

Impact of the US-China Trade War on Africa's Development Agenda

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UNIVERSITY
OF
JOHANNESBURG

Summary: A Mixed Picture So Far

Introduction: Africa-China Relations in Global Context

China-US Relations: 2017-2019

The US-China Trade War

Locating Trade in Africa's Development Agenda

The Trade War and Agriculture, 2018

Developmental Implications



Summary

Trade war possible due to popular demand for it in the US, and US Congressional-Presidential policy balance of power;

Trade a prominent feature in Africa's developmental agenda(s): intra- but also extra-continental (export-focused; beyond 4%);

Early diagnoses were **pessimistic** for Africa (AfDB; IMF; European Commission): **2018** figures show a different picture;

Trade war **not likely** to end soon: bipartisan, grassroots support (Pew; 2020 campaign) – need to accept and **think** of it as a long-term prospect;

Indeed some early short-term **gains** have been made in 2018, especially in agriculture;

New incentives at play: using momentum to work towards the right set of policies.





Implications of the US-led War on Terror for Africa-China relations

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Africa-China Relations in Global Context

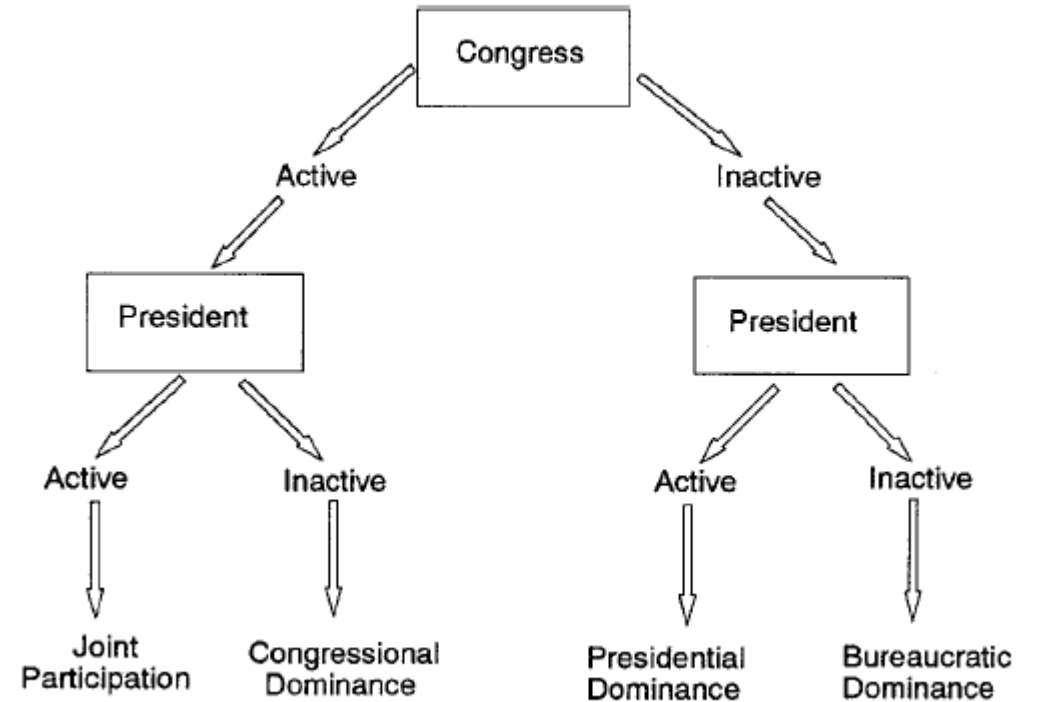
- Africa-China relations defined by global context in which there **are multiple actors**, with **varying interests**.
- Africa-China relations do not exist in a **historical vacuum**: colonial histories and postcolonial interests.
 - France, Belgium, United Kingdom and even Portugal and Italy.
- US nominally the **dominant player** since WWII, and increased presence after 9/11.
- Discussions of Africa-China relations do not transcend this: in fact, framed by them in many analyses. Are they cooperating, are they fighting?
 - **New Scramble** literature; **debt trap** discourse.
- Some empirical backing to this: Liberia; Djibouti; and now the **trade war**.
- But how much? And what have been Africa's outcomes so far (2018-2019)?



China-US relations since Trump, 2017-2019

- The foreign policy literature typically sees Congress **abdicating** its policymaking role to the executive (Carter and Eden, 1999: 53).
- This implies a **presidential dominance model** is superior to other policy process models (joint participation, congressional dominance, and bureaucratic dominance).
- Product specific (CH), national interest related (WH)
 - Embargo Act of 1807; Trading with the Enemy Act of 1917; Cuban Embargo
- 2016 campaign promises.

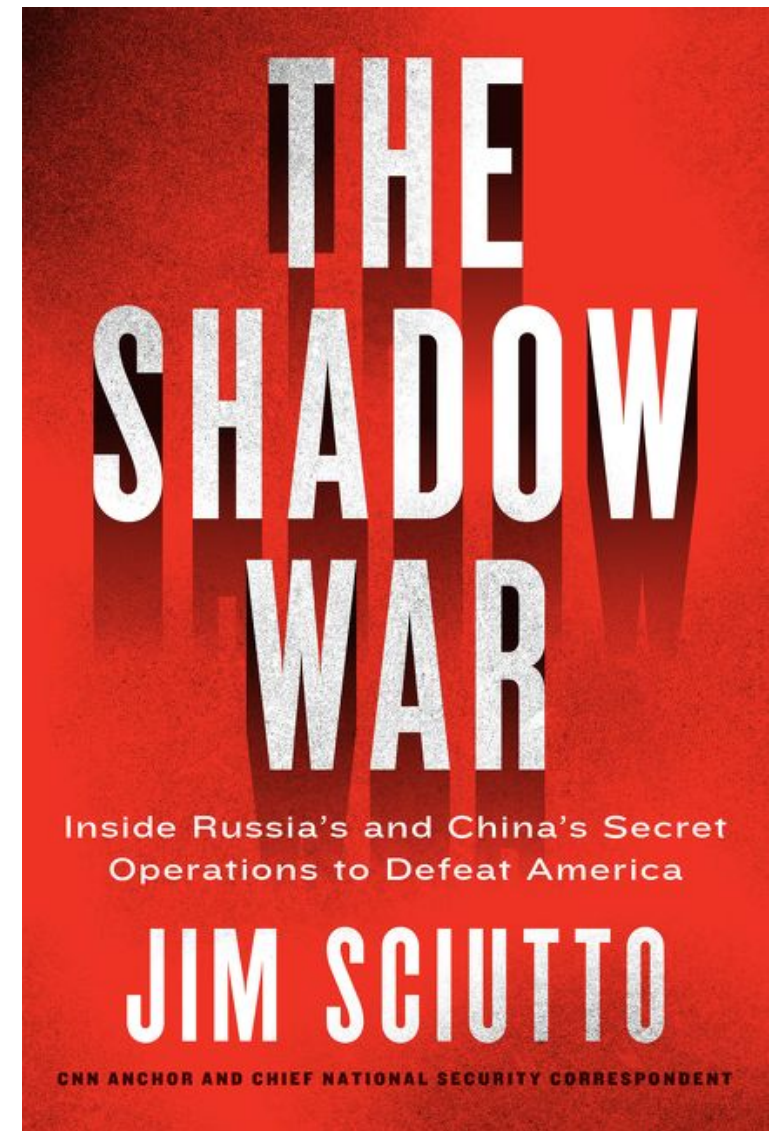
Policy Making Activity Patterns and Dominance Models



Source: Carter and Eden, 1999: 'Who makes US trade policy,' *The International Trade Journal*



Africa-China Relations in Global Context



March 22, 2018

- The Trump administration announces sweeping **tariffs** on Chinese imports, worth at least **\$50 billion**, in response to what the White House alleges is Chinese theft of U.S. technology and intellectual property.
- Coming on the heels of tariffs on steel and aluminum imports, the measures target goods including clothing, shoes, and electronics and restrict some Chinese investment in the United States.
- Tariffs, in theory, make US-made products **cheaper** than imported ones, and encourage consumers to buy American.
- China imposes **retaliatory measures** in **early April** on a range of U.S. products, stoking concerns of a trade war between two of the world's largest economies.
- The move marks a hardening of President Trump's approach to China after **high-profile summits** with President Xi in April and November 2017.



