Strengthening Africa's Economic Performance

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CHINA'S ECONOMIC TAKEOFF: IMPLICATIONS FOR AFRICA

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Executive Summary

The rise of China as a great economic power is one of the defining events of the early 21st century. After 25 years of economic reform, that country enjoys robust growth momentum and is rapidly emerging as one of the world's leading trading nations. Its exports are nearly US$800 billion and could overtake those of the United States and Germany by 2009. China's manufacturing output now exceeds US$1 trillion and could be larger than America's within five years. As a result, China has emerged as a huge importer of raw materials. Its share of global base metal consumption now exceeds US levels, while its fuel consumption is second only to that of the United States.

The rise of China will have important implications for Africa. China's trade with Africa is growing rapidly because of its need for commodities. Trade in 2004 was nearly US$30 billion and could rise to US$100 billion within five years. China is also emerging as an investor in African natural resource projects and is now a major player in the oil sectors of the Sudan, Nigeria, Algeria, Angola, and Gabon.

It is difficult for Africa to compete with China in terms of production, because the continent's low labour costs cannot offset other disadvantages such as infrastructure, transportation costs, and — specifically with regard to the textile industry — the sheer productivity of China's huge textile plants. Africa can respond to the Chinese challenge in the short term only by pursuing policies that maximise labour market flexibility, restrain tax rates, and attempt to improve the infrastructure that is critical to international trade, especially ports, railways, and roads.

South Africa should recognise the full consequences, economic and political, of China's imminent great power status and attempt to play a leadership role in shaping China's new African policies. If Pretoria could become influential in Beijing, it would not only achieve greater power on the African continent, but would also enjoy greater respect in Washington, Tokyo, London, and other capital cities concerned about the rise of China. As a consequence, South Africa should regard its China policy as one of the critical foundation stones of its global foreign policy, not just as an appendage of its trade policy. South Africa does not regard Britain and America only as trading partners. The same should now be true of China.

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Introduction

There is little doubt that China's rise as a great economic power has become one of the dominant issues of our time. The Chinese economy has enjoyed nearly two decades of 8–9% output growth. After recent gross domestic product (GDP) revisions, it is estimated that the value of the Chinese economy is now close to US$2.2 trillion or the fourth-largest economy in the world. But adjusted for purchasing power differences, China now has the second-largest economy in the world. Its influence in world markets is demonstrated by the fact that it is now a larger consumer of most industrial raw materials than the United States. Resource-rich countries such as South Africa have benefited from China's new role in the globalisation of manufacturing and trade.

There is great controversy among economists about the near-term outlook for the Chinese economy. Many believe that capital spending has been so robust that it will soon have to turn down. Others are concerned that a consumer slowdown in the United States during late 2006 could dampen Chinese output growth in 2007. Most economists believe the government will stimulate domestic consumption by reducing taxes on low-wage workers and farmers. The debate is further clouded by a lack of transparency in the data. Some purchasing agent indicators have turned down in recent months, while others are still robust. While there are many cross currents in the outlook, the odds are high that China will sustain a growth rate of at least 7–9% during the next five years. The growth rate of capital investment is likely to slow, not decline. There is huge pent up demand for both residential real estate and consumer goods. Foreign investors are recapitalising China's banking system and will now focus it more aggressively on consumer lending. The government itself believes that it is essential to sustain a high growth rate in order to produce jobs and sustain the legitimacy of the Communist Party. All these factors suggest China will remain a global growth leader for several more years.

Historic Comparisons

While many regard China's recent economic takeoff as a unique historical event, it should actually be regarded as the re-emergence of China as a great power. The fact is that China was the world's leading economy for many centuries before the Industrial Revolution started in Britain in the late 18th century. Angus Maddison estimates that China accounted for a third of global output in the mid-18th century, while India accounted for another quarter. China and India were also pioneers in many forms of technology.

The decline in the economic importance of both China and India resulted from several factors. Britain launched the Industrial Revolution during the 18th century, which vastly reduced the cost of producing many goods. Britain and other European countries also dispatched seafaring adventurers to the far corners of the world to establish settlements and carve out colonies. The growth of trade promoted both Britain's economic takeoff and the expansion of the British Empire. China had an active trading relationship with many other Asian countries one thousand years ago and collected tribute from several states in the region. Many Chinese also emigrated to South-East Asia and established settlements there. In the 15th century, China dispatched great fleets to locations as far away as Africa, but the emperors turned inward during the Ming dynasty (1368-1644) and remained isolationist for most of the Qing dynasty (1644-1911).

The European powers penetrated China during the 19th century. The 20th century brought the end of the monarchy in China, regional civil wars, and a Japanese invasion during the 1930s. The Communists established control in 1949 and promptly nationalised most of the economy. Mao's Great Leap Forward produced a severe famine in the late 1950s in which 30 million people died. He then launched the Cultural Revolution and produced nearly a decade of chaos, which caused China's per capita income to decline by over 10%. Between 1953 and 1977, the country's share of global trade fell from 1.5% to 0.6%. An examination of the relationship between the Indian and Chinese economies is very useful in understanding Chinese history. In the 1950s, India's per capita income was 40% higher than China's. It remained greater than China's until the late 1970s, when China's per capita income exceeded India's for the first time in the 20th century. After 25 years of economic reform, China's per capita income is now more than double India's.

China's economic success is not unprecedented, although it is certainly unparalleled in terms of scale. There were several countries in Asia and Europe that also enjoyed high rates of growth during their periods of economic takeoff in the decades after World War II. Japan's economy grew at an annual rate of 8.8% during the 1950s and 10.5% during the 1960s. West Germany's economy expanded at an annual rate of 8.2% during the 1950s. South Korea's economy grew at annual rates of 8.7%, 9.6%, and 9.1% during the 1960s, 1970s, and 1980s, respectively. Taiwan enjoyed growth rates of 8.5%, 10.0%, and 9.2% during the 1950s, 1960s, and 1970s, respectively. Singapore's growth rate was 9.2% during the 1950s and 9.0% during the 1960s. Israel grew at an annual rate of 10.7% during the 1950s, while Iran achieved a growth rate of 10.0% during the 1960s. Brazil had a growth rate of 8.1% during the 1970s. Vietnam has enjoyed a growth rate of 7.6% since the early 1990s. China's high growth rate has produced a real per capita income for the people equal to about one quarter of Korea's. If China could sustain its current high growth rate for another three decades, its per capita income could catch up with Korea's. In such a scenario, China would have a real GDP adjusted for purchasing power parity (PPP) twice as large as the US.

