US-China trade war: Implications for Africa

By

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Abstract

The world's largest economies, the United States (US) and China, are embroiled in a trade war that is unlikely to do either belligerent any good. Trade conflicts between the US and China have a long history but have taken a turn for the worse under President Donald Trump by becoming a full-blown trade war. The US-China trade war is already having adverse effects on consumers in the United States and is threatening to implode the global economy. Such an implosion would mean grave danger for the major economies of the world and be particularly disastrous for African nations that have more trade relations with extra-continental as opposed to African nations. This paper examines the implications of US-China trade war for Africa. The United States and China are Africa's third and second biggest trade partners respectively and any friction or attrition in their trade relations is bound to impact the fragile states and economies of the continent. This paper explores how this impact may occur and shows how the deleterious effects of the Sino-US trade war may in turn affect Africa's strive towards the realization of the sustainable development goals (SDGs); in particular, Goals 8 & 9.

Introduction

A sound and stable US-China economic and trade relationship is more important than ever. Both the US and China have benefitted much from their bilateral trade and economic cooperation over the years. Their trade has grown to the point where they have become each other's major trading partners. Indeed today, China is the US largest trading partner (Morrison, 2018, p. 2).

> Total U.S.-China merchandise trade rose from $2 billion in 1979 (when China's economic reforms began) to $636 billion in 2017. China is currently the United States' largest merchandise trading partner, its third-largest export market, and its biggest source of imports. In 2015, sales by U.S. foreign affiliates in China totaled $482 billion. Many U.S. firms view participation in China's market as critical to their global competitiveness. U.S. imports of lower-cost goods from China greatly benefit U.S. consumers. U.S. firms that use China as the final point of assembly for their products or use Chinese-made inputs for production in the United States, are able to lower costs. China is also the largest foreign holder of U.S. Treasury securities (at $1.2 trillion as of April 2018). China's purchases of U.S. debt securities help keep U.S. interest rates low (Morrison, 2018).

China became the third biggest market for US exports way back in 2009 and the two nations and their economies have become more intertwined as the above quote shows. While China is the largest foreign holder of US Treasury securities, she also benefits greatly from US investors with many US manufacturing firms finding comfort in the Chinese market as a shelter against global financial storms. Labour-intensive goods imported from China help to keep cost of living down for Americans even when they become increasingly cash-strapped and, without consumer goods from China, the US price index usually goes up an extra two percentage points every year (Zhong, 2017).

However, US-China trade and economic relations have been marked by tensions even in their smoothest seasons. Dumbaugh (2009), Hufbauer, Wong, and Sheth (2006), Glaser and Flaherty (2018), and Meltzer and Shenai (2019) among many others have made this point. The tensions have revolved around

> disputes over China's failure to protect U.S. intellectual property rights, the economic advantage China gains from pegging its currency to a basket of international currencies, and growing concerns about the quality and safety of some exported Chinese products (Dumbaugh, 2009, p. 1)

Other issues of concern to the US have included and include China's increasing power and influence in the world, China's economic development agenda including the current Made in China 2025 Agenda, and "China's growing appetite for energy, raw materials, and other resources' over which it has entered into 'economic and energy-related agreements around the world, some of them with key U.S. allies" (Dumbaugh, 2009, p. 2). China is also accused of dumping and is treated as a nonmarket economy in the calculation of antidumping tariffs by the US (Hufbauer et al., 2006; Morrison, 2018). These are still some of the issues on which President Trump's trade policy towards China hinge. The main addition to the list by the Trump Administration is the persistent merchandise trade imbalance in favour of China and "China's backsliding on liberal market-oriented reforms" (Ciuriak, 2019). This trade imbalance between the two countries has risen from US $10.4 billion in 1990 to US $375.2 billion in 2017 (Morrison, 2018, p. 2). This is even though over the period 2002-2017, US exports to China increased by close to 500% from US $22 billion US $130 billion (ibid). So, while volume of trade on either side has grown tremendously, China exports far more to the US than she imports.

Rightly or wrongly, consequent upon the above factors, a trade war is raging between the US and China. It started with the US imposing tariffs on $34bn worth of Chinese imports to which China retaliated with its own countermeasures by releasing a list of $34bn worth of imported US goods, such as lobsters, soybeans, electric cars, agricultural products which attracted 25 percent tariffs. The tariffs have since escalated to cover more imports. According to Bellora and Fontagné (2019), the US administration announced and implemented several measures limiting trade with their partners especially, China since the beginning of 2018. As Table 1 shows, except for the 4th tranche proposed tariff, it has been a tit-for-tat between the US and China. Given that the US imports more from China than she sells to the latter, China could also not match the 3rd tranche of US tariffs because the balance of exports over imports for China in 2017 for example, was higher than total imports from the US. China's retaliation was therefore targeted at sectors considered to be vulnerable to Chinese trade restrictions. Hence China's focus on the agricultural sector which is also a major support base of President Trump.

