South Africa and China: the trading relationship

by

Ron Sandrey, tralac, South Africa

This discussion will examine South African and Chinese trade, including an FTA prospects – emphasis on agriculture.

I of course appreciate the SACU Agreement as a background to this.
### Why China??

<table>
<thead>
<tr>
<th>Assumed yearly GDP growth rates</th>
<th>2005</th>
<th>2007</th>
<th>2009</th>
<th>2011</th>
<th>2013</th>
<th>2017</th>
<th>2020</th>
<th>Av</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Africa</td>
<td>5.0</td>
<td>5.0</td>
<td>5.3</td>
<td>4.2</td>
<td>4.4</td>
<td>4.4</td>
<td>4.3</td>
<td>4.6</td>
</tr>
<tr>
<td>Rest of Africa</td>
<td>4.7</td>
<td>5.2</td>
<td>5.6</td>
<td>4.6</td>
<td>4.5</td>
<td>4.3</td>
<td>4.2</td>
<td>4.7</td>
</tr>
<tr>
<td><strong>China</strong></td>
<td><strong>10.4</strong></td>
<td><strong>11.3</strong></td>
<td><strong>10.5</strong></td>
<td><strong>8.3</strong></td>
<td><strong>8.2</strong></td>
<td><strong>7.5</strong></td>
<td><strong>7.4</strong></td>
<td><strong>8.8</strong></td>
</tr>
<tr>
<td>EU27</td>
<td>1.8</td>
<td>2.8</td>
<td>2.6</td>
<td>1.8</td>
<td>1.7</td>
<td>1.6</td>
<td>1.5</td>
<td>1.9</td>
</tr>
<tr>
<td>USA</td>
<td>3.1</td>
<td>2.0</td>
<td>2.3</td>
<td>1.9</td>
<td>1.7</td>
<td>1.6</td>
<td>1.5</td>
<td>1.9</td>
</tr>
<tr>
<td>India</td>
<td>9.2</td>
<td>9.0</td>
<td>8.5</td>
<td>7.0</td>
<td>6.9</td>
<td>6.7</td>
<td>6.5</td>
<td>7.4</td>
</tr>
<tr>
<td>Rest of World</td>
<td>4.1</td>
<td>4.0</td>
<td>4.0</td>
<td>3.1</td>
<td>3.1</td>
<td>3.1</td>
<td>3.2</td>
<td>3.4</td>
</tr>
<tr>
<td><strong>Total World</strong></td>
<td><strong>3.4</strong></td>
<td><strong>3.6</strong></td>
<td><strong>3.6</strong></td>
<td><strong>2.8</strong></td>
<td><strong>2.8</strong></td>
<td><strong>2.8</strong></td>
<td><strong>2.8</strong></td>
<td><strong>3.0</strong></td>
</tr>
</tbody>
</table>
What this means

- EU, USA ‘Old economies”
- Growth – China and India – ‘New economies”
- Africa – doing OK

- Hitch your wagon to a **STAR**, not a dead horse
- “Way Ahead’ book last year looks at implications of this
Tralac work

- One paper distributed at Conference
  - Agricultural relationship with China
    - In progress is trade modelling work (new GTAP)
  - And Non-tariff barrier report
General Issues

- the complex institutional relationship that South Africa has with its SACU;
- China is not a priority agricultural market for South Africa;
- the complexities and sensitivities surrounding the textile and clothing imports;
- energetic and strategic manner in which competitor countries are positioning themselves in the massive Chinese market;
- importance of Chinese agricultural producer as a threat.
China’s first FTA with a developed country, the China/New Zealand FTA.

Merchandise goods, 96 percent of imports into China will be covered at the end of the nine-year phase-in, and omissions apply not to dairy sector but processed wood and paper products and some sensitive agricultural products of little relevance to New Zealand.