The contrast between previous high-growth countries and China lies both in the sheer scale of the takeoff and far less favourable initial conditions. China has over 1.3 billion people, compared to four million for Singapore, 22 million for Taiwan, and 120 million for Japan. China also entered its era of economic reform after 30 years of communism, which included a decade of chaos during the Cultural Revolution (1966–76). Other high-growth countries also suffered great damage during World War II, but they had the advantages of the framework of a market economy with private ownership of property. China is still establishing the institutions of capitalism and the rule of law. The great challenge now confronting the country is to complete the transition to a transparent market economy with a democratic form of government.

China's Successful Policy Choices in the Reform Period

Several factors explain China's economic success since the 1970s.

Firstly, Deng Xiaoping introduced incentives to maximise agricultural output in the late 1970s. These produced a large rise in the incomes of farmers and thus created a greater market for a wide range of consumer goods. China's farm output grew by 21% during 1979, 12.1% during 1980, 11.5% during 1981, and 11.7% during 1982. It then averaged a growth rate of 8.1% for another six years. China's per capita food availability in the countryside rose from 1,700 kcal per day in 1960 to 2,570 kcal per

day in 1995, well above the World Health Organisation's minimum standard of 2,100 kcal per day.

Secondly, China has pursued a policy of market opening and integration with the global economy far more aggressively than Japan and Korea during their initial years of economic takeoff. China's export share of GDP is about 38%, compared to only 10% for Japan during the 1950s and 1960s. China has attracted over US$600 billion of foreign direct investment (FDI) or the third-largest stock in the world after the United States (US$1.5 trillion) and Britain (US$771 billion). In 2004, multinational firms in China generated a trade surplus of US$14.6 billion, compared to a deficit of US$14.1 billion during 1996, when they were importing capital goods. It is estimated that two-thirds of China's FDI comes from other Asian countries, especially Hong Kong and Taiwan. The Asian companies that have invested in China have turned the country into a final assembly point for components and parts produced in Korea, Taiwan, Malaysia, and elsewhere. As a result, a large share of the value added in China's foreign trade belongs to other Asian countries. During the first four decades after World War II, Japan and Korea discouraged FDI in order to protect local companies from foreign competition. On the eve of the East Asian financial crisis in 1997, there was only US$17 billion of FDI in Japan and US$12 billion in Korea. This policy helped to nurture highly successful global companies in Japan, but it produced great trade tensions with the United States and other countries. It would not be an exaggeration to say that China now has an economy far more dependant upon foreign trade than the United States, Europe, and Japan. China therefore has a greater stake in an open global economy and the Doha trade round than any other industrial country.

Thirdly, China has the highest savings rate in the world. The Chinese are incentivised to save because of the disappearance of social welfare provided by the state. As a result, China has been able to finance an investment share of GDP that approached 40% last year while still running a current account surplus. When the investment share of GDP exceeded 40% in Thailand, Malaysia, and Korea during the early 1990s, they all ran large current account deficits. It was this dependence upon foreign capital that helped to set the stage for the great East Asian financial crisis of 1997–98. Most of the East Asian countries generated high growth rates during the 1970s and 1980s because they had high levels of both savings and investment. China's experience is very similar, but its savings and investment rates are even higher than was the case in other Asian countries. As a result, it has the potential to generate an even higher growth rate without running the risk of a balance of payments crisis.

Fourthly, China has placed a high priority on the establishment of hard infrastructure for promoting industrial development. The country has 30,000 kilometres of expressways, or ten times more than India. China has privatised several expressways on the Hong Kong Stock Exchange. The country suffered power shortages last year but is now investing billions of dollars in new power-generating facilities, including nuclear power stations. The *Financial Times* recently reported that China could have a power surplus by 2008. It loses only 7% of its power output in distribution and transmission, compared to 26% for India.

Fifthly, China has made it easier for entrepreneurs to establish businesses than many other developing countries. It takes 75 days and costs 55% of annual per capita gross national income (GNI) to establish a business in China, compared with 126 days and 97% of per capita GNI to start a firm in India. It takes 41 days to register ownership of property in China, compared to 85 days in India, while it takes 33 days to enforce a contract in China, compared to 103 days in India. China's long-established informal lending market (estimated to be at least 50% as big as the banking system) has fuelled small businesses. In contrast, the World Bank produced a report last year

suggesting that many African countries have significant bureaucratic obstacles to creating new businesses.

Sixthly, China has been more successful at restraining corruption than many other developing countries. The most commonly used measure of corruption is the Corruption Perceptions Index compiled by Transparency International. This index is a composite of more than a dozen independent surveys of business-people and country analysts carried out by organisations such as the World Bank, Freedom House, the Economist Intelligence Unit, and the World Economic Forum. In 2004, China ranked 71st out of 145 countries, with an average score of 3.4. In the rankings, zero is the worst possible score and ten is the best. China's score does not appear very impressive, but when adjusted for income levels it appears highly competitive with other countries. Within emerging Asia, China scores well above Indonesia, the Philippines, India, and Pakistan. It is on a par with Thailand, but below the rich Asian economies of Korea and Taiwan.

The combined effect of these factors has been two decades of very rapid economic growth. The driving force of robust output growth has been large gains in productivity, starting with agricultural reforms during the last 1970s and culminating in the structural changes that resulted from the decision to join the World Trade Organisation (WTO) five years ago. Economists estimate that China's total factor productivity growth has averaged about 3.6% per annum and thus accounted for about 36% of all growth. The surge in productivity coincided with the state-owned enterprises' share of industrial output declining from 80% in 1978 to about 20% recently. According to a recent Organisation for Economic Co-operation and Development (OECD) study, the total factor productivity growth of private industrial enterprises was more than twice as fast as that of the directly state-controlled enterprises and at least 60% faster than that of the indirectly state-controlled enterprises. The state-owned enterprises, which have survived 20 years of economic reform, are also now improving productivity.

China's Export-Driven Success

It is the globalisation of China's economy that has provoked widespread concerns in Washington and elsewhere about the rise of that country as a competitive force and potentially unfair trading partner. The trade statistics for China since the 1980s are truly daunting. Its exports have grown by 13% per annum since 1981 and by 18% per annum since 1991. Its share of world exports has risen from 1.1% in 1981 to 6.8% in 2005 and thus made China the world's third-largest exporting nation after the United States and Germany. If the growth rates of the past decade can be sustained, it could overtake the US in 2008 and Germany in 2009. China's merchandise imports have also grown rapidly. Their growth rate has averaged 16% since 1991 and they are now 6.1% of the world total.

