

Workshop Report

The Centre for Chinese Studies, University of Stellenbosch
&
Western Cape Investment and Trade Promotion Agency (WESGRO)

DOING BUSINESS WITH CHINA



CCS-WESGRO Workshop

WESGRO Waldorf Arcade, 12th Floor, 80 St. George's Mall

Cape Town, South Africa

14 August 2008



CENTRE FOR
CHINESE STUDIES

Summary of Panel Discussions

The Centre for Chinese Studies (CCS) hosted a workshop titled *Doing Business with China* on 14 August 2008, at the Western Cape Investment and Trade Promotion Agency (WESGRO) in Cape Town. The workshop consisted of four sessions on topics relevant to those seeking to expand their businesses into the Chinese market as well as those looking to engage with the Chinese business community in South Africa. Session one brought together expert speakers to discuss 'China's Super-cycle' and session two sought to answer the question of 'Competition or Collaboration?' for South African and Chinese multinationals in Africa. Ms Unati Qobo, Marketing Manager at Wesgro, and Ms Lucy Corkin, Projects Director at CCS, moderated the first two sessions respectively. The following two sessions, chaired by Dr Martyn Davies, Executive Director of CCS, explored case studies of market-entry strategies into China and South Africa's evolving trade relations with China.

Madame Yuan Xiaoying opened the workshop by outlining the main facts and figures regarding China and South Africa's growing relations. She presented a clear portrait of China's remarkable growth and celebrated the ten successful years of formal China-South Africa's ties, specifically highlighting the great progress and potential in trade and economic relations between the two countries. She also noted that China's 'scientific concept of development' could have important relevance for all countries on the African continent. *Dr Martyn Davies*, affirmed this view in the first panel session, stressing the importance for South Africa to recognise China as the new driver of the world's economy and a permanent fixture in terms of international business and strategic commercial considerations. With the urban-rural ratio changing in the face of rapid urbanisation, Dr Davies sees a future China containing approximately 130 cities the size of London – a powerful economic reality that will be impossible to ignore. *Gerard Erasmus* from Stellenbosch University brought his extensive economic experience to the discussion by commenting on the possible strategies for South Africa to engage with the 'China super-cycle' by aligning trade policies and developing the infrastructure needed to integrate with the global economy. In this regard he suggested that regional free trade agreements need to be considered alongside preferential south-south agreements. Questions surrounding the implications of China's rise for world peace and of 'China Inc' for South Africa were fielded by the panellists who agreed that both the Chinese government and smaller businesses are likely to pursue a policy of conflict avoidance for the foreseeable future as stability is crucial to economic growth. Nevertheless, strategic partnerships and cooperation between the governments of Southern Africa will be a step towards mitigating the China 'threat' potential and leveraging the opportunities it presents.

The debate surrounding the implications of China's growing engagement with South Africa continued into session two, with *Mr Hank Langehoven*, from the South African Federation of Civil Engineering Contractors, joining *Dr Martyn Davies* and *Mr Chris Burke* from CCS to discuss the likelihood of competition or collaboration between South African and Chinese multinationals. Mr Langehoven initiated the discussion with the stating that 'governments don't trade, companies do' and explained

some of the challenges faced by engineering firms in the face of competition from China. He suggested that different sets of principles guide Chinese companies vis-à-vis South African companies. In particular he voiced a common concern that lower labour and environmental standards of Chinese companies creates an unfair playing field for South African firms. Chris Burke, however, made the argument that South African firms still have a cultural and linguistic advantage while Dr Davies provided examples of successful collaborations between Chinese and South African actors in the banking, energy and mining sectors. Ultimately, it was not possible to escape the conclusion that competition with China will continue to define the construction and textile industries for the foreseeable future and therefore the onus is on South African companies themselves to reposition themselves to ensure competitiveness – even if this requires sacrificing profit margins to maintain market share. Meanwhile the government has a role to play in creating an enabling environment for companies to compete freely and fairly, for example by enforcing labour legislation on foreign investors. Comments from the floor highlighted skills and knowledge transfer as one positive effect of collaboration as well as the importance of trade for employment generation.

