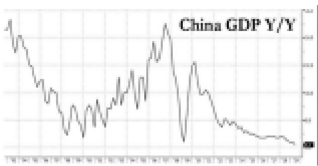
Sub-Saharan Africa: The China Factor and South African SEZs

Friday 24 January 2020, by BOND Patrick, LESUFI Ishmael, THOMPSON Lisa, TOUSSAINT Éric (Date first published: 22 October 2019).

The most crucial factor in whether South African SEZs succeed may well be the complicated role of China.

Contents

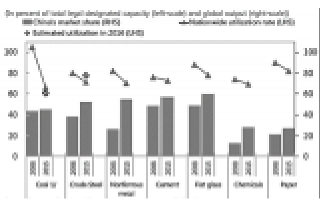
There are three aspects worth discussing: overall demand; Chinese incoming FDI to South African SEZs (such as is driving Coega and Musina-Makhado); and Chinese-financed and built competition via the Belt & Road Initiative, which is spawning massive export-oriented infrastructure in many India Ocean cities, ports and hinterlands.



Chinese Capitalist Crisis Tendencies

Being the largest economy in Purchasing Power Parity terms, the country's GDP is estimated to rise at only around 6% in 2019, the lowest rate in 25 years. In mid-2017, the International Monetary Fund (2017) studied Chinese capital overaccumulation and found that in major sectors – coal, steel and nonferrous metals, cement, chemicals and others where Chinese demand is between 30-60% of the world market – there exists at least one third overcapacity in production. And due to overindebtedness, a financial crisis can break out at any time, causing domestic and global growth to fall and worsening the living conditions of hundreds of millions of Chinese people.

Chinese Overaccumulation : Capacity Underutilisation in Sectors with High Global Share



Source: IMF 2017

Still, notwithstanding its own production of raw materials, China's role as the main economic driving force in Africa is unmistakeable, especially for commodity-exporting countries (Sheldon et al, 2017; Gu and Kitano, 2018). China has become Africa's single largest source of FDI, the fastest-rising source of trade, as well as a significant supplier of foreign aid and grant-based infrastructure (Bello-Schuneman et al, 2017; Sheldon et al, 2017; Gu and Kitano, 2018). Environmentally, its mega-projects are already having a major impact, including planning for the largest dam ever conceived – at Inga on the Congo River – and numerous coalfired power plants, as well as mineral and oil extraction projects.

At a political level, the establishment of the Forum for China-Africa Cooperation (FOCAC) in 2000 cemented closer working relations (Cisse, 2012; Zhang, 2017). Yet, the FOCAC form of South-South cooperation brings with it the potential not only for GDP growth in select enclaves, but also new competition for South Africa's SEZs, exploitation and a worsening of long-standing structural distortions left by colonialism, especially where commodities remain the mainstay of exports and FDI (Zhang, 2017). Moreover, China's political success has also generated military tensions what with the Trump Regime's John Bolton declaring in December 2018 that a new Cold War (with China) has begun in Africa.

Some scholars are nevertheless optimistic about these relations; many are affiliated with the BRICS countries' Think Tanks, affiliated universities and policy institutions, and are still willing to promote South-South collaboration as articulated at the official BRICS Summits (e.g. Sitas 2018, Mosoetsa 2018, Magida 2018, and Gomes and Esteves 2018). Both positive (Shaw, 2015) and more critical foreign policy analysts (Alden and Schoeman 2015, Weiss and Abdenur 2014 and Lipton 2018) emphasise the fragile hegemonic status of the regional hegemons in the BRICS bloc (South Africa in particular). Most acknowledge that the BRICS bloc does not challenge the main aspects of economic liberalism globally, and indeed Xi's (2017) speech to the World Economic Forum in 2017 confirms the desire for further liberalisation. Geopolitically, according to Xing (2016:83-84), Africa is "becoming a battle ground of competition for the emerging powers to counter the dominance of the North and to pursue a putative reorganisation of the world economic and political order."

