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Just peanuts?

Trump's protective tariffs and their impact on Africa

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Abstract: *The international discussion of Trump's dispute over import tariffs for steel, aluminum and even cars are so far focused on the big global players. However, smaller African countries in particular could suffer too from the planned punitive tariffs, analogous to the famous African proverb, "When elephants fight, it is the grass that suffers". Egypt and South Africa for example, the potentially most affected countries in Africa, face massive job losses and earning opportunities, with all the consequences that this entails for their already fragile economy and their population in dire poverty.*

JEL classification: F13 - Trade Policy ; International Trade Organizations, F51 - International Conflicts ; Negotiations ; Sanctions; F52 - National Security ; Economic Nationalism, F6 - Economic Impacts of Globalization, H21 - Efficiency ; Optimal Taxation, P16 - Political Economy, P52 - Comparative Studies of Particular Economies

At least since the derogatory comments of the American President on Africa, in which he described African states as "shitholes" in January 2018, it became clear without doubt, which weight Donald Trump attached to Africa. From his point of view, America's greatness is evidently based on other spheres of influence and competitors, such as China, Russia and Europe (Norrlof, 2018). Therefore, it is of little surprise that Africa plays virtually no role in the international perception about the impact of US protective tariffs on imported steel, aluminum and cars. Nevertheless, there exist such effects and these are anything than peanuts.

Africa is far more dependent on overseas trade than other economies, such as, the EU or North America that handle 63% and 40% respectively of their business with their neighbors. Intra-African trade accounts for far less than 20% of total African foreign trade. The Pan-African Free Trade Agreement (CFTA) negotiated recently on a special AU summit in Kigali (Rwanda, 21 March 2018) by 44 African states is not likely to change this situation in the foreseeable future, although it is supposed to liberalize intra-African services completely and 90% of trade in goods. However, the common external tariffs have not yet been negotiated, last, but not least, because of controversial EU-Africa trade agreements (EPAs, Kohnert 2015), and because some

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of the major African countries, such as South Africa, Nigeria and Uganda, have not yet joined the CFTA.

In addition, Africa is still integrated into global trade asymmetrically. Raw material and agricultural exports on the one hand and capital goods imports on the other dominate African foreign trade. In addition, the fragmented intra-African market, as well as decades of stagnant regional and continental integration, high transaction costs, and corresponding tariff and non-tariff barriers to trade, mean that Africa relies more on trade with the rest of the world than other economic regions, such as America or the EU.

Nevertheless, Africa is mostly ignored in the international discussion about the effects of Trump's protective tariffs on steel (25%) and aluminum (10%), it seems globally negligible. For example, South Africa ranks 20th on the list of steel exporting countries, far behind Germany (8) or China (10) (see Table 1, appendix and map 1). However, in Africa there are also countries and sections of the population that would suffer significantly from the new protective tariffs planned by the US government, as will be shown below.

Map 1: US Steel imports, 2017



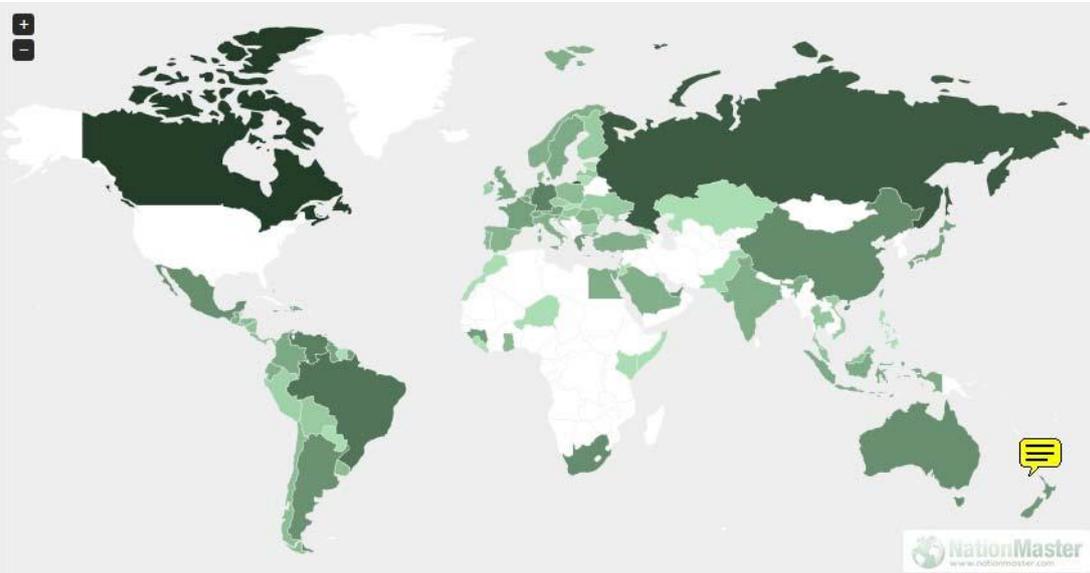
Steel- and aluminum-production and –imports to the USA

