"Jekyll and Hyde: China and Southern Africa"

Published in Business Report by Peter Draper: Trade Research Fellow, South African Institute of International Affairs,draperp@mweb.co.za

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China is a rising, rapidly modernising power. Its manufacturing prowess grows daily; its overseas footprint measured through population and investment expansion abroad is increasingly felt. This translates into mounting geopolitical muscle, with China now on the fringes of coveted G8 membership; a permanent member of the UN Security Council; and a powerful player in the WTO.

Southern Africa, by contrast, is a region beset with problems. It is marginalized from the world economy - tenuously plugged into global FDI flows and dependent on northern markets for its commodity exports, tariff preferences and financial aid. South Africa is a notable exception, offering the best prospect for driving regional economic integration. Yet even SA has chronic social problems and, compared to East Asian developing countries, anaemic economic growth.

So what implications does China's emergence onto the global stage hold for Southern Africa? On the positive side of the balance sheet three dynamics are discernible.

First, there are opportunities in the "minerals nexus": exchange of Southern African minerals for cheap Chinese manufactured goods. China's manufacturing boom is fuelled by imported minerals. Southern Africa possesses a range of these (iron ore; oil). While China's boom continues exports of these minerals will increase and Chinese investment in the region to secure sources of supply is likely to grow.

Furthermore, if China's rapid economic growth is sustained then these commodities' prices will be underpinned thus mitigating the age-old problem of the commodity exporter: declining terms of trade. This would support fragile balance of payments positions in the region and alleviate pervasive debt repayment problems.

Second, as more Chinese land is taken out of agricultural production and its urban population expands, so its imports of agricultural goods could rise. But China is investing heavily in genetically modified food technologies. These have the potential to greatly increase yields thereby reducing import needs. Still, Southern Africa has the potential to export food to China. Given regional incapacities this would promote Chinese investment into the region to secure food supplies.

Third, SA alone in the region also has potential to supply services into the Chinese market. For example SA has a world class financial services sector, and our construction companies are internationally competitive. These services are critical inputs into any economic process and are poised to benefit from supporting regional trade expansion associated with deepening economic ties with China, potentially establishing a virtuous economic circle.

The negative side of the balance sheet has four discernible entries.

First and foremost imports of cheap Chinese manufactures are displacing regional production in domestic and third country (primarily northern) markets. This has generated major political tensions and concomitant agitation for protection. In the WTO it has also buttressed demands from African countries for the West to preserve current preferential market access levels under schemes such as AGOA and GSP.

Second, this raises troubling questions about the region's industrial trajectory, particularly SA's. This has two dimensions. First, in light of China's secular expansion fears are growing that Southern Africa is being condemned to primary products exporter status. Second, in a regional context of pervasive unemployment, questions are being raised as to where future employment growth will come from. These concerns are reflected in SA's export profile to China: in 1993 advanced manufactures accounted for 50 percent of total SA goods exports to China whilst resource and intermediate products constituted the remainder; in 2003 advanced manufactures accounted for just 8 percent of the total whilst resource and intermediate products constituted 92 percent.

Currently SA's labour-intensive sectors are shielded by high tariffs. However, with WTO negotiations underway and an expanding free trade agenda, including China, those tariffs are under pressure. So however you look at it, potentially serious dislocation lies ahead for the region's labour-intensive industries. Restructuring is imperative but will be painful.

Third, much depends on the extent to which regional governments invest in appropriate supply-side capacities to support minerals and food exports. The needs are huge, and the track record is not good.

Fourth, there are balance of payments issues. Using SA as a prism, its bilateral trade with China has grown rapidly over the last decade, especially in the last five years. SA figures indicate a large and rapidly widening trade imbalance. Whilst Chinese figures tell a different story, in SA the deficit is a political football and lightening rod for alarmists.

Yet a large bilateral deficit need not be a major cause for concern: what matters is a country's overall balance of trade, not bilateral imbalances. Even if the overall trade balance is in deficit the issue is whether this is driven by consumption or investment expenditure. In China's case both apply: cheap consumer goods (clothing, footwear and electronics) and data-processing equipment. Furthermore rapidly rising imports offset the potential for Dutch disease (whereby currencies appreciate owing to windfall gains from commodity exports) effects to throttle the manufacturing sector.

This analysis would be incomplete without considering geopolitical questions and associated space for multilateral cooperation.

In the WTO Chinese and Southern African (not including SA) interests are starkly opposed. China has a strong interest in securing greater market access into developing country markets, including Southern Africa. Its membership of the G20 grouping puts it on a collision course with Southern Africa which is associated with the G90 coalition that seeks to block progress in the WTO.

Yet in other key multilateral institutions there is scope for collaboration. In Southern Africa China is regarded as a growing counterweight to Western powers. Lingering resentments associated with colonisation account for the distrust accorded to the latter in many countries in the region. These powers control the key institutions so determinative of the regions future, notably the IMF and World Bank. Whilst China is not about to dominate these institutions, its growing influence is regarded positively. And China has a growing interest in securing African votes in the UN Security Council.

Yet the Darfur crisis, principally China's support for Khartoum, starkly revealed the dark side of China's growing involvement in Africa: its thirst for oil trumps humanitarian considerations. The perception of scant regard for Western norms of corporate governance amongst the Chinese investment community compounds this. And the fact that China's FDI thrust into Africa is dominated by its state-owned corporations places the spotlight firmly onto the Chinese government. Hence there is a reality check on both sides as the limits to collaboration are revealed.

Clearly fraternal ties will not be enough to sustain this burgeoning relationship into the future.