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TARIFF TURBULENCE

THE CONSEQUENCES OF RECENT US TARIFF INCREASES FOR SOUTH AFRICAN EXPORTS

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Outline

01 Context – Trump tariffs

02 US – SA trade

03 Impact of tariff proclamations on US tariffs

04 Modelling the direct impact of Trump tariffs on SA exports to US

05 Policy recommendations & discussion

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A wild ride in 2025

- US President Trump launches "America First" tariff policy at start of 2nd term
- Key tariff proclamations of direct relevance to SA

Section 232 of the Trade Expansion Act of 1962

2018/20: Section 232
- 25% tariff on steel & derivatives
- 10% tariff on aluminium & derivatives

March 2025
- Removed country exemptions
- Widened product scope
- Raised tariff on aluminium to 25%

3 April
- + 25% tariff on automobiles & parts (from May)

4 June
- Tariff on steel & aluminium raised to 50%

International Emergency Economic Powers Act (IEEPA)

5 April 2025: Reciprocal tariffs
- Liberation day (2 April)
- 10% universal tariff

9 April
- 30% reciprocal tariff on SA
- Suspended to 9 July

9 July
- Suspension window closes

The US is a major trading partner of SA

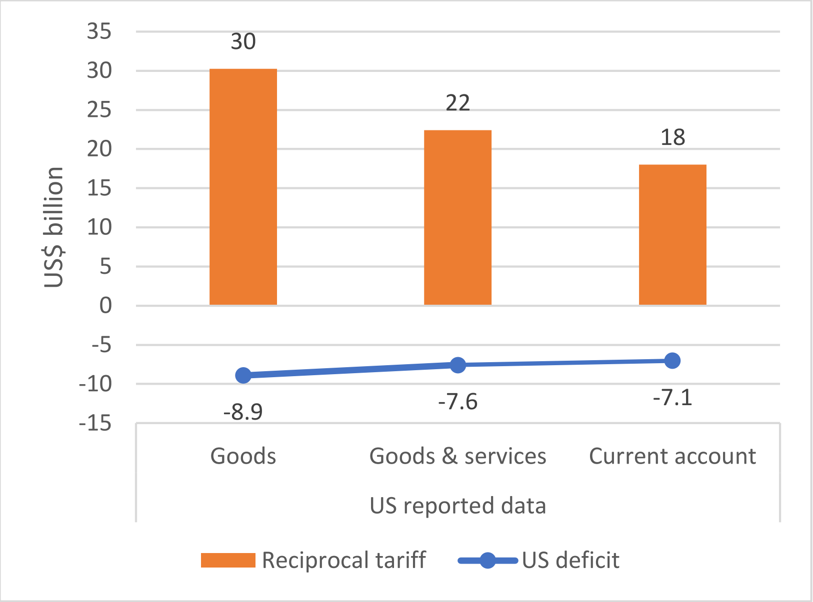
- Second largest destination for SA's exports, accounting for 8.5% (US$ 8.6 billion) of reported non-gold exports in 2024
  – Also major source of imports (6.9% share, or $6.6 billion)

- US runs a large deficit in goods trade with SA
  – US reports a deficit of $8.9 billion
  – SA reported data shows a lower non-gold deficit of $2 billion

- The focus on goods trade ignores the $1.3 billion surplus US runs on services trade with SA

- … And the $1.3 billion surplus in primary income transfers (returns to investment) with SA through the current account

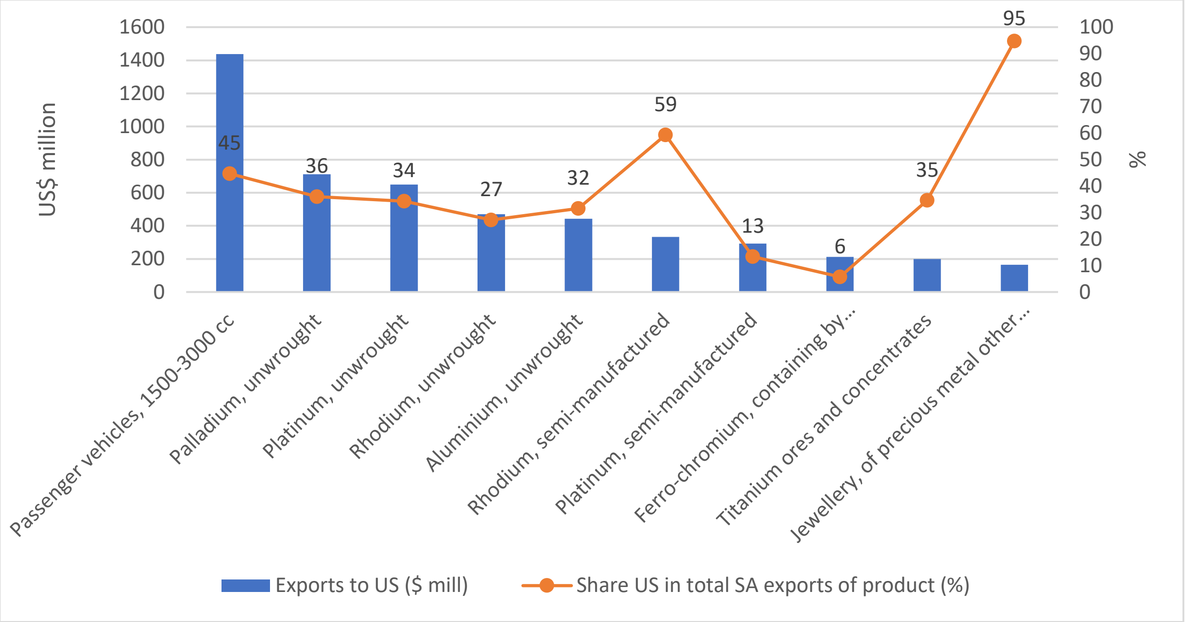
Figure: Sensitivity of the reciprocal tariff calculation to choice of data, 2024



