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**BUSINESS UNITY SOUTH AFRICA (BUSAS) SUBMISSION: ANNUAL REVIEW OF COUNTRY ELIGIBILITY FOR BENEFITS UNDER THE AFRICAN GROWTH AND OPPORTUNITY ACT (AGOA) FOR CALENDAR YEAR 2024**

**Introduction**

South Africa-United States trade relations have been supported by unilateral preference schemes implemented by the US government. These preference schemes aim to promote economic development and trade with developing countries, including those in Sub-Saharan Africa.

The consensus among business is that AGOA is beneficial to South Africa, with the country enjoying a trade surplus vis-à-vis the US since 2010 except for 2014 when South Africa experienced a trade deficit of approximately R1 billion. SA exports to the US have recovered strongly post-Covid. It has also been beneficial to the US as it promotes US exports and creates jobs in the US. The composition of South African exports favours value-added sectors and is therefore broadly supportive of South Africa's trade and economic policies.

The Generalized System of Preferences (GSP) is a program that grants tariff preferences to eligible developing countries, including South Africa. Under the GSP, certain South African products can enter the US market duty-free or at reduced tariff rates. The GSP program provides benefits to a wide range of industries and products, including agricultural goods, textiles, and manufactured items.

South Africa remains a middle-income country. Its GDP per capita has declined over the past decade from US\$8 059 in 2010 to US\$7 055 in 2021. This is a result of both global shocks after the financial crisis and the domestic challenges related to state

capture, state capacity, deteriorating network industries (ports, rail, energy), and low levels of investments. The Covid-19 pandemic exacerbated the already fragile economic conditions and hurt most of the poorest households. Consequently, South Africa has one of the highest levels of unemployment in the world, measured at 32,9% in the first quarter of 2023. The country also has the highest inequality in income distribution, with a Gini score of 63.

Confronted with these serious challenges, the South African business community, collectively with the government, is on a path to rebuild the economy and address the triple challenges facing South African society. These are inequality, rising poverty, and unemployment. Against this backdrop, we view the African Growth and Opportunity Act (AGOA) as crucial in assisting emerging markets such as South Africa to address various socio-development challenges. In 2015, when the renewal of the AGOA was underway, it could be argued that South Africa was in a relatively better economic condition than today.

Importantly, South Africa is also on an investment drive to grow domestic manufacturing and create employment, which results in economic and social stability in the Southern Africa region. The exclusion of South Africa from AGOA may also send, create unintentionally, negative sentiment about the country's investment conditions, all of which could have a far-reaching impact on the economy and jobs. South Africa currently houses a range of American firms that manufacture and retail various products to the African continent through South Africa. The stability of their investments and growth is key to all parties involved and, ultimately, to the South African economy.

Given the importance of the US market as a strategic export market for South Africa, the industry calls for:

- a) South Africa's inclusion in the AGOA preference programme.
- b) The soonest possible extension of AGOA, well before the September 2025 deadline to enable more certainty in bilateral trade and planning of investments in the sector.

- c) A long-term extension of AGOA, of 20 years, to strengthen regional and global value chains, sustain trade and investment networks, and continue to build on bilateral commercial and diplomatic relations between the two countries.

As the South African economy recovers, the ambition for the sector is for both the United States and South Africa to continue to build and pursue mutually bilateral trade arrangements. With that said, at the present juncture, the South African economy is still fragile and would benefit enormously from the extension of AGOA. The presence of South African products in the US market further offers the US government and US importers a viable alternative to increased reliance on East Asian imports.

### **Benefits of AGOA for South Africa and South African Exporters**

AGOA has resulted in numerous advantages for both South Africa and South African exporters. The preferential treatment offered by AGOA has yielded numerous benefits for both the United States and partner countries in sub-Saharan Africa. AGOA has led to increased and more diverse exports from the region to the United States, particularly in the textiles and apparel industry, creating thousands of new jobs. The amount of tariff revenue that South African exporters are exempted from paying due to AGOA adds up to approximately **R2 billion in tariffs**.

South Africa is the U.S.' largest trade partner in Sub-Saharan Africa. Exports to the U.S. grew strongly during 2021 and reached their highest ever level at \$15.5b, while imports from the U.S. were valued at \$4.7b in that year. During the period under review, South Africa recorded a significant surplus in its trade with the U.S., having reached \$10.7b in 2021, a 46% increase over the previous year.

