Policy Implications of the Disruptive Impact of China's Slowdown on Commodity Trade with the Developing World

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ABSTRACT
The economic relations between China and developing mineral-rich countries have primarily been on the bases of the mineral resources of these developing countries. Hence, China's rapid economic growth of recent had positive disruptive impacts on these developing States. Conversely, China's economic recline more recently has had adverse, disruptive effects on these developing States. Based on the findings of the spillover effects of this decline in SA's mineral export value to China, this paper aims to instigate the policy-makers of these developing States (including SA) to see the need for their current policies to be re-assessed. This re-assessment is for determining whether their policies are capable of enabling their economies to handle the disruptive changes that can occur in their trade relations with a superpower like China. The result should be restructuring their policies so they would have buffers for changes in global mineral prices and demand, as well as make them better prepared to enter more beneficial engagements with China when its economy grows stronger again.

Key Words: Trade Policy; Disruptive; Mineral Products; China; Developing Mineral-rich States; South Africa

INTRODUCTION
From the colonial era to most part of the recent post-colonial era, the status quo for commodity trade from developing countries was majorly with developed countries. This status quo was 'disrupted' of recent due to China's bullish, aggressive and rapid industrialization drive. With China needing energy and minerals to drive its rapid industrialization, it looked to many mineral-rich developing countries that have these resources in abundance as its major source of its industrialization raw materials inputs (ASPI, 2012). With the 'less stringent' trade terms and conditions that China offered many developing mineral-rich countries coupled with their massive infrastructure deficits, China's relations with these countries have been hailed as the answer to their key economic challenges. During the past two decades, developing mineral-rich countries have become increasingly dependent on the fast-growing economy of China, which has managed to maintain an average growth rate of about 10% over the last two decades. In turn, the mineral and metal exports of these developing mineral-rich countries have risen sharply as a percentage of Gross Domestic Product (IMF, 2015). This China's strong appetite for mineral resources presented a positive disruption to economic conditions of many developing mineral-rich States, as it inevitably powered their economies over the recent years. However, some had and still consider China's trade relations as being disadvantageous to these developing States, especially with the negative disruptions caused by the more recent economic decline of China.

According to Anderson et al (2015), the linkages between China and other developing countries such as in sub-Saharan Africa for instance, have become stronger where the developments that occur in China spill over into this region. The spillover effects of China's growth can be either positive or negative depending on the production structures and comparative advantages of its trading partners (World Bank, 2015). Unfortunately, many developing mineral-rich countries lack the physical infrastructure and institutional frameworks that is important for the facilitating of the functioning of their economies in the midst of growth spillovers (Bandara, 2012).

According to DTI (2010), trade policy is not the sole determinant of trade performance of both commodity and non-commodity products, but it is an important element to the growth paths and industrial policies of countries, and hence, requires acute attention. In giving special attention to trade policies of countries, it should be noted that policy priorities
vary in developing economies, which are dependent on the diversity of their conditions (WEO, 2016).

This paper aims at determining how and to what extent China's economic slowdown has upset its mineral commodity trade relations with developing mineral-rich countries. It also aims at determining whether these developing States possess well-constructed trade policies that position them to be able to handle the economic dynamics of China's continued appetite for their mineral resources. In this paper, the disruptive impact of China's decline on the performance of South Africa's mineral export and its overall economy is used as a reference point or proxy for its developing counterparts.

CHINA'S ECONOMIC GROWTH AND DECLINE STORY
According to Nielsen (2015), there are increasing signs that China's current economic model has been exhausted. For many years, China experienced significant economic growth rates because of three main factors – its investment in infrastructure, low labour wages and rapid productivity growth (Igbinoba, 2016). Its global exports, State-funded fixed asset investments in infrastructure and real estate were China's primary focus mechanisms to grow its economy. According to Edwards and Lawrence (2012), China's demand for metals, oil and other primary commodities contributed to the strong commodity price increases of years 2000 – 2007. Coal and iron ore prices in particular are said to have increased the most in the metal and minerals industry. This was a well-accepted and needed positive disruption to global commodity price performance.

China had been experiencing an average growth rate of 10% annually from 1979, but started experiencing a steady decline in growth rate from 2011. The growth rate of the Chinese economy dropped from 10.6% in 2010 to 6.9% in 2015 (CCS, 2016). The recent economic slowdown witnessed in China is mainly due to the Chinese government's political decision to undergo a transition (Garg and Kozhikade, 2012). This transition involved China's recent shift toward a new growth model, which aims at the country becoming more dependent on domestic consumption and technology innovation, instead of its exports and fixed asset investments for the provision of new revenue streams for China's economy (Garg and Kozhikade, 2012).