The US is a major trading partner of SA

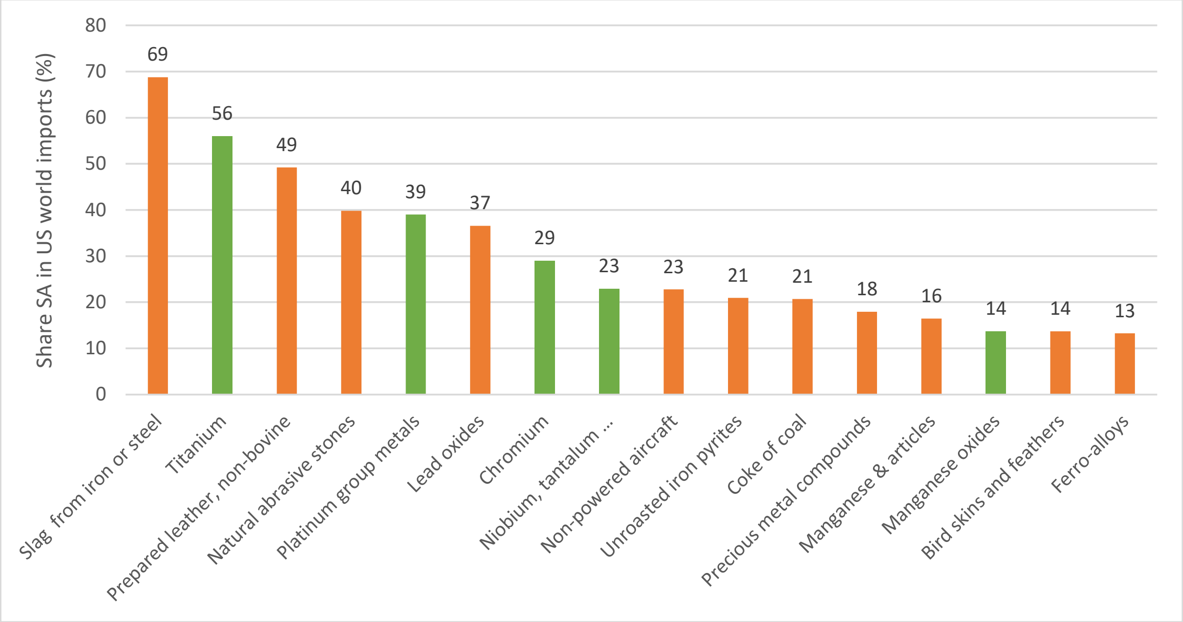
- SA's non-gold exports to the US heavily concentrated in precious metals/stones and vehicles & parts.
  – SA exports 1,500 products (HS 6-digit) to US
  – Top 10 account for 59% of export value to US
- SA also major supplier of key productive inputs, incl. critical minerals, to US
- U.S. goods deficit with South Africa reflects strategic input sourcing that is beneficial to US industrialisation

Figure: Top 10 SA export products to US, 2024



Note: SARS reported data

Figure: Top 20 products (HS 4-digit) by share SA in US imports, 2024



Note: Share calculated using SARS reported export data for SA, and USITC reported import data for US

African Growth and Opportunity Act

- SA a main beneficiaries of AGOA, with US imports reaching $3.8 billion (34% non-gold imports) in 2024.
- AGOA widely used by SA exporters to avoid tariff duties on products subject to non-zero-tariff MFN rates
  - 83-85% utilization rate
- But
  - Exports under AGOA concentrated
    - Passenger vehicles account for 66% of US reported imports
    - The top 5 HS4-digit products represent 80% US imports from SA under AGOA
  - The bulk of US imports from SA already enter duty free
  - Tariff preference margins are low (3%), but not for all
    - (9.5% for processed food, beverages & tobacco)

Figure: US non-gold Imports from SA by Preference, 2024

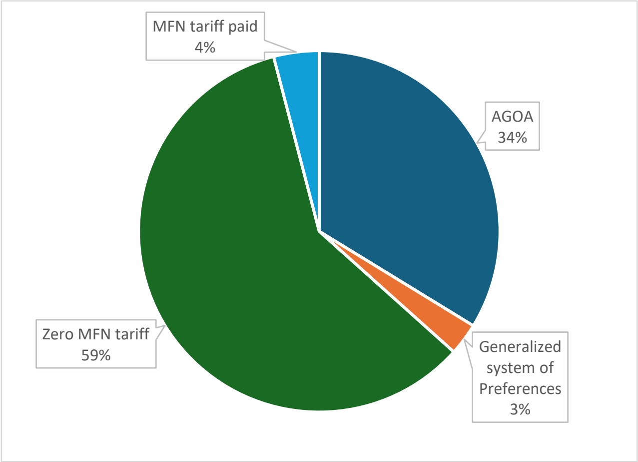
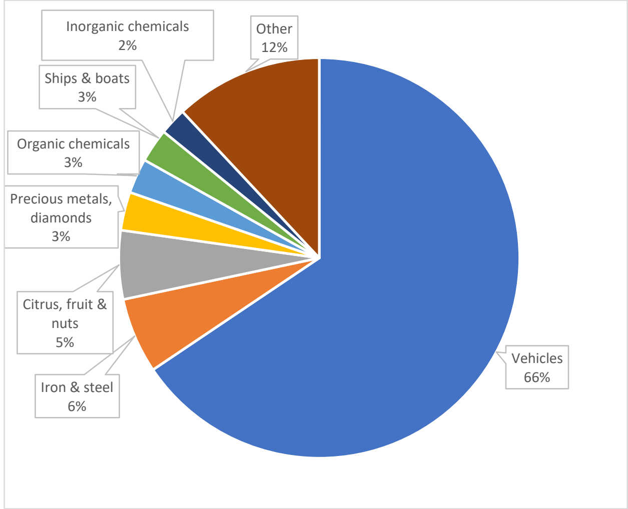


