Briefing note: Scenarios for US protectionism

The election of the first explicitly protectionist American president in decades has injected a deep sense of uncertainty into a global trading system already mired by paralysis in the World Trade Organization (WTO) and fractures in the EU.

This has the potential to affect South Africa directly. The US is South Africa's second largest export market, accounting for around 7% of total foreign sales worth US$5 billion. Around a fifth of the total is platinum, and another fifth is autos. A further 10% is steel.

The Trump administration moved quickly to make clear that its anti-trade stance is not mere rhetoric. In its first days in office, it withdrew from the Trans-Pacific Partnership, a mega-regional trading bloc in Asia-Pacific that had been largely driven by the US. It has questioned whether the US should remain in the WTO, consistently threatened Mexico with border taxes of some kind, and explicitly targeted US companies that considered moving production overseas.

Most concerning is that this programme of protectionism does not seem to follow any sustainable, developmental plan or logic. The threat against Mexico, for example, apparently arose out of a dispute between President Donald Trump and the Mexican leadership. Engagements with major companies depend on Trump's personal pressure rather than any systematic policy guidelines.

Trade policy that is driven by hurt feelings and unclear impulses can be extremely dangerous for maintaining any sort of stability in the global trading system.

Three possible scenarios appear possible for South Africa and the broader African region.

First would be the cancellation of the African Growth and Opportunity Act (AGOA). AGOA is a unilateral US concession that gives imports from African countries preferential access to its market. The new administration has already expressed deep scepticism of the policy, asking the State department: "Most of AGOA imports are petroleum products, with the benefits going to national oil companies, why do we support that massive benefit to corrupt regimes?"

Historically, AGOA enjoyed widespread Congressional support, having passed the Senate 91-1 and the House 397-32 (with four abstentions). Revoking it would require an act of Congress, which might complicate efforts to roll it back. That said, the Republican-controlled Congress has shown very little appetite for standing up to Trump.

As of now, there is little evidence to suggest the deal is high on the new administration's agenda. But with South Africa's inclusion in AGOA only barely secured through last-minute negotiations, and with a regime that might be looking for an easy win in closing US borders, AGOA could once again be under threat.

Second would be a broad but unpredictable bout of overall protectionism. This could involve the US raising tariffs on an ad hoc basis, with the administration's self-declared nemeses – China and Mexico – perhaps bearing the brunt of the damage.

This kind of programme would be much more difficult to implement than the administration suggests. For one thing, it flies in the face of Republican orthodoxy, and Congress might balk.

If tariffs were to make their way past Congress, they would do serious damage to US consumers, since the US economy relies on Mexico and China for almost 35% of its imports. Strategic targeting of certain imports is possible, but the most likely targets — notably steel and rubber – were already protected under the Obama administration.

Also, if the US were to unilaterally impose tariffs, WTO rules would allow partner countries to block US exports.

On balance, the new administration leading an assault on global trade seems unlikely, but with such a radically unpredictable governing style anything is possible. And moves in that direction, even if incomplete, could still result in the world's erstwhile driver of global economic growth being cut off from the global trading system.

Third, the uncertainties around overt trade measures mean that the largest impact on trade could come from another area: taxes. In particular, the Republicans' proposed Destination-Based Cash-Flow (DBCF) tax could have serious trade implications.

The DBCF would effectively replace taxes on corporate profits with a form of Value Added Tax.

The impact on trade from the proposed tax occurs because US firms would pay the tax when they sell their goods in the US, but not when they export. Moreover, importers would have to add the tax to the sales price of foreign goods. Because of a system of deductions tied to the tax, exporters would in effect receive tax credits for exporting.

The net result of the tax, then, would be to effectively subsidise exports by US firms; to slash the effective tax rate for virtually all US companies; and to increase the tax on imports without actually imposing a tariff.

The tax changes are, by most accounts, illegal under WTO rules, but are a cornerstone reform advanced by the Republicans in Congress, since they need to boost revenues in order to pay for their proposed sharp cuts in company income tax. By extension, it is this domestic tax proposal that is most likely to pass in the relatively near future.

Whatever the specific outcome, the protectionist and unilateral approach apparently preferred by the Trump Administration poses a threat to global trade and in that context to South African and African interests. This situation makes efforts to diversify trading partners in the region and across the global South even more important.