SA must rethink relations with China

South Africa's current strategy of bending backwards to please China threatens our hard-fought democratic gains. Allowing the Asian dragon to buy up all the strategic sectors of the economy will only lead to a new form of colonialism, this time, not from Western powers, but from the East, writes **William Gumede**.

The hard truth is that bending backwards to China will bring little new benefits. South Africa's best strategy should be to play off China with other emerging markets such as South Korea, Turkey, Brazil and India; with the industrial powers in the West; and to dramatically expand its trade with a rising Africa. South Africa must make China work hard for the money, so too must other African countries.

It appears that there are huge expectations within government that China may become a big financier in South Africa's R850-billion infrastructure roll-out. If foreign finance is sought it would be unwise for South Africa not to seek financiers from emerging markets and from old industrial powers. South Africa should not only approach Chinese finance, because this will imprison us to China's whims.

China's hardnosed strategy has been to portray itself as different to the West in its dealing with Africa, supposedly more 'fair', more developmental oriented and more honest. Don't be fooled. China's involvement in Africa and South Africa has nothing to do with charity and wanting to help. The country wants to make money out of Africa, and to get raw materials. It also wants access to the continent's markets.

Of course, there is no doubt that China should be a key geo-political ally for South Africa. This will make South Africa a pillar of China's foreign policy strategy to make the global trade, economic and political systems – currently staked against African and developing countries, in favour of Western economies, fairer.

The increasing power of China and other emerging markets appear to have already made many multi-lateral agencies scramble to bring on board previously ignored developing country interests. Most developing and African countries – using a booming China and other emerging powers as alternative trade partners as a bargaining chip – are already able to extract better terms on deals from industrial and former colonial powers.

EMERGING MARKETS

A key strategic foreign policy goal is to diversify markets for South Africa's products away from some current industrial powers in favour of cash-flush new rising emerging markets, both as new markets and sources of finance. The country's dominant trade partners in the European Union and North America are facing prospects of economic decline.

The strategy of diversifying partners should be about trading more with new emerging markets, such as Brazil, India, Russia, South Korea, Turkey, and Africa. South Africa should let China compete with other economies, such as Japan, South Korea and Western economies with the knowhow. For example, partnering on projects such as the country's planned infrastructure investment drive.

Last year South Africa was outraged when Janice Linden, a 38-year-old black South African woman was executed on 12 December by lethal injection for allegedly being found in possession of 3 kg of methamphetamine in the southern Chinese city of Guangzhou's airport in 2008. South African President Jacob Zuma tried but failed to secure a stay of execution. This failure sparked anger across the country against South Africa's inability to persuade a supposedly close ally. Many questioned why South Africa was going out of its way to accommodate China politically, while the Chinese appeared not to attach the same value to South Africa.

William Matlala

The textile industry has been hard hit by Chinese imports.

Home Affairs director-general Mkuseli Apleni admitted that South Africa feared a 'backlash' from China similar to those experienced by France and Australia after they allowed the Dalai Lama to visit their countries. The Dalai Lama visited emerging markets Mexico and Brazil without any seemingly political or economic consequences.

Some South Africans, including sections of mainstream business, opposition parties such as the Democratic Alliance and the black conservative parties such as the Inkatha Freedom Party, and some think-tanks, oppose the whole idea out right that South Africa should have a strategic political and economic alliance with China. Many holding this view argue that South Africa's strategic alliances should remain with the industrial West – North America, Australasia and Europe. Europe is currently still South Africa's largest export market. Many activists on the left of the African National Congress (ANC) – Congress of South African Trade Unions (Cosatu) – South African Communist Party (SACP) Alliance also totally reject South Africa's embracing of China as a geopolitical and economic ally.

DEVELOPMENT WITHOUT DEMOCRACY

Some leaders within the ANC Tripartite Alliance uncritically admire the developmental model of China, which is one of development without democracy. Those who make such arguments are usually still embracing Soviet-style socialism – which influenced sections of the Alliance or those with a very narrow view of democracy.

These groups wrongly argue that the country's constitution and democracy are obstacles to development. They claim that China's dizzying economic growth rates 'proves' their thesis that democratic niceties in South Africa are an obstacle to development and public service delivery.

The Chinese have been taking some senior ANC leaders on regular 'workshops' to China to teach them the 'Chinese way' of pursuing economic development without democracy.

Currently, the trade deficit between the two countries is skewed in favour of China. South Africa's exporting of cheap raw materials to China does not create many jobs. However, China exports labour-intensive manufactured and beneficiated products which create jobs and are more valued. Ironically, the beneficiated products are made from cheap South African raw materials. The finished products are exported back to South Africa where they are sold at expensive prices. Chinese products can easily enter South Africa, but South African products face a mountain of hurdles.

