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# Hong Kong – South Africa's Gateway to China

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## ABSTRACT

South Africa has responded to the rise of East Asia by building new commercial links with the region, especially with China. South Africa has sought to build a strategic partnership with the Asian giant in the hope of securing a key political ally and an economic development partner. In this context, Hong Kong has been a key economic and diplomatic link for South Africa in East Asia and is expected to remain so for the foreseeable future. The China–South Africa economic relationship has brought Hong Kong into focus as an important, and possibly the most important, gateway for South Africa’s entry to China. The purpose of this study is to investigate the importance of Hong Kong as an entry point to China, as Hong Kong is a very effective hub and logistics base with excellent access to the Chinese market. Along with a well developed business-friendly environment and the freest economy in the world, Hong Kong offers significant commercial opportunities. This research suggests that Hong Kong will remain a key gateway for South Africa to access Mainland China for at least the next ten years.

## ABOUT THE AUTHOR

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## ABBREVIATIONS AND ACRONYMS

ASEAN	Association of South-East Asian Nations
BNC	bi-national commission
BRICS	Brazil, Russia, India, China and South Africa
CPC	Communist Party of China
FDI	foreign direct investment
FOCAC	Forum on China–Africa Co-operation
FTA	Free Trade Agreement
GDP	gross domestic product
HKSAR	Hong Kong Special Administrative Region
IGD	Institute for Global Dialogue
PGD	Partnership for Growth and Development
PRC	People’s Republic of China
RMB	renminbi
ROC	Republic of China (Taiwan)
SAA	South African Airways
SACP	South African Communist Party
SAR	Special Administrative Region
SEZ	special economic zone
ZAR	South African Rand

## INTRODUCTION

Close to 40% of South Africa's international trade is currently with Asia, and economic links with this region are expected to expand rapidly as Asian development accelerates.<sup>1</sup> Within the next 5–10 years, South Africa's trade with Asia is likely to surpass trade with traditional European partners. Moreover, as global economic leadership shifts from the Atlantic to the Pacific, South Africans will increasingly need to strengthen their presence in this region. Of South Africa's top 15 trade partners, five are in East Asia: Japan, China, Taiwan, South Korea and Australia. In recent years, trade with these countries, especially China, has increased significantly, and Hong Kong is a key economic and diplomatic link for South Africa in the region.<sup>2</sup>

South Africa has sought to build a strategic partnership with China in the hope of securing a key political ally and an economic development partner. The focus has been on high-level exchanges, bi-national meetings and co-operation in multilateral forums, such as the G20, Forum on China–Africa Co-operation (FOCAC), and climate change gatherings. South Africa's aim is Chinese trade and investment, and increased minerals beneficiation and job creation. The purpose of this study is to investigate the importance of Hong Kong as an entry point to China in the context of the overall China–South Africa relationship. It also examines how South Africa might strengthen and build its commercial links with Hong Kong.

## THE IMPORTANCE OF HONG KONG

Hong Kong is a key international financial centre and a driver of global growth, providing access to China and Asia. Ranked one of the leading economies in the world, Hong Kong has a population of 7.1 million, a gross domestic product (GDP) of \$302 billion and an annual per capita income of \$42,748. In 2010 Hong Kong's inward foreign direct investment (FDI) was \$48 billion; its growth rate was 3% and unemployment rate only 5.3%. The Global Financial Sector Index regularly rates Hong Kong, alongside London and New York, as a major financial centre characterised by an outstanding business environment, excellent market access, good infrastructure, highly competitive and innovative conditions, and many financial experts and professionals.<sup>3</sup> Hong Kong is the world's seventh biggest equity market, which grew from \$412 billion in 1997 to almost \$2,700 billion in 2008. More and more enterprises from the Chinese mainland are choosing to have their shares listed and traded in Hong Kong, which is also the headquarters of over 3 600 foreign companies. The city is ideally placed to provide business intelligence, capital and essential services to companies seeking to access markets in China and the region.

Hong Kong is a model of economic development, with virtually no restrictions, limitations, or guidelines that inhibit legitimate commercial ventures; low taxation; rigorous accounting procedures; and an industrious and hardworking citizenry. Four key factors made Hong Kong's 'economic miracle' possible.

- A high level of political stability during British colonial rule, through a system of broad consent under an enlightened and skilled colonial administration.

- An economy based on a free market system, with the government contributing to the provision of public housing, transport systems, social welfare and labour regulation.
- A well-established legal system that protects individuals as well as property and contract rights and provides the foundation for entrepreneurship and economic dynamism.
- A free flow of capital through Hong Kong to the Asia–Pacific region, promoting the development of the city as a key financial centre for the region as a whole.

In 2011 the Heritage Foundation's Economic Freedom Index gave Hong Kong a rating of 89.7 (out of 100), making it the freest economy in the world. As the Heritage Foundation noted, compared to the previous year, a small decline in scores associated with government spending and labour freedom was offset by improvements in fiscal and monetary freedom, and a decline in corruption. Despite the global financial crisis, Hong Kong remains one of the world's most competitive business centres. Non-restrictive regulations ensure that business freedom and entrepreneurship is protected, and business start-ups are relatively easy, affordable and quick. The legal and regulatory framework, administrative efficiency and macroeconomic stability create the ideal environment for entrepreneurial success.

