Implications of the US-China trade wars for Africa

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Setting the scene

- Exacerbated trade tensions between US and partners over the past 2 years (NAFTA, China, EU)
- Focus on China
- US targets: cf Fig 1
- China retaliation: 86% of US ag exports and 37% of industrial exports in the list of targeted products

Figure 1: US imports from China covered by special protection, by sector, 1980-2018

Source: Bown, 2019
How will Africa be impacted?

- Global macro effects: two largest players in the world economy involved
- Negative (demand) spillovers -> third countries

Figure 2: difference between March 2018 and March 2019 GDP growth projections in %

Figure 3: Growth in the volume of China’s trade, changes from March 2018 projections in %

Source: IMF (2019)
Sectoral effects

- Global demand will contract for commodities
  - Lower quantities
  - Lower prices

- Half of the growth slowdown forecasted in SSA in 2019 and 2020 could be attributed to these negative ToT effects (IMF, 2019c)

- Most affected countries: Main commodity exporters

- 70% of Africa exports to China are commodities (oil, minerals and metals): AGO, SSD, DRC, ZWE…

Figure 7: Commodity Price Index, 2005=100 changes from March 2018 projections
New opportunities for Africa?

▪ China could import more oil from Africa to replace imports from US

▪ New African suppliers of ag products
  o Wine from South Africa
  o Citrus from Egypt

▪ New supply chain decisions in China
  o Increasing imports of soybeans from Rwanda, Ethiopia, DRC and Uganda

▪ A risk of increased competition (dumping) in African markets?
  o US soybeans targeted by China
  o Excess supply needs to go somewhere
Quantifying potential impacts

- Tool: A multi-country, multi-sector dynamic Computable General Equilibrium model (MIRAGRODEP)
- Calibrated with GTAP10 database
  - 141 countries/regions
  - 65 sectors
- Derived from MIRAGE (CEPII)
- Same class of model like GTAP
Scenarios

S1-TW1
Ignition of trade war increases in US customs duties on Chinese products and Chinese duties on US products, observed from the election of Donald Trump until April 1, 2019

S2-TW2
Trade war worsens S1-TW1 plus the bilateral customs duty increases declared by the two countries since April 1, 2019

S3-NASH
Multilateral trade war (each country maximizes its welfare, NASH eq.)

S4-AFCFTA
Proactive Africa S2-TW2+ AfCFTA
Impacts on GDP (1/3)

Impact of scenarios S1-TW1 and S2-TW2 on real GDP (%) – 2020

-0.12 -0.10 -0.08 -0.06 -0.04 -0.02 0.00 0.02 0.04 0.06

Africa AfricaSoS UMA ECOWAS SADC COMESA SACU EAAC World Developed Developing\n\n\nTW1 TW2
Impacts on GDP (2/3): US-China status quo

Impact of scenarios S2-TW2 and S3-NASH on real GDP (%) – 2020

-1.40 -1.20 -1.00 -0.80 -0.60 -0.40 -0.20 0.00 0.20

Africa AfricaSoS UMA ECOWAS SADC COMESA SACU EAAC World Developed DevelopingwoAfrica

TW2 NASH
Impacts on GDP (3/3): proactive africa

Impact of scenarios S2-TW2 and S2-TW2_AFCFTA on real GDP (%) – 2020

- Africa -0.15
- AfricaSoS -0.10
- UMA -0.05
- ECOWAS 0.00
- SADC 0.05
- COMESA 0.10
- SACU 0.15
- EAAC 0.20
- World 0.25
- Developed
- Developing
- Africa
Impact on trade flows: status quo

Impact of scenario S2-TW2 on agri-food trade flows (%) – 2020

- CHN: Exports -14, Imports -12
- USA: Exports -10, Imports -8
- World: Exports -6, Imports -4
- Africa: Exports -2, Imports 0
- AfricaSoS: Exports 0, Imports 2
- UMA: Exports 4, Imports 6
- ECOWAS: Exports 8, Imports 10
- SADC: Exports 12, Imports 14
- COMESA: Exports 14, Imports 16
- SACU: Exports 16, Imports 18
- EAAC: Exports 18, Imports 20
Impact on trade flows: status quo + AfCFTA

Impact of scenario S2-TW2_AFCFTA on agri-food trade flows (%) – 2020
Conclusion

- The US China trade war represents a threat to Africa as well as an opportunity (double-edged sword)

- Positive effects tend to offset negative ones

- New opportunities for Africa in the agricultural sector

- Establishing the AfCFTA amplify the gains and offsets the negative impact in case of multilateral trade war

- The negative externalities of the trade war (increased uncertainty in the business climate and diminished investors’ confidence, FDIs ...) are not considered in this analysis