



Navigating Economic Challenges: AGOA's Impact on South Africa's Trade Opportunities and the Risk of Losing Ground

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The African Growth and Opportunity Act (AGOA) is a framework for United States trade, investment, and development policy for sub-Saharan Africa. Through the AGOA, the United States of America (USA/US) aims to increase trade with sub-Saharan African countries. The most important aspect of AGOA is to allow eligible countries duty-free access to US markets.

AGOA is a developmental market access preferential trade programme that is enshrined in US legislation under the Trade and Development Act of 2000. It is non-reciprocal and currently afforded to 49 sub-Saharan African countries, including South Africa. In the absence of AGOA or any other agreement, South African exports would face reciprocal tariffs in the US as laid down by the World Trade Organisation (WTO) in the form of Most Favoured Nation (MFN) tariffs.

A significant share of AGOA beneficiary countries' goods exported to the United States qualifies for duty-free access under AGOA; many of these exports are in tariff headings that did not previously qualify for generalised system of preferences (GSP). Virtually all GSP-classified goods are, however, eligible under AGOA, while AGOA has added hundreds of additional tariff lines.

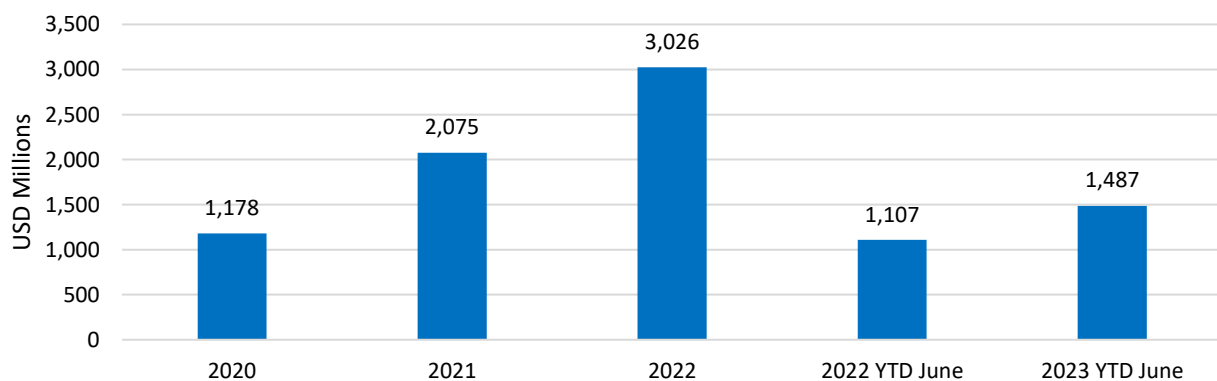
AGOA exports to the US from South Africa increased from \$1.17 billion to \$3.02 billion between 2020 and 2022.

Table 1: Value (USD Millions), US imports for consumption

	2020	2021	2022	2022 YTD June	2023 YTD June
AGOA (including GSP provisions) imports	1,892	2,697	3,615	1,419	1,697
GSP imports	714	622	590	312	210
AGOA imports	1,178	2,075	3,026	1,107	1,487

Source: SAR Calculations based on US Department of Commerce, Published on www.AGOA.info

Figure 1: Levels of US imports for consumption value (USD Millions)



Source: SAR Calculations based on US Department of Commerce, Published on www.AGOA.info

The share of GSP exports to the USA from South Africa has decreased from 38% to 16% between 2020 and 2022. On the other hand, the share of AGOA imports from the USA to South Africa has increased from 62% to 84% over the same period.

