Africa Growth Initiative at BROOKINGS

REPORT

NOVEMBER 2023

SOUTH AFRICA'S RELIANCE ON PREFERENTIAL ACCESS TO THE US MARKET AND THE POTENTIAL IMPACT OF AN AGOA EXIT

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Acknowledgements

The authors wish to acknowledge and thank Matthew Simmonds and Matthew Stern for their inputs and comments in refining this paper.

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Introduction

Since the start of 2023, tension between the U.S. and South Africa has rapidly escalated. In February, South Africa welcomed the Russian warship Admiral Gorshkov—with the Kremlin's pro-war symbol, the letter "Z", on prominent display. South Africa participated in a joint naval exercise with Russia and China—Mosi II—that took place on the one-year anniversary of the Ukrainian invasion. In response, a group of U.S. policymakers introduced House Resolution 145 opposing S.A.'s hosting of military exercises with Russia and China and called on the Biden administration to "conduct a thorough review of the U.S.-S.A. relationship."

In May 2023, the tension advanced when the U.S. Ambassador to South Africa made a public statement that South Africa had secretly supplied Russia with weapons that it could use against Ukraine. The weapons were allegedly loaded onto Lady R, a ship owned by Transmorflot, a company sanctioned by the U.S. last year when it docked in Simons Town in December 2022. Rapidly, the discourse shifted to how the incident would shape the future of U.S.-South Africa relations and particularly, the future of South Africa's inclusion in the African Growth and Opportunities Act (AGOA). In May 2023, South African President Cyril Ramaphosa established a three-person panel to investigate the incident, led by judge Phineas Mojapelo. The inquiry found that the ship did not transport weapons from South Africa to Russia. Shortly thereafter, the White House released a statement thanking Ramaphosa for the speedy and responsive nature of the investigation and affirmed its commitment to AGOA. However, a number of legislators remain hesitant. Following the AGOA forum in August 2023, U.S. Senator Christopher Coons (D-CT) released a draft bill to renew it for 16 years but would require an immediate "out-of-cycle" review of South Africa's eligibility for AGOA. Such a review could lead to an expulsion from a program.

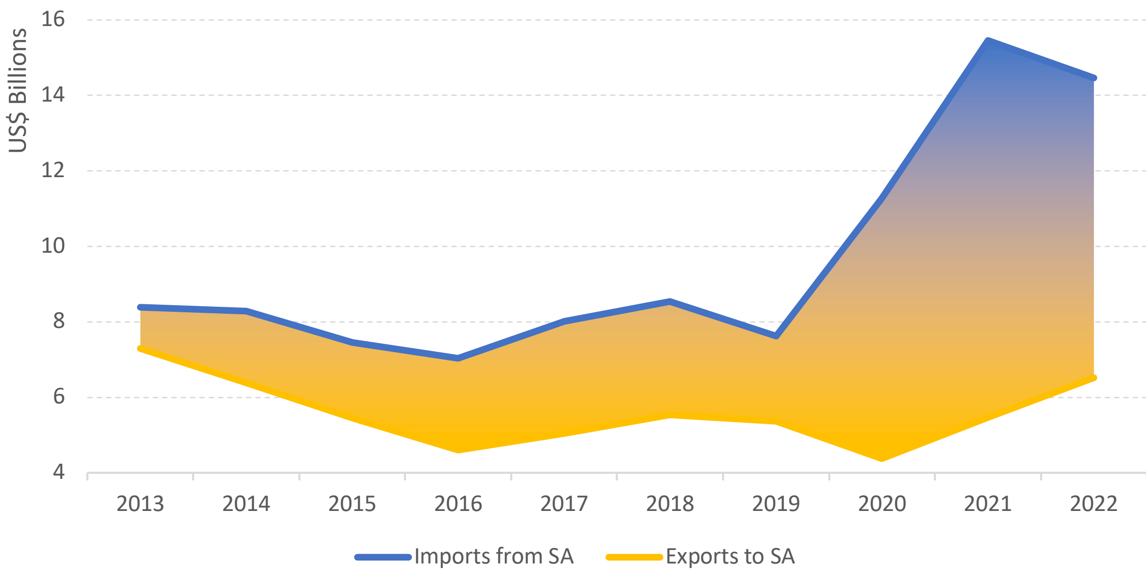
Setting aside the potential for direct political consequences, AGOA is up for renewal in 2025, which opens up a window for the U.S. congress to graduate South Africa out of AGOA for its status as an upper middle-income country.

This paper has three objectives. First, it undertakes a brief review of the preferential access granted to South Africa by the U.S. through AGOA and the Generalized System of Preferences (GSP), which is the largest and oldest U.S. trade program. Second, a computable general equilibrium (CGE) model is utilized to assess the economic impact that a loss of AGOA and GSP preferences. Third, the paper provides an overview of the various broader implications of an AGOA suspension for South Africa, beyond the direct trade impacts.