The rise of China and India as players in the global economy is having a profound impact on how firms conduct business world-wide. It has greatly increased price competition and produced large savings for all consumers. Despite the large rise in oil prices since 2003, bond yields have remained subdued because of investor confidence that inflation is going to remain restrained. The rise of China has coincided with a large rise in the profit share of GDP in all the industrial countries and a sharp slowing in the rate of wage growth. Corporations have told trade unions and their employees that China is forcing them to restrain costs in order to remain competitive. Some politicians have protested the income distribution consequences of globalisation, but they cannot reverse the effect without resorting to highly protectionist trade policies.

There has been a major change in the composition of China's foreign trade during the past decade. There was great excitement in early 2005 about a surge of China's textile exports as a result of a relaxation of global quotas, but the textile share of its exports has declined from 24% in 1997 to 14% in 2004. Footwear has likewise fallen from 4.5% of total exports in the mid-1990s to only 2.5% recently. Conversely, exports of new and high-technology products have climbed from less than 15% of the total in 2000 to nearly 28% in early 2005. China's trade balance in these products has swung from a US$17 billion deficit in 2001 to a US$4 billion surplus last year. The country also became a net exporter of auto parts during the first half of 2005.

United States and China Growth Potential, 21st Century

	1	2	3		4	5	6		7	8	9	10
Aver. Annual	GDP Growth Rates			Thous. 2005	GDP/Capita			Trillion 2005	Total GDP			Xrate/ PPP
		China				China				China		
%	US	Xrate	PPP	US$	US	Xrate	PPP	US$	US	Xrate	PPP	Ratio
2005				2005		1.7	3.5	2005	12	2	5	2.00
2010	3.0	9.0	5.5	2010	41.0	2.6	4.4	2010	14	3	6	1.70
2020	2.9	8.4	7.0	2020	45.0	5.6	8.3	2020	19	8	12	1.49
2030	2.9	7.8	6.7	2030	55.0	11.4	15.3	2030	25	17	22	1.34
2040	2.8	7.1	6.3	2040	66.0	22.0	27.0	2040	33	33	41	1.24
2050	2.8	6.4	5.8	2050	94.0	40.0	46.0	2050	44	61	72	1.17
2060	2.7	5.5	5.0	2060	112.0	66.0	74.0	2060	57	105	117	1.12
2070	2.7	3.7	3.3	2070	133.0	93.0	100.0	2070	74	150	162	1.08
2070	2.6	3.2	2.9	2070	156.0	124.0	132.0	2070	96	205	217	1.06
2090	2.6	2.8	2.6	2090	184.0	161.0	167.0	2090	124	269	280	1.04
2100	2.5	2.3	2.1	2100	215.0	198.0	204.0	2100	159	336	346	1.03

Source: Albert Keidel, Carnegie Endowment for International Peace: *China Exceeding Expectations*

The Chinese development model is in many ways unique, but the closest historical analogy is Japan. Japan began to industrialise during the early 20th century and it had a manufacturing sector that produced about 23% of national output in the 1920s, compared to over 50% for China today. The Japanese manufacturing sector relied heavily on foreign capital goods, but it did produce light manufactured goods for export, primarily because of the market in China. The United States was Japan's largest export market because of demand for silk. China was Japan's second-largest market, but in contrast to the United States, it purchased industrial goods, not primary products. Chinese imports from Japan were cotton piece goods, matches, timber, paper, and machinery. In fact, China accounted for 75% of Japan's manufactured exports before World War I. The Great Depression and World War II disrupted Japan's rise as a major exporter. However, during the late 1950s and 1960s, the rise in Japan's share of global exports was nearly as large as China's during the past ten years. Japan also had a voracious appetite for commodities and increased its imports from Australia tenfold between 1959 and 1974. But the export share of GDP averaged only about 10%, so Japan never came to depend as heavily upon foreign trade as China has during recent years.

There is little doubt that China's export success has been a by-product of the country's FDI boom. Foreign firms now produce over 55% of China's exports. If we look at the country's top ten exporting firms, four are from Taiwan, three are from the United States, two are from China itself, and one is from Finland. The two leading Taiwanese export firms have sales of US$8.1 billion each. The third-largest exporter is Motorola, with sales of US$5.7 billion, followed by HPC, with sales of US$4.1 billion. Nokia has exports of US$3 billion, while Intel has exports of US$2.1 billion. Among the next 20 largest exporters, nine are Chinese, eight are from Taiwan, and three are from the

United States. The 31st-largest exporter is LG of Korea, with sales of US$1.3 billion. The largest exporter from Japan is Toshiba Information Systems, which ranks 44th with US$1.1 billion of sales.

It is obvious from the data that Taiwanese firms are playing a decisive role in establishing China as a major factor in high-technology products. Taiwan accounts for 19 of China's top 100 exporters, compared to eight each from Japan and Korea. Taiwan's investment is now officially estimated at US$41 billion, compared to US$11 billion in 1997. Many analysts think it is really over US$100 billion. Taiwan's exports to China have quadrupled from US$10 billion in 1997 to US$48 billion in 2004. China displaced the US as Taiwan's largest trading partner in 2003 and took a hefty 36.7% of the island's total exports during the first half of 2005. There are also nearly one million Taiwanese expatriate workers – or 10% of Taiwan's labour force – on the mainland.

China's export boom has also greatly increased its level of trade with other East Asian countries. The country is now running large trade surpluses with the United States and Europe, offset by large deficits with Korea, Taiwan, Association of South-East Asian Nations (ASEAN) members,* and Australia. In 2004, China had a trade deficit of US$51.2 billion with Taiwan, US$34.4 billion with Korea, US$20.9 billion with Japan, US$20.1 billion with ASEAN, US$3.2 billion with Australia, and US$1.8 billion with India. In East Asia, China had a trade surplus only with Vietnam (US$1.8 billion). The East Asian countries have emerged as major suppliers of components and other material for reassembly as final manufactured goods in China. Korea, Taiwan, and Japan also provide China with a large volume of capital goods to help facilitate its investment boom. As a result of these changing trade flows, America's imports from East Asia have declined as a share of total imports, while imports from China have increased sharply.

China has also changed the relative weightings of Asian countries in global trade. The total Asian share of global trade during 2004 was 36.2%, compared to 34.8% during 2000 and 35.0% during 1994. China's share of global exports has increased to 8.8%, from 5.3% during 2000 and 3.7% during 1994.

