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Highlights:

China: Dire Threat Or Dynamic Partner?

CHINA'S rapid economic expansion in the past decade evokes a litany of impressive, if not intimidating, numbers. The Asian giant's economy grew at 9.5% in 2004, despite official efforts to slow it down. The combined strength of mainland China, Taiwan and Hong Kong is $1.5 trillion. From 1990 to 2003, according to the World Trade Organisation, China's share of global exports rose from 1.8% to 34%, while its share of global imports rose from 1.5% to 40% in the same period.

Translated into the more digestible language of human supply and demand, as the South Africa-based Institute for Global Dialogue calculated, 'if the Chinese were to reach the American level of car ownership and oil consumption, it would require 80 million barrels of oil per day. Current global production is a little more than 64 million barrels.'

China's insatiable appetite for resources comes at a pivotal moment for Africa. Fifteen years after the fall of the Berlin Wall set off a wave of democratisation on the continent, concern for African poverty is rising to unprecedented heights on the global agenda.

Africa, consequently, stands at a crossroads. Will it meet this outside engagement passively or actively? The continent has vast deposits of the mineral and energy resources China seeks. But it also has critical points of leverage against Beijing. An active, nuanced policy toward China that balances long-term economic and security interests could accelerate progress on African priorities at home and abroad.

But a passive policy that looks no further than feeding China's appetite for raw materials contains grave dangers. China is a key player influencing whether the world averts its eyes from human rights abuses and civil wars. And its growing manufacturing prowess is a direct economic threat to Africa. How Africa responds to China is the subject of this issue.

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Verbatim

“This accord ends more than two decades of conflict. It can close a dark chapter in the history of Sudan and open the door to a promising future for all Sudanese. Sudan can now become an example of reconciliation. It can demonstrate to the world that even the most intractable conflicts can be resolved.” – Colin Powell, then US Secretary of State, in remarks at the ceremony for the signing of a peace accord in Nairobi on 9 January marking the end of the civil war in Sudan.

“We are going to have roads; we are going to have roofs; we are going to have nice buildings – if the implementation is done.” – Gordon Mappel, an administrator from the former rebel Sudanese People's Liberation Movement, on the town of Rumbek, which has been chosen as the south's administrative capital.

“It's time to revel in the promise of peace. There is nothing like today. There's nothing like peace.” – James Mariak, an 18-year-old from southern Sudan who has known only war in his lifetime, speaking to *The Christian Science Monitor* on the signing of the peace accord.

“We have no more debt with Britain – they have scrapped it all.” – Luisa Diogo, prime minister of Mozambique, after British Chancellor Gordon Brown announced that Britain had cancelled all of Mozambique's bilateral debt.

“What had happened in Darfur, despite its graveness, did not constitute a genocide crime.” – A finding from an official UN committee of inquiry on the humanitarian crisis in Darfur, where government troops and pro-government militias have allegedly killed more than 80,000 people and displaced about 2 million others.

“You are aware that Zimbabwe is having elections in March and Tanzania in October and we have talked about this and we felt confident that we will emerge victorious.” – Benjamin Mkapa, president of Tanzania, after talks with Zimbabwe President Robert Mugabe.

“I know you are hurt each time greedy politicians blame all our misfortunes on colonialism; when they try to explain their policies and acts of brutality against you through history; when they attempt to evoke memories of racism, inequality and even slavery as a cover up for their own bungling and lack of good governance. A new Zimbabwe shall seek to steer away from that view.” – Morgan Tsvangirai, president of Zimbabwe's opposition Movement for Democratic Change.

“We should go and serve the people of Somalia immediately, not sit here in Kenya.” – Abdullahi Yusuf Ahmed, President of Somalia, saying the new government needed to draw up a timetable to return to their home country. The fledgling government has no buildings to meet in and no civil service or treasury in Mogadishu, the Somali capital.

“Unfortunately, if Zambians made a mistake to elect me as president, they are stuck with me.” – Levy Mwanawasa, president of Zambia, apologising for failing to tackle poverty during his term in office. About 75% of Zambians live below the poverty line. Mwanawasa's term ends in 2006.

“I believe it is nothing more nor less than sorcery. It is also madness, bad faith, coupled with a dose of misinformation.” – Francois Bozize, president of Central African Republic, on the decision taken by seven opposition candidates to form a coalition to oppose him in the February elections. The group has been barred from running against the president by the Constitutional Court.

“We are not interested in regime change; we are interested in a complete system change.” – Ousainou Darboe, spokesperson for the Gambia's coalition of five main opposition parties, which seeks to unseat President Yahya Jammeh, who first took power in a military coup d'etat in 1994, in the upcoming presidential elections in 2006.

“People talk of other means in the cause of the spread of HIV/AIDS, but no one has ever talked of polygamy being the most cause.” – Henry Obbo, Uganda's state minister for labour and industrial relations.

“It's not permitted, in any cases at all, to use condoms. You can't use evil to do good. No to condoms! That's the Christian ethic.” – Francisco Cunlela, a priest teaching at Maputo's Pius X Seminary, dismissing concerns with a policy that requires candidate priests to take an HIV/AIDS test.

2005: The Year of Africa's Economic Turnaround?

AFTER years of stagnation, the continental economy shows signs of accelerating change, according to a variety of recently published research.

The International Monetary Fund estimated that 30 African economies grew faster than 4% last year and the continent as a whole is expected to grow at a rate of 5.4% in 2005. That average is not just a statistical quirk influenced by the big economies. Five of the world's 10 fastest growing economies are in Africa, and an estimated 26 countries on the continent will exceed 5% growth in 2005, the IMF projects.

Is Africa on the cusp of a sustained economic turnaround?

Long ravaged by hyper-inflation and wild changes in foreign exchange rates, the continent has achieved unprecedented macro-economic stability that is contributing to the best economic growth rates seen in decades. Across Africa, inflation is expected to average 9.9% in 2005, compared with 41% in 1994. Underpinning this are sound fiscal balances (budget deficits before borrowing), which have improved from 5.2% of GDP in 1994 to an expected 0.9% in 2005.

One factor behind the present boom is China's rapid economic growth (expected to top 8% this year, according to the Economist Intelligence Unit), which has given the Asian giant a voracious appetite for many of Africa's natural resources. That has created supply shortages that are driving up prices for oil, gas, iron, copper, cobalt, and many other natural resources. And it has brought significant new investments to Africa. **(See special feature section starting on page 6.)**

But China is not the only reason for Africa's improved economic performance. Evidence suggests that the continent is finally beginning to reap the benefits of years of often painful reforms. The Heritage Foundation, a Washington-based policy institute, measures change through its annual Index of Economic Freedom. In its *2005 report, Heritage noted that* 'no region has made greater strides in economic freedom than sub-Saharan Africa.' **(See accompanying story, next page.)**

The index rates 161 countries against a number of variables grouped into categories such as trade and monetary policy, fiscal burden of government, state intervention in the economy, foreign investment, property rights, regulation, banking and finance, wages and prices. Africa's score is encouraging

'Evidence suggests that the continent is finally beginning to reap the benefits of years of often painful reforms'

because, as studies by the foundation and others have found, improvement in these variables tends to translate into tangible benefits.

'Not only is a higher level of economic freedom clearly associated with a higher level of *per capita gross domestic product*, but GDP growth rates also increase as a country's economic freedom improves,' the 2005 index states.

But the continent's gains depart from a relatively low position, Heritage notes, 'and sub-Saharan Africa remains the world's least free region.' To illustrate the point, consider Chad and Lesotho. Representing the median among all African states, the two countries appear in the lowest-third of the total index, ranking 102nd and 103rd, respectively, among nations worldwide.

