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EDITORIAL: 'Liberation Day' madness a wake-up call for SA

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A drone view shows a protest at the Utah State Capitol building in a demonstration that is part of larger "Hands off" events organized nationwide against Donald Trump. Picture: REUTERS/Jim Urquhart

SA may be feeling battered by the 30% tariff imposed on its exports to the US, but pity our tiny neighbour Lesotho, which has been subjected to a 50% tariff rate.

Its trade with the rest of the world is fairly minimal, but one of its few exports is denim to the US, the denim that goes into American branded jeans such as Levi's and Wrangler.

Since it is too poor to import much from the US, Lesotho runs a trade surplus with the US that is tiny in monetary terms but in percentage terms comes up on the US side as a sizeable trade deficit. This is just one instance of how mad was the method US president Donald Trump used to calculate the tariffs he has imposed on the world's economies.

In effect he took the US trade deficit with a country as a measure of the tariffs that country imposed on the US, and halved that to give the supposedly “reciprocal” tariff the US should impose on them. An analysis by the New York Times at the weekend illustrated just how much distortion was involved, most notably because the Trump tariff formula only took physical goods trade into account — not services.

That’s a reflection of Trump’s obsession with manufacturing sector jobs, which he believes — probably mistakenly — will come back to the US thanks to the tariffs. But the US is a huge exporter of services such as technology, financial services and tourism to the rest of the world. Had Trump included services in his formula the trade balances would have looked very different: SA’s tariff would have been eight percentage points lower and the EU’s as much as 10 percentage points lower. Lesotho’s might have disappeared.

But it’s no good quibbling with the methodology or trying to suggest to the Trump administration that it has its facts wrong or is being unfair. Trump’s “Liberation Day” is about politics and power, even if it is based on flawed economics. The tariffs are widely perceived to be an opening gambit, putting pressure on countries to negotiate concessions. They may change.

While some call for SA to “stand up to the bully”, we would do well to be strategic about how we approach the US given how badly the relationship has soured lately. The US is one of SA’s largest trading partners, buying just over 7% of our exports, as well as being one of our largest source of foreign investment.

As research outfit Trade & Industrial Policy Strategies (Tips) has pointed out, SA has little leverage to use in any talks with the US. We account for just a quarter of a percent of all US imports. SA also has very low or no tariffs on most of its imports from the US, so little scope to bargain. And in any event, we are unlikely to feature high on the US list of priorities at a time when bigger and stronger economies will be seeking to negotiate — or to reciprocate with tariffs of their own.

On the upside, critical minerals such as platinum and titanium are exempt from the tariffs and they account for a third of SA’s exports to the US. On the downside, the 30% tariff will fall heavily on SA’s high value added manufactured goods exports to the US, especially

automotive exports, as Tips points out, as well as on agricultural exports such as citrus and wine, for which the US is a crucial market.

Trump's "Liberation Day" has hit SA's economy hard directly, but it will be hit even harder indirectly by the expected slowdown in US and global growth that will result, as well as the fallout in financial markets.

Economists warn that the tariffs will cut growth and raise inflation in the US, which could go into recession. They will cut global growth too. Sub-Saharan Africa will be hard hit, with several countries in the region subject to steep tariffs.

For SA, its exposure to global trade and commodity prices, and the spillovers from a slowdown in global growth, have prompted Goldman Sachs to revise its 2025 growth forecast down by 0.3 percentage points to just 1.4%.

An obvious response is for SA to up its exports to the rest of the world, and cabinet ministers Ronald Lamola and Parks Tau have said government will look to do so. The challenge will surely be that SA will be doing so at a time when every other country in the world is also trying to redirect its exports.

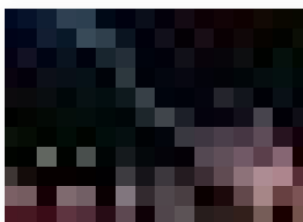
The global crisis again highlights the urgent need for SA to get its act together and speed up its own domestic growth-boosting reforms. It will need to step up to assist its poorer neighbours too.



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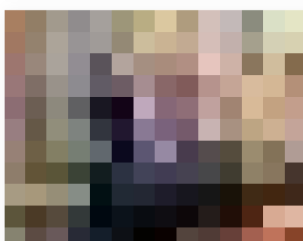
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