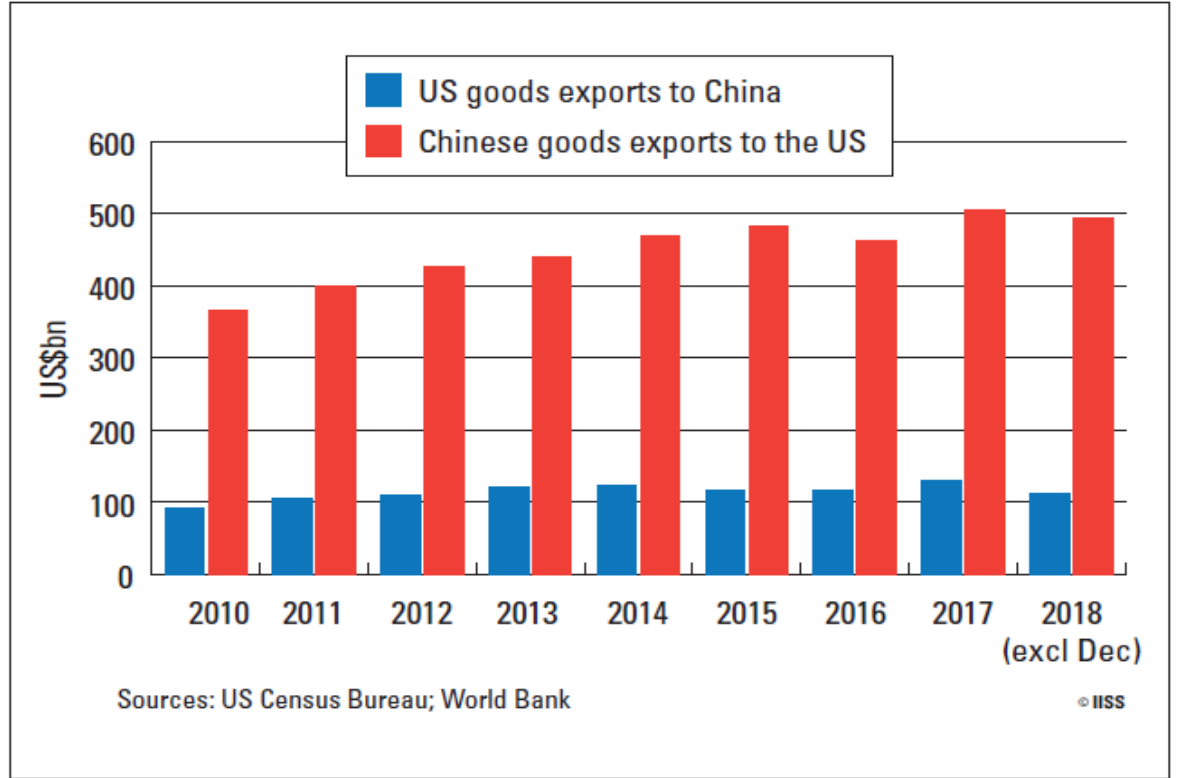
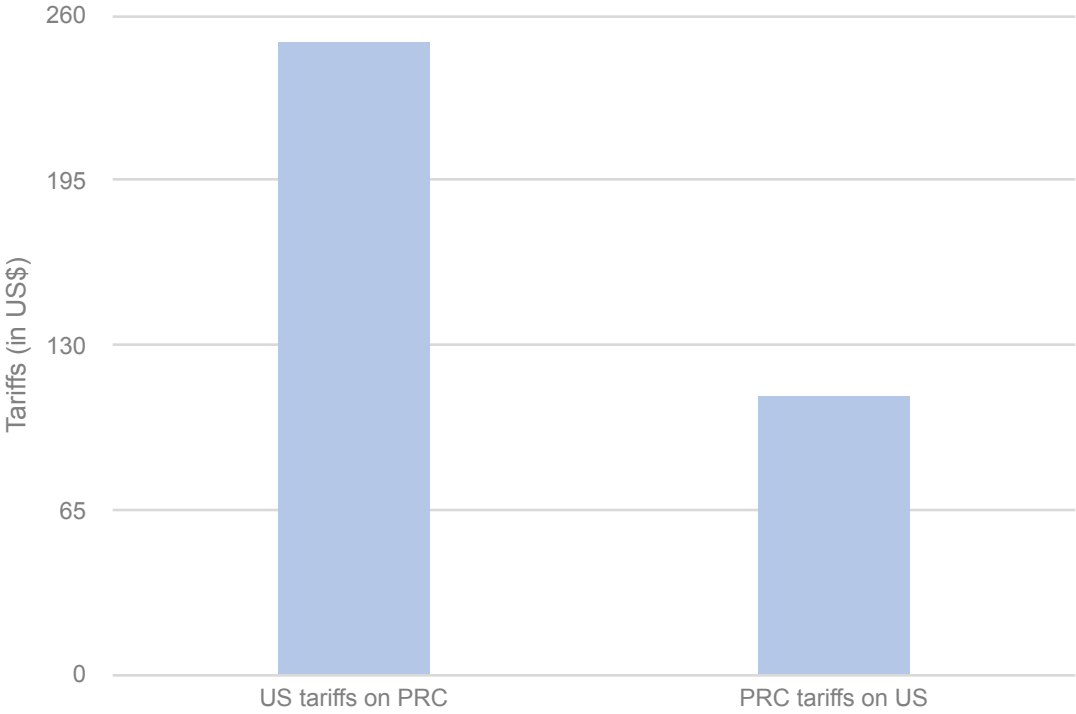


The US-China Trade War

- Both Washington and Beijing were confident that they would possess leverage over the other.
- This perception produced a quick **'tit-for-tat'** escalation in the volume of exports subject to restrictive trade measures.
- On 17 September, the US announced that its **10% tariff** on US\$200bn worth of Chinese goods would begin on 24 September 2018, and increase to **25% by the end of the year**.
- It also threatened tariffs on an additional US\$267bn-worth of imports if China retaliated; China did exactly this the following day, imposing 10% tariffs on US\$60bn of US imports.

