REPUBLIC OF SOUTH AFRICA

The South Africa - UK International Economic Partnership (IEP)

POLICY BRIEF
THE CONSEQUENCES OF UNITED STATES TARIFF INCREASES FOR SOUTH AFRICAN EXPORTS

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DESCRIPTION OF THE SOUTH AFRICA – UK INTERNATIONAL PARTNERSHIP (IEP) PROJECT

The International Economic Partnership (IEP) is a programme which works through the global economic governance system to strengthen the influence of coalitions between South Africa, the UK and other low or middle-income countries, to bring about better pro-poor, inclusive policymaking, and a stronger economic recovery from COVID-19.

Specifically, the programme aims to forge new ways of collaboration between the UK and South African governments by supporting South Africa's G20 presidency in 2025, unlocking structural barriers to growth and promoting economic policy coordination.

The IEP is implemented by DNA Economics, Economic Research Southern Africa (ERSA) and the Overseas Development Institute (ODI) and runs until 2027. This policy brief has been delivered as part of this partnership.

The Consequences of US Tariff Increases for SA Exports

1 Introduction

The imposition of widespread import tariffs by the United States (US) under President Donald Trump in 2025 has disrupted international trade patterns and poses serious risks to South Africa's (SA's) exports. These tariffs build on policies from President Trump's first term that targeted steel and aluminium products under Section 232.[1] These Section 232 tariffs have since been raised to 50% and expanded to also cover additional derivative products. Automobiles and parts (25% tariff), as well as copper products (50% tariff) have also been targeted this year.

Earlier this year (2nd April), President Trump also invoked the International Emergency Economic Power Act (IEEPA) to impose a 10% reciprocal tariff on imports from most countries, with country-specific (30% for SA) reciprocal tariffs to kick in from the 1st of August, unless an alternative agreement is negotiated. Some countries, including United Kingdom (UK), European Union (EU), Japan, Indonesia, Philippines and Vietnam have made progress in negotiating trade deals that reduce reciprocal tariff rates, and in the case of Japan, EU and UK, lower tariffs (10% to 15%) on vehicles. Although, these don't directly impact SA, they have an indirect effect by reducing the competitive advantage of SA exporters in the US market.

The tariff measures pose serious risks to South African exports, undermining the competitiveness of key sectors and eroding the benefits of preferential access under the African Growth and Opportunity Act (AGOA).[2] This brief quantifies the likely impact on South African exports, and recommends coordinated policy responses to the various tariff increases in 2025.

2 SA-US trade

The US is a major trading partner for SA, accounting for 8.5% of SA's reported non-gold merchandise exports in 2024.[3] The US is also a major source of goods imports for SA, ranking amongst the top 4 origins, depending on year. SA's non-gold exports to the US are concentrated in a few sectors (vehicles, precious stones and metals), which makes it susceptible to sector-specific tariff shocks. SA is also a major exporter of critical minerals to the US, with exports of zirconium, platinum group metals (PGMs), manganese and titanium accounting for between 12% to 42% of US imports of these products from the world. Overall, US imports from SA reflect the sourcing of key production inputs that complement US industrialisation.

1 Section 232 tariffs are designed to protect national security by limiting imports of certain goods that are deemed to threaten the country's ability to maintain essential capabilities.

2 AGOA provides sub-saharan African (SSA) countries preferential access (0%) to the US market for over 5000 products..

3 There are large discrepancies in SA and US reported bilateral trade values. While the US reports a trade deficit of $8.9 billion with SA, the South African Revenue Services (SARS) reported data suggests the deficit is only $1.8 billion. The discrepancy is largely due to the inclusion of gold trade in the US data, and, to a lesser extent, higher values of PGMs and vehicle imports. The US reported imports appear to include processed metals and diamonds, which raises reported imported values from SA.

Contrary to goods trade with SA, the US runs significant surpluses in services trade with SA. In addition, US investors in SA benefit from large income transfers that equalled $2.7 billion in 2024. The inclusion of services and income transfers has substantive implications for the derivation of the reciprocal tariff. The reciprocal tariff of 30% calculated by the US government falls to 22% and 18% with the inclusion of services and income transfers, respectively.