Table 2: Percentages, US imports for consumption

	2020	2021	2022	2022 YTD June	2023 YTD June
AGOA (including GSP provisions) imports	100%	100%	100%	100%	100%
GSP imports	38%	23%	16%	22%	12%
AGOA imports	62%	77%	84%	78%	88%

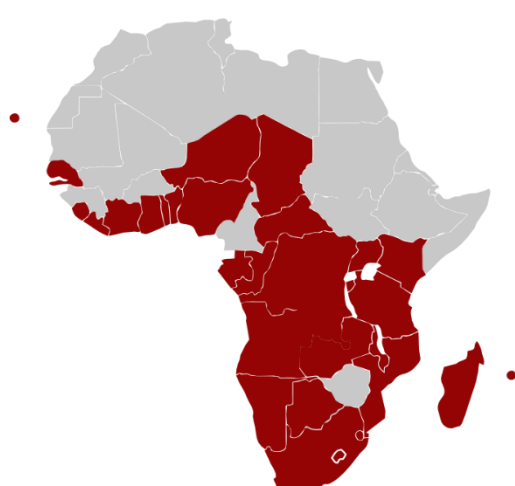
Source: SAR Calculations based on US Department of Commerce, Published on www.AGOA.info

AGOA USA exports to South Africa excluding GSP have increased from \$1.49 billion to \$3.02 billion between 2018 and 2022. The GSP excluding GSP for LDBC exports from the USA to South Africa decreased from \$892 million to \$590 million between 2020 and 2022. AGOA exports, however, increased from \$2.39 billion to \$3.61 billion between 2020 and 2022.

Table 4: Percentages, US exports

	2020	2021	2022	2022 YTD June	2023 YTD June
AGOA (excluding GSP)	63%	62%	62%	77%	84%
GSP (excluding GSP for LDBC only)	37%	38%	38%	23%	16%
AGOA Exports	100%	100%	100%	100%	100%

Source: SAR Calculations based on US Department of Commerce, Published on www.AGOA.info



AGOA ELIGIBLE COUNTRIES AS OF JAN 2023

This list is subject to change at the discretion of the United States

- | | | |
|--------------------------|---------------|---------------------|
| Angola | Gambia | Nigeria |
| Benin | Ghana | Rwanda |
| Botswana | Guinea-Bissau | Sao-Tome & Principe |
| Cape Verde | Kenya | Senegal |
| Chad | Lesotho | Sierra Leone |
| Central African Republic | Liberia | South Africa |
| Comoroes | Madagascar | Swaliland |
| Congo (Republic) | Malawi | Tanzania |
| Congo (DRC) | Mauritius | Togo |
| Cote'd Ivore | Mozambique | Uganda |
| Djibouti | Namibia | Zambia |
| Gabon | Niger | |

Bilateral Trade by Sector: United States - South Africa

The value per sector in terms of total exports from the USA to South Africa as well as the total imports to the USA from South Africa are depicted in Table 3.

Table 3: Value (USD Millions), US domestic exports*, US imports for consumption

Sector	Category	2020	2021	2022	2022 YTD June	2023 YTD June
Agricultural products	Total exports	304	285	333	198	124
	AGOA imports	270	336	432	142	157
Forest products	Total exports	93	138	162	62	54
	AGOA imports	0.237	1	2	0.825	2
Chemicals and related products	Total exports	829	851	1,179	601	515
	AGOA imports	177	294	363	168	189
Energy-related products	Total exports	471	572	707	318	433
	AGOA imports	7	11	10	5	5
Textiles and apparel	Total exports	33	37	33	16	16
	AGOA imports	8	10	5	4	0.465
Footwear	Total exports	0.748	0.402	0.707	0.328	0.325
	AGOA imports	0.712	0.576	1	0.355	0.35
Minerals and metals	Total exports	425	826	585	277	289
	AGOA imports	125	419	465	217	163
Machinery	Total exports	507	599	864	410	460
	AGOA imports	3	3	6	2	4
Transportation equipment	Total exports	976	1,290	1,592	725	952
	AGOA imports	553	895	1,622	507	923
Electronic products	Total exports	497	584	692	337	468
	AGOA imports	5	8	8	5	3
Miscellaneous manufactures	Total exports	50	61	92	43	41
	AGOA imports	28	97	111	59	42
Special provisions	Total exports	190	231	276	127	166
	AGOA imports	0	0	0	0	0
All sectors	Total exports	4,375	5,473	6,516	3,113	3,518
	AGOA imports	1,178	2,075	3,026	1,107	1,487

Source: SAR Calculations based on US Department of Commerce, Published on www.AGOA.info



The percentage share per sector in terms of total exports by the USA to South Africa as well as the total imports by the USA from South Africa is depicted in Table 4.