Hong Kong's free market economy is highly dependent on international trade, as natural resources are limited, and food and raw materials must be imported. Well positioned to take advantage of global economic opportunity,<sup>4</sup> Hong Kong's imports and exports (including re-exports) exceed its GDP in dollar value. Hong Kong's market is open to trade with the world, with the exception of some non-tariff barriers, such as in pharmaceutical regulations, food and energy labelling requirements and restrictions on some services. In 2009, the city's weighted average trade tariff rate was 0%. Tax rates are some of the lowest in the world, with a top corporate income tax rate of only 16.5%, while overall tax revenue as a percentage of GDP usually totals less than 15%. Low government expenditure and a balanced budget support prudent tax policies, and inflation has been below 2% in recent years. Given that the Hong Kong dollar is linked to the US dollar, Hong Kong's economy follows trends in the US and is able to take advantages of new opportunities offered by the US economy.

### **Hong Kong and China ties**

For more than a decade, Hong Kong has been Asia's second largest destination for FDI (after China) and a business hub to Mainland China, thanks to strong financial linkages and exceptional connections to suppliers in Guangdong province and other regional centres.

Even before reverting to Chinese administration on 1 July 1997, Hong Kong had extensive trade and investment ties with China. China's growing openness to the world economy has increased competitive pressure on Hong Kong's service industries and encouraged further integration of the two economies, with Hong Kong's re-export business from China becoming a major driver of growth. Table 1 confirms the importance of the Hong Kong–China commercial relationship.

**Table 1: Hong Kong–Mainland China trade and investment (\$ billion)**

	2010
Hong Kong exports to the mainland	204.9
Hong Kong imports from the mainland	196.1
Hong Kong FDI stock on the mainland	456.3
Mainland FDI stock in Hong Kong (2009)	164.5

Source: Hong Kong Census and Statistic Department for trade data, MOFCOM for investment data, HKTDC Research, Economic Forum, 21 September 2011, <http://www.hktdc.com/info/mi/a/ef/1X07MQ6O/1/Economic-Forum>, accessed 10 October 2011

Before taking over the administration of Hong Kong, the Chinese leadership took steps to ensure the city's continued economic success, introducing new administrative, political and treaty arrangements aimed at developing Hong Kong as a regional hub.<sup>5</sup> The handover of Hong Kong's sovereign rights to Mainland China was the first test of the feasibility of the 'one country, two systems' model advocated by Deng Xiaoping. Beijing has undertaken to keep Hong Kong's capitalist system and lifestyle 'unchanged' for 50 years. Both the Sino–British Joint Declaration and the Basic Law guarantee the continuation in Hong Kong of the 'one country, two systems' model and 'a high-level of autonomy'. The Basic Law provides for a political system called the Hong Kong Special Administrative Region (HKSAR). The HKSAR's patriotic executive understands the importance of balancing economic freedom, accepting China's sovereignty and maintaining a good relationship with Beijing for the continued freedom and prosperity of Hong Kong.<sup>6</sup>

The extent of Hong Kong–China trade links are detailed in Tables 2 and 3.

**Table 2: China's total trade by major trading partner in 2009**

	Value (\$ billion)	Share (%)
World	2,206	100.0
EU	364	16.5
US	298	13.5
Japan	228	10.3
Association of South-East Asian Nations (ASEAN)	212	9.6
Hong Kong	174	7.9
Korea	156	7.1
Taiwan	106	4.8
Australia	60	2.7

Source: China Customs figures HKTDC, Economic Forum, The China-ASEAN Free Trade Area (CAFTA), 8 March 2010, <http://www.hktdc.com/info/mi/a/ef/en/1X06OJ4B/1/Economic-Forum/China-ASEAN>, accessed 10 October 2011

**Table 3: Hong Kong's total trade by major trading partner in 2009**

	Value (\$ billion)	Share (%)
World	661.7	100.0
Chinese mainland	322.1	48.7
EU	66.3	10.0
ASEAN	65.3	9.9
NAFTA	60.5	9.1
US	54.8	8.3
Japan	44.3	6.7
Taiwan	29.5	4.5
South Korea	18.7	2.8

Source: Hong Kong Census & Statistics Department HKTDC, Economic Forum, The China-ASEAN Free Trade Area (CAFTA), 8 March 2010, <http://www.hktdc.com/info/mi/a/ef/en/1X06OJ4B/1/Economic-Forum/China-ASEAN>, accessed 10 October 2011

China's political leadership remains committed to the long-term stability and prosperity of Hong Kong, and the further development of the HKSAR is part of China's economic growth plan for southern and eastern China.<sup>7</sup> In August 2011, Chinese Vice-Premier Li Keqiang visited Hong Kong to announce 36 new measures to support the continued growth of Hong Kong's economy. Hong Kong is a key element in China's plans to internationalise the renminbi (RMB), which is central to the next phase of economic growth. Establishing a RMB market in Hong Kong will strengthen the city's competitiveness as an international financial centre, as will the growing asset management services, for example initial public offerings and exchange-traded funds.