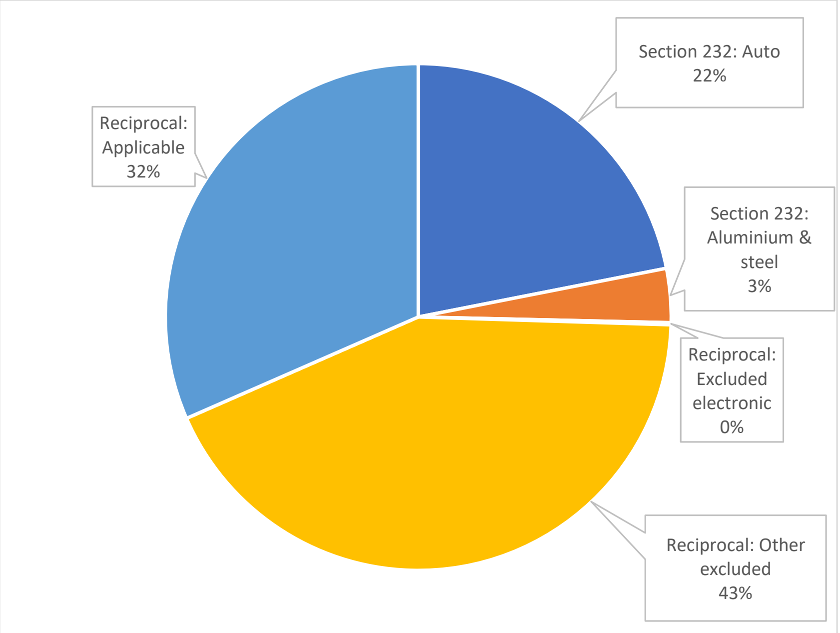
Figure: Compositions US Imports from SA under AGOA, 2024



Note: Own calculations using USITC reported import data for US

Impact of tariff proclamations on tariff levels imposed on US imports from SA

Figure: Composition of US reported non-gold imports from SA by tariff proclamation, 2024



Notes: Own calculations using USITC data at the HTS 10-digit level. Gold is excluded. SARS reported export data are used for PGM, passenger vehicles and non-industrial diamonds.

- A high share of US non-gold import value from SA exempted from the Section 232 and reciprocal tariffs ($3.6 billion; 43%).
  – PGMs (platinum, rhodium, palladium), ferrochromium, titanium, wood products, copper, manganese…

- But
  – Vehicles, a major export, have faced 25% increase in tariffs
  – Aluminium & steel a 50% Section 232 tariffs
  – Over 80% of all products exported by SA to the US will face the full brunt of the 30% reciprocal tariff increase.

Impact of tariff proclamations on US tariff levels

- Section 232 and the reciprocal tariffs sharply increases average tariffs on US imports from SA
  - From 0.4% currently
  - ... to 16.8% with the 30% reciprocal tariff
  - AGOA preferences overwhelmed by new tariffs

- Tariffs on imports of precious metals & stones, mineral products, and wood products rise the least given exemptions

- Manufactures face relatively large tariff increases, reinforcing commodity-dependency of SA exports

***Figure**: Impact of tariff proclamations on import weighted average US tariff on non-gold imports from SA*

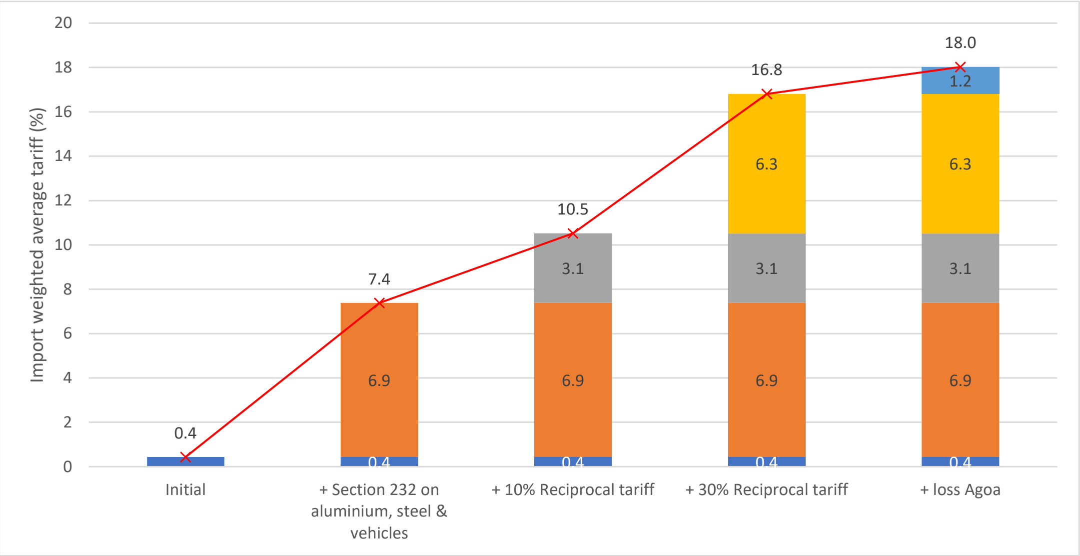
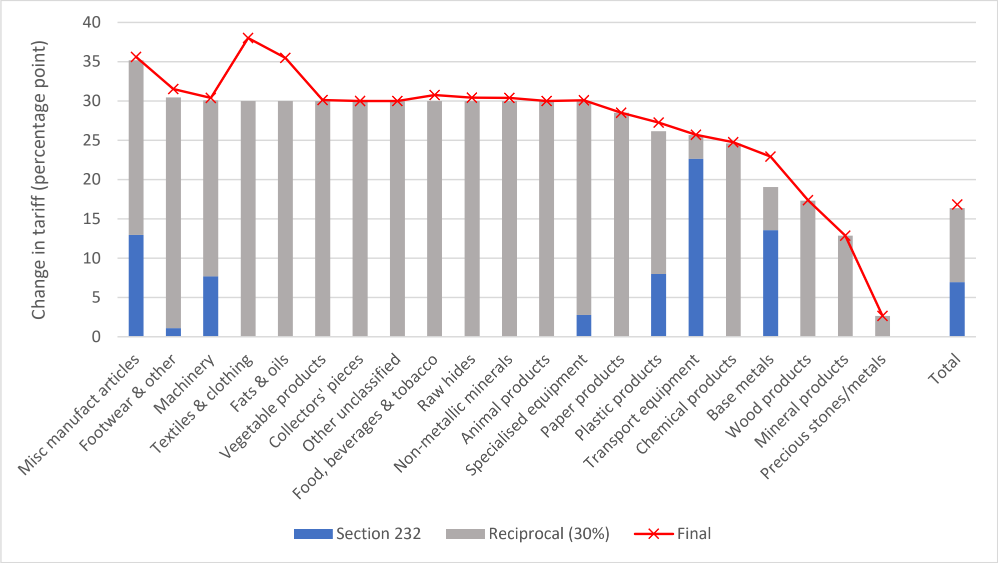


