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Re-defining the South Africa-USA trade and investment relationship

- We are a few weeks into the second Trump Administration, and there have already been major foreign policy decisions that are not only re-defining the US's view of the world but fundamentally changing the course of its partners. South Africa and the rest of the world are experiencing seismic shifts in American foreign policy in what could be a new era in global and international relations. These changes call for a sober reflection on the implications of America's foreign policy on bilateral commercial relations.

- Generally, US-South Africa bilateral relations have been somewhat frosty, mainly due to differences in both domestic and foreign policy over the years – from the infamous AGOA out-of-cycle review of 2015, the Protection of Property Rights Act of 2020, military drills with China and Russia, the Israeli-Gaza conflict, and now, the Expropriation Act. These issues have come to define the constant tension and major divergent views between South Africa and the US, which, while playing out in the public square, were always managed through appropriate diplomatic channels.

- The Trump Administration, however, has a different approach to dealing with domestic and foreign policy differences – it is far more direct and confrontational in handling bilateral differences. As evident in its recent actions, while temporarily halting foreign aid, the Trump Administration went on to single out South Africa through a specific ban in direct response to what it wrongly perceived as human rights violations. There are no land grabs in South Africa. The South African government has since noted that the premise upon which some of the views that informed the aid ban are made is based on misinformation. The ban on aid to South Africa brought an abrupt end to the HIV response interventions under the President's Emergency Plan for AIDS Relief (PEPFAR).

- As South Africa grapples with the immediate to short-term impacts of the aid ban, the bilateral trade and investment relationship has other long-term implications, all of which require urgent attention. South Africa's trade and investment benefits under the Africa Growth Opportunity Act (AGOA) are coming under scrutiny again – this time, under a hostile Administration seeking to establish reciprocity. At any given time in the past, one would've focused more on tracking the bipartisan processes in the legislative branch of government, defining sub-texts of the AGOA re-authorization Bill. However, the South African government may need a more holistic approach under this Trump Administration. The positive momentum from diplomatic engagements from 2024 has been upended by the recent executive actions under the Trump Administration.

- It is a new day, an entirely different set of circumstances that call for a new response mechanism to mitigate and manage risk. South Africa must double its efforts under a comprehensive plan of action covering advocacy across both legislative and executive branches of government in Washington, DC. There is currently a bilateral Trade and Investment Framework Agreement (TIFA) that historically dealt with reviewing and addressing implementation issues and investment cooperation, amongst other aspects, from time to time.

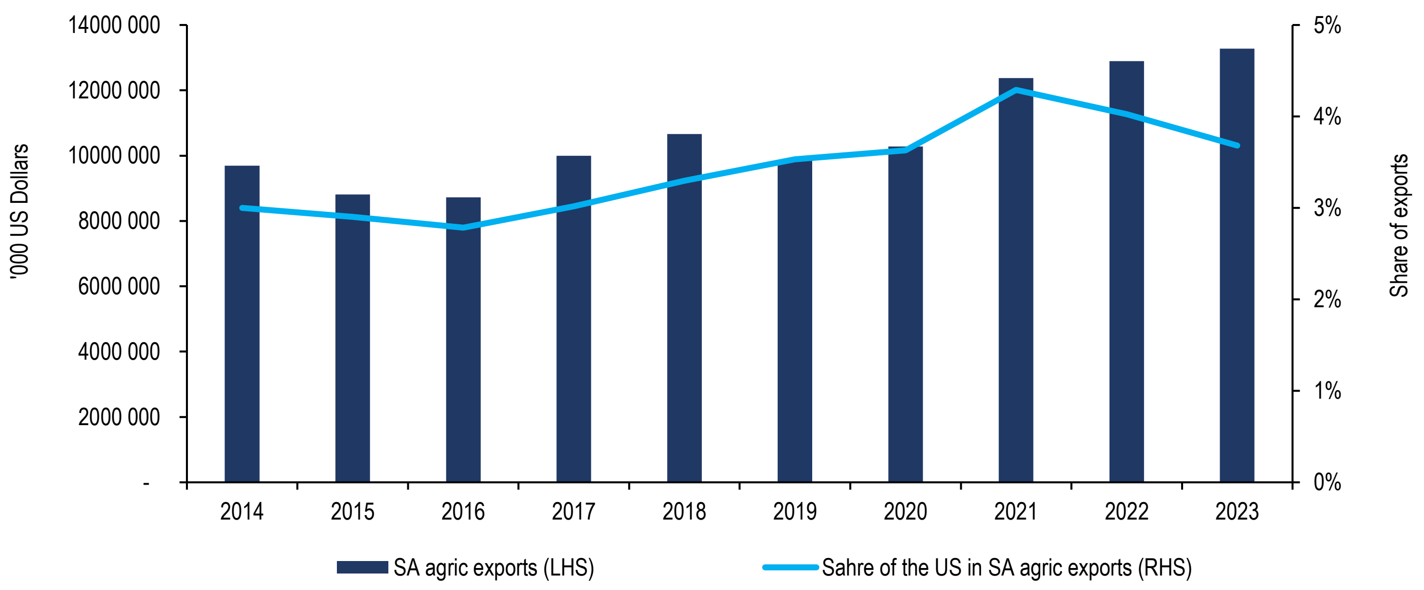
- However, a separate and more agile set of bilateral response mechanisms may need to be established to address issues which require urgent attention. For instance, in responding to the US's misguided human rights violations claims, South Africa may require a dedicated Standing Task Force that can communicate facts of these issues at the highest level of government – clearly stating and showing that there is no land grab in South Africa. Much of what has shaped the US leadership perception is misinformation. Importantly, the Standing Task Force should serve as a crisis management committee – this will not be the last time the US brings grievances and issues about and to South Africa. We can expect more problems regularly over the coming years.

