TRADE

China
The hidden dragon ...

A walk through South Africa's fancy shopping malls or downtown Johannesburg reveals the extent to which the floodgates have been opened to Chinese goods. It is almost impossible to find a garment, which does not have a 'Made in China' label. Can we now close the floodgates? **Michael McDonald** provides a brief account of China's emergence as the future largest economy and how SA can respond to this and the proposed talks around a free trade agreement.

Industrialists, government policy makers, trade unionists, exporters, and importers – everyone is focused on one single thought: 'How are we going to deal with China!'

The Chinese problem has been around for quite some time. China has been expanding its vast manufacturing base over the last 20 years or more. But, for a long while, we have been looking in the wrong direction. As one analyst put it, what we have been observing is the noisy demise of the USA and the silent rise of China.

Within 30 years or less, China will be the largest economy in the world. Right now, they are just overtaking Japan as the largest economy in Asia. The juggernaut would appear to be unstoppable. In fact, China really can't afford to slow down without provoking social unrest among its population of 1.3 billion people.

Following the death of Mao Zedong in 1976, the Chinese Communist hierarchy realised that virtually all of Mao's social engineering experiments had failed. The long drawn out and brutal Cultural Revolution, along with most other forced socialist experiments, were a disaster. A whole new direction was necessary.

Although China always had a large manufacturing base, it was in no way delivering to the people. The Chinese government started to sell off many highly unproductive state-owned assets, which, in the hands of highly motivated individuals, began to thrive and grow – rapidly and on a large scale. Education, especially higher education was prioritised.

Growth plans spanned decades. Industrial zones grew at an amazing pace. The industrial zone at Shenzhen, near Hong Kong, grew over 20 years from a town of some 30 000 inhabitants, to a major city of 7,5 million. Chongqing, the traditional industrial centre, with a current population of 31,5 million is planning to grow to between 50 and 60 million people within the next 20 years.

This vast growth in manufacturing spawned a rapid increase in the price of commodities as China was importing raw materials from all over the world. China currently consumes 19,7% of the world's copper (up from 10,4% in 1998); 32,7% of the world's cotton (up from 22,2%); 34% of the world's cigarettes (the Chinese smoke like chimneys); 50,8% of the world's pork; 32% of the world's fish and just over 20% of the world's cellphones.

With all the concern over massive Chinese exports flooding world markets, the scariest thing of all is the fact that they only export about 10% of what they produce!

The panic surrounding Cosatu's recent announcement that they would be taking drastic industrial action against South African retailers unless they undertake to source at least 75% of their clothing requirements locally is just a peculiarly South African knee-jerk illustration of the panic breaking out all over the world.

The European Union (EU) and US are frantically trying to curb imports from China. At least we can derive comfort from the fact that we are not alone.

SO WHAT IS TO BE DONE?

Needless to say, the solutions, if and where they exist, will not be easy to find. The usual trade remedies – higher tariffs; anti-dumping and countervailing duties against subsidised imports are, for the most part, not particularly effective. In any case, it takes a long time to implement such actions and pursuing such remedies can be very expensive, especially for small and medium sized companies.

When government announced a trade agreement with China in the near future, panic moved into overdrive. The thought was enough to cause captains of industry to run for cover.

But after considerable wringing of hands and gnashing of teeth (not to mention, sleepless nights) I am starting to come to the conclusion that possibly the only hope of a solution to the China dilemma for South Africa may be found in a trade agreement. Not a free trade agreement like we have with the EU where everything comes in duty free, but rather maybe a sort of preferential trade and cooperation agreement, whereby China recognises South Africa's problems and concerns and we in turn recognise theirs.

With all its massive growth and development, China still suffers from a number of major problems.

They have embarked on a course of opening their economy, reducing state ownership and control and allowing free enterprise to flourish. A large middle and even upper class is developing. But the disparity between the rich and the poor is growing rapidly.

China, like South Africa, has very high rates of unemployment, especially in the large rural areas. But China must continue to grow at the rate of at least 7,5% per annum in order to avoid increasing already chronic unemployment. South Africa also needs much higher levels of economic growth in order to address unemployment in any meaningful way.

China needs to export to grow, but it needs to avoid swamping the markets of their trading partners. The ideal situation in trade is that imports and exports between countries should be more or less balanced. The current trade deficit we have with China more than cancels out any trade surpluses we have with other countries. This situation is not sustainable in the long term. China needs to understand and we must be accommodated if we are not to destroy our own manufacturing base.

A recent study and survey conducted among South East Asian countries by Australian trade consultants between 2000 and 2002 has demonstrated that, although it was necessary for some of China's trading partners to abandon certain sectors where they could not compete against China, they were able to develop alternative sectors of industry which were complimentary to China's needs. As a result, although considerable industrial restructuring was required, the total quantity and value of trade (imports and exports) in almost all of the South East Asian Countries including Australia doubled over the three-year review period.

SO IT IS POSSIBLE TO HAVE WIN-WIN SITUATIONS

China has had a history of exploitation by developed countries over centuries. This, on more than one occasion, forced them into extended periods of isolation, which were eventually very detrimental to the Chinese economy.

Recently, developing countries such as the US and EU have been trying to force China to make concessions, especially in trade. This was most evident in the discriminatory terms required by the United States of China in its accession to the WTO in 2002.

As the fastest growing economy in the world, China, after years of isolation, is seeking respect and legitimacy. And it appears that the South African government is willing to help China in this regard.

Hey, after all, you don't want to make an enemy of the biggest kid on the block – the soon to be largest economy in the world. Who wouldn't want to get a piece of that very big action?

Accommodation, not concessions is what China is looking for. We can't beat or ignore China. In many areas of trade, we simply cannot compete. Their economies of scale and high rates of productivity are things we just cannot hope to match.

But we can try to develop a relationship with China which is symbiotic and which will not jeopardise our interests or undermine our industrial base.

Just as there was much wrong in the economy of the old South Africa, there is still much wrong with the economy of China today. The disparity between rich and poor has already been mentioned, but there are other things like the reluctance to allow trade unions to collectively bargain wages and conditions of employment and the apparent lack of concern over basic human rights, which need to be urgently addressed.

Maybe we could help China by showing them how South Africa managed to transform from a pariah state to a safe haven in no time flat! LB

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