Table 1: U.S.-China Section 301 Tariff Action

Country Imposing Tariff	**Ad Valorem Tariff Rates**	**Stated Imports Impacted**	**Tariff Actions and Dates**
U.S. Tranche I	25%	$34 billion	Implemented 7/6/2018
China Tranche 1	25%	$34 billion	Implemented 7/6/2018
U.S. Tranche 2	25%	$16 billion	Implemented 8/23/2018
China Tranche 2	25%	$16 billion	Implemented 8/23/2018
U.S. Tranche 3	10%, then 25%	$200 billion	10% hike effective 9/24/2018; raised to 25% by 6/15/2019

China Tranche 3 (4 lists)	5% and 10%, then 10%, 20%, and 25%	$60 billion	5% and10% hikes on 9/24/2018; increased to 10%, 20%, and 25% on selective products, effective 6/1/2019
U.S. Tranche 4 proposed	25%	$300 billion	Draft USTR notice issued 5/13/2019 (action pending)

Source: (Morrison, 2019)

Why a trade war?

There are arguments to the effect that there is no cause for a trade war between the United States and China or any two other nations on the grounds provided by the United States as the reasons for its trade actions against China. This is the argument of Ciuriak (2019, p. 1), who holds that the "main complaints made by the United States against China, while increasingly widely accepted and repeated, do not individually or collectively provide a compelling casus bellum". The complaints on which US trade action against China is based and which Ciuriak considers untenable are bilateral goods trade imbalance, forced technology transfer, trade secret theft, and backsliding on liberal market-oriented reforms. Ciuriak (2019) argues that the main cause of the trade war is to be found in technological developments that induce strategic trade and investment policies by China; that the approach of unilateral tariffication is incapable of successfully addressing the issues raised by the US, and that the US would be better off dealing with them through a reform of the extant "multilateral trade and investment framework". Amiti, Redding, and Weinstein (2019) demonstrate that the tariffs imposed on imports into the U.S have been anything but beneficial to the country; rather, they are said to be harmful to US consumers.

Morrison (2019) argues that many US-China trade tensions arise from China's incomplete transition to a market economy, including the use of industrial policies to support and protect domestic firms, especially state-owned enterprises (SOEs). Major Chinese government practices of concern to U.S. stakeholders include subsidies, tax breaks, and low-cost loans given to Chinese firms; foreign trade and investment barriers; discriminatory intellectual property and technology policies; and technology transfer mandates. Several recently issued economic plans, such as the "Made in China 2025" plan, appear to indicate a sharply expanded government role in the economy. The Trump administration characterized such policies as "economic aggression. "Some officials have expressed concerns that participation by Chinese firms in certain global supply chains, such as information and communications technology products and services, could pose risks to US intellectual property and national security interests. US-China FDI flows are relatively small given the high level of bilateral trade, although estimates of such flows differ. The U.S. Bureau of Economic Analysis (BEA), the official U.S. agency that collects and reports Foreign Direct Investment data, estimates the stock of Chinese FDI in the United States through 2017 at $40billion and the stock of US FDI in China at $108billion. Some analysts contend BEA's methodology for measuring FDI significantly undercounts the level of actual US-China FDI, in large part because it does not capture all FDI that is made through other countries, territories, or tax havens, as well as acquisitions made by US affiliates of foreign firms.

Wilson (2019) posits that the Trump administration took the US foreign economic policy in directions not seen since the establishment of the post war liberal regime for international trade. The US which has been unprecedentedly critical of the WTO, sought to replace NAFTA with a new US-Mexico-Canada agreement, and cast the EU as a foe in trade relations while halting progress on the Trans-Atlantic Trade and Investment Partnership. But the most significant trade moves targeted China and focused on the Asia-Pacific: opting out of the Trans-Pacific Partnership, criticizing Chinese policies and practices as unfair on issues ranging across market access, currency manipulation, coerced or illicit intellectual property transfers, industrial policy, import duties, government subsidies, and Chinese firms' violations of US sanctions on third countries and the Initial rounds of tariffs from both sides and threats to escalate portended a possible full-blown US-China trade war as negotiations failed to move expeditiously toward a mutually acceptable deal.

