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LOUW PIENAAR AND CLAIRE BISSEKER: No need to panic about new trade era — just align policy more carefully

US tariffs may be a catalyst that forces SA to broaden strategic trade relations beyond traditional export markets

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by LOUW PIENAAR AND CLAIRE BISSEKER

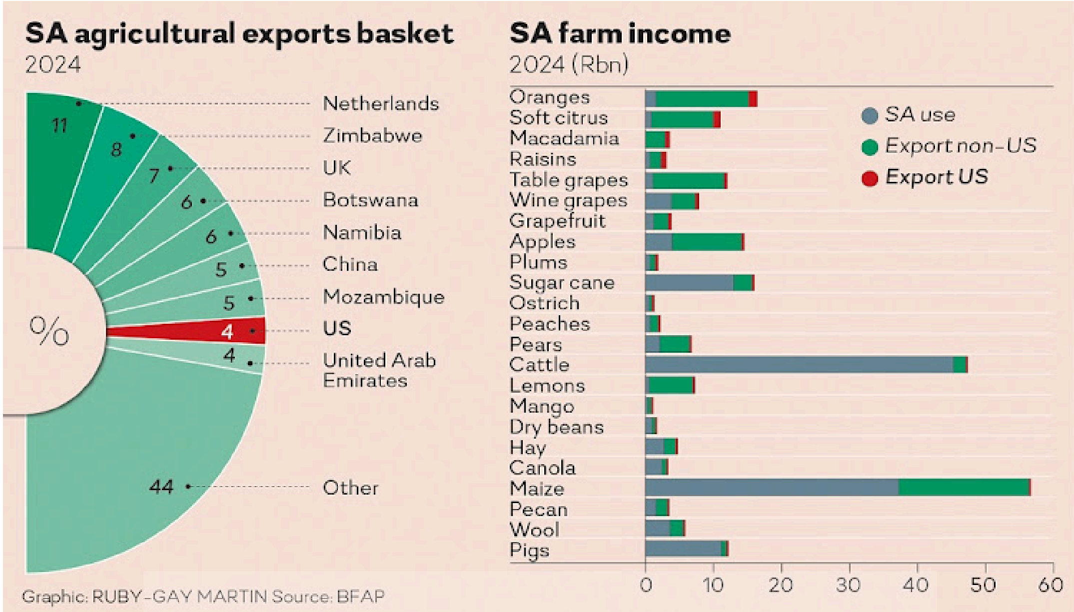
US President Donald Trump's 30% tariff hike has sparked doomsday headlines in SA about the devastating effect this is likely to have on the economy. But two recent studies have found there is no need to panic.

To capture the views of firms, the Bureau for Economic Research (BER) added two ad hoc questions to its routine business surveys in late August. The results suggest that about 20% of firms are affected by the tariffs, but only about 5% face a situation where more than 20% of their sales revenue is directly exposed.

Most SA exports to the US fall within the mining, manufacturing and agricultural sectors, but with mining products exempt the survey found the manufacturing sector is the most heavily affected.

About half of the manufacturing firms affected reported that the tariffs were not having any effect on their sales since the end of August. The other half reported that their export volumes had either fallen or ceased outright. But only about a third of manufacturing firms said they were considering their options in terms of exploring new markets. (This likely reflects high levels of uncertainty as to whether the tariffs will remain at 30%.)

Similarly, a separate study by the Bureau for Food & Agricultural Policy (BFAP) has found that the aggregate effect of the 30% tariff hike on SA's agricultural economy will be "marginal". It will certainly be far less onerous than the effect of the frequent outbreaks of animal disease due to poor biosecurity or the underperformance of our major ports.



Fortunately, SA's biggest agricultural industries — poultry, maize, cattle, milk and potatoes — have limited export exposure to the US. While SA exported R266bn of agricultural goods (including food) worldwide last year, exports to the US made up just 4% (R10.7bn) of these.

As such, SA's farm exports to the US account for only 1%-2% of the country's gross farm income. However, they are concentrated in a few sectors, such as citrus, nuts, wine, grapes and ostrich meat. Many of these are geographically concentrated in the Western and Northern Cape provinces.

For the Western Cape the share of agricultural exports that went to the US last year — 7% of the provincial total — was almost double the national average. Moreover, the US market has grown strongly over the past few years. It is also a premium market so remains important in driving the province's overall export volumes.

The BFAP study finds that the combined effect of the 30% tariff hike on five food export items — grapes, plums, wine, soft citrus and oranges — would amount to a loss of close to R6bn in gross production value over the coming decade (2025-34) compared with the baseline with no tariffs. That is a loss of about R600m a year.

However, for a typical Western Cape citrus farm with a 30% export exposure to the US the impact could be considerable as it implies a

32% reduction in net farm income on average annually over the coming decade.

For wine, the imposition of a 30% tariff for SA (with Argentina, Australia, Chile and New Zealand at a 10% tariff) would likely lead to a R92m revenue loss per annum as the SA wine industry is affected through a combination of price declines in the US and forced diversion to less lucrative markets.

These projections rely on uncertain assumptions about Trump's capricious tariff policy and how market participants are likely to respond. What we do know for sure is that the effect on SA will be less severe than it could have been thanks to swift adjustments within the different supply chains and investments in market access by the industry.

However, a lot more needs to be done, and (worryingly) much will depend on the government's capacity and its ability to execute a more agile trade policy. To unlock more growth in agriculture SA needs to pursue strategies to expand market access both through removing technical barriers to trade and by negotiating lower tariffs in top markets. But this will require SA to reconsider the misalignment between its trade policy and its broader industrial policy goals.

Brics tariff cuts key to exports

Over the past decade export-led growth has been one of the main drivers behind the agricultural sector's strong performance, even as the rest of the economy has slowed. To continue increasing our agricultural exports — and to replace those displaced from the US market — will require our Brics allies to lower their tariffs so we can export more to them more competitively, as our southern hemisphere counterparts often face far lower tariffs in those markets.

Yet SA's overarching industrial policy continues to be largely focused on import replacement or localisation. As such it yearns to levy protective measures against these same Brics countries to promote growth in new or existing (uncompetitive) domestic industries.

The new trade era ushered in by Trump requires better policy alignment from SA. It may even be the catalyst that forces SA to rethink how we can grow the economy by broadening our strategic trade relations beyond our traditional export markets.

This would be a good thing, but it can only be done if tariffs on both sides are carefully adjusted downwards. In the meantime, targeted support for the worst-affected firms across all sectors would go a long way towards cushioning the effect while industries explore market diversification.

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