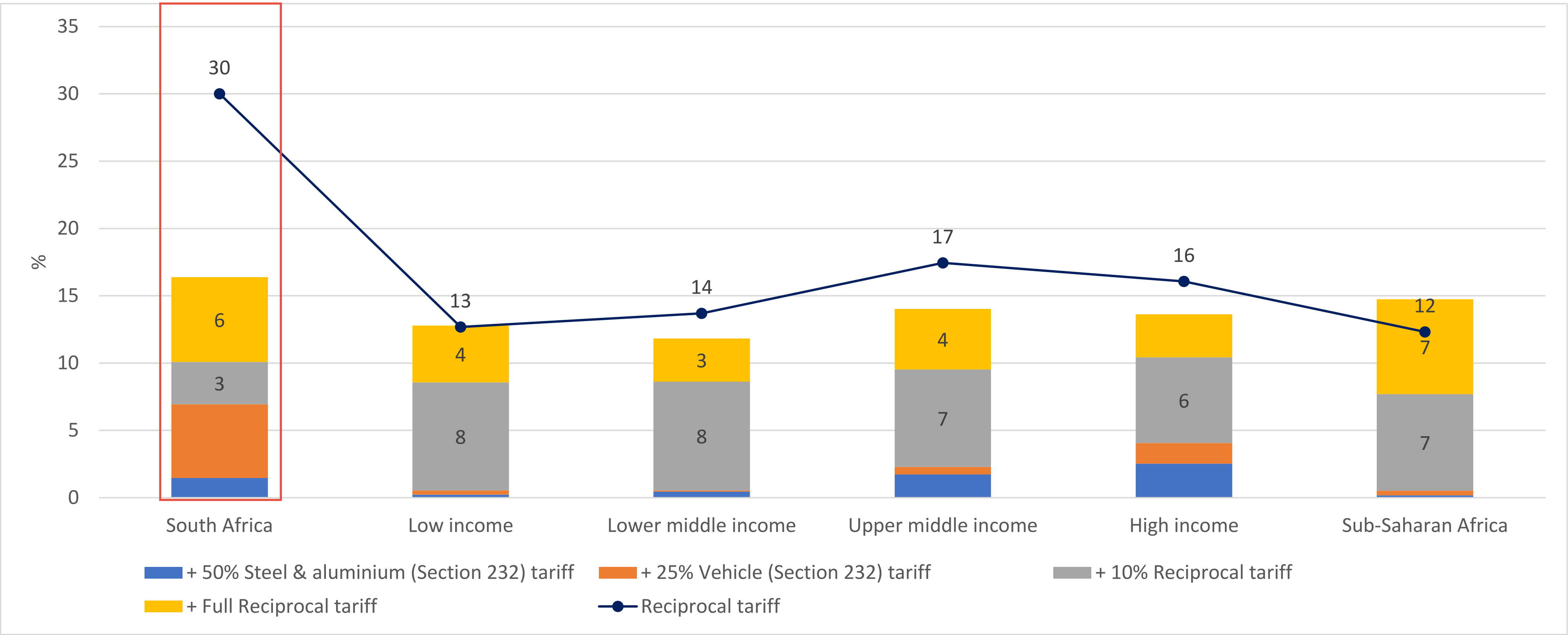
***Figure**: Impact of tariff proclamations on import weighted average US tariff on non-gold imports from SA*



SA is disproportionately affected

- At the current 10% reciprocal tariff, SA ranks 102nd out of 221 countries in terms of tariff increases.
- However, SA's ranking worsens to 28th should the country-specific reciprocal tariffs be implemented – Lesotho worst affected

***Figure**: Changes in import weighted tariffs on US non-gold imports from South Africa and countries aggregated by income classification.*