The US-China Trade War

Retaliatory tariffs between China and the US



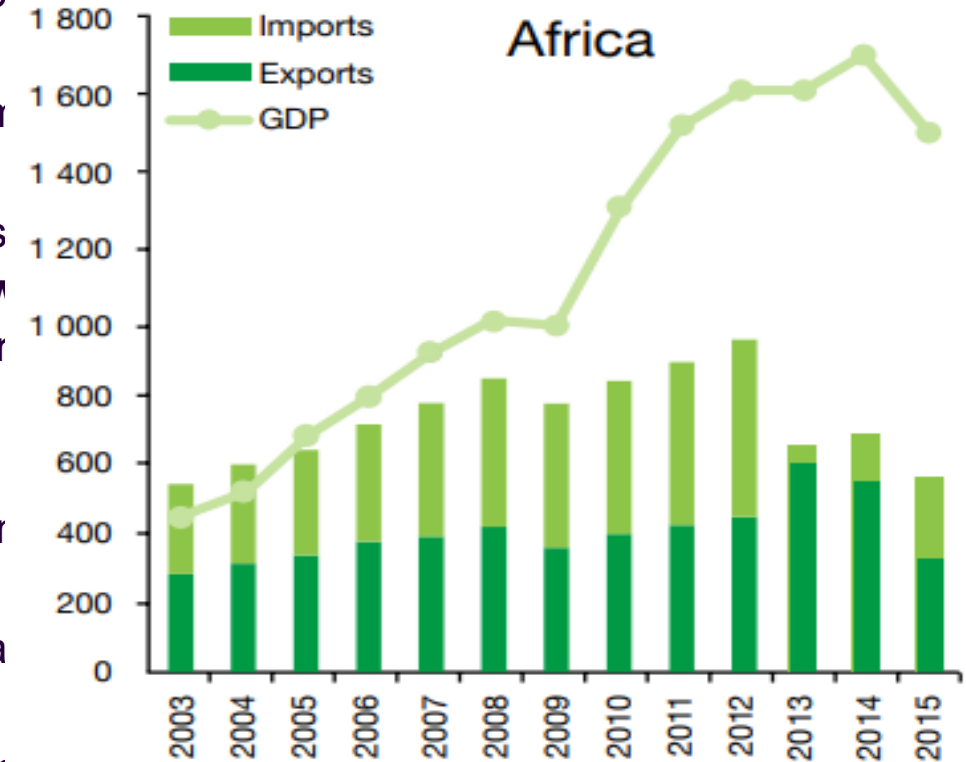


China: Globalisation's Last Defender?

- BRI as 'Globalisation with Chinese characteristics'*
- “Facing uncertainty and unpredictability in global growth, China will continue to grow an **open economy** for **win-win cooperation**, and it will embrace an open world economy and the multilateral trading system and reject protectionism and unilateralism” (Xi, 2018).
 - In enhancing U.S. economic ties with Africa, Bolton categorically mentioned China and Russia as “deliberately and aggressively targeting their investments in the region to gain a **competitive advantage** over the United States” which the U.S. strategy will target to “safeguard the economic independence of African states and protecting U.S. national security interests” (NYT, 2018)

Trade in Africa's development agenda(s)

- World-class infrastructure, accompanied by trade facilitation, will see intra-African trade growing from less than 12% in 2013 to approaching 50% by 2045
- **Africa's share of global trade shall rise from 2% to 12%** (AU, 2013: 6).
- “The move towards multi-polarity with strong elements of uni-polarism remaining” (AU, 2013).
- “Trade is the **cornerstone** of economic development by African countries Botswana, Mauritius and Namibia have all transformed themselves **from low income into middle income countries by improving their ability to trade in regional and global markets**” (AfDB, 2017: 4).
- GDP as useful proxy.
- Africa accounts for just **3 per cent of global trade** and has a lower proportion of intra-regional trade than any other part of the world.
- The continent remains overly dependent on the export of raw materials, so the growth levels fluctuate in line with international commodity prices.
- If Africa were to increase its share of world trade by 1%, that **1 percentage point increase would in nominal terms generate about US\$70 billion of additional income**, which is about **three times the total amount of development assistance** the continent receives from the rest of the world each year.



African Trade (Exports and Imports) and GDP (in USD Billions - Constant 2000)

Source: World Bank



South African companies are on a list of major exporters required to pay a **10 percent tariff on aluminum** and **15 percent tariff** on certain steel exports to the United States.

The suspension by the US of **trade benefits** to Rwanda because of Rwanda's refusal to import used clothes from the US.

At the 2018 FOCAC, President Xi stood alongside 53 African countries and promised to counter protectionism—an implied, Sino-African jab at the United States.

Independently, the leaders of Nigeria, South Africa, Ghana, and Cabo Verde and the former president of Zambia have also admonished the trade war and warned of its impacts on African markets.





the Trade war and the African Development agenda: Early Diagnoses

- China is **Africa's largest trading partner**, so if Chinese-made products are hit with US tariffs, there could be a knock-on effect.
- U.S. tariffs have precipitated drops in commodity prices, local currencies, and major stock exchanges.
- African Development Bank experts warn that the trade tensions could cause a **2.5 percent reduction in GDP** in **resource-intensive African countries** and a 1.9 percent reduction for oil exporters by 2021 (Devermont and Chiang, 2019).

U.S. tariffs, combined with several **domestic** and external **pressures**, are slowing down Chinese production and reducing Beijing's demand for raw materials from sub-Saharan Africa.

Diminished Chinese demand could further reduce annual exports of \$75.26 billion from Africa.

A slowdown in the global economy could lead to a decline in demand for Africa's exports, **more than 60%** of which head to the US, China and Europe (AfDB report).

The trade war is predicted to depress global commodity prices and **decrease Chinese demand for imports**, potentially exacerbating sub-Saharan Africa's economic vulnerabilities.



the Trade war and the African
Development agenda: Early
Diagnoses

The International Monetary Fund (IMF) lowered African growth projections from 3.3 percent to 3.1 percent for 2019, citing rising trade tensions, as well as Brexit and slowing Chinese growth.

2019

2021

It further warned that the trade war could alone cause up to a 1.5 percent cumulative drop in Africa's GDP growth by 2021.



Manufacturers are **diverting operations** outside of China to avoid U.S. tariffs.

Trade tensions also reinforce China's resolve to reduce dependency on and substitute its U.S. imports.

African businesses are **poorly positioned** to benefit from commercial opportunities surfacing from the trade war.

However, **Asia and Latin America**, which possess more developed manufacturing sectors than sub-Saharan Africa, are poised to clinch most of these deals.



Enter agriculture





*A Study on the Trade war and African
agricultural Exports, 2018-2019*

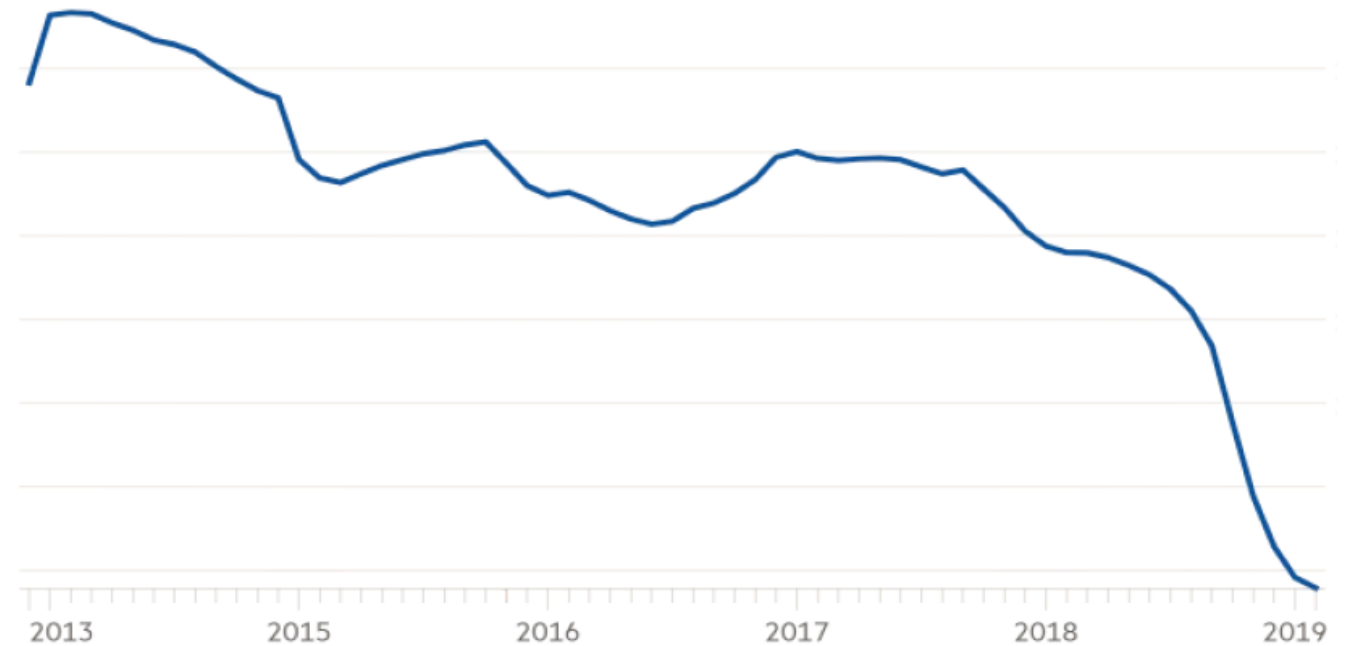
- When China joined the World Trade Organization in **2001**, US agricultural exports to the country were **close to zero**. By 2012, they were **worth \$30bn**.
- On **April 2018**, as part of a quickly escalating trade war with the United States, China announced plans to impose **25-percent higher tariffs on more than 100 U.S. products**. The list includes several different **tobacco products as well as soybeans**. Earlier, China announced tariffs on **pork products from the U.S.**
- Tariffs on unmanufactured tobacco would rise from **10 percent to 35 percent**, while duties on cigarettes and cigars would climb from their current **25 percent to 50 percent**, according the U.S. Department of Agriculture.