Other factors also temper the current positive indicators. This is not the first time that a number of African countries have recorded significant political or economic progress prompting optimistic expectations of an economic 'turning point.'

In the mid 1990s, for example, Côte d'Ivoire, Senegal and Cameroon chalked up growth rates of 5% to 6% (rates not seen since the 1960s), and Niger, Chad, Mali and even Mauritania had growth of the order of 3% to 4% per *annum*. Those levels of performance reflected fortuitous circumstances, such as high commodity prices, but were also the result of a decade of economic restructuring – not least a decision by Francophone countries to devalue their currency.

Interviewed at the time, Jeffrey Herbst, professor of African studies at Princeton University, observed that the performance was 'still very fragile, so it's hard to proclaim this is a turning point from which there'll be no backsliding.'

As the current political and economic collapse in Côte d'Ivoire makes clear, Herbst's sense of caution in the mid-1990s proved prescient. Although democracy has advanced considerably across Africa in the past decade and the continent has developed new tools to mediate conflict, economic stability remains elusive. In many cases, poverty is deepening, while education and health care are worsening.

Sub-Saharan Africa is the only major underdeveloped region whose per capita income has declined since 1980, according to the Brookings Institution in the US. Average life expectancy has declined dramatically due to HIV/AIDS, and child mortality is 17% higher than other regions, according to Jeffrey Sachs of Columbia University.

As South African Finance Minister Trevor Manuel put it recently, 'deep and grinding poverty remains a daily reality notwithstanding the focus on macro-economic policy, which is necessary but remains insufficient.'

Learning from Asia

What does the continent need to do to hold onto growth where it is taking place and jumpstart it elsewhere?

A study conducted by Sachs on behalf of the UN and released last month proposes more than doubling the level of aid for a 'big push' to lift Africa out of its poverty trap. Without such assistance, the report found, Africa has 'no hope' of ever achieving the United Nations Millennium Development Goals, which call for halving poverty by 2015.

But India and China, two of the world's fastest growing developing economies, offer cautionary tales for African nations seeking quick fixes.

'We must make money,' the market reformist Chinese Premier Deng Xiaoping said in 1978. In the mid-1980s, India's prime minister, Rajiv Gandhi, also saw the need to unleash business and consumerism. Both countries began deep and often unpopular reforms around 1980 and began to realise sustained rapid growth only much later. A key step in the development of both China and India was opening up their economies to foreign investment and competition, which allowed business to operate with far less interference and intrusive regulation.

'It's remarkable what's possible if conditions are right,' wrote Rajiv Bakshi, chairman of Pepsico India, in *The Economic Times* of New Delhi. 'The most important ingredient to keep the momentum going is to believe in ourselves and display the political will and leadership to reach our goals. What propels the feel-good factor is real performance on many fronts – an economy that is getting free of government micro-management, [and has] low interest rates, modest inflation, a confident and educated middle class, and a raring to go industry that is prepared to take on the world.'

In China, meanwhile, growth is not a consequence of economic and political freedom. The country's vast potential market brought more foreign direct investment to China than any other region in 2004. Net FDI flows to sub-Saharan Africa in 2003 were $8 billion – compared with $39 billion to Latin America and the Caribbean, $14 billion to Central and Eastern Europe, and $89 billion to Asia and the Pacific, according to the UN Economic Commission for Africa's *2005 African Governance Report.*

Driven by the high command of the state, China has been able to guarantee political stability and give foreign investors the kind of assurance they want – tax incentives, security of tenure and currency stability (pegged to the US dollar) – says Iraj Abedian, CEO of the Johannesburg-based economic policy consultants the Pan African Group.

By contrast, many African states are not able to provide political stability. Abedian says Africa also needs to modernise its institutions, improve governance, upgrade physical and financial infrastructure and streamline regulatory regimes.

The Investment Beauty Contest

Transport, telecommunications, banking, finance and electricity costs in much of Africa are significantly higher than in other parts of the world. Customs clearances and investment licenses are slow and commercial courts, debt collection and dispute resolution systems are significantly more complex in Africa.

Global investors do not ask whether Africa is good enough to do business, but whether it is the most profitable location for limited investment funds. In effect, Africa is in a global beauty contest in which it is still far from the most attractive contestant. Aside from natural resource investments, which must go where the resources are located, Africa consistently loses out in the competition to lure manufacturing investment.

Herbst argues that investors are influenced by reputations built up over the long term. 'When you go to your headquarters in Denver or Houston and

Highlights from the Scorecard

THE Heritage Foundation's annual Index of Economic Freedom is a score card that measures prevailing conditions in 161 countries based on a range of indicators, including trade and monetary policy; fiscal health; state involvement in the economy; foreign direct investment; property rights; regulatory regimes; the banking and finance sector; and wages and consumer prices.

The 2005 index found that 21 African countries have earned improved scores over last year, while 15 others received lower marks. The continent's aggregate improvement in recent years, however, is partly a result of the suspension of Angola, Burundi, the Democratic Republic of Congo and Sudan since the 2001 survey. And sub-Saharan Africa joins North Africa and the Middle East as the only regions found by the index not to have 'free' economies. Overall, the economies of 30 of 38 sub-Saharan African countries remain 'mostly unfree,' according to the index.

With one of the world highest average growth rates, Botswana is the highest rated African country. Ranked 37th overall on the index, it 'remains the region's freest country and serves as an example of the positive impact that economic policy can have on development,' Heritage found. Improved trade policy is one critical factor for Botswana's success.

Madagascar, 'the world's most improved country,' grew by 9.6% in 2003, after its GDP declined by almost 13% the previous year. Heritage cited the government's strong trade policy and anti-corruption efforts as key factors in the turnaround.

Zimbabwe, on the other hand, is near to last on the list (with Turkmenistan), and only just ahead of Libya, Burma and North Korea. 'Disastrous economic policies, including expropriation of land and businesses, excessive government spending, inflationary monetary policy, and government sanctioned violence have discouraged foreign investment, hindered economic production, and led to extremely high unemployment,' Heritage found. – **Amarnath Singh** say there's this new project in Vietnam we are interested in, the corporate board will say, "We've not been there before but it's in Asia, so it must work out." If you say there's this interesting project in Cameroon, for example, they get very queasy, even if the project itself makes sense. My friends in multinational companies say they pitch projects to their boards all the time which they think make economic sense, are profitable, but the boards are still very wary of going into Africa because it's just not something they are used to. I think the investment will come if the policies and projects are there, but it's only natural that they have a comfort level.'

The pattern of foreign investment behaviour in South Africa after 1994 provides the best example of what African countries can expect if they develop and sustain sound economic policies, Herbst argues. Interested foreign companies start by putting a toe in the water – establishing a physical presence, opening an office, getting to understand the circumstances, getting to know the people, establishing franchise and licensing agreements. Then, 'after five or 10 years, if they're happy with the situation, they put in real money.'

Enabling the Environment

African governments have eliminated some of the worst distortions caused by fluctuating exchange rates, inconsistent or high taxation and rapid inflation. But a variety of studies and surveys conclude that doing business on the continent remains risky.

'African countries must reform their administrative and legal procedures for doing business and enforcing contracts to make their private sectors more efficient,' according to the ECA report.

In Mozambique, the study notes, it takes 14 procedures and 153 days to start a business, and 18 procedures and 540 days to enforce a contract. In Chad, the figures are 19 procedures and 75 days and 526 days. In Botswana it takes 11 procedures and 108 days to start a business and 26 procedures and 154 days to enforce a contract. In Australia by contrast, you can start a new business in two days.