China has been reducing tariffs for many years, but the most dramatic breakthrough in its trade policy was the decision to join the WTO in 1999. Membership of the WTO reduced tariffs to only 6%, from 32% in 1992, while subjecting China to the global rule of law on matters pertaining to trade and investment. American firms still have many complaints about China's protection of intellectual property rights, but membership of the WTO is forcing China to accept far more convergence with global business standards and laws than was the case previously. Former Chinese Premier Zhu Rongji sought WTO accession because he felt it would be a spur to forcing more modernisation and productivity improvement on Chinese companies.

Exchange Rate Policy

The great new issue in China's international economic relations during the past two years has been the exchange rate. China maintained a fixed exchange rate against the US dollar from 1994 until July 2005. During this period, there were large fluctuations in the real value of the renminbi because of volatility in the dollar exchange rate and the East Asian financial crisis. During the late 1990s, the real value of the renminbi

* ASEAN initially comprised Singapore, Malaysia, Thailand, Indonesia, and the Philippines (the original members); and subsequently Vietnam, Laos, and Cambodia. Burma is a limited member.

appreciated by over 30%, but there was never any change in the nominal value of China's currency *vis-à-vis* the US dollar.

In 2003, members of the US Congress became concerned about the rapid increase in the US trade deficit with China (US$125 billion) and began to allege that China was maintaining an undervalued currency to promote exports. They pointed to China's purchases of US Treasury bills as an example of currency manipulation. China responded that it had maintained a stable currency through the East Asian financial crisis, when other countries devalued sharply, and was not guilty of currency manipulation.

As a result of Congressional pressure, the Bush Administration began to lobby for a change in Chinese currency policy. At the 2003 International Monetary Fund (IMF) meeting in Qatar it helped to produce a G7 communiqué encouraging more currency flexibility in Asia. In 2004, US Treasury Secretary John Snow made numerous appeals for China to modify its exchange rate policy. In April 2005, the US Treasury produced a report threatening to allege that China was engaging in currency manipulation if it did nothing to modify the policy. The US Senate also passed a resolution threatening to impose a 28% tariff on Chinese imports if the renminbi was not revalued significantly.

China finally succumbed to this pressure in July 2005 by announcing a 2.1% revaluation of the renminbi and a move to a managed currency basket. It is unclear how much China will permit its currency to appreciate in the future. Most brokerage house economists estimate that the gain will be only 2–3% over the next year or an amount equal to current interest rate differentials. China is likely to move cautiously because of concern about its export industries, but it will have to allow some adjustment in order to contain American trade pressure.

China and the World Economy

The re-emergence of China as a great economic power is having profound consequences for the global economy. It has vastly increased the supply of low-cost labour in the global economy and is producing a major change in the composition of global trade flows. China now has nearly US$800 billion of exports and could become the world's largest exporting nation within three years. In five years, it could have a larger manufacturing sector than America's. China has already displaced the United States as the world's leading consumer of most industrial raw materials. It is also now emerging as a major investor in natural resource projects in Latin America, Africa, and Australia.

On the basis of current growth trends, China's economy could become as large as that of America in GDP terms by 2040. It will still be a much poorer country in per capita GDP terms, but if its GDP is as large as America's, it will still have profound consequences for global trade and capital flows. It is even conceivable that the IMF and the World Bank will have to move from Washington to Beijing, because China could emerge as the largest shareholder in both organisations.

There is great apprehension in Washington, Tokyo, and other capitals about the re-emergence of China as a great economic power. The US Congress is alarmed about America's large trade deficit with China. The Pentagon is concerned about China rivalling America's traditional military supremacy in East Asia. China is stressing that it intends to become a great power through peaceful means and not through aggressive military policies. It has joined multilateral organisations such as the WTO, the Asia-

Pacific Economic Co-operation forum (APEC), and the ASEAN regional forum in order to demonstrate its willingness to be a responsible stakeholder in the global system. It is also proposing the creation of an East Asian regional trade area in order to demonstrate its desire for co-operation with its neighbours.

As exports now account for 38% of China's GDP and foreign firms produce nearly 60% of China's exports, the country has a much higher level of integration with the global economy than the other great economic powers. The United States, Japan, and Europe have export/GDP ratios of only 10–12%. China's dependence upon the global economy will be a major constraining influence on its foreign policy, and it will have to support an open world trading system and other policies consistent with global economic integration in order to promote its own economic wellbeing.

Implications for Africa

The Chinese economic takeoff has so many unique characteristics that it is not easily transferable to other countries. China's level of savings is the highest in the world. It has a large Diaspora of overseas Chinese who have provided both capital and managerial talent to support the rise of a significant manufacturing sector. Its capacity to attract huge flows of FDI despite a weak rule of law is unprecedented.

The Chinese experience does have some lessons for Africa, despite its unique characteristics. The first is that developing countries should attempt to have a high level of savings in order to promote investment. Most African countries have savings rates that are only about one-third those of China's. Africa has also experienced far more capital flight than China.

The second lesson is that African countries should attempt to attract FDI. In the early decades after independence, it was difficult for Africa to attract FDI because of problems with governance. Many countries had experienced military coups and thus had no rule of law. Some countries, such as Tanzania and Zambia, pursued socialist polices, nationalised existing foreign investment, and did not open the door to any new investment. In the past decade, many countries have improved their governance and have moved to attract foreign capital. But as Africa is still regarded as both poor and potentially unstable, the new investment has been highly concentrated in the natural resource sector. The largest flows have gone to oil development in Nigeria, Angola, Mauritania, and Equatorial Guinea. Zambia has also had some success in reviving its copper industry with Canadian mining companies. Some Taiwanese companies have located textile factories in Lesotho, Swaziland, and Madagascar because of US trade polices that have opened the door to textile imports from Africa via the African Growth and Opportunity Act. But there are few other examples of foreign firms making manufacturing investments in Africa. In fact, countries such as Lesotho and Swaziland have lost jobs during the past year because of the lifting of global textile quotas. The end of the quota regime has intensified the competitive pressure from China as well as India.

It is difficult for Africa to compete with China because the continent's low labour costs cannot offset other disadvantages with regard to infrastructure, transportation costs, and the sheer productivity of China's huge textile plants. Africa can respond to the Chinese challenge in the short term only by pursuing policies that maximise labour market flexibility, restrain tax rates, and attempt to improve the infrastructure that is critical to international trade, especially ports, railways, and roads.