A Study on the Trade war and African agricultural Exports, 2018-2019

- US\$16bn in subsidies that the administration promised to farmers to help ease their pain.

Agricultural trade with China has plummeted

US agricultural exports to China as a % of total

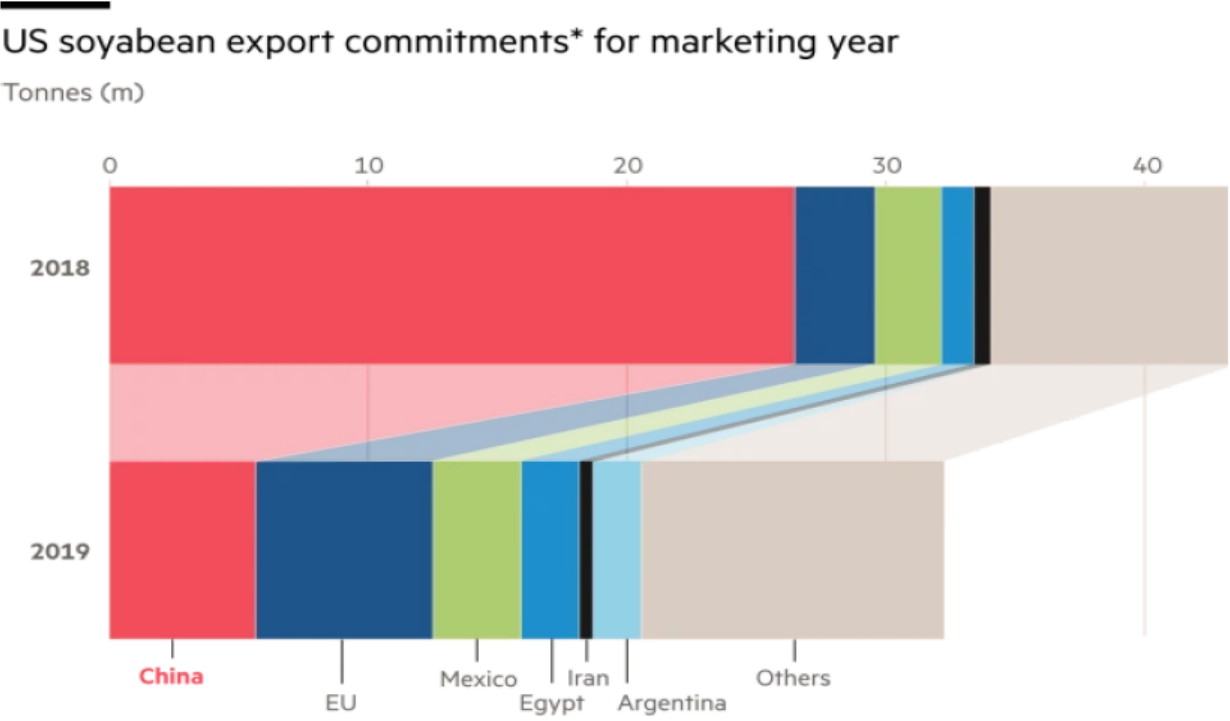


Source: US Customs
© FT



A Study on the Trade war and African agricultural Exports, 2018-2019

- While farm exports to China fell to \$25bn in the final year of the Obama administration, they collapsed in 2018 after China imposed its retaliatory tariffs, falling to \$13bn. The value of soyabean exports — the most important agricultural commodity to China — plunged by 75 per cent to \$3bn from \$12bn the previous year.
- China has already replaced much of its US soyabean imports by turning to Brazil.
- Beyond soybeans: tobacco, nuts, fruits.
- What of Africa?