The bottleneck most frequently identified is access to reliable, inexpensive financing. 'Few firms in Africa have access to banks loans and overdrafts ... for their investment and working capital needs,' the ECA found. Where bank loans are available, interest rates are high and larger collateral, including personal assets, are required. One reason for this is the lack of freehold title in much of Africa, which means that land cannot be used as a guarantee against loans.

'Suppliers' credit could play a potentially major role in facilitating business operations, but is not popular because of poor information and difficulties in contract enforcement,' states the report. Further, in all but a few countries in eastern and southern Africa and Nigeria, the commercial banks do not meet the needs of small and medium enterprises – the engines of economic growth.

The ECA identifies a range of priority areas for action in building capable and accountable states, including: strengthened capacity of parliaments; deeper legal and judicial reforms; improved public sector management; improved public service delivery; protection of property rights and better enforcement of contracts; improved communications technology; and more effective strategies for confronting the HIV/AIDS epidemic.

Prospects for accelerated economic growth this year are encouraging, but putting Africa on a path toward prosperity will depend on comprehensive reforms and – vitally – persistence.

'Good governance and sustainable development are indivisible,' UN Secretary-General Kofi Annan noted in the ECA report. 'That is the lesson of all our efforts and experiences, from Africa to Asia to Latin America. Without good governance – without the rule of law, predictable administration, legitimate power and responsive regulation – no amount of charity will set us on the path to prosperity'. – **Amarnath Singh**

No Genocide in Darfur – UN

A HIGH-level UN investigating team released a report on 1 February 2005 concluding that the government of Sudan was responsible for internationally recognised crimes against humanity in the western Sudanese region of Darfur, but the panel stopped short of finding Khartoum and the pro-government Janjaweed militias guilty of genocide.

'There is an internal armed conflict in Darfur between the governmental authorities and organised armed groups,' the report found. 'A body of reliable information indicates that war crimes may have been committed on a large-scale, at times even as part of a plan or a policy.'

The report is the product of a three-month investigation into the extent and methodology of the Darfur crisis. In the past two years, more than 70,000 people have been killed and 2 million others displaced as government troops and the Janjaweed have systematically razed dozens of villages across the region. The five-person panel appointed by Secretary-General Kofi Annan met with government and rebel representatives, tribal leaders, internally displaced people, victims and witnesses of violations, and non-governmental organisations involved in relief operations on the ground.

How to characterise the nature of the atrocities has been the subject of a contentious global debate. The US called the crisis 'genocide' following a State Department investigation and a visit by then-Secretary of State Colin Powell to the region last year. But that term carries with it burdens spelled out in the Genocide Convention, which requires signatories to intervene pro-actively to stop the slaughter. Building multilateral consensus around what constitutes 'genocide' is consequently frustrated by divergent self-interests.

The commission found it 'does recognise that in some instances individuals, including government officials, may commit acts with genocidal intent. Whether this was the case in Darfur, however, is a determination that only a competent court can make on a case by case basis.'

The report did find, however, that 'the people of Darfur have suffered enormously during the last few years. ...Thousands were killed, women were raped, villages were burned, homes destroyed, and belongings looted. About 1.8 million were forcibly displaced and became refugees or internally-displaced persons. They need protection.'

Khartoum has rejected the report, calling it unfair and incorrect. – **Luleka Mangquku**

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Leveraging the Dragon: Toward 'An Africa That Can Say No'

The rapidly growing engagement between China and Africa requires a greater balance of the economic and strategic interests of both sides

CHINA'S renewed engagement with Africa, coming as it has on the heels of years of global neglect of the continent, has been welcomed enthusiastically in capitals across Africa. In the span of less than a decade trade between China and Africa has increased from $10 billion in 2000 to $18 billion in 2003. China has expended significant resources in foreign assistance toward African states, forgiven African debt and embarked on an unprecedented peacekeeping mission in Liberia – activities that are all bolstered by a steady stream of high-profile diplomatic and commercial missions.

While the drive to secure energy resources is at the heart of Beijing's renewed engagement with Africa, there is nonetheless a growing depth and complexity to relations that bears closer analysis. In particular, China's role in the Sudan crisis, where it has supported a military regime accused of perpetrating a humanitarian crisis has cast a new and, for many, disturbing light on Chinese activities in Africa. *[The United Nations released an investigation report on 1 February 2005 on the situation in Darfur.* **See story, page 5.***]*

The need on the part of Africans to understand China and its motives for engagement with the continent is now greater than ever before.

China's phenomenal transformation beginning in the late 1970s from an impoverished country periodically seized by ideological campaigns that served only to further cripple development, to a strong, self-confident emerging super-power, owes much to its reformist leader, Deng Xiaoping. Deng's admonishments, listed below, were crucial signposts in supporting the shift away from ideology to pragmatism that was to lay the foundation for the tremendous revolutionary effects of market-driven development. They offer Africa some salutary guidelines for structuring its own maturing relationship with China.

Growing interest: *Chinese Vice-President Zeng Qinghong with South Africa's President Thabo Mbeki. Photo: Andrew Mohamed*

Seek truth from facts.

Just as China's leadership on the eve of economic reform recognised that there could be no step forward without a cold-calculated analysis of the facts of their situation, so, too, African leaders need to assess their relationship with China on the basis of reality. The emphasis on resource extraction as the core of China's economic concerns, and the accompanying needs of Chinese industry, should be recognised as an opportunity for accountable African governments to arrange for favourable terms on a range of issues.

It should be standard practice for African states to insist, as they do with arms procurements, that foreign investors put together a package of 'tie-in' projects that meet local development goals. These might include training programmes, for instance, in addition to the financial requirements of investment in the energy sector. Cases such as Angola's request to China for a $2 billion loan (which Luanda was reluctant to seek from the International Monetary Fund), which formed a part of China's successful 'dark horse' bid for a share in Angola's oil, serve as an example of Beijing's willingness to overlook poor fiscal management in its pursuit of African resources. Chinese investment, especially in moribund sectors of African economies such as agro-processing in Namibia or cotton production in Zambia, should continue to be welcomed, especially against the backdrop of Western neglect.

But it must be recognised that, just as China insisted in the past on joint ventures as the basis of foreign direct investment into its coastal enclaves, African countries should make such measures a standard requirement of foreign investment in their economies, too. Technology transfer and the fostering of local management skills all need to be features of any investment (be it from China or elsewhere). Furthermore, those factories that have been set up to take advantage of the provisions of the African Growth and Opportunity Act, which opens US markets to specific African goods, such as in Lesotho and Kenya, and have notoriously poor records in labour and environmental protection, need to be made to comply with acceptable international standards.

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African leaders need also to recognise that there are important areas where their national interests diverge from Beijing's. For example, China's status as a global leader in attracting foreign direct investment is one that competes directly with Africa's own serious needs for FDI. Concurrently, the opening of African markets to Chinese products – from textiles to steel – threatens, in many cases, the very existence of local industry and labour markets. China enjoys a significant advantageous trade imbalance with its top trading partners on the continent – including South Africa, Nigeria and Sudan – resulting from the commodity base of exchange as well as an excess capacity of Chinese industry and its willingness to export goods through third countries to obtain market share in Africa. African countries need to actively correct this.

In the case of South Africa, the trade deficit with China has grown from $24 million in 1992 to $400 million in 2001 on the back of a sharp increase in exports of manufactured goods. Gaining better access to the Chinese market for African products through preferential trade agreements is crucial to addressing this problem, as is closing off unfair competition practices such as subsidisation of exports.

