Modifying China-South African trade

South Africa is struggling to cobble together a coherent long-term trade strategy to deal with China, William Gumede writes

South Africa's governing African National Congress, business and civil society are struggling to cobble together a coherent long-term trade strategy to deal with China given that the Asian dragon is both a partner and competitor. Since the end of 2009, China had become South Africa's largest trading partner.

Some strategists in the ruling African National Congress and government see a booming China as an alternative market to South Africa's traditional Western trading partners. China is also seen as a possible source of new growth generating investment in South Africa to help create jobs and cut poverty among the majority black population.

China is also seen as a key geopolitical ally for South Africa as the country lobbies for the restructuring of the global trade, economic and political architecture to give Africa and developing countries a fairer say in relation to their Western counterparts.

South Africa joined the BRICS (Brazil, Russia, India, China and SA) group of emerging markets in 2010, signalling the country's importance as the gateway to Africa for China and world's fast-growing the emerging economies, as key source of commodities, and as a strategic geopolitical ally for emerging economies wanting to reform global financial, trade and political rules and institutions.

Many of South Africa's white liberal establishment, including some white industrialists and business sponsored think tanks, oppose the whole idea outright that South Africa should have strategic political and economic alliance with China, arguing that South Africa's strategic alliances should still rest with the industrial West, Europe – current SA's largest export market, North America and Australasia.

The ANC is in a governing coalition with the Congress of South African Trade Unions (Cosatu), and the South African Communist Party (SACP) since it came to power at the end of apartheid in 1994. Some leaders of the ANC governing alliance admire the developmental model of China - that of development without democracy. Those who make such arguments are heavily influenced by Soviet-style socialism, particularly in the SACP, who wrongly argue that democracy is an obstacle to development.

Yet, others again, such as the former South Africa Deputy President Kgalema Motlanthe, argue that although there are developmental lessons for South Africa from China's growth model, in South Africa development must go hand in hand with deepening democracy.

Frans Baleni, the general secretary of the National Union of Mineworkers (NUM) says China's investments in SA *"should be viewed with caution"* as patterns so far so shows that Chinese trade with South Africa amounts to *"colonization of a special type"*.

This is because in many cases South Africa exports cheap raw materials to China, which did not create many jobs at home. China exports manufactured products – which creates jobs in China, made from the cheap South African raw materials – back to South Africa at higher prices, and higher value.

Reports that the ANC or Cosatu affiliates have bought T-shirts for their conferences which were made in China often cause huge public anger – and denials by leaders, sensitive to the public sentiment that Chinese companies takes away South African jobs.

Julius Malema, the former ANC Youth League President, who has now started his own party aimed at the black youth, called the Economic Freedom Fighters, told a South African Jewish Union of Students dinner recently that China *"use us (South Africa) to get into Africa, take mineral resources raw as they are"*.

South Africa's overall national trade strategy suffers against those of China and other emerging markets, because the country's industrial, trade policy; labour market policies are not synchronized

Malema said: *"They also bring (their own) labour", adding "at least with the colonizers (of the past) they utilized our people, although the working conditions were not better… but these ones (Chinese), they don't even give you labour. They just open a Chinese town on their arrival".*

Others, such as former Finance Minister Pravin Gordhan said increased trade with China has helped South Africa's ride the worse effects of the global financial and eurozone crisis and say that a key strategy of South Africa is diversify its trade away from traditional industrial economies towards China, Africa and other emerging markets.

However, many ANC members, and alliance partners, especially trade unions and civil groups, and business say a close partnership with China harms South Africa's economic interests, rather than promoting it.

Many agree that South Africa should diversify its trading partners, but say this should focus more on expanding trade with Africa, and trading with other emerging markets, such as Brazil, India, Russia, South Korea and Turkey.

They argue that in the case of China, it would be better that South Africa 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.

The arguments that are advanced are: that the entry of cheap Chinese products into South Africa is de-industrializing South Africa's manufacturing base, and that China's authoritarian political model is the antithesis of South Africa's efforts to promote democracy at home and abroad.

South Africa's struggling manufacturing industry – which has been identified in all government economic policies as the key sector that needed to be supported, has complained loudly that they cannot compete against the *"deluge of cheap imports flooding South Africa"* from China.

Kaizer Nyasumba, the CEO of the Steel and Engineering Industries Federation of Southern Africa, recently said South African manufacturing companies compete against Chinese peers that *"are directly or indirectly subsidised"* by (the Chinese government). Nyasumba says the metals and engineering sector have seen a growing number of smaller, mostly family-owned, companies closing down.

In 2010 the Chinese government banned South African wool exports to China after an outbreak of Rift Valley Fever in the Northern Cape and Free State. Rift Valley Fever is a mosquito-borne virus that kills livestock and humans. South Africa and the World Organisation for Animal Health told the Chinese that Rift Valley Fever is not transferred through wool. The Chinese government insistence on the ban outraged South Africans.