According to Mourdoukoutas (2019), there are official and unofficial reasons behind the US –China trade war. The official reasons relate to China's unfair competition strategy of taking advantage of America's open markets while keeping her markets closed to American corporations and products. "This unfair competition results in lower output, factory closures, and job losses in American industries most affected by Chinese competition". Under the circumstance, the US has "no choice but to impose trade sanctions against Chinese products and companies". The unofficial reasons behind the US-China trade war relate to China's rapid technological rise and concurrent quest to dominate emerging digital technologies" including 5G networks, artificial intelligence, and robotics. Mourdoukoutas holds that while the United States has led the world in technological innovation for many decades, China is fast closing this gap and is pursuing national strategies of not only fostering the development of AI and other key technologies but also recruiting top technology talents from around the world with a view to becoming the world's new technological superpower, a direct threat to the US's longstanding technological hegemony in the world. More importantly, when questions of national security are pleaded, all other factors would recede to the background and part of what Donald Trump has done is to invoke national security as one of the planks on which the trade war stands.

Implications of the US-China trade war

While the focus of this paper is the US-China trade war, the US is waging a more generalized tariff warfare against all her major trading partners. Thus, the tariff of 10% and 25% slapped on import of aluminium and steel in March 2018 exempted only Australia and forced Argentina, Brazil and South Korea to negotiate voluntary export restraints (VERs) to avoid tariff increase, while Canada, China, European Union, India, Mexico, Russia and Turkey imposed retaliatory tariffs on selected US exports (Bellora & Fontagné, 2019, p. 2). These tariffs did not only have the intended effects and more on the targeted products and countries but also on third sectors and countries through the global value chains. According to Perraton (2018), the US-China trade war has serious implications for "the entire global economy" and has put "the world trade order … in danger of being torn apart". He argued that it will negatively impact the UK's "hopes for a free trade Brexit." The US-China trade war is also causing tension and panic in global markets, "triggering a sell-off in equities and a flight to government debt". Escalation of trade war "between the United States and its main trading partners would reduce world economic growth, with repercussions for Africa" (African Development Bank Group, 2019, p. xv). This is because African countries' openness to, and trade intensity with the United States and China are significant as more than 60 percent of Africa's exports go to the United States, China, and Europe, and more than 70 percent of Africa's imports originate from these countries (African Development Bank Group, 2019, p. 12).

Trade, whether domestic or international, takes place within the framework of laws, rules, and regulations encapsulated and expressed in trade policies. This is especially so with respect to international trade. To determine the effects of trade therefore, one must look to trade policy. Trade policy exercises its influence by affecting the real income of households and the profitability of firms.

> Household welfare depends on the retail prices of goods consumed, which are determined by wholesale prices, which in their turn are determined by how the world price is affected by the exchange rate, trade policy instruments such as tariffs, the costs associated with customs controls, and corruption or delays in transporting consignments (Hoekman, 2017, p. 36).

The real income of households thus depends on international trade policies and practices.

While trade policies are made by national governments, they may be pursued within a multilateral or unilateral framework. In the current international system, the World Trade Organization (WTO), is recognized to provide a multilateral context for the pursuit of national trade policies such that where a nation's interests are being undermined by the economic and trade practices of another country, resort can be taken to the Dispute Settle Mechanism (DSM) of the WTO. A resort to unilateral action to protect a country's trading interest without reference to the WTO dispute settlement mechanism therefore implies a rejection of multilateralism in favour of unilateralism. This is perhaps why the US resort to unilateralism has been of great concern to several nations.

For example, at the 73rd Session of the United Nations General Assembly, Italian Prime Minister Giuseppe Conte, President Miguel Díaz-Canel of Cuba, Namibian President Hage Geingob, President Nana Addo Dankwa Akufo-Addo of Ghana, Croatian President Kolinda Grabar-Kitarovic, Estonian President Kersti Kaljulaid, Uruguayan President Tabaré Vázquez, Slovakian President Andrej Kiska, President Klaus Iohannis of Romania, Portuguese President Marcelo Rebelo de Sousa, King Tupou VI of Tonga, and Kenyan President Uhuru Kenyatta among others, echoed and re-echoed the need for and their preference for multilateralism for the attainment of the inclusive development envisaged by the SDGs (UN

News, 2018). In other words, the US-China trade war is seen by many governments and statesmen as a threat to Agenda 2030 and recommend a return to a multilateral trade system, albeit, one governed by the principles of equality and democracy such that some nations are not sacrificed on the altar of multilateralism for the benefit of others. Such is the argument of the President of Poland at the 73rd session of the UN General Assembly who canvassed for what he called

> positive multilateralism of equal States and free nations, not that of usurpation and hierarchy, and advocated giving weaker countries additional opportunities, including additional voting power, or additional territorial representation in decision-making bodies (UN News, 2018).

