

South Africa Financial Linkages with China: A Study of South Africa's investment in Chinas Agriculture Sector

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From ancient times to the modern era agriculture is always plays an important role in the life of people and in the economy of the country. Agriculture is necessary for the survival of human being and for the sustainability of economic as well. That is why it is known as the backbone of the economy. It not only provides food and raw material but also provides employment opportunities to a very large proportion of population. In the developing countries like South Africa, the importance of agriculture sector increases even more because due to the high productions of yields these countries exports the agro products and fill their foreign exchange reserve which strength the economy of these countries as well. It also helps in cuts the import bill, thus reduces the amount imported and saving foreign exchange.

When we try to understand the importance of Agriculture sector in the context of Africa economic system, then we find that it (agriculture) plays a very crucial role in poverty alleviation and development of the continent. In most of the African countries, the agriculture sector consider the strong pillar of economy because it support the industry and manufacturing sector as well. There is also a harsh fact about Africa is that in most of the African countries people are basically involved in agricultural activities but still they are unable to produce enough food to feed themselves and their countrymen. Therefore, despite being an agro-based economy, food security is a major problem facing by African countries. But the situation of South Africa is a bit different, South Africa is a self-sufficient agricultural sector and South Africa also exports a large part of its total agricultural produce.

South Africa's Agriculture sector-

South Africa's agriculture is one of the world's most diverse, consisting of corporate and private intensive and extensive crop farming system, including vegetable, fruit, nuts and grain production. The well-developed commercial farming in South Africa is the backbone to the country's agriculture economy. Agriculture in South Africa has changed radically in recent years. Formerly, it was a highly regulated sector with subsidies and financial concessions available to farmers. But farming has been deregulated since the 1980s, and the agricultural sector is now expected to respond to free market conditions. Farmers seek the most competitive suppliers and purchasers

and are increasingly using the South African Futures Exchange to exchange futures contracts and hedge prices for their products.

South Africa, which is the most developed country of Africa, has a dual agricultural economy. “On the one hand, there is a well-developed commercial sector; on the other hand, the majority of people engaged in agriculture are involved in subsistence-oriented practices in rural areas. In the predominantly white-controlled commercial sector, applied research and improved farm management have nearly doubled agricultural production during the past 30 years. Currently, South Africa is not only self sufficient in virtually all major agricultural products but in a normal year is also a net food exporter, making it 1 of 6 countries in the world capable of exporting food on a regular basis. Because South Africa's summer harvest season coincides with winter in the Northern Hemisphere, the country is well positioned to supply agricultural goods to a number of wealthy countries in the more developed world” (South Africa – Agriculture, nationsencyclopedia)

Since its independence in 1994, the “South African economy has become more open and integrated into the global economy. This has been a result of the ending of the country's isolation and as a result of the process of trade liberalization and economic integration, commonly termed ‘globalization’” (Flatters and Stern, 2007:9). Which resulted in the past few years after 2006, the bilateral agriculture trade between China and South Africa has increased significantly. This economic relationship has been marked by numerous high-level visits between the different firms of the two countries, which mainly emphasized the importance economic linkage of their bi-lateral relationship (PMG, 2010).

Composition of South Africa's agriculture sector-

When we try to understand the composition of South African agriculture sectors, especially after the 2000, we come to know that “During 2004 agriculture, forestry, hunting and fishing contributed some 3.7% to South Africa's total GDP, agriculture employed 9.7% of employment in the formal sector (451 000), plus a similar number (459,000) of casual and seasonal workers. Agricultural exports increased from R 11.4 billion in 1997 to R 28.8 billion (roughly 4 billion USD) in 2007” (World Trade Atlas data and WTO agricultural definitions, 2008).

