

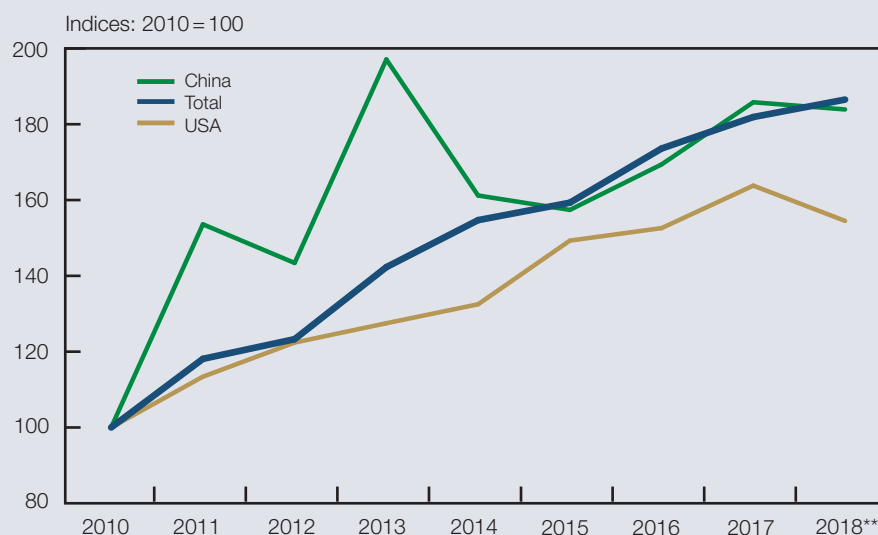
Box 3 South Africa's exposure to global trade disruptions

The global trade order evolved from the General Agreement on Tariffs and Trade (GATT) between 1948 and 1994, and was replaced by the World Trade Organisation (WTO), established in 1995. The African Growth and Opportunity Act¹ (AGOA) of 2000, as renewed to 2025, affords a wide range of South African products duty free access to the United States (US). In March 2018, however, the US signalled the introduction of tariffs and in June, imposed ad valorem tariffs of 10% on aluminium and 25% on steel from South Africa, the European Union, Canada and Mexico. In October, the US granted South Africa exemption from the imposed tariffs on selected steel and aluminium products.

As a small open economy, this highlights South Africa's exposure to global developments, in particular the effect of trade protectionism on merchandise exports.² In an open economy, exports increase when a decrease in its real exchange rate boosts international competitiveness and when foreign income increases, while tariffs lower exports as it raises the price of the counterpart's imports. The US tariffs directly affect their imports of the effected South African products and indirectly impact South Africa's merchandise trade through the introduction of tariffs on South Africa's other trading partners.

The analysis shows that the geographical diversification of South Africa's exports may mitigate the negative effect of global trade disruptions from tariffs, but that the country is exposed at a product level to counterparties imposing tariffs.

The value of South Africa's merchandise exports* by destination



* Excluding net gold exports

** Data for first three quarters of the year, annualised

Sources: SARS, Stats SA and SARB

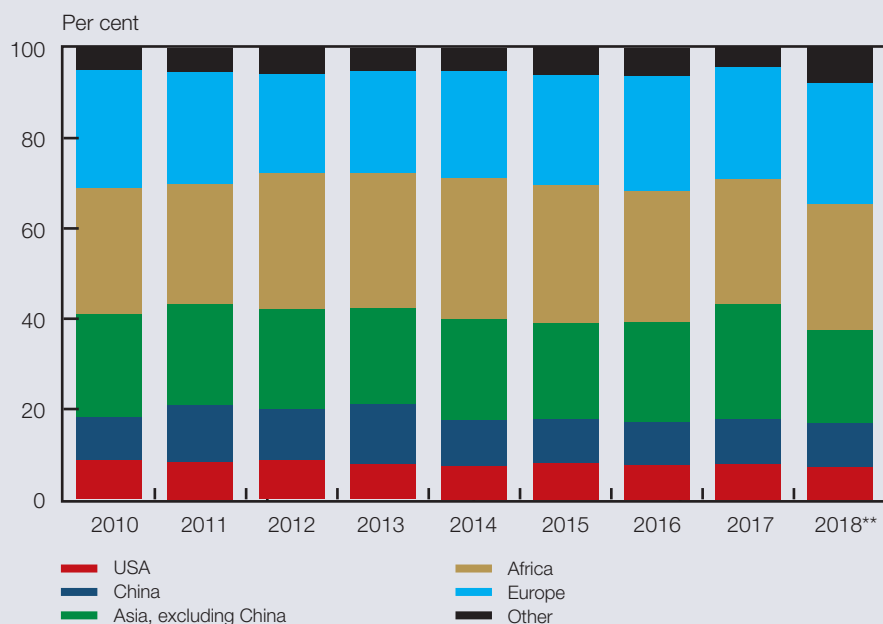
South Africa's merchandise exports increased by 81.9% from R609 billion in 2010 to R1 108 billion in 2017. On average, mining and manufacturing products contributed 49.9% and 41.3% respectively to total merchandise exports from 2010 to the third quarter of 2018. Exports to both the US and China increased over the period, with volatility in the case of China reflecting uneven demand for commodities, as mining products dominated at 88.6%, on average, of total exports to China.