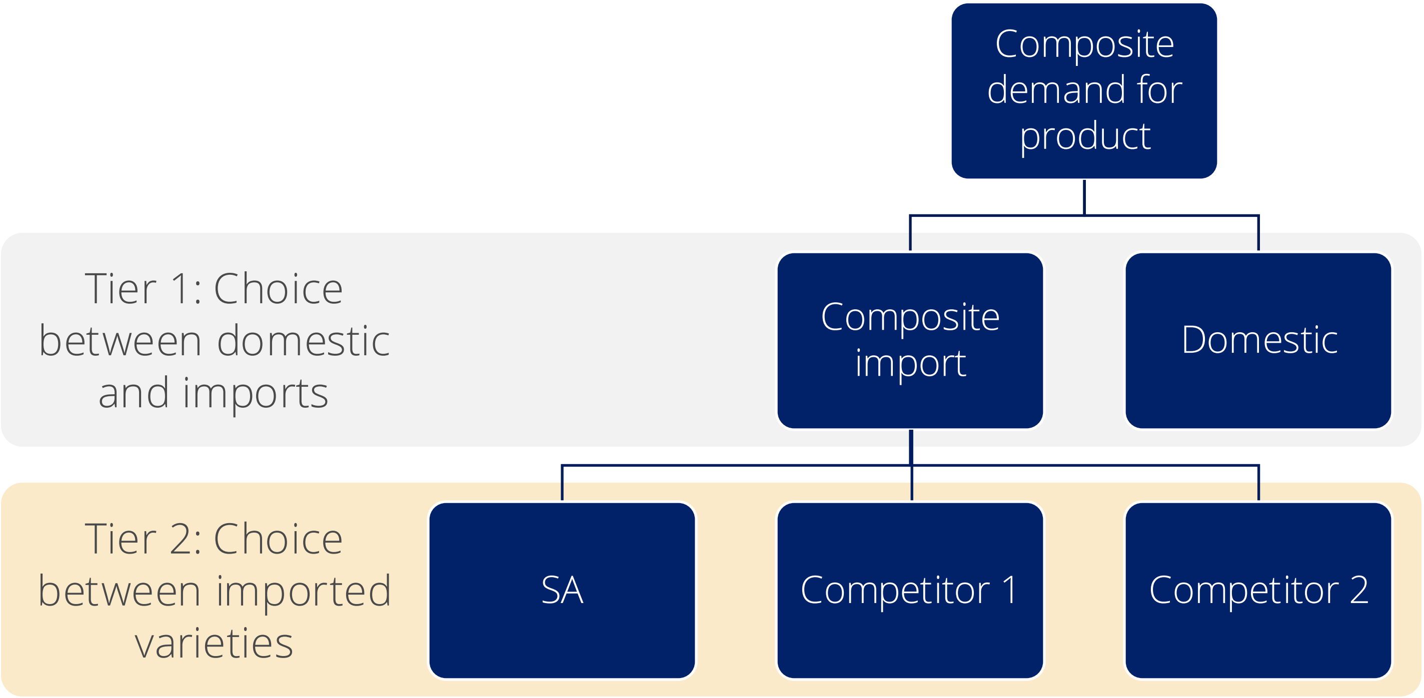
The direct impact of the tariff increases on US imports from SA

- Consider the impact through three main channels:
  1. Direct effect of tariff increases on the price paid by US consumers and producers
     - (i) The pass-through of the tariff to domestic prices
     - (ii) The price elasticity of demand for imported goods
  2. Diversion by US consumers to alternative suppliers in countries with lower tariff increases
  3. Deflection of exports to US to third markets.

– General equilibrium and other effects (We ignore!)
  - High tariffs may raise domestic inflation, wages and production costs
  - Reductions in trade deficit may cause dollar to appreciate, offsetting the price advantage conferred on domestic goods by the tariff
  - Changes in aggregate growth in the US will affect US imports via income demand effects

Model approach

- Simulate effect using multi-country (221), multi-product (over 5000 at HS 6-digit level) partial equilibrium trade model
- Based on US reported import data for 2024, with SARS reported export data for PGM, passenger vehicles and non-industrial diamonds. Excludes gold.
- Structured around nested Constant Elasticity of Substitution demand relationship



Assume elasticity of substitution between imports and domestic of 1.19 (Fajgelbaum et al., 2020)

Product level elasticity of substitution between varieties from Fontagné et al. (2022) ranging from 2.7 for specialised equipment to 11.5 for mineral products