At the centre of South Africa's global trade strategy is to trade more with a growing Africa. Many executives of South African state-owned and private companies are alarmed by Chinese inroads into Africa, saying this encroach into South African 'space'.

They have asked for active South African government support for both state and private companies who are trading in Africa, saying that Chinese companies have unfair advantage in Africa because they are in effect subsidized by the Chinese state.

Since 1994 South Africa has a policy of black economic empowerment (BEE) which compels companies that do business with the government to partner with black companies; and a policy of affirmative action, which wants companies to actively give black South Africans employment opportunities. Many black South Africans businesses have complained that Chinese companies do not follow black economic empowerment and affirmative action rules when they make investment decisions in SA.

South Africa has the largest indigenous Chinese population in Africa, having been in the country for almost 150 years. Under apartheid these communities were classified as black. A few years ago South Africa's Constitutional

Court pronounced that Chinese South Africans should be entitled to black economic empowerment and affirmative action.

Some South Africans fear that 'foreign' Chinese are using loopholes to access BEE and affirmative action opportunities reserved for indigenous Chinese-South Africans.

In 2010 a senior delegation of the ANC visited China and formally complained to their Chinese counterparts about the lack of BEE and affirmative action by Chinese companies in South Africa.

Trade unions and civil groups in SA have consistently complained that Chinese companies in South Africa undermine basic workplace rights and environmental standards. Cosatu for example, have insisted that all Chinese companies investing in SA sign minimum labour rights agreements. Although China has not enforced its companies to do so, Chinese leaders in official visits to SA increasingly publicly emphasize that the country's companies will not undermine basic workplace rights and environmental standards.

Chinese companies have active buyers of shares in mining companies in SA, appearing to concentrate on struggling black miners. Most of the black economic empowerment deals since 1994 have taken place in mining. Since most blacks lack finance, these deals have been financed by mining companies lending would-be black buyers the money to purchase the stakes.

However, many of these deals have unravelled as the black part-owners struggled to finance such debts through dividend payments – especially following the 2008 global financial crisis which led to a drop in global metal prices.

A Chinese consortium, the Jinchuan Group and the China-Africa Development Fund, for example, recently bought a 45% share in Wesizwe Platinum to build a new platinum mine in the Northwest of the country. The Chinese cash-injection provided much sought after cash for the black shareholders of the company.

But this again points to another concern - there is increasing alarm among many in the ANC and SA government that China are buying into 'strategic' sectors in the SA economy, such as platinum and rare metals.

Many South African manufacturers say while Chinese products easily enters South African markets, high tariff barriers and China makes it difficult for South Africans products to enter Chinese markets.

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 a 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.

China has recently erected more trade barriers for steel imports. South African steel producers have accused China of dumping steel in African and developing countries.

In early March 2015 the Chinese government issued a draft restructuring plan for its steel industry which says the government will provide financial and policy support to help Chinese steels mills expand abroad, given weak demand growth and rising environmental costs at home.

Already, Hebei Steel Group, China's largest steel maker, is actively looking to build a 5-million-tonne-a-year steel project in Africa.

The South African textile industry has been hard hit by cheap imports from China, with factories closing down and heavy job losses since 2002. Employment in the textile industry dropped from almost 300,000 in 1996 to 120,000 in 2010.

Selwyn Gershman, the managing director of Gregory Knitting Mills, said *"we are a very distressed industry"*. 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 SA industry a window period to re-build.

South Africa has not introduced tougher protective measures, like the WTO endorsed protective measures implemented by the US and EU.

South Africa's textile industry is uncompetitive compared with China because South Africa does not give the local industry the same level of direct and indirect subsidies the Chinese give theirs.

South Africa's overall national trade strategy suffers against those of China and other emerging markets, because the country's industrial, trade policy; labour market policies are not synchronized. For example, attempts to make the currency more competitive – to give South African exporters a bigger edge - has not been co-ordinated with other macro-and-micro economic policies, which could support the country's local companies.

Rob Davies, the trade and industry minister says that South Africa has already given a list of concerns to China on how South Africa wanted to modify current China-SA trade so that it won't be adverse to South Africa.

Davies said China have given South Africa a number of 'undertakings' on how to ensure trade relations between two countries are conducted in such way that both countries mutually benefit.

Clearly, because South Africa is small compared to China, it must 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 better deals.

It will be important that South Africa forge a partnership between its government, business, labour and civil society, to provide the capacity to come up with competitive strategies against not only China, but or other emerging and industrial country competitors.

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

South Africa has the largest indigenous Chinese diaspora communities in Africa: it is a tragic waste that the South African government is not using the skills of these South Africans to help forge the most strategic approach towards China. ■

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