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FPC Briefing: Challenges facing South Africa-China relations

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South Africa's apparent current strategy of bending backwards to appease China, is raising the spectre of undermining hard-fought democratic gains by allowing the Asian dragon to buy up all the strategic sectors of the economy. This will only lead to a new form of colonialism, this time, not from Western powers, but from the East.

The harsh reality is that bending backwards to accommodate China will bring little new benefits. South Africa's best strategy would be to play China off against other emerging markets such as South Korea, Turkey, Brazil and India and with the industrial powers in the West in order to dramatically expand its trade with a rising Africa. South Africa must make China work hard for the money, so too must other African countries.

It appears that there are huge expectations within the South African government that China may become a big financier in the R850 billion infrastructure roll-out. If foreign finance is sought, it would be an absolute folly for South Africa not to seek financiers across a large spectrum of emerging markets, including the old industrial powers, rather than just Chinese finance alone, because this will imprison South Africa to Chinese whims.

China's hard-nosed strategy has been to portray itself as different to the West in its dealings with Africa, supposedly more 'fair', more developmentally orientated and more altruistic. Don't be fooled. China's involvement in Africa and South Africa has nothing to do with charity and wanting to help: it wants to make money out of Africa, and wants raw materials and land access to the continent's markets.

Of course, there is no doubt that China should be a key geo-political ally for South Africa as a pillar of the country's foreign policy strategy is to make global trade and economic and political architecture – currently stacked against African and developing countries, in favour of Western economies - fairer.

The increasing power of China and other emerging markets appear to have already made many multi-lateral agencies scramble to bring on board developing country interests – previously for the most part ignored. Many developing and African countries – using a booming China and other emerging powers as alternative trade partners as a bargaining chip – are already able to extract better terms from industrial powers and former colonial powers on deals.

Diversifying markets for South Africa's products away from current industrial powers - traditionally the country's dominant trade partners in the European Union and North America, many of whom face the prospect of economic decline - in favour of cash-flush new emerging markets, both as new markets and sources of finance, is also a key strategic foreign policy goal.

The strategy of diversifying trading partners should be about trading more with a whole new spectrum of emerging markets, such as Brazil, India, Russia, South Korea, Turkey, as well as Africa. South Africa should let China compete with other economies, such as Japan, South Korea and Western economies, for example, partnering on projects, such as the country's planned infrastructure investment drive.

Last year South Africa was outraged when Janice Linden, a 38-year old black South African woman was executed on December 12 by legal injection for allegedly being found in the possession of 3 kg of methamphetamine in the southern Chinese city of Guangzhou's airport in 2008. South African President Jacob Zuma tried but failed to secure a stay of execution. This failure to do so sparked anger across the country against South Africa's impotence to persuade a supposedly close ally and made many question why South Africa was going out of its way to accommodate China politically, while the Chinese appeared not to attach the same value to South Africa.

Home Affairs Director-General Mkuseli Apleni admitted that South Africa feared a "backlash" from China similar to those experienced by France and Australia after they allowed the Dalai Lama to visit their countries. The Dalai Lama visited emerging markets Mexico and Brazil before, without any seemingly political or economic consequences.

Some South Africans(including some sections of mainstream business, opposition parties) on the liberal conservative side (such as the Democratic Alliance) and the black conservative political spectrum, (such as the Inkatha Freedom Party), as well as some think tanks, oppose the whole idea outright that South Africa should have a strategic political and economic alliance with China. Many holding this view argue that South Africa's strategic alliances should remain with the industrial West – North America, Australasia and Europe. Europe is currently still SA's largest export market. Many activists on the left of the ANC-Cosatu-SACP also totally reject South Africa's embrace of China as a geo-political and economic ally.