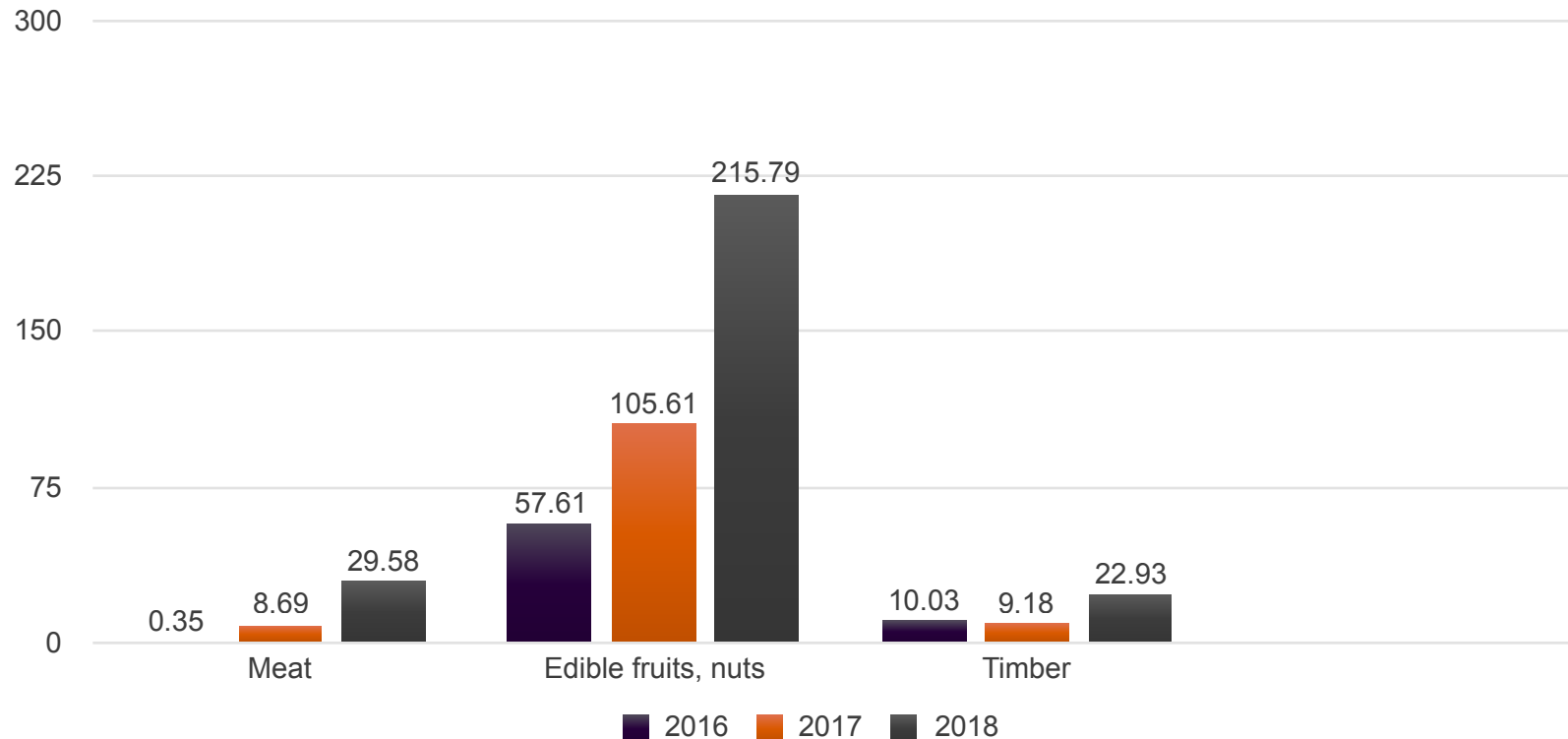


* for marketing year beginning Sep 1
Source: US agriculture department
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the Trade war and the African Development agenda: Early Findings

Total SACU agri exports to China, 2016-2018



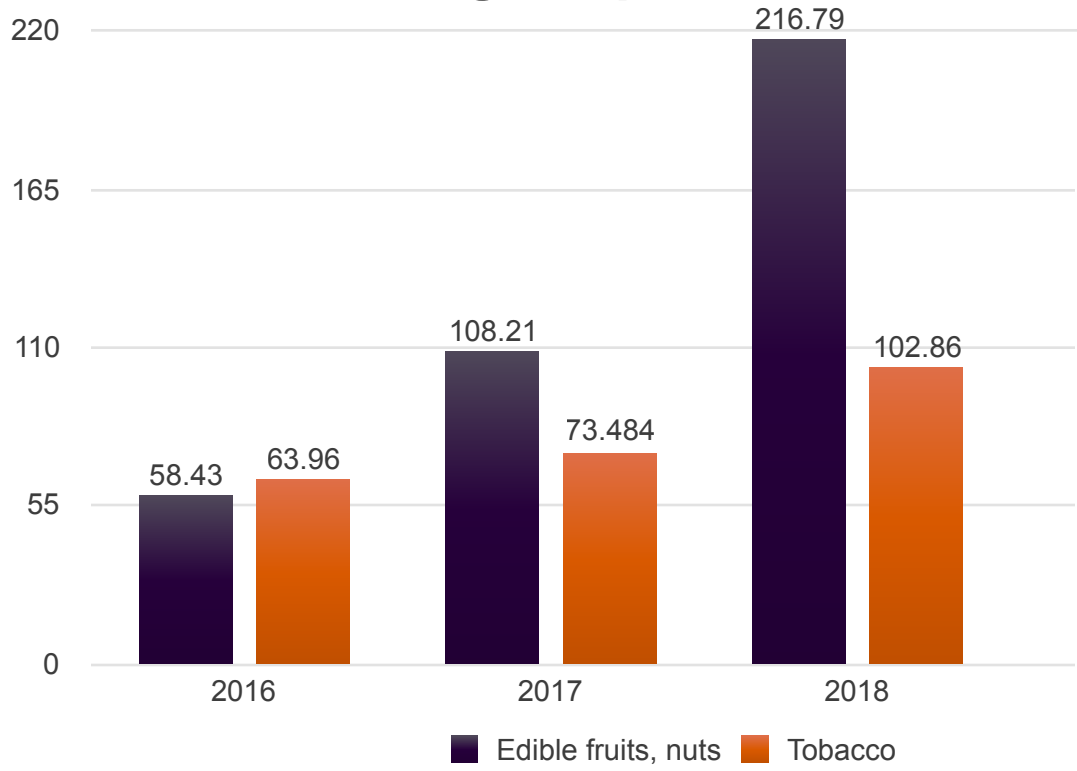
- *Meat: 240% year-on-year growth*
- *Fruits, nuts: 104% year-on-year growth*
- *Timber: 151% year-on-year growth*



the Trade war and the African Development agenda: Early Findings

- Tobacco: 100.3% year-on-year growth
- Fruits and nuts: 40% y-on-y growth

Total SADC agri exports to China, 2016-2018



'It really hits North Carolina': China goes after tobacco in latest tariff fight

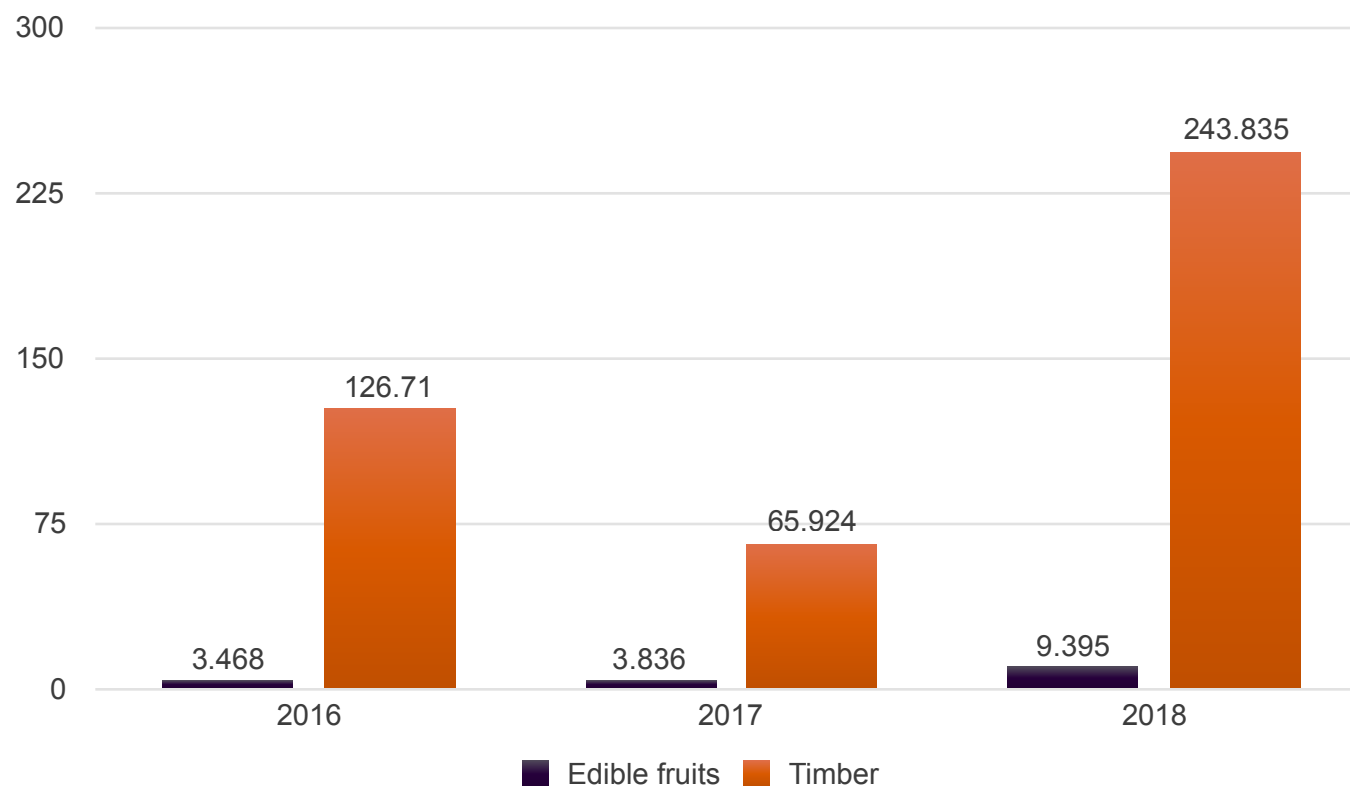
BY BRIAN MURPHY AND ZACHERY EANES
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the Trade war and the African Development agenda: Early Findings