The reliance upon imported Chinese labour for infrastructure projects, and even some manufacturing ventures, seems contrary to the needs of economies where unemployment is a serious problem. Beijing's close relations with African regimes with questionable records in governance and human rights – such as Zimbabwe, Sudan and Algeria – although a practice that Western governments have too often engaged in as well, does not serve the interests of democratic societies in Africa. While stability is recognised to be a prerequisite for development, the proximity of Beijing or its parastatals to African governments that systematically abuse rights of its citizens only compromises the achievement of this long-term aim. After all, China need only hearken back to its own experience of decades of banditry before 1949 to recognise the devastating effects that externally fostered conflict can have upon society and the prospects for economic development.

It doesn't matter what colour the cat is, as long as it catches mice.

The tyranny of ideology over practical experience long served to stymie development in China. By unburdening Chinese society of ideological imperatives, the leadership under Deng was able to unleash the entrepreneurial potential of its people. Africa, when approaching China, needs to reorient the very premise of its engagement with China from a residual liberation paradigm, where the two shared ideological aims, to a contemporary economic paradigm, where Africa needs to consciously promote and preserve its interests. The starting point for this is to recognise the global context of China's 'peaceful rise', as Wen Jiaobao has characterised China's emergence as a super-power.

CHINA	
Population	1,300m
Area	9.6 sq km
Ethnicity	93% Han
Language	67% Mandarin
GDP	$1410bn
GDP Rank	7th
GDP/capita	$1087
GDP Growth	2003: +9.6%
Inflation	5%
FX Reserves	$480bn
Literacy	86%

Source: Gathered by Michael Power, Investec Asset Management, from various sources

China's relations with Africa represent only one of a number of alternative strategies of expansion across the developing world pursued by Beijing outside of its traditional regional ambit, ranging from new ties with Central Asian and the Gulf states to enriching old relationships in Latin America, all of which are predicated upon the twin pillars of economic need and embedding Chinese concerns within the framework of a coalition of the South. Given China's economic standing, the asymmetrical nature of these relationships with the developing world, coupled to the drive to achieve super-power status [reflected in conflict between the classic 'three worlds' position of Chinese foreign policy and the newly annunciated 'peaceful rise' debate] means that the impulse to be seen as a leader of developing-country interests too often drifts into the logic of Chinese dominance.

Despite their continent's obvious weaknesses, African states need not assume a secondary position in their dealings with China. As other states in other developing regions have shown, astute and active diplomacy can reap real concessions from Beijing to local interests. For instance, China's economic and political relations with Latin America have soared in the past decade at rates that emulate the recent experience in Africa. But unlike Africa, countries like Brazil, Chile, Venezuela and Mexico – all middle-income countries with important energy resources and markets – have experienced significant trade balances in their favour. Bilateral agreements that give preferential access to key sectors or products are part of the explanation for this situation.

Another factor, however, is the critical reading Latin Americans bring to Chinese economic engagement with their region. For example, in capital-starved Argentina where a number of Chinese investments were mooted by Hu Jintao's entourage, local industry and labour analysts have voiced concerns about China's impact on local labour markets. Deals that focus on provision of raw material alone, these critics argue, threaten to reverse the gains achieved through value-added production of

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manufactured goods.

The rejection by Brazilian industry of the bi-lateral free trade agreement with China, based upon the belief that this will only serve to corrode their existing production capacity in the face of cheaper Chinese imports, should be understood not as a rejection of engagement with China but of a particular (undesirable) set of terms of that engagement. **(Should Southern African pursue a free trade agreement with China? Page 14.)**

The construction of a coalition of interests among developing countries, with China as a natural leader, is a key feature of China's embrace of multilateralism. African votes are critical to China's foreign economic diplomacy in a range of international fora, but are too often diluted through bilateral or *ad hoc* practices pursued by African governments. Better co-ordination, arguably best achieved through the China-Africa Co-operation Forum, would result in concrete gains for both sides.

We should do more and engage less in empty talk.

Interest-based relationships must be measured in terms of how and what they deliver. The Chinese government, contrary to the analysis of many nay-sayers, has been an enthusiastic supporter of deepening economic and political ties with the African continent. Through its promotion of the China Africa Co-operation Forum and high-profile development assistance projects in places like the Central African Republic, Eritrea and Uganda, as well as its commitment to write-off bilateral debt with African countries, the political basis for furthering economic engagement has steadily been established.

But it is incumbent upon responsible African leaders – and, perhaps most importantly, African civil society – to call Beijing to account when it comes up short in fulfilling its promise of mutually beneficial co-operation. For example, if China, as it has often said, wishes to represent developing-country interests in multilateral arenas like the World Trade Organisation, then it should be expected to adopt and support positions that reflect the needs and concerns of the African continent. In particular, Beijing should recognise that dumping practices that are wide-spread across the continent constitute a contravention of WTO rules, and that, with the exception of South Africa, African countries lack the requisite technical and monetary resources to bring this before the organisation's dispute resolution mechanism.

Chinese Trade with Africa, $ millions

Year	Export Value	Import Value	Total
1950	8.92	3.22	12.14
1960	33.84	76.73	110.57
1970	112.10	65.11	177.21
1980	575.68	384.00	959.68
1990	659.57	275.28	934.85
1995	2,493.78	1,427.44	3,921.22
2001	5,970.00	4,790.00	10,760.00

Source: The Chinese Embassy, Pretoria

Beijing should, therefore, in the spirit of co-operation, undertake to resolve this matter unilaterally. If it wishes to promote a free-trade agreement with states in Southern Africa, then discernible gains for African industry, labour and consumers must be built into any agreement. If it wishes to promote peace, as it has laudably demonstrated in Liberia through its peacekeeping mission, Beijing needs to rein in its own arms industry, which has been accused of fuelling conflict across the continent.

'Deals that focus on provision of raw material alone threaten to reverse the gains achieved through value-added production of manufactured goods'

The Beijing Declaration, which was issued at the first China-Africa Co-operation Forum in October 2000, explicitly stated that the Chinese would strengthen their co-operation in stopping the illegal production, circulation and trafficking of small arms and light weapons in Africa. Support for Burundian factions, the appearance of Chinese light arms in the Congo, as well as land mines in other regions, however, suggest that more effort needs to be made by Chinese authorities to fulfil this promise.

China, by virtue of its history of external exploitation, disastrous economic experimentation in the early years of independence and, more recently, rapid market-based development, is in a unique position to understand the challenges facing Africa today. This position translates into a set of implicit responsibilities toward the continent that African leaders should help the Chinese government to recognise as imperative to building a sustainable relationship.

African leaders should mobilise the China-Africa Co-operation Forum as the key multilateral setting in which relations can be deepened on a systematic and equitable continent-wide basis. In particular, the Forum should move beyond the abstract principles of solidarity and into the specifics of attaining mutual benefit from the relationship in strategic spheres such as development (trade, investment and aid) and security (conflict resolution, peacekeeping and arms sales). A code

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of conduct, structured to reflect the principles contained within Nepad and the African Union, should be considered to govern the different dimensions of the relationship. It could be bolstered by an annual review process, modelled on the African Peer Review Mechanism, that would measure compliance with the commitments made through the Forum.

'Deeper engagement with China is both desirable and inevitable for Africa.'

Concurrently, a parallel civil society forum – similar to that introduced into the Non-Aligned Movement summits by South Africa, but inclusive of business, labour and consumer groups – should be created so as to bring together non-governmental organisations from both regions to share ideas and lobby governments.

Through this comprehensive approach, the basis for a significant deepening of ties between the Chinese and African peoples would be put into place.

Crossing the river by feeling one stone at a time.