Africa may have an opportunity to compete with China after 2015 when the growth rate of the Chinese labour force will slow to zero. Africa will have a young and growing population when many Asian countries will start to experience declining populations. But Africa will be able to attract sufficient FDI to become a player in global manufacturing only if it can make further progress in improving the quality of its political governance. Foreign investors will want to see signs that African governments can control corruption, maintain adequate infrastructure, and provide reliable public services with low tax rates. They will shun countries experiencing military coups, ethnic unrest, or the highly authoritarian policies that have characterised Zimbabwe during recent years. They will not want just strong governments; they will also want honest governments promoting the rule of law.

In 2000, Beijing created the Forum on China-Africa Co-operation (FOCAC) as a vehicle for expanding Sino-African economic, trade, and political links. The two triennial FOFAC conferences held so far (Beijing in 2000, Addis Abba in 2003) enjoyed high level representation, including African presidents and deputies, prime ministers, and foreign ministers. China's president, vice-president, and premier were present at the Beijing meeting. Premier Wen Jiabao attended the Addis Abba conference in December 2003.

China recently issued its first position paper on relations with Africa. The paper was timed to coincide with the 50th anniversary of China establishing diplomatic relations with Egypt, the first Arab and African country to recognise the Communist government in Beijing. China now has diplomatic relations with 47 out of Africa's 53 countries and may soon persuade Chad to withdraw its recognition of Taiwan. This paper takes a very positive view of China's relationship with Africa, pledging more co-operation on many fronts, including trade, investment, and sharing experience in governance and development.

The paper hails the FOCAC, saying it has become an effective mechanism for collective dialogue. The paper also encourages more bilateral co-operation, as well as meetings of foreign ministers, trade ministers, and experts on science and technology. In 2004, Sino–African trade reached US$29.5 billion, compared to US$19 billion in 2003. A senior economist at the Chinese Ministry of Commerce predicts it could rise to US$100 billion within five years. Chinese firms have also begun to invest in several African countries, including the Sudan, Nigeria, Zambia, Sierra Leone, Gabon, and Algeria. As a result of China's immense need for commodities, there is great potential for further significant expansion of Sino–African trade. In the past, former European colonial powers such as France and Britain have dominated both foreign investment and trade with Africa. In the future, China will emerge as a rival to their dominance by providing both an immense new market and numerous opportunities for investment in the natural resources sector.

South Africa and China

South Africa is the most developed country in sub-Saharan Africa. It therefore has a great capacity to both trade with China and learn from the Chinese experience in economic development. A few key lessons from China's experience stand out:

The first is that developing countries can benefit from a high level of savings and investment. China's high level of investment has provided the economy with a powerful growth engine, while its high level of savings has lessened its vulnerability to any sudden changes in global capital flows. South Africa has a poor ranking on savings and investment when compared with China, and has long had a relatively low level of

both savings and investment. In 2005, the country's gross savings rate was only 13.3%, compared to 15.8% in 2000 and a previous peak of 33.9% in 1980. The low gross savings rate has resulted from a collapse of personal savings. In 2005, the household savings rate was only 0.2%, compared to 1.2% in 2000 and 11.3% in 1980. The corporate savings rate has also declined, but not as steeply. In 2004, it was 3.5%, compared to 4.3% in 2000 and 11.2% in 1980. The most stable component of savings has been depreciation, which was 12.4% in 2004, compared to 12.9% in 2000 and a previous peak of 17.6% in 1986.

The low level of savings has been matched by a low level of investment. South Africa's gross fixed capital formation as a share of GDP was 17.1% in 2005, compared to 15.1% in 2000 and a previous peak of 21.5% in 1975. The investment decline has been concentrated in the general government and public companies. The government's investment share of GDP has slumped from 8.6% of GDP in 1976 to 2.8% during recent years. The investment share of public enterprises has fallen from 3.1% in 1975 to 1.8% during 2004 and 2.1% last year. The sharp decline in government investment has resulted from South Africa's new political situation. The National Party spent heavily on projects for national security, but the African National Congress (ANC) has curtailed such spending. It has also reduced the defence spending share of GDP from 5.5% in 1989 to a projected 1.6% in 2008. The two positive trends in the savings and investment balance are that private investment has increased, while government deficits have declined. The corporate investment share of GDP has risen to 12.2% from 10.8% in 2000, 9.2% in 1990, and 10.1% in 1975. The government has reduced its fiscal deficit from a peak of 7.3% of GDP during the early 1990s to 2.1% last year. The ANC government has achieved deficit reduction by restraining spending and improving tax collection. Investment by public companies has declined because the government has been privatising major state-owned enterprises such as Sasol and Telkom.

The new challenge for South Africa will be to provide an adequate level of infrastructure investment while boosting the level of private investment. The country has major infrastructure problems in its ports and railway system, which are inhibiting exports of commodities such as coal. Private investment suffered during the early years of the recent political transition because business-people were uncertain about how the new government would behave. As the government's macroeconomic policy has been responsible, South Africa's credit ratings have improved and there is a higher level of business confidence in the economy than ever before. The new concerns centre on microeconomic policy, such as black economic empowerment. Companies must develop an effective empowerment strategy in order to satisfy the government's objectives in this regard. Most firms have been successful at finding empowerment partners, but there are still problems regarding dilution costs associated with selling shares to new investors at discount prices.

There is no simple explanation for South Africa's low savings rate. The country has a high level of institutional savings, and pension fund assets are worth R428 billion. One of the problems with the savings rate is a low level of discretionary savings, which probably has two causes. Firstly, the county has a high level of income inequality and is in many ways a dual economy. In 1970, the white population received 70% of income, despite the fact it accounted for only for only 20% of the population. The white share of personal income is now 43% and will probably decline to 40% by 2007. The Gini coefficient of South Africa today is close to 0.59, compared to 0.44 for China in 2004 and 0.25 for China 30 years ago. There is a modern sophisticated economy encompassing most of the white, Indian, and coloured population, but a large share of the black population still lives in a rural subsistence economy that probably has a savings rate close to zero. Until recently, banks and other financial institutions also did

not provide any services to a large share of the black population. Secondly, there has been a large decline in the level of interest rates during the past four years because of the strength of the rand and declining inflation. This decline is encouraging a boom in household borrowing for mortgages, car purchases, and other forms of consumption, which has further depressed an already low savings rate.

