

Lessons for South Africa

China during the era of 'reform and opening up'

– By Douglas Ian Scott

Scott, a South African policy analyst and social scientist, is the director of policy at Wikimedia South Africa, a non-profit that advocates for free access to knowledge and supports the growth of Wikipedia (the free online encyclopaedia). Between 2012 and 2022 Douglas was a criminologist, technologist and policy analyst focusing on the social and statistical study of violent crime in South Africa. He has a Master's degree in International Development and Public Administration from Tsinghua University in Beijing, China.

China's four decades of spectacular economic growth may now be slowing down, but the lessons for South Africa – with its own development challenges – remain important. DOUGLAS IAN SCOTT argues South Africa should re-orientate its relationship with China so as to learn from, and recreate, the successes of China's "reform and opening up" era.

Introduction

China's economic rise may now be slowing down, but the lessons for South Africa, grappling with its own stubborn development challenges, remain important. While Beijing currently navigates potential stagnation after four decades of breakneck speed economic development, its "reform and opening up" era offers valuable insights for Pretoria. This article argues that South Africa should re-orientate its relationship with China so as to better learn from, and recreate, the successes of China's development experience. To do this requires appreciating what those successes are and where, as well as which lessons are not worth repeating on South Africa's own development path.

Currently South Africa seems to be learning many of the wrong lessons from China. Political training missions from South Africa to Beijing are intended by China to normalise China's one-party-dominant political system in the rest of the world, rather than meet South Africa's primary needs (Sun, 2016). This spreads the ideologically rigid message of Xi Jinping (and formerly Maoist) China, not the lessons of the "reform and opening up" period (1979-2017)¹ that propelled China forward. South Africa already has a well-developed, vibrant and dynamic democratic system; we don't need to be taught things that run counter to those hard won gains.

It is worth noting that the current South African focus on centralising power in national government contrasts with the reality of the decentralised and semi-autonomous provincial power structures that have long existed in China; a decentralised system of government, born of historical and geographic necessity, that has allowed for local innovation and local accountability. Focusing on setting up Special Economic Zones, whilst a powerful tool of development, ignores the broader reforms that were implemented and the unique situation of Hong Kong as a gateway to the rest of the world. No South African equivalent to Hong Kong exists. Finally, the creation of State Owned Enterprises (SOEs) to drive development policy ignores the reality that the SOEs have always been a significant drag on China's economy, one that the reforms usually sought to address and minimise.

So what are the lessons that South Africa can learn from China's "reform and opening up" period? To answer that question we need to examine how China did it.

Background

In 1978, Deng Xiaoping and his coterie of pragmatic modernisers replaced almost 30 years of rigid Maoist dogma, which in turn replaced "100 years of shame" and domestic turmoil, overturning and replacing Mao Zedong's strict ideological purity with a practical, open-minded and flexible focus on economic development (Naughton, 2006, Part III). They looked to Japanese, Korean and Hong Kong economic development policies and history (which in turn were largely based on German economic history and the writings of Friedrich List) for inspiration. This created a broad intellectual bedrock on which to build and inspire new development policies that were tailor made for China's needs.

Reopening trade and scientific exchange with the West, particularly the US, gave them access to a vast and wealthy market to drive export-led economic growth. It also allowed for the importation of productivity-enhancing technology that would enable this export-led growth model. A pivotal move marked by China's entry into the World Trade Organization (WTO) in 2001 accelerated growth further. Despite its entry into the WTO, China maintained various policy tools that effectively protected its own industries against foreign competition through subsidies and maintaining the low value of its currency.

High levels of domestic savings provided the capital to acquire the technology and capital goods necessary (Wang, 2018). This, along with the policy approach expanded on in this article, drove 40 years of powerful economic growth (averaging 9% a year) that lifted more than 800 million people out of poverty and resurrected one of the world's great historical powers.

China's strategic initiative, "Made in China 2025," implemented in 2015, aimed to leverage its economic growth, propel a new era of reforms and policy objectives, and elevate the nation to developed nation status. The intention was to steer clear of the middle-income trap that currently challenges South Africa. Made in China 2025 sought to do this by encouraging investments in 10 key high productivity, high technology industrial sectors. These are: information technology; robotics and semiconductors; renewable energy and electric vehicles; aerospace; blue economy; railway equipment; power equipment; agricultural technology; medicine and new materials.

Made in China 2025 triggered alarm in Washington and Brussels, alienating China from its most important export markets and sources of technology imports. It fostered concern that China might be able to shed its technological dependency on the US in particular and the West in general. In this way, China failed to continue heeding Deng's advice to "hide its strength, bide its time" under Xi's now partially abandoned wolf warrior diplomacy.