The following points outline some of the significant benefits of AGOA:

1. **Duty-free access to the US market:** AGOA provides eligible South African exporters with duty-free access to the US market for a wide range of products. This preferential treatment eliminates or reduces tariff barriers, making South African goods more competitive and affordable for American consumers.

2. **Increased export opportunities:** AGOA has expanded export opportunities for South African businesses. It has allowed South African exporters to access a large and lucrative market in the United States, which has a high demand for various products, including automotive, textiles, apparel, agricultural goods, and manufactured items.
3. **Market and Product diversification and Competitiveness:** AGOA has helped South Africa diversify its export markets by reducing its reliance on traditional trading partners. By accessing the US market under AGOA, South African exporters have gained exposure to new customers, which has reduced their dependence on a single market and increased their resilience to market fluctuations. This drives innovation and improves the competitiveness of South African industries, leading to enhanced productivity and market positioning.
4. **Stimulated economic growth and job creation:** AGOA has contributed to economic growth in South Africa. The increased export opportunities and market access have stimulated production, investment, and job creation in various sectors, including manufacturing, agriculture, and textiles. This has had a positive impact on employment rates and income generation in the country.
5. **Technical assistance and capacity building:** AGOA has provided technical assistance and capacity building programs to support South African exporters. These initiatives aim to enhance the competitiveness of South African industries by improving their production processes, product quality, export development, compliance with trade regulations, and compliance with international standards. The assistance helps South African exporters meet the requirements of the US market and improve their export capabilities.
6. **Investor confidence and foreign direct investment:** AGOA has helped boost investor confidence in South Africa. The preferential access to the US market provided by AGOA has made South Africa an attractive destination for foreign direct investment (FDI) in sectors eligible for AGOA benefits. The presence of

AGOA has encouraged international businesses to invest in South Africa, leading to technology transfers, job creation, and overall economic development.

The largest category of exports to the U.S. comprises minerals and metals, mostly platinum and diamonds. Each tariff line has seen year on year growth since 2020 of over 80%. Motor vehicles are South Africa's third-largest export category to the U.S., and the largest under AGOA preference

### **South African Automotive Industry**

The South African automotive industry has been the major beneficiary of AGOA. As far as the domestic automotive industry is concerned, substantial two-way automotive trade has taken place between South Africa and the US since the inception of AGOA.

The South African automotive industry has been earmarked as one of the key drivers of industrialisation, not only in South Africa but also on the African continent. The Auto Pact developments in Africa, led by South Africa, to establish regional automotive hubs and value chain integration in the various regions under the framework of the African Continental Free Trade Area (AfCFTA) will be adversely affected should AGOA be discontinued for South Africa or for sub-Saharan Africa as a whole. The AfCFTA is an important step in rationalising African regional trade, deepening economic integration, creating economies of scale and regional value chains to accelerate the process of industrialisation of African economies. Trade is regarded as imperative to long-term, sustainable economic growth and development in sub-Saharan Africa. With the implementation of the AfCFTA, to pave Africa's path to prosperity via increased levels of industrial production, the discontinuation of AGOA in 2025 would be ill-timed and defeat the notion by the US to support "**trade-not-aid**" in sub-Saharan Africa. AGOA was specifically created with the aim of increasing trade activity between the US and sub-Saharan African countries and with a broader goal of fostering economic and political development in Africa.

AGOA spurred the domestic automotive industry's export drive to the extent of a 296,4% increase in the total automotive export value to the US from R1,19 billion in

2000 to R4,71 billion in 2001, when it was implemented and subsequently provided the catalyst for some South African some OEMs export-oriented investment programmes. South African automotive exports to the US increased by 447,3% in nominal Rand terms between 2001 and 2022, while automotive imports from the US increased by 671,8% in nominal Rand terms, proportionally much more than exports over the same period. AGOA's mutual benefits include enabling exports, encouraging investment in the region, enhancing private sector activity and economic growth, and ultimately generating demand for US goods and services as the region's economies develop.

In 2022, the US was the South African automotive industry's 2nd largest country export destination, 6th largest country of origin and 2nd largest trading partner. The following table reveals that total automotive exports to the US amounted to R24,1 billion, total automotive imports from the US amounted to R18,3 billion while total automotive trade amounted to a significant R42,45 billion. Exports mainly comprised passenger cars, catalytic converters, engine parts and tyres while imports mainly comprised original equipment components, passenger cars and arrange of aftermarket parts.

