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African Global Supply Chain Trade With the US and China

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Summary

African countries are increasingly integrating into global supply chains (GSC). Yet the linkages between African and foreign firms and the impact of GSC activities on the development prospects of African states is not well understood. This policy brief analyzes GSC trade between the U.S. and China, on the one hand, and Southern African Customs Union (SACU) member states on the other. It shows that, contrary to the conventional wisdom that SACU states export raw materials with few value-added products, SACU states are actually positioned further up in the supply chain hierarchy. They import intermediate inputs from China and export a substantial volume of intermediate goods to the U.S. rather than to China. Moreover, GSC trade is diversifying the countries' exports and increasing their industrial capacity, positioning African countries to attract companies moving out of China, whether because of high production costs, supply chain disruptions, U.S. tariffs, or geopolitical tension between the U.S. and China. But SACU states will need to adopt smart policies to upgrade existing supply chains and position themselves to build or attract new GSCs to their region.

SERIES ON GREAT POWER COMPETITION IN THE 21ST CENTURY

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Supply Chain Trends in the Southern Africa Customs Union (SACU)

African countries are increasingly integrating into Global Supply Chains (GSC). Supply chain trade—or the trade linked to international design and production networks, especially the trade of parts or unfinished or semi-finished goods and services that serve as inputs for finished products—is a growing component of African economic growth. Due to GSC trade, the iPhone, for instance, has parts produced in different parts of the world and assembled in China, making it a made-in-the-world product.

Despite the importance of Africa as a player in GSCs, the linkages between African and foreign firms and the impact of GSC activities on African states' economic development are not fully understood. Comparative analysis of GSC trade between African firms and two of Africa's largest trading partners—the United States and China—remains mainly theoretical or limited to discussion of isolated cases. Although there is a general awareness of the importance of trade with the two big powers, the lack of a comparative analysis makes it challenging for leaders to develop targeted policies to maximize the benefit of GSC trade.[1]

To better understand the impact of GSC trade on Africa, it is useful to look at the case of Southern African Customs Union (SACU) member states and their trade with the United States and China. SACU, founded in 1910, is the oldest customs union in the world, with five members: Botswana, Eswatini (formerly known as Swaziland), Lesotho, Namibia, and South Africa. SACU countries represent 40 percent of all African intermediate or unfinished goods and services trade.

Most SACU trade is routed through South Africa. Botswana, Eswatini, and Lesotho route most of their international trade through South Africa because they are land-locked countries with no direct access to the ocean. Despite having access to the sea, Namibia also uses South Africa's ports extensively, positioning South Africa as the regional hegemon.

All SACU states depend heavily on trade with the two great powers, which has increased substantially in recent decades. For example, SACU's overall import from and export to China expanded 12 and 57 times between 2002 and 2018, respectively.[2]

1 Keane 2015

2 All the gross trade data came from the Johns Hopkins China-Africa Research Initiative database (accessed May 15, 2019), http://www.sais-cari.org/s/TradeData_22Feb2020.xlsx.

Figure 1: SACU - USA Trade (2017)

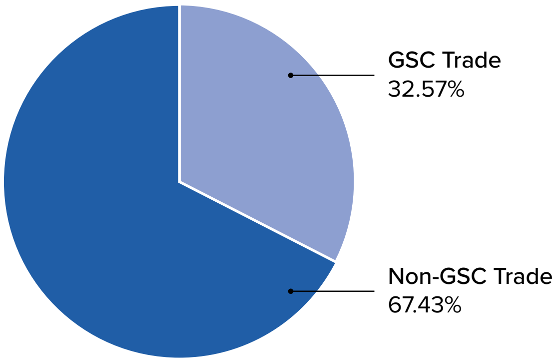
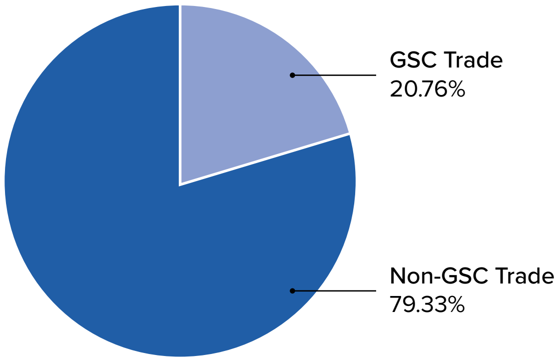


Figure 2: SACU - China Trade (2017)



Gross imports from China increased from \$1.38 billion in 2002 to \$16.96 billion in 2018, while gross exports to China grew from \$0.49 billion to \$27.88 billion over the same period. Likewise, SACU's imports from the U.S. increased from \$2.63 billion in 2002 to \$5.26 billion in 2018, while its export grew from \$1.34 billion to \$9.14 billion over the same period.