- Overall, South Africa should have a broader and common understanding of what type of bilateral relationship the country needs to establish with the United States. First, South Africa must decide when, how and under which terms it needs to transition from AGOA into a reciprocal trade agreement. As previously highlighted, we prefer a Preferential Trade Agreement (PTA), not necessarily a Free Trade Agreement (FTA). The PTA would allow South Africa to cushion industries that we deem sensitive while providing access to the US to sectors that can compete fairly. South Africa is the largest trading partner with the US in the African continent, and reciprocity is not only an inevitability but a strategic necessity for establishing a sustainable partnership.

- Having a bilateral and reciprocal trade and investment agreement does not mean "the all end all" of South Africa's challenges with the US. As witnessed by how the US leveraged its way to getting concessions from Mexico and Canada under the threat of tariffs, the Trump Administration will continuously seek to extract more benefits and strategically (ab)use its position to negotiate further. In that sense, South Africa should continually and strategically broaden its export markets and have a more diversified trade approach in various regions of the world.

This section is co-authored with Dr Tinashe Kapuya, former Head of Trade Research at Agbiz.

Exhibit 1: South Africa's agricultural exports and the US share



Source: Trade Map and Agbiz Research

WEEKLY HIGHLIGHT

SA's tractor sales lifted notably in January 2025

- After 21 months of negative sales, South Africa's tractor sales increased by 27% year-on-year in January 2025 (up 3% month-on-month) to 457 units. This increase reflects the sector's positive sentiment, possible tax savings, and base effects. While encouraging, the sales of 457 units remain below the past two years' monthly average sales of 617 units. Still, 2025 may present a positive path in machinery sales.

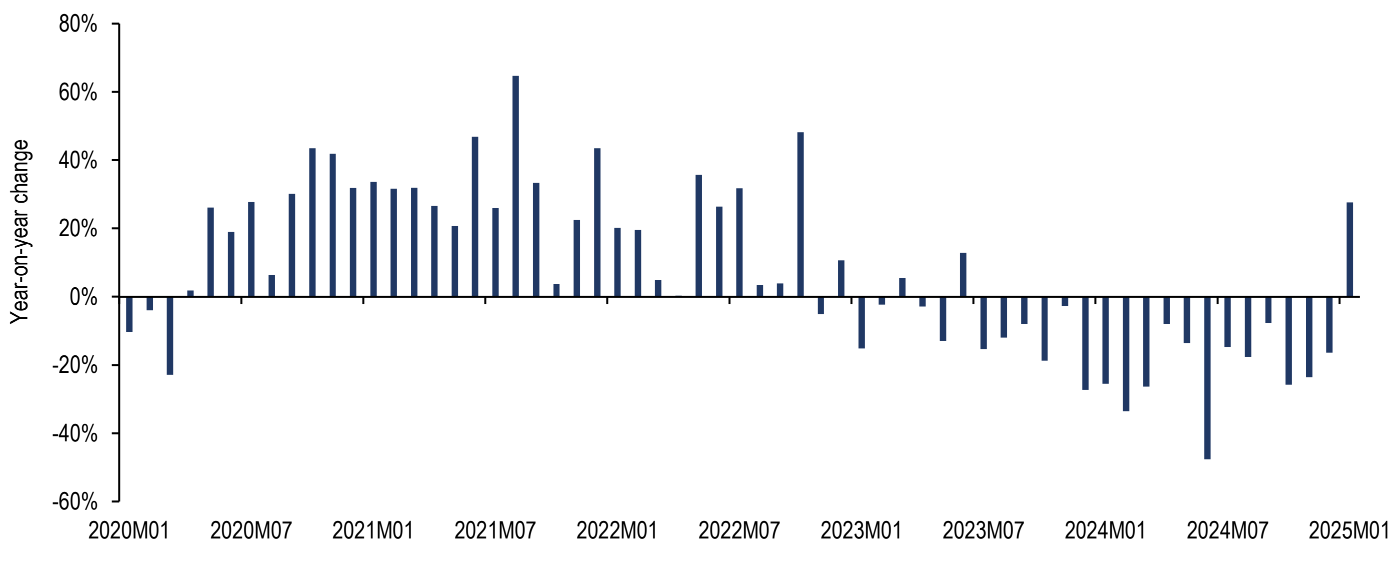
- The weak performance in agricultural machinery sales in 2024 resulted from various factors. First, South Africa's agricultural sector had higher machinery sales between 2020 and 2023. Improved farmers' incomes supported the higher sales due to ample harvest and higher commodity prices. Thus, there was bound to be some correction, leading to a moderation in sales in 2024.