A notable element of Made in China 2025 that caused considerable consternation in Washington was its focus on establishing import independence on microchip design and production, of which China imported hundreds of billions of dollars' worth annually to fuel its vast electronics industry in the Pearl River Delta region. The policy prompted the Trump administration to adopt a more hostile economic and trade posture towards the country after the policy was declared a "threat to

U.S. technological leadership” by the Council on Foreign Relations (Council on Foreign Relations, 2018). It, along with the later election of President Biden, also catalysed the development of new American industrial policy in the form of the CHIPS Act to fortify American dominance in this sector.

Despite pouring hundreds of billions of dollars into Made in China 2025 priority industries, the policy has produced mixed results, far from the levels of its 40-year rapid growth era. China’s dominance in renewable energy and electric vehicles has been successfully secured for the foreseeable future. However, its investments in aerospace have yet to produce a satisfactory, domestically designed and built commercial aircraft industry. A viable independent domestic aeronautics industry remains elusive.

The policy’s impact on semiconductor production has been mixed – working at the tiny scale required for the most advanced micro-chips is difficult. Whilst the hundreds of billions of dollars China has invested in developing its domestic semiconductor industry has produced some notable advances, such as the seven nanometres (nm) domestically produced Kirin 9000S chip, it has not yet been successful in establishing the strongly desired semiconductor independence or production capability at the bleeding edge 3nm level.² American pressure on Dutch and Japanese suppliers of the extreme ultraviolet (EUV) photolithography machines, the super high-tech hearts of the multi-billion dollar foundries that produce cutting and bleeding edge microchips, has contributed to this outcome. It also illustrated the difficulty, enormous complexity and extreme cost needed to establish a competitive foothold in the rapidly evolving semiconductor industry.

Although this era of aggressive reform and opening up might be over now, in Xi Jinping’s China, instead of returning to the older obsession with ideological purity and state control, the lessons and legacy from this opening up period remain. The lessons for South Africa from Deng’s reforms can be broadly described as: be pragmatic; incentivise good accountable governance and innovative local government; develop a high functioning and professional bureaucracy; and ensure there is sufficient political will to successfully follow through in implementing economic development policies unhindered by unrelated policies.

Pragmatic governance – practicality ahead of ideology

No matter if it is a white cat or a black cat; as long as it can catch mice, it is a good cat. – Deng Xiaoping

This quote, mentioned in a number of Deng’s speeches, encapsulates this spirit of pragmatism when pursuing the goal of economic development. So much so that it evolved into an often touted slogan and a political theory of its own, one that can be summarised as “whether it is a planned economy or market economy, it is only a means of resource allocation and has nothing to do with the political system; capitalism can have a plan, and socialism can also have a market” (Ke, 2013).

This slogan acknowledged the political backdrop of Chinese Communist Party politics and the existing economic landscape, largely controlled by inefficient SOEs. Simultaneously, it acknowledged the tangible impact of privately-led capitalism, guided by government policy, in propelling economic development. All economic policy is driven by a desire to move up the industrial value chain through beneficiation, achieve economies of scale and adopt productivity-enhancing technology.

A pragmatic, government-guided approach adopted during Japan's industrialisation, was inspired by German and American industrial policy of the 19th century, which in turn was inspired by early English industrial policy adopted during the reign of Henry VIII (1509-1547).

Unlocking the success of this type of industrial policy necessitates a practical approach that requires getting the basics right. Total factor productivity,³ the ratio of aggregate output to aggregate inputs, needs to be maximised to make beneficiated goods competitive on international markets. To achieve this, productivity needs to be increased, the domestic costs of inputs decreased, economies of scale established and transaction costs minimised.

- Productivity was increased through the adoption of new technologies and investments in high-end capital goods, all underwritten with government subsidies and incentives.
- Input costs were similarly reduced domestically through a mix of government incentives and subsidies. This also required ensuring a reliable and cheap supply of electricity which, despite occasional brownouts due to rapidly increasing demand, has largely been achieved through long-term planning and the successful rollout of new power plants. This is an area where South Africa, plagued by ever-worsening loadshedding since 2007, has notably failed.
- Economies of scale were established through government policies and encouraging the formation of business clusters. A good example of this is the Chinese cities that specialise in specific economic services such as Yiwu's dominance in small commodities or Hangzhou's 1980s era economic cluster in sock production. This is already present to a limited extent in South Africa with cities such as Gqeberha with its automotive assembly, but greater potential exists to expand this phenomenon.
- The minimisation of transaction costs required trade agreements to reduce export tariffs (which is why the WTO accession was so important to China) whilst improving and streamlining the country's logistical capacity. This required large and ongoing investments in rail, road and port infrastructure whilst ensuring strong and effective management that is well maintained and run. The effective management, investment and operation of ports and rail infrastructure is another area where South Africa requires urgent attention (Naughton, 2006).