It is stated that the slowdown is a clear indication that an investment –driven model no longer can function as the matrix for China's development (Nielsen (2015). Therefore the main concern for China is not the slowing of the economy but the cost to the government of managing the consequences of an economy that has spent a lot of wealth into fixed investment (Lee, 2015).

China's mineral trade involvement with developing mineral-rich States is expected to continue to grow in the long term. Hence, there is indeed a need for the policymakers of these developing States to structure their (trade) policies in a manner that enables them not to be disadvantaged in their trade dealings with China.

TRADE POLICY IMPLICATIONS OF MINERAL TRADE RELATIONS BETWEEN CHINA AND DEVELOPING MINERAL-RICH STATES: CASE STUDY OF SA'S TRADE POLICY
Since the liberalisation of trade and the dismantling of international sanctions, South Africa has restructured its economy substantially. At the time when the economic sanctions placed against the Apartheid regime got lifted, this allowed South Africa to reinvent its foreign relations, thereby becoming more open, more productive and more outward-oriented (Flatters and Stern, 2007). South Africa thus realigned its foreign relations to new partners and opportunities, including changing diplomatic relations from Taiwan to China (Grimm et al., 2014). With South Africa opening up its economy more rapidly after it became a democracy, this has led to the export growth that the country has been experiencing over the years (Gonzalez-Nunez, 2008). The endless appetite for South Africa's mineral resources and its open market made South Africa an attractive trading partner to China (Alves and Sidiropoulos, 2010). Currently, China sits as the number one trading partner of South Africa.

*For example between 2000 and 2012, the prices of iron ore increased by about 1,000% and that of coal by 300% (Lichtenstein, 2013).*
The bilateral trade relations between South Africa and Peoples' Republic of China dates back to 1992 following the opening of China's Ministry of Foreign Trade and Economic Cooperation in South Africa (Grimm et al., 2014). This trade relationship between the two countries has been growing since then and continued to expand. The relationship between South Africa and China is labelled as a 'comprehensive strategic partnership', which finds strength as a result of two primary reasons (Xiong, 2012).

These reasons are:
- Firstly, South Africa's diplomatic and political support to China has provided the Chinese economy with a base in the international community. This diplomatic relationship between South Africa and China has fostered the current trade flow and investment between the two countries (Grimm et al., 2014);
- Secondly, South Africa's endowment of natural resources is key to China's economic output and growth.

The growth of China's economy and the increase in demand for natural resources of past years has been hugely beneficial to South Africa's export market for many years (Gonzalez-Nunez, 2008). However, the recent warning of China's economic growth accompanied by the decline in its demand for commodities has posed a challenge to the global mining industry, and that of South Africa in particular (Oyejide et al., 2009). The recent economic decline in China has contributed to South Africa's current position of vulnerability, characterised by slow-moving economic growth and accompanied by a high unemployment rate of about 25% (IMF, 2016), this is because minerals constitute a significant percentage of South Africa's export revenue (Oyejide et al., 2009). Additionally, many issues such as the volatility in the exchange rate, increasing trade deficits and political crisis have affected South Africa's ability to achieve its growth objectives over the years (Gonzalez-Nunez, 2008). To prevent any more problems arising from the impact of China's declining economic performance on SA's mining industry and its economic growth, South Africa needs to have policies that position it to manage vulnerabilities and rebuild resilience against potential shocks during the continuation of the commodity cycle (Edwards and Lawrence, 2012).

DISCUSSION OF RESULTS
To facilitate the discussions highlighted by this paper, secondary data collation and the analysis method was used to review existing information, in this case, government-related and other statistics on mineral commodity exports of South Africa and China. The rapid rise in China's demand for minerals led to an increase in mineral prices worldwide. This mineral price increases experienced resulted in the global mining sector and demand for commodities growing significantly. As mentioned previously, SA's mining sector benefited from this commodity boom, which in turn reflected in the value of its mineral exports to China. Table 1 shows how the value of SA's mineral exports to China has performed from the commodity boom era of the early 2000s till recent years.