SA is one of the main beneficiaries of preferential access into the US under AGOA. US imports from SA under AGOA reached $3.8 billion in 2024, which is equivalent to a third of US non-gold imports from SA. However, the benefits of AGOA are highly concentrated, with passenger vehicles (1500-3000cc) accounting for a 61% share, followed by ferrochrome, jewellery (mainly gold necklaces), citrus and yachts and recreational vessels.

The utilisation rate of AGOA is also low, with fewer than half of all eligible products imported from SA entering the US duty-free under the AGOA programme. The low utilisation may reflect an inability of domestic firms to satisfy the rules of origin (RoO) requirements for products to enter into the US under AGOA preferences.[4] In value terms, however, products entering under AGOA account for 94% of the total value of US imports of AGOA eligible products from SA.

3 The increase in tariffs on US imports from SA

Not all products are affected by the tariff increases. PGMs, ferrochromium, ash and residuals, and titanium ore, amongst other products (incl. gold), are exempt from the Section 232 and reciprocal tariffs. These products make up 43% of the value of US reported non-gold imports from SA. The Section 232 tariffs on automobiles & parts and steel and aluminium affect roughly a quarter ($2.2 billion) of US non-gold imports from SA, while the remaining share (>30%) is subject to the reciprocal tariffs.[5] However, in terms of product coverage, the scope of the tariff increases is severe, with 80% of all products affected. The affected products are mostly manufactured goods, which may reinforce the commodity-dependency of the South African export bundle.

The cumulative effect of President Trump's tariff proclamations is a sharp increase in average tariffs on US imports from SA. The universal reciprocal tariffs (10%), together with the inclusion of Section 232 tariffs on aluminium, steel, copper and vehicles raises the import weighted average tariff on US imports from SA from 0.4% to 10.6% (Figure 1). This rises further to 16.9% if reciprocal tariffs are increased to 30% on the 1st of August. This weighted average is driven downwards by the tariff exemptions granted to large imported items. Most products will face the full 30% tariff increase. These new tariffs essentially nullify the preference margins provided under AGOA.

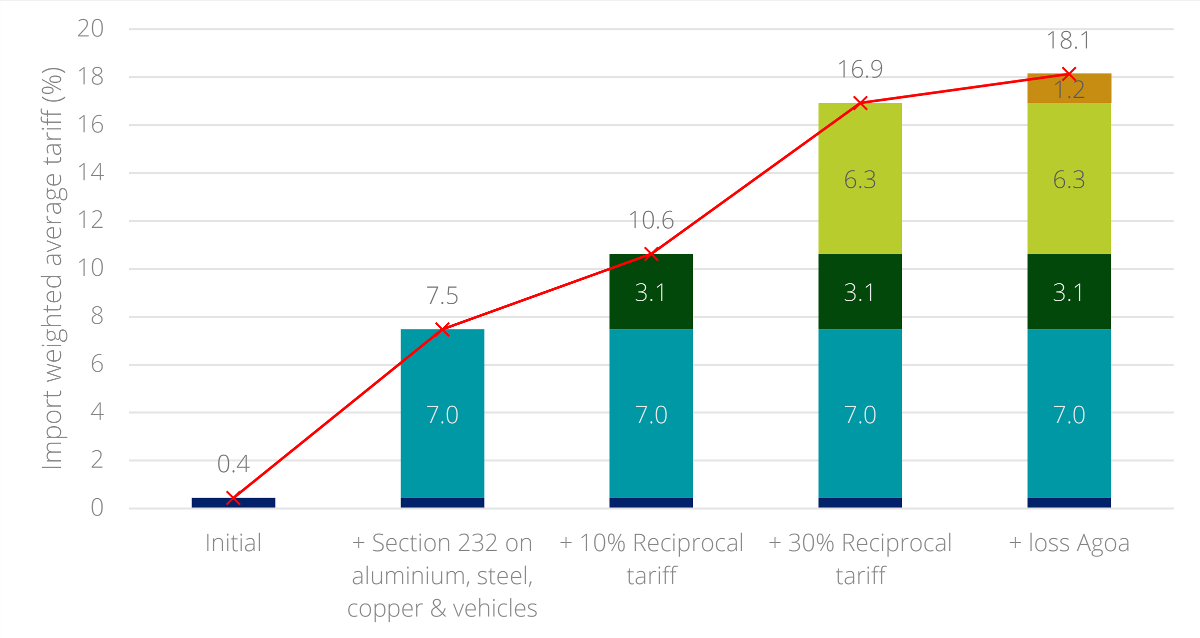
SA is disproportionately negatively affected by the reciprocal tariffs as the majority of countries only face a 10% tariff. For example, SA ranks 22nd out of 221 countries in terms of tariff increases when the country-specific reciprocal tariffs are imposed in full. This places SA exporters at a disadvantage compared to its competitors in the US market. Citrus exporters in Peru and Chile, for example, will

4 Rules of origin are the criteria used to establish the country of origin for goods in international trade. This is important in determining the applicable import duty. RoO are important in trade agreements as they determine the conditions under which goods qualify for the preferential rates.