Some leaders within the ANC-Cosatu-SACP tripartite alliance uncritically admire the Chinese development model, where democracy is conspicuous in its absence. Those who make such arguments are usually those who still embrace Soviet-style socialism – which influenced sections of the ANC tripartite alliance or those who have a very narrow view of democracy. These groups wrongly argue that democracy is an obstacle to development. They claim that China's dizzying economic growth rates 'prove' their thesis that democratic niceties in South Africa are an obstacle to development and public service delivery. Among this group number many of those who incorrectly argue that South Africa's constitution is an 'obstacle' to development. Chinese officials have been regularly inviting senior ANC leaders to 'workshops' in China and lecturing the more impressionable ANC leaders on the 'Chinese way' of pursuing economic development without democracy.

Currently, the trade deficit between China and South Africa is skewed in favour of China. South Africa exports cheap raw materials to China which does not create many jobs, while China exports labour-intensive, manufactured products. The latter create jobs and are more valuable, and are often, ironically, made from cheap South African raw materials and then exported back to South Africa in as more expensive finished products. Chinese exports can easily enter South African markets, but South African imports to China face a mountain of hurdles.

The ANC government has been under intense criticism by allies and opponents alike, for not aggressively and dramatically up-scaling its strategy of beneficiating (turning it from raw materials into value-add products) South African minerals; and for being too sluggish in boosting and protecting South Africa's - squeezed manufacturing sector – now universally seen as the area in which mass jobs can be created. South Africa should tax the export of raw materials heavily – including, or especially those being exported to China – if it is are serious about beneficiation[1].

Alarmingly, China is buying into 'strategic' sectors in the SA economy, such as platinum, rare metals and the financial sector – which should be driving South Africa's economic development.

Many executives of South African state-owned and private companies have warned about Chinese inroads into Africa – outmanoeuvring South African companies, both private and state-owned. They have asked for active South African government support for investment drives into Africa – or risk South Africans losing out to China in Africa – saying that Chinese companies have an unfair advantage in Africa because they are in effect subsidised by the Chinese state.

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 period in which to rebuild. South Africa could have introduced tougher protectionist measures, such as those endorsed by the WTO and implemented by the US and EU. Etienne Vlok, a textile industry analyst argues that China agreed to a much more watered-down bilateral textile pact with SA because it feared that South Africa would copy the US and EU and implement much harsher protective steps.

In May 2005, the US imposed temporary restrictions on textiles and clothes from China. The restrictions were permitted under the "safeguard" clauses signed when China joined the WTO in 2001. WTO members can use the clauses to limit sudden and steep rises in imports from China until 2008. China refused to renew the textile pact in 2009 and as a gesture of goodwill the South African government blocked a trip by the Dalai Lama to South Africa, in the hope that this would show its commitment to its relationship with China.

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

South Africa's ferrochrome producers have been calling for government support to help them compete with their Chinese counterparts. The Chinese government subsidises various raw material imports, including chromium, as part of fostering a beneficiation strategy. China imposes a 40% export duty on

[1] In this context the term describes the proportion of the value derived from asset exploitation which stays 'in country' and benefits local communities.

metallurgical coke, which is the sole ingredient that South African ferrochrome producers import — largely from China. Frans Baleni, the General Secretary of the National Union of Mineworkers says the Chinese were also stockpiling chrome and ferrochrome in order to dictate future commodity prices. This is the sort of Chinese behaviour that South Africa needs to respond to more strategically.

Chinese companies are actively purchasing shares in SA mining companies , appearing to focus on strategic minerals in the sectors in which struggling black miners are overrepresented. . Since most black miners lack access to finance, Black Economic Empowerment (BEE) (in which black shareholders gets shares in white-owned companies as part of economic redistribution), these deals are often financed by established (white-owned) mining companies lending would-be black buyers the money to purchase stakes in these assets. However, many of these deals have unraveled as black part-owners find it increasingly difficult to finance their debts through dividend payments. Many of these black miners are now hoping that Chinese companies can provide the required credit .

In Africa, China's strategy has appeared to one of securing trade by lavishing largesse on individual political leaders, particularly presidents and ruling parties. Many of Zuma's opponents allege that the president and his family have been on the receiving end of such Chinese favour – an allegation which the president has vehemently denied.