There is one other factor that has distorted South Africa's savings and investment performance, namely exchange control. The National Party government imposed exchange controls because of capital flight after the Sharpeville massacre in 1960. The controls were briefly relaxed during the early 1980s and then reimposed as the political situation deteriorated. In 1985, many global banks withdrew from South Africa, forcing the country to renegotiate its debt and run a current account surplus. The exchange controls made it difficult for the large mining finance companies and other firms to export capital. As a result, they had to reinvest only in South Africa. This trend led to a few large conglomerates dominating the South African stock market and economy. The mining houses invested in numerous other sectors, while also buying out the assets of foreign firms withdrawing from the country because of sanctions. The closed economy that prevailed before 1994 distorted the price of capital, reducing the incentive to save. South Africa is now phasing out capital controls and giving corporations far more freedom to pursue opportunities all over the world. The liberalisation of capital controls should help to encourage a higher level of savings and more efficient allocation of capital. It will also help South African firms to become more effective global competitors. Anglo American Corporation made headlines a few years ago by moving its stock market listing to London in order to become a more effective player in the global mining industry. What is forgotten is that *Fortune* magazine ran an article in 1981 highlighting the fact that Anglo American was then the largest foreign investor in the United States. Through its affiliate, Minorco, Anglo American had US$15 billion of assets in that country.

Developing Country Investment Share of GDP

	2005		2005
Argentina	19.5	India	25.9
Brazil	18.8	Indonesia	23.2
Chile	25.2	Korea	28.3
Mexico	20.2	Malaysia	27.3
Venezuela	9.6	Philippines	29.4
Hungary	23.0	Singapore	23.8
Poland	18.2	Taiwan	21.4
Romania	23.5	Thailand	23.8
Russia	17.9	China	48.7*
Turkey	18.5	S. Africa	16.7
Ukraine	19.8		

Source: IMF

The second major lesson from the Chinese experience is that developing countries should pursue engagement with the global economy. This will help to bolster their exports, improve their access to capital, and encourage a more efficient allocation of capital, which will bolster productivity. South Africa has had a long history of engagement with the global economy as a result of its large mining industry. The country introduced protectionist trade policies during the 1920s in order to promote

* This chart shows the Chinese number at 48%-plus, a figure unheard of in economic history. However, the consensus number is around 40%, which is more sustainable.

local manufacturing of consumer goods, but it continued to rely heavily on imports of capital goods, as well as many intermediate products. The National Party government produced even more isolationist policies because of concern about military security and the threat of economic sanctions. However, the ANC government has pursed a policy of economic liberalisation and engagement with the global economy. It has reduced trade barriers, despite opposition from the trade unions, in sectors such as textiles. It has greatly liberalised exchange controls and allowed South African firms to invest globally. A few companies have changed their stock market listings to London. The ANC government has sought to attract more FDI, recently, for example, allowing Barclays Bank to take over ABSA, one of the country's four leading retail banks.

South Africa's export share of GDP has risen to an average of 29% of GDP during the past five years from 22–23% ten years ago, but it is still below the peak ratio of 32–33% that occurred during the late 1950s. The import share of GDP has also risen to a five-year average of 26.7% from only 17–18% during the early 1990s. Until recently, there was disappointment that South Africa had not attracted more FDI after the political changes of 1994. But in the early days of the transition, global companies were still uncertain about the stability of the new regime, while executives had personal concerns about issues such as the high crime rate.

During the past year, two major deals have been announced that suggest that FDI sentiment is changing. Barclays launched a takeover bid for ABSA worth R32 billion, while Vodafone has bought a stake in Vodacom for R15 billion. South Africa had US$46.3 billion of FDI in 2004, compared to US$43.5 billion in 2000 and US$13 billion in 1990. Its only rivals for FDI in Africa are oil producers Nigeria (US$41.4 billion) and Angola (US$17.3 billion). The total stock of FDI in all of sub-Saharan Africa is only US$140 billion. South Africa's stock of FDI is 21% of GDP, compared to 35% for the countries of West Africa, 52% for the countries of Central Africa, and 27% for the countries of East Africa. As a result of oil, Angola's ratio of FDI to GDP is 88%. Other successful developing countries tend to have higher ratios of FDI to GDP than South Africa. Chile is at 58%, Brazil is at 25%, and Mexico is at 27%, while Singapore is at 150%, Malaysia is at 40%, and Thailand is at 30%. But some countries lag behind South Africa: India is at 5%, Indonesia is at 4.4%, and the Philippines is at 14%.

South Africa has a longer history of attracting FDI than many other developing countries. In the late 1960s, its annual average FDI inflows were equal to about 1.6% of GDP. But the growing international opposition to apartheid stopped these capital inflows after the mid-1970s and turned them into outflows. During the 1980s and 1990s, FDI flows to developing countries rose dramatically, but South Africa was unable to share in the boom because of its political circumstances. The challenge now is to close the FDI gap with policies that inspire business confidence both in South Africa and overseas. If the country can sustain a healthy economy during the next five years, the odds are high that its ratio of FDI to GDP will rise into the 25–30% range.

The next major test for global business confidence will be the transition to a new president when Thabo Mbeki's term ends in 2009. The race for the presidency is currently wide open. Investors will be scrutinising the new candidates to determine whether they will continue to pursue responsible fiscal policies, keep the door to foreign capital open, and encourage racial reconciliation rather than adopt irresponsible policies like a Zimbabwe-style attempt at property theft.

There are many microeconomic policies that could also play a role in enhancing South Africa's potential for economic growth. China has a very flexible labour market that provides tremendous job opportunities for people moving from the countryside to the cities. South Africa has had strong trade unions since the 1970s and they have created

a labour market with far more rigidities. It is essential that the government create a more liberal labour market in order to encourage employment creation.

The Davos World Economic Forum has produced a report on African competitiveness that compares the performance of South Africa to that of both African and global economies on the basis of several microeconomic indicators. South Africa generally has a high ranking compared to other African countries, but suffers in the global comparisons. South Africa ranks 11th among African countries in its savings rate, but ranks 71st when compared to 102 other countries. It ranks 6th in Africa for quality of its public schools, but 60th among 102 other nations; and ranks 21st among African countries in the quality of public services, but ranks 86th in the global comparison. And finally, it ranks 3rd among African countries in the quality of port infrastructure, but ranks 32nd out of 102 countries.

South Africa's Competitiveness Rankings

	Rank out of 25 African countries	**Rank out of 102 countries**
Growth Competitiveness Index Rank	3	42
Macroeconomic Environment Index Rank	3	40
Macroeconomic Stability Subindex Rank	6	41
Government Waste Subindex Rank	4	37
Country Credit Rating Rank	2	40
Public Institutions Index Rank	5	43
Contracts and Law Subindex Rank	5	40
Corruption Subindex Rank	4	48
Technology Index Rank	1	40
Innovation Subindex Rank	3	58
ICT Subindex Rank	2	44
Technology Transfer Subindex Rank (out of 77 non-core innovators)	1	3

Source: World Economic Forum, *Global Competitiveness Report 2003–2004*

The basic conclusion of the Davos survey is that South Africa has one of the most competitive economies on the continent of Africa, but still has to overcome many obstacles in order to be competitive on a global basis. The country ranks among the top five countries in Africa on the basis of comparisons of government competence, quality of public institutions, respect for contract law, and access to technology, but it typically achieves only 45–55th place in the global rankings.

