Low-cost China sourcing: South Africa case study

Note: This posting is an abridged version of an article by Julian Hewitt which originally appeared on The Beijing Axis website. The full verison of the article can be accessed here.

Two and a half decades of economic reform have placed China firmly on the path of rapid industrialization. China’s recent ascension to the World Trade Organisation has further hastened its opening up to the rest of the world.

At the same time, South Africa has also enjoyed a fruitful period of economic and political progress after many years of international isolation. However, it was only since the establishment of formal diplomatic ties in 1998 that these two regional leaders have begun to realize a significant growth in trade.

In 2006 China exported USD6.6 billion worth of goods (dominated by electronic equipment and textiles) to South Africa while it imported USD2.0 billion worth of goods (dominated by raw materials) from South Africa, according to South African Revenue Service figures. Official statistics from the Chinese Statistical Bureau paint a rosier picture, however, with Chinese exports to South Africa standing at USD5.8 billion and imports from Africa’s largest economy at USD4.1 billion.

China’s rapidly growing middle class is opening up new exporting markets for South African suppliers, and from a South African perspective, rising Chinese living standards are translating directly into more wines, fruit juices and fruit on local supermarket shelves. In addition, China is also becoming a focal point of international gold, diamonds and platinum sales, and on an industrial level South Africa is a large supplier of raw materials that help fuel China’s factory-floor economic model.

China presents big importing prospects for South African suppliers and retailers, yet sourcing of products from Chinese suppliers and maximizing China’s strength as a producer of the lowest cost goods is an avenue South African firms have not yet fully tapped into. Of course, trading with China is not without its pitfalls, even for companies with previous Chinese experience. Language and cultural barriers and often opaque importing and exporting processes serve to complicate business interactions and frustrate expectations between buyers and sellers. China is also a very regionally fragmented market, and this often requires specialized local knowledge of how to tap into potential Chinese business opportunities.

However, it is not without just cause the China commands daily media attention. The benefits of incorporating a China objective into your business’ importing or exporting plan far outweigh challenges on the way. China represents a competitive advantage and it not taken up, could easily be to your competitors advantage.