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# No need to panic about new trade era – just align policy more carefully

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President Trump's 30% tariff hike has sparked doomsday headlines in South Africa about the devastating effect this will likely have on the economy. But two recent studies have found that 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.

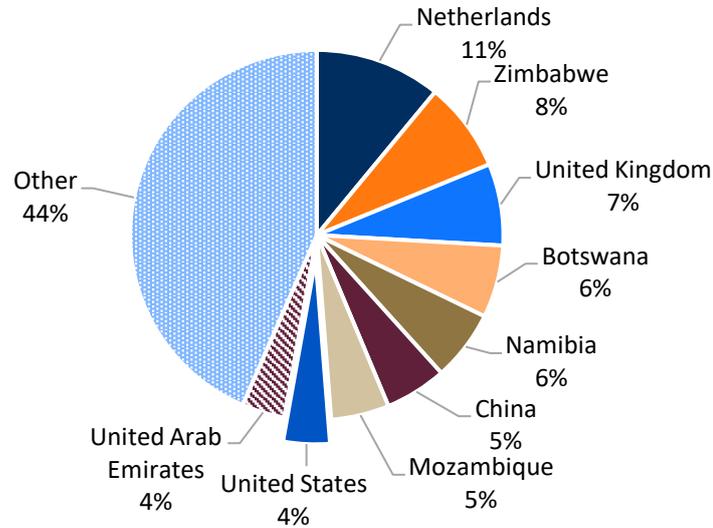
Most South African exports to the US fall within the mining, manufacturing and agricultural sectors but with mining products exempt, the survey found that the manufacturing sector is the most heavily impacted.

About half of the manufacturing firms affected reported that the tariffs were not having any impact on their sales as of 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 and Agricultural Policy (BFAP) has found that the aggregate impact of the 30% tariff hike on South Africa's agricultural economy will be "marginal". It will certainly be far less onerous than the impact of the frequent outbreaks of animal disease due to poor biosecurity or the under-performance of our major ports.

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

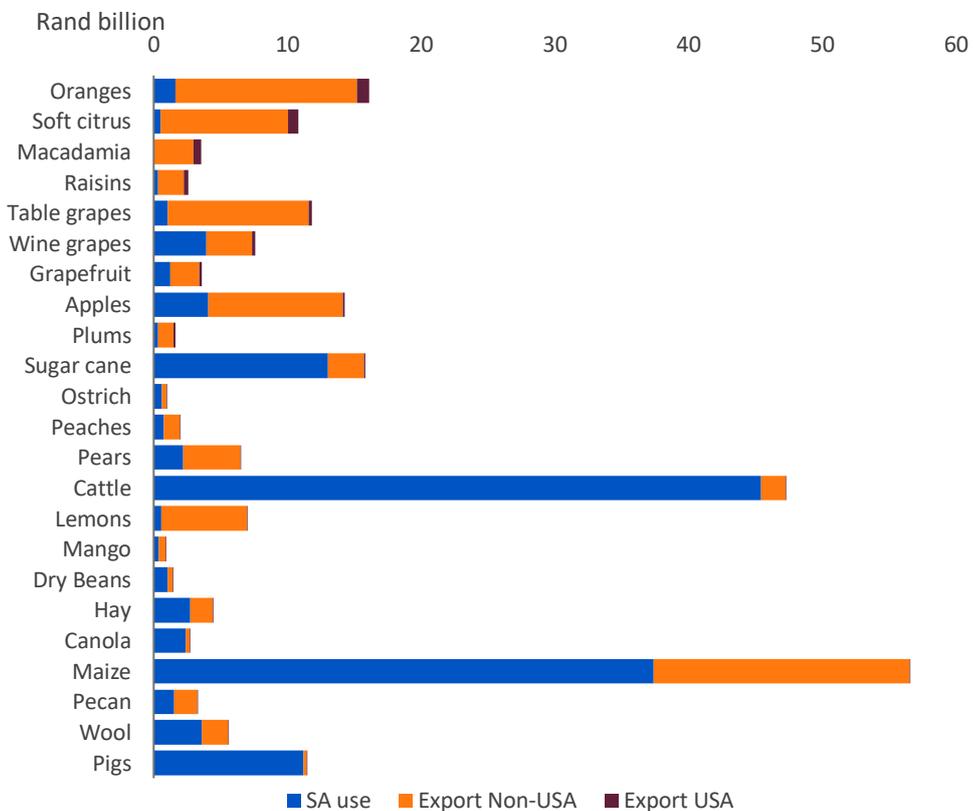
**Figure 1: SA agricultural export basket 2024**



Source: ITC, SARS, DOA, BFAP

As such, SA's farm exports to the US account for only 1%-2% of the country's gross farm income (see graph). However, SA exports to the US 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.

**Figure 2: SA farm income 2024**



Source: ITC, SARS, DOA, BFAP

For the Western Cape, the share of agricultural exports that went to the US last year – at 7% - was almost double the national average. Moreover, the US market has grown strongly over the last 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 impact 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 (2025-2034) compared to the baseline with no tariffs – 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 impacted 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 will likely respond. What we do know for sure is that the impact on SA will be significantly less severe than it could have been thanks to swift adjustments within the different supply chains and significant investments in market access by the industry. However, a lot more needs to be done, and (worryingly) much will depend on 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 key markets. But this will require SA to reconsider the misalignment between its trade policy and its broader industrial policy goals.

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 much 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 impact while industries explore market diversification.

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