The USA is the world largest importer of steel and aluminum. In 2017, it imported 34.6 mmt steel. Due to growing productivity, the US is producing more and more

steel with fewer and fewer workers. In 2015, just below 300,000 workers were employed in the US steel sector, with a decreasing trend, to the current level of 8.5% of the workforce in the manufacturing sector. The volume of imported steel in the United States in 2016 was 15% higher than that of Germany, the second largest steel importer in the world. Although steel imports to the USA were distributed over 85 countries, just four exporting countries, Canada, China, Russia and the United Arab Emirates were by far the most important suppliers (75%) of steel to the USA.

With regard to aluminum the dependency of the USA is even more pronounced (map 2). In addition, the dependency increased steadily within the past decades. About 90% of its aluminum for products as diverse as beer cans and aircraft, the USA covers by now by imports. While there existed still 23 aluminum smelters in the US in 1993, there are only five today. Just one of them is capable of producing high purity aluminum, which is needed for aircraft construction². The jobs in the aluminum smelter industry which Trump wants to protect constitute only 3% of total jobs in the aluminum industry. The remaining 97% (about 156,000) are in the downstream manufacturing production³. The US industry already warned against an ugly trade-off, that is increasing tariffs would also raise prices in the US automotive and aviation industries, making their jobs less competitive internationally.

Map 2: US-imports of bauxite and aluminum, by country (2004) ⁴



² Steel Imports Report: United States, March 2018, US-International Trade Administration, Global steel trade monitor.

³ [Washington Post, 01.03.2018](https://www.washingtonpost.com/archive/local/2018/03/01/washington-post-01-03-2018/)

⁴ Of the seven African countries listed, only three, South Africa, Egypt and Ghana exported aluminum to the USA to any significant degree. Imports from Kenya, Liberia, Morocco, Niger and Somalia were negligible. Source: "Countries Compared by Economy > Trade > With US > US imports of bauxite and aluminum. International Statistics at NationMaster.com", FTDWebMaster, Foreign Trade Division, U.S. Census Bureau. Aggregates compiled by NationMaster. Retrieved from <http://www.nationmaster.com/country-info/stats/Economy/Trade/With-US/US-imports-of-bauxite-and-aluminum>

Economists worldwide warn against a trade war (Lim, L. 2018; Malawer, 2018; Pelkmann, 2018; Peterson, 2018). They acknowledge that the global overproduction of steel and aluminum is a problem that needs to be solved. But they do raise concerns that restricting free markets rules, such as Trump targets them, not only violate WTO rules, but would also cause lasting damage to the global economy. They caution that Trump's protectionism could spread to other industries and countries⁵. Nevertheless, they admit that the world trade system, and in particular US-EU trade relations, urgently need to be reformed, last, but not least, because the EU has built more trade barriers in recent decades than the US⁶. As for Africa, economist caution of negative externalities for Africa's infant industries of a possible trade war between the major global players.

Steel production in the US and Africa in comparison

The steel production (in 1,000 tons) in the USA in January 2018 was 6,822, i.e. about ten times as high as in Egypt (660) or South Africa (577). Libya (48) and Morocco 45 (August, 2017) were far behind in third and fourth place, respectively, of the major African steel exporters⁷. Worldwide, South Africa and Egypt rank 22nd and 27th globally in steel production, that is, far behind China, the world's largest steel producer, with 808.4 million t or 50% of world production. However, barely 2% of the steel imported into the US last year came from China⁸. Share levels in aluminum were a bit higher, but not predominant either. The vast majority of Chinese steel shipments went to other countries. This could lead to the dreaded crowing out and cut-throat competition with respect to the infant African steel industry.