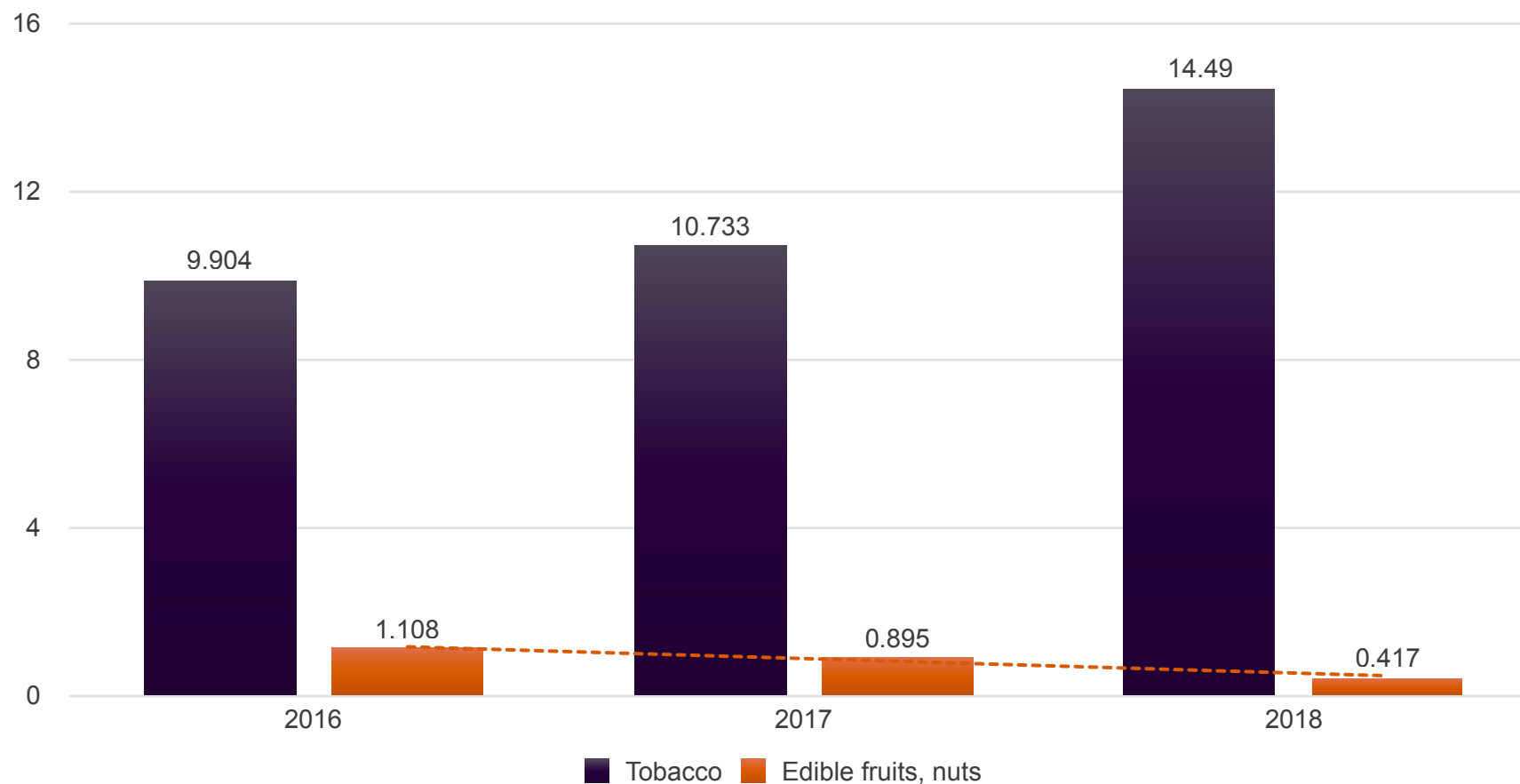
- *Fruits and nuts: 143% y-on-y growth*
- *Timber: 270% y-on-y growth*

Total ECOWAS agri exports to China, 2016-2018



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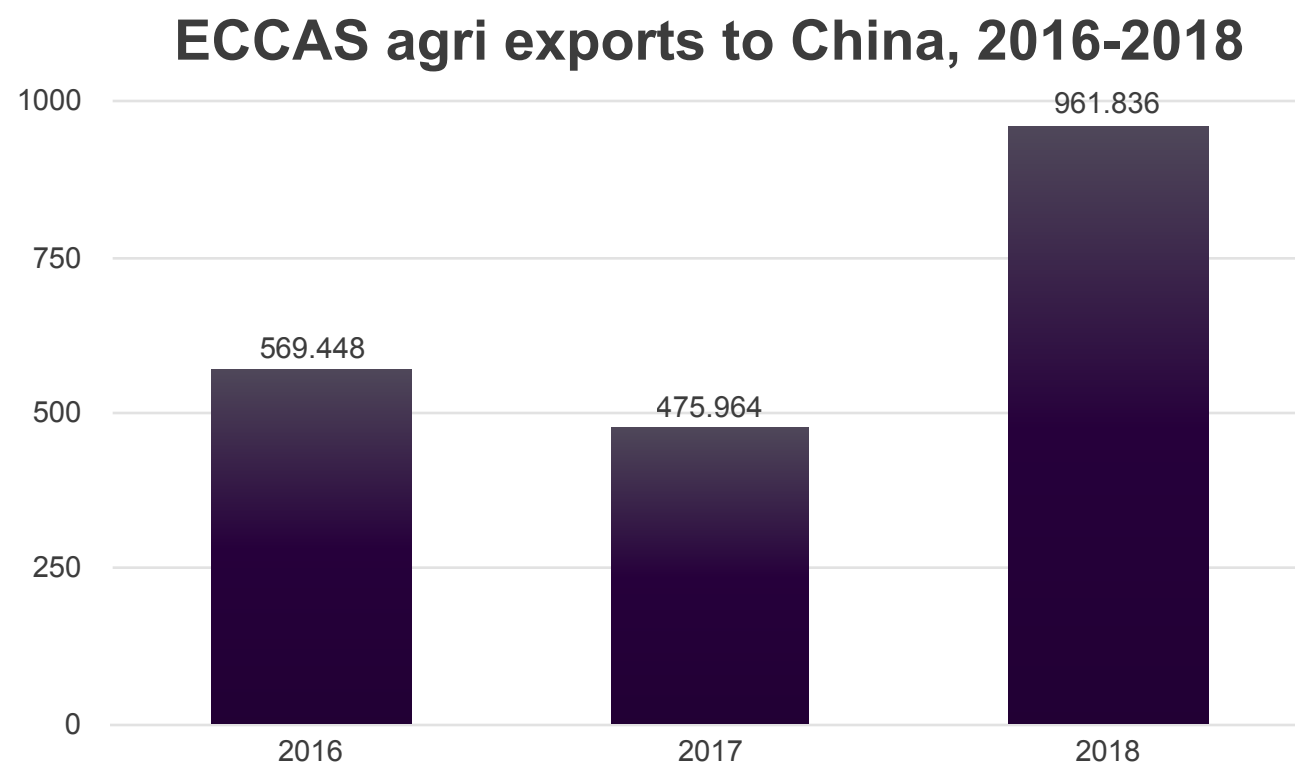
Total EAC agri exports to China, 2016-2018



