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## **AGOA: An essential lifeline to South Africa**

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# AGOA: An essential lifeline to South Africa

## Introduction

Since 18 May 2000, the African Growth and Opportunities Act (AGOA) has been in force. It has been renewed to 2025. The purpose of AGOA is to enhance access to American markets for qualifying Sub-Saharan African countries. Some of the qualification requirements include working to improve the rule of law, human rights, and respect for core labor standards.<sup>1</sup>

As will be discussed later in this report, much of South African exports to the USA enjoy either low tariffs or duty-free status. These benefits were previously available only through the USA's Generalised System of Preferences (GSP). For everything else, general tariffs would apply to exports from countries that are not covered by AGOA or that have trade agreements with the USA.

The aim of this report is to illustrate the positive effect that the AGOA agreement has had on South Africa. For most calculations, the cumulative bilateral trade statistics will be used, as provided by the South African Revenue Service (SARS).<sup>2</sup>

- Exports to the US totaled R178 billion in 2022.
- US trade provides jobs to 426 000 South Africans.
- 85 000 South Africans rely on AGOA for their job security.
- AGOA especially benefits the most vulnerable communities in South Africa.
- Roughly 20% of South African exports to the US benefit from AGOA.
- One out of 37 South African households relies on exports to the US for their livelihood.

## The importance of US trade relations to South Africa

Cumulative exports from South Africa to the USA totaled R178,000,090,724 in 2022. Of this, the greatest amount was from precious metals, such as gold and platinum. Iron and steel products, vehicles, chemicals and machinery, as well as mineral products, also made up a large portion of this number. The agricultural sector, especially the part referred to as "vegetables" in the SARS table, would also be extremely vulnerable if exports to the US were endangered or reduced in any way. The same applies if less favorable terms accompany trade in such products. Agricultural communities generally have few other economic activities in their immediate surroundings, so although agriculture makes up a fairly small portion of exports to US markets, it is an essential part of the local economies of these communities. The same applies to mining and metal processing, as these industries are generally the core employers in the towns where they exist. Vehicle manufacturing is another sector in which viability would be threatened should the current dispensation come to an end.

These sectors will be discussed in more detail in the following sections of this report.

About 20% of South African exports to the US enjoy benefits under AGOA and this figure continues to grow. Although this is only a small part of South Africa's total exports, it is essential to the industries that are benefited by low or zero tariffs.

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<sup>1</sup> <https://agoa.info/about-agoa.html>

<sup>2</sup> <https://www.sars.gov.za/customs-and-excise/trade-statistics/reports/>

Section Description	United States
Precious metals	R84,207,986,475
Products iron & steel	R25,274,779,502
Vehicles, aircraft & vessels	R19,079,820,060
Chemicals	R12,395,819,272
Machinery	R11,347,722,565
Mineral products	R10,931,686,740
Vegetables	R4,466,362,522
Prepared foodstuffs	R3,864,148,246
Plastics & rubber	R1,789,999,997
Live animals	R887,130,787
Photographic & medical equipment	R782,916,195
Stone & glass	R569,012,446
Textiles	R476,040,657
Wood pulp & paper	R444,867,415
Works of art	R438,315,907
Toys & sport apparel	R377,771,016
Raw hides & leather	R254,866,290
Other unclassified goods	R159,395,809
Wood products	R151,553,297
Footwear	R67,707,378
Animal or vegetable fats	R29,645,590
Equipment components	R2,542,558
	<b>R178,000,090,724</b>

When comparing US exports to South Africa's GDP, they make up a fairly large proportion of total added value in certain sectors. In total, exports to the US make up 2.68% of South Africa's GDP. This indicates the importance of continued trade relations, as one out of every 37 units of South African production is destined for the US market.

From an American perspective, therefore, imports of \$9.5 billion may seem negligible compared to total US imports of \$2,377.3 billion<sup>3</sup>, as South Africa makes up only 0.4% of this figure. From a South African perspective, however, the same amount would sustain one out of 37 households.

The US is South Africa's second largest export market<sup>4</sup>, with the US receiving 9.4% of South African exports in 2022. It is important to also consider, from a South African point of view, that unlike with other important trading partners, South Africa maintains a positive balance of trade with the US. This is especially important to maintain the integrity of the rand, our local currency, whilst having a negligible impact on US currency stability.

