, this is not just one-sided and South Africa has used its strong economic and political relations with China to increase its influence in international affairs. This has been seen by the fact that South Africa is smaller than the other BRICS members. Moreover, South Africa needs China's support in its bid to be a permanent UN Security Council member. All of this can be seen as an explanation as to why South Africa has voted with China in the UN 96.7% of the time, but only 3.7% of the time with the USA, in 2008. However, whether it is because they have truly aligned their foreign policies on all the issues voted, or whether it is simply a matter of bilateral influences, remains to be uncovered, but there is a clear strategic move towards this bilateral relationship influenced by economic relations that has seen both states use one another, with the scale tilting towards China.

In conclusion, China's economic diplomacy in South Africa has rendered South Africa to some extent at risk of being used by China, especially in international relations. However, trade and investment have been critical in supporting South African export sectors and its importance in this regard cannot be ignored. The imbalance in trade as revealed in Chapter Four speaks to the issue of the nature of trade in which value added goods will always outweigh primary goods in value and so this may speak to the nature of trade rather than an intent by China to ensure this imbalance. Whether this relationship is an equal partnership or neo-colonial relationship is not clear, given that both states have used each other and are critical to the economic interests shared by both. Moreover, their political roles in the global economy means that cooperation rather than coercion are needed to drive their common agenda of achieving a multilateral global order and increased say for the developing South in international relations.

Sino-South Africa Bilateral Relations: Liberalism or Structuralism?

The fundamental tenet of structuralism has been that relationships between countries who depend on primary resources for source of wealth and those that export value added goods, is one that is based on exploitation. However, Sino-South African relations reflect more liberal principles than structuralism, given the fact the both states (in their bilateral and global trade flows) export goods in which they have a comparative advantage. South Africa benefited from Chinese demand for commodities at a time when global demand was dwindling and China benefited from South Africa in gaining access to Africa and building an effective partnership in pushing South-South cooperation.

Given the greater trade relations, cooperation increased, which liberalism argues is the natural order of trade relations and this was evident with both states partnering in international affairs through various multilateral institutions, albeit, with the agenda being very Chinese driven. It is important to acknowledge however, that even though Sino-South Africa relations do encompass an element of liberalism, their bilateral relationship has evolved since it was first instituted in 1998 and does, to some extent, encompass a core-periphery relationship, in terms of trade at least. Nevertheless, South Africa shares China's vision for a new global order.

The economic relations between both states have been more of a positive sum game, rather than a zero sum game, where China is seen as a neo-colonial 'exploiter'. It only makes sense that China being the larger country in population and economic clout would assume the lead in this relationship but South Africa has been more of a beneficiary than a casualty of China's economic power status in the global economy.

5.3. Recommendations for further study

The findings of this study suggest that while China-South African relations continue to present grey areas in which a definitive neo-colonial or equal partnership cannot be ascertained, there is perhaps a need for further exploration of how South Africa's own economic trade policies and political economic structure can assist in explaining South Africa's economic relations with China and other global powers. Moreover, while examining South Africa's own trade policies, it would be beneficial to examine South Africa's economic structure and how this has, if at all, contributed to why is has continued to trade in goods that sit at the bottom of the global value chain. Secondly, should this suggestion be taken into consideration and funding made available, it would be beneficial to conduct field research so as to attain first-hand evidence for the study.

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