An overview of US-South Africa trade relations

The U.S. has historically been—and continues to be—a major trading partner for South Africa. Figure 1 shows that South Africa has maintained a trade surplus with the U.S. over the last decade. The U.S. has also been South Africa's fastest growing export market in recent years. The U.S. recorded an especially sharp commodity-driven growth in imports from South Africa between 2019 and 2022, with the value of imports almost doubling in just three years. During this period, South Africa's trade surplus with the U.S. increased from just over US$ 2 billion to just under US$ 8 billion.[1]

Figure 1. US trade with South Africa (US$ Billions)



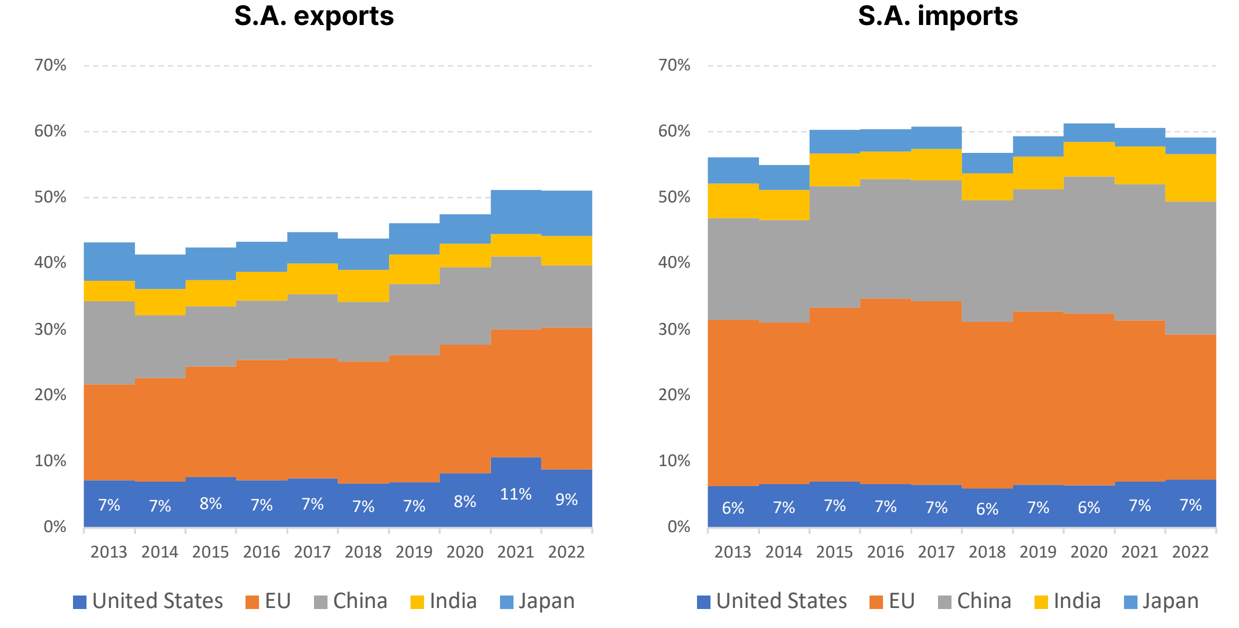
Source: Based on data from U.S. Census Bureau.

As a region, the European Union (EU), with which South Africa has an existing free trade agreement, remains South Africa's most significant trading partner, shown in Figure 2. The importance of the U.S. market for South Africa is nevertheless highlighted by the fact that over the last decade the U.S. was, on average, South Africa's second largest (country) export market (after China) and third largest (country) source of imports (after

[1] In most cases, U.S. import data used is imports defined as "imports for consumption" by the U.S. Census Bureau. This reflects U.S. imports that have cleared U.S. customs and, for purposes of this analysis, better reflects the goods imported under different trade regimes applied by the U.S.

China and Germany). At the same time, the U.S.'s share of South African exports has also grown from 7% in 2013 to 9% in 2022.[2]

Figure 2. SA's major trading partners (share of total annual trade

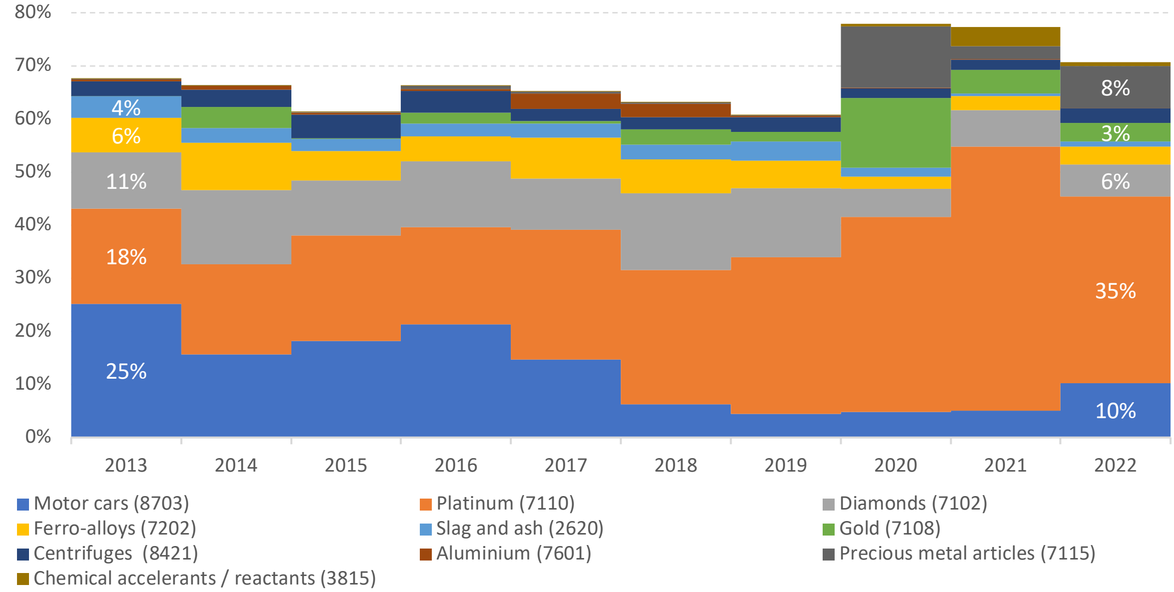


Source: Authors' calculations based on data from South African Revenue Service.