Like the 'self-strengthening' nationalist movement of the late Qing dynasty, in which Chinese students were sent abroad to learn technical and management skills from the West, Africa is in the midst of its own concerted effort to draw together the cumulative resources and skills of its people to further development. In this regard, the Nepad process, coupled to the revitalised African Union, actively grafts some of the insights of global 'best practice' in economic and political governance to the African context. China has said it respects Africa's desire to make its own way in the world and would do everything in its power to ensure that these initiatives are successful. The AU decision to promote peacekeepers in Darfur represents a necessary step in realising African 'self strengthening.' African leaders should, therefore, ask for unambiguous Chinese support.

'If it wishes to promote peace, Beijing needs to rein in its own arms industry'

Africa's relations with China need to grow incrementally, step by step, if engagement is to be built upon the basis of a solid and enduring foundation. The heady atmosphere of mutual discovery that characterised the first decade of renewed relations, while important in delineating ideals and ambitions on the part of the two regions, is not a sufficient basis upon which to build long term co-operation. Following Deng's words, each aspect of this promising relationship needs to be measured carefully against the potential gains and losses to Africa. In so doing, leaders on both ends of the equation will ultimately give substance to a shared sense of destiny so often described in the flowery language of diplomatic communiqués.

Deeper engagement with China is both desirable and inevitable for Africa. In this context, the 'Africa that can say no', to paraphrase a famous book that inspired first Japanese and later Chinese economic nationalism, is just as important in forging a real partnership with China as is the uncritical embrace of all things Chinese that we see happening across the continent today. Only then will Africa begin to realise the inherent possibilities of all aspects of the remarkable rise of China. – **Dr Chris Alden is a Senior Lecturer with the Department of International Relations, London School of Economics and Political Science.**

Briefly

Not forgotten: Key issues for Africa – the environment, poverty and AIDS – topped the agenda at the annual get-together of business and political leaders at the World Economic Forum in Davos, Switzerland, at the end of January. Participants called for reducing greenhouse gases, creating a fund to deliver more aid more rapidly to poor countries and global trade reform. British Prime Minister Tony Blair said: 'We cannot confront the endemic perpetual crisis of African poverty on any basis other than a partnership between African governments and those of the developed world.'

Written off: In January, Italy agreed to write off the entire amount owed to it by Ethiopia, worth more than $457 million. Rome had gone beyond guidelines for the Paris Club – an informal group of creditors who service developing countries – which calls for debt relief amounting to 90%.

More trips to Tripoli: With sanctions against Libya a thing of the past, American oil companies have begun returning to the North African country after 20 years. Libya, with the largest oil reserves in Africa, has just awarded licences to explore 127,000 square kilometres and US oil companies Occidental and Chevron Texaco walked away with contracts from the first open licence auction.

Unity is power? A group of 29 Nigerian opposition parties has come together to form a coalition to contest the country's 2007 elections. The Conference of Nigerian Political Parties plans to nominate and support a single candidate to run against the incumbent People's Democratic Party. Of the country's 36 states, President Olusegun Obasanjo's ruling party controls 28 and also has a majority in both houses of the national assembly.

Olympian ambitions: Kenya announced in January that it plans to bid to host the 2016 Olympic Games. It hopes to be the first African country to host the biggest sporting spectacle in the world. The announcement leaves Kenya with four years to complete large-scale infrastructure improvements, as the International Olympic Committee will only pick the host city in 2009.

SPECIAL FEATURE

Trade Pact Expiry Weaves Worry for Global Textile Industry

THE elimination of quotas on the global exchange in textiles and clothing on 1 January 2005 marked the end of one of the most contentious provisions of the international system of trade rules and the start of a wide-ranging shift in the worldwide production of everything from socks to satin sheets.

The quotas, formally known as the Multi-Fibre Agreement (MFA), allowed North American and European producers to impose import quantity restrictions on designated textile and clothing goods from exporting states. Adopted in 1974 as part of the General Agreement on Trade and Tariffs (GATT), the provisions were designed to enable industrialised nations to reform their textile and clothing sectors to enhance their competitiveness against low-cost manufacturers in developing countries.

The terms of the expiration were set a decade ago, when the world's poorer countries, clamouring for greater access to more lucrative Northern markets for their goods, agreed to observe intellectual property rights in exchange for the removal of the MFA barriers.

But contrary to the initial euphoria that greeted the pact to eliminate the quotas in 1994, the final phase of the sector's liberalisation has roused new fears among developing countries heavily reliant on textile and clothing exports that China and India will squeeze them out of the profitable US and EU markets just as they are opening up. Globally, the textile and clothing sector, amounting to about $350 billion annually, accounts for 8% of all trade in manufactured goods.

Their fears are waking to an unsettling reality, as African textile mills have shed more than 80,000 jobs since 1995 and several have already closed this year in Lesotho, Kenya and Swaziland.

What, then, can developing states generally, and African countries specifically, do to retool their textile industries to compete in a more competitive global environment?

Background

Building on bilateral trade restraints that began in the 1950s, the MFA was the first multilateral agreement governing international trade in textiles. In order to compensate for the comprehensive limitations on imports from developing nations, however, the agreement required industrialised countries to gradually expand the quotas they imposed under its terms. They did so either through the removal of some products from the restricted list or through the incremental expansion of the quotas on restricted products. For the most part, the US, Europe and Canada implemented the measures and tariffs to extend trade preferences to some trade partners, notably the least-developed countries. Even so, the GATT allowed importing countries to retain considerable protection for the most 'sensitive' products.

The decision to terminate the textiles and clothing quota regime by 2005 formed an essential part of the wide-ranging package agreed at the end of the Uruguay Round trade negotiations in 1994. The trade off between reduced market barriers and protections for international property rights laid the basis for the adoption by members of the World Trade Organisation (WTO) of the Agreement on Textiles and Clothing (ATC) in 1995.

'It created losers out of efficient producers by capping their sales at levels below their potential'

For importing countries, the MFA helped keep uncompetitive industries artificially alive and postponed painful adjustment by domestic producers, while increasing consumer prices. Among the exporting countries, it created losers out of efficient producers by capping their sales at levels below their potential. It also ensured that other countries benefitted by receiving quotas bigger than the sales they could have secured in competitive markets. By encouraging specialisation based on quota allocation, rather than on comparative advantage, it increased the dependence of exporting countries on targeted markets.

A paper published by the WTO in August 2004 concluded that China and India were poised to dominate the global markets after the removal of the import quotas. During the period 1995-2002 China's global market share of clothing and textiles grew from 22.5% to 30% and from 16% to 22%, respectively. After the removal of quotas, China alone could capture about 50% of the US market share, the study found.

The WTO study has also pointed out that exporters who are most likely to lose market share are those that are geographically located far from the crucial markets of North America and Western Europe and those that currently enjoy either quota or tariff-free access to the US and EU markets.

A study by the Washington-based National Council of Textile Organisations confirms this. China, the Council found, has already secured 72% of the market share in 29 clothing categories relieved of quota restraints earlier, in 2002, and Chinese shipments to the US have

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risen more than eleven-fold. The share of the market held by other countries plunged to 28% from 99%.

It is the textile-dependent developing countries such as Bangladesh, Madagascar and Lesotho that will bear most of the brunt of quota elimination. For African countries that have enjoyed preferential access to the lucrative textile and clothing markets of the US and the EU – respectively facilitated by the African Growth and Opportunity Act (AGOA) and the Everything But Arms (EBA) initiative – the end of the MFA could see their market share decline by almost 70%, according to the WTO. Africa's exports of cotton dressing gowns and robes, for example, have plummeted by 43.5% since US import quotas were removed in 2001.