As indicated in Table 1, the increase in the value of SA's mineral exports to China of US$ 0.76 billion in 2004 from US$ 0.29 billion in 2001, corresponded with an era of increase in China's demand for mineral and metals (WITS, 2017). According to ASPI (2012), in the early 2000s, the global markets were taken by surprise by the sudden increase in China's demand. China's metal consumption began to soar during this time, and this is correlated strongly with industrial production (World Bank, 2015).
Table 1: Trends in the mineral commodity trade relations of South Africa and China, as evidenced by SA’s value of exports to China.

<table>
<thead>
<tr>
<th>Year</th>
<th>Value of SA’s mineral exports to China</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>The value of mineral and metal exports to China from South Africa was approximately US$ 0.76 billion.</td>
</tr>
<tr>
<td>2008</td>
<td>In 2008, the value of the mineral and metal exports to China from South Africa was approximately US$ 3.36 billion.</td>
</tr>
<tr>
<td>2011</td>
<td>In 2011, the value of mineral and metal exports to China from South Africa was at a peak at US$ 9.44 billion.</td>
</tr>
<tr>
<td>2012</td>
<td>In 2012, the value of mineral and metal exports to China from South Africa was at a peak at US$ 8.01 billion.</td>
</tr>
<tr>
<td>2013</td>
<td>The value of the mineral and metal products exported from South Africa to China was US$ 8.07 billion.</td>
</tr>
<tr>
<td>2014</td>
<td>In 2014, the value of exported mineral products to China from South Africa slowed from US$ 9.44 billion in 2011 to US$ 5.97 billion.</td>
</tr>
</tbody>
</table>

Source: Adapted from (WITS) (2017) and National treasury (2015).

Year: 2004

Figure 1: Export share of products exported from SA to China in 2004. Source: Adapted from WITS (2017).
Based on China's significant, minerals and metals consumption in terms of the value of mineral products exported from South Africa to China, its export product share for mineral products in comparison to the total products was 34.60% in 2004. The export product share of the metal products exported from South Africa to China in 2004 was 37.16% (see Figure 1). This period saw the prices of iron ore rising nearly ten-fold, and prices of metallurgical coal four-fold as China got incorporated into the World Trade Organization (ASPI, 2012). Iron ore was the highest exported metal commodity by South Africa to China during the time at 19% even though it dropped from highs of 28% in 2001 (OEC, 2017). Additionally, this increase in the value of SA's exports to China coincided with the time that Pretoria was upgrading to a strategic partnership with China, which was followed by negotiations to create a Free Trade Agreement (FTA) that was initiated by Beijing in 2005 (Alden and Wu, 2014). Foreign investment in South Africa was increasing rapidly at the time as well, corresponding with the period of high metal prices. In turn, the capacity in the sector increased substantially (IMF, 2015). In 2008, the value of the mineral exports to China from South Africa increased from US$ 2.46 billion in 2007 to US$ 3.36 billion in 2008, as indicated in Table 1.

During this time, iron ore and manganese ore both managed to increase by 7% even though South Africa's economic performance was deteriorating. South Africa's deterioration was accompanied by significant losses in production and employment in the mining industry as a result of the global financial crisis of 2008 (Edwards and Lawrence, 2008). According to Nielsen (2015), after 2008 it became clear that China's economy had become exhausted and that the fundamental rebalance had become imperative. During this time, China's capital – the intensive economy went into a higher gear, and many imbalances in the system began to manifest.

In 2011, China started to experience a steady decline in its growth rate. However, even though the year represented a period of decreased exports globally following the financial crisis of 2008 – 2009, it was in this year that China became South Africa's biggest trading partner (National Treasury (2015); CCS (2016)). The decline of China's growth rate that started in 2011, correlated with the gradual decline of foreign investment in South Africa generally in that same year (IMF, 2015). The export share of Iron ore (the highest imported metal by China from South Africa) started to reduce from 48% to 20%, from the year 2011 to 2014 respectively. Large flat-rolled stainless steel, manganese ore, chromium ore and ferroalloys imported by China from South Africa also showed a cognitive decline starting from 2011 (OEC, 2017). According to CCS (2016), 2011 represented a time in which China's policy-makers were mindful that double-digit growth was unsustainable in the long run. Hence, its policy-makers started to implement measures that would alter China's growth structure towards a more sustainable model. As indicated in Table 1, the value of minerals exported by South Africa to China decreased from a peak of US$ 9.44 billion in 2011 to US$ 8.07 billion and US$ 5.97 billion in 2013 and 2014 respectively.