Figure 3 illustrates how the product composition of U.S. imports from South Africa has transformed over the last decade. The share of motor vehicle imports from South Africa has fallen from around 25% of total imports in 2013 to roughly 10% in 2022. By 2022, hard commodities accounted for the bulk of the U.S.' top imports from South Africa, including platinum (35% of total import value), gold (3%) and gold articles (8%), diamonds (6%), ferroalloys (3%) and slag and ash (1%).

[2] Given the focus of the paper on preferential trade regimes, the EU is shown in the analysis as a single trading partner with South Africa.

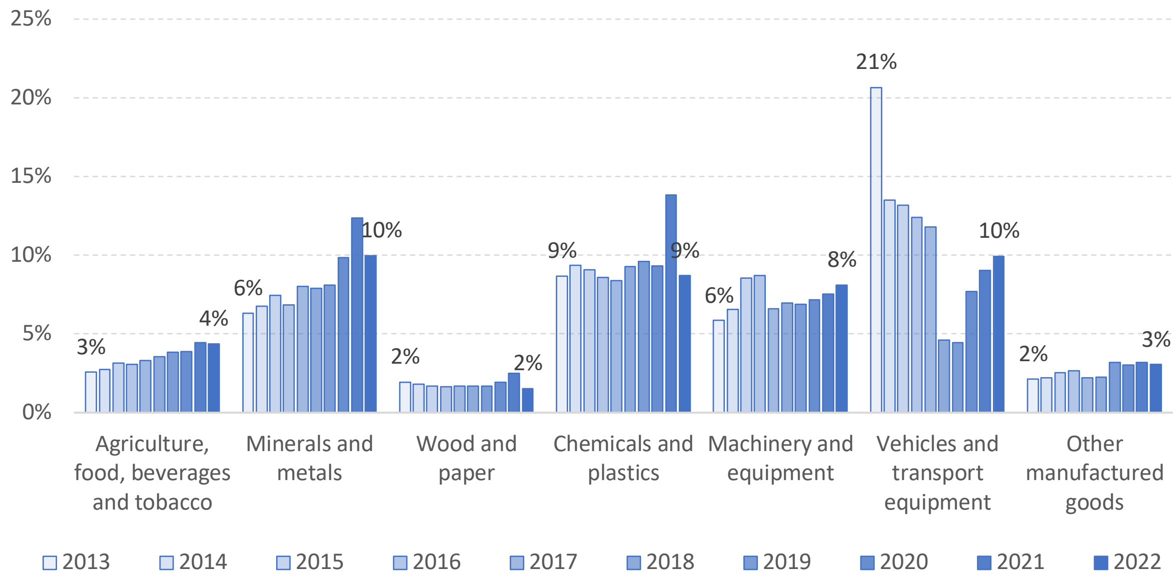
Figure 3. The US's top product imports from South Africa (% of total imports)



Source: Authors' calculations based on data from U.S. Census Bureau.
Note: The HS heading of each product is provided in parentheses.

From a market share perspective, South Africa's share of exports to the U.S. market has changed over time, as shown in Figure 4. For example, the share of vehicle exports from South Africa destined for the U.S. has declined from 21% to 10% over the last decade, while the share of metals and minerals destined for the U.S. has increased from 6% to 10% over the same period. The U.S. has remained a key market for chemical and plastic products (9% of South Africa's chemical and plastics exports in 2022) and machinery and equipment (8% in 2022). For other broad sectors, the share of South African exports destined for the U.S. was below 5% in 2022.

Figure 4. Share of SA exports destined for the US (by broad product category, % of SA's total product exports)



Source: Authors' calculations based on data from South African Revenue Service.
Note: Based on own classification according to HS chapter.

Preferential access and declining US-SA relations

Preferential access and use

South African exporters have preferential access to the U.S. market, primarily through AGOA and GSP, both of which are non-reciprocal tariff regimes offered by the U.S. South Africa has been eligible for AGOA preferences since October 2000 and eligible for additional wearing apparel provisions under AGOA since March 2001.[3]

Under existing U.S. legislation, sub-Saharan African countries are deemed eligible for AGOA preferences based on a range of eligibility requirements. These include, for example, determining whether a country has established (or is making progress in establishing) a market-based economy and is eliminating barriers to U.S. trade and investment. Importantly, part of the eligibility requirements include that participant countries do not engage in activities that undermine U.S. foreign policy and security interests.[4] The U.S. terminated AGOA benefits for countries such as Ethiopia, Guinea, Mali, and Burkina Faso in the last three years, all for violations to human rights and rule of law.