'China's competitive advantage resides principally with its cheap labour'

AGOA, especially, has been a key driver of trade and investment between the US and sub-Saharan Africa. Total bilateral trade between the US and Africa amounted to just under $33 billion in 2003, up from $28.3 billion in 2001, with US exports and imports valued at $7 billion and $25.6 billion, respectively, according to a 2004 report by the office of the US Trade Representative. In the same year, African clothing exports to the US totalled $1.2 billion, a 50% increase since 2002.

With all its exports to the US eligible for preferences under AGOA, Lesotho has emerged as the largest beneficiary of favourable terms of trade with the US in absolute terms. Exports from the mountain kingdom under AGOA provisions exceeded $373 million in 2003 – representing 95% of its total exports to the US. Lesotho, Mauritius, Madagascar, Swaziland and Kenya derive 99% of the benefits of their privileged access to the US from clothing.

Even so, some analysts contend that even with the liberal AGOA rules of origin, Africa's share of the US clothing imports will decline now that the MFA has expired because of the region's limited product range, managerial and technical capacity and service quality.

Ironically, it was developing countries that actively campaigned for the termination of the MFA a decade ago. They believed that quota elimination would bolster their trade with key economic powers and enhance their competitive advantage against high-cost manufacturers. But several factors, not least globalisation and the rapid ascent of China and India in the global economy, have caused many developing nations to reassess their assumptions. China's emergence as the world's leading textile manufacturer has provoked awe and apprehension. Beijing was not part of the WTO when the 1995 ATC was concluded (it acceded to the agreement when it joined the WTO in 2001).

Dividends of efficiency

China's competitive advantage resides principally with its cheap labour, but this is by no means the country's sole strong point. Many other countries, such as Pakistan, have even lower wage costs. What distinguishes China, as Stephen Mosely notes, is efficient management, technical knowledge, higher productivity, fashion expertise, shipping connections, a strong industrial base, a vast reservoir of skilled and flexible labour, higher productivity and a receptive research and development community. In sum, China's forte is its ability to act as a fully fledged producer: It can respond swiftly and efficiently to fashion impulses, but it can also deliver goods on time.

'China's forte is its ability to act as a fully fledged producer'

Recently, seven developing countries – Bangladesh, the Dominican Republic, Fiji, Madagascar, Mauritius, Sri Lanka and Uganda – presented a proposal urging the WTO to conduct a country-by-country study on the impact of scrapping the MFA and to set up a WTO work programme to examine possible solutions. The Global Alliance for Fair Textiles Trade – an alliance made up of textile producers in 52 countries – meanwhile led a campaign urging governments to extend the MFA by three years, citing as the key reason for its action the claim that China has engaged in unfair trading practices including currency manipulation (keeping its currency artificially weak to make its exports cheaper on the global market), export subsidies in the form of a 13% rebate on export taxes, free capital to Chinese producers in the shape of loans and direct state subsidies.

It is highly doubtful, however, that these or other moves will succeed given that both China and India have stated unequivocally their opposition to any attempts to impose new constraints on their growth. Extending or imposing quantitative restrictions would require the unanimous approval of all the 148 WTO member states.

In this competitive new trade environment, there are five factors that African countries should not lose sight of:

First, as WTO members, African countries have recourse to instruments that provide the right of any WTO member to impose anti-dumping measures against products that exporters sell for significantly less abroad than domestically. They can also invoke a GATT rule allowing any WTO member to restrict imports of a product temporarily if its industry is injured or threatened by a surge in imports.

It is worth noting that in its WTO accession agreement, China accepted special safeguard rules (including some specific to textiles) that could be applied until 2008. These authorise WTO member states to impose temporary restrictions against Chinese textile exports they believe to be disrupting their markets.

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Second, the end of quotas implies that tariffs, rather than quantitative restrictions, will play a more crucial role in regulating textile trade. AGOA countries may benefit from tariff preferences, which could make up for their poor competitiveness. In this context, AGOA beneficiaries may continue to enjoy more favourable access to the US market. It is imperative, therefore, that African countries develop their capabilities and implement appropriate policies to optimally exploit AGOA benefits.

Third, African countries should see *China as much of an opportunity as* a threat. China's insatiable demand for commodities, for example, has played a key role in South Africa's recent economic boom, with the economy posting a 5% growth in the third quarter of 2004. Mineral products and base metals make up over 60% of South Africa's overall exports to China.

Not only has China become the world's second largest oil consumer, it has also become a huge importer of cotton (33% of world consumption), iron-ore and other commodities, as well as intermediate and capital goods. China has been involved in negotiations with some African states to provide zero-tariff access for some of their goods destined for Chinese markets in return for fewer obstacles to Chinese investment on the continent. Trade between China and Africa grew from $10.6 billion in 2000 to $12.39 billion in 2002, and rose further to $13.39 billion for the first nine months of 2003.

'It is imperative that African countries develop their capabilities'

The potential for expanding this bilateral trade and for strengthening Africa's economic engagement with other fast-growing developing economies – such as India and Brazil – within the context of South-South cooperation is enormous. Provided they reduce their domestic trade barriers, these advanced developing countries could provide valuable markets for African exporters in the future.

Fourth, notwithstanding their strong competitive advantages, China and India first have to tackle their internal problems if they are to take full advantage of the post-MFA milieu. For all its much-vaunted economic success, China remains saddled with serious problems – closed financial markets, massive bad debts, an underdeveloped service sector, little transparency and pressing problems of *rural poverty* – that pose significant economic risks. Although Indian textile exports could grow by more than 15% now that quota restrictions have expired, translating this potential into reality will depend on whether New Delhi has the political will to accelerate economic reforms, especially the removal of barriers that dissuade foreign direct investment and smother competition.

'African countries should see China as much of an opportunity as a threat'

Fifth, African governments have an obligation to help their private sectors adjust to new conditions to retain their competitiveness. In this respect, they could learn from countries such as Bangladesh, whose government joined forces with domestic entrepreneurs, labour unions and non-governmental organisations to implement projects designed to offset possible implications of the MFA phase-out. These encompass skills upgrading and the retraining of displaced workers.

But managing the transition is not the sole responsibility of national governments. Multilateral agencies such as the World Bank, the International Monetary Fund and the WTO also have a critical role to play in providing aid and enhancing technical assistance to countries that are likely to feel the impact of the MFA phase-out most. Special and differential treatment should be extended to developing countries most at risk. These countries should be encouraged to reduce their dependency on clothing exports and to diversify their economies.

Similarly, major economies that benefitted from the MFA regime, such as the US and Europe, have a responsibility to deal with the concerns of textile-producing developing countries and help ease their transition. This applies, specifically, to the African countries that have enjoyed easier access to the US and the EU markets, thanks to AGOA and the EBA.

Changes in information technology, coupled with the unprecedented market power of gigantic international retailers have also contributed to the far-reaching transformation of the sector. The increased integration of the textile and clothing sectors through vertical supply chains – covering sales and distribution activities – has made it possible for major international buyers to source goods from a small number of firms. With the end of the MFA, this trend toward rationalisation is likely to accelerate and the number of countries that retailers source goods from is expected to fall sharply in the coming years.

Vulnerable small African producers are faced with two choices: they must either improve their efficiency or they must switch to higher-tier products.

Developing countries that seek to compete with China's low-cost producers cannot do so without reducing production costs, improving quality and fostering specialisation. It is estimated that increased specialisation in higher value-added goods contributed to a 46% rise in Indian cotton-made exports to the US in 2003. Survival depends on efficiency, flexibility and responsiveness. – **Dr Mills Soko is a SAIIA research associate.**

SPECIAL FEATURE

Made in China, Made Scared In a Textile Mill in Africa

SELWYN Gershman raises a tidy three-pack of women's panties. 'This is what's killing us,' he said, lifting his voice above the din of industrial looms droning in the background. 'We're on our knees.'