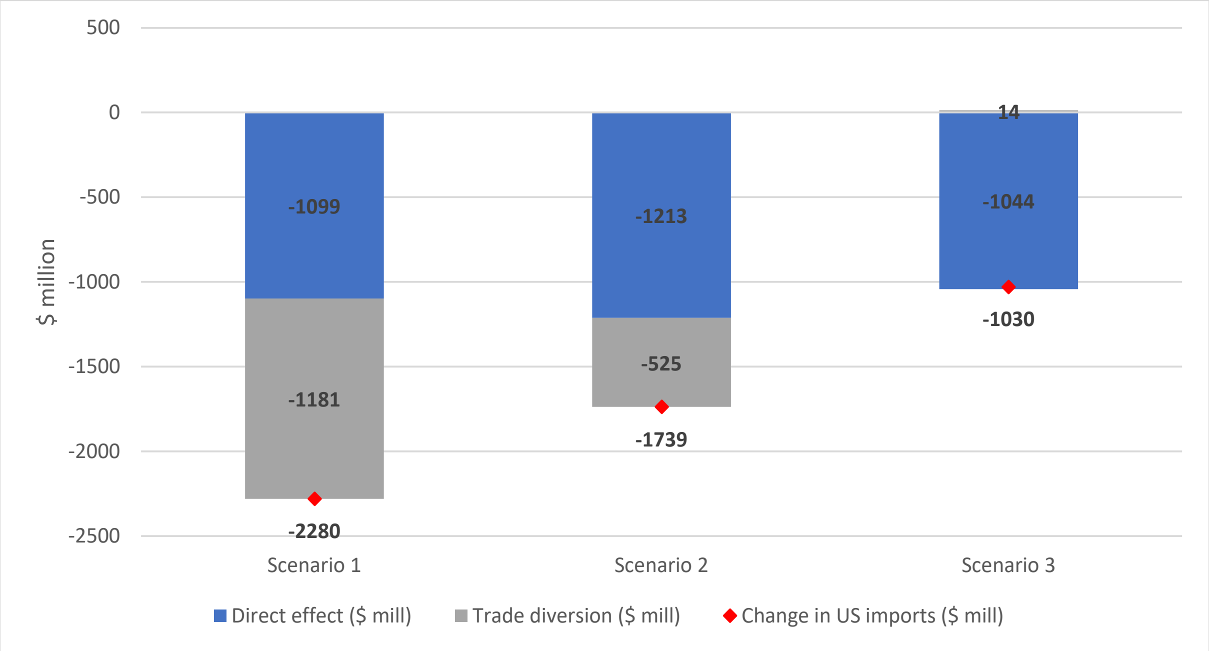
Three simulations

- Scenario 1 (High elasticity and 30% reciprocal tariffs):
  - Full reciprocal tariffs together with relatively high elasticities of substitution at Section Heading level (2.7-11.5), using estimates from Fontagné et al. (2022).
- Scenario 2 (Low elasticity and 30% reciprocal tariffs):
  - Full reciprocal tariffs together with lower 2.53 elasticity of substitution as estimated by Fajgelbaum et al. (2020) for US.
- Scenario 3 (High elasticity and 10% reciprocal tariffs):
  - 10% reciprocal tariffs together with the relatively high elasticities of substitution in Scenario 1.
- All scenarios do not include the US-UK Economic Prosperity deal, and for China, assume the 20% "Fentanyl" tariffs , the Section 232 tariffs, and the 10% universal reciprocal tariff (Scenario 3) or 34% reciprocal tariff (Scenario 1) apply.

Results

- SA stands to lose up to **$2.3 billion** in exports to the US under Scenario 1
- Effect of the 10% reciprocal tariffs (Scenario 3), is lower, but still considerable at $ 1 billion
- **Diversion** of US imports towards countries facing lower reciprocal tariffs doubles the direct losses to SA under the 30% reciprocal tariff
  - E.g. citrus to Chile & Peru
- The diversion effects fall considerably under Scenario 2, and become marginally positive for SA under Scenario 3
  - Mainly because of higher US tariffs on imports from China

***Figure**: Change in US imports from SA under different tariff scenarios and model assumptions*

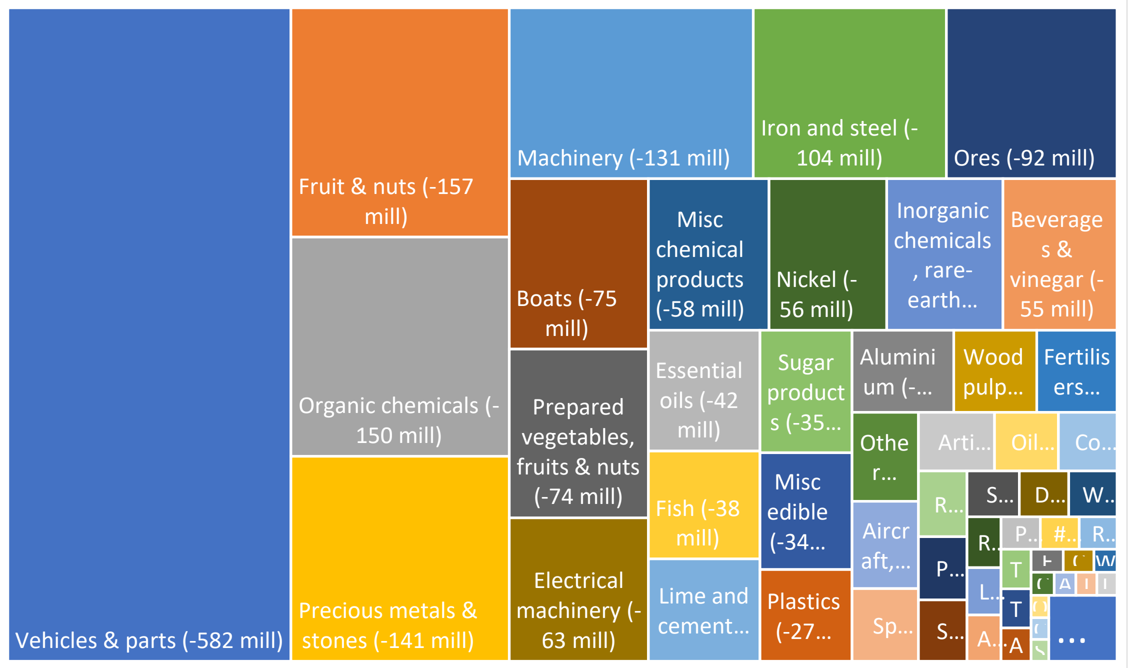


Results

- Vehicles & parts ($582 million, or 32% decline) main contributor towards decline
  - With similar declines under 10% reciprocal tariff in Scenario 3

- Other industries facing large losses include organic chemicals ($150 million), fruit & nuts ($157 million), prepared vegetables ($74 million), Machinery ($131 million), amongst others.

Figure: Product composition of the decline in US non-gold imports from SA under Scenario 1 (total decline equals $2.3 billion)