An often celebrated model to come out of this practical approach has been the establishment of Special Economic Zones at easy access points to international markets. These are areas where normal laws and taxation policies are relaxed or otherwise modified to encourage international investment and export. South Africa already has an established policy encouraging this phenomenon with a number of Industrial Development Zones (IDZs) already in the country. A good example of this is the Freeport of Saldanha IDZ, which seeks to specialise in marine engineering. However, total factor productivity still needs to be improved to enhance the international competitiveness of these IDZs.

Innovative local government

"The mountains are high and the emperor is far away," is a popular old Chinese saying that highlights the challenges of ruling a large country. China's approach to solving this problem has been to decentralise decision-making and give greater autonomy to local authorities.

This empowers the government to formulate policies that are more attuned to

local needs and expedite their implementation. The persistent challenge lies in overcoming the corruption and mismanagement that may accompany decentralised decision-making. Much of China's governmental history is marked by endeavours of central government officials to monitor and address these issues. However, considering both China's geographical vastness and the enhancement of local governance, this emerges as a more viable approach, one that South Africa could potentially learn from. Indeed, certain detrimental policy debacles, such as the Great Leap Forward, stemmed from centrally imposed decisions that disregarded local realities.

The Great Leap forward was Mao's attempt to rapidly industrialise China from 1958 to 1962. It was one of the most famous failed industrialisation efforts in history resulting in the deaths of between 15 million and 55 million Chinese. An aggressive

industrial plan that focused on heavy industry and agriculture, it was implemented in a ham-fisted top-down manner that operated independently of local realities, resulting in gross distortions on the ground (Naughton, 2006). It was during this period that Deng first started advocating for less ideologically driven policies. This advocacy work would result in his temporary banishment from Chinese politics.

Following Deng's rise to power much of China's growth and poverty alleviation has been driven by local governments doing practical things village by village and city by city. To do this they needed a political mandate and bureaucratic flexibility to implement and experiment with policies and projects. Special Economic Zones, most notably Shenzhen which was able to develop a symbiotic economic relationship with neighbouring Hong Kong, served as laboratories for experimentation.

Local autonomy, in conjunction with the lessons outlined in this article, not only provided local governments with the flexibility to leverage regional conditions but also enabled them to experiment with fostering specialised business clusters and identifying the unique economic strengths of their respective areas. To support these initiatives, the local government established networks facilitating the exchange of outcomes and insights from local development experiments and showcasing model projects and policies to inspire and motivate others.

Local governments are free to set up business development support offices that offer practical advice and services to local businesses. This can range from encouraging local businesses to take advantage of government business development programmes to helping them access international markets to support the export of their goods. In 2008, the author visited one such support office in a rural district of Hebei province which was known for exporting peaches and being one of the largest producers of violins in the world, an achievement that would not have been possible without the practical support of their high-functioning local government-run business support office.

This does come with some risk. Without systems of accountability and adequate monitoring, local officials are more likely to pursue unproductive vanity projects or become corrupt.

Accountable governance

If government officials are not accountable for delivering results and properly motivated, it is unlikely that anything will get done. Different countries have different ways of dealing with this problem. In most democracies it is the role of the electoral process to appoint politicians who will hold bureaucrats to account if they do not deliver.

Being a one party state China has sought to resolve this problem in a different way. By setting a few simple metrics, and rigorously measuring the performance of party and government officials against those metrics, officials are strongly incentivised to focus on development priorities. During China's period of rapid growth these metrics were primarily focused on economic growth, and included the amount of private and foreign investment each municipality's leadership could attract. Within the context of promoting economic growth the metric was purposefully left broad so as to allow for experimentation, innovation and taking advantage of local opportunities.

So long as economic growth was maximised within the rules of the law, the best performing officials stood a good chance of being promoted into higher levels of government. This provided an effective mechanism for ambitious officials to gain higher office whilst driving growth.

Much needed anti-corruption drives, along with a change in government policies to reduce pollution (also a much needed change), have altered this approach in recent years. However, the lesson remains that strong mechanisms incentivising good local government whilst punishing non-delivery are needed as are clear lines of accountability for both local decision-makers and the public servants that execute policy on the ground. This is something South Africa is in great need of.