Gershman is the managing director of a sprawling high-end textile mill on the eastern side of Johannesburg. The undergarments are from China. They retail for $1 – a price that includes the attractive packaging, long-distance shipping and high value-added tax South Africa applies to all commodities. The cost of producing just the equivalent amount of fabric in South Africa exceeds the retail price of the finished Chinese product, Gershman says, and the complete garments made locally sell for 10 times as much in the shops.

Take any type of manufactured good and the story is much the same. Across Africa – and indeed throughout the world – cheap Chinese imports are crowding the shelves and undercutting local industries. China towns are burgeoning in cities like Johannesburg and Lusaka.

Tough times loom

Textile mills are particularly vulnerable to the Chinese incursion. Already adversely affected by the robust trade in second-hand clothing from wealthier countries, cloth-makers now face significantly more competition from their Chinese and Indian counterparts in the wake of the 1 January 2005 expiration of global import restrictions that limited the amount of clothing any one country could export to the US, Canada and Europe. Those quotas ensured less competitive textile manufacturers in Africa and other developing regions at least some share of those lucrative markets.

But the end of those quotas, which governed global trade in textiles for 30 years, has precipitated what may be for many African textile mills an insurmountable crisis. A recent World Trade Organisation (WTO) study concluded that China and India will dominate global textile and clothing production, valued at more than $340 billion, with China capturing a 50% market share.

Beijing shrugs off such predictions. China, claims Wang Ke of the Chinese Embassy in Pretoria, 'cannot be regarded as a threat.' The Asian giant provides scholarships and skilled professionals in many sectors, she notes, and recently cancelled more than $1.25 billion of Africa's debt.

Such measures bring little solace on the shop floor. The US Council on Textile Organisations estimates that 30 million people worldwide could lose their jobs in the sector now that the quotas have expired. The American Textile Manufacturers Institute predicts that $42 billion in export trade will shift from Central America, Mexico and sub-Saharan Africa to China by 2007.

Since the start of the year, several mills have already closed in countries across Africa – including six foreign-owned textile shops in Lesotho alone. 'We suspect they left the country unceremoniously because of the end of quotas,' says Billy Macaefa, secretary-general of the Lesotho Factory Workers Union. As a result, 6,650 workers lost their jobs without warning. And that, he says, is just the start.

South Africa lost 35,000 jobs in the textile sector in the past two years, according to the South African Textile Federation, and stands to lose thousands more this year. If those numbers don't sound dire, consider this: Each worker supports an average of eight people, 'so 280,000 people have lost their source of support' thus far, notes Brian Brink, the Federation's executive director.

Although the WTO has mechanisms that member states can invoke to protect their industries against gluts of low-cost imports, and several African countries have preferential access to US markets through the African Growth and Opportunity Act, ultimately the best defence in a suddenly more competitive global arena is industrial reform.

A need to retool

Garth Shelton, a China expert at the University of the Witwatersrand in Johannesburg, argues that African industries must diversify, specialise and become more efficient to exploit new market opportunities – especially those created by China's huge demand for resources and agricultural products.

Gershman agrees. In South Africa and other countries that cannot exploit labour-cost advantages, he argues, manufacturers will have to find niche markets at the higher end of the retail spectrum. An ability to react rapidly to fashion trends, a willingness to produce smaller product runs and investment in new technologies such as more efficient looms have kept the Gregory Mills afloat.

The South African government and consumers have launched a 'Proudly South African' drive to promote locally produced goods. But few textile factories have the means to retool sufficiently to adapt to the post-quota era, Gershman says, and too many governments failed to anticipate what would be required to help keep the sector going.

The irony of the glut in low-cost Asian imports, he says, is that 'eventually there'll be no jobs, and if people are not earning at all, they will not be able to afford to buy anything – even the Chinese products.' – **Ayesha Kajee**

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Free Trade With China: A View From the Board Room

The Southern African Customs Union and the Chinese have entered into negotiations on a possible Free Trade Agreement (FTA). While the terms of such a pact remain undefined at this time, there is broad concern among business in Southern Africa that any short-term advantages an FTA might provide to Africa could be offset by detrimental longer-term effects due to the structural nature of the Chinese and African economies. **James Lennox**, *outgoing CEO of the South African Chamber of Business, spoke with* eAfrica *about the ramifications such an agreement would have on South Africa's private sector.*

Q: What is the basic premise of a potential Free Trade Agreement between China and the Southern African Customs Union (SACU)?

A: We are led to believe that China would allow us 10 years or so of reduced-tariff entry into the Chinese market without any reciprocal arrangement.

Q: What impact would this have on local businesses?

A: This depends on the construction of the agreement. It is expected to have a significant impact on the local manufacturing base and will increase competition in the domestic and international markets. All non-service, non-resource sectors – for example, the clothing and textile industry, footwear, leather, light engineering, toys and the computer industry – will be affected by increasingly competitive imports. Agriculture may be the one area that has export potential to China.

Q: But isn't competition good for business?

A: Yes, it is. We would welcome any fair competition, but this will not be fair because domestic manufacturers need to adhere to a series of legislation that importers don't have to – namely, Black Economic Empowerment, skills development, social-responsibilities expenditure, HIV/AIDS, poor transport and a lack of volume in a small domestic market. The timing of this FTA is all wrong. Take the motor industry. One may argue that right now China does not have the capacity to manufacture their own cars, but if you look at the amount of investment and support going into the country, I think it is only a matter of time before they have the capacity to export. Their labour costs are very low, and therefore all our sectors need to be worried. China will be a magnet for investment, and I see a capital flow from South Africa into China to create new production capacity.

'The timing of this Free Trade Agreement is all wrong.'

Q: The clothing and textile industry in South Africa is in recession. The fragile economies in Mauritius and Swaziland are also under pressure from the importation of second-hand clothing, generally, and cheap imports from Asia, specifically. Would an FTA mark yet another blow?

'We shouldn't have an agreement because we don't need an agreement'

A: It will decimate the industry. It is a misnomer that Chinese goods are cheap and of poor quality. The quality is exceptional considering the price. China has invested in state-of-the-art technology and equipment, a well-educated workforce and low-cost production. Their turn-around time is extremely competitive and they have the ability to be able to do short low-volume runs and long high-volume runs. A garment sample ordered from South Africa can be manufactured in China in just 10 days. The same item could take up to six weeks here.

Q: Why can't South Africans do the same?

A: There are far too many influences on our cost structure. We have to do business in a very structured administrative and bureaucratic way. It's very different in China. There will come a time when they will start to formalise various employment practices, but until then it is unfair competition to our businesses.

Q: Does South Africa need a FTA with China?

A: Sure, we have issues we need to sort out – we are not as efficient as we should be – but we don't need an FTA.

Q: Why not?

A: We shouldn't have an agreement because we don't need an agreement. What is the economic rationale behind a decision to do a free trade agreement between China – or Brazil or India – when you can do a sector-by-sector agreement? This way we can chose the sectors we want to do business in. But

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an FTA encompasses substantively all goods. There is no economic rationale behind this but a political one. We can do business with China without a trade agreement.

An FTA is laden with pitfalls. There would be an export of capital into China for acquisitions and additional production capacity. Initially this will be totally focussed on the growing Chinese domestic market, but there will come a time – and this will differ from product to product – when the volumes are such that they can look at exporting. It could be five years, three years or 10 years – and that is our problem, because we are not looking at the possible impact this will have down the line. We are looking at what this agreement has to offer now, but we should be far more strategic and say any opening up and liberalisation will have its casualties.

'There is no economic rationale behind this but a political one'

Q: What does South Africa have to gain from an FTA with China?