- Second, after a few good agricultural years, we struggled with a mid-summer drought in the 2023-24 season, weighing on farmers' fortunes and worsening sales performance. Farmers were under financial pressure because of the crop losses. For example, the 2023-24 mid-summer drought has led to a 23% decline in South Africa's summer grains and oilseed production to 15,40 million tonnes.

- Lastly, the relatively higher interest rates for much of 2024 added to the financial pressures in the sector.

- In 2025, the interest rates have eased somewhat from last year's levels. The agricultural production conditions also promise a recovery, although there are differences region by region in the potential pace of recovery. These dynamics will likely support the tractors and combine harvesters' sales in 2025, especially if we consider that some farmers may again possibly start with machinery replacement.

Exhibit 2: South Africa's tractor sales



Source: South African Agricultural Machinery Association and Agbiz Research

WEEK AHEAD

What we are watching this week

- We start the week with a global focus, and the United States Department of Agriculture (USDA) will release its report on **Agricultural Projections to 2034** on Tuesday. Moreover, the USDA will release its weekly **US Grains and Oilseed Export Sales** data on Friday.

- On the domestic front, this is a busy week. Statistics South Africa will release the **Quarterly Labour Force Survey (QLFS)** data for the fourth quarter of 2024 on Tuesday. Our focus on this data will be on agricultural figures. In the third quarter of 2024, primary agriculture employment improved by 4% from the previous quarter to 935k jobs. We suspect that the figures for jobs remained robust in the fourth quarter.

- On Wednesday, Statistics South Africa will release the **Consumer Price Index (CPI)** data for January 2025. Here, too, our focus will primarily be on the food category of the inflation basket. In the previous release for December 2024, South Africa's consumer food price inflation was slightly nudged to 1,7%. The products that underpinned the mild uptick in December 2024 were "oils & fats", "fruit", "vegetables", and "sugar, sweets, and dessert".

- Also, on Wednesday, SAGIS will release its **weekly South Africa's Grains and Oilseeds Producer Deliveries** data. In the case of maize, we will receive a data release for the 42nd week of the 2024-25 marketing year. In the previous release on February 7, South Africa's weekly maize producer deliveries were about 50 865 tonnes. This puts the 2024-25 maize producer deliveries at 10,92 million tonnes out of the final harvest of 12,85 million tonnes. The 2024-25 soybean deliveries in the first 50 weeks of this new marketing year amounted to 1,80 million tonnes out of the final harvest of 1,85 million tonnes. At the same time, the sunflower seed deliveries amounted to 631k tonnes out of the harvest of 632k tonnes.

- Moreover, the wheat producer deliveries for the first 19 weeks of the 2024-25 marketing year stand at 1,76 million tonnes. The anticipated harvest for the season is 1,92 million tonnes, down from the 2,05 million tonnes of the past season because of the reduced area planted and the poor yields in some parts of the Free State and Limpopo regions.

- On Thursday, SAGIS will publish its **weekly South Africa's Grains and Oilseeds Trade** data for the 42nd week of the 2024-25 marketing year. In the previous release on February 7, the 41st week of the 2024-25 marketing year, South Africa exported 48 584 tonnes of maize. Of this volume, 57% was exported to Zimbabwe, 12% to Botswana, and the balance was distributed to the neighbouring African countries. This puts South Africa's total maize exports in the 2024-25 marketing year at 1,85 million tonnes out of the expected 1,90 million tonnes (down from 3,44 million tonnes in the 2023-24 marketing year because of the mid-summer drought).