The geographical distribution of South Africa's exports shows some risk mitigation from diversification. At a country level, China imported 10.6% of South Africa's exports on average from 2010 to the third quarter of 2018, followed by the US at 7.9%, while South Africa's combined exposure to the US and China also declined from a high of 21.2% in 2013 to 16.7% during the first three quarters of 2018. At a regional level, 28.9% of South Africa's exports were destined for Africa, 24.6% for Europe and 22.3% for Asia, excluding China, with these shares remaining fairly stable over the same period.

1 AGOA opens US markets to qualifying exports from African countries, but as part of the US's national legislation, it is unilateral and non-reciprocal.

2 The merchandise export statistics exclude net gold and are derived from trade in goods data sourced from the South African Revenue Service (SARS), as adjusted by the South African Reserve Bank (SARB) for balance of payments purposes. This analysis is based on granular statistics underlying the merchandise export free on board statistics in the current account of the balance of payments, on pages S-82, S-83 and S-84 of this *Quarterly Bulletin*.

Geographical distribution of the value of South Africa's merchandise exports*



* Excluding net gold exports

** Data for first three quarters of the year, annualised

Sources: SARS, Stats SA and SARB

South Africa's exports of mining products were mainly destined for Asian countries, followed by Europe and Africa. On average, 18.5% of total mining exports were destined for China from 2010 to the third quarter of 2018, with the allocation initially growing from 16.5% in 2010 to a high of 22.8% in 2013, before decreasing to 16.1% in the first nine months of 2018. Over the same period, mining exports to the US remained at around 8%. In 2017, base metals and articles of base metals accounted for 12.7% of total exports and 25.9% of mining exports, of which 41.4% were destined for Asia, including China, and 12.8% for the US. Within base metals and articles of base metals, steel and aluminium exports contributed 18.1% and 14.8% respectively in 2017, of which 10.8% of steel and 23.9% of aluminium were destined for the US.

South Africa's merchandise exports in 2017

	R millions	Percentage of total					
		Total	USA	China	Asia*	Africa	Europe
Manufacturing	455 196	7.7	2.6	12.4	42.9	29.7	4.6
Vehicles and transport equipment	141 181	11.7	0.1	10.9	19.8	51.1	6.3
Vehicles.....	75 145	19.4	0.0	16.5	6.8	49.8	7.5
Mining	542 149	9.0	17.6	37.0	15.2	20.3	1.0
Base metals and articles of base metals.....	140 687	12.8	11.7	29.7	22.0	19.5	4.3
Iron and steel	80 412	12.7	14.5	31.4	17.2	20.7	3.5
Steel	25 421	10.8	1.0	23.8	42.5	17.2	4.7
Aluminium.....	20 828	23.9	0.9	38.6	5.4	26.0	5.1
Agriculture	86 765	3.0	2.9	25.2	30.5	35.5	2.9

* Excluding China

Sources: SARS, Stats SA and SARB

By contrast, the largest share of South Africa's manufactured exports was destined to countries on the African continent and, to a lesser extent, Europe. The share of manufactured goods exported to the US declined from 10.6% in 2010 to 7.7% in 2017, and further to 5.9% in the first nine months of 2018. South African produced vehicles and transport equipment exported to the US as a percentage of South Africa's total vehicles and transport equipment exports declined notably from 24.2% in 2010 to 11.7% in 2017, and further to 5.4% in the first nine months of 2018. In 2017, vehicles accounted for 6.8% of total exports and 16.5% of manufactured exports, of which almost half was destined for Europe and 19.4% for the US.