

Taming the beast in the east



Trade with China, specifically the massive increase in low costs imports in labour intensive sectors, poses a direct threat to jobs in South Africa. What then should labour's position be in dealing with trade with China? What measures should labour encourage government to introduce in dealing with China trade? The **Labour Bulletin** highlights key measures explored in a **Cosatu** discussion document discussed at a recent central executive committee meeting.

An analysis of trade flows with China reveals a rise in imports of labour intensive goods into South Africa. This affects a range of sectors and not just the clothing and textiles industry, which has been receiving a lot of media attention. Imports have increased in absolute terms (an increase in the \$ imported), and in relative terms (where Chinese imports are becoming a larger share of total imports as China outcompetes other countries exporting to South Africa). As a result, the following has taken place:

- South Africa's trade balance with China and Hong Kong is negative and growing. In fact, the negative trade balance almost doubled in 2004 when it was almost four times what it was in 2001. Imports from China and Hong Kong are higher than South African exports to these countries. While exports to China and Hong Kong have been growing, the growth in imports is much higher and off a much higher base.
- SA exports to China tend to be capital-intensive while our imports from China are mainly labour-intensive. Imports from China to SA are displacing other imports as China's share of imports has grown from 4% to 7% between 1994 and 2003.

TRADE REMEDIES

What measures can be put in place to arrest this trend? Trade remedies are supposed to provide a remedy to unfair trade:

- anti-dumping duties can be imposed to remedy dumping;
- safeguard measures can be imposed to

remedy a surge in imports; and

- countervailing duties can be imposed to remedy subsidies from the country exporting the goods. (An example would be the subsidies paid by the European Union to their farmers, which results in a lower price for agricultural goods.)

The International Trade Administration Commission (ITAC) is the body in South Africa that investigates unfair trade practices and can impose duties to remedy them.

Anti-dumping duties

The most significant blow to SA's ability to effectively use anti-dumping duties against China came when the SA government (in the form of deputy president Jacob Zuma) granted China market economy status without consulting labour in June 2004. (This was done in spite of China's pegging its exchange rate to the dollar, and state intervention in many areas of the economy.) The effect of granting market economy status is a reduction in the anti-dumping duty SA could impose against China, or the fact that SA may not be able to impose anti-dumping duties against China because there may not be dumping.

Usually, when looking for dumping, ITAC examines the cost of the goods sold in their domestic market and compares that to the cost of the goods sold in the export market. For example, if the EU sold an item for R10 in the EU, and then sold the same item for R5 in SA, it would be dumping because it would be selling at a lower price than it usually sells at in its domestic market. ITAC

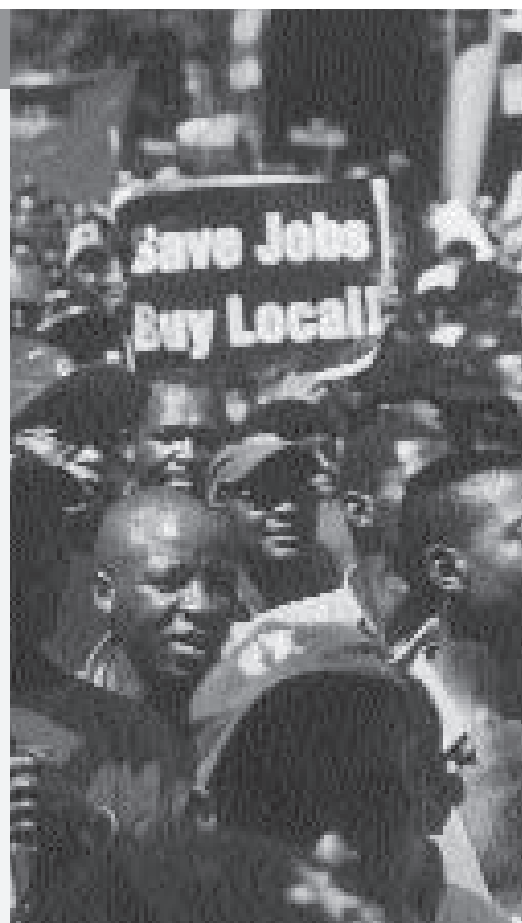
IMPORTS FROM AND EXPORTS TO CHINA AND HONG KONG