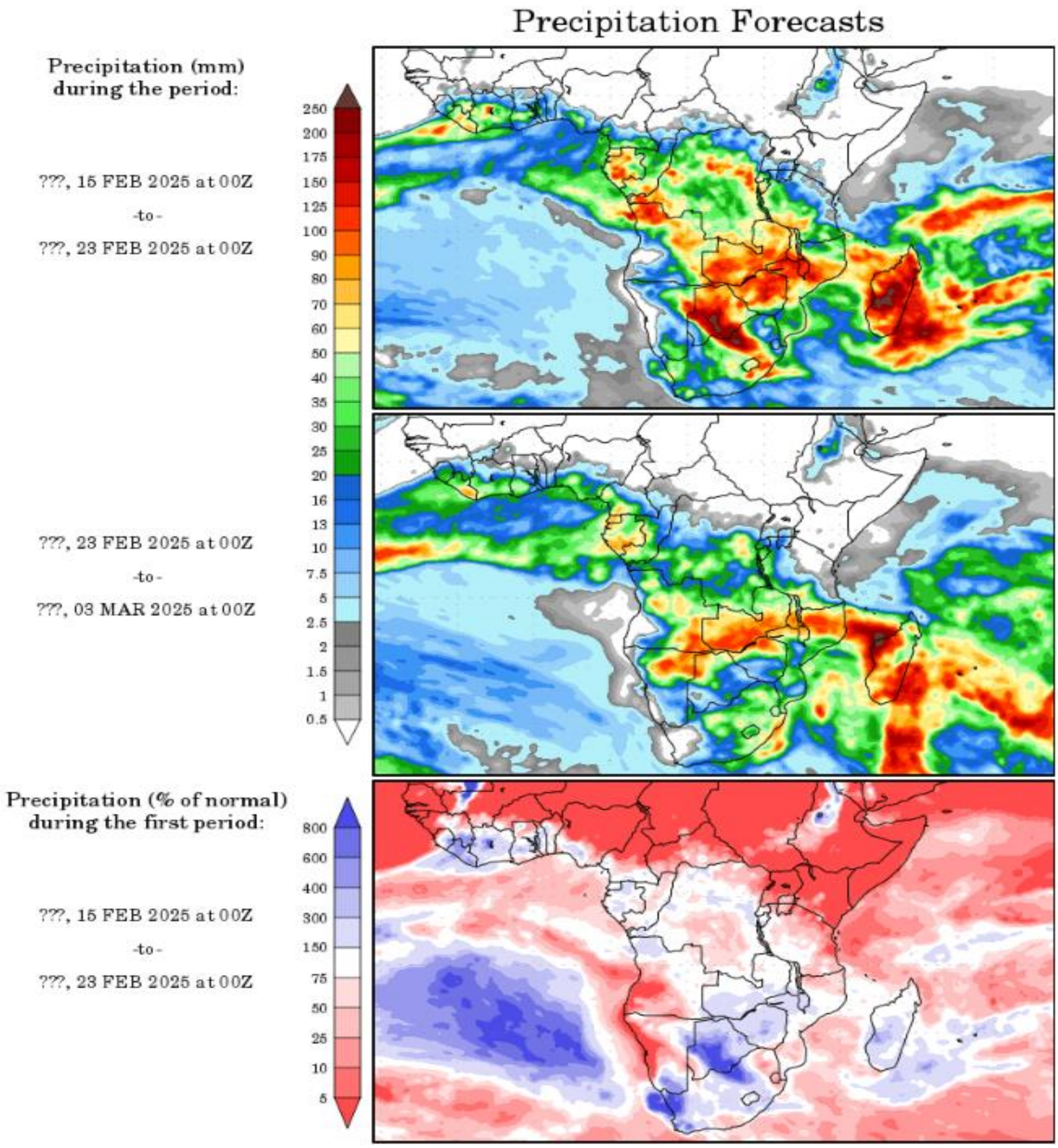
- Moreover, while South Africa will likely remain the net exporter of maize in the 2024-25 marketing year, the coastal regions will import small volumes of yellow maize for animal feed because of price advantage and tight domestic supplies. We have recently seen the imports of yellow maize from Argentina and Brazil through the Port of Cape Town and a consignment of white maize from the United States. South

Africa's 2024-25 maize imports currently stand at 571 046 tonnes. South Africa is a net wheat importer, and February 7 was the 19th week in the new 2024-25 marketing year. The imports so far amounted to 539 700 tonnes. The seasonal import forecast is 1,80 million tonnes, down from 1,93 million tonnes the past season.

South Africa's Precipitation forecast

- Similarly to the previous week, the weather forecast for this week shows prospects of rains across the summer crop-growing areas. This will help improve the crop-growing conditions and the grazing veld.

Exhibit 3: South Africa's precipitation forecast



Source: George Mason University (wxmaps)