Trade unions and civil society groups in SA have consistently complained that Chinese companies in South Africa undermine basic workplace rights and environmental standards. Cosatu, for example, has insisted that all Chinese companies investing in SA sign minimum labour rights agreements.

But South Africa should also be more pro-active: identifying the sectors and areas that Chinese and other companies should invest in as part of a longer term integrated economic and infrastructure development plan. South Africa should assertively decide where development should take place, what should be developed and then partner with Chinese or other foreign investors in these home-grown targeted development initiatives. South Africa's mineral beneficiation programme is a good example.

Sadly, however the general pattern of Chinese investments in Africa appears to be that the Chinese decide what and where they invest in a particular African country, mimicking Africa's colonial, Cold War investments and aid-driven economic patterns, which brought economic growth with little industrialisation, broad-based development or new human development opportunities.

China needs SA and Africa's raw materials to keep on growing at a fast rate in order to keep the millions of impoverished Chinese on board. China also needs to export its products – light manufacturing and heavy machinery – to African markets, feed its hungry with food from Africa and benefit from jobless growth in Africa. The moment Chinese economic growth slacks and the economic benefits flowing to millions of poor Chinese slow, North African-style revolt against the one-party state will become a reality in China. That means China's long-term stability is uncertain: South Africa should not hedge all its bets on China.

China also needs SA as a strategic political ally, not only against the hostile West, but also to secure the friendships of other African and developing countries – which South Africa has strategic relations with. Many industrial countries are increasingly rejecting Chinese investments in their strategic sectors. Some industrial countries may appear to be on the decline, but this decline is not likely to be rapid, and may also be reversed, as in the case of Germany.

Moreover, the EU is still the biggest buyer of SA products: any rapid adjustments to make China the new market for all the products currently being exported to industrial nations are going to be very costly and painful to the South African economy. New emerging powers, such as China, may be flush with cash, but they have poverty, development and inequality challenges to overcome – if these are not managed well, this may ultimately undo their future political stability and economic prosperity. Neither ideology, nor romanticism should drive South Africa's strategic economic decisions: pragmatism and real life realities should.

At the heart of such a strategy with giant China, a tiny South Africa will have to box-clever. South Africa must improve the use of all the resources available to it, including from its public sector, private sector and wider civil society, the ideas, skills and finance to negotiate better deals. It will be important that South Africa forges a partnership between its government, business, labour and civil society, to provide the capacity to develop competitive strategies for dealing with not only China, but also other emerging and industrial country competitors. There are South African companies such as Sappi and SABMiller, who have done incredibly well in China and other emerging markets: their capacity must be leveraged to come up with better long-term country strategies.

For example, in the cases of the textile and ferrochrome sectors, sector partnerships between government, organised labour and business should be worked out to develop a strategic approach. Thus, SA negotiation teams need to be beefed-up with expertise from the private sector, civil society and academia, allowing South Africa to be able to adequately compete with China.

Most of the East Asian developmental states have forged an effective partnership between the public and private sectors to come up with common strategies to enhance their countries' competitiveness. In addition, domestic South African companies are currently sitting on a surplus cash pile which exceed GBP£45 billion, according to the most recent figures from Nedgroup Investments. Cooperative and trusted relationships must be nurtured between South African business and government in order to leverage this cash surplus for investment purposes, especially for infrastructure.

In general, South Africa's industrial, trade and labour market policies are not synchronised. A case in point is the attempt to make the South African currency more competitive against competitor currencies. These attempts are not coordinated with other macro- and micro-economic policies – which could help South Africa's struggling manufacturing sector. Another case in point is the South African state energy utility, Eskom's, rising energy prices despite the lack of a reliable power supply which is adversely affecting South African ferrochrome production. Nonetheless Interventions to overcome such inefficiencies appear to be slow and uncoordinated. Furthermore, 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 a more strategic approach towards China.

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