The year 2013 saw the value of the mineral exports to China at a peak again following the mining industry's decline in 2012, where the value of the minerals and metals exported was US$ 8.01 billion. As shown in Figure 2, regarding the value of the mineral products exported from South Africa to China, its export product share was 67%, and that of metals was 12.69% in 2013. In this year, the value of the minerals and metals exported from South Africa to China was at a high in comparison to the other produces, e.g. wood, textiles and clothing.
In 2014, South Africa saw a 37% decline in mineral product exports since 2011. The value of exported mineral products to China from South Africa slowed considerably with China's rapid economic slowdown. As shown in Figure 3, the value of the mineral products exported from South Africa to China had an export product share of 64.55%, and that of metals was 17.31% in 2014. The value of the minerals and metals exported from South Africa to China was still at a high in comparison to the other produces, e.g. wood, textiles and clothing.
Figure 3: Export share of products exported from SA to China in 2014. Source: Adapted from WITS (2017).

The export value of minerals and metals continued to decline from US$ 5.97 billion in 2014 to US$ 4.5 billion in 2015. As indicated in Figure 4, the value of the mineral products exported from South Africa to China had an export share of 59.55% and that of metal products was 18.05% in 2015.
Furthermore, observations show that these variations in export product shares of mineral and metal products corresponded with the performance of South Africa's growth rate, GDP revenue and the unemployment rate, as illustrated in Table 2. Giving clear indication that as the rate of GDP growth decreased from 2011 to 2015, it coincided with the increase in unemployment and the decrease of GDP revenue. The decline in the economic growth rate of South Africa coincided with the decline in the economic growth rate of China which went from 9.5 per cent in 2011 to 6.9 per cent in 2015 (see Table 2). South Africa's mining industry showed vulnerability to the fluctuations in the import share of Chinas' metal and mineral imports from South Africa. Between 2013 and 2015, the mineral imports from South Africa to China in US$ billion dollars showed a substantial decrease further indicating how South Africa's economy is dependent on metal and mineral exports. Supporting Cashin et al.' statement of how any slowdown in the composition of Chinas real GDP growth can have serious implications for South Africa's economy as an emerging market commodity exporter.
Table 2: South Africa v/s China’s economic indicators

<table>
<thead>
<tr>
<th>Year</th>
<th>SA’s GDP growth rate (%)</th>
<th>China’s GDP growth rate (%)</th>
<th>Unemployment rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>3.2</td>
<td>9.5</td>
<td>25.7</td>
</tr>
<tr>
<td>2012</td>
<td>2.2</td>
<td>7.8</td>
<td>24.9</td>
</tr>
<tr>
<td>2013</td>
<td>2.3</td>
<td>7.7</td>
<td>24.7</td>
</tr>
<tr>
<td>2014</td>
<td>1.6</td>
<td>7.3</td>
<td>25.1</td>
</tr>
<tr>
<td>2015</td>
<td>1.3</td>
<td>6.9</td>
<td>25.3</td>
</tr>
<tr>
<td>2016</td>
<td>0.6</td>
<td>6.7</td>
<td>26.6</td>
</tr>
</tbody>
</table>


CONCLUSION AND RECOMMENDATIONS

It is without a doubt that the mineral commodity trade relations between developing countries and China are still growing, and expectations are that the growth will continue in the future. However, the trade relations can be used more advantageously as a platform for the exchange of information and strategies to increase the opportunities between countries. For example, China’s strategy on Research and Development expenditure is commendable; assumptions are that it accounts for 15% of the world’s total spending on Research and Development (WEF, 2016). Although poverty and high levels of inequality are some of the challenges that China still faces, it is still a world leader in poverty reduction and healthcare, especially considering its immense geography and large population size (WEF, 2016).

Additionally, as the trade relations between China and its developing partners strengthen, these countries should use these trade relations to expand their knowledge on how they too can develop their other sectors of the economy such as agriculture, Industry, Science and Technology. It is essential, as there is evidence to show (using SA’s example) that for many developing countries, there is now a negative relationship in the export share of metal and minerals.

Therefore, this paper recommends that it is crucial for the policy-makers of these developing mineral-rich states to begin channelling their policies (trade, industrial, mineral policies for instance,) to divert their economies from being excessively dependent on minerals and other products with declining global prices and demand. Also, these policy-makers should restructure their policies in ways that provide buffers for them to handle unexpected and certain global economic changes as well as the aggressive nature of China’s approach to its trading partners in preparation for another cycle of China’s economic advancement.

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