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OPINION

LAWRENCE EDWARDS: Trump’s tariffs — a reckless gamble with global trade

SA must broaden its trade alliances to counter Trump's flawed tariff strategy

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by LAWRENCE EDWARDS

Picture: 123RF/MOOVSTOCK

Markets were rocked this past week as US President Donald Trump announced and then retreated from fully implementing the sweeping reciprocal tariffs he declared on April 2, or “Liberation Day” as he refers to it.

In their size, scope and calculation these tariffs are not only economically incoherent, but also risk tearing the global trading system apart. Already, we are witnessing the emergence of a trade war as the US and China engage in tit-for-tat retaliation in the raising of tariffs.

At the heart of the reciprocal tariffs is a misguided obsession with bilateral trade balances — essentially, the idea that each country should buy as much from the US as they sell to it. To achieve this the US introduced a baseline 10% tariff on all countries (effective April 5), followed by steeper, country-specific tariffs that were to be imposed from April 9.

Though a 90-day pause for all countries apart from China has been announced, SA exporters to the US face the prospect of an additional tariff of up to 30%. For Lesotho exporters, the increase is a staggering 50%.

While some products such as precious metals and pharmaceuticals are excluded, many key exports are not. Trump argues these tariffs are retaliation for "unfair" trade practices and are meant to restore the US manufacturing and defence base. SA was specifically singled out for imposing "unjustified' animal health restrictions, high tariffs and antidumping duties on US poultry exports. But the underlying logic for the tariffs is deeply flawed.

Trade is multilateral

Bilateral trade balances simply do not matter in the way Trump imagines. Trade is multilateral. SA exports platinum to the US because it has the resource, and it imports medical equipment because the US has the technology. No country trades evenly with every other — just as individuals do not aim for balanced transactions with every shop they visit. The desire for balanced bilateral transactions is a reversion to the barter system.

Today's goods are often products of complex global value chains. An iPhone assembled in China contains components from Japan, Korea, the US and elsewhere. Yet all its value is attributed to China in trade statistics. The same problem appears to apply to SA exports of gold that it sources and refines from other countries.

The trade deficit is also an outcome of macroeconomic forces, in particular excess expenditure relative to income. In the US a key contributor to the $1.2-trillion goods trade deficit is the $1.8-trillion government deficit. This means trade deficits, and in particular bilateral deficits, are a misguided target for Trump's tariff policies.

International services, which the US dominates, are also left out of the tariff calculation. For example, SA imported $3.5bn in US services in 2023 but exported only $2.2bn, meaning the true trade balance is far more favourable to the US than Trump's math suggests.

> **" There is a disconnect between the reciprocal tariffs and real import tariffs. "**

Even Trump's method of calculating the tariffs is riddled with errors. He simply divides the US bilateral trade deficit with a country by the total US imports from that country — then halves it to appear "generous". There is a disconnect between the reciprocal tariffs and real import tariffs. For example, SA imposes a simple average tariff of 8.3% on US good imports, whereas the US imposes a lower average tariff of 2.5%. Reciprocal tariffs based on real tariff rates applied to goods traded should be 5.8%, not 30%.

The reciprocal tariff calculation ignores fluctuations over time and omits excluded products. If 2019 were used instead of 2024, SA's reciprocal tariff would fall from 30% to 16%. When exempted goods such as gold and platinum, as well as the section 232 tariffs on vehicles, steel and aluminium, are excluded from the deficit, the reciprocal tariff should drop to 5%. If services are also then included, the US runs a surplus with SA and the reciprocal tariff should fall to zero.

Should the US tariffs on SA goods eventually kick in, the fallout for SA will be significant. The US is SA's second-largest export market, receiving about 8% of its exports in 2024 — mostly precious metals, vehicles and steel. While some key commodities would be exempt, others such as citrus and machinery would not. The import weighted average tariff on US imports from SA will jump from 0.3% to 18.3% after accounting for the reciprocal tariffs, exemptions and the additional 25% tariffs already imposed by Trump on vehicles, steel and aluminium.

These changes disproportionately hurt manufacturing exports, which, because of the exemptions, are more exposed to tariff increases than commodities. Ironically, this will push SA further into commodity dependence, undermining efforts to build a diverse industrial base.

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Smaller neighbours will be hit even harder. Lesotho, whose exports of clothing and diamonds are not exempt from reciprocal tariffs, faces an increase in its average tariff of 50%. Botswana will see increases of 37%.

Beyond direct impacts, SA faces serious indirect risks. US buyers may pivot to suppliers in countries with lower tariffs. In citrus, for example, Chile, Peru and Argentina, which face a lower 10% reciprocal tariff, may gain market share at SA's expense.

A wider trade war could trigger a global recession, dampening demand for exports across the board. And, as other exporters are shut out of the US, they may redirect their goods to third markets, including to SA — adding competitive pressure to local producers and SA exporters.

So what can SA do? The immediate aim must be to negotiate some sort of deal with the US. The Office of the US Trade Representative has already identified key concerns around sanitary and phytosanitary barriers on food products, government procurement and barriers to services and investment. These concerns can form the basis of initial engagements. Longer-term strategies are also required.

Resilience must be the priority. The country's manufacturing exports never fully recovered from the 2008/09 financial crisis. Electricity blackouts, failing infrastructure and expensive logistics continue to hamper exporters. Unless these cross-cutting issues are addressed, SA's export competitiveness will remain under threat.

Beyond Africa

SA must also diversify its trade strategy. The African Continental Free Trade Area (AfCFTA) is a major opportunity, but progress has been slowed by disputes over rules of origin in key sectors such as vehicles and textiles. SA could lead by relaxing restrictive rules and championing trade facilitation measures that reduce costs for businesses across the continent.

It is time to look beyond Africa. SA should consider applying to join major trade blocs such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership or the Regional Comprehensive Economic Partnership. Reviving stalled trade talks with India could also open new avenues for growth.

Services trade is another opportunity. SA has not concluded a single services trade agreement, even though it has strong potential in sectors such as finance, telecommunications and professional services. It should prioritise services negotiations within AfCFTA and with long-standing free trade agreement partners such as the EU and UK.

SA also needs to rethink its stance on plurilateral discussions (such as those on e-commerce) at the World Trade Organisation (WTO). The collapse of the appellate body and the threat posed by US tariffs to the WTO are real, but scope may still remain for advances to improving trade and investment through plurilateral discussions that are not dependent on the US.

Trump's tariffs signal a world in which protectionism is on the rise. For SA, the lesson is clear: build resilience at home and broaden alliances abroad.

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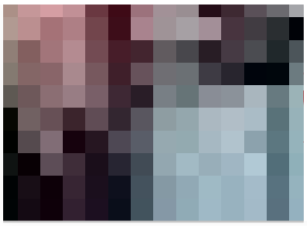

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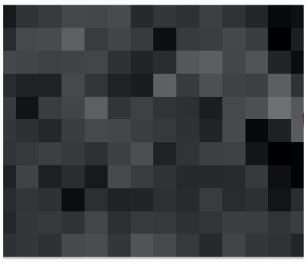

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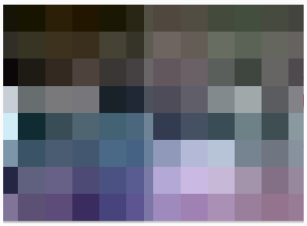

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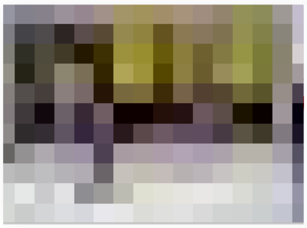

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