UK–South Africa Cooperation: Business to Bolster Bilateral Relations

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Introduction

On 19 October 2015 the Africa Programme at Chatham House hosted ministerial and diplomatic representatives from South Africa and the UK to examine the strengths of the countries’ economic relationship, and to highlight opportunities for increasing business cooperation and engagement. This coincided with the 11th UK-South Africa Bilateral Forum, held the same day.

The meeting was held on the record, although the discussion took place under the Chatham House rule.¹ The following summary is intended to serve as an aide-memoire for those who took part, and to provide a general summary of discussions for those who did not.

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HE Maite Nkoana-Mashabane MP

The 11th biannual UK-South Africa Bilateral Forum was concluded today. This considered the role of business in reinforcing relations between the UK and South Africa. There was notable success in outlining opportunities for collaboration. Two-way trade and investment are already benefiting both countries, with the UK constituting one of the largest sources of foreign direct investment into Africa.

The government of South Africa outlined five priorities in 2009 for its national development plan, including education, rural development, job creation, health and combating crime. Foreign policy has been designed with these development goals in mind, as South Africa recognizes that its own economic success must be part of a wider trajectory towards a prosperous, peaceful and democratic Africa. In this vein, South Africa is working to foster regional and continental initiatives to strengthen intra-African trade and investment, paying special attention to improving infrastructure across the continent.

The foreign ministry continues to contribute to South Africa’s economic growth by building the population’s skill base, inducing job creation, advancing education and designing constructive social policy. Expanding the young population’s skill base, exploiting abundant land resources and industrializing to capitalize on other primary resources will ensure the continent’s future. President Zuma outlined several development priorities in January 2015: resolving the energy challenge; climbing the agricultural value chain; effective design and implementation of industrial policy; encouraging private sector investment; unlocking the potential of small and medium-sized enterprises (SMEs) and cooperatives in townships and rural areas; reform of state-owned companies; catalysing broadband roll-outs; water sanitation; transport infrastructure; and increasing attention to the maritime economy.

South Africa has been particularly successful in the implementation of its infrastructure programme, and achievements have been secured because they have been synchronized with the establishment of industrial development zones and special economic zones that focus on specific untapped potential. These also offer a swathe of incentives for investors, including tax allowances, employment incentives and customs-controlled areas. There have also been significant efforts to encourage black industrialists, as – despite the political liberation of South Africans – many remain on the economic fringe. As the joint South Africa-UK strategy outlined five years ago comes to an end, South Africa looks forward to taking this relationship further, to the benefit of the national development plan, in tandem with the UK’s priorities.

¹ When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed.
There is a notably large flow of people between our two countries. The UK is the number one source of long-haul tourists to South Africa, and many South Africans visit the UK for business and pleasure. There are strong trade links between the two countries, but although the balance is in favour of South Africa, this has consisted largely of primary resources. As leaders in industry, the onus is on the UK to ensure the diversification of this trade relationship to include more value-added goods. Moreover, given global recognition that the long-distance transportation of raw materials is damaging to the environment, it will make economic sense to invest in environmentally friendly initiatives that add value at source. Business will play a key role in advancing the two nations' respective economic agendas, and we look forward to engaging with the UK to craft policy that can create favourable business environments.

The South African economy has grown by an average of 3.2 percent a year from 1994 to 2012, and levels of employment and gross national income (GNI) per capita have also increased. The global financial crisis of 2008 was a setback, leading to the loss of more than a million jobs. Nevertheless, new initiatives, such as appropriate investment in the maritime economy, will be essential to counter this trend.

Every day, the African National Congress (ANC) is making South Africa a better and more diversified country, but there will be no prosperous South Africa without prosperity within the Southern African Development Community (SADC) and in Africa.

**Hon Lindiwe Zulu MP**

The role that businesses and SMEs have played in economic development is particularly important. The establishment of a ministry with responsibility for this field was representative of a shift in the ANC towards recognizing business's crucial role in development. At the same time, South Africa has realized that it competes for investments and access to markets in a crowded field. After 21 years of freedom, the country continues to face many challenges. Given the challenging global economic environment, there is a need to attract a diverse range of investment and to diversify the economy to meet changing global demand.

The goal remains an economic transformation that will empower people, for which SMEs and cooperatives will play a key role. It is evident that investors need to see a return on their investment, but they must also be cognizant of the people’s desire for change. To synchronize profit and empowerment, public-private partnerships will be essential, so that the government can work together with private enterprise to allow SMEs to reach their full potential.

At the bilateral forum, it was clear that SMEs in South Africa and the UK face very similar problems and can learn from each other. South Africa is not alone in the development challenges it faces. The idea that South Africa is at the bottom of the pile in all respects must be jettisoned, and the work that the government is doing to overcome its obstacles must be recognized. This will promote the image of a country full of potential that is attractive to investors. The government must also be held accountable for how it attempts to bring about economic transformation.

**Baroness Scotland of Asthal**

The UK and South Africa have had a long and complicated relationship, yet it has remained a very important one. South Africa’s importance to the UK transcends political cleavages, with Baroness Scotland appointed as a trade envoy despite being a member of the opposition at the time. The UK has worked with South Africa to find complementarity with the latter's national development plan and to form a productive economic relationship. This was explored at the bilateral forum, but there have been
long-standing discussions to disaggregate the national development plan and to identify opportunities for collaboration and the diffusion of appropriate skill sets. For example, of the 21 projects in South Africa that are run in collaboration with the Newton Fund for scientific research, 19 are partnered with the UK, and all involve extraordinary cutting-edge scientific research development.