In recent years, especially after 2007, the South African advanced and expanded its agricultural sector further more. “South Africa's agriculture sector created 65 000 new jobs between 2009 and 2013. 12 percent of South Africa's land can be used for crop production, only 22% of this is high-potential arable land. “South Africa is one of the world's largest producers of: chicory roots (4th); grapefruit (4th); cereals (5th); green maize and maize (7th); castor oil seed (9th); pears (9th); sisal (10th); fibre crops (10th)” (FAOSTAT, 20018). “The dairy industry consists of around 4,300 milk producers providing employment for 60,000 farm workers and contributing to the livelihoods of around 40,000 others” (South Africa Online, 2006).

Therefore, China has also been focusing on importing agro products from South Africa to meet its food requirements for its huge population. In recent years, the subject of food security has become a cause of concern for China, with the objective of resolving this China allows many South African companies to invest in their country to increase food production. Therefore, apart from exporting agro products to China today, many South African companies have made extensive investments in the China agriculture sector, which is growing steadily. Today investment in Chinese agriculture sector become an important factor for strengthen the Sino-South Africa economic relationship.

Chinas massive growth in population left it in need of new agro market to feed its vast population. Consequently, China moved to the African region and more specifically to South Africa to meet its need food security. To this end, China's emerging economy appears to be associated with an increasing strengthening of its political and economic relations with sub-Saharan African countries, particularly with South Africa. At the same time, South Africa is also enjoying improved relations be it economic, political and social with China. In this paper, we will examine the need of Chinas food security and South Africa's response to the Chinese need. We also analyze the trade of agricultural products between the two countries. And finally this paper will investigate the South African investment in Chinese agriculture within the period of 2006 to 2017.

South Africa Outward Investment policy-

Before we learn about South African foreign direct investment in China, it is important for us to know the South Africa Outward investment doctrine first. "The only regulation of outward FDI is that South African residents, including corporations, are still subject to exchange controls, though these have been eased extensively though very gradually since 1995. The ceilings for taking capital abroad were progressively raised from ZAR 20 million (US\$4.3 million) in 1997 to ZAR1 billion (US\$132.2 million) in 2003 and then scrapped entirely in October 2004, though approval was still necessary for new investments. Since 2008, approval was required only for new investments above ZAR 50 million (US\$7.75 million at the time) and in 2009, the threshold was raised so that now approval is required only for new investments larger than ZAR500 million (US\$59.25 million; SA Reserve Bank, 2010: C5). Companies investing abroad get no direct support from government, except for risk insurance" (OECD 2009).

After meeting with the cooperation from the government, South African investors paid attention to foreign investment and started investing in agriculture sector in Africa, Europe, Asia, Latin America etc. that resulted in recent years; many South African companies have emerged as global brand. Due to the increasing brand value and credibility of these companies, these companies have started investing in Africa and other countries of the world. The result of investment made by these companies in other countries of the world was that "South Africa is become the second largest economy in Africa and a regional leader in southern Africa. It is also closely integrated with the global economy like United States of America and China, a specific feature that provides for further growth and

development” (Doing Business Report, 2015). These companies have also made extensive investments in China in recent years, which is growing steadily.

Turning to South African FDI into China, “Of the 25 ‘genuinely’ South African corporations present in China, only four had substantial assets at end 2008: Bidvest (logistics and infrastructure), Sappi (pulp and paper), Sasol (coal to liquid fuel and Naspers (IT/media). Bidvest acquired an Australian foodservices company with substantial facilities in China, Singapore and Hong Kong for US\$80 million in May 2007. Sappi purchased 34 percent of a paper mill in Jiangxi, China in 2006 for US\$60 million” (Department of Trade and Industry, South Africa, 2009).

FDI relations between China and South Africa are of similar significance as the trade relations between the two countries. According to official report published by South African Reserve Bank (SARB) data for end-2012 (the most recent available). China was South Africa’s 5th largest source of inward direct investment assets with 3.1% of the total stock, and the single largest destination for outward direct investment from South Africa. With 18.1% of the total stock of South Africa’s direct investment assets abroad. South African assets in China in 2012 were about four times as large as Chinese assets in South Africa. According to the SARB in the data collected by China’s Ministry of Commerce (MOFCOM), South Africa ranked 12th amongst recipients of Chinese outward direct investment in 2012, with 1.3% of the total (MOFCOM, 2012). MOFCOM publishes inward FDI stock data only for selected source countries, and the most recent list – for 2010 – did not include South Africa amongst the 32 countries. But it is interesting to note that the SARB 2010 value of USD5.616 billion for SA assets in China at end-2010 would have ranked South Africa as 18th largest investor in China on MOFCOM list (Ministry of Commerce, People Republic of China, 2013).