A: I believe that trade agreements should follow trade, and such an undertaking should look at what sort of trade exists. If you look at the trade, it is buying companies and creating production capacities in China. Our car companies – which are global companies – are all investing heavily in China. On the other hand, Naspers and SAB-Miller are buying up companies. But SAB-Miller are not making the beer and shipping it, they are building factories and making beer in China. We are doing this without a trade agreement. So I ask: Why do we then need to have a trade agreement?

Q: Who is doing business in China and what new ventures can we expect?

A: Big businesses will lead the way. There are many small- and medium-sized companies that supply big businesses we can expect to see setting up overseas. For example, a small manufacturer supplying SAB-Miller might find that it would be easier to set up operations in China because being closer would make business simpler.

Q: How would an FTA affect business in the Southern African region?

A: Chinese traders are ruthless, and this is bound to upset the cosy relations South Africa has with its neighbours. I foresee an influx of illegal immigrants to South Africa, and this has the potential to create destabilisation.

Q: Is business as actively involved in the negotiations as they would like to be?

A: No. We need to be pro-active. Business, labour and government need to start agreeing among ourselves. Right now, government is looking only at immediate gains, but we must look at what effect an FTA will have on society and the economy in 10, 15 or 20 years time. We are in a serious danger of sending out the wrong message.

'Chinese traders are ruthless, and this is bound to upset the cosy relations South Africa has with its neighbours'

Q: How would you like to see the process advance?

A: Business, labour and government need to hold a trade forum and get into sync with each other and debate the merits of an FTA. This would ensure that government negotiators could bargain better with the Chinese and see why it is so important that they drop their import tariffs for a period longer than 10 years.

Briefly

Hambani comrades: *A 20-member fact-finding* delegation from the Congress of South African Trade Unions was refused entry into neighbouring Zimbabwe in early February, and sent home on the next plane. Zimbabwean authorities claimed that the unionists required a work permit. 'If [Zimbabwe] is really leveling the playing field and conforming *to SADC norms, how can they feel threatened by* people carrying pens and notebooks?' said Cosatu general secretary Zwelinzima Vavi. A similar mission was expelled in late 2004.

We've been warmed: In a report presented at a global climate change conference, Nigerian scientist Anthony Nyong warned that millions of Africans would suffer the most from global warming. On the current trajectory, temperatures would be two degrees higher and rainfall 10% lower by 2050, leading to droughts and reduced harvests, on a continent already vulnerable due to high population growth, poverty, conflict and disease. He called on developed countries to cut emission of gases that induce global warming.

Speaking about seats: The African Union established a 15-person committee of foreign ministers to forge a common African position by March on proposed UN reforms. With three African heavyweights – Egypt, Nigeria and South Africa – all vying for two possible permanent African seats on an enlarged UN Security Council, Nigerian President Olusegun Obasanjo said, 'we considered the issue frankly and exhaustively in a friendly and brotherly atmosphere once again demonstrating that rare characteristic African solidarity and unity of purpose' in Abuja at the fourth ordinary session of the AU Assembly.

Inheritance: Death claimed Africa's longest serving leader, Togo's President Gnassingbe Eyadema early this month, ending his 38-year reign. The army instantly installed his son, Faure Gnassingbe, in the position. According to the *country's constitution, the speaker of parliament* should have taken over after the president's death, with elections following in 60 days. However, he was out of the country at the time of Eyadema's death and parliament summarily changed laws cutting him off from succession.

Now what? Malawi's President Bingu wa Mutharika has left the party that brought him to power, saying in the past few months it had relentlessly turned its back on him. His stance on fighting corruption caused a rift in the ruling United Democratic Front, leading to his decision to leave.

Plurality: Coming or Going?

In 15 years of democratisation in Africa, only one opposition party has toppled its rival

FIVE years ago this month, a fledgling coalition of trade unionists, human rights activists, women's groups, constitutional reformists, farm labourers and business tapped a deep vein of popular discontent and handed a stunned Robert Mugabe his first defeat at the ballot box – rejection of the president's draft new constitution for Zimbabwe in a nationwide referendum. A few months later, in June 2000, the coalition struck again, winning nearly half of all elected seats in the parliamentary elections.

In less than a year, the Movement for Democratic Change (MDC) had established itself as a formidable political threat to Mugabe and the most significant opposition party in Africa.

But less than two months before parliamentary elections scheduled for 31 March, the MDC was struggling for relevance. Bridled by biased election laws, ballot fraud, political violence, media bans and treason charges against its leader, Morgan Tsvangirai, the party faced a lose-lose scenario going into another poll that outside observers say the state has already fixed: Participate and legitimise a farce or boycott and lose all influence in parliament?

In early February, the MDC announced it would enter the poll, but as Tsvangirai said a few days earlier: 'We're damned if we do and damned if we don't.'

Africa remains a hostile place for opposition politics. In more than a dozen parliamentary or presidential elections held in 2004, not one party was tossed out. The trend looks likely to hold this year. Although Africa has gone from three to more than 40 at-least nominal democracies in the past 15 years, power hasn't budged.

Is plurality a fading fad in Africa? 'Opposition parties in Africa are an endangered species,' argues Rok Ajulu, a Kenyan political analyst at Rhodes University in South Africa.

Morgan Tsvangirai's opposition Movement for Democratic Change will contest the polls at the end of March.

Photo: Southphoto

African leaders have adopted a number of overlapping covenants spelling out the terms and conditions of fair elections, from the Constitutive Act of the African Union to the charter on election standards signed by the heads of state of the Southern African Development Community last August. These agreements call for freedom of assembly, freedom of the press, judicial independence, access to local and foreign observer missions, independent electoral commissions, and so on.

But committing ink to paper does not guarantee fair play at the ballot box. Ruling parties remain the primary threat to fair elections. As the eminent South African jurist George Bizos argues: 'For elections to have legitimacy, you need to have respect for your opponent.'

Ben Ulenga, leader of Namibia's Congress of Democrats, was once a long-time loyal member of Namibia's ruling party and erstwhile liberation movement. SWAPO, he says, 'quickly narrowed political space immediately after independence.'

Malawi opposition leader John Tembo says his 'Malawi Congress Party does not mind losing in a free and fair election… However [we] worry about the interference with the process of democracy by the ruling political party.'

After the country's presidential elections last year, observer missions criticised the ruling United Democratic Front for a range of violations, including lack of equal access to the media and suspected manipulation of the registration and vote-collation processes.

Others argue that an imbalance of powers among the branches of government also adversely affects multiparty democracy in Africa. 'The region is characterised by dominant party syndrome,' says Patricia de Lille, who leads the nascent Independent Democrats in South Africa, 'typified by dominant executives and weak parliaments…. There is no real culture of dialogue and debate in our countries.'

But African opposition parties are too often their own worst enemies. Numbers alone tell a story. Squabbling parties constantly split, splinter and merge. In South Africa's national election last year, 20 parties sought to unseat the African National Congress. None received more than 13% of the vote, while the ANC received almost 70%. The Democratic Republic of Congo, which is due to hold its first ever elections later this year, currently has more than 240 parties.

The popular clamour for political change that brought Mwai Kibaki and the National Rainbow Coalition to power in Kenya in 2002 has tangible resonance across Africa. For it to be expressed at the ballot box requires fair play by ruling parties. But it also requires political maturity among the opposition.

'Zimbabwe faces a crisis of leadership across the board,' says Trevor Ncube, CEO of the *Mail & Guardian*. 'There is acute leadership paucity in the MDC. They've shown a lack of strategy, a lack of vision and tremendous political naiveté. They aren't streetwise. But in spite of that, those who want change will vote for them.' – **Steven Gruzd**