

China can benefit from helping South Africa through hard times

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International credit rating agency Standard & Poor's (S&P) downgraded South Africa's rating to junk status on April 3, warning investors of the potential default risk on the country's foreign debt. Foreign-currency ratings for Russia and Brazil were also previously cut to junk by S&P in January and September 2015, respectively. This latest downgrade could impact the supranational rating of the New Development Bank (NDB) - a multilateral development bank established by the BRICS countries of Brazil, Russia, India, China and South Africa - thus elevating its financing costs.

Among the five BRICS countries, China has long maintained high sovereign ratings and enjoyed sound economic foundations. It is in China's core interest to help South Africa through these hard times. Given its geopolitical importance and influence in the African Union, South Africa has an important role to play in strengthening China's traditional friendship with the African continent and in jointly promoting the One Belt and One Road initiative. Meanwhile the amount of international development funds raised cannot currently meet the demand for development in the African continent. African countries

have great expectations for cooperation with China. As a key founding nation of the African Development Bank, South Africa can help extend the cooperation between China and Africa given its capability in mobilizing funds and coordination, which can benefit more African people. Additionally, South Africa has played a key part in global governance. As a BRICS member, South Africa has been a strong supporter for China in seeking a greater say for developing countries in international affairs.

Given that South Africa's sovereign credit crisis largely stems from its political chaos and imperfect financial market, China should help South Africa improve its national governance and its management ability and thus help the NDB consolidate its financing ability and influence.

First, China should help develop extensive trilateral cooperation. South Africa's foreign aid is mainly concentrated in Africa, with neighboring countries being the focus of its assistance. Trilateral cooperation is one of the most important channels for South Africa's foreign aid and since 2000, South Africa has been working with traditional donors, such as the Netherlands, Switzerland, Sweden, Norway, Belgium, Germany, France and the UK, to implement development assistance programs throughout Africa. In recent years, South Africa has also actively carried out South-South-South trilateral cooperation with India, Brazil, Vietnam and other emerging donors. China could consider working with South Africa to promote poverty reduction in African countries by focusing on large-scale, cross-regional projects and offering Chinese investment, in an effort to make full use of South Africa's advantages in designing and coordinating localized projects so as to strengthen trilateral exchanges and facilitate the transfer of China's governance experience.

Second, China should strengthen bilateral exchange and dialogue. China's central bank should actively enhance ties with South Africa's central bank or financial authorities to establish a mechanism for bilateral financial coordination and cooperation that conducts coordination activities on a regular basis. Such a mechanism should include aspects for financial and legal cooperation, financial information sharing, financial risk management and cooperation and financial regulation cooperation. Also, both parties should jointly promote financial system reform, including financial liberalization, relaxation of interest rate control, strengthening of financial security cooperation and refining of financial services, such as speeding up the internationalization of their currencies, liberalizing cross-border capital flows, and promoting the cross-border free convertibility and settlement of local currencies.

Third, China should expand economic and trade cooperation with South Africa. China could help strengthen the country's ability in macroeconomic governance. In the past, Sino-South Africa cooperation was mainly carried out in the form of trade. Although the trade volume has continued to rise, trade is the simplest form of international cooperation compared with cross-border direct investment, bilateral and multilateral financial cooperation and joint participation in the governance of international institutions. China

could make use of the NDB to elevate trade cooperation between China and South Africa, extending areas of cooperation to production, storage, transportation equipment procurement, export base and brand building. In addition, China could enhance South Africa's industrial capability by expanding investment and financing support. South Africa has problems including low-end industries, disproportionate industrial structure, slow innovation development and sustainable development challenges. China could help foster South Africa's emerging manufacturing and industrial upgrading and provide financing and insurance support in bilateral cooperation such as resource exploration, so as to guide the direction of the country's industrial planning.

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