#### United States of America (USA) (Total trade R42 453,5 million) – 2022

Main products	Exports from SA R24 123,7 million	Main products	Imports into SA R18 329,8 million
Light vehicles	15 332,3	Original equipment components	6 572,4
Catalytic converters	5 379,1	Light vehicles	4 542,0
Engine parts	1 264,8	Engine parts	722,4
Tyres	591,4	Transmission shafts / cranks	519,1
Radiators / parts	318,8	Axles	477,9
Silencers / exhausts	72,8	Automotive tooling	410,9
Axles	70,3	Gauges/ instruments / parts	393,6
Automotive tooling	62,4	Steering wheels / columns / boxes	323,6
Gear boxes	59,8	Engines	291,0
Clutches / shaft couplings	35,9	Brake parts	218,0
Other	936,1	Other	3 858,9

Source: AIEC, SARS

The benefits stemming from AGOA for the South African automotive industry are much broader than the mere duty- and quota-free access into the US. It also stimulates opportunities for a chain of collaborative arrangements with domestic automotive manufacturing companies from third countries, such as sub-Saharan African countries, to access the US duty free via South Africa. These collaborative arrangements enhance the domestic automotive industry's world class, competitive production capabilities to increasingly take advantage of opportunities presented by this trade arrangement.

The benefits stemming from AGOA for the automotive sector in South Africa extend beyond just the elimination of duties and quotas for accessing the US market. It also creates possibilities for collaborative partnerships between domestic automotive manufacturers in third countries, especially sub-Saharan African countries, allowing them to gain duty-free access to the US market through South Africa. These partnerships contribute to the development of the local automotive industry, enhancing its competitiveness on a global scale and enabling it to seize the opportunities provided by this trade agreement.

### **South African Minerals to the US**

The second largest beneficiary was the base metals sector that stands to lose \$6 284 121.00 of benefits under AGOA. (Manganese) (+- R100 million). Manganese is a crucial mineral resource for South Africa, and the country is one of the largest producers and exporters of manganese globally. Under AGOA, South African manganese exports to the United States have enjoyed preferential access and benefited from duty-free or reduced-tariff treatment. The production of other minerals, such as manganese and titanium, has indirectly benefited from AGOA due to the positive impact on the overall South African economy. AGOA has contributed to the growth of the mining industry, including manufacturing and infrastructure, which has driven the demand for these minerals in various applications.

### **The Agricultural Sector**



The third largest sector is agriculture sector that was relieved of paying duties amounting to \$5 715 891.00. (107 000 tons of Citrus) (+- R86 .3 million). Currently the Agricultural sector enjoys trade surplus with the US under AGOA. South Africa exported roughly **US\$12,8 billion** of agricultural and agro-processed products in 2022, 4% of which go to the US market, making it the country's eighth largest market. These two sectors are together responsible for almost 10% of total South African employment and **7% of South African GDP**. However, in relation to the manufacturing sector employment, over 30% is accounted for by the agro-processing industry. The country now exports roughly half of its agricultural produce in value terms. The industry therefore needs exports to maintain revenue, economies of scale, and thereby jobs and domestic product affordability. Placing exports at risk is to place rural jobs and indirectly domestic food security in South Africa at risk.

Citrus exports comprise the largest component of SA agricultural exports to the US at over \$255 million and have been growing strongly. With the recent opening of additional US ports as destinations, exports are expected to continue to grow. In 2021/22 orange exports to the US reached a new record level of 53,284 metric tons (MT), and soft citrus (which is popular in the US) grew from 11,180 MT in 2016/17, to 48,820 MT in 2021/22. Exports of grapes and berries have doubled since 2019. With the EU market recently impacted by additional disputed phytosanitary measures, the importance of the US market for SA fruit is growing. Additional export categories (although at lower values) include beverages and spirits, vegetable preparations, and fish and marine products. All these categories have exhibited strong growth into the US market.