5 The reciprocal tariffs do not 'stack' on the Section 232 tariffs, i.e. vehicles only face a 25% additional tariff, and are exempt from the reciprocal tariffs.

only face a 10% tariff in the US market compared to the 30% potentially faced by SA exporters. Amongst Southern African Customs Union (SACU) members, Lesotho and Botswana are the most affected (37% to 50% increase), while Eswatini is the least affected (10% increase).

Figure 1: Impact of tariff proclamations on import weighted average applied tariff imposed by US on non-gold imports from South Africa, 2024



Notes: The 10% and 30% reciprocal tariff scenarios include the 50% Section 232 tariff increases on steel and the 25% tariff increases on aluminium and vehicles. All exemptions from reciprocal tariffs are accounted for. Based on US reported imports, excluding gold, from SA in 2024. South African Revenue Services (SARS) reported export data are used for PGMs, passenger vehicles and non-industrial diamonds. Product level (HTS 10-digit) tariff rates are aggregated using 2024 US imports from SA as weights.

4 Simulated impact of US tariffs on US imports from SA

A partial equilibrium model based on US reported import data for 230 countries and nearly 5,500 products in 2024 is used to stimulate the impact of the US tariff increases on US imports from SA. The model accounts for the direct effect of tariff increases on US demand for aggregate imports, as well as the diversion effects as US consumers shift imports towards countries facing lower reciprocal tariffs.[6]

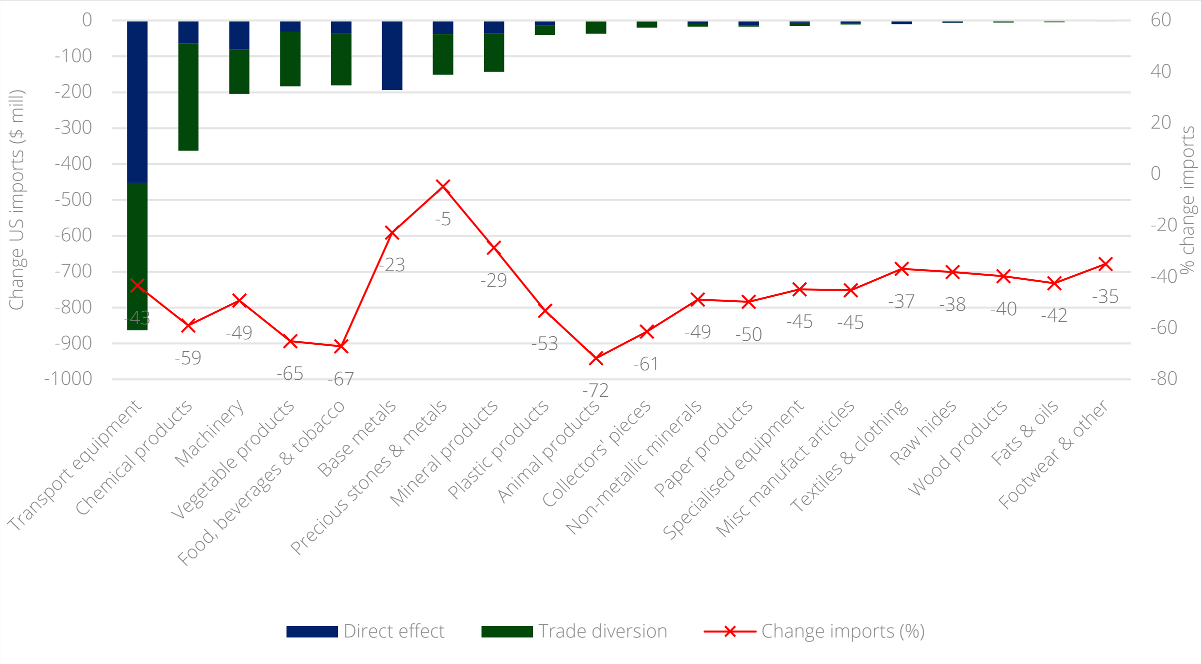
Depending on the assumptions, SA stands to lose up to $2.4 billion (30% decline) in non-gold imports by the US following implementation of the country-specific reciprocal tariffs on 1 August 2025. This loss is equivalent to a 2.4% decline in total non-gold exports declared by SA. In terms of value, passenger vehicles and other transport equipment experience the largest decline ($863 million, or 43% decline) (Figure 2). Other large decreases in imports are experienced in products such as