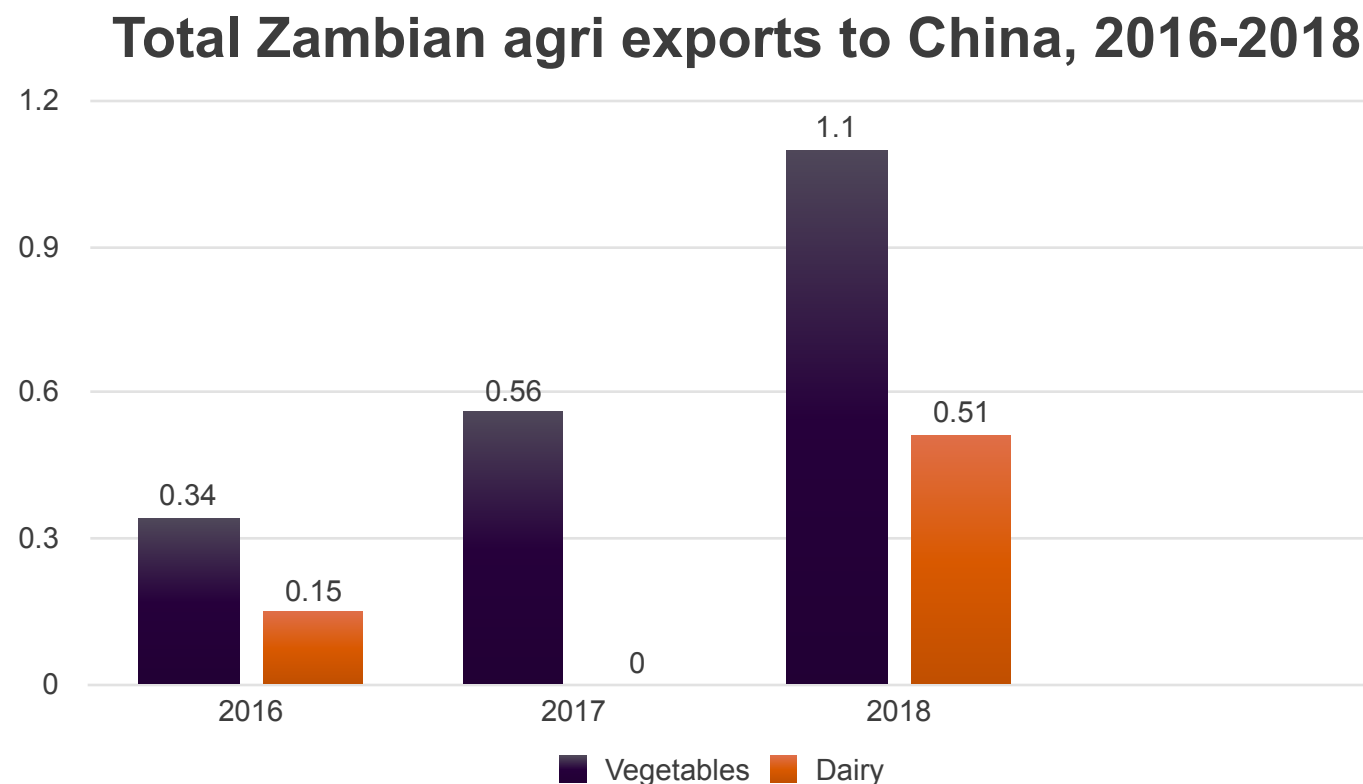
- *Fruits and nuts: -45% y-on-y growth*
- *Tobacco: 35%*



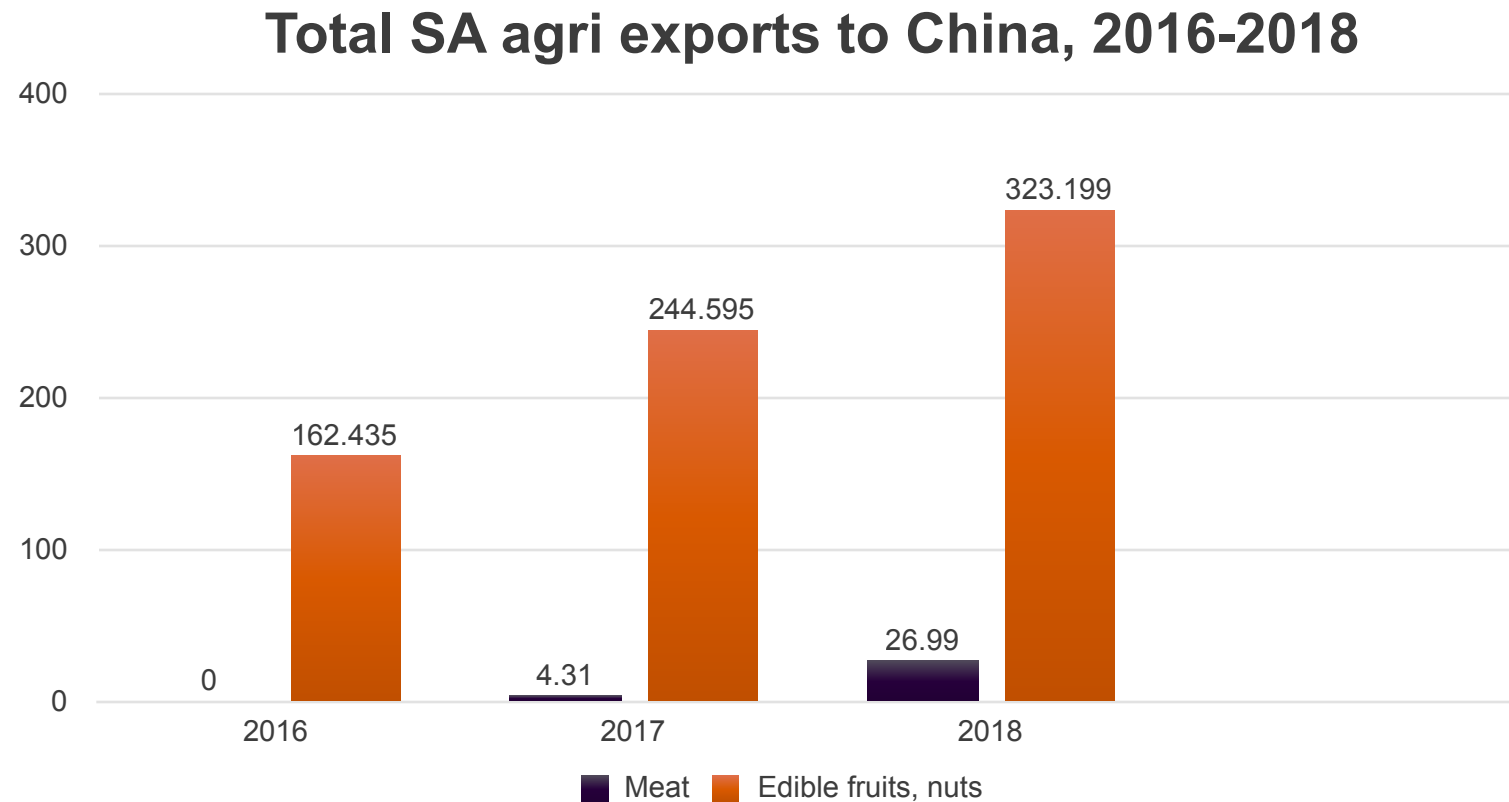
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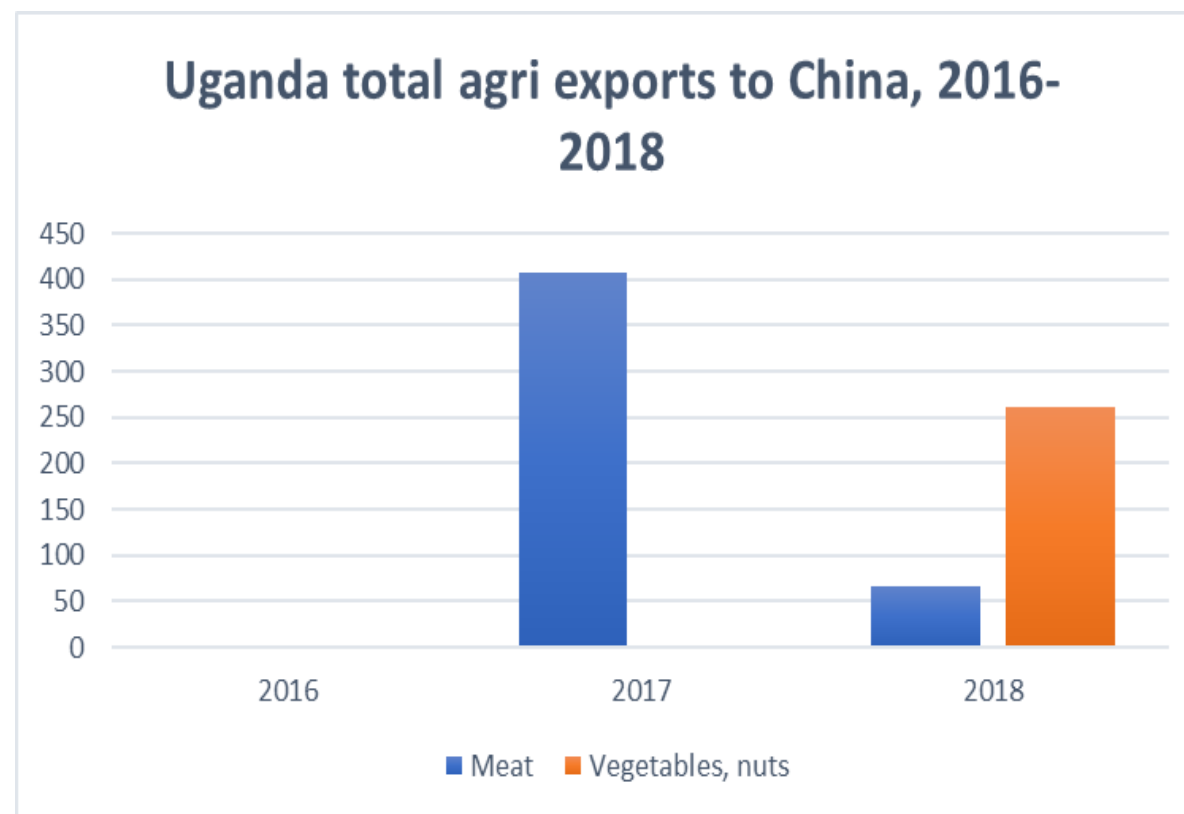
the Trade war and the African Development agenda: Early Findings



