

Free trade talks with China

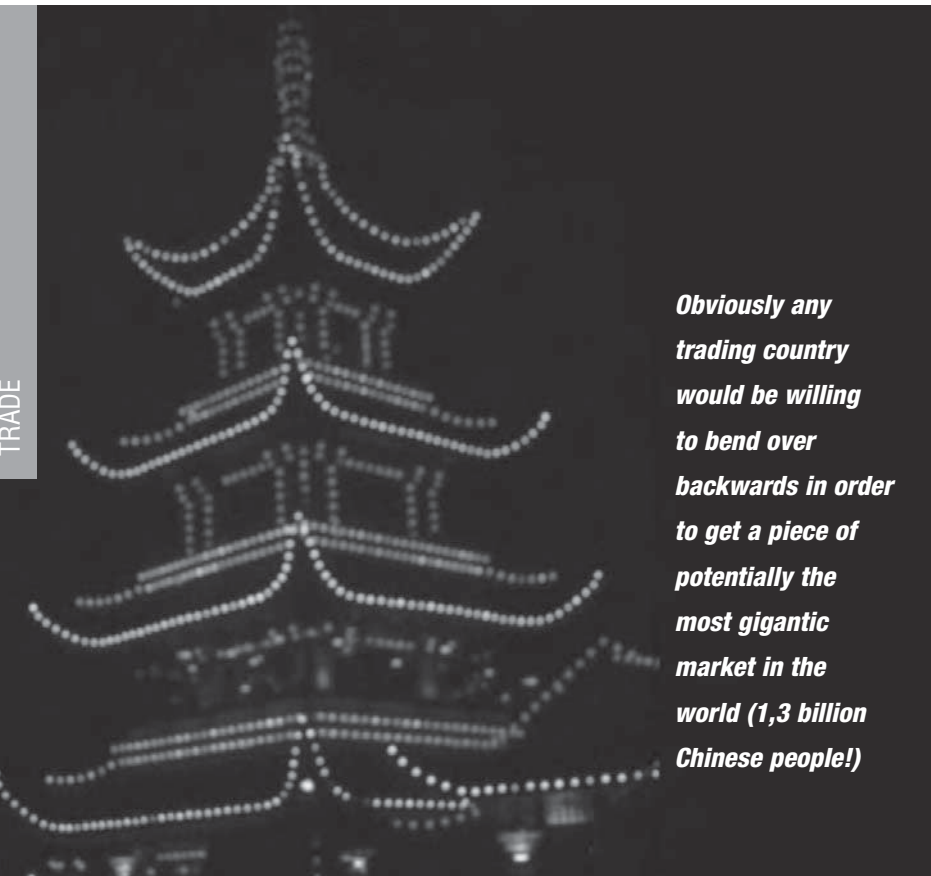
Does this add a whole new meaning to howzit my china?

Talk of free trade talks with China has got people excited, worried and confused all at the same time. **Michael McDonald** argues that South Africans should be worried about this development and should tread cautiously.

During July, deputy president Jacob Zuma co-chaired a bilateral national commission meeting with China's deputy president Zeng Quinghong. This high level meeting between the two countries was the second of its kind. The first meeting was held in China in 2001. At a press conference after the meeting Zeng thanked SA for recently helping to fend off a United Nations investigation into China's human rights record. Especially when taking into account the lofty ideals on human rights expressed in SA's constitution, it's my guess that Zuma was not particularly thrilled about being thanked for

such assistance, at least not in public. One would imagine that a lot of South Africans who hold civil rights in high regard were more than a bit miffed by Zeng's statement.

But I was more concerned, in fact alarmed, by a few other things that came out of that post-summit press conference. Among them, the announcement that SA was going to grant China 'market economy' status. This may sound innocuous, but, I assure you, it could be more than a little dangerous. My other major concern was the expressed intention of SA to enter into a Free Trade Agreement (FTA) with China. That also may seem fine on the surface,



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but begs the question why no other country, outside Asia, has considered venturing into a FTA with the world's most populous country. Perhaps other countries fear there is a lot more to lose than gain in the unfettered opening of their home markets to one of the world's most predatory traders. All over the world, numerous anti-dumping actions have been mounted against cheap imports from China.

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But the Chinese are also huge exporters. In fact to say 'huge' is a huge understatement. In addition, their exports are heavily subsidised, which is totally contrary to World Trade Organisation (WTO) rules. They apply so many different subsidies in respect of their exports that it is very difficult to keep track. Letting China enter our markets free of any encumbrances such as import taxes could be courting disaster. Because of the nature of China's cheap exports, many of our domestic manufacturing industries could be decimated – possibly literally overnight. If we are not careful, we could end up turning our factories into warehouses for Chinese goods.

This is where my concern about granting 'market economy' status to China comes in.

For most countries in the world, China is considered a country which does not work to free-market rules. That is, much of industry is

owned and subsidised by the State. Also, depending on where you are in China, normal bankruptcy rules do not apply, collective bargaining by workers is disallowed, and services such as water and electricity are often supplied to manufacturers free-of-charge. China's exchange rate is pegged to the US dollar in order to keep exports more competitive than they would otherwise be. All this is taboo according to WTO rules. So, the WTO has other rules to allow for anti-dumping action, which would permit a country to impose extra punitive import taxes on cheap imports when the exported product is sold in another country at prices below the normal value in the country of origin.

In cases of non-free market economies such as China, the WTO allows countries fighting the dumping of subsidised products into their market to use a 'surrogate country' for determining a normal value for a particular product. For example, if because China is subsidising the production of goods and therefore a fair or normal value cannot easily be determined in China itself, the normal value in another free-market country, say Mexico, can be used to find a more realistic normal value.

By granting China 'market economy' status, what you are saying is that you will accept that China operates within free-market principles and therefore, you will accept that the prices of products in China will be considered as 'normal value' in anti-dumping investigations. This

obviously makes proving dumping very difficult indeed. Because China is now a member of the WTO, it is not possible to simply raise tariffs to gain protection against cheap imports. Anti-dumping action is the major weapon we have available to combat unfair trade competition from China and other countries.

Already, there is little doubt that jobs have been lost in SA as a result of cheap subsidised imports from China, especially in the textile and clothing industry, but also in many other sectors as well. To limit the ability for us to act effectively against unfair competition from China could prove disastrous to both jobs and industries in SA.

Although SA's trade with China in recent years has increased dramatically, this must be offset by the fact that SA's trade deficit with China has jumped 88% from 2001 to about R10 billion. The deficit with China is expected to rise to R12 billion by next year.

It needs also to be borne in mind that SA's exports to China are mainly unbeneficiated minerals, such as iron ore and gold, while Chinese imports into the country comprise high-value-added products such as appliances. Not a good sign for our downstream manufacturing industries.

CONCLUSION

More recently, indications from government suggest that any FTA with China is probably a long way off and that the granting of market economy status may be qualified to help protect SA in respect of anti-dumping investigations. However, so far there has been no clear indication of what exactly what has been promised to China or what is intended.

In dealing with foreign alliances, US president at the turn of the last century Theodore Roosevelt said "Walk softly, but carry a big stick." As far as China is concerned, that that might be pretty good advice for South Africa.

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