

Trade wars are not good for any country

Trade wars can be costly and devastating on the economies of those countries involved as they often limit the exchange of products and service, subsequently reducing countries' ability to exports and generate incomes. From the South Africa's agricultural perspective, international trade expands business opportunities, increases access to alternate inputs and improves productivity in the sector.

This is exemplified in January 2018 when the sector generated R10.285 billion from foreign markets thus contributing 12.7 percent to total country's exports. This came after an impressive sector performance in 2017, where agriculture pulled the South African economy out of a technical recession despite battling with severe drought in the Western parts of the country.

South Africa's agricultural prosperity is largely driven by the level of trade openness in trading partners such as the United States of America (USA), United Kingdom and China, amongst others. Strengthening trade relations with these partners will increase business opportunities yielding to more jobs and growing economy. However, looking at a recent behaviour of the USA, it seems they are regressing on the principle of free trade. The USA has been gradually protecting its market through tariff increases on products like steel, aluminium, solar panels and others.

While these are not agricultural products, but they have a direct impact on agriculture because the sector uses machinery, electricity and other intermediate inputs to produce food. This implies that increasing steel or energy prices through tariffs will inflates prices of machinery consequently diminishing the agricultural competitiveness and returns.

The fear from the USA's protectionism behaviour is a possible eruption of global trade war, in which President Trump, view it as an easiest form of war to win. Major players in world trade such as the European Union (EU) and China have already threatened with retaliatory measures that could lessen USA export shares in these respective markets.

The EU and China have relative equal bargaining power as the USA due to their large economic sizes suggesting that a trade war amongst them cannot be easily won by the USA. Moreover, there is an adequate evidence suggesting that trade wars do not lead to any winners as often all those involved comes out worse off.

For an example, Professor Marc-William Palen, the author of "The Conspiracy of Free Trade", assessed the trade wars between USA and British in the 19th century and found that there was no winner as both parties suffered economic contraction. Also, Professor John Conybeare, author of "Trade Wars: The Theory and Practice of International Commercial Rivalry" found that brutal trade wars resulted in no winners in Europe. In limited cases, winners are those countries which did not participate in the trade war.

The fermenting trade war by the USA could hurt international trade with negative spillover effects on the agriculture. These effects might be relatively large for agricultural products originating from smaller



economies like South Africa that flourishes in an open and fair-trade system. International agricultural trade remains the most distorted system because of centuries-long discriminatory issues such as high domestic support given to farmers in developed countries and weak safeguard mechanism to assist developing countries against influx of cheaper imports from domestically supported suppliers.

The 2017 World Trade Organisation (WTO) Ministerial conference was expected to find permanent solutions to these agricultural trade distorting issues but no substantial commitments were achieved. The combined implications of trade wars and existing distortionary measures could impact the international trade of agricultural products leading to diminishing growth in countries like South Africa. The impact of trade wars will manifest in terms of declining incomes, decreasing job opportunities and ultimately high levels of poverty.

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