It has also become apparent that transformation must come from SMEs. The UK would make an ideal partner for collaboration in this regard, as 90 per cent of UK trade consist of SMEs. Collaboration is also being strengthened in fields such as education, science and the legal profession. The benefits have been real, especially in the evolving business relationship, despite the difficult economic climate. There was a significant target set to double trade by the end of 2015, but to reach this requires as much assistance as possible from the business community. The importance of South Africa to SADC and beyond is still manifest, and the transformation of South Africa will have great benefits for the continent.

Judith Macgregor CMG, LVO

The vibrancy of the UK–South Africa relationship is evidenced by the dense, six-page communiqué compiled at the bilateral forum. There were eight focus groups in action at the forum this year – three more than last time, covering new areas such as youth empowerment. However, there are calls to do more. South Africa will continue to be promoted as a location for trade and investment from the UK, and this will assist in the country’s own economic growth. The increase in South African investment in the UK is also welcome. Although trade has not quite doubled in the last five years, it has shown significant improvement by increasing by 30 percent in the last two years, despite the global economic downturn.

There have been notable advances in establishing coherence in efforts towards trade and investment. For example, the energy research supported by the Newton Fund is synchronized with efforts to promote renewable energy, which in turn might encourage new connectivity and infrastructure solutions. The ocean economy is a particular area where there can be synergy between research and the application of new skills. Skills are of the utmost importance, especially entrepreneurial skills to allow young businesses and SMEs to really prosper. In this vein, existing programmes to build employability through higher education need to be scaled up to impact in more sectors.

There has been tangible progress towards these goals. The recent visit of the Lord Mayor of London and Baroness Scotland to South Africa included discussions about the UK’s export finance and various investments that were moving forward. Policy clarity was emphasized, and avenues for increasing the attractiveness of the UK and South Africa as locations for investment were discussed in very concrete terms, as well as improving prospects for SMEs.

A lot then is being done to improve coherence in addressing the social and transformational challenges in South Africa, including linking trade and investment to the national development plan, establishing synergies with the UK’s industrialization policies, paying greater attention to skills and education that will allow the effective embedding of investment and creating opportunities for technology transfer and knowledge diffusion.

Summary of Discussion

Questions were raised about Zimbabwe, and how that country’s ailing prospects impacted on ambitions for regional integration. The speakers were asked whether regional players or the wider international community should take a leading role in engaging Zimbabwe to effect change. It was argued that it had been a mistake for the EU and the UK to disengage from Zimbabwe. New attempts to intervene should be
coherent and committed, while recognizing that meaningful change could only come from within the country, as it had done in South Africa.

Participants affirmed the presence of investors in South Africa committed to its developmental vision, and noted that investors also contribute to the evolution of intra-African trade. It was agreed that this optimism was appropriate.

Concerns were raised that regime change as an international policy objective had failed. Although it is important to support human rights across the globe, it is also necessary to recognize that the current refugee crisis stemmed from areas where the international community had attempted to instil democracy. Another participant argued that migrants were coming from Eritrea as well, suggesting that migrants were also fleeing areas without democracy in the first place.

Comparisons were drawn between Zimbabweans seeking refuge in South Africa and the current influx of migrants to the EU, and questions were raised about South Africa’s view on the distinction between political and economic refugees. It was argued that South Africa is unique in its policy not to settle refugees in camps, but instead to integrate them into society and offer them opportunity for employment. In this regard, South Africa has respected UN norms more than any other country. Economic refugees also come in great numbers to South Africa, and there needs to be a distinction between political refugees and economic ones, as many move country seeking to gain a living without claiming permanent citizenship. It was mentioned that no South Africans were dying in the Mediterranean in an attempt to reach the EU, and instead they remained in the country to protest against the issues they faced. It was argued that this was because even problems such as the power crisis were gradually being overcome, through initiatives such as South Africa’s support for the Grand Inga Dam hydropower project in the Democratic Republic of the Congo.

The prospect of South Africa investing through Jersey was raised, and it was agreed that all investment was welcome, but that tax havens were a cause for concern.

Participants asked how SMEs could engender development in South Africa’s townships. It was argued that since the end of apartheid, key economic actors had left the townships, but initiatives to provide services including tarmacked roads and water had begun to transform these areas prospects. This has been particularly successful in Gauteng, where people are even buying houses in the townships.

Participants were keen to learn how the financial sector might assist the development of South Africa–UK relations, and how fiscal policy might be designed to stop financial flows from being pushed toward illicit activity. It was suggested that current international firms have already built a reputation as dependable, and should continue doing more of the same. In particular, the City of London was encouraged to strengthen its connections with South Africa. It was agreed that illicit banking was a massive problem, and episodes of social unrest could be linked to parts of the population dependent on ‘loan sharks’.

It was also mentioned that the UK should refocus its efforts on its relationship with South Africa, as long-standing ties between the two countries could be immensely beneficial to the UK. One participant highlighted the significance of the Johannesburg Stock Exchange as a South African asset. Crucial to its development was a strong judiciary, which now makes it increasingly risky for money to be transferred through illicit financial flows.

Plans for a Young Business Council to complement the existing South Africa Business Council were also mentioned, and trade and investment in both countries was encouraged.