| | | 1994 | 1999 | 2004 | % change 94-99 | % change 99-04 |
|---|---------|------------|----------|----------|-------------------|-------------------|
| | | \$ million | | | | |
| Agriculture, forestry & fishing | Exports | 15.5 | 57.5 | 79.9 | 272% | 39% |
| | Imports | -25.2 | -16.7 | -28.4 | -34% | 70% |
| Coal mining | Exports | 58.5 | 19.3 | 0.0 | -67% | -100% |
| | Imports | - | -4.4 | -0.0 | | |
| Gold & uranium ore mining | Exports | 0.0 | 0.0 | 0.0 | | |
| | Imports | - | - | - | | |
| Other mining | Exports | 81.7 | 137.0 | 332.6 | 68% | 143% |
| | Imports | -6.2 | -7.3 | -25.5 | 18% | 246% |
| Food | Exports | 28.9 | 24.7 | 50.8 | -14% | 105% |
| | Imports | -5.1 | -18.7 | -34.1 | 270% | 82% |
| Beverages | Exports | 1.4 | 3.6 | 3.0 | 159% | -18% |
| | Imports | -0.0 | -0.1 | -0.1 | 3568% | -49% |
| Tobacco | Exports | 0.2 | 1.2 | 0.1 | 610% | -90% |
| | Imports | -0.0 | -0.3 | -0.4 | 2497% | 34% |
| Textiles | Exports | 18.9 | 10.6 | 17.1 | -44% | 62% |
| | Imports | -74.0 | -58.6 | -197.9 | -21% | 238% |
| Wearing apparel | Exports | 0.3 | 0.7 | 0.5 | 125% | -22% |
| | Imports | -63.6 | -75.2 | -481.4 | 18% | 540% |
| Leather & leather products | Exports | 3.0 | 12.9 | 8.3 | 331% | -36% |
| | Imports | -24.1 | -31.9 | -62.5 | 33% | 96% |
| Footwear | Exports | 0.1 | 0.1 | 0.1 | 59% | -45% |
| | Imports | -64.5 | -64.9 | -310.0 | 1% | 377% |
| Wood & wood products | Exports | 1.0 | 1.1 | 3.1 | 19% | 171% |
| | Imports | -4.3 | -4.1 | -17.6 | -4% | 327% |
| Paper & paper products | Exports | 20.9 | 25.3 | 22.8 | 21% | -10% |
| | Imports | -1.1 | -2.5 | -9.3 | 132% | 274% |
| Printing, publishing & recorded media | Exports | 0.1 | 0.0 | 0.5 | -63% | 935% |
| | Imports | -10.5 | -6.1 | -14.2 | -41% | 131% |
| Coke & refined petroleum products | Exports | 0.6 | 2.6 | 7.2 | 312%§ | 175% |
| | Imports | -11.7 | -39.8 | -103.9 | 241% | 161% |
| Basic chemicals | Exports | 81.0 | 82.1 | 142.8 | 1% | 74% |
| | Imports | -25.2 | -63.7 | -145.3 | 153% | 128% |
| Other chemicals & man-made fibres | Exports | 1.2 | 6.1 | 12.8 | 405% | 109% |
| | Imports | -16.9 | -29.0 | -78.4 | 71% | 171% |
| Rubber products | Exports | 0.0 | 0.4 | 2.8 | 1497% | 592% |
| | Imports | -1.6 | -4.6 | -38.1 | 186% | 734% |
| Plastic products | Exports | 1.6 | 0.5 | 1.1 | -72% | 139% |
| | Imports | -12.5 | -25.8 | -64.8 | 107% | 151% |
| Glass & glass products | Exports | 1.1 | 0.5 | 0.9 | -57% | 96% |
| | Imports | -9.6 | -6.8 | -28.5 | -29% | 318% |
| Non-metallic minerals | Exports | 1.2 | 4.3 | 8.5 | 249% | 98% |
| | Imports | -13.4 | -22.5 | -65.3 | 68% | 191% |
| Basic iron & steel | Exports | 92.2 | 72.0 | 348.0 | -22% | 383% |
| | Imports | -4.1 | -9.1 | -48.7 | 124% | 436% |
| Basic non-ferrous metals | Exports | 12.8 | 32.0 | 253.4 | 150% | 692% |
| | Imports | -5.3 | -8.3 | -35.0 | 57% | 320% |
| Metal products excluding machinery | Exports | 12.1 | 4.7 | 8.2 | -61% | 74% |
| | Imports | -33.5 | -51.8 | -147.5 | 54% | 185% |
| Machinery & equipment | Exports | 5.3 | 24.9 | 48.6 | 372% | 95% |
| | Imports | -127.5 | -209.9 | -906.6 | 65% | 332% |
| Electrical machinery | Exports | 6.7 | 7.8 | 9.2 | 16% | 18% |
| | Imports | -33.1 | -54.7 | -169.0 | 65% | 209% |
| Television, radio & communication equip | Exports | 0.6 | 3.4 | 4.1 | 450% | 20% |
| | Imports | -99.1 | -125.5 | -538.2 | 27%§ | 329% |
| Professional & scientific equipment | Exports | 0.7 | 0.3 | 3.5 | -54% | 1066% |
| | Imports | -41.7 | -45.3 | -90.2 | 9% | 99% |
| Motor vehicles, parts & accessories | Exports | 54.3 | 12.8 | 69.9 | -76% | 445% |
| | Imports | -1.0 | -6.1 | -56.8 | 528% | 837% |
| Other transport equipment | Exports | 0.5 | 0.9 | 0.3 | 79% | q-62% |
| | Imports | -21.4 | -13.2 | -34.9 | -38% | 165% |
| Furniture | Exports | 0.2 | 0.3 | 0.8 | 34% | 168% |
| | Imports | -1.5 | -6.4 | -60.7 | 337% | 849% |
| Total goods | Exports | 588.8 | 648.8 | 1,533.4 | 10% | 136% |
| | Imports | -787.0 | -1,101.9 | -4,020.0 | 40% | 265% |
| Total mining | Exports | 140.1 | 156.3 | 332.6 | 12% | 113% |
| | Imports | -6.2 | -11.8 | -25.5 | 89% | 116% |

