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- **South Africa and China: the trading relationship**
- by
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- 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??

Assumed yearly GDP growth rates 2005 - 2020

	2005	2007	2009	2011	2013	2017	2020	Av
South Africa	5.0	5.0	5.3	4.2	4.4	4.4	4.3	4.6
Rest of Africa	4.7	5.2	5.6	4.6	4.5	4.3	4.2	4.7
China	**10.4**	**11.3**	**10.5**	**8.3**	**8.2**	**7.5**	**7.4**	**8.8**
EU27	1.8	2.8	2.6	1.8	1.7	1.6	1.5	1.9
USA	3.1	2.0	2.3	1.9	1.7	1.6	1.5	1.9
India	**9.2**	**9.0**	**8.5**	**7.0**	**6.9**	**6.7**	**6.5**	**7.4**
Rest of World	4.1	4.0	4.0	3.1	3.1	3.1	3.2	3.4
Total World	3.4	3.6	3.6	2.8	2.8	2.8	2.8	3.0

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- # 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

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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.

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The competitors are moving

- 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.

Tralac work

- 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.

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Success???

- 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)

Imports from China			Exports to China	
Description	**$m**		**Description**	**$m**
Total	**2,356**		**Total**	**970**
Machinery	502		Ores, Slag, Ash	399
Electrical Machinery	466		Mineral Fuel, Oil, etc.	234
Footwear	146		Iron And Steel	160
Vehicles	137		Copper + Articles thereof	30
Woven Apparel	86		Organic Chemicals	23
Furniture and Bedding	83		Machinery	17

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China's Agr 2007 Trade

- 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.

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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.

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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 re production and trade in China
- For both, examination of main competitor countries

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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

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NTBs

- 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

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