In this context, the romance of the progressive pragmatism embedded in BRICS/FOCAC state narratives, backed by academics and Think Tank scholars, extends to the ways in which the Chinese form of international development assistance (IDA) will help to stimulate development in Africa as an alternative to the US and Europe. This official pro-China optimism is endorsed by the South African government, Think Tanks, mainstream media (especially the Independent newspaper chain), and social media linked to the ruling African National Congress (ANC). This optimism, played out in increasingly celebratory moments that accompany BRICS and FOCAC meetings of state leaders, underscores official rhetoric of the ostensibly positive, equitable, mutually beneficial relations between China and Africa, including South Africa (Taylor 2016; Thompson and Tsolekile de Wet, 2017; Zhang, 2017).

The main point, is that unlike apartheid-era Pretoria's sub-imperial stance in Africa, Sino-African relationships were founded on anti-colonial legacies. Sheldon et al. (2017) have since revised this optimism with a closer analysis of trade and aid flows.

In the same spirit, the BRICS Think Tank offers relatively uncritical narratives (Thompson, 2019), although there is occasional reference to the realities of skewed trade and investment patterns, usually without referring to what often appears as systemic corruption associated with the BRICS. In particular, corruption is likely to remain a feature of infrastructure construction and financing associated with China Development Bank and BRICS New Development Bank lending (Bond, 2016;

2018).

Van der Merwe (2016:22) observes how once this SouthSouth narrative is repeated with sufficient conviction, “global audiences are influenced by mainstream media and experts drawn from industry and the scientific community. Global hegemonic discourse can have a colonising effect on alternative local discourses, forcing out opposing or dissenting voices and ideologies.” The government-business-media complex nationally and globally circumscribes, curtails and, in policy rhetoric, overrides the systemic realities of exploitation and resource extractivism that accompany the trade, investment and financial aspects of the collaboration – a critique applicable to both China’s and South Africa’s roles in Africa (Bond, 2015, 2018; Amisi et al, 2015; Zhang, 2017). Much of this critique boils down to what is happening within Chinese SEZs, and what South Africa can do to achieve their industrialisation success while avoiding these problems.

Chinese SEZs as the Motor of the World’s Greatest-Ever Economic Growth

Zhang (2017) draws on Wallerstein (1997) and Arrighi et al (1994, 2009) to illustrate the increasing expansionism of Chinese capital into South East Asia and Africa – including South Africa’s SEZs – is a result not of historic fraternal relations and symbiotic possibilities, but of China’s overaccumulation crisis. As Zhang (2017:317) states, “…overly aggressive capital accumulation and expansion in China have led to serious economic and social problems at home: large scale social dislocation of domestic migrant workers, increasing regional income disparity, and severe environmental degradation.”

One question is whether the SEZ model that China helped pioneer and popularise will generate similar successes – and problems – if applied in sites like South Africa. Recall that after the death of Mao, market-liberalising reforms transformed the Chinese economy from “a centralised planned economy in which the state played a key role to a capitalist one in which almost all economic activity is market determined … and even though the state continues to play a key role in strategic sectors, the great majority of value added in the all-important manufacturing sector is produced by profit-seeking private firms” (Hart-Landsberg, 2010; Zhang, 2017). The reform programme not only ended central planning but most importantly, shaped the social and economic conditions for the further development of capitalism in China. According to Zhang (2017: 315), “…starting from a semi-peripheral status at the onset of the reform period in the late 1970s, mainland China managed to integrate into the international value chain and division of labour at the right moment alongside tacit acknowledgement of the legitimacy of the US led-liberal world order”.

Hung (2009:9) emphasises how the development of capitalism in China gave rise to “an export-driven and private-consumption-repressing growth model”. Mao‘s era was characterised by an inward-looking economic development model in which economic activities were organised to meet domestic needs. In contrast, the capitalist transformation process unleashed by Deng Xiaoping ushered in an economic development model in which all major economic activities were organised and undertaken to meet the needs of external markets, particularly those of the US and EU.