These export activities are key to supporting the sustainability of agriculture and agro-processing and, in turn, supporting roughly 1,3 million jobs, which equals 9% of South Africa's labour force, as of 2022. The fruit sector alone, for example, employs around 276 000 workers who support close to 1 100 000 dependents, and the wine sector employs over 80 000, with the US comprising one of its Top 5 markets. Losing access through AGOA, and without a functioning GSP fallback, would add further to the significant existing challenges (i.e., rising input cost, freight costs, shortage of power supply) that are not unique to the fruit industry but are common across the agricultural



sector. This will result in job losses not only at farm level, but throughout the agricultural value chain. South Africa currently does not enjoy preferential access to many markets. FTAs only exist with Europe, the US and Africa, and limited PTA with Mercosur. The country has not to date signed a single trade agreement with the Middle Eastern or Asian markets. This elevates the significance of US-South African trade ties and the current position enjoyed by US firms in the SA market.

Given the current high unemployment in the country, the national agricultural sectoral plan noted above, aims to boost production by roughly a third in the coming decade, and increase employment and revitalise rural economies. A key element of the Agriculture and Agro-processing Master Plan (AAMP) is market access. The Plan views ongoing and expanded market access as integral to supporting current production and future expansion within the sector. This is given added weight as agriculture is one of the few sectors in the South African economy that has consistently evidenced employment growth and is the lynchpin of rural economies.

Against this backdrop, the sector views the African Growth and Opportunity Act (AGOA) as crucial in assisting emerging markets such as South Africa to address various socio-development challenges. In 2015, when the renewal of the AGOA was underway, it could be argued that South Africa was in a relatively better economic condition than today. Thus, retaining South Africa's inclusion in AGOA is crucial to providing much needed economic growth opportunities. From an agricultural perspective, the industries that benefit are primarily wine, citrus and macadamia nuts.

In the absence of new FTAs with key trading partners in Asia, agriculture sees the continuation of AGOA as essential to the sustainability and growth of the sector.

Aside from the value of exports to the US, the South African agricultural sector enjoys a mutually beneficial relationship with US-based companies that have invested into South Africa. The competitiveness of South Africa's agricultural sector is built on access to quality inputs and technology, much of which originates from the US and is used to produce at a competitive rate. For example, some of the leading agricultural equipment manufacturers are US companies and the products they supply to South Africa is in turn used to produce high-quality agricultural products that can be exported

to the US and other destinations. These companies also contribute directly to the aims of AGOA by investing in a sophisticated dealer network, creating more than 2 500 direct employment opportunities in rural South Africa. These companies also invest greatly into infrastructure and community programmes, thereby sustaining multiple livelihoods in addition to the direct jobs created. South Africa also accounts for the largest portion of these companies' business in Africa as well as a springboard to operations elsewhere in Africa. South Africa creates an attractive environment for these investments as required by AGOA and both countries to reap the benefits.

### **Impact and Risks to the Economy Should South Africa Be excluded from AGOA.**

Losing AGOA will negatively affect South Africa's economy leading to declining competitiveness of export sectors, de-industrialization of benefiting sectors, loss of skills and technological innovation, disintegration of regional value chains, due to SA's declining import demand for raw material inputs from sub-Saharan African markets and reduced capacity for future growth, which impairs the sector's ability to create jobs, and contribute to the sector's equity goals.

1. **Loss of preferential market access:** AGOA provides South African exporters with preferential access to the US market. If AGOA were not renewed, South African products would face regular tariff rates when entering the US market. This could make South African goods less competitive compared to products from countries that still enjoy preferential access, potentially leading to a decline in South African exports to the US.
2. **Reduced export opportunities:** Without the benefits of AGOA, South African exporters may face challenges in accessing the US market, which is a significant trading partner. This could limit export opportunities for South African industries, particularly those that have been relying on AGOA preferences, such as automotive, textiles, and agricultural sectors.
3. **Impact on job creation and economic growth:** AGOA has contributed to job creation and economic growth in South Africa, particularly in sectors eligible for AGOA benefits. If AGOA is not renewed, the potential loss of export opportunities and market access could have negative implications for employment rates and

economic development in these sectors. This could have a broader economic impact, affecting communities, local businesses, and the country's overall development plans.

4. **Potential impact on investor confidence:** The absence of AGOA could negatively affect investor confidence in South Africa, as AGOA has been an important incentive for foreign direct investment (FDI) in sectors eligible for AGOA benefits. The uncertainty surrounding trade arrangements and market access could potentially influence investment decisions and hinder the flow of FDI into the country. The preferential access to the U.S. market under AGOA provides stability and market opportunities that may be appealing to foreign companies. Without AGOA, South Africa may face challenges in attracting new investment and expanding existing businesses.