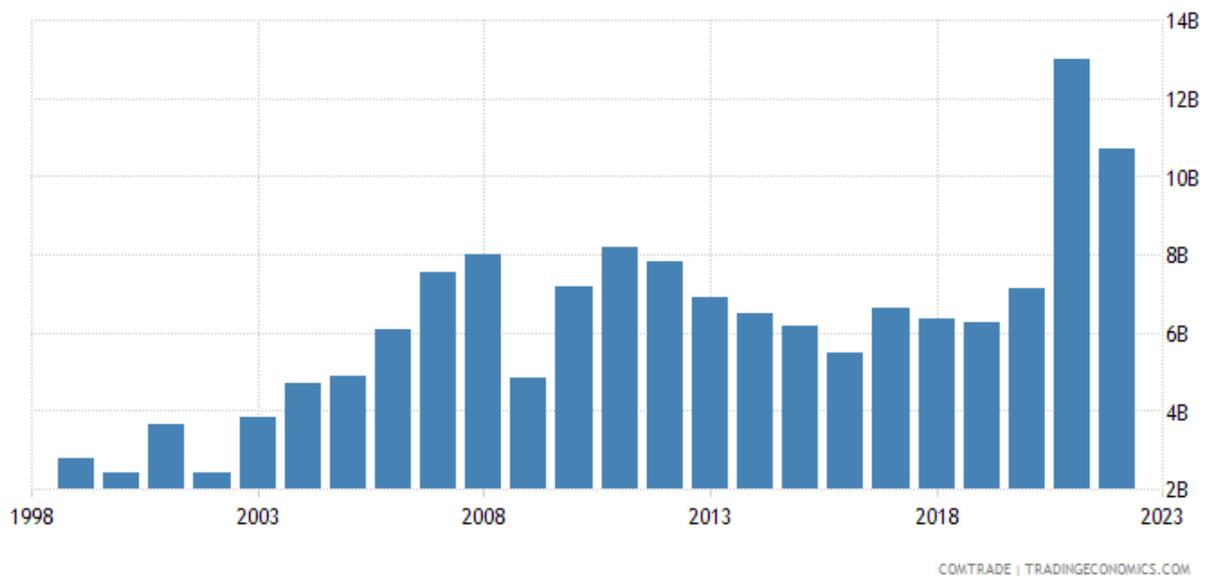
For this reason, the US is one of South Africa's most important trading partners, almost equaling exports to our neighboring countries, as illustrated by the chart below:

<sup>3</sup> [https://www.bea.gov/news/2023/us-international-trade-goods-and-services-december-and-annual-2022#:~:text=increased%20%2424.3%20billion.-,Imports%20\(exhibits%204%2C%206%2C%20and%208\),and%20materials%20increased%20%24160.9%20billion.](https://www.bea.gov/news/2023/us-international-trade-goods-and-services-december-and-annual-2022#:~:text=increased%20%2424.3%20billion.-,Imports%20(exhibits%204%2C%206%2C%20and%208),and%20materials%20increased%20%24160.9%20billion.)

<sup>4</sup> <https://tradingeconomics.com/south-africa/exports-by-country>



According to the following chart<sup>5</sup>, exports to the US have grown exponentially since the year 2000 when the AGOA agreement came into force. The spike in exports in 2001 clearly illustrates the uptake of the benefits offered by AGOA, as well as changing sentiments towards trade between our two countries.



According to OEC<sup>6</sup> data, South African exports to the US for 2021 could be illustrated by the following chart:

<sup>5</sup> <https://tradingeconomics.com/south-africa/exports/united-states>

<sup>6</sup> <https://oec.world/en/profile/bilateral-country/usa/partner/zaf#monthly-trade-latest-trends>



such as mining, it is still included in this report because of the vulnerability that exists in agricultural communities, where agriculture is often the only economic activity in that area and secondary industries exist only to serve it.

Agricultural exports are often comprised of niche products for which a fairly limited market exists locally, such as for upmarket wines and nuts. Table grapes and citrus are other examples of the local market being saturated. It is, for example, estimated that 33% of one citrus region is reliant on US exports.<sup>8</sup> The same report also notes the trickle-down effect that a smaller wine market would have, as it would also impact wine tourism. Citrus makes up a large part of South Africa's export value, as this totaled R1.7 billion to the US alone.<sup>9</sup> Citrus producing areas have become completely reliant on this crop, as tree farming requires a lot of initial capital, which requires that markets remain secure to recover initial costs. Should these become threatened, communities would lose their investments, putting at risk the livelihoods of entire regions.

### **Mining and metal processing**

Mining and processed materials derived from mining make up the bulk of South African exports to the US. Since most of this is in the form of precious metals, which are already zero-rated by US authorities, this sector would not be impacted by changes to the AGOA dispensation. Base metals, however, would be impacted.

One such example is nickel mining, which is concentrated largely in Limpopo and North West provinces.<sup>10</sup> Limpopo<sup>11</sup>, being the second poorest region in South Africa on a per capita basis, would be harshly impacted by any negative impacts on its economy.

### **Vehicle manufacturing**

The US market is the second largest export market for South African vehicles, importing vehicles, aircraft and vessels worth more than R19 billion in 2022. In the total vehicle trade, including both exports and imports, the US is also South Africa's second largest partner, after Germany, with trade totaling R34 billion.<sup>12</sup>

US motor companies have also made massive investments in South Africa. One example is Ford Motor Company, which has already invested R15.8 billion in South Africa and continues to invest in further developments at its Silverton plant in Pretoria.<sup>13</sup> Apart from Ford, other international vehicle manufacturers also have huge interests in South Africa. As some vehicle models are manufactured mainly for the export market, specifically to the US, these models, as well as the plants that manufacture them, may no longer be viable if the AGOA dispensation were to come to an end. It would not only impact American manufacturers with plants here, but also any future developments where the aim may be to manufacture vehicles for the US market. Therefore, a partial impact on manufacturing could have devastating impacts on the entire industry, should AGOA come to an end and impact sentiments regarding the South African vehicle manufacturing sector.