The ANC government has been under strong criticism by allies and opponents alike for not effectively up-scaling its strategy of beneficiating South African minerals. The government has been accused of being too slow in boosting and protecting the manufacturing sector, which is under pressure. This sector is now universally seen as one where mass jobs can be created. Therefore, South Africa should tax the exports of raw materials heavily – including, or especially those being exported to China – if we are serious about beneficiation.

Alarmingly, China is buying into 'strategic' sectors in the South African economy, such as platinum, rare metals and the financial sector. These sectors should drive South Africa's economic development.

Many executives of state-owned and private companies have warned about Chinese inroads into Africa where they outplayed South African companies, whether private or state-owned. They have asked for active government support for their investment drives into Africa – or risk losing out to China. They say that Chinese companies have an unfair advantage on the continent because they are subsidised by their state.

In 2006, after lobbying by industry, trade unions and ANC members, South Africa persuaded China to sign a textile pact between the two countries which would limit imports from China and give the South African industry a window period to rebuild. South Africa could have introduced tougher protective measures, like the World Trade Organization (WTO) endorsed protective measures implemented by the United States (US) and European Union (EU).

Etienne Vlok, a textile industry analyst, says China agreed to the much more watered-down bilateral textile pact with South Africa because it feared that the country would copy the US and EU and implement much harsher protective steps.

In May 2005, the US imposed temporary restrictions on textiles and clothes from China. The restrictions were permitted under the 'safeguard' clauses that it signed when it joined the WTO in 2001. (WTO members could use the clauses to limit sudden and steep rises in imports from China until 2008.) China refused to renew the textile pact in 2009 – in the midst of South Africa blocking a trip by the Dalai Lama to the country, in the hope that this would show its commitment to its relationship with China.

South Africa's textile industry is uncompetitive compared to China's. One of the reasons is that unlike China, South Africa does not give the local industry the same level of direct and indirect subsidies.

South Africa's ferrochrome producers have been calling for government support against their Chinese counterparts. The Chinese government is subsidising various raw material imports, including chromium, as part of its beneficiation strategy. China imposes a 40% export duty on metallurgical coke, which is the sole ingredient that South African ferrochrome producers import – largely from China.

Frans Baleni, the general secretary of the National Union of Mineworkers (Numsa) says the Chinese were also at the same time stockpiling chrome and ferrochrome in order to dictate prices in the future. This is the sort of Chinese behaviour that South Africa should respond to more strategically.

Chinese companies have active buyers of shares in mining companies in South Africa, appearing to concentrate on strategic minerals, and particularly struggling black miners involved in these sectors. Since most blacks lack finance, black economic empowerment deals in the mining sector have often been financed by mining companies lending would-be black buyers the money to purchase the stakes. However, many of these deals have unraveled as the black part-owners could never finance the debts through dividend payments. Many of these black miners are now hoping that Chinese companies could buy into them.

In Africa, China's strategy has appeared to secure trade by giving large amounts of money to individual political leaders, particularly presidents and ruling parties. Many of Zuma's opponents allege the president and family has been receiving such Chinese favours – which the president has strongly denied.

Trade unions and civil society groups in South Africa have consistently complained that Chinese companies in the country undermine basic workplace rights and environmental standards. Cosatu, for example, has insisted that all Chinese companies investing in South Africa should sign minimum labour rights agreements.

BENEFICIATION PROGRAMME

South Africa should also be more pro-active by identifying the sectors and areas that Chinese and other companies should invest in as part of a long-term integrated economic and infrastructure development plan. South Africa should pro-actively decide where development should take place, what should be developed and how the development should take place, and then partner with Chinese or other foreign investors in these home-grown targeted development initiatives. South Africa's mineral beneficiation programme is a good example.

Sadly though, the general pattern of Chinese investments in Africa appears to be that China decides, what and where they invest in a particular African country, copying the continent's colonial past, Cold War investments and aid-driven economic patterns, which brought economic growth with little industrialisation, but no broad-based development or human development opportunities.

China needs South Africa and Africa's raw materials to maintain growing at high levels and to keep the millions of impoverished Chinese on board. China needs to export its products – light manufactures and heavy machinery to African markets, feed its hungry with food from Africa and get jobless growth in Africa.

The moment economic growth slackens and the benefits to millions of poor Chinese slows, North African-style revolt against the one-party state will become a reality. That means China's long-term stability is uncertain and South Africa should not hedge all its bets on it.