could then impose a dumping duty to bring the price the item is being sold at in SA to the normal price, which would be the price the item is being sold at in the EU.

China had not been regarded as operating under market economy conditions, so instead of using the price the item was sold at in China a surrogate country was

used. For example, if one thought that blankets were being dumped from China, one would see what the price was in, say Turkey, and compare the price to the item being sold in SA. So, if the goods were produced and sold in Turkey for R10 a blanket and were being exported to SA and sold for R5 a blanket, ITAC could impose an



anti-dumping duty. But, if one used the price in China, they could be producing and selling in China for R5 and selling in SA for R5. The result would be that even though the blankets were only being sold in SA for R5 each, they were not being dumped because that was the price in China. ITAC could therefore not impose an anti-dumping duty.

Safeguard measures

There are three issues that are important in relation to safeguard measures

- Whether to use the safeguards provided for in the protocol of accession of China to the World Trade Organisation (WTO), or use the safeguard measures in the South African regulations. When China joined the WTO, the agreement it signed (called the protocol of accession), provided for countries to use safeguard measures against China. A country

experiencing a surge in imports from China could put up safeguard duties and/or limit the number of goods to be imported from China through quota restrictions. The South African government may be placing political pressure on business to use our ordinary safeguard measures against China instead of the safeguard measures provided for in the protocol of accession. The rationale may be that SA wants to align itself to China politically. The result of a reluctance to use safeguard measures against China provided for in the protocol of accession, is that it is more difficult to take action to get safeguard measures up against China.