Joyce Cheung, Trade Promotion Manager for Asia-Pacific Region for Wesgro, opened the third session by reiterating the opportunities presented by China-South Africa trade and interestingly pointed to agri-business as an area with great potential for growth. Indeed in the context of the global food crisis, China has had to increasingly import food, a situation which opens up a window of economic opportunity for Africa, since it has the land to pursue agricultural production for export purposes. If Africa could harness the situation, it could hold potential for economic growth. *Charles Hughes*, CEO of TruCape acknowledged these opportunities but speaking from his own extensive experience with doing business in China also stressed the importance of overcoming cultural differences and the need to understand Chinese business culture when interacting with China. Elements of Chinese business culture such as *guanxi* (personal connections), *mianzi* (face) and *zhengti guannian* (holistic thinking) must be recognised if successful business deals are to be concluded. Comprehension of such elements combined with a respect for basic meeting procedures, such as name card etiquette, can facilitate the path to constructive negotiations. Patience, respect and understanding with regards to the role of the government is also of fundamental importance, starting with an appreciation of the layers of provincial, regional and mayoral structures. Mr Hughes used a Chinese expression to illustrate this argument, pointing out that ‘you cannot clap with one hand.’ The final panellist, *Nils Flaatten*, former chairperson of the SA Business Forum, drew on some case studies of successful market entry by South African companies into China, such as SAB Miller, to argue that a ‘South Africa Inc’ approach where companies leverage and utilise mutual cooperation to buy market share should be worked towards. In more general terms he stated that Africa ought to accommodate Asia in its worldview, loosen the attachment to the prevailing Eurocentrism and create a direct trading link with China, rather than continuing to import Chinese original equipment manufacturer (OEM) goods from Europe.

The fourth and final panel consisted of three speakers; *Rachel Laribee*, Visiting Scholar from American University, *Andre Morgenthal*, Communications Manager of Wines of South Africa and *Lucy Corkin*, Projects Director of CCS. *Ms Corkin* presented a comprehensive overview of China-South Africa trade relations, covering the apprehensions with regards to the trade imbalance. *Rachel Laribee* presented her field research on the supply trade within the Chinese diaspora in South Africa. This recent wave dating from the mid 1990s within the Chinese Diaspora in South Africa has managed to establish and dominate a trade supply line from Hong Kong to the homes of millions of South Africans. Rachel talked about the economic environment within which small 'China shops' are active, exploring particularly competition within the group of Chinese traders and how the latest wave of Chinese immigrants have affected supply chains and demand within South Africa. She particularly emphasised a case study on a small South African town that demonstrated how the Chinese community utilises its competitive advantages to maximize the value of their trade. *Andre Morgenthal* emphasised caution and patience with attempted market entry into China, using the old adage 'sip before you swallow' to illustrate this point with particular reference to the wine industry. While there is great consumer potential in China due to the growing middle class and aspirational lifestyles it can take 'time and deep pockets' to establish market share in areas, such as wine, that are not a traditional part of Chinese culture.

Dr Martyn Davies praised the contributions from the panellists in his concluding remarks and applauded the comments and questions from the active audience comprised of a wide variety of stakeholders from the diplomatic and business communities. He noted that the discussion had highlighted some of the main challenges in Sino-African relations within the business community. Difficulties in cultural understanding and competitiveness are to some extent counterbalanced by the opportunities for collaboration with the Chinese. The workshop thus ended on a positive note with regards to China's engagement with South Africa and an understanding that successful engagement is dependent on South African individuals and companies, as well as the government, to work out their own development plans and leverage the relationship in a positive way.

Compiled By: Abigail Brown and Rachel Laribee

ABOUT US

The Centre for Chinese Studies is devoted to the study of China-Africa relations. The CCS promotes the exchange of knowledge, ideas and experiences between China and Africa.

Based at Stellenbosch University, the Centre is active in research, corporate advisory, executive education, teaching, training, and culture.

The CCS is also home to the Confucius Institute that is active in promoting Chinese language and culture to the African continent.

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