6 Drawing on empirical literature, the model assumes an aggregate import demand elasticity of 1.19, and trade diversion elasticities of substitution ranging from 2.7 to 11.5.

chemicals ($363 million, 59%), machinery ($205 million, 49%), vegetable products (including citrus) ($184 million, 65%) and food, beverages & tobacco ($181 million, 67%). The adverse effects are widespread, with the median product experiencing a 452% reduction in US imports.

More than half of the losses can be attributed to the diversion of US imports towards countries with lower reciprocal tariffs. Chemicals and food (food, beverages, tobacco and vegetables) and animal products suffer diversion losses greater than the average, with diversion effects accounting for over 80% of the total decline in US imports from SA. Exports of vehicles to the US lose out from diversion of US imports towards Japan, EU and UK where tariff increases are lower. However, SA benefits from a small positive diversion of US imports from China to SA ($55 million to $117 million) in the face of the 20% fentanyl tariffs and the 34% reciprocal tariff specified for China.

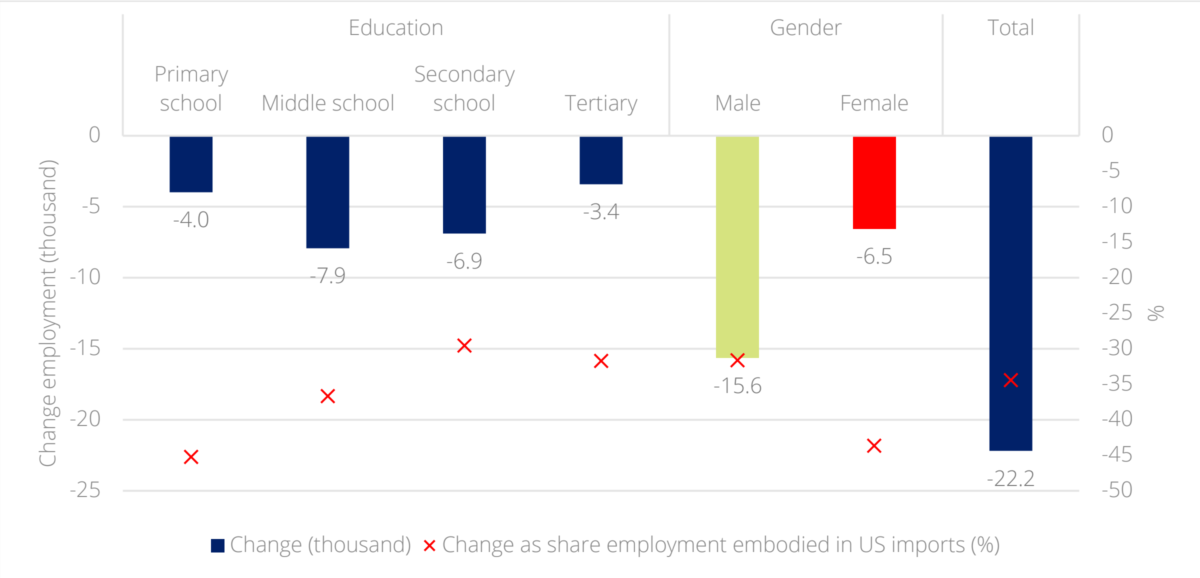
Figure 2: Contribution of direct and diversion effects to the change in US imports from SA by industry under scenario 1 (ordered by largest effect on US import values)



Notes: Simulation based on implementation of the country-specific reciprocal tariffs outlined in President Trump's Executive Order 14257 or subsequently updated; the Section 232 tariffs on steel, aluminium, copper and vehicles; tariff changes under the US trade deals with UK, EU, Japan, Philippines, Indonesia and Vietnam; an import demand elasticity of 1.19; and HS Section level elasticities of substitution constructed using HS6-digit average point elasticities from Fontagné et al. (2022). Data excludes US imports of gold and of HS 2-digit chapters 98 and 99. Given recording discrepancies, SARS reported export data are used for platinum group metals, passenger vehicles and non-industrial diamonds.