the Trade war and the African Development agenda: Early Findings



the Trade war and the African Development agenda: Early Findings



the Trade war and the African Development agenda: Early Diagnoses

- In a November 2018 Pew poll, 58% of respondents viewed China's increasing economic strength as a 'serious concern'.
- MSNBC: "a political environment where both major parties have knocked the downsides of free trade and decried the growing influence of the world's second-largest economy."
- And what about China, which is also planning to intensify *Made in China 2025*?



Bernie Sanders
@BernieSanders

Since the China trade deal I voted against, America has lost over 3 million manufacturing jobs.

It's wrong to pretend that China isn't one of our major economic competitors.

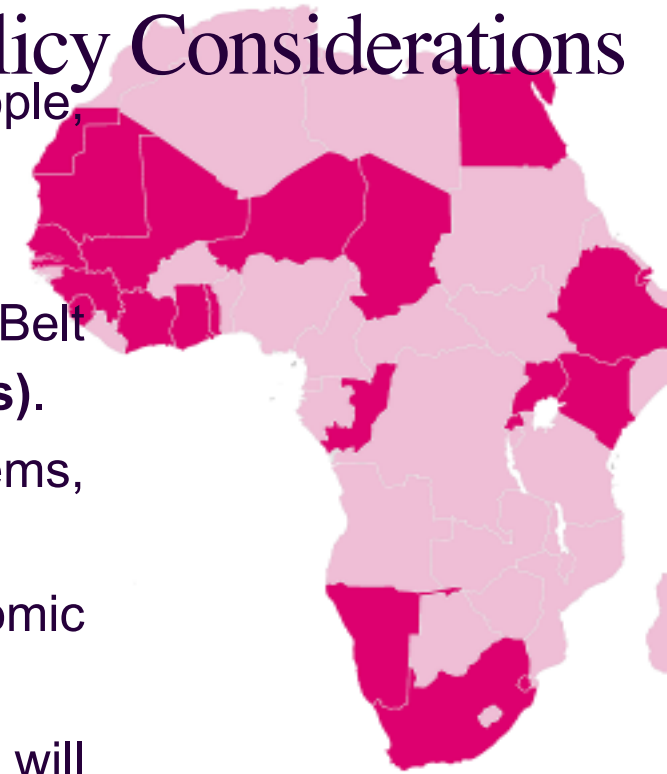
When we are in the White House we will win that competition by fixing our trade policies.

4,713 2:19 AM - May 2, 2019



the Trade war and the African Development agenda: Policy Considerations

- According to the African Union, AfCFTA will consolidate a market of 1.2 billion people, and a gross domestic product of \$2.5 trillion.
- **Uneven** effects (of trade war), are likely to result in uncoordinated responses.
- Intensification of trade war, should see an intensified effort and investment on Belt and Road Initiative by China: **Opportunity for Africa to shape it (vs Asian states)**.
- Thinking **beyond China**: “Expand the introduction of modern agricultural systems, technology, practices and training, including the banishment of the hand-hoe;”
- The Specialized Technical Committee (STC) on Finance, Monetary Affairs, Economic Planning and Integration: Right mix of policies, but no talk of Trade War;
- **Africa50 Fund** (trade facilitation transport and logistics infrastructure) that will leverage African pension funds, African sovereign wealth funds, African central banks’ foreign reserves and other African institutional investors.



Conclusions: CRISIS & OPPORTUNITY

- Trade war is a reality: need to think of it as such;
- Impetus for **increased** intra-continental trade;
- African agriculture always struggled to break out despite Africa's obvious **natural niche**: EU and US had **subsidies** which have a crowding out effect:
 - **EU Common Tariff** of between 30 and 60% towards African produce;
 - *Now there are new sets of incentives to subsidize agriculture in Africa.*
- China desks in agricultural departments: pre-orders.
 - Regional approach needed: gap-closing
- Small holder farmers support.
 - Need for policies geared towards limiting bio threats.
 - Beneficiation of fruits through fruit-related substances.
- Joint agri ventures/operations: best way to know what China wants and at the same time make China have a stake in the agri sector.



Thank You.