In addition, the agreement has far-reaching provisions on services and investment.
Therefore, any FTA must:

- look to ‘Comprehensive FTA” (problem of clothing)

- include FDI and services in particular, along with NTBs. It is here that the big gains are more likely to be.
Clothing for the 2007 year:

- RSA global imports in the textile/clothing quota lines declined by 22%, from rand 9,131m to 7,102 m;
- Chinese imports in quota lines declined by 48%, from rand 7,155m to 3,714m (52% of 2006 value);
- Chinese market share in quota lines declined from 78.4% to 52.3%;
- Quota lines declined from 15.3% of Chinese imports in 2006 to 6.2% in 2007;
- Other sources - Hong Kong (R377m), India (R374m), Indonesia (R213m), Pakistan (R207m) and Mauritius (R206m);
- They compensated rand 1,412m for the fall in Chinese imports.
yes, the quotas are reducing Chinese imports;
yes, the volumes in the main imports are down;
but maybe the Chinese are engaging in some price discrimination as average import values increased by between 18% and 64%.

Elements of a pyrrhic victory for South Africa - cheaper clothing has been a factor in keeping inflation down.

Quotas seem to have only partially successful in their stated objectives.
### RSA trade data

Sept yr 2007, $m (hs 2 chapters)

<table>
<thead>
<tr>
<th>Imports from China</th>
<th>$m</th>
<th>Exports to China</th>
<th>$m</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description</strong></td>
<td></td>
<td><strong>Description</strong></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2,356</td>
<td>Total</td>
<td>970</td>
</tr>
<tr>
<td>Machinery</td>
<td>502</td>
<td>Ores, Slag, Ash</td>
<td>399</td>
</tr>
<tr>
<td>Electrical Machinery</td>
<td>466</td>
<td>Mineral Fuel, Oil, etc.</td>
<td>234</td>
</tr>
<tr>
<td>Footwear</td>
<td>146</td>
<td>Iron And Steel</td>
<td>160</td>
</tr>
<tr>
<td>Vehicles</td>
<td>137</td>
<td>Copper + Articles thereof</td>
<td>30</td>
</tr>
<tr>
<td>Woven Apparel</td>
<td>86</td>
<td>Organic Chemicals</td>
<td>23</td>
</tr>
<tr>
<td>Furniture and Bedding</td>
<td>83</td>
<td>Machinery</td>
<td>17</td>
</tr>
</tbody>
</table>
During the **first six months of 2007** agricultural imports were 3.8% of total Chinese imports, (6.6 % during 1996).

- By value - US$16,459 million
- By product, - soybeans (US and Brazil), cotton (US and India) and palm oil (Malaysia and Indonesia).
- Four of the top five products (cotton, palm oil, wool and soybean oil are (– were) under tariff quota rate (TRQ)) regimes.
Chinese data

- RSA growth in total imports over 10 years (20.7%) - higher than growth in agricultural imports (20.0%). Agriculture losing share of SA imports
- Agricultural trade with China is not that important to South Africa;
- Wool, TRQ product, MFN duties of 38% but TRQ 1% main import;
- This is followed by hides and skins and then tobacco;
- Then TRQ products of sugar (duties of 15%) and cotton (duty 1%);
- Horticultural products of oranges, processed peaches and wine largely complete the list;
- Other than peaches, hides and skins and possibly oranges and ‘other live mammals’ South Africa’s market shares not high.
Examination includes

- China paper distributed here looks at:
  - Details of the trading relationship, including
    - RSA market share, growth rates duties (agr only), main competitors
    - Trade reconciliation – is the data different???
    - Trade ‘Chilling”
- Products where market shares are high

- Trade classification by ‘further processed’ analysis

- For agriculture, analysis of the main trade products reproduction and trade in China

- For both, examination of main competitor countries
GTAP analysis

- Trade modelling (new Version 7 GTAP – not public yet)
  - gains to RSA are $295 Mill. (¼ Indian figure)
  - For China - $1,364

- Some export change in agr. Non-ferrous metals main exp. Mostly ‘new’ increases (not diversion)
- Imports – massive in TCF, general manufacturing
Generally assumed a 3% to 5% ‘tariff’ on all imports into China from RSA.

This more than doubles RSA gains to $697 million

Almost no impact on Chinese welfare - $1,360 m

Indicative only