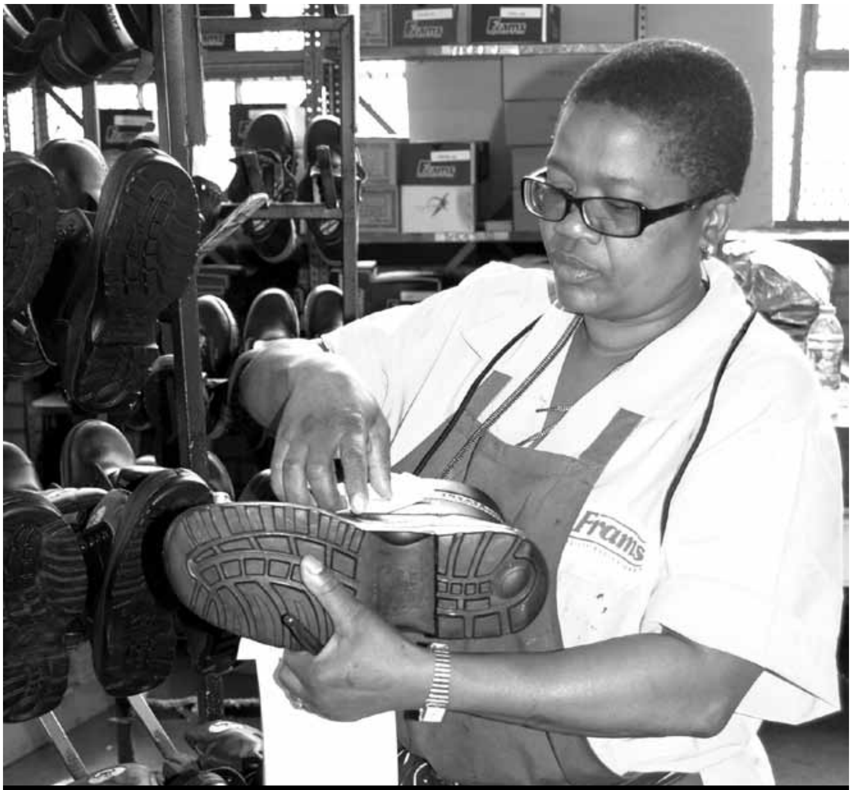
China also needs South Africa as a strategic political ally not only against the hostile West, but also to secure the friendships of other African and developing countries – with whom South Africa have strategic relations. Many industrial countries are increasingly rejecting Chinese investments in their strategic sectors. Some industrial countries may appear to be on the fall, but this decline is not likely to be rapid, and may also be reversed, as is currently happening in Germany.

Moreover, the EU is still the biggest buyer of SA products. Any rapid adjustment to make China the new market for all the products currently being exported to industrial nations are going to be very costly and painful to the South African economy. New emerging powers, such as China, may be cash-flush, but they have poverty, development and inequality backlogs. If these problems are not managed well, they may ultimately also undo future political stability and economic prosperity. Ideological or romantic ideas should not drive South Africa's strategic economic decisions, but real life realities should.

At the heart of such a strategy, with the giant China, a tiny South Africa will have to box smarter. South Africa must better use all the resources available in the country, in the public sector and private sector and civil society – the ideas, skills and finances – better to negotiate deals. It will be important that South Africa forges a partnership between government, business, labour and civil society, to provide the capacity to come up with competitive strategies against not only China, but other emerging and industrial country competitors.

There are South African companies such as Sappi and SAB Miller, who have done well in China and other emerging markets. Their capacity must be leveraged to come up with better long-term country strategies.

For example, in the cases of the textile and ferrochrome sectors (and other sectors as well), sector partnerships between government, organised labour and business should be worked out to come up with a strategic approach. For instance, if the Chinese and South African government negotiations team on a particular issue are matched on skills level, the Chinese will win hands-on. But if the particular South African government negotiation team is beefed-up with expert skills in



William Matlala

Leather industry has also been hard hit by Chinese imports.

the private sector, civil society and academia, South Africa may be able to compete.

Most of the East Asian developmental states have forged an effective partnership between the public and private sectors to come up with common strategies to enhance their countries' competitiveness. For example, in African deals, South Africa will have to forge public-private sector partnerships to counter competition from Chinese companies.

For another, corporate cash deposits in South Africa now exceed R470-billion, according to the most recent figures from Nedgroup Investments. Cooperative and trustful relationships must be built between South African business and government in order to leverage this cash surplus for investment purposes, especially for infrastructure.

In general, South Africa's industrial, trade policy, labour market policies are not matched. A case in point is that attempts to make the South African currency more competitive against those of its competitors are not coordinated with other economic policies. However, doing this will help South Africa's struggling manufacturing sector.

Another case in point is the fact that the South African state energy utility Eskom's rising energy prices and a lack of reliable power supply is hitting South African ferrochrome production. Yet, intervention to overcome such inefficiencies appears to be slow and uncoordinated.

For another, South Africa has the largest indigenous Chinese diaspora communities in Africa rooted for over 100 years. It is a tragic waste that the government is not using the skills of these South Africans to help forge the most strategic approach towards China. LB

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