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<sup>8</sup> <https://www.iol.co.za/business-report/economy/agriculture-sector-and-jobs-at-serious-risk-if-agoa-is-not-renewed-f0b3736a-8c3e-4d10-a790-2a1d158a798c>

<sup>9</sup> <https://www.freshplaza.com/europe/article/9532099/without-agoa-south-african-citrus-loses-its-edge-in-the-us/>

<sup>10</sup> <https://www.mining-technology.com/marketdata/five-largest-nickel-mines-south-africa/>

<sup>11</sup> <https://www.statssa.gov.za/?p=12056>

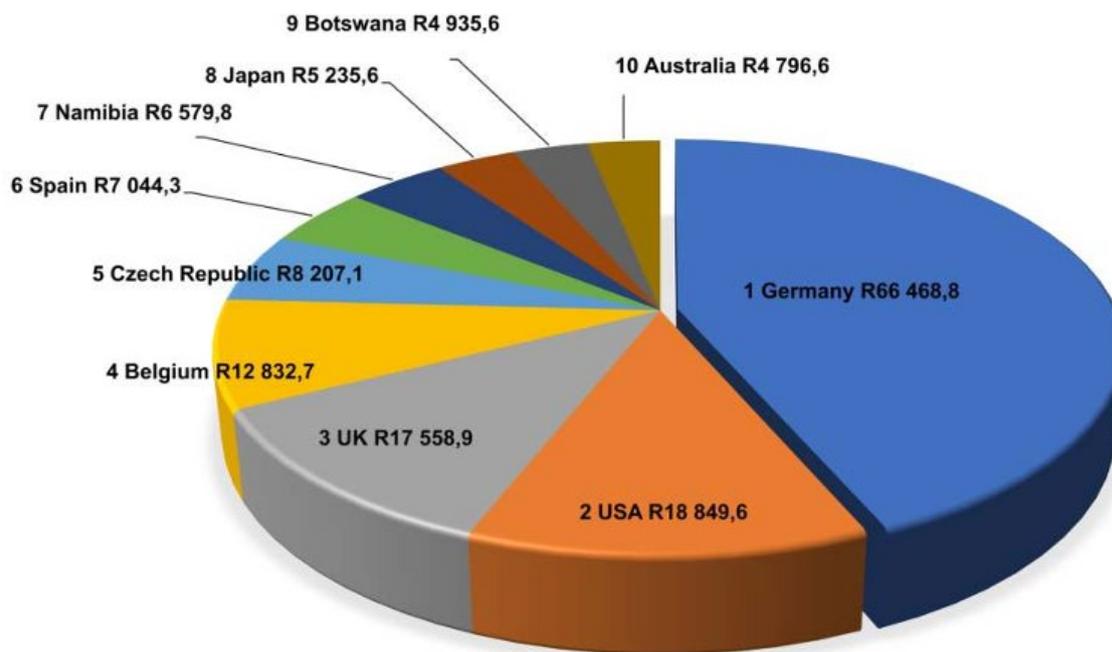
<sup>12</sup> <https://naamsa.net/wp-content/uploads/2022/05/Automotive-Export-Manual-2022.pdf>

<sup>13</sup> <https://www.moneyweb.co.za/news/industry/ford-sa-makes-further-multi-million-rand-investments-in-silverton-plant/>

Apart from the direct economic impact, Ford has also set the tone when it comes to industrial self-reliance in South Africa, by starting to generate 35% of its own electricity in the wake of South Africa's electricity crisis. These innovations by Ford also go a long way in changing sentiments on South African industry in general.

Some familiar vehicle models that are exported from South Africa are the Mercedes-Benz C-Class, the Ford Ranger, BMW X3 and various Toyota models.<sup>14</sup>

### South African automotive industry's top export destinations – 2021 (R million)



Source: AIEC, SARS

### Conclusion

The African Growth and Opportunities Act has gone a long way in contributing to the South African economy and strengthening relations between South Africa, and the African continent in general, and the United States of America. The uptake of favorable trade dispensations offered by AGOA continues to expand and would continue to alleviate poverty in the most vulnerable sectors of our economy.

Other sectors aided by AGOA, such as vehicle manufacturing and manufacturing in general, provide high paying jobs to our developing economy and require continued assistance in the form of a renewal of the AGOA dispensation.

Exports to the US provide jobs to 426 000 South Africans, 85 000 of whom can ascribe their jobs directly to the favorable terms offered to their industries by AGOA.

<sup>14</sup> <https://www.carmag.co.za/news/sa-car-industrys-top-export-destinations/>