US imports from SA support approximately 64,500 direct jobs, but up to 22,000, or 34%, of these jobs are directly threatened by the tariff increases (Figure 3). If lower production spills over to other sectors in the form of reduced demand for intermediate inputs, then the job losses will be substantially higher. Male workers account for close to 15,000 (70%) of the direct job losses, but in percentage terms, female workers are the most affected with 44% (compared to 32% for men) of initial jobs sustained by US imports from SA directly threatened. This bias against female workers arises largely from the exemption from reciprocal tariffs of the male-employment-intensive precious metals sector that accounts for a high share of US imports from SA. Looking at job losses by education, workers with primary schooling (4,000, or 45% initial employment) and middle school education (7,900, or 37% initial employment) experience the largest declines in employment. The skill and gender bias of job losses may exacerbate SA's high levels of income inequality.

Figure 3: Direct impact on employment in SA under scenario 1



Notes: Based on the simulation in Figure 2. Employment losses are calculated using employment to output ratios for 61 industries obtained from the 2019 Social Accounting Matrix (SAM) database produced by van Seventer and Davies (2023). The declines in US imports from SA are mapped to the 61 industries using a concordance between the HS and the Standard Industry Classification used to categorise industries in the SAM. Indirect effects through demand changes upstream of the industry are not accounted for.

A key concern is that Chinese exporters to the US will respond to increased US tariffs by deflecting their US-destined exports to third country markets, as occurred during the 2018 China-US trade war. This is potentially concerning for SA manufacturing firms that compete against Chinese imports in the domestic market, as well as SA exporters that compete with Chinese firms in major export markets, such as Sub-Saharan Africa (SSA).

A constant market share (CMS) analysis reveals that the loss in SA exports from deflection of China's exports to SSA are likely to be low. Despite rising exports from China to Africa in early 2025, the overlap between South African and Chinese exports in SSA markets is limited. SA's export structure is relatively distinct from China's, and preferential trade access under regional agreements like the Southern African Development Community (SADC) Free Trade Area (FTA) helps buffer potential crowding-out effects. Estimated losses from Chinese trade deflection into African markets are calculated to be only $136 million, which is less than 1% of SA's regional exports.

5 Policy recommendations

The US tariff hikes present a clear and present danger to South African export performance and employment. A coordinated, multi-pronged policy response is essential to buffer the short-term shocks and lay the groundwork for a more resilient and diversified export base. This brief presents several areas of focus for trade-related policy interventions, separated into short, medium and longer term timeframes.

5.1 Short term

In the short term, the focus for policy action should be on engagement, diplomacy, signalling willingness to deal with barriers to US trade, and quick wins. Recommendations include:

- *Continue and broaden the pro-active engagement by the SA administration with US trade authorities and other key stakeholders* to reduce the implementation of the 30% reciprocal tariff. Although a comprehensive signed agreement will take time to flesh out, initial engagements signal of good faith and willingness to come to the negotiating table.
- *Engage with the 600-plus US companies in SA*. Engagement with these firms to understand their businesses, and how their activities in SA benefit the US, may provide an opportunity to leverage support within the US for a beneficial trade and investment deal.
- *Unilaterally resolve specific constraints to US trade and investment* with SA identified in the National Trade Estimate Report and feedback from the US Trade Representative (USTR) on SA's revised trade and investment proposal. Quick-win actions include replacing the specific anti-dumping duty on poultry with an ad valorem rate; pro-actively improving market access into the SA market by resolving overtly stringent non-tariff, Technical and Sanitary and Phytosanitary (SPS) barriers (e.g. speed up and simplify approval of imports of poultry from Avian Influenza-free areas; fast-track discussions on blueberry access); limiting use of excessive import permit requirements; resolving certification and restrictive domestic lab testing requirements; and setting up US-SA engagement with the Department of Agriculture (DoA) to deal with the SPS barriers under their control.
- *Provide targeted support to vulnerable export firms and workers that stand to lose market access due to tariff increases*. This support could, for example, include targeted financial relief, trade adjustment assistance, export marketing assistance, and trade finance in the short term until longer-term solutions for the firm are found.

