Look before you leap, my china!

The proposed free trade agreement (FTA) between SA (and other SACU members) and China poses serious challenges for SA's international traders and workers. **Thobile Yanta** and **David Jarvis** debate on this engagement and what it will mean for SA.

While China is regarded as a big 'consuming machine' with huge market opportunities for South African goods and services, it also has the potential to be a big 'swallowing machine' with the capacity to gobble-up infant and established businesses alike. The opportunity should also therefore, be assessed for threats. Will the proposed free trade arrangement have more benefits for South Africa than costs?

The agreement will pose particular challenges to industry in South Africa and other SACU countries. Clearly, South African industries are going to face an uphill battle for several reasons. One is that the cost of labour in China is lower than that in South Africa by a ratio of 4:1. Workers in China have been historically discouraged from demanding a living wage or what other people refer to as a social wage.

In South Africa, a living wage has become an integral part of the workers' struggle for better lives for all. It has become difficult to separate the demands for higher wages from the struggles against poverty, joblessness and hunger. It can, however, be argued that social wages in China are much higher than in South Africa because workers in China enjoy better access to basic services such as healthcare, water, transport and food security.

Another reason is that while South Africa was reeling under the punishment of sanctions because of discriminatory policies, China was already positioning its industries for the trade battles ahead. Throughout the 1970s and 1980s China opened-up many trade fronts and agencies across the developed and developing world.

Trade between South Africa and China has increased rapidly over the last decade, which is good for international cooperation and development. Between 1993 and 2003 exports from South Africa to China increased from R639.3m to R6704.3m; an increase of almost 950%. This increase in exports pales in comparison to imports from China. In the same decade, they went from R1 010.2m to R1 6600.3m an increase of over 1 500%.

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China itself shielded its industries before 'unleashing' them as full participants in the world trade arena. Practically, this means South Africa should not be shy to negotiate a step-by-step approach in its free trade agreement with China. Though China and South Africa are both developing countries, there is no doubt that the former is far ahead in the game of international trade.

Naledi analysis of the content of trade points to an additionally worrying factor. A crude breakdown of labour-intensive to capital-intensive products traded between the two countries reveal that not even 20% of South Africa's exports to China are labour-intensive products (the bulk being made up of raw or partially converted metals and chemicals), while the bulk of Chinese imports to South Africa are labour-intensive (being made up of machinery and equipment, clothing and footwear and electrical and electronic goods). This is not only a problem in terms of job creation but also for sustainability. China is currently boosting its primary industry capacity, placing the future of even raw materials exports in doubt over the medium term.

The bilateral trade between the two countries in the first quarter of 2004 amounted to US$1.6bn, up more than 66% over the same period last year.

Though Japan remains South Africa's largest trading partner in Asia and its fourth largest overall, with a total bilateral trade amounted to R32bn in 2001 alone, clearly, China constitutes an economic colossus most countries of the world would like to partner with. So it is not by accident that South Africa decided to develop relations with China rather than Taiwan. Economic and trade relations between the two countries have since grown rapidly. As the strongest economy in Africa, South Africa has become China's largest trading partner on the continent. The establishment of the South Africa-China Bi-National Commission has also served as evidence of a growing cooperation between the two countries in the areas of trade, education, science and technology, and culture.

How can South Africa cope if free trade deal is ratified between the two countries? Clearly, the proposed free trade with China leaves South Africa and its partners in SACU with no choice but to think more creatively.

Negotiations on the proposed FTA should not be rushed without assessing the potential impact on socio-economic fundamentals such as poverty levels, saving jobs and creation of quality jobs. For too long, questions have been raised about the impact of international trade on poverty and income levels, and unfortunately, not many answers have been forth coming.

For instance, if the FTA negotiations between South Africa/SACU and China are not negotiated carefully, countries such as Lesotho might lose opportunities provided by the African Growth and Opportunity Act (AGOA) because of potential flooding of markets by Chinese goods. Lesotho is currently the leading exporter of clothing and textiles goods to the US in the entire sub-Saharan region. Clothing and textile exports have become key sources for foreign exchange earnings and job creation for Lesotho, even though the quality and sustainability of these jobs is questionable.

South Africa needs to learn from its past mistakes in order to minimise damage to regional economies. The bungles of free trade agreements with the EU in the mid-1990s and lowering of tariffs ahead of WTO schedule in the clothing and textile sectors should serve as learning points not be repeated this time around. The clothing and textile sector lost an estimated 33 000 jobs partly due to tariff reductions.

The needs and interests of the other SACU members should be considered during negotiations with China. Special care should be taken to avoid the loss of revenue and jobs in the neighbouring states as a result of increased competition from Chinese suppliers. South Africa should, therefore, avoid rushing into deals that will result in further job losses and closure of important industries. This is not protectionism but pragmatism.

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Tri-partite institutions such as Nedlac should be given the opportunity to deliberate fully on the implications of the proposed FTA with China. This will allow stakeholders to assess systematically both risks and opportunities provided by the proposed deal. For example, social partners could begin to talk about strategies for providing safety nets to help those who might lose jobs and other income opportunities. A gradual approach to free trade with China will allow South Africa and its partners in SACU time to adjust and prepare for the full implications of the free trade deal.

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