Supply chain trade in particular makes up a sizeable portion of SACU's total trade with the two great powers.[3] Supply chain trade made up 32.57 percent of SACU's total trade with the U.S. in 2017. The intermediate goods and services' share of total merchandise export from SACU states to the U.S. in 2017 was 88.36 percent (Eswatini), 60.19 percent (Botswana), 53.26 percent (South Africa), and 40.93 percent (Namibia). Lesotho appears to be the only country without a sizeable intermediate goods trade with the U.S.; its most significant GSC trade with the U.S. was \$3.22 million, which was just 1.3 percent of its total merchandise trade, in 2014. Intermediate goods and services trade also constitute a sizeable portion of total product trade with China (20.67%). The figures for 2017 are 86.64 percent (Lesotho), 65.29 percent (Eswatini), 31.64 percent (Namibia), 18.67 percent (South Africa), and 16.47 percent (Botswana).

As shown in Table 1 and Figure 3, SACU states export more intermediate goods to the U.S. and import more intermediate goods and services from China. SACU's intermediate goods import from the U.S. are modest compared to their export, hovering at around 20.86 percent of total bilateral trade. In contrast, SACU's intermediate goods and services export to China is less than its import from China. Although there have been deviations, like in 2013, this trend preceded 2014. In 2000, SACU exported \$0.15 billion goods and services to China and imported \$0.22 billion. Similarly, SACU states' export to the U.S. was \$1.15 billion while import was \$0.67 billion.

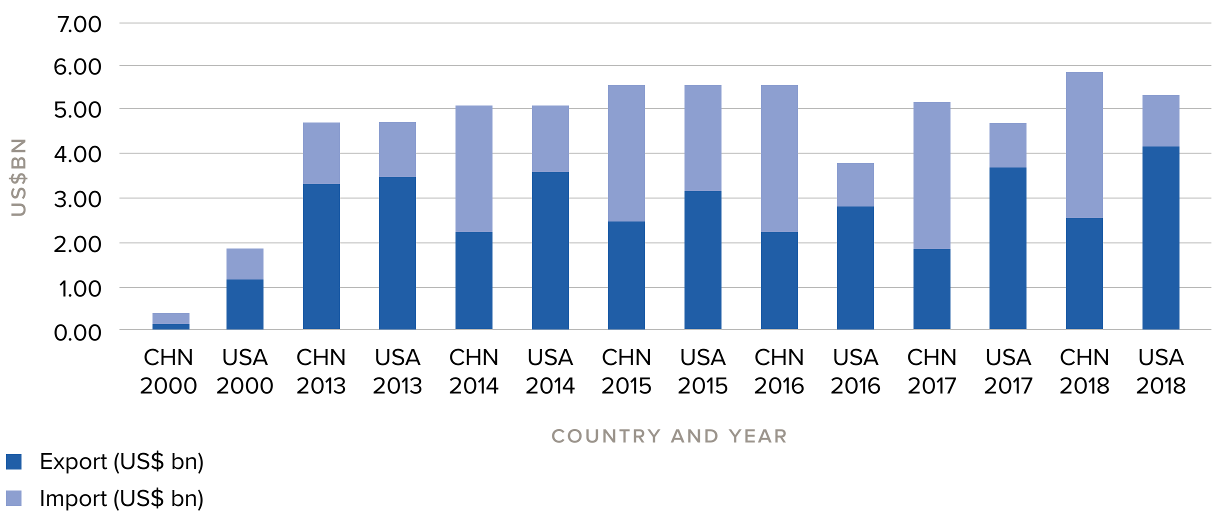
3 The gross intermediate goods and services data came from the World Bank WITS database (accessed May 15, 2019), https://wits.worldbank.org/CountryProfile/en/Country/WLD/Year/2016/TradeFlow/EXPIMP/Partner/All/Product/UNCTAD-SoP2.

Table 1: SACU - China and SACU - U.S. Intermediate Goods and Services Trade

	SACU - China		SACU - U.S.	
Year	Export ($ bn)	Import ($ bn)	Export ($ bn)	Import ($ bn)
2013	3.33	1.36	3.43	1.24
2014	2.28	2.84	3.57	1.18
2015	2.47	3.07	3.18	1.15
2016	2.24	2.63	2.79	0.96
2017	1.83	3.30	3.67	1.02
2018	2.55	3.28	4.14	1.17

These figures represent SACU's export to and import from the great powers.
Data Source: The World Bank WITS database.

Figure 3: SACU - China and SACU - U.S. Intermediate Goods and Services Trade



Supply Chain Trade Has a Big Impact on SACU Industrialization and Diversification

The dominant narrative in the media and in scholarly articles is that SACU states export mainly raw materials with few value-added products.[4] The analysis presented in this brief partially contradicts this narrative. Intermediate manufactured products and services trade has been a core component of SACU's GSC export for at least three decades. The World Bank (2020) also notes that many countries in the SACU region participate in supply chains as limited manufacturers. Moreover, SACU states earn more from exporting intermediate manufactured goods and services than from trade in commodities. For example, in 2015, Botswana made a total of $10.6 million from intermediate trade in textile and apparel, transport, electrical and machinery, other manufacturing, maintenance and repair, and construction compared to $4.29 million from agriculture, fishing, mining and quarrying, petrochemicals and non-metallic minerals, food and beverages, and wood and paper industries. Eswatini earned a total of $232,000 from intermediate trade in natural resources and commodities with the U.S., which compares less favorably to other industries, like electrical and machinery ($1.27 million), metal products ($764,000), and other manufacturing ($377,000). A similar pattern exists in SACU's trade with China. Lesotho earned $218,000 from intermediate trade in agriculture, mining and quarrying, food and beverages, and fishing compared to $1.02 million from intermediate trade in textile and wearing apparel, transport, electrical and machinery, and maintenance and repair.