Transparency International conducts an annual survey of corruption around the world. It asks people how they perceive that corruption affects their country's political system and business environment, and their personal lives. A score of one indicates little corruption, while four indicates a great deal. South Africans give a score of 3.2 for corruption in politics, 2.8 for business, and 2.2 for personal lives. The global averages for each are 3.2, 3.0, and 2.2. The best scores for political corruption are Austria (2.5), the Netherlands (2.5), and Japan (2.4). In the rankings for business corruption, the best scores are Austria (1.7), Denmark (2.6), and Germany (2.1). In the rankings for corruption in personal lives, the best scores are Austria (1.4), Denmark (1.8), Finland (1.3), France (1.4), Germany (1.7), Japan (1.5), Kenya (1.7), Switzerland (1.5), and the United Kingdom (1.6). These rankings suggest that South Africa has a score close to the global average for perceptions of corruption.

There are some business groups who are concerned that South Africa's exchange rate policy has become an adverse factor for the country's international competitive

position. Whereas China has a fixed exchange rate against the US dollar, South Africa has a floating exchange rate, which has fluctuated in a wide range during the past five years. After collapsing to nearly R14 against the US dollar in late 2001, the rand rallied all the way to US$1:R5.8 during late 2004 and has recently traded around US$1:R6.0–6.50. The rand's sharp appreciation produced a profit squeeze for the mining industry, as well as for manufacturing firms that depend upon export markets.

The Reserve Bank has been reluctant to introduce an exchange rate target because it would then be unable to control interest rates. During the 1990s, it permitted large interest rate fluctuations in order to stabilise the rand, despite the absence of a formal target. It eased monetary policy last April partly to limit rand appreciation, but it is likely to continue pursuing an *ad hoc* policy in managing the exchange rate rather than switch to any formal targets.

Implications for South Africa

South Africa had a close relationship with Taiwan during the period of National Party rule. The Taiwanese recognised the political changes occurring in the country during the 1990s and shifted their allegiance to the ANC. Mandela therefore continued the relationship with Taiwan until late 1996, while voting against China at the United Nations on issues involving human rights. Following Senegal's diplomatic shift at the end of 2005, there are now only six African countries that recognise the government in Taiwan — Burkina Faso, Chad, Gambia, Malawi, Swaziland, and Sao Tome and Principe.

China is now seeking to promote a closer relationship with South Africa because of its need for commodities and its perception that South Africa could offer an attractive market for its consumer products. South Africa should attempt to take advantage of China's needs by pursuing a closer relationship that will maximise the value of both trade and investment.

The world economy passed an important landmark during 2003-04. In those years, China displaced the US to become the world's leading consumer of most industrial raw materials. China's share of global copper consumption is now 22%, compared to 16% for the US, while China's share of global aluminium consumption is now 22%, compared to 20% for the US. China now produces almost 30% of the world's steel, compared to 10% for the United States and 5% for Japan. China has also displaced Japan to become the world's second-largest oil consumer.

As a result of this need for commodities, China is now pursuing free trade agreements (FTAs) with several commodity producing countries, including Australia, New Zealand, Chile, South Africa, and Saudi Arabia. It also has signed a closer economic co-operation agreement with Canada and may someday seek an FTA with Ottawa. South African mining companies are excited about the potential for exporting more to China. The major opponents of an FTA with South Africa are local manufacturing firms concerned about competing with China. The concern is especially great in the textile and clothing industries, because China has emerged as such a dominant power in the global textile trade. As a result of the lifting of the old global quota regime, Chinese exports of textiles and apparel have skyrocketed.

South African textile firms in urban areas have a cost disadvantage when competing with China. They pay workers about US$2.17 per hour, compared to an average of about US$0.70 per hour in China. In the clothing industry, South Africa pays US$1.38 per hour, while Chinese workers earn about US$0.88 per hour. South African textile

workers in rural areas earn about US$1.30 per hour. South Africa has cheaper labour than Mexico, but its urban wages are higher than in India, Egypt, Kenya, and Mauritius, not just China.

The South African government has been protective of the textile and clothing industries. Despite the move to trade liberalisation from 1994, the government retained a 22% tariff on textile imports and a 40% tariff on clothing imports. The goal of government policy has been to give the industry time to restructure. But both the textile and clothing sectors have been shedding jobs despite trade protection. The textile industry has reduced employment from 75,200 jobs in 1995 to 55,000 in 2000 and 48,000 in 2005. The clothing industry has lost about 37,000 jobs since 2000. It now employs 95,000 people in the formal sector and about 40,000 in the informal sector.

HOURLY COMPENSATION (US$ per hour, 2002)

Country	Textile Industry	Clothing Industry
Bangladesh	0.25	0.39
China	0.40–0.69	0.68–0.88
India	0.57	0.38
Kenya	0.62	0.38
Egypt	1.01	0.77
Mauritius	1.33	1.25
South Africa	2.17	1.38
Mexico	2.30	2.45

Source: Werner International Management Consultants, spinning and weaving labour cost comparisons (2002)

There is no simple solution to the competitiveness problems of South Africa's textile and clothing companies. As China is experiencing labour shortages in its southern provinces, there is upward pressure on wages. In Guangdong, wages have increased by 30% over the past two years. But as Chinese wages are still only about one-third of South Africa's urban wages, it may take at least 12 years of 10% pay growth to eliminate the pay gap. The growth rate of China's labour force is poised to slow sharply in the next ten years. Such a slowdown could reduce the country's supply of surplus labour and further boost wages. Africa, by contrast, is poised to experience a significant expansion of its population over the next few decades. The United Nations is projecting that the continent's population will rise from 793 million in 2000 to two billion in 2050, while that of China will rise from 1.275 billion in 2000 to 1.47 billion in 2025 and then begin declining. These demographics trends suggest that Africa could become a magnet for labour-intensive industry during the next half century. The problem for South Africa is the immediate differences in labour costs compared to both China and other countries in the region.