AGOA and GSP preferences are closely linked, and countries must be GSP eligible to receive AGOA benefits. Similar to AGOA, there are a range of GSP eligibility requirements in addition to a country's level of economic development. Since its initial implementation in 1974, GSP preferences have been renewed multiple times by the U.S.[5] The U.S. has also terminated GSP designation for both India and Turkey in the last five years—the former for deploying trade barriers that adversely affect U.S. commerce and the latter for its advanced level of economic development.[6]

Table 1 and Table 2 summarize the level of preferential access granted through these regimes. In terms of the number of tariff lines, a large proportion of the U.S.' standard/general import duty is zero-rated (roughly 40%). The proportion of zero-rated tariff lines is especially high for the mineral products, wood products, paper products, and machinery sectors.

[3] See: https://www.trade.gov/agoa-trade-preference and https://legacy.trade.gov/agoa/eligibility/.
[4] For more on AGOA and its eligibility requirements see: https://www.trade.gov/agoa-trade-preference. The original legislation specifying these requirements can be found here: https://www.congress.gov/106/plaws/publ200/PLAW-106publ200.pdf.
[5] See: https://crsreports.congress.gov/product/pdf/RL/RL33663. It is also worth noting that U.S. GSP preferences have expired as of January 2021, with legislation to renew GSP preferences yet to be enacted. In the interim importers continue to mark GSP eligible imports for possible future refund of any duties paid.
[6] See: https://legacy.trade.gov/agoa/eligibility/.

For the remaining non-zero tariff lines, South African exporters are provided with preferential access on roughly 75% of these through AGOA and/or GSP. There is a high degree of overlap between AGOA and GSP preferences, with exporters able to switch between preferential regimes across more than 3,700 tariff lines. Overall, with preferential access through AGOA, GSP, and with the zero-rated general duties, South African exporters have duty-free access to the U.S. market across more than 85% of tariff lines, or 10,000 products.

Table 1. SA's preferential access to US market, through AGOA and GSP (number of tariff lines, HTS 2022)

HS section	Total tariff lines	Free (no duty)	S.A. preference only through AGOA		AGOA or GSP developing country	GSP developing country only	GSP LDC only (no S.A. preferential access)	No preferential access
			AGOA only	AGOA / GSP LDC only				
(S01) Live animals, animal products	721	298	0	253	80	0	0	90
(S02) Vegetable products	594	155	17	157	257	0	1	7
(S03) Animal or vegetable fats & oils	85	18	0	34	32	0	0	1
(S04) Food, beverages & tobacco	807	156	11	216	289	1	3	131
(S05) Mineral products	204	151	0	33	20	0	0	0
(S06) Chemical products	1,929	586	2	456	878	5	1	1
(S07) Plastic products	384	87	1	30	258	2	0	6
(S08) Raw hides	231	42	18	30	130	0	0	11
(S09) Wood products	380	215	5	15	145	0	0	0
(S10) Paper products	278	278	0	0	0	0	0	0
(S11) Textiles & clothing	1,756	227	0	0	67	0	12	1,450
(S12) Footwear	197	35	118	0	26	0	0	18
(S13) Non-metallic minerals	383	131	22	62	135	0	0	33
(S14) Precious stones and metals	115	54	0	4	57	0	0	0
(S15) Base metals	1,017	548	13	48	406	0	2	0
(S16) Machinery	1,513	899	0	52	545	17	0	0
(S17) Transport equipment	330	163	0	63	104	0	0	0
(S18) Specialized equipment	532	261	62	73	127	8	1	0
(S19) Arms and ammunition	33	18	0	2	13	0	0	0
(S20) Misc. manufact articles	357	153	0	16	159	4	0	25
(S21) Collectors' pieces & antiques	25	25	0	0	0	0	0	0
Total	11,871	4,500	269	1,544	3,728	37	20	1,773

Source: Authors' calculations based on data from U.S. ITC.

The high level of duty-free access is reflected in the average tariff duties on U.S. imports from South Africa, shown in Table 2. Average general (non-preferential) tariff duties are typically below 5% across most product categories. Average duties are highest in the footwear and food and beverages sectors (both of which have unweighted average tariffs above 10%). Tariff duties are also comparatively higher in the animal products and textiles and clothing sectors, at 6.6% and 8.9% respectively.

Given the low (average) level of general duties, the degree of preferential access provided through AGOA and GSP are often minimal. On average, across all sectors, preferential access (seen as the difference between columns 4 and 5 in Table 2) amounts to no more than 2.5% below the general duty. The level of preferential access (on an unweighted basis) is highest for the animal products, food and beverages and footwear sectors.