The service sector is especially critical to the region's economic growth. Service industries feature consistently in the list of top ten exporting industries across all five countries. The service industries have diversified SACU's export over the last three decades and provide a foundation for further industrialization. The service industries that appear in the top ten trading list across the different countries are mail services and telecommunication, financial intermediation and business activities, public administration, wholesale trade, hotels and restaurants, and insurance. The service industries replacing traditional sectors, such as agriculture and mining, in the top ten trading list include education, health and wellness services, maintenance and repair, retail trade, and private household services. In 2015, South Africa earned $233 million and $94.6

4 Ashipala 2019.

A plausible explanation for the low diversification in the U.S. and SACU intermediate goods and services trade is that it relies extensively on government incentives.

million from exporting intermediate insurance services to the U.S. and China. Lesotho made $2.36 million from exporting intermediate services in the post and telecommunications industry to the U.S., and Namibia earned $1.02 million from exporting intermediate education, health, and other services to the U.S.

Lastly, SACU's supply chain export to China is becoming more diversified than export to the U.S. In the 1970s and early 1980s, SACU's major intermediate exports to China consisted of agricultural products, basic chemicals, minerals, fish, food and beverages, irons and steels, non-ferrous metals, and textiles and apparel. However, industries such as hotels and restaurants, retail trade, maintenance and repair, and construction have replaced the old export earners on the top ten list in Botswana, Lesotho, Namibia, and Eswatini. Compared to China, the range of intermediate products that SACU and U.S. trade has not changed significantly over the last four decades. Traditional industries, such as agriculture, fisheries, mining and quarries, food and beverages, petroleum, non-metallic mineral products, financial intermediation and business activities, wood and paper, and leather, continue to dominate the top ten list across all five states.

Admittedly, the composition of SACU's export to the U.S. is beginning to change. Intermediate trade in construction, electrical and machinery, health care, and maintenance and repair is growing. For example, Botswana's intermediate trade in maintenance and repair services replaced intermediate trade in agriculture in the top ten list in 2004. Eswatini's intermediate exports to the U.S. in construction and wholesale trade are also increasing. A plausible explanation for the low diversification in the U.S. and SACU intermediate goods and services trade is that it relies extensively on government incentives. A good example is the Africa Growth Opportunity Act (AGOA), a unilateral, non-reciprocal trade preference program that grants some sub-Saharan African countries duty-free access to the U.S. market.

Policy Implications

Supply chains trade is evolving as countries and firms respond to changing labor costs, the effects of the COVID-19 pandemic, U.S. tariffs, and rising geopolitical tensions between the great powers. As firms consider China+1 approaches, they should look to southern Africa as a key potential node in the new global supply chain. Because light manufacturing and service sectors form the core of SACU's GSC trade with the U.S. and China, SACU states have some industrial capacity to upgrade and integrate into supply chains that are relocating from China. They could expand existing capacities and source inputs they do not have from China or other technologically advanced countries. Doing so would make their goods and services competitive in the U.S. and European markets while positioning them to take advantage of the African Continental Free Trade Agreement.

Moreover, the substantial GSC trade in services provides a platform for upgrading and integrating into future-oriented service value chains. The aging population and growth in leisure and consumption industries in developed countries present enormous market opportunities. SACU states can embed their economies in such value chains by developing innovative policies to promote export, improve the quality of jobs in the service sector, and incentivize entrepreneurs to create cutting-edge services tailored to developed countries. These countries, however, need to create an innovation ecosystem to empower entrepreneurs to develop and bring new products and services to the market. For example, countries can benchmark their program against Rwanda's technological innovation programs. American universities also have a unique model that empowers entrepreneurs to commercialize research, connecting academia to for-profit businesses.

SACU states can also regionalize the innovation ecosystems to allow for knowledge sharing and co-creation instead of competing in the same niche markets. GSC regionalization is already happening in the automotive industry. South Africa's automotive manufacturers, for instance, get their wiring harnesses from Botswana and

5 China+1 is a strategy to avoid investing only in China and diversify business into other countries.

Factory workers producing shirts for overseas clients. Credit: © Dominic Chavez, World Bank | CC BY-NC-ND 2.0

stitched leather seats from Lesotho; the South African suppliers also export different types of metal products to Namibia and Eswatini, and they, in turn, process and transport them back to the South Africans as inputs for car manufacturers (Keane 2015). Regional leaders need to create an enabling environment for the proliferation of regionalized GSCs in other sectors. Lastly, SACU states could also integrate into new and emerging design and production networks, like the unmanned aerial vehicle industry.

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