Professionalised bureaucracy

China has a long established norm of trying to appoint the country's best educated and most capable to government. Culturally, working in the civil service is seen as a high-status job, adding to the allure of government employment. The *kējǔ* or Imperial Examination for government helped establish this tradition during the Sui dynasty over 1,500 years ago. This policy, of always trying to hire the country's best and brightest for government, has been continued by the Communist Party government. China is not the only country with a tradition of doing this, Japan and the United Kingdom are also reputed to have a similar culture.

This has ensured that there is a strong talent pool within government that can be recruited from and relied upon to implement government policies and projects. High quality, energetic and highly motivated government officials are especially needed when trying to implement projects at a local level. High-quality politicians with an intimate understanding of local needs and the power to hold bureaucrats accountable is also vital. However, even the most talented political figure needs highly effective bureaucrats to implement policies and deliver on political promises.

South Africa, sadly, has never had a culture of recruiting its best and brightest for government. Nor do we have a culture of competitive examinations for the civil service. Whilst there are many highly capable and dedicated people working for government the culture within government, at least since the formation of the

Republic, has been to use the recruitment of civil servants as a tool of implementing political goals (such as entrenching Afrikaner control over the state during apartheid) instead of building an effective government. By adopting a culture of recruiting our best and brightest into the civil service, the government's ability to implement policies and do so efficiently is enhanced allowing the country to do more with less and increasing the chances that better implementation decisions will be made.

Political will

In China, effective political support for long-term strategic planning allowed China to leapfrog over the pre-established industrial dominance of developed countries through the early development of new technologies. Established industries in electronics and steel could transition to renewable energy and electric vehicles. China's early investment in these technologies when they were new, 10 or 20 years ago, has given it a strong head-start over other nations. Now China increasingly dominates the global export of solar panels and electric vehicles, sectors in which it enjoys a strong competitive advantage (Lin, 2023).

At around the same time, South Africa established several factories making equipment for renewable electricity, but these closed when government withdrew the promised scale of support for renewables.

South Africa has the potential to be strong in this type of industrial planning.

The Department of Trade, Industry and Competition has a long legacy of producing industrial plans. But the political will to implement these plans, unhindered by other, often contradictory policies, has not been present in the current political climate. Until a political consensus that prioritises economic development emerges in South Africa, it is unlikely that even the best conceived industrial policies will be implemented successfully.

Caution

Despite China's extraordinarily successful example, blindly copying China's playbook would likely invite disaster. White elephant projects and unchecked corruption are serious risks that China has been trying to come to terms with over the past 10 years. Overinvesting in specific sectors, like the construction and steel industries, distorts markets and wastes capital. Unsustainable debt-fuelled growth has created a nasty hangover which, as in Japan, might take decades to work through.

Growth has slumped in the past few years and this has been made worse by the end of the country's demographic dividend, in addition to high rates of municipal debt, shifting trends in international trade and Western industrial policy, weak productivity growth, and an economy that is overly dependent on a stagnant and highly indebted construction industry. All of this is pointing to the possibility that China might be entering into a middle income trap and a long period of low growth (Magnus, 2018).

Conclusion

China is not alone in proving the success of applying the principles of pragmatism, professional government, political will to implement industrial policy and a culture of entrepreneurship. It is an extraordinary fact that, after preaching the minimal

state, avoidance of debt in an unrestricted free market economy for 40 years, the United States under President Joe Biden has made the historic turn back to the state-driven industrial policy it applied when its economy was being built, and again during the New Deal under President Franklin D. Roosevelt following the Great Depression of the 1930s. Biden has revived exactly the policies applied when the US economy was thrust into becoming the foremost economy in the world.

Although the country is currently experiencing a period of significant political partisanship there remains a surprisingly strong, although seldom talked about, consensus that has emerged in industrial policy. Similar to the Made in China 2025 strategy, the Biden era CHIPS and Science Act have injected \$250billion into a raft of high technology, high productivity industries over the next 10 years, partly with the intent to re-establish its once dominant semiconductor industry. The success of its implementation, with the majority of the investments going to more conservative Trump voting areas of the country, is an example of good industrial politics enjoying – however begrudgingly – bipartisan support and a broad political mandate. His interventions to promote the green economy have been no less substantial.

Other factors have also contributed to this period of American growth. Trump tax cuts created a period of growth before the Covid pandemic. Biden's economic stimulus spending during the pandemic through the CARES Act unlocked an enormous multi-year-long consumer spending spree driven by excess savings. A boom in productivity-enhancing technologies such as AI, along with the easy availability of capital to deploy them, has significantly increased the productivity and competitiveness of American manufacturing. This process has been further stimulated by policies supporting the reshoring of manufacturing back to the US following the country's panic resulting from the Made in China 2025 policy.