Table 4: Value (USD Millions), US domestic exports*, US imports for consumption

Sector	Category	2020	2021	2022	2022 YTD June	2023 YTD June
Agricultural products	Total exports	6.9%	5.2%	5.1%	6.4%	3.5%
	AGOA imports	22.9%	16.2%	14.3%	12.8%	10.6%
Forest products	Total exports	2.1%	2.5%	2.5%	2.0%	1.5%
	AGOA imports	0.0%	0.1%	0.1%	0.1%	0.1%
Chemicals and related products	Total exports	18.9%	15.5%	18.1%	19.3%	14.6%
	AGOA imports	15.1%	14.2%	12.0%	15.1%	12.7%
Energy-related products	Total exports	10.8%	10.4%	10.9%	10.2%	12.3%
	AGOA imports	0.6%	0.5%	0.3%	0.4%	0.3%
Textiles and apparel	Total exports	0.8%	0.7%	0.5%	0.5%	0.5%
	AGOA imports	0.7%	0.5%	0.2%	0.3%	0.0%
Footwear	Total exports	0.0%	0.0%	0.0%	0.0%	0.0%
	AGOA imports	0.1%	0.0%	0.0%	0.0%	0.0%
Minerals and metals	Total exports	9.7%	15.1%	9.0%	8.9%	8.2%
	AGOA imports	10.6%	20.2%	15.4%	19.6%	11.0%
Machinery	Total exports	11.6%	10.9%	13.3%	13.2%	13.1%
	AGOA imports	0.3%	0.2%	0.2%	0.1%	0.3%
Transportation equipment	Total exports	22.3%	23.6%	24.4%	23.3%	27.1%
	AGOA imports	46.9%	43.1%	53.6%	45.7%	62.1%
Electronic products	Total exports	11.4%	10.7%	10.6%	10.8%	13.3%
	AGOA imports	0.5%	0.4%	0.3%	0.5%	0.2%
Miscellaneous manufactures	Total exports	1.1%	1.1%	1.4%	1.4%	1.2%
	AGOA imports	2.4%	4.7%	3.7%	5.3%	2.8%
Special provisions	Total exports	4.3%	4.2%	4.2%	4.1%	4.7%
	AGOA imports	0.0%	0.0%	0.0%	0.0%	0.0%
All sectors	Total exports	100%	100%	100%	100%	100%
	AGOA imports	100%	100%	100%	100%	100%

Source: SAR Calculations based on US Department of Commerce, Published on www.AGOA.info

Transport equipment (automotive industry), chemicals and related products as well as electronics constitute a significant share of exports from the USA to South Africa. On the other hand, transport equipment (automotive industry) and agricultural products constitute a profound share of imports by the USA from South Africa.

Benefits of AGOA for the South African economy

AGOA has motivated South Africa to broaden its export base and shift away from reliance on traditional commodity-based products. This legislation serves as a stimulus for South African enterprises to venture into and invest in novel industries and products, capitalising on the favourable access to the US market. The heightened demand for South African products in the US market has spurred the growth of industries and enterprises, fostering job creation within South Africa. Notably, sectors like textiles and apparel have experienced an increase in employment opportunities attributable to the impact of AGOA. By providing a platform for South Africa to engage in global trade, AGOA enhances the nation's economic resilience. The diversification of exports and increased market access contribute to a more robust and adaptable economy, which is crucial for navigating global economic uncertainties.

