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3. The Costs and Limitations of Protectionism*

Despite its short-term appeal, empirical evidence suggests that protectionism imposes significant costs that undermine sustainable job creation, particularly for low-income households in South Africa.

The first and most direct cost is borne by consumers. Tariffs act as a regressive tax. Research by the Bureau for Food and Agricultural Policy (BFAP) found that the 2020 increase in poultry tariffs raised domestic poultry prices by 15-20%. For South African households where poultry is the primary affordable protein source, this price increase reduces real purchasing power and disproportionately affects the poor, contradicting the Budget's objective of supporting vulnerable groups. Rather than creating net jobs, it redistributes income from consumers to protected producers.

Second, protectionism invites retaliation and threatens export-oriented jobs. South Africa benefits from preferential access to US markets under the African Growth and Opportunity Act (AGOA), supporting approximately 60,000 jobs in automotive and agriculture. Unilateral tariff increases risk retaliation and jeopardise these jobs. Similarly, within the African Continental Free Trade Area (AfCFTA), South Africa's ambition to be a manufacturing hub for the continent requires reciprocity. If South Africa closes its markets, its trading partners will do the same.

Third, permanent protection reduces the incentive to innovate and improve productivity. The Kenyan sugar industry provides a cautionary tale. Protected for over two decades through high tariffs exceeding 100%, the industry failed to become internationally competitive, with production costs remaining 60% higher than world prices. Jobs were preserved temporarily, but at a high fiscal cost and without long-term competitiveness. In South Africa, similar concerns have been raised about certain steel products where protection has not been accompanied by measurable improvements in plant efficiency.

Finally, data from Statistics South Africa's Quarterly Labour Force Survey indicates that sectors with the highest levels of tariff protection between 2010 and 2023 did not record net job creation. Instead, employment growth was strongest in less-protected sectors linked to services and value-added agriculture, suggesting that competitiveness, not protection, drives sustainable employment.

Therefore, while tariffs may preserve specific jobs in the short term, they do not address the structural constraints to job creation identified in the National Development Plan: high logistics costs due to Transnet inefficiencies, unreliable energy supply, and a skills mismatch.