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Department:
Trade, Industry and Competition
REPUBLIC OF SOUTH AFRICA

THE NATIONAL ASSEMBLY

QUESTION FOR ORAL REPLY

QUESTION NO. 546

Mr M J Cuthbert (DA) to ask the Minister of Trade, Industry and Competition:

What (a) progress has the Government made in respect of signing a trade deal with China to mitigate against the R6,9 billion trade deficit and (b) are the details of the Government's position on trade relations with China, given that China has a net negative effect on the Republic's economy? **NO3293E**

REPLY

The trade data that the Honourable Member cites does not include inter alia the sale of gold to China. Nonetheless, the South African Government is concerned at both the composition of trade and the practice of under-invoicing of goods that are imported from China.

First, on the composition of trade, our concerns are that exports to China are largely made up of raw materials, whilst we principally import finished goods.

To address this imbalance in the composition of trade, we held a number of discussions with representatives of the Chinese government on increase the level of investment in South Africa, particularly on manufactured products. According to FDI Markets, a global cross-border investment tracking consultancy, China has invested around R116 billion in South Africa between 2003 and September 2019, creating around 7,874 jobs. These investments are in diverse sectors covering automotives, electronics, communications, metals, financial services, chemicals, industrial equipment, amongst others. Chinese investment in the auto sector includes the car assembly plant of Beijing Automotive Industry Company in Coega as well as FAW (a truck assembler) and a taxi assembly plant. In the white-goods sector, Hi-Sense set up a plant in Atlantis near Cape Town.

In respect of export promotion, the Government has encouraged and supported South African companies to participate in Chinese import procurement programmes and annual exhibitions in China to market their products. Eighteen South African companies participate in the China International Import Exhibitions. Last year in July, 93 agreements were signed between South African suppliers and Chinese companies, to buy local products for export to China.

We have also continued to address market access impediments to our exports with some success. In 2019, we have seen the resumption of South African exports of beef to China and the provision of new access for South Africa's alfalfa exports.

To illustrate the efforts of the South African Government to address the need for local beneficiation of raw materials, I can cite the example of the Mapochs mine. Following representation by Government, the Competition Tribunal has attached a set of merger conditions to the acquisition of the Mapochs vanadium mine in Mpumalanga, in a judgement decided in October 2020. The mine was bought out of business rescue by Hong Kong-based, IRL Industries, with the intention of exporting the unprocessed vanadium ore to China for further downstream processing there. Government intervened in the merger to ensure that the vanadium ore was first supplied to South African beneficiators of vanadium on a preferential basis before being exported. Vanadium is an important metal, with potential for application in large scale battery storage infrastructure, and South Africa is primed to take advantage of this.

Second, on the practices of under-invoicing, our concerns relate to significant and systematic under-declaration of the true value of manufactured goods coming from China. A graphic illustration of the extent of the problem is this: in 2018 the value of the exports of textiles and clothing goods from China to South Africa as reported by the General Customs Administration of China to the United Nations was US$ 2.4 billion, whereas the value of the imports of textiles and clothing goods into South Africa from China as reported by SARS to the United Nations was US$ 1.5 billion. That is a difference of US$ 900 million even though the two values should be substantially the same. We have shared much of this with the Chinese government, including specific examples of products imported into South Africa, well below their ‘true’ value. Examples include:

- Women’s dresses imported at an average declared price per dress of R2.46 (March 2019)
- Men’s suits imported at an average declared price per suit of R14.13 (January 2019)
- Women’s skirts imported at an average declared price per skirt of R3.61 (May 2019)
- Knitted jerseys imported at an average declared price per jersey of R7.59 (March 2019)

The under-invoicing relies on active collusion between exporters based in China and importers based in SA.

To address these illegal trade practices, we held extensive discussions with the Government.

Illegal imports are a particular challenge in the clothing industry, but also impacts other manufacturing sectors. This reduces the receipts payable to the fiscus and it also displaces local jobs, as protection measures are evaded.

SARS has stepped up its efforts to address the problem. As part of this, Chinese customs authorities have worked with SARS to provide information on pricing. SARS has a number of containers of clothing imported from China, and which is the subject of a court case involving SARS, local manufacturers and **the dtic**.

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