These two features of Chinese capitalism, its outward orientation and limited domestic market, remained crucial in spite of the inward infrastructure investment wave of 2009-12 (Wang, 2016; Zhang, 2017).

Chinese capitalism’s outward orientation depended upon the creation and expansion of export industries (Brautigam and Tang, 2011 and 2012; Yejoo, 2014; Zhang, 2017). These were concentrated in the coastal areas of the country, and grew into vital engines of growth and dynamism in the whole economy. Hung (2009:10) observed how in these SEZs, “…the labourintensive take-off coincided with the onset of an unprecedented expansion of free trade in the 1980s … were it not for the outsourcing of industry from the global North and the latter's mounting appetite for low-cost manufactured imports, China would have found it impossible to export its way to prosperity".

The export sectors were structured to accommodate the outsourcing needs of international capital in search of areas of restored profitability, in the wake of a profound crisis of accumulation in the global North. According to Guerrero (2006) and Brautigam and Tang (2012), China became the favourite destination for FDI because of the attractive benefits it offered at the time. These comprised a friendly business environment that included adjusted tax rates for FDI and conditions guaranteeing profits for transnational corporations. Profits were boosted by low rent, cheap natural resources and lax rules for their exploitation (especially few anti-pollution regulations), low wages for workers, the absence of independent trade unions, and laws prohibiting workers' strike action (Guerrero, 2006:1). Crucial was a totalitarian state, tested in 1989 at Tiananmen Square in Beijing, where a student and worker uprising was brutally crushed.

China's export industries not only played host to cross-border production networks that turned the Chinese economy into a hub for the assembly of final products. In addition, as Hart-Landsberg (2010) and Zhang (2017) emphasise, through these industries, China displaced the other East Asian economies in global trade. Zhang (2017: 316) states "…during the 1980s and 1990s China has been quickly climbing up the East Asian regional production and value chains and has shown signs of replacing Japan and South Korea in a set of key manufacturing sectors as the leading regional powerhouse." The role of the other Asian economies in the global chain has transformed from exporters in their own right into suppliers of parts for the final assembly located in China. In this way, Chinese capitalism has conditioned and set the terms for the insertion of East Asian economies into global circuits of capital accumulation. As China shapes the economies of Africa, including South Africa, much the same can be expected; aside from Africa's deepened reliance upon export of primary commodities during the 2000s-10s, as discussed in the next section, Ethiopia's shift towards a 'sweatshop' mode of industrialisation is an example of Chinese-style accumulation.

Another significant feature of Chinese capitalism, which is a reason for the still-limited size of China's domestic market, is the economy's heavy reliance on cheap labour for its functional dynamics. The low cost of Chinese labour was the basis of not only the growth of the export sectors but also the migration of international capital from areas of low profitability in the global North to areas of high profitability in China. The low cost of labour was also the key reason why China took the place of other East Asian economies as a destination for outsourced industrial projects from the global North. Hung (2009:12) points out that contrary to widespread beliefs that China's cheap labour was a product of its currency devaluation, the country's ability to supply endless pools of cheap labour was a result of a range of finance and fiscal policies of the Chinese government. The powerful repressive apparatus of the state ensured that the migrant worker system was similar to the one that corporations enjoyed during South African apartheid: systematic super-exploitation through which women in the rural areas provided subsidies in the social reproduction of labour power.

Although useful for promoting SEZs, these policies bankrupted the countryside by transference of wealth to the urban areas, guaranteeing a cycle of poverty and generating a continuous exodus from the rural areas. The crucial years of the development of the urban industrial sectors were navigated through the sustained transference of wealth from the countryside using measures that amount to expropriation. The impoverishment of the rural areas, coupled with low wages in the urban industrial sectors, accounted for the low purchasing power and thus weak consumption capacity within the Chinese populations, which in turn accounted for the limited size of the domestic market.