South Africa Investments in China's Agriculture Sector-

As we all know China is the most populous country in the world. And moreover, it is very difficult for it to arrange food for such a large population. Due to this China has to depend on other countries to secure its food storage for citizens. Therefore, for the sake of fulfilling China’s food security and for its personal interests, many South African companies have made extensive investments in the Chinese agriculture sector. As we all know, China is one of the few countries to which South Africa exports a large amount of agricultural products. It is also necessary for us to know that now many South African companies, especially after 2006, are going to China and making huge investments.

Although China has a well-developed agriculture sector and it also exports some agro products to the other country including South Africa but it still depends on South Africa to secure its food security. This is why China imports many agriculture products from South Africa and allows many South African firms to invest in the Chinese agriculture sector. “China feeds 22 percent of the world population with only seven percent of the planet's arable land. Land is heavily utilized for agriculture. Only about 10 to 15 percent of the land in China is good for agriculture. There are 545,960 square kilometers of irrigated land in China. Forty percent of China's crop land is irrigated” (Ministry of Agriculture, China). China traditionally has struggled to feed its large population even in the twentieth

century. By 2006, agriculture (including forestry and fishing) produced only 15.2 percent of China's GDP but still is huge by any measure. Some 46.9 percent of the total national workforce was engaged in agriculture, forestry, and fishing in 2006.

When we periodically study the yield of main crop of China, then we know that Western China, comprising Tibet, Xinjiang, and Qinghai, has little agricultural significance except for areas of oasis farming and cattle raising. Rice, China's most important crop is dominant in the southern provinces, many of which yield two harvests per year. In North China, wheat is of the greatest importance, while in the central provinces wheat and rice vie with each other for the top place. Millet and kaoliang (a variety of grain sorghum) are grown mainly in the Northeast and some central provinces, which together with some northern areas also produce considerable quantities of barley. Most of the soybean crop is derived from the North and the Northeast, and corn (maize) is grown in the center and the North. Tea comes mainly from the hilly areas of the southeast. Cotton is grown extensively in the central provinces, but it is also found to a lesser extent in the southeast and in the North. Tobacco comes from the center and parts of the South. Other important crops are potatoes, sugar beets, and oilseeds.

After 2006, many South African foods companies to seek market in China and promote local product and services there. These South African companies together with SAIL (local food chain company of China) trying to increase its investment in China. South Africa is the only African country to have significant investment in China, although once again it is extremely difficult to ascertain the precise value of the total investment. Tiger brand (manufactures, processes and distributes food products includes milling and backing, confectioneries, general foods, edible oils etc.), Pioneer Foods Group (manufactures of wide range of cereals and juice products), Tongaat Hulett (produces food products from sugar cane, raw sugar milling and refining), Astral Foods (produces animal feeds), AFGRI (handles stores and markets grain and livestock, processes agriculture products into animal feed), are some of those few companies who invested or planning to invest in China's agriculture sector.

In recent years, South African investment in the China agricultural sector has increased significantly. Today, many South African companies made extensive investments in China agriculture sector. The real increase in South African investment in Chinese agriculture sector is noted after 2006. In 2000, South African investment in the China agricultural sector was near about 1 percent of total South African outward FDI to China, which increased 1.3 percent (approx.) in 2006. The investment made by South African Companies in China increased to about 0.6 percent in 2015. Today many well-known South African companies (which have been mentioned above) are investing in China and other countries of the world in collaboration with China firms. Today South African firms have emerged as the main players in the China's agriculture sector.

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