## Recommendations and Proposals

1. **Extension of AGOA beyond 2025:** South African businesses support the renewal and an extension of AGOA beyond 2025, while engaging in cooperative activities with US counterparts, as mentioned, to fully realise the trade potential offered under AGOA for eligible exports. South Africa has been a substantial trading partner with the United States, and its participation in AGOA has facilitated the growth of trade between the two countries. By renewing AGOA and maintaining South Africa's eligibility, trade flows can continue to expand, benefiting both economies.
2. **Mutually beneficial agreement:** Business proposes a renewed AGOA agreement that provides benefits for both South Africa and the United States. The mutual beneficial agreement will provide potential opportunities for a reciprocal market access, increased trade flows by exploring eligible products that are currently not or less exploited, and enhanced cooperation in areas of mutual interest.
3. **Economic significance:** South Africa is one of the largest and most developed economies on the African continent. Its inclusion in AGOA renewal would allow for

a significant contribution to the overall trade and economic benefits generated through the program.

4. **Strengthen compliance with eligibility criteria:** The South African businesses are committed to meeting and maintaining eligibility criteria under AGOA in areas such as market-based economies, rule of law, labour rights, human rights, and intellectual property rights. Business is committed to work with the US counter parts to address any concerns or challenges in meeting these criteria.
5. **Diversification of products:** South Africa has a wide range of industries and sectors with export potential, including automotive, mining, agriculture, textiles, and more. The inclusion of South Africa in AGOA renewal would create opportunities for diversifying the product offerings and promoting greater exports from these sectors to the United States.
6. **Engage in constructive dialogue and collaboration:** Business is committed to foster open and constructive dialogue between South African and US government officials, policymakers, and other relevant stakeholders to address concerns, and work towards mutually beneficial solutions that enhance trade relations and promote economic cooperation. South Africa has been an active participant in AGOA and has made significant efforts to leverage the opportunities offered by the program. Therefore, renewing AGOA and including South Africa would encourage further engagement, collaboration, and knowledge sharing between the United States and South Africa, fostering stronger trade relations and partnerships.
7. **Regional integration:** South Africa plays a crucial role in regional economic integration efforts within Southern Africa. Including South Africa in AGOA renewal would be beneficial for the entire region, as it would create opportunities for supply chain linkages and strengthen regional trade.
8. **Job creation and economic development:** The renewal of AGOA would support South Africa's economic development and job creation objectives. Access to the U.S. market under preferential terms would encourage investment and expansion

of industries that generate employment opportunities and contribute to sustainable economic growth.

9. **Support for stability and growth:** AGOA has been instrumental in promoting stability, economic growth, and poverty reduction in eligible African countries. By including South Africa in the renewal, the United States can demonstrate its continued commitment to supporting South Africa's development efforts and fostering a stable business environment in the region.

### **Concluding Remarks**

AGOA should be seen as an intermediate step towards creating certainty for all traders involved through the conclusion of a bilateral free trade agreement. The extension of AGOA could even be predicated upon the initiation of negotiations for the conclusion of a free trade agreement between SACU and the US. However, such negotiations must take place while AGOA remains in place.

In addition, the US market under AGOA still has room to grow. South Africa for example has never developed or deployed a National AGOA Strategy to boost exports. Such Strategies comprise a set of actions to progressively boost the value of beneficiary market access to the US. Around 19 other AGOA beneficiaries have been assisted in designing these strategies, including our neighbours Lesotho, Namibia, Botswana and Mozambique. It is thus in the interest of SA and the US to protect and grow bilateral trade under AGOA.

Overall, AGOA has been instrumental in supporting South Africa's export sector, promoting economic growth, and creating employment opportunities. It has provided a platform for South African businesses to access the vast US market on favourable terms, contributing to the development of various industries in the country.

Thus, retaining South Africa's inclusion in AGOA is crucial to providing much needed economic growth opportunities. Market access has repeatedly been affirmed by government as a core policy objective including within various sectoral master plans. AGOA renewal would further recognize its economic significance, promote trade

diversification, support job creation, contribute to regional integration efforts, and strengthen the relationship between the United States and South Africa.