The basic characteristics of Chinese capitalism include its seemingly endless (until the early 2000s) supply of cheap labour and ability to absorb outsourced capital from elsewhere in the world. Another basic characteristic is the Chinese economy's externalisation of environmental costs, both local – creating cities with extreme air pollution – and global, due to the extremely rapid increase in greenhouse gas emissions. The profits, growth rates, and Keynesian infrastructure investments have elevated the economic prestige of China, which is now the centre of gravity for global capital accumulation (Zhang, 2017).

China's resulting appetite for raw materials and component parts brought about a mutation in the global circuits of commodities from Africa and elsewhere in the South, with China becoming the single biggest destination of such primary resources for their assembly and processing into final products. On the back of this, China has surpassed both the US and EU as the single largest trading partner on the African continent, a characteristic of China-Africa economic relations that is a central focus in official pronouncements, and in the FOCAC 2018-2021 Declaration (FOCAC, 2018).

Hung (2009) and Hart-Landsberg (2010) argue that, because of Chinas export-driven model of development and failure to develop a domestic market as an engine of growth and dynamism, Chinese capitalism will remain "dependent on the consumer markets of the global North for its growth and the financial markets of the US as the store of value for its savings." In other words, without the consumer markets of the global North, in particular those of the EU and the US, the long-term viability of Chinese capitalism is in serious doubt. Hung (2009) concludes that to bring this dependent relationship to an end, China has to transform the foundations of the export-oriented growth model into one driven by domestic consumption through among other interventions, large-scale redistribution of income to the rural-agricultural sector. In its turn, such a restructuring requires breaking the power of the coastal urban elites. Their vested interests are in the coastal export sector, which constitutes the central pillar of the export-oriented growth model.

Arrighi (1994 and 2009) and Wallerstein (1997) focus more on the dangers of capital overaccumulation within China in relation to the long-term stability of state capitalism. China's ghost cities, mainly built during the 2009-12 period of inward infrastructural expansion, are an example. According to Yin et al (2017), "the 'ghost city' emerges from massive (over) investment in the urban built environment," a result of poor urban spatial planning and infrastructural over-investment. Other symptoms are inconvenient transportation options, long commute times to more popular urban areas and consequently, very high vacancy rates (Yin et al, 2017:1).

Geopolitical Implications of China's SEZ Model

Even today, the persistence of the export-driven model is tied to the enduring dominance of those sections of the Chinese ruling classes whose material wealth owes its origins and continued existence to the export sectors located in the coastal areas. This fraction of the Chinese ruling class, which Hung (2009:13) terms the "powerful urban-industrial elite", over time have expanded financial resources, and political influence, thereby shaping central government policy in its favour. China's rapid economic expansion has witnessed an extension of global capitalism with Beijing reinforcing rather than undermining the institutions of imperialism (even if there are occasional disputes such as the South China Sea territorial dispute involving the US Navy and neighbouring countries).

As a result, rather than challenging US dominance, China and the other BRICS shore up global patterns of financial and production power especially through their roles in the International Monetary Fund, World Bank, World Trade Organisation and even the United Nations Framework

Convention on Climate Change whose provisions are far more advantageous to the North than to Africa. Hung (2009) contends that reversing the export-driven model of capitalist development is a necessary condition for China's independence from US malevolence, as indicated in the 2018-19 trade and currency disputes.

Until Trump came to power, Ferguson and Schularick (2007:288) observed that the relationship between China and the US was characterised by two central features: first, the entry of China's enormous labour force gave the single biggest boost to the returns on capital; and second, China's massive external surpluses were channelled through government hands to the US fixed income market, with the effect of lowering the global risk-free interest rate just when the returns on capital rose. In other words, there evolved a symbiotic relationship between China and the US in which the former, through its abundance of cheap labour and massive capital surplus, guaranteed a supply of cheap imports and cheap credit to the latter. China's accumulation of US bonds (making credit cheap and accessible) in turn sustains US consumption of China's manufactured exports.