China is Africa's second largest trade partner and "the biggest trading partner of some of the continent's most significant economies including South Africa, Nigeria, and Ethiopia" (Gopaldas, 2018). According to "Martyn Davies, managing director of Emerging Markets and Africa at Deloitte', China is not just the second largest economy in the world; her demand for commodities underpinned Africa's growth for 20 years and "Any commodity-exporting economy's growth model has been underpinned by China's demand for commodities in the last generation" (Nyabiage, 2019).

The African Development Bank (AfDB) projects in its African Economic Outlook for 2019 that the trade tension could lead to 2.5 percent fall in the GDP of resource-intensive exporter African nations and a 1.9 per cent reduction for oil exporters respectively by 2021 (African Development Bank Group, 2019, p. 12). According to Nyabiage (2019),

> The US-China trade war is partly to blame for Anglo-Swiss mining giant Glencore's move to shut a cobalt mine in the

> Democratic Republic of Congo and copper mining shafts in Zambia, with the probable loss of about 4,400 jobs.

Alongside the above job losses are losses in tax income and export revenue to the two countries. For example, Glencore paid US $600million in 2018 amounting to 20 percent of the budget of the DRC for that year while copper accounted for more than two-thirds of Zambia's export revenue and a fifth of tax revenue. It is predicted that other hard commodities exporting countries like Angola, Nigeria, and Sudan will also be hurt by the US-China trade war. For example, "Angola's oil revenues may also suffer from US–China trade tensions if stringent tariffs slow China's economic growth and thus hamper its demand for crude oil" (African Development Bank Group, 2019, p. 133).

But the trade war also provides opportunities for African countries to grow their economies by taking advantage that the mutual US-China import barriers may provide. Some of the goods on which tariffs have been imposed create market opportunities for African countries on both sides. these include soybeans exports to China and textile imports to the US.

The trade war and SDGs 8 and 9

The sustainable development goals (SDGs) are "the world's agenda for sustainable development, and 'provide a coherent, holistic, integrated framework for addressing the world's most urgent sustainability challenges and creating a better future for all" (Compact, 2017). They were adopted by the United Nations in September 2015 to replace the millennium development goals (MDGs) and are expected to guide development through the 15 years to 2030 from 2015. In all there are 17 goals which have been broken down into 169 targets to enable proper evaluation of the achievement of the goals.

The US-China trade war directly impacts the realization of the sustainable goals (SDGs) globally but more so in Africa. Here our focus is on two of the 17 SDGs, Goal 8 and Goal 9. Goal 8 is decent work and economic growth while Goal 9 is industry, innovation, and infrastructure. These have been broken down into measurable targets for the purpose of evaluating how far nations have come in their realization. Goal 8 has ten targets of which Targets 5 and 6 are already being negatively impacted by fallouts of the trade war between the US and China. Target 5 relates to attaining "achieve full and productive employment and decent work for all … and equal pay for work of equal value" by 2030 while Target 6 aims at substantially reducing "the proportion of youth not in employment, education, and training" by 2020. As indicated earlier, Ruanda is losing income from mining tax and mine workers in Zambia are already losing their jobs as a result of economic slowdown in China. So, the trade war is putting at risk the hope of the realization of full employment and decent work for all. On the upside, the trade war provides opportunities for the achievement of Target 2 which aims to "achieve higher levels of economic productivity through diversification, technological upgrading and innovation". Restrictions on imports from China creates opportunities for African countries to step into certain areas such as the textile and clothing sector by taking fuller advantage of the African Growth Opportunity Act (AGOA). the Chinese market also provides opportunities for the diversification of African exports to include those nuts China imports from the US such as soybean seed.

Taking advantage of the opportunities provided by the US-China trade war requires political leadership that is transformational in orientation and style. However, given the general leadership deficit in Africa and the near complete dependence on external growth drivers, one cannot be very optimistic about African countries harnessing the opportunities of the trade war. Then, there is also the problem of widespread conflicts across the continent some of which, as in Nigeria, has led to population displacement as well as dislocation of lives.

Conclusion

The state of uncertainty over the global trade war continues to cause concerns among many nations. African countries have become victims and casualties of the war as are countries in other regions including the belligerents. However, while countries in other regions of the world are looking inwards to tackle the fallout of the war, African countries continue to look outwards. As (Gopaldas (2018)) has observed, African countries have put their faith in African Continental Free Trade Agreement (AfCFTA) to deal with the effects of the war. While this is an attempt at finding African solution to African problems, the current resurgence of nationalism in different parts of the world and the phenomenon of Afrophobia on the continent casts a shadow over the prospects of the continental free trade area. "The goal of creating the largest free trade zone is undoubtedly a positive one, but it is still aspirational"(Gopaldas, 2018). Since there are only losers in a trade war. African countries must therefore explore extra-continental multilateral forums to bring the trade war to an end.

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