The value of the rand could also influence the textile sector's competitiveness. During the period of rand weakness in 2001–02, the South African clothing industry enjoyed an export boom to the US, but the recent sharp appreciation of the rand has undermined the industry's competitiveness. Sales of the textile sector have declined from a peak of R13.5 billion in 2002 to R12.4 billion in 2004. Industry officials estimate that there was a further 10% decline in 2005. Textile industry spokespersons say that their industry can be competitive with an exchange rate of US$1:R8. If China experiences an economic slump and the price of commodities falls sharply, it is possible the rand could drop back to R8 to the dollar in 2007 or 2008. But if commodity prices remain firm, the rand is likely to remain in a trading range of US$1:R6–7.

The most likely solution to the problem of the textile and apparel sectors in South Africa is quotas. China recently agreed to impose voluntary quotas on its exports of textiles and apparel to the United States and Europe, and has recently announced the same for South Africa. Such quotas should give the South African textile and clothing industries additional time to restructure for long-term trade liberalisation. The sectors will have to seek out niches in which they can be competitive and attempt to co-operate with the trade unions in boosting productivity. These industries have had powerful trade unions since the early 1930s, so work rules are not as flexible in South Africa as they are in China. The industries could also face a competitive challenge from India when tariffs are reduced as a result of WTO agreements. At present South African management consider India to be a modest challenge compared to China.

There has so far been very little investment in South Africa by China. Taiwan invested in the Bantustans during the apartheid era and currently has large textile factories in Lesotho and Swaziland, and in South Africa around Newcastle in KwaZulu-Natal and Botshabelo near Bloemfontein. China has not yet made any large commitments in either the South African minerals or manufacturing sector, but has been active elsewhere in Africa. China has purchased a copper mine in Zambia, developed large oil reserves in the Sudan, and made loans to the Angolan government in order to secure oil reserves there. In January 2006, the state-controlled energy company CNOOC announced a US$2.3 billion investment in Nigeria's offshore oil deposits. Chinese also have made many small African investments, including forestry in Equatorial Guinea, retailing in Sierra Leone, construction in Botswana, mobile phones in Zimbabwe, and pharmaceuticals in Ethiopia. In early 2005, Angola's energy minister told Reuters that as a result of his country's rapidly expanding economic links with China, as many as three million Chinese could move there during the next five years. As Angola has only 13 million people, such an estimate seems large, but there is little doubt that many more Chinese are moving to Africa because of the new economic links. In fact, the Chinese embassy in Pretoria estimates that there are now over 100,000 Chinese nationals living in South Africa. China's new focus on Africa suggests there is great potential for South Africa to develop far-reaching economic co-operation with Beijing.

South Africa has enjoyed some investment success in China. The Kumba Group exports iron ore to China, operates a major port there, and owns a Chinese zinc mine. The Naspers Group has enjoyed great success in China's Internet sector, where it controls a multibillion dollar company listed on the Hong Kong stock exchange that is a major player in the messaging business. It is ironic that a company that once served as a propaganda arm of the National Party should have enjoyed more success in China's media sector than global giants such as News Corporation and Time Warner. Anglo American has obtained exploration permits for gold, platinum, and diamonds. It also recently acquired a modest shareholding in China's largest coal company when it went public on the Hong Kong stock exchange. The odds are high that Anglo American will ultimately form joint ventures with Chinese firms to develop mines either in South Africa or elsewhere. Rio Tinto and BHP Billiton currently have major joint ventures with Chinese mining firms in Australia.

Conclusion

The rise of China as a great economic power now looms as one of the great challenges of the 21st century. China has the fourth-largest economy in the world when measured in nominal dollars, and the second-largest when adjusted for differences in purchasing power parity. In 2040, it could have an economy larger than America's. It has already become a larger consumer of most industrial raw materials than the US and its share is likely to rise further, because its manufacturing output could exceed America's

within the next five years. It will therefore offer an immense new market for raw materials and other products exported by South Africa.

South Africa has traditionally had a much closer relationship with Europe than Asia. The Europeans colonised South Africa during the 17th century and the rest of Africa during the 19th century. Europe has been the dominant market for South African exports throughout the country's history. The rise of China now offers an opportunity for shifting the global balance of power eastward. There is great apprehension in Washington about the rise of China, but the Chinese are stressing that they want to become a great power through peaceful means: they do not want to imitate the mistakes of Germany and Japan during the early 20th century. During the 1960s, China intervened in Africa on behalf of liberation movements in Southern Africa, and it helped to construct the Tan–Zam railway in order to reduce Zambia's dependence upon Rhodesia. In its new role as a global economic power, China has a very different agenda. It has turned to Africa for raw materials and is seeking to promote trade. It has become an investor in Algeria, Egypt, Nigeria, the Sudan, Angola, Zambia, Sierra Leone, South Africa, and other countries. It plans to boost its trade with Africa to US$30 billion during the next few years, from US$18 billion last year. As a result of the insurgency in the Sudan, China has deployed 4,000 military police there in order to protect its pipeline investment.

It is clear that China is going to become a rival to European power in Africa. Some African governments welcome China because Beijing is less critical of their human rights policies than governments in Europe and North America. Others welcome China simply because they want new investment and trade opportunities. South Africa is currently negotiating an FTA with China. President Mbeki should also attempt to enlist China in his New Partnership for Africa's Development (NEPAD) programme to improve political governance in Africa. He should encourage China to favour political regimes that share the goals of NEPAD and to avoid countries that have more authoritarian political agendas, stressing that China's new status as a great power should compel it to adopt a larger vision of its African interests than simply extracting raw materials.

China is now pursuing an active political agenda in South-East and Central Asia. It is proposing the creation of an East Asian free trade zone in order to reassure other Asian countries that it will not threaten their economic interests. As China now has a trade deficit with most Asian countries, they are supportive of Chinese proposals. China has also helped to create the Shanghai Co-operation Council in order to promote better economic and political relations with the countries of Central Asia. It is now buying a great deal more oil from those countries, and is also concerned about the increased American military presence in the region.

China does not yet have an explicit political agenda for Africa. It is pursuing opportunities for commodity development on a country-by-country basis, but is negotiating an FTA only with South Africa. The challenge for South Africa is therefore quite simple — it should recognise the full consequences, economic and political, of China's imminent great power status and attempt to play a leadership role in shaping China's new African policies. If Pretoria could become more influential in Beijing, it would not only enjoy greater influence on the African continent, but also experience greater respect in Washington, Tokyo, London, and other capital cities concerned about the rise of China. As a consequence, South Africa should regard its China policy as one of the critical foundation stones of its global foreign policy, not just as an appendage of its trade policy. South Africa does not regard Britain and America only as trading partners; the same should now be true of China.

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