Hong Kong's position as an Asian hub and logistic base, linking the global community with China and the region as a whole, is further strengthened by the planned 'mega-region' across East Asia. Taichung's (Taiwan) Mayor Jason Hu has expressed support for such a 'mega-region' that would link Taiwan, Hong Kong, and the Guangdong and Fujian provinces,<sup>8</sup> which would help to integrate Taiwan into the Chinese economy and provide a new focal point for accelerated growth and development. During a visit to Hong Kong in 2009, President Hu Jintao characterised the planned regional growth hub as linking a 'New Moon (Taiwan), the Bright Pearl (Hong Kong) and the Red Sun (Guangdong-China)' to build an economic growth driven by technical innovation, service efficiency and abundant low-cost labour. The debate on independence, or unification for Taiwan, is downplayed, focusing rather on economic integration that would bring significant and tangible benefits to all participants.<sup>9</sup> The benefits of closer economic union would become clear over time, providing for a new form of co-operation, integration and shared prosperity.<sup>10</sup>

Vice Premier Li also indicated that the service sector on the Chinese mainland will be opened up further to local businesses and professionals. These new arrangements will allow Hong Kong-based service providers better access to Mainland China, especially in the fields of banking, insurance, testing and certification, and law. China's 12<sup>th</sup> Five

Year Plan includes making greater use of services offered in Hong Kong and improving transport links between Hong Kong and the Chinese mainland. This will strengthen the China–Hong Kong Closer Economic Partnership Arrangement and attract more foreign companies to use Hong Kong as the gateway to the Chinese market. As part of Beijing's 'going out' strategy, additional support will be provided for joint ventures between companies based in Mainland China and Hong Kong. These companies will gain better access to international markets and are expected to increase efforts to establish and develop co-operative sales networks. Hong Kong's growing importance is supported not only by the strengthening of China's 'going out' strategy, but also by a growing Chinese middle class and the access to capital for FDI in other parts of the world.

However, while economic freedoms have brought significant success, political restrictions raise questions about the longer term attraction of Hong Kong as a business centre. Hong Kong is a consummate example of a *laissez-faire* economy in which businesses are allowed to thrive in an environment where the government is limited to its basic functions of maintaining law and order, guaranteeing property rights and providing basic infrastructure. For many traders and investors, long-term commercial activity could be affected adversely by the apparent political stalemate, China's delayed promise of economic reform and the lack of transparency in policymaking. A number of factors have also raised questions about China's longer term intentions. China's proposed changes to Hong Kong's education system could weaken the quality of English-speaking graduates, while systematic efforts to curtail political freedoms may have a negative economic impact.<sup>11</sup> Moreover, Beijing is supporting and promoting a number of other Chinese cities as gateways, regional hubs and entry points into the Chinese mainland market. This suggests that Hong Kong needs to be more efficient, more forward looking and more competitive than ever before to maintain its position.<sup>12</sup> Thus, if over the longer term Hong Kong's attractiveness as a gateway to China is undermined, South Africa should look at other ways of accessing the Chinese market.

## THE CHINA–SOUTH AFRICA STRATEGIC PARTNERSHIP

The People's Republic of China (PRC or China) has always supported South Africa's liberation struggle, regarding it as an integral part of the drive for national independence and political liberation of the African continent. In 1963, ANC President Oliver Tambo visited Beijing, and South African Communist Party (SACP) members have maintained close links with the Communist Party of China (CPC) for many years.<sup>13</sup> The Sino–Soviet dispute hampered China's interaction with the ANC and the SACP (leading to increased Chinese support for the Pan African Congress), but Beijing's full support for the liberation of South Africa was never in doubt.

In November 1996 the South African government decided to derecognise the Republic of China (ROC, or Taiwan) in favour of China. The decision took effect at the end of 1997 and was preceded by intense debate within South Africa.<sup>14</sup> Beijing provided the compromise by offering full diplomatic relations and no objection to full economic (but not political) relations with Taiwan. South Africa's endorsement of the 'one China' principle opened the way for full diplomatic interaction with China, while maintaining (and potentially expanding) economic links with Taiwan. South Africa accorded

diplomatic recognition to Taiwan, but maintained formal relations with Hong Kong at a consular level, enabling contact to be retained with Mainland China.<sup>15</sup> The Hong Kong link meant that South Africa could develop commercial, and later diplomatic, relations with China. Given that most African countries recognised China and not Taiwan, switching diplomatic recognition from Taiwan to China was considered inevitable.<sup>16</sup>

On 1 January 1998, a new chapter in Sino–Africa relations opened, when South Africa and China established formal diplomatic relations, bringing South Africa in line with African diplomacy.<sup>17</sup> In May 1999, Nelson Mandela was the first South African head of state to visit China. During his visit, he thanked China for its consistent support of South Africa, particularly in the struggle against apartheid.<sup>18</sup> He also spoke of the development of a mutually beneficial Sino–South African diplomatic partnership. However, much to the surprise of the international community, Mandela did not raise the issue of human rights with his Chinese hosts. Given his global standing on the issue, observers had predicted that Mandela could have made a dramatic impact by highlighting and advancing human rights issues in China. Instead, the South African Department of Foreign Affairs identified the ‘promotion of bilateral trade and investment’ as the focus of Mandela’s visit and stressed the need to improve two-way trade.<sup>19</sup>