China has not only overtaken the East Asian economies as the principal supplier of cheap credit and low-cost imports to the US, it has also transformed their role and place in the chain of relationships to world capitalism (Brautigam and Tang, 2011; Zhang, 2017). This transformation has had an impact on patterns of trade and corporate activity in the whole region. Most companies from the region relocated to the Chinese special economic zones to take advantage of cheap labour and other favourable conditions of capital accumulation. As mentioned, these economies increasingly became suppliers of parts and components to the Chinese export sector and thus resulting in a shift in their overall export activity away from the North towards China (Bello, 2006; Hart-Landsberg, 2010). Consequently, the relationship of these economies with the markets of the US and EU were henceforth mediated through the Chinese economy. A division of labour emerged in which increasingly the other economies in the East Asian region reduced their assembling activities and became suppliers of the insatiable appetite of the Chinese export sectors for parts and components.

This responsibility of servicing the needs of the export industries in turn made China the single biggest supplier to the US and EU markets. China became a medium through which the East Asian economies interacted with the markets of the US and EU, in particular the US. China thus built up a large trade surplus with the US, creating a dependence on western consumer markets that beleaguers the Chinese economy to this day (Zhang, 2017). During this period the South East Asian region, led by China, moved away from the flying geese model centred on Japan. As Zhang (2017: 316) states, "… during the 1980s and 1990s China has been quickly climbing up the East Asian regional and value chains and has shown signs of replacing Japan and South Korea in a set of key manufacturing sectors as the leading regional economic powerhouse". At the same time, during this period of global economic integration, China and the region as a whole became more vulnerable to the vicissitudes of western markets.

Hung's (2009) and Zhang's (2017) response to these developments was that " the limitations of the Chinese development model – overdependence on consumption in the West and lethargic growth in the domestic market –inevitably translate into vulnerabilities for its Asian partners, leaving these economies exposed to any major contraction of consumption demand in the global North". For that reason, the rise of China and the specific dynamics of its SEZ relations to the global economy represent more of a threat than an opportunity for the region to move away from dependence on Western markets. Hung (2009) and Zhang (2017), following Arrighi (2009), argue that reforming the Chinese model of capitalist development is not only necessary for the sustainability of its economic growth, but also for the collective future of East Asia as an integrated economic bloc.

Perhaps most importantly, thanks to the reliance on SEZ-grounded accumulation, China's geostrategic positioning within the world economy leaves no doubt about what awaits the countries on the African continent and the rest of the South. For as long as Chinese capitalism continues to be dependent on the markets of the global North, the African continent and rest of the South are destined to service the needs of the export model, whose characteristic occupation is to transfer the surplus from the South to North. This reality is due to the way capitalism developed in China (Arrighi, 1994, 2009; Zhang, 2017).

As the economy that anchors capital accumulation on a world scale and also the single biggest consumer of raw materials from the African continent, China will find it difficult to escape culpability in the dominant processes of extracting and transferring wealth from the South to the North (Amisi et al, 2015). The declines in the volume of trade from African countries flowing to traditional trading partners such as the US and EU have been accompanied by an increase in the volume of resources heading towards China. In the context of the export-oriented Chinese model of capitalism, the flow of African resources to the Chinese economy represents an oblique way of funnelling these resources to the centres of global power, the US in particular (Zhang, 2017).

By replacing the US and the EU with China as the main trading partner, African leaders are reorganising their relationship with the world economy. Due to China's relative failure to develop a viable, sustainable domestic market, in part due to its over-reliance upon SEZs, these relations are likely to perpetuate the vulnerabilities of the African continent to Western economic power (Zhang 2017).

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