Compared to the US, China or Europe, however, the metalworking industry in African countries, such as South Africa or Egypt, has a significantly higher importance relative to its own country. In total, the manufacturing industry in South Africa had 1,213,560 employees in 2014, of which the largest share was in the metalworking industry, namely 257,098 or 21%⁹. In Egypt, the total number employed in industry in 2015 was 25% of overall workforce¹⁰.

⁵ [US-Strafzölle - Ifo warnt: Protektionismus kann sich ausweiten](#). Ifo-Institut, München, 19.03.2018

⁶ [Handelsstreit EU vs. USA "Das ist eine Art Stellvertreterkrieg"](#). Deutschlandfunk, 20.03.18

⁷ For decades, Nigeria could only meet its own needs for steel through imports, a. o. because of the unbelievable immense mismanagement of the gigantic Ajaokuta Steel Mill Project (1979 - 2017). Although Nigeria, with an annual production of approx. 1 million mmt, is now one of the major steel producers in Africa, it did not start to export steel until 2017, namely 150 - 200,000 mmt p.a. to Ghana, Ivory Coast, Egypt and Morocco. "Nigeria enters league of steel exporters", Vanguard, Nigeria, 19.10.2017. Nigeria's aluminum exports - mostly to Japan - were \$ 134.9 million in 2016, 63111 tons p.a. with an upward trend. But they accounted for only 0.4% of total Nigerian exports. [Nigeria's Top 10 Exports](#), World's Top Exports, 2018; [Nigeria's aluminium export expected to rise in 2017; Japan tops the importer list](#), primary aluminium – News, 07.09.2017

⁸ Source: S&P Global Platts, based on US Census Bureau data. "[Factbox: Trump's steel trade tariffs](#)", New York (Platts)--4 Mar 2018.

⁹ [Statistics, South Africa](#)

¹⁰ including mining and quarrying (including oil production), manufacturing, construction, and public utilities (electricity, gas, and water),

Table 1: Top US imports of steel by country, and % of change, 2011 - 2017 ¹¹

Top US imports of steel

Rank	Country	2017* (million metric ton)	% change from 2011-2017
1	Canada	5.8	▲ 5
2	Brazil	4.7	▲ 66
3	South Korea	3.7	▲ 42
4	Mexico	3.2	▲ 24
5	Russia	3.1	▲ 146
6	Turkey	2.2	▲ 238
7	Japan	1.8	▼ 2
8	Germany	1.4	▲ 40
9	Taiwan	1.3	▲ 113
10	India	0.9	▲ 16
11	China	0.8	▼ 31
12	Vietnam	0.7	▲ 506
13	Netherlands	0.6	▲ 14
14	Italy	0.5	▲ 86
15	Thailand	0.4	▲ 478

*Annualised based on year-to-date through October

Sources: US DEPARTMENT OF COMMERCE, CENSUS BUREAU, FOREIGN TRADE DIVISION, IHS GLOBAL TRADE ATLAS DATABASE STRAITS TIMES GRAPHICS

Steel and aluminum production in Egypt and South Africa

Egypt

Egypt exported about 170,000 tons or \$ 102 million worth of steel to the United States in 2017, accounting for about 3% of total US imports, with rising tendency. The potential for a further increase in Egyptian steel exports was estimated by the metallurgical chamber of industry of Cairo (MIC) as promising¹². Not only did the MIC plead to be exempted from Trump's duties, she also hoped for a crowding out at the expense of third parties. According to the MIC, Egyptian exports to the United States could even continue to increase and take the place of those countries that are unlikely to be exempted from US tariffs, such as Turkey. The latter exported 2.5 m

¹¹ South Africa ranked 20, with US \$ 0.3 bn in 2017, behind Thailand, Spain and Austria; <https://www.nytimes.com/2018/03/01/business/trump-tariffs.html> & <http://www.straitstimes.com/world/united-states/winners-and-losers-from-trumps-new-tariffs-on-aluminum-and-steel> accessed: 30.03.2018.