A year later, in April 2000, President Jiang Zemin paid a state visit to South Africa where he signed the Pretoria Declaration with his counterpart President Thabo Mbeki. The ‘Pretoria Declaration on the Partnership Between the People’s Republic of China and the Republic of South Africa’ committed both countries to a ‘spirit of partnership and constructive dialogue’, united in the ‘moral imperative for developing countries to strengthen capacity for co-operation and mutual support in the international system’.<sup>20</sup> The most important outcome of the agreement was the establishment of a bi-national commission (BNC). The BNC would meet regularly to guide and co-ordinate all government-to-government relations between China and South Africa, and provide an effective consultative forum for bilateral and multilateral matters of mutual interest.<sup>21</sup> In addition, the Pretoria Declaration committed China and South Africa to a ‘constructive dialogue’, a concerted effort to expand economic links and a joint initiative to advance, peace, security and development on the African continent.<sup>22</sup> China and South Africa also signed six agreements relating to police co-operation, maritime transport, preventing the spread of deadly pathogens, animal health and quarantine, arts and culture and avoidance of double taxation. President Mbeki emphasised the need for South Africa and other developing countries to co-operate closely in international affairs with the objective of restructuring the global economic architecture – a key priority and driver of Mbeki’s foreign policy.<sup>23</sup> In response, Jiang suggested that expanding and deepening Sino–South African relations fulfilled the ‘long-term fundamental interests’ of both countries, while supporting and advancing ‘peace and global development’.<sup>24</sup> In effect, Jiang’s visit to South Africa laid the foundation for Sino–South African co-operation and policy synchronisation on the establishment of a new international economic order, which culminated in April 2011 when South Africa participated in the BRICS (Brazil, Russia, India, China, South Africa) summit.

The BNC was officially launched in mid-December 2001, during President Mbeki’s state visit to Beijing. The focus of the visit was to expand relations, including scientific and nuclear research, as South Africa was looking to the PRC both as a market and an investor. Meetings were held at ministerial and senior official level and included the ministries of foreign affairs, economics and trade, public security, judiciary, science and

technology, energy and tourism.<sup>25</sup> After the initial BNC meeting, four sectoral committees were established: on foreign affairs, economy and trade, science and technology and national defence. The BNC provides a solid framework for the further development and enhancement of bilateral China–South African relations, which is complemented by frequent high-level visits between the two countries.

As President Mbeki stressed, the launching of the bilateral commission was a ‘historic moment’ in the development of Sino–South African links and the start of a new phase of positive and constructive relations with opportunities to work together in a wide variety of areas.<sup>26</sup> Government departments from both countries have subsequently established direct channels of communication and maintain a regular and constructive dialogue.<sup>27</sup>

To date, South Africa and China have signed over 40 agreements covering a wide range of political, social and economic issues.<sup>28</sup> In June 2006, President Mbeki and Premier Wen Jiabao signed an agreement to help protect the South African textile industry from the influx of low-cost Chinese textiles. In so doing, Beijing signalled its willingness to assist a fellow country of the South in alleviating the impact of globalisation. The agreement provided the South African textile industry with a breathing space, giving local manufacturers an opportunity to modernise and restructure manufacturing processes. In addition, in 2006 China agreed to a more equitable, ‘win-win’ relationship to tackle the overall trade imbalance, which is consistently and significantly in China’s favour. Thus the South Africa–China ‘Partnership for Growth and Development’ (PGD) includes a number of measures designed to ensure a long-term balance in South Africa–China trade. The PGD’s key objective is to shift the trade structure by increasing the value of South Africa’s exports to China, focussing on mineral beneficiation and the export of manufactured and processed agricultural products, and establishing a balanced bilateral investment flow. During his state visit in September 2010, President Zuma signed an agreement to establish a ‘comprehensive strategic partnership’ between China and South Africa. The agreement provides for a unique international association intended to cement relations between Africa’s leading economy and Asia’s economic superpower. However, the PGD does not feature within this agreement, suggesting that China has backtracked on its undertaking to promote beneficiation and job creation in South Africa.

Chinese and South African common interests converge in other areas, including advancing climate change negotiations to protect the economic potential of developing nations and re-engineering the G20 agenda to reflect the needs and priorities of the South. South Africa also continues to seek China’s support for a permanent African seat on an expanded UN Security Council, although UN reform remains a complex and distant dream. In December 2001, Presidents Mbeki and Jiang identified the common foreign policy objective of a partnership to advance a new global order, which was further strengthened by Presidents Zuma and Hu in August 2010. In this context, South Africa looks to China for support in the following areas.

- Restructuring of the UN to bring strong permanent (possibly South African) representation on the UN Security Council. This is in line with the G77 and China’s UN Programme for Reform (A/51/950) and the Declaration of the Twenty-Seventh Annual Ministerial Meeting of the G77.<sup>29</sup>
- Reform of the global trading system,<sup>30</sup> as outlined by the G77 and China in Geneva on 22 August 2003. The aim is to improve access of developing countries to the markets

of developed, industrialised economies and to strengthen programmes to eradicate poverty, underdevelopment and economic vulnerability in the world's less developed countries.<sup>31</sup>

- Enhanced South-South co-operation, as outlined in the New Africa–Asia Strategic Partnership, in the spirit of the 1955 Bandung Conference's programme for African-Asian solidarity and collaboration, to address global injustice, discrimination and the marginalisation of developing countries.<sup>32</sup>
- Climate change agreement that advances development in the developing world without penalising economic progress.
- Regeneration of Africa through investment, financing and infrastructure.

