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Page: 7

INTERNATIONAL TRADE

# Make plans to secure the US market because Trump tariffs will hurt

## SA needs to ask: can our perilous economic position absorb shocks such as a collapse of exports to the US?

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It should come as no surprise that US President Donald Trump has threatened to slap tariffs on products from SA. It has been in the making for some time in the wake of legislation that is now being processed by the Senate, which calls for a review of trade relations with SA. Local policymakers were quick to dismiss it as grandstanding, yet here we are.

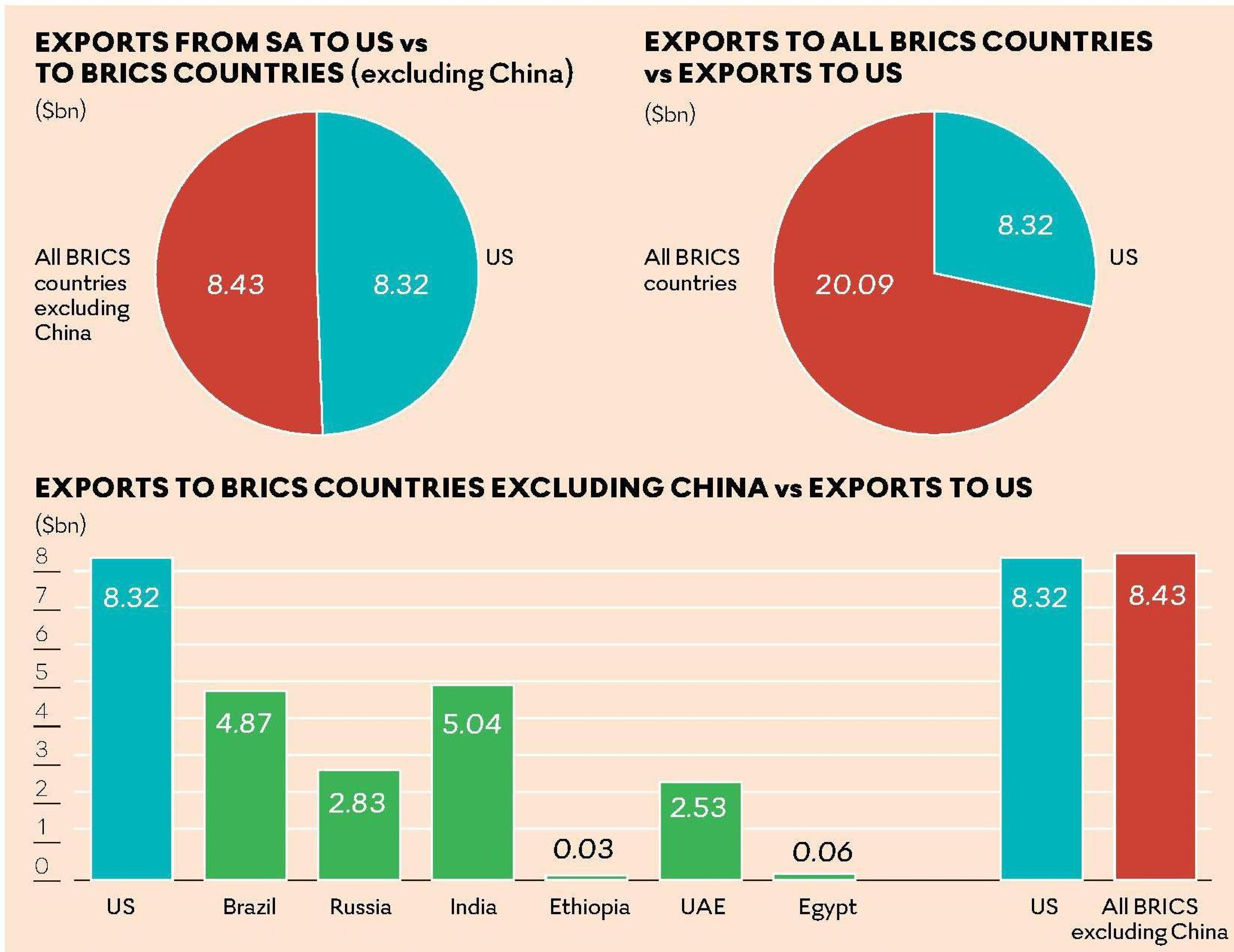
One should also not forget Trump's earlier threat to impose a 100% tariff on imports from Brics countries should the members of the bloc go ahead with de-dollarisation plans. Is this also going to be dismissed? Rather plan for the worst and hope for the best, I reckon.