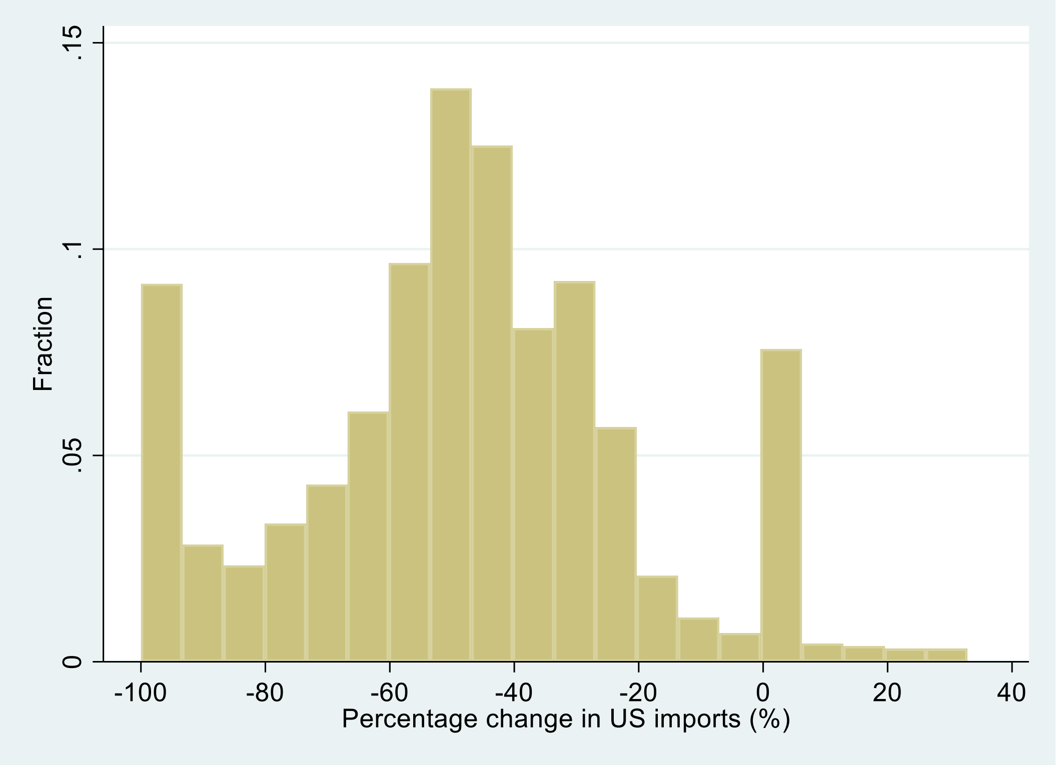
Results

- Effects widely felt across products.
  – 45% reduction in US imports for median product
  – 111 products (e.g., cereal preparations, lead articles, wood pulp) experience a complete collapse

- Not all products are directly affected by the US tariffs.
  – PGM, copper, timber, critical minerals and pharmaceuticals unaffected as tariffs do not change
  – Section 232 investigations have been initiated

- Net effect: Reduction in value and product diversity, combined with rise concentration and commodity-intensity of SA exports to the US.

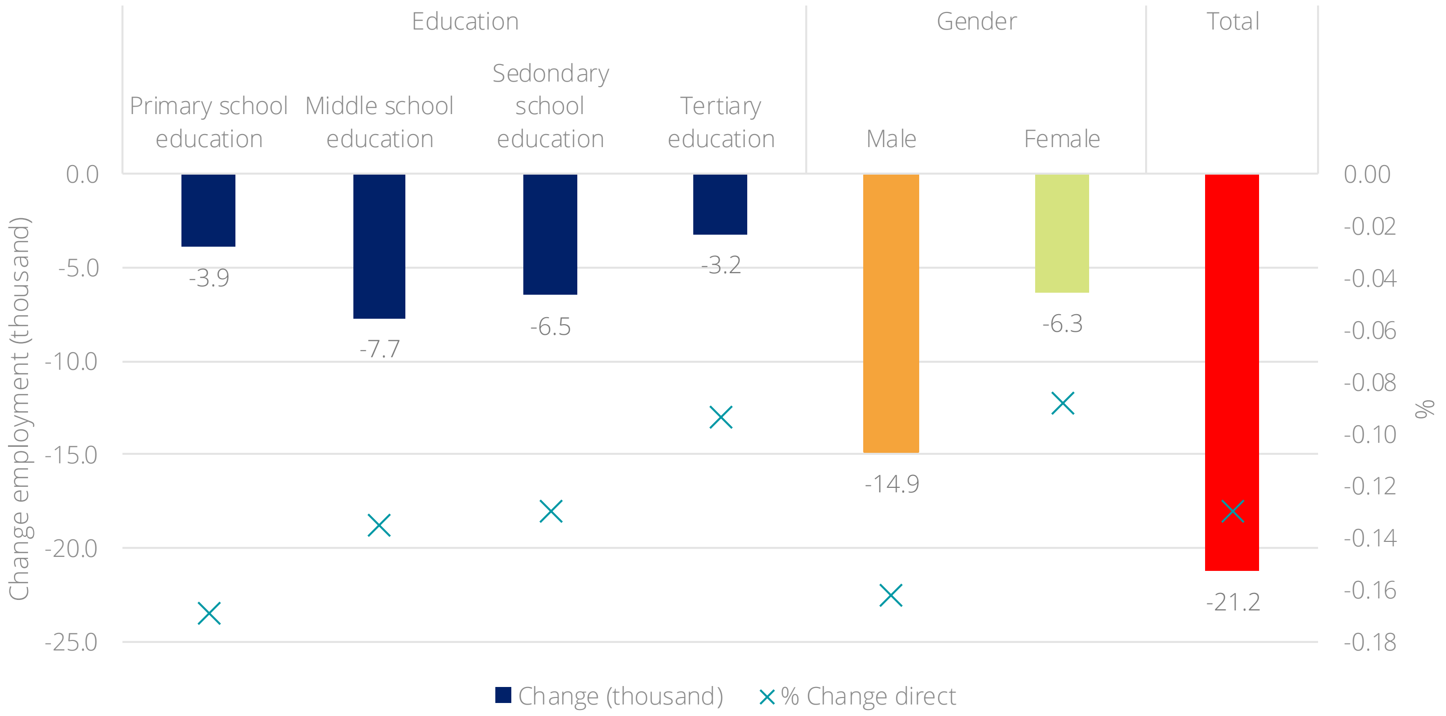
Figure: Frequency distribution of change in US imports at HS6-digit product level, under Scenario 1



Employment impact

- Regressive impact on employment
  - 21 000 direct job losses, disproportionately affecting less-skilled and male workers

Figure: Direct employment losses, under Scenario 1



Note: Based on 2019 Social Accounting Matrix and employment data from van Seventer and Davies (2023)

Implications for SA exports from deflection of Chinese exports to competing third-country markets

- The Fear: US tariffs will "… provoke a flood of cheap Chinese products pouring into other markets" (Financial Times, 2025)
  – Model estimates: US non-gold imports from China may fall by up to $242 billion (47%)

- Deflection of China's exports from the US market is concerning for SA exports & domestic production:
  – Domestic import competing firms face increased competition
  – SA exporters may face increased competition in their export markets

- Assess potential implications for SA of deflection of Chinese exports to Sub-Saharan Africa, considering:
  i. Similarity in export structure:
  ii. Importance of destination markets in SA and China exports:
  iii. Value of deflected trade:
  iv. The product composition of deflected trade.