South Africa has been slow to attract Chinese investors, despite Chinese business leaders seeking President Zuma's advice on new investment options and streamlining investment procedures and a flood of Chinese FDI across the continent.<sup>33</sup> Significant Chinese capital transfers would give a major boost to economic growth in Angola, the Democratic Republic of Congo, Algeria, Nigeria and Zambia.<sup>34</sup> China is also planning to establish across the continent a number of special economic zones (SEZs), which have proved to be vital in driving economic growth and eradicating poverty. South Africa is presently not seeking to establish a SEZ but continues to investigate a possible future SEZ .

As South Africa exports mainly raw materials to China, and China exports mainly manufactured goods to South Africa, a comparative advantage based on a classical Ricardian model does not exist (see Tables 4 and 5). South Africa's failure to add value to its exports to China constitutes a fundamentally flawed strategy, as in the long-term raw material stockpiles are depleted without creating a sustainable economy. In an increasingly globalised economic system, internationally competitive economies clearly have the advantage when it comes to gaining both market access and market share. China's massive and dynamic economy, with exceptionally low labour costs, contrasts starkly with South Africa's comparatively small and less efficient economic system.

**Table 4: South Africa's top 10 export sectors to China as at the end of 2009**

1	2601	Iron Ores and Concentrates, including Roasted Iron Pyrites
2	7202	Ferro-Alloys
3	2610	Chromium Ores and Concentrates
4	2602	Manganese Ores and Concentrates, including Ferruginous
5	7110	Platinum, Unwrought or Semi-Manufactured forms
6	7219	Flat-Rolled Products of Stainless Steel, of Width of 60
7	2709	Petroleum Oils and Oils Obtained from Bituminous Mineral
8	7207	Semi-Finished Products of Iron or Non-Alloy Steel
9	5101	Wool, Not Carded or Combed
10	7506	Nickel Plates, Sheets, Strip and Foil

Source: The Department of Trade and Industry, SA Global Trade, dti website, [http:// www.thedti.gov.za](http://www.thedti.gov.za), accessed 9 October 2011

**Table 5: South Africa's top ten import sectors from China at the end of 2009**

1	8517	Telephone Sets, including Telephones for Cellular Network
2	8471	Automatic Data Processing Machines & Units thereof
3	8443	Printing Machinery used for Printing by means of Plates
4	6402	Other Footwear with Outer Soles and Uppers of Rubber
5	8528	Monitors and Projectors, not incorporating Television
6	8516	Electric Instantaneous Storage Water Heaters
7	7225	Flat-Rolled Products of other Alloy Steel
8	4202	Trunks, Suit-Cases, Vanity-Cases, Executive-Cases
9	6404	Footwear with Outer Soles or Rubber, Plastics and Leather
10	6402	Women's or Girls Suits Ensembles, Jackets, Blazers, Dresses

Source: The Department of Trade and Industry, SA Global Trade, dti website, <http://> accessed 9 October 2011

A China–South Africa Free Trade Agreement (FTA) would certainly be a major boost to economic growth and prosperity in both countries. For South Africa, an FTA with China has enormous potential benefits, but the costs, risks and benefits of any agreement need first to be thoroughly investigated and formulated. From South Africa's perspective, a successful FTA will have to do more than merely facilitate participation in the highly competitive Chinese market. Rather, an FTA should provide preferential access to the Chinese domestic market along with related benefits, such as improved investment options, increased tourism and other forms of mutually beneficial co-operation. Any FTA should be based on South Africa's specific domestic and international economic objectives and developed in consultation with business leaders, commercial organisations, trade unions and public interest groups. The historic opportunity to expand trade with China should not be missed, but negotiations need to be prudent and judicious to ensure that the FTA strengthens Chinese investments. To date Chinese investments have been disappointing and focused on the mining sector, with the exception of the Standard Bank deal (see Table 6).

**Table 6: Chinese–South African investments**

Date	Chinese company	SA company/ partners	Type of business	Value (\$)
1996	Sinosteel	ASA metals	Ferrochrome mine	–
October 2006	Minmetals	Palabora Mining	Iron ore mining	3 year off-take agreement 190 million
December 2006	Sinosteel	Samancor Chrome	Chrome mine and processing	200 million

Date	Chinese company	SA company/ partners	Type of business	Value (\$)
September 2007	Minmetals	Mission Point-Vesatex	Chrome prospecting rights	6.5 million
July 2007	Jisco	International Ferro Metals	Ferrochrome producer	50% off-take agreement
February 2008	Industrial Commercial Bank of China	Standard Bank	Banking	5.5 billion
April 2009	Minmetals	Vizirama	Exploration rights	-
May 2009	Shenzhen Media	Telkom media	Television broadcasting	-
September 2009	China North Industries	Pietermaritzburg truck assembly plant (Super Group)	Automotive	-
May 2010	Jinchuan	Wesizwe Platinum	Platinum mining	877 million
June 2010	Yingli Green Energy	Mulilo Energy	Solar farm joint venture	40 million

Source: *Financial Mail*, 9 July 2010, p. 34

## HONG KONG: SOUTH AFRICA'S GATEWAY TO CHINA

South Africa's relationship with Hong Kong under British control was productive and positive, little affected by political change in Mainland China after 1949. As the saying goes 'the flag follows trade', and Hong Kong's continuing success as a business-friendly environment continues to offer excellent commercial prospects. The widespread perception is that strengthening links with Hong Kong would significantly benefit South Africa's presence both in China and the region.<sup>35</sup>

Prof Stephen Gelb's investigation of China's FDI suggests that Hong Kong is playing a role in facilitating Chinese investment into South Africa, which is becoming a more attractive destination (see Table 7).

