

The margins of export competition: A new approach to evaluating the impact of China on South African exports to Sub-Saharan Africa[☆]

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Abstract

Chinese manufacturing exports to Sub-Saharan Africa challenge South Africa's economic influence in the region. To evaluate this, the paper develops and applies a conceptual framework that distinguishes between the intensive and extensive margins of Chinese export competition. South African exports of new and existing manufactured products to Sub-Saharan Africa are found to have been negatively affected by Chinese competition relative to exports from other countries. Consequently, South Africa's exports to the region in 2010 were 20% lower than they would have been if they had been affected to the same degree as other countries. The crowding-out effects are found to be strongest in medium- and low-technology products. Overall, the data suggest that Chinese exports of manufactures have diminished South Africa's participation and economic influence in the region.

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1. Introduction

The past decade has seen a dramatic increase in China's participation in the African continent. China is now Africa's largest trading partner, both in terms of exports and imports. For example, between 2001 and 2011, total Chinese exports to Sub-Saharan Africa increased 13-fold in current US dollars, from \$4.1 billion to \$53.3 billion (IMF, 2012). Foreign direct investment from China has risen, driven mostly by China's appetite for oil and other natural resources, but also recently expanding into agriculture, manufacturing and service industries (e.g. banking and telecommunications) (Broadman, 2007; Kaplinsky & Morris, 2008). China has also become an alternative source of foreign aid to African governments – see the 20 billion US dollar loan pledge to African nations during the Fifth Ministerial Conference of the Forum on China–Africa Cooperation (FOCAC) in July 2012.

China's increased involvement in Africa pose particular challenges to South Africa, the dominant economic power in the region. South African policy makers view the country as a “Gateway” for foreign and local investors and traders to access the rest of the African continent (Draper & Scholvin, 2012; Economist, 2012). There is some evidence to support this vision. South African banking, retail and telecommunication companies are prominent in many Sub-Saharan African (SSA) economies (Altman, van der Heijden, Mayer, & Lewis, 2005). The SSA market is disproportionately important for South Africa's exports of goods, particularly of manufactures which make up 86% of its exports to the region and 20% of the country's total manufacturing exports. South Africa also accounts for a high proportion of many African country exports and imports, particularly the landlocked countries such as Zimbabwe, Zambia and Malawi (Edwards & Lawrence, 2012).¹

Yet, South Africa's gains from trade and economic influence in Sub-Saharan Africa threaten to be eroded by China's increased involvement in the region. Chinese exports to Africa are overwhelmingly manufactured goods, while African exports to China are mainly natural resources. While imports from China bring benefits to consumers in Africa through access to cheaper goods, they may pose a competitive threat to other exporters of manufactured goods to these markets, such as South Africa. Anecdotal evidence already suggests that South African exports to neighbouring countries have been crowded out by Chinese exports (Burke, Naidu, & Nepgen, 2008; Corkin, 2008).²

The growth and composition of African trade flows with China have also fed concerns about deindustrialization of the region and the South African economy. This point was highlighted by South African President Zuma's comment at the 2012 FOCAC meeting that an unequal trade relationship based on the supply of raw materials was unsustainable (*Mail and Guardian* 19/7/2012).

These challenges to South African economic influence in the region have not yet been fully addressed in the literature. With few notable exceptions the existing literature has given limited attention to the effects of China on manufacturing in SSA (Ademola, Bankole, & Adewuyi, 2009; Brautigam, 2009; Broadman, 2007; Goldstein, Pinaud, Reisen, & Chen, 2006; Jenkins & Edwards

¹ Intra-regional trade has been encouraged by the implementation of a free trade agreement covering goods amongst Southern African Development Community (SADC) members.

² Burke et al. (2008, p. 19) claim that “Chinese exports to South Africa neighbours such as Swaziland, Lesotho, Namibia and Mozambique have reduced the demand for South Africa's exports to these countries and this has had a detrimental effect on South African producers that have not been able to compete.” South African construction companies have also found it increasingly difficult to compete with Chinese contractors in the region in recent years (Corkin, 2008).

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