- Who can initiate an investigation for safeguards? It appears from general discussion that industry (business) has to initiate an application for safeguard measures. The problem is that if industry is slow in initiating an application for safeguard measures, workers continue to lose jobs. It is therefore necessary to find other ways to initiate an application for safeguard measures. According to SA's safeguard regulations (section 4.2): 'The Commission may initiate a safeguard investigation without having received a written application from a South African Customs Union (SACU) industry. The Commission may request SARS to impose a provisional payment for a period of up to 200 days as soon as ITAC has made a preliminary determination that:
 - a) there are critical circumstances where a delay would cause damage that would be difficult to repair; and
 - b) there is clear evidence that increased imports have caused or are threatening serious injury.

The provisional measures only allow for a tariff increase and not for a quota restriction. This is in line with the WTO agreement on safeguards. In order to get more than a provisional measure, it is necessary to get the cooperation of the SACU industry. This need not delay putting safeguard measures in place, as the industry could prepare the plan when provisional measures are in place. (While section 21.2 states that an adjustment plan must be submitted within 60 days

after the initiation of an investigation for the imposition of a definitive safeguard, section 21.3 allows the Commission to grant an extension.)

- Changes that could be made to SA's safeguard regulations to make it easier to get safeguard measures in place. The South African safeguard regulations are more onerous than the WTO safeguard regulations.

ACTIVITIES IN NEDLAC

Government has committed itself to trade with China. However, its approach will now largely reflect the outcome of engagements in Nedlac. Discussions in Nedlac have ensured that government will:

- Approve the conducting of impact studies before embarking on a trade agreement with China. These impact studies are being conducted under the auspices of Fridge and the policy outcomes will be discussed in Nedlac.
- Promote the idea of a preferential trade agreement as opposed to a free trade agreement. This is much better for labour as there is no commitment to covering all tariffs.
- Government will engage in detail in Teselico (the task team on trade issues in the Trade and Industry Chamber in Nedlac) on the substance of the trade agreement with China.

While significant progress has been made in terms of government's approach, the problems around trade remedies threaten to erode jobs in the meantime.

CONCLUSION

While SA has scope to use trade remedies to protect jobs, there are serious limitations on our ability to use these trade remedies. In particular:

- Government's granting China market economy status reduces the anti-dumping duties the country can impose on China, or may prevent SA from imposing anti-dumping duties against China.
- Government's reluctance (based on geo-political considerations) to use the safeguard measures provided for in the protocol of accession, make it much more difficult to impose safeguard

measures to protect jobs.

- The view that only industry (business) can initiate an investigation regarding safeguard measures means that workers will continue to lose jobs as employers fumble and do not make applications to ITAC to impose safeguard measures.
- The safeguard measures themselves go beyond the safeguard agreement in the WTO, and make it more onerous for South African industry to initiate and get safeguards.

Given these potential stumbling blocks, the Cosatu CEC was requested to consider the following:

- Encourage affiliates to engage with employers on a sectoral basis to ensure speedy action is taken by employers to use trade remedies to protect jobs which would be lost as a result of unfair trade.
- Pressurise government to use the protocol of accession safeguard measures for China instead of making it more difficult to impose safeguard measures against China through using the safeguard measures in South Africa's regulations.
- Pressurise government and ITAC to ensure that ITAC initiates its own investigations on safeguards in sectors, which are or will lose jobs due to a surge of imports from China.
- Pressurise government and ITAC to amend the South African safeguard regulations to ensure that it is easier to initiate investigations and get safeguard measures imposed.
- Pressurise government to continue to do impact studies with labour through Nedlac (as it is doing now), and to embark only on a preferential trade agreement with China instead of a full free trade agreement. Studies should also be undertaken on ways to enhance economic cooperation with China other than full free trade agreements.
- Link the trade related problems more strongly to the jobs and poverty campaign.
- Hold a high level meeting with the dti and ITAC to address these problems.

This is an edited version of a paper presented to the Cosatu CEC in May.