**Table 7: Chinese outward FDI flows and stocks in 2003 and 2008**

	Flows		Stocks	
	2003	2008	2003	2008
Total (\$ billion)	2,855	55,907	33.2	184
<b>Percentage shares</b>				
<b>Asia</b>	<b>53</b>	<b>78</b>	<b>80</b>	<b>71</b>
of which Hong Kong	40.00	69.00	74.00	63.00

	Flows		Stocks	
	2003	2008	2003	2008
<b>Africa</b>	<b>3</b>	<b>10</b>	<b>1.5</b>	<b>4</b>
of which South Africa	0.31	8.60	0.14	1.66
<b>Europe</b>	<b>5</b>	<b>2</b>	<b>1.5</b>	<b>3</b>
<b>Latin America</b>	<b>36</b>	<b>7</b>	<b>14</b>	<b>18</b>
of which Cayman Islands	28.00	3.00	11.00	11.00
of which British Virgin Islands	7.00	4.00	2.00	6.00
<b>North America</b>	<b>2</b>	<b>1</b>	<b>2</b>	<b>2</b>
<b>Oceania</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>2</b>
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b>Percentage shares excluding Hong Kong, Cayman Islands and British Virgin Islands</b>				
Total (\$ billion)	0.69	13.64	4.34	37.32
<b>Percentage shares</b>				
Asia	52	36	45	41
Africa	11	40	11	21
of which South Africa	1.28	35.25	1.03	8.17
Europe	21	6	11	14
Latin America	3	1	9	4
North America	8	3	13	10
Oceania	5	14	13	10
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: MOFCOM 2008; Gelb S, 'Foreign Direct Investment Links between South Africa and China', paper for AERC, Nairobi, 2010

As Table 8 shows, China's investments into South Africa are increasing, and Hong Kong is an important conduit for investment into the Chinese market.

**Table 8: South African inward and outward FDI stocks, 2003 and 2008**

	Foreign FDI stocks in South Africa		South African FDI stocks outside South Africa	
	2003	2008	2003	2008
Total (ZAR <sup>36</sup> billion)	303,44	632,62	180,5	463,14
Total (\$ billion)	45,7	86,18	27,2	63,09
<b>Percentage shares</b>				
Asia	6.8	10.8	1.9	11.4

	Foreign FDI stocks in South Africa		South African FDI stocks outside South Africa	
	2003	2008	2003	2008
of which China	0.07	4.20	0.01	6.30
of which Hong Kong	0.01	0.20	1.39	0.13
of which India	0.06	0.13	0.02	0.08
Rest of Africa	1.5	0.8	8.8	21.8
Europe	81.0	77.8	76.1	54.8
of which UK	62.10	54.10	24.40	24.80
North and South America	10.6	10.3	9.4	7.4
Oceania	0.1	0.3	3.8	4.6
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: SA Reserve Bank, *Quarterly Bulletins*, Gelb S, 'Foreign Direct Investment Links between South Africa and China', paper for AERC, Nairobi, 2010

Since 1994, South Africa's trade with Asia has grown consistently (see Tables 9 and 10) and reflects the importance of the Hong Kong link, as well as the increasing commercial relationship with China. Developments since 1998 have not altered South Africa's view of Hong Kong as the gateway to Mainland China,<sup>37</sup> and South African traders continue to view Hong Kong as an ideal business centre from which to access Chinese market.<sup>38</sup>

**Table 9: South Africa's top 10 trading countries in 2003 and 1994 (ZAR million)**

Country	Rank 2003	Rank 1994	Total trade 2003	Total trade 1994	% Change
Germany	1	1	56,523.19	16,929.10	238.6
US	2	3	53,920.71	12,958.50	316.1
UK	3	2	46,767.27	14,900.20	213.9
Japan	4	4	42,408.65	12,051.80	251.9
China (incl. Hong Kong, Macau)	5	7	28,912.72	4,836.70	497.8
France	6	14	20,625.09	3,712.00	455.6
Saudi Arabia	7	-	16,305.99	251.10	6393.8
Netherlands	8	12	15,816.40	4,002.90	295.1
Italy	9	8	15,371.68	4,749.60	223.6
Australia	10	19	11,836.65	1,739.90	580.3

Source: Sidiropoulos E (ed.), *Apartheid Past, Renaissance Future South Africa's Foreign Policy 1994–2004*. Johannesburg: SAIIA, 2008, p. 331

**Table 10: South Africa's trade with Asia in 1994 and 2003 (ZAR million)**

Country	1994		2003		% Change
	Imports	Exports	Imports	Exports	
China	1,283.60	584.50	16,600.25	6,704.34	1147.5
Hong Kong	1,464.10	1,495.00	2,288.65	3,241.75	86.9
Japan	7,893.50	4,158.30	18,236.64	2,4172.02	251.9
Macao	2.90	6.50	5.29	72.44	726.9
Malaysia	747.70	342.80	3,019.64	1,856.42	347.1
North Korea	8.00	18.80	3.46	49.09	96.1
Philippines	84.80	166.30	516.06	273.99	214.6
Singapore	994.20	459.90	2,155.13	1,796.01	171.7
South Korea	1,079.00	1,745.30	4,184.03	4,367.34	202.8
Taiwan	2,604.00	1,871.30	4,638.44	5,033.72	116.1
Thailand	557.20	1,116.10	3,172.70	1,618.66	186.3
Vietnam	24.90	2.90	225.19	559.19	2721.5
Australia	1,073.80	666.10	6,112.77	5,723.89	580.3

Source: Sidiropoulos E (ed.), *Apartheid Past, Renaissance Future South Africa's Foreign Policy 1994–2004*. Johannesburg: SAIIA, 2008, p. 335

By 2010, China had become South Africa's biggest trade partner, especially when Taiwan, Hong Kong and Macao are included (see Table 11).