¹² „Trump steel tariffs: Harming Egypt's exportw? Al-Ahram Weekly, [ahramonline](http://ahramonline.com), 19.03.18. However, only two of several manufacturing Egyptian companies are currently exporting steel to the US: Ezz Steel and Kandil Steel - Egypt does not export aluminum to the US.

tons of steel to the US in 2017. Egypt's Trade Minister Tarek Kabil recently stated that his country's steel exports accounted for only 6% of total exports and that there was still plenty of room for maneuver. Egypt's total foreign trade with the US rose 13% in last year, from \$ 4.7 billion in 2016 to \$ 5.5 billion in 2017. However, Egypt was on the list of 12 countries¹³ of the US Department of Commerce to be punished. According to the US-report on *The Impact of Imports of Steel on National Security*, recommended three options, to be applied differently according to the status of a country. The first option embraced a global protective tariff of 24%. The second option included Egypt, along with 11 other states. For these 12 countries, a penalty of at least 53% on steel imports was recommended. Egypt would thus be much more affected by the punitive tariffs than, for example, the EU. Thousands of steel workers would be unemployed. In addition, Egypt could probably relieve itself from US import duties only with extraordinary foreign policy concessions, for example concerning Israel, which - because of Egypt's lower bargaining power. All in all, the negative impact would probably be far more serious than similar concessions of the EU or Germany.

South Africa

South Africa, benefitting from The African Growth and Opportunity Act (AGOA, US, 2000), is the most important African exporter of steel to the U.S. South African steel imports to the US totaled \$ 950 m, and aluminum exports \$ 375 m in 2017. Though, they represented only about 1.4% of total US imports, they constituted a quarter of all South African US exports. Losing the US market could put 300 000 tons of steel production at risk, along with some 7 500 jobs in the steel and manufacturing supply chain. The US market for aluminum produced in South Africa were valued at \$375-million, accounting for 1.6% of US imports¹⁴. This illustrates quite well the asymmetric distribution of the risk to lose jobs in both countries. According to the South African Trade and Industry Department (Dti), its exports are not an unfair trade or a threat to US industry or jobs, even though South Africa is also on the list of the 12 countries that are to be subject to particularly high punitive tariffs, mentioned before. Rather, they would serve as input to the US manufacturing industry, helping to create jobs and increase US production¹⁵. Amongst the steel companies concerned were for example ArcelorMittal SA. and Hulamin, a Pietermaritzburg-based company that supplies aluminum products among others for Elon Musk's Tesla, that could also be affected. ArcelorMittal's and Hulamin's share prices lost 5% and 4%, respectively, on the Friday after the announcement. The local South African steel industry also fears that the US could use the ongoing protective tariff discussion as a springboard to levy tariffs on processed products, especially motor vehicles.

¹³ The list included Egypt, Brazil, China, Costa Rica, India, Malaysia, Russia, South-Korea, South-Africa, Thailand, Turkey, Vietnam.

¹⁴ Creamer, Terence (2018): [South Africa to make tariffs submission as Trump leaves door open for exclusions](#).. Creamer Media Engineering News, 9th March 2018

¹⁵ „[SA in discussions on US global tariff on steel, aluminium imports](#)“. Sabc-news, 19.03.18

Still, vehicle manufacturers such as BMW and VW South Africa downplayed the problem. VW for example was pointing out that they do not export cars from South Africa to the USA. Nevertheless, the government in Pretoria did already apply for exemption from US tariffs in March 2018¹⁶. This, the more so, since the South African steel industry is already suffering from global overproduction, and low world market prices and jobs are under massive threat. Trump's threats also influenced the exchange rate of South African's currency, which depends on car exports. The Rand gave up overnight on R11.88. Local South African experts fear that - according to the African proverb, if two elephants are fighting, it is the grass that suffers - especially the globally smaller countries could suffer most from the trade conflict, which is mainly focused on the US and China. All the more so, as South Africa is not such a significant US ally that it would be exempted from sanctions, such as Canada, Mexico, Australia, Argentina or South Korea. The South African government expects a decision by the end of April¹⁷.

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¹⁷ [South Africa should care about the US-China trade turf](#). Mail & Guardian, 29.03.2018.