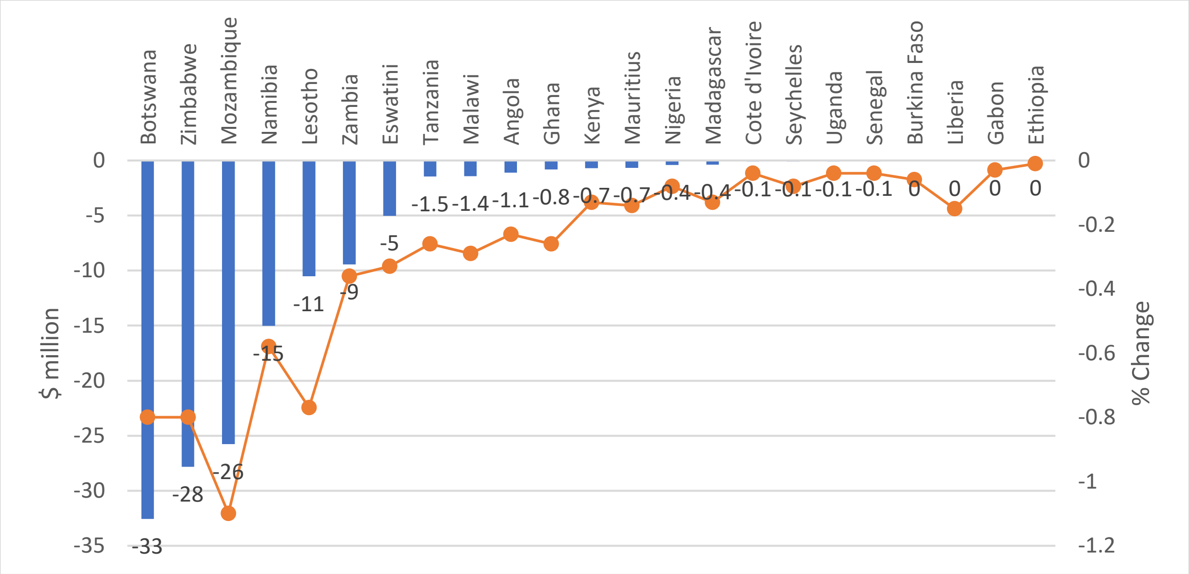
Impact of deflection of Chinese exports to SSA

- Overall, the similarity in the structure of SA and China's exports is low
  – While product overlap is high, share of overlap in value and index of similarity much lower
- Constant Market Share Analysis: SA stands to lose $133 million in export value to SSA as a result of increased US tariffs on China.

Table: Indicators of similarity in export structure, and share of South African Exports Facing Competition from China in SSA

	Finger-Kreinin Index (%)	Export Product Overlap (%)	Share of SA Export Value Overlap (%)
Weighted across-country average	26.2	68.0	20.3%

***Figure**: Constant Market Share Analysis: Crowding out of South African exports by China from Trump Tariffs*



Notes: Own calculations using 2023 import data obtained from UNComtrade. Products are defined at the HS6-digit level. Imports of precious metals and stones (HS 71) are excluded. SA's bilateral export values are used as weights.

Policy recommendations

- <u>Short term – Diplomacy, signaling, engagement and quick wins</u>
  - Engage with US authorities to avoid high reciprocal tariffs
    - Build on SA's recent submission of a revised trade and investment proposal and recent constructive engagements with the US Trade Representative (USTR)
  - Signal: **Unilateral** resolution of specific issues identified as constraints to US trade with SA in the National Trade Estimate Report and recent feedback from the USTR on SA's Framework Proposal
    - Replace specific anti-dumping duty on poultry with reduced ad valorem rate (tariff quota not even filled!)
    - Fast-track approval of blueberry
    - Speed up and simplify approval of imports from influenza free areas
    - Set up US-SA engagement with the Department of Agriculture to deal with the SPS barriers under their control
  - Engage with US companies in SA
    - At least 662 American firms active in the country, supporting more than 220,000 jobs, but also benefitting their US shareholders/owners in the form of net positive returns to investment transferred from SA to the US.
      - American Chamber of Commerce in SA

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Policy recommendations

- Short term, continued
  - Provide targeted support to vulnerable export firms
    - e.g., Export Marketing and Investment Assistance, trade adjustment assistance

- Medium term – Institutional frameworks and trade agreements
  - Focus on securing exemptions & reduced tariffs (e.g. vehicles)
  - Ensure the renewal of AGOA beyond 2025
    - Leverage off the AfCFTA collective, but SA will require own bilateral negotiations
  - Revitalise, renew and extend the dormant SACU–US Trade, Investment, and Development Cooperative Agreement (TIDCA) and the SA-US Trade and Investment Agreement (TIFA)
    - Bilateral forum for public and private sector dialogue on trade and investment. Extend to include labour
    - Non-binding: Consider using forums for deeper rules-based integration, that could include a free trade agreement also covering services and digital trade.

Policy recommendations

- Longer term – Diversification, domestic reforms, domestic trade competitiveness
  - Diversify export destinations beyond the US
    - AfCFTA - Annexes on trade facilitation, customs cooperation, non-tariff barriers most important
    - Look South and East - Trade agreements
      - Regional Comprehensive Economic Partnership (RCEP), Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)
  - Participation in plurilateral discussions on digital trade in the WTO
    - Joint Statement Initiative on E-commerce
  - Enhance domestic trade competitiveness
    - Leverage crisis to accelerate reforms of critical trade infrastructure
    - Re-evaluate local ownership requirements on foreign investment, and limits to competition by government procurement.
- Many of these proposals already covered in SA's Framework Proposal

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