**Table 11: South Africa export trade by country (ZAR million)**

Country	2010	2009	2008
China	51,606,35	48,686,32	34,4178
Taiwan	7,242,03	6,918,22	9,405,39
Hong Kong	6,226,46	7,919,94	5,170,69
Macao	7,22	8,56	5,75

Source: The Department of Trade and Industry, SA Global Trade, <http://www.dti.gov.za> accessed 9 October 2011

The strong growth in the trade between South Africa and Hong Kong includes a large percentage of items re-exported from Hong Kong to China and other destinations in East Asia (see Table 12). As South Africa respects Hong Kong's administrative independence and China's 'one country two systems' philosophy, trade figures for Hong Kong are always quoted separately from that of China as a whole.<sup>39</sup>

**Table 12: Hong Kong trade with South Africa (\$ million)**

	2010			2011 (January–August)		
	Value	Growth (%)	Ranking	Value	Growth (%)	Ranking
Total Exports	746	25.2	34	546	14.3	34
Domestic Exports	22	10.5	25	13	-2.8	26
Re-exports	724	25.7	34	533	14.8	34
Imports	659	-12.7	30	579	43.1	29
of which re-exported	1,111	50.7	21	819	24.6	21
Total Trade	1,405	4.0	33	1,125	27.5	31
Trade Balance	87	-	-	-34	-	-

Source: Census & Statistics Department Hong Kong, HKTDC, China Business Advisory Service, 6 October 2011, at <http://www.hktdc.com/info/mi/a/mp/en/1X006513/1>, accessed 10 October 2011

A number of South African companies remain very active in Hong Kong, which is ideally suited to building commercial links with China, given its well-developed legal framework, business-friendly policies and use of English as the language of business.<sup>40</sup> A major attraction is the availability of high-quality English-speaking graduates with a knowledge of Chinese business culture and traditions.<sup>41</sup> South African companies have been able to successfully integrate into the local economy and build networks in Mainland China and the region as a whole. The openness and efficiency of the HKSAR is an ideal platform for the sale of South African gold to international buyers, as gold transactions are carried out with minimum bureaucracy.<sup>42</sup> Efficient air-links between Hong Kong and regional capitals provides business executives with easy access to other offices in the East Asian region.<sup>43</sup> Some South African companies have set up satellite offices in Beijing and Shanghai with a view to future expansion, as these cities become commercially more important.<sup>44</sup> At the same time, some South African business consultants view Beijing as the ‘political gateway’ to China and thus the ideal place to set up operations.<sup>45</sup>

**Table 13: South African companies represented in Hong Kong**

Barloworld Logistics Far East
Diamdel HK Ltd
Investec HK Proprietary Ltd
Kumba Shipping Hong Kong Ltd
Macsteel Int'l Far East Ltd
Metspan (HK) Ltd
SAB Miller

Sappi Trading Ltd
Sasfin Asia Limited
Sasol Chemical Pacific Ltd
South African Airways (SAA)
Standard Bank Asia Ltd

Source: Information provided by the South African Consulate, Hong Kong, September 2011

The South African Consulate plans to expand and strengthen the Hong Kong substructure to create more links to China and the region by:<sup>46</sup>

- consolidating business networks (strengthening of the South Africa Business Forum – Hong Kong, <http://www.sabf-hk.com>);
- empowering women (establish a new Hong Kong–South Africa Chamber of Commerce which emphasises the role of women in business);
- encouraging more academic and student exchanges;
- strengthening interaction within the South African community in the HKSAR (the Southern African Association of Hong Kong could play a role in this process);
- spreading the message of South Africa's liberation and democratisation more widely; and
- enhancing cultural links, through art, music and film.

A major disadvantage for South Africa's Hong Kong Consulate is the political limitation of the Consul General in the region. Given that Hong Kong is a SAR, South Africa's diplomats stationed there cannot undertake official activities in southern, or central China. The Hong Kong Consulate is thus restricted to advancing political and economic relations within the HKSAR only. South Africa should give some thought to an additional consulate in China with a view to improving access to the Chinese market. Some European countries have opened consulates in Chengdu to support commerce in central and western China. The Bauhinia Foundation Research Centre has predicted that within the next decade Hong Kong will find it increasingly difficult to maintain its role as intermediary with the Mainland. Some observers are predicting a 'tri-polar' development zone on the Pearl River Delta, incorporating Hong Kong, Guangzhou and Shenzhen as the key elements of a new centre of growth.<sup>47</sup> Per capita gross domestic product of Shenzhen and Guangzhou are expected to surpass that of Hong Kong within ten years. As other Chinese cities grow in size and sophistication, trade and investment flows will seek alternative entry points to China. Hong Kong will have to work harder to maintain its competitive advantage.<sup>48</sup> A forward-looking and innovative approach to the growing Chinese market should include additional South African consulates in China.<sup>49</sup> Increased South African trade with central and western China could necessitate additional representation.<sup>50</sup> Over time, these limitations may encourage South Africa to consider other key cities in China as more appropriate commercial gateways to the Chinese market, for instance those listed in Table 14 on page 20.