Table 2. Average import tariffs for US imports from South Africa, by tariff regime, HTS 2022

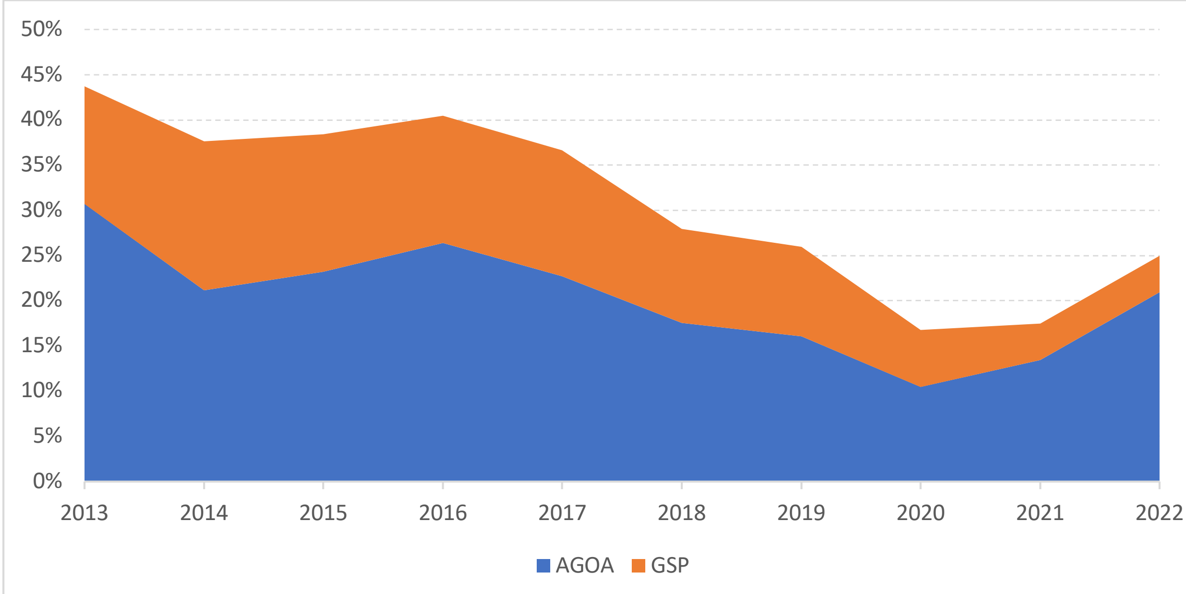
HS section	Trade weighted			Unweighted		
	MFN / General (1)	AGOA (2)	GSP (3)	MFN / General (4)	AGOA (5)	GSP (6)
(S01) Live animals, animal products	0.0%	0.0%	0.0%	6.6%	3.1%	6.1%
(S02) Vegetable products	1.2%	0.1%	1.0%	4.3%	1.2%	2.6%
(S03) Animal or vegetable fats & oils	1.1%	0.0%	0.0%	2.9%	0.1%	1.7%
(S04) Food, beverages & tobacco	7.2%	1.2%	6.6%	10.4%	5.9%	8.4%
(S05) Mineral products	0.1%	0.0%	0.0%	0.5%	0.0%	0.2%
(S06) Chemical products	1.9%	0.0%	0.3%	3.5%	0.0%	1.4%
(S07) Plastic products	4.1%	0.0%	0.0%	3.8%	0.1%	0.5%
(S08) Raw hides	2.2%	0.1%	0.3%	4.9%	0.6%	1.9%
(S09) Wood products	3.7%	0.0%	0.0%	2.3%	0.0%	0.3%
(S10) Paper products	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
(S11) Textiles & clothing	8.3%	7.9%	7.9%	8.9%	8.8%	8.8%
(S12) Footwear	6.0%	0.0%	3.9%	13.3%	0.7%	12.5%
(S13) Non-metallic minerals	1.1%	0.0%	0.1%	5.0%	0.6%	3.1%
(S14) Precious stones and metals	0.3%	0.0%	0.0%	2.9%	0.0%	0.1%
(S15) Base metals	1.7%	0.2%	0.5%	1.9%	0.0%	0.4%
(S16) Machinery	0.5%	0.0%	0.0%	1.4%	0.0%	0.2%
(S17) Transport equipment	2.4%	0.0%	2.3%	2.9%	0.0%	1.9%
(S18) Specialized equipment	0.2%	0.0%	0.0%	2.5%	0.1%	1.5%
(S19) Arms and ammunition	1.1%	0.0%	0.0%	1.7%	0.0%	0.2%
(S20) Misc. manufact articles	2.0%	0.2%	0.1%	3.3%	0.6%	0.9%
(S21) Collectors' pieces & antiques	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total average	**1.0%**	**0.1%**	**0.5%**	**4.5%**	**2.0%**	**3.2%**

Source: Authors' calculations based on data from U.S. ITC and U.S. Census Bureau. For tariff lines that are not ad valorem a simple average ad valorem equivalent was calculated using U.S. Census Bureau data.

On a trade-weighted[7] basis, average tariffs on South African exports to the U.S. are even lower, averaging just 1% on all where no preferential access is provided, close to 0% on exports under AGOA, and just 0.5% on exports under GSP.

Figure 5 and Table 3 summarize the extent to which the preferential regimes have been used for U.S. imports from South Africa. Over the last decade, use of either AGOA or GSP to access the US market has fallen from roughly 45% of U.S. imports from South Africa to just under 25% between 2013 and 2022. Separately, 21% of U.S. imports from South Africa entered under the U.S. through AGOA, and just 4% through the GSP regime. The relatively low preference margin provided through AGOA and GSP, together with the product profile of South Africa's exports to the U.S., may explain the low general usage of these preferential regimes by South African exporters.[8]

Figure 5. SA usage of preferential access to US market (% of total US imports from South Africa)



Source: Authors' calculations based on data from U.S. Census Bureau.