The success of implementing these acts and industrial policies required a pragmatic approach, strong political will, a culture of enterprise, as well as autonomous and responsible government. Although very different from China in many ways, the US provides a good example of the power of applying the same principles adopted by China to drive development.

Currently the economic picture is not as good in China as it once was, partly due to the country's current leadership abandoning the ethos and reforming drive of the previous generation of Chinese leaders (Magnus, 2018). A generation of Chinese leaders, starting with Deng Xiaoping, created the conditions for one of the most significant economic success stories in history. China's current slowdown is a cautionary tale: abandoning reforms stifles progress and Xi Jinping's retreat from openness underscores this.

Despite this, the country's official annual GDP growth rate remains above 5%, much to the envy of South Africa which has averaged a sluggish 1.08% between 2012 and 2022. This number is lower than our population growth rate⁴ indicating that the average South African is getting poorer.

South Africa's current approach, fixated on SOEs and centralised control, mirrors China's pre-reform struggles. Learning from both China's successes and failures requires embracing pragmatism, professional governance, political will for well-designed industrial policy, and a vibrant entrepreneurial spirit. Rather than fixating on political intrigue and SOEs, the focus should shift towards pragmatism, professionalisation, experimentation, regional autonomy, incentivisation and a

robust political will to foster holistic development.

China's rise from the shadows of Maoist dogma to an economic powerhouse is a testament to strategic reforms. Deng Xiaoping spearheaded transformative changes, overhauled SOEs, revolutionised property laws, and embraced global trade and investment. This laid the groundwork for its unprecedented economic growth. Crucially, China didn't stop at traditional sectors. It strategically cultivated industries that allowed appropriate technological leaps. From the ubiquitous presence of social media giants like WeChat and TikTok to pioneering advancements in solar energy and electric vehicles, China strategically positioned itself as a global innovator.

As South Africa navigates its own development trajectory, the key lies not in replicating political models or fixating on SOEs, but in embracing a dynamic approach. China's journey teaches us that prosperity stems from adaptability, strategic planning and a relentless pursuit of innovation, providing a blueprint for nations aspiring to lift millions out of poverty and onto the path of sustainable progress.

Learning from China's successful period of "opening up and reform," South Africa should strategically reorient its relationship with China to enhance its development prospects. It should use its positive relationship to study China's lessons in job-creating rapid growth. This involves embracing a pragmatic approach, discarding ideological dogmas and making substantial investments in domestic infrastructure and human capital. South Africa should also engage in strategic diplomacy, diversifying its international partnerships beyond a singular focus on BRICS nations to maximize development options.

Focusing on sectors where mutual benefits and synergies exist between South Africa and the rest of the world is crucial. This strategic alignment ensures that collaborative efforts contribute to both national and global development. Geopolitically, South Africa should recognize that China, like any other country, prioritises its own interests. Hence, South Africa should prioritise its own interests first and reclaim its geopolitical agency.

South Africa's access to the Chinese leadership through BRICS provides a tremendous opportunity to learn the right lessons, and set our diplomatic priorities clearly on economic development. This also applies to other BRICS members, particularly India.

Empowering all levels of government with a strong political mandate to implement both localised and national development strategies is essential. This decentralisation approach enhances adaptability and responsiveness to diverse development needs. South Africa should address the investment strike by fostering a constructive relationship with businesses, unlocking vital development capital for economic growth.

By combining these strategic initiatives, South Africa can recalibrate its association with China, leveraging pragmatism, global engagement and domestic empowerment to fuel comprehensive and much needed sustainable development.

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ENDNOTES

- 1 This period starts with the ascent to power of Deng Xiaoping in 1979 following the conviction of the 'Gang of Four' and concludes in October 2017 following the conclusion of the 19th Communist Party Conference during which presidential term limits were abolished. Although there is no consensus on the exact date upon which the reform and opening up period ends, the 19th Party Congress represents an important milestone in the entrenchment of Xi Jinping's power at the expense of Deng appointed successors.
- 2 Because the semiconductor/microchip and software industries develop so fast, those industries have adopted the term "bleeding edge" to describe an edge that is further ahead than "cutting edge" or "leading edge". It's typically an edge that is about 16 months ahead of the cutting edge competitors and comes at a cost of increased risk from the unreliability of new technology. A good example in 2024 is Nvidia's dominance in AI chip design and production.
- 3 Total factor productivity (TFP) is an economic concept that describes the portion of a company's increased output that cannot be explained by increased capital or labour inputs and thus is considered a measure of operational efficiency.
- 4 Average of 1.2% per annum in the same period, World Bank data, accessed January 2024