**Table 14: Economic indicators of the top consumer markets in 2007 (RMB)**

	<b>Total Retail Sales of Consumer Goods (RMB billion)</b>	<b>Per Capita Retail Sales of Consumer Goods</b>	<b>Per Capita GDP</b>
Shanghai	384.8	20,708	66,367
Beijing	380	23,271	58,204
Guangzhou (Guangdong)	259.5	25,831	71,808
Shenzhen (Guangdong)	191.5	22,226	79,645
Tianjin	160.4	14,383	46,122
Wuhan (Hubei)	151.8	17,040	35,582
Nanjing (Jiangsu)	138.1	18,623	53,638
Chengdu (Sichuan)	135.7	10,789	26,525
Hangzhou (Zhejiang)	129.6	16,488	52,590
Suzhou (Jiangsu)	125	14,172	91,911
Shenyang (Liaoning)	123.2	17,356	45,561
Qingdao (Shandong)	119.9	14,298	45,399
Wixi (Jiangsu)	113.5	18,939	83,923
Jinan (Shandong)	110.3	16,785	39,261
Changsha (Hunan)	103.7	16,269	33,711

Source: HKTDC, Hong Kong Trader, China's Top 30 Cities, March 2009., at <http://www.hktdc.com/info/mi/a/ef/en/1X001DU3/1/Economic-Forum>, accessed 10 October 2011

Directly linked to the question of trade and investment with Hong Kong is the issue of access and direct air routes that facilitate business and tourism. The role of the South African Airways (SAA) is important, as SAA has for many years used Hong Kong as its main link to China and Asia. Approximately 65 000 visitors to South Africa arrive from Hong Kong annually. It is uncertain how many travellers transit OR Tambo International Airport for other destinations in Africa, but the potential for tourism from China, via Hong Kong, to South Africa is clearly growing significantly. Given the positive contribution that tourism can make to job creation (an estimated one job for every seven tourists), encouraging Chinese consumers to visit South Africa is a major priority. In order to more fully explore the potential of the China route, SAA is introducing a Johannesburg–Beijing flight intended to increase visitors from northern China to South Africa. Visitors to South Africa via Hong Kong are forecasted to continue coming from Japan, South Korea and southern China, and the potential for new arrivals from northern China will be advanced by the direct flight to Beijing.<sup>51</sup>

For SAA, Hong Kong remains a critical link to the entire East Asian region and the best hub for accessing other growing markets such as Malaysia, Thailand, Indonesia, Vietnam and the Philippines. The efficiency of Hong Kong as a transit for passengers from Asia as a whole remains a major attraction, while Asian tourists seeking a final destination in South

America are increasingly looking to South Africa as a link. Total tourist arrivals to South Africa in 2010 were over eight million, with strong growth from India, China, Brazil and Nigeria. Considerable work is being done to strengthen this trend and to increase tourist arrivals. In this context, Hong Kong is expected to grow in importance over the next few years.<sup>52</sup>

## CONCLUSION: STRENGTHENING LINKS WITH HONG KONG

South Africa's foreign policy needs to be less idealistic, visionary and should focus on international relations that help to address poverty and development needs at home.<sup>53</sup> Department of International Relations and Co-operation Minister Maite Nkoana-Mashabane's 2010 Budget Vote Speech emphasised the need to develop processes and partnerships which promote the development of the continent.<sup>54</sup> The strengthening of relations with Hong Kong as the main gateway to China would promote this objective and capitalise on positive relations with China.

With a view to reinforcing South Africa–Hong Kong links, South Africa should provide additional staff and more support to the Hong Kong Consulate, as insufficient capacity and funding presently restrict the potential for expanding the Consulate's activities. Promoting a stronger South African integration into the Hong Kong business intelligence networks and information systems would enhance South Africa's corporate footprint in Hong Kong and open new commercial opportunities in both Hong Kong and Mainland China. Hong Kong's attractions include the extensive business networks and the cutting-edge research of the Hong Kong Trade Development Council. Therefore, increased corporate and official participation in business conferences, seminars and product exhibitions holds the key to being able to exploit economic opportunities in Hong Kong. Furthermore, inbound tourists, trade and investment and academic exchanges to Hong Kong would help promote contacts with the Mainland. Encouraging more academic exchanges could help in identifying new areas for co-operation, while greater two-way tourism would not only be mutually beneficial but also promote new economic possibilities and job creation opportunities in South Africa. In particular, business chambers should be expanded and political support for China–South Africa trade and investment agreements, brokered in Hong Kong be increased. The next phase of China–South Africa co-operation should be characterised by increased South African efforts to attract FDI from China, with Hong Kong playing a key role in facilitating investment agreements.

For at least the next ten years, Hong Kong will remain the most attractive and convenient gateway for South Africa to access Mainland China. Therefore, promoting a 'look East strategy' through well-established Hong Kong diplomatic and commercial links will provide economic opportunities in the East Asian region in general and China in particular. Deploying more South African representatives with economic diplomacy or trade skills could significantly enhance South Africa's presence in Hong Kong, while opening other representative offices in China would strengthen South Africa's ability to ensure a mutually beneficial outcome from the China engagement.

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