5.2 Medium term

Medium-term goals should deal with the institutional frameworks and agreements governing bilateral trade and investment with SA. Recommendations include:

- *Ensure the renewal of AGOA beyond 2025.* The loss of AGOA access will reduce preferential access into the US market for SA firms, and will be seen as a powerful signal of a decline in SA-US trade and investment relations. Negotiations on the extension of AGOA will require a co-ordinated and collective response by African countries, possibly co-ordinated through the African Continental Free Trade Area (AfCFTA) secretariat. SA will also require its own bilateral engagements, given specific concerns and calls by some Republican congressmen for President Trump to revoke SA access.

- *Revitalise, renew and extend the SACU–US Trade, Investment, and Development Cooperative Agreement (TIDCA) and the SA-US Trade and Investment Agreement (TIFA)*. These provide a forum for public and private sector dialogue on trade and investment facilitation, resolution of non-tariff barriers to trade, and promotion of commerce and development.
- *Re-open previously abandoned discussions on establishing a Free Trade Area (FTA) with the US*. The TIFA and TIDCA agreements are non-binding. The SA administration should, therefore, use these forums to negotiate a path to deeper rules-based integration, that could include a comprehensive free trade agreement with the US covering goods, services and digital trade.

5.3 Longer term

Longer-term goals revolve around export diversification, domestic reforms, and improving domestic trade competitiveness. Recommendations include:

- *Diversify export destinations beyond the US*. The volatile and unpredictable nature of the US administration's recent trade policy has highlighted the importance of diversifying SA's export basket. Improved access into Africa through the African Continental Free Trade Area (AfCFTA) has stalled on account of the failure to conclude an agreement on the rules of origin requirements. SA can play a more pro-active role in driving the conclusion of these negotiations, that may include offering less stringent rules-of-origin requirements to improve access for other African exporters into the SA market. Importantly, the implementation of the annexes to the agreement covering trade facilitation, customs cooperation, and non-tariff barriers should be pursued with impetus, as these play an outsized role in driving the gains from the AfCFTA (World Bank, 2020) and pose a greater impediment to the participation in exporting by women (World Bank, 2022).
  Additional avenues for diversification include expanding into the fast-growing Southeast Asian markets, where tariff barriers remain relatively high (Edwards et al., 2024). The Department of trade, industry and competition (dtic) should evaluate the opportunities to negotiate additional deep and comprehensive trade agreements with new emerging economy partners outside of Africa.
- *Increase emphasis on services trade and services trade agreements*. SA has not yet concluded any services trade agreements, despite the dominance of the services sector in the economy, while digital trade in SA is inhibited by relatively restrictive regulations and infrastructure (Edwards, 2024).[7] SA is also not participating in the plurilateral discussions under the WTO on e-commerce rules through the Joint Statement Initiative (JSI). The dtic should reconsider its position in this regard, as by not participating, SA is losing an opportunity to influence the direction and content of these negotiations. Engagements with business and services' line departments in government around the desirability and potential implications of bilateral

7 For example, in 2023, South Africa was ranked the 15th (out of 90 countries) most restrictive economy in terms of digital trade.

trade in services agreements between SA and priority trading partners outside of Africa are also warranted.

- *Raise awareness on export opportunities and engage in government-to-government negotiation to address harmful barriers*. SA firms do not fully utilise the available market access opportunities available through AGOA or the preferential trade agreements with the EU and UK. Exporters also face rising numbers of harmful import-related interventions in destination markets (Edwards et al., 2024). The dtic can raise awareness on export opportunities and strengthen institutional capacity to engage in government-to-government negotiations to address harmful trade barriers.
- *Enhance domestic trade competitiveness.* In contrast with other upper-middle income countries, SA's export volumes as share Gross Domestic Product ratio have fallen over the past decade (Edwards, 2024), pointing to deep supply constraints affecting the competitiveness of SA exporters. The very poor quality and administration of SA rail, port and electricity infrastructure impose unnecessarily high trade costs on exporters, preventing growth and entry of firms into export markets. They also make SA exports particularly vulnerable to external shocks. The US tariff increases accentuate the importance of accelerating and expanding existing reforms of the state institutions managing critical trade infrastructure. Further, the crisis presents an opportunity to re-evaluate whether SA trade and industrial policies are consistent with driving growth and SA's integration in the global market.

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