[7] Tariff averages are weighted by U.S. imports from South Africa at the 8-digit tariff level.
[8] It is worth noting that AGOA likely initially spurred significant increases in production and exports from South Africa to the U.S. For example, South Africa increased its automotive exports to the U.S. from $195 million in 2000 to $1.8 billion in 2013. In 2000, South Africa exported a total of $2.2 billion in automotive exports and 8.7% of it went to the U.S. By 2013, South Africa exported $8.9 billion of automotives and sent 19.9% to the U.S.

At a more disaggregated level, use of preferential access to the U.S. market (through either AGOA or GSP) is significant for some product sectors. This includes transport equipment, where roughly 95% of U.S. imports from South Africa have been imported under AGOA or GSP in the last decade. The share of plastic products entering the U.S. market through AGOA or GSP has risen from 24% in 2013 to 63% in 2022. Other sectors where preferential usage is significant include vegetable products (85% of U.S. imports from South Africa in 2022), food and beverages (75%), raw hides (86%) and wood products (84%).

On the other hand, South Africa's biggest exports to the U.S. make comparatively lower use of preferential regimes. Preferential usage of non-metallic minerals, precious stones and metals, and base metals (which together accounted for two-thirds of U.S. imports from South Africa in 2022) was 14%, 5% and 42% in 2022 respectively. This is likely due to two factors. First, as shown previously, the overall (trade-weighted) MFN tariff for many of these products is typically close to zero, implying that the level of preferential access is very low. Second, for South African exporters, the international (market) price, together with the foreign exchange rate are likely bigger drivers of export volumes, rather than the minimal preferential access that is provided through either AGOA or GSP.

Table 3. Percentage of total US imports from SA utilizing either AGOA or GSP preferences

AGOA and GSP	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
(S01) Live animals, animal products	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
(S02) Vegetable products	82%	76%	84%	83%	83%	85%	86%	80%	80%	85%
(S03) Animal or vegetable fats & oils	22%	7%	22%	55%	74%	62%	74%	47%	47%	13%
(S04) Food, beverages & tobacco	85%	89%	87%	83%	87%	81%	77%	78%	73%	75%
(S05) Mineral products	0%	0%	0%	1%	3%	2%	2%	2%	4%	2%
(S06) Chemical products	47%	48%	49%	45%	47%	57%	55%	50%	27%	47%
(S07) Plastic products	24%	27%	40%	52%	52%	77%	55%	74%	74%	63%
(S08) Raw hides	84%	86%	87%	91%	93%	92%	94%	90%	89%	86%
(S09) Wood products	56%	77%	76%	85%	85%	83%	90%	87%	86%	84%
(S10) Paper products	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
(S11) Textiles & clothing	22%	22%	26%	28%	23%	29%	32%	33%	31%	16%
(S12) Footwear	60%	33%	56%	58%	87%	85%	72%	74%	45%	47%
(S13) Non-metallic minerals	38%	46%	60%	37%	8%	13%	16%	26%	23%	14%
(S14) Precious stones and metals	1%	1%	3%	4%	4%	4%	4%	3%	4%	5%
(S15) Base metals	72%	68%	61%	66%	56%	48%	53%	54%	49%	42%
(S16) Machinery	14%	21%	22%	21%	26%	31%	27%	17%	17%	12%
(S17) Transport equipment	97%	97%	95%	97%	95%	90%	86%	91%	92%	96%
(S18) Specialized equipment	38%	26%	20%	30%	20%	9%	22%	6%	1%	0%
(S19) Arms and ammunition	5%	3%	9%	5%	12%	7%	2%	3%	5%	6%
(S20) Misc. manufact articles	10%	10%	17%	11%	13%	17%	14%	28%	33%	31%
(S21) Collectors' pieces & antiques	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Total	**44%**	**38%**	**38%**	**40%**	**37%**	**28%**	**26%**	**17%**	**17%**	**25%**

Source: Authors' calculations based on data from U.S. Census Bureau.

Modeled impacts of preferential loss

The general, economy-wide impact of the loss of preferential access is modelled using the GTAP model and database and through two scenarios. Annex 1 provides some background to the computable generable equilibrium (CGE) model used for this scenario simulation.

In the first scenario, South African exporters only lose preferential access available under AGOA (and therefore face general duty rates on exports to the U.S.). To date, 17 countries have lost (and in some cases, regained) AGOA eligibility. In all but one instance, AGOA eligibility has been suspended by the U.S. based on investigations finding that the country has not met AGOA's broad eligibility requirements. The lone exception is the Seychelles, which "graduated" out of AGOA, effective January 2017, due to its achieving high-income status.[9]

In the second scenario, South African exporters lose preferential access available under both AGOA and GSP, implying that all exports to the U.S. are on a general duty basis. Over time the GSP eligibility of numerous countries has been terminated, either due to "graduation" or other reasons. As previously noted, the most recent of these terminations include India, for failing to provide the U.S. with reasonable and equitable market access, and Turkey, after finding that the country had reached to sufficient economic development levels to graduate out of GSP.[10]

The pre-simulation tariffs[11] and those for the two scenarios are summarized in Table 4.[12]

[9] For a summary of AGOA suspensions and a broad review of the impact of these suspensions on other African countries, see: Edjigu H, et al (2023), 'Uncertainty in Preferential Trade Agreements, Impact of AGOA Suspensions on Exports', Policy Research Working Paper 10424, World Bank Group.