If Trump follows through, SA will be in an economic quandary: whether to risk alienating its second-largest export partner or go against Brics allies Brazil, Russia, India and China. It would certainly also mean the end of SA's participation in the African Growth & Opportunity Act (Agoa), which provides for duty-free entry of goods into the US.

In 2023 SA's exports to the US amounted to \$8.32bn, about R154bn at today's exchange rate. This constitutes 7.5% of the total \$110.7bn of exports our country realised that year. SA exports to the US are roughly equal to our exports to members of the expanded Brics, excluding China. Total exports to Brazil, Russia, India, Egypt, Ethiopia, Iran and the United Arab Emirates amounted to \$8.4bn in 2023.

Moreover, exports to the US are roughly two-thirds of exports to China, SA's largest export partner. Overall, therefore, exports to the US alone equate to about 40% of those of all the Brics countries combined. Put simply, given SA's sluggish GDP growth, high unemployment and precarious trade balance (a deficit of \$19.89bn in 2023), the country simply cannot afford to put exports of this magnitude at risk based only on political considerations. Our foreign policy has to be data-driven.

Among other products, SA exported just under half-a-billion rand worth of motor vehicles to the US in 2023, and an incredible R9bn in fruits, nuts, citrus and melons. Should the 100% tariff be applied, and in the absence of Agoa's duty-free entry to the US market, these SA products would immediately double in price in the US. This would render SA exports uncompetitive in relation to products supplied from other jurisdictions that enjoy more favourable tariff dispensations.



Graphic: RUBY-GAY MARTIN Source: TRADING ECONOMICS; INCLUSIVE SOCIETY INSTITUTE

Such an outcome would have a severe effect on SA's motor vehicle manufacturing, agricultural and other export sectors, with concomitant job losses, an increase in the trade deficit and a negative effect on the country's balance of payment. An unfortunate reality is that there is no ready supply of other markets to replace the US.

Clearly, the Trump punitive tariff dispensation goes against the World Trade Organisation (WTO) objectives, which hold that — with some exceptions — a WTO member should charge the same tariff on a product for import from all other WTO trading partners. However, even though the US was a founding member of the WTO, this principle is unlikely to deter Trump.

It would, therefore, be unwise to bet on a softening of the Trump administration's stance on tariffs given that during his previous presidency he displayed a tendency to carry out his threats — for example in relation to China. In 2018, he said he would impose a 25% tariff on \$50bn worth of Chinese exports, and he did. In fact, the Trump administration imposed nearly \$80bn worth of new taxes on Americans by levying tariffs on thousands of products valued at about \$380bn in 2018 and 2019.

Ignoring the US tariff threat will be at our own peril. The SA authorities and business sector ought to urgently put strategies in place to secure the American market. Of course, what Trump intends doing amounts to using the dollar to bully the developing world into submission. It sends the message that the developing world must play by his rules, fair or not, or face the consequences.

No attempt to break the US's hegemony over global financial markets will be tolerated — the developing world must just accept its subservient position.

This is, of course, intolerable and underscores the need for urgent reform of the multilateral order to bring about a fairer and more just economic dispensation. A single country should not be able to prescribe the global economic architecture, nor to coerce unwilling partners to underwrite its world view and carry out its fiscal policing through, for example, dictating sanctions on regimes it is at loggerheads with.

But for now SA needs to ask itself the question: can our perilous economic position absorb external shocks such as a collapse of exports to the US? I would venture to say no. A carefully considered response is needed. Now is not the time for counter-threats and experimentation that may well undermine our economic and trade relations with the US.

Yet what we will also have to be brave enough to do — and SA presiding over the Group of 20 in the coming year may be the opportune time — is to raise the question of whether the dollar's dominant role does not perhaps equate to anti-competitive behaviour, and whether it best serves the interests of the developing world.

In light of the Trump administration's current tariff fest, his earlier warning of a 100% tariff on imports from Brics countries should they introduce a Brics currency or some other form of de-dollarisation, should not be ignored. How SA responds will determine the future viability of its exports to America, so treading with caution is of the utmost importance.

The data must speak. This requires a fine balancing act. On one hand we dare not put our exports to the US at risk, since our economic situation simply cannot absorb the shock of such a loss. On the other, we dare not compromise our credibility and position within Brics, nor our desire to help reform the global economic order in favour of a fairer and more just dispensation for the developing world.

Finding a middle way between these diametrically opposed positions will require nerves of steel and the wisdom of Solomon.

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