AGOA offers help to eligible countries through technical support and capacity building to meet the act's criteria. This assistance is designed to improve South African businesses' ability to meet US quality and safety standards, making trade relations smoother. It has attracted foreign investment in South Africa by creating a more favourable trade environment. Foreign investors may be more willing to invest in South African industries that benefit from duty-free access to the US market, leading to increased capital inflows.

AGOA has helped to support regional integration and stimulate regional value chains (automotive and textile sectors). South Africa's participation in AGOA also supports and benefits economic development in the Southern African region and beyond, with other African countries providing key inputs for finished products that are exported to the US from South Africa under AGOA, including wire harnesses for vehicles from Botswana, car seats, materials from Lesotho, and rubber from Côte d'Ivoire.

AGOA serves as a platform for companies to move up the value chain in manufactured products. AGOA is an important means of promoting development in South Africa and the African continent. Trade is fostered when economies are diversified and this will happen as more manufacturing takes place across Africa. African industrialisation will foster greater trade between African countries and greater trade will support African industries, mutually reinforcing each other.

Dangers to the South African economy if AGOA benefits are lost

Critics argue that South Africa's participation in AGOA has led to trade imbalances, where the US market is perceived as being more open to South African exports than vice versa. Some critics contend that South Africa, being one of the more developed economies in Africa, may not need the same level of trade preferences as less-developed nations on the continent. Most importantly, prior to the 20th AGOA Forum 2023 held in Johannesburg, South Africa from 2 - 4 November 2023, there had been calls from some political players in the US to move the summit to another venue and for South Africa to be removed from AGOA altogether. This stems from the geopolitical tensions between the US and South Africa with regard to the Russia-Ukraine war in Europe and the Israel-Hamas war in the Middle East.

The termination of AGOA would likely result in the loss of preferential access to the US market for South African exports. This could lead to a contraction in export volumes and revenue, negatively impacting the country's balance of payments. A decrease in foreign exchange earnings might strain the ability to meet external debt obligations, affecting the creditworthiness of the nation. Certain industries, especially those that have heavily relied on AGOA benefits, may face challenges, leading to reduced production and potential

job losses. A decline in employment levels can impact social stability and government expenditures, potentially affecting the country's creditworthiness.

It might raise concerns among foreign investors, as the removal of preferential trade conditions could affect the attractiveness of South Africa as an investment destination. A decrease in foreign direct investment could limit capital inflows, hindering economic growth and impacting the nation's credit rating. This could contribute to an economic downturn, as export-dependent industries face challenges in accessing the US market. Economic contractions can affect government revenue, making it more challenging to manage debt levels and maintain a favourable credit rating. Sovereign risk will be elevated, as the country may face challenges in meeting external debt obligations without the trade-related benefits provided by AGOA. This increased risk could lead to higher borrowing costs and negatively impact the country's creditworthiness. The removal of preferential trade conditions under AGOA could erode investor confidence in South Africa's economic stability. This loss of confidence might lead to capital outflows and higher borrowing costs, further impacting the country's credit rating.

In conclusion, AGOA has emerged as a pivotal driver for South Africa's economic progress, with noteworthy impacts that carry implications for creditworthiness. The preferential trade access to the US market has not only boosted export-driven industries and diversified the country's economic landscape but has also fostered job creation and attracted foreign investment. These positive trends contribute to South Africa's economic resilience and play a crucial role in shaping a favourable credit outlook. As the nation continues to leverage AGOA's benefits, it reinforces its position as an attractive destination for investment, laying a foundation for sustained growth and a positive credit rating trajectory.

Hence, the termination of AGOA could introduce economic challenges that may affect South Africa's credit rating by impacting export revenue, industries, employment levels, foreign direct investment, and overall economic stability. The resilience of the South African economy and the government's ability to implement mitigating measures would be crucial factors in determining the long-term credit implications.



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