[10] See: https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/march/united-states-will-terminate-gsp.

[11] To best simulate counterfactual scenarios, and to avoid skewed results that may arise from tariff aggregation, pre-simulation and scenario tariffs were aggregated and weighted based on the U.S.' total imports from South Africa. While this provides for more robust results overall, it may also overstate the effects of tariff increases, since pre-simulation tariffs assume that all U.S. imports from South Africa enter through either AGOA or GSP (i.e., preferential usage is 100% for those tariff lines where preferential access is available).

[12] Note that tariffs are aggregated based on GTAP database sectors and are not directly comparable to tariffs presented in earlier sections, which are aggregated based on HS nomenclature.

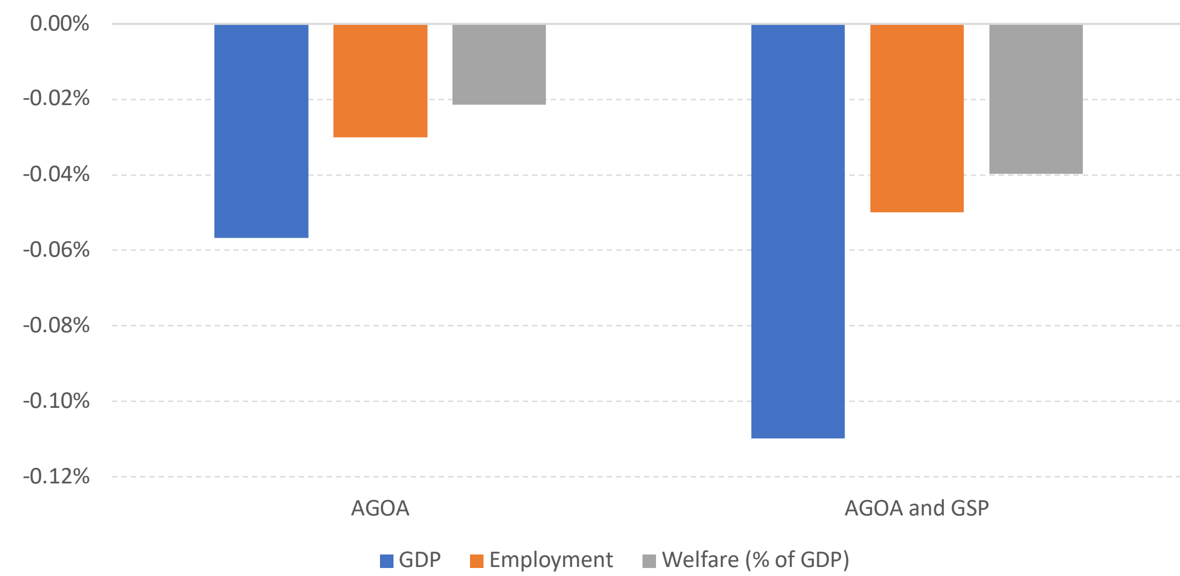
Table 4. US applied import tariffs for South African exports under two modeling scenarios

GTAP sector	Applied tariffs (pre-simulation)	Scenario 1: Loss of AGOA	Scenario 2: Loss of AGOA and GSP
Grains and crops	0.0%	0.1%	1.8%
Fruit and vegetables	0.0%	0.9%	1.0%
Animal and meat products	2.3%	2.4%	2.4%
Forestry	0.0%	0.0%	0.7%
Fishing	0.0%	0.0%	0.0%
Coal	0.0%	0.0%	0.0%
Oil and gas	0.0%	0.0%	0.0%
Other mining	0.0%	0.0%	0.0%
Food and beverages	1.1%	5.4%	5.9%
Textiles, leather, and clothing	4.6%	5.1%	6.2%
Wood and paper	0.0%	0.0%	1.0%
Fuels	0.0%	0.0%	0.0%
Chemicals	0.0%	0.3%	2.1%
Other minerals	0.0%	0.1%	1.3%
Metals and metal products	0.0%	0.1%	0.3%
Electric and electronic equipment	0.0%	0.0%	1.1%
Machinery	0.0%	0.0%	0.1%
Transport equipment	0.0%	2.2%	2.4%
Other manufacturing	0.0%	0.0%	0.9%

In most cases, the tariff increases from pre-simulation to either scenario is small, which is not unexpected given the analysis of preferential margins in earlier sections. Under scenario 1 (loss of AGOA) average import tariffs across all sectors remain below 5%, except for food and beverages (5.4%) and textiles, leather, and clothing (5.1%). Under scenario 2 (loss of AGOA and GSP) a larger number of sectors face higher tariffs compared to pre-simulation tariffs (including forestry, wood and paper, chemicals, and other minerals) but the average tariff level remains low.

The low level of tariff increases arising from the loss of preferences in either scenario is reflected in the broad results, summarized in Figure 6. Under scenario 1 (loss of AGOA), nominally higher tariffs on South African exports to the U.S. results in South Africa's GDP falling by under 0.06%. The GDP impact under scenario 2 (loss of AGOA and GSP) is slightly higher, with a GDP decline of 0.11%. The employment impact is equally small, with employment estimated to fall by 0.03% and 0.05% across scenario 1 and 2 respectively. The modeled welfare losses are estimated to be even smaller.

Figure 6. Modeled results: Overall impacts, percentage change



Source: Authors' estimates using GTAP model and database

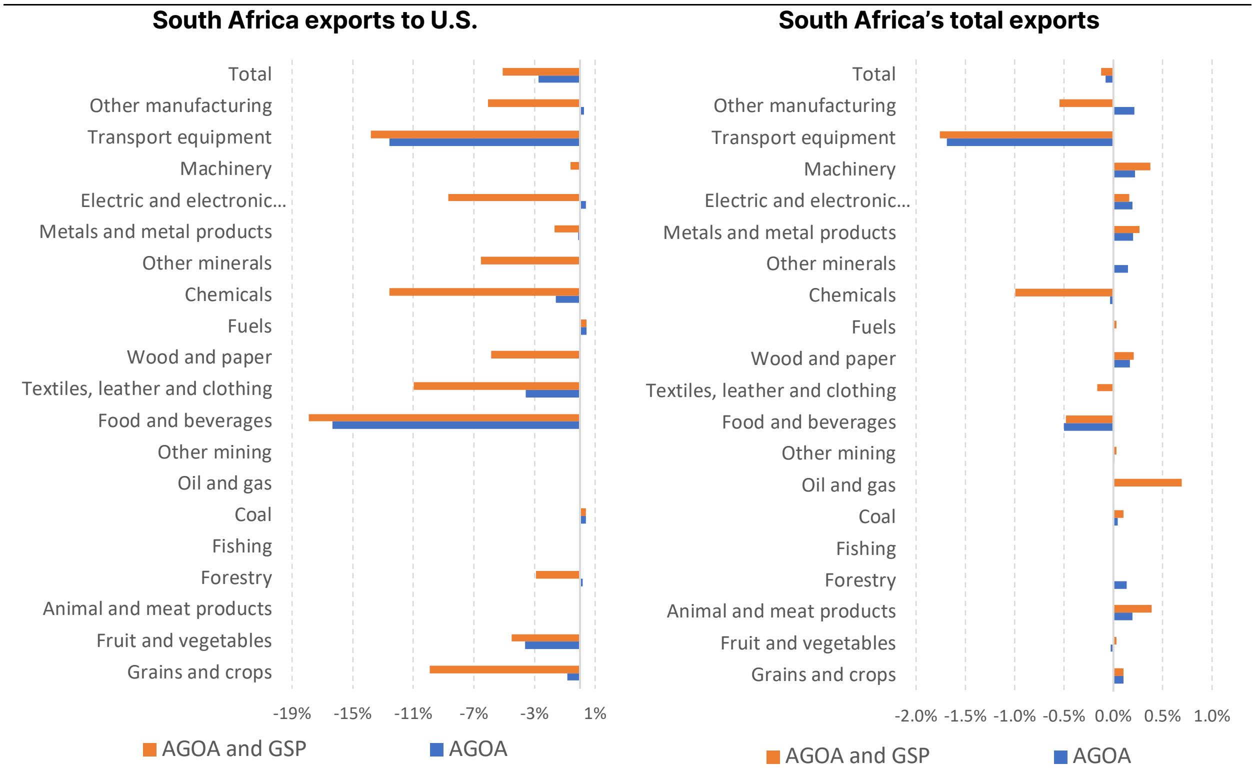
At the sectoral level, there is a higher degree of impact on South Africa's exports to the U.S., as shown in Figure 7. Under scenario 1 (loss of AGOA), South Africa's total exports to the U.S. are estimated to fall by roughly 2.7%. The biggest sectoral losers under this scenario are food and beverages (exports to the U.S. estimated to fall by 16%) and the transport equipment sector (exports fall by 13%). Other sectors that experience a significant fall in exports include the fruit and vegetables (4.5% decline) and textiles, leather, and clothing (3.6%) sectors.

Under scenario 2 (loss of AGOA and GSP), a much larger number of sectors would experience a decline in exports to the U.S. The food and beverages (exports to the U.S. estimated to fall by 18%) and the transport equipment sector (exports fall by 14%) remained the most negatively impacted. However, the loss of all preferential access to the U.S. market also sees significant declines in South African exports of grains and crops (10%), fruit and vegetables (4.5%), textiles, leather, and clothing (11%), chemicals (13%), other minerals (6.5%), and electric and electronic equipment (9%).

Nevertheless, under both the scenarios the impact on South Africa's ***overall*** exports is small. For both scenarios South Africa's total global exports are estimated to fall by around 0.1%. These results arise for two primary reasons.

First, as previously shown, South Africa's exports to the U.S. amounted to roughly 10% of South Africa's total exports in 2022. Thus, the overall impact of changes to preferential trade policies on South Africa's total export basket will be more muted. This is seen in the sectors most impacted by the loss of preferential access: South Africa's total exports of transport equipment and food and beverages is estimated to fall at most by 1.8% and 0.5% respectively under either scenario. In addition to this, South Africa's exports to the U.S. are highly concentrated in metal commodities, which are not impacted significantly by the loss of tariff preferences. It's unlikely there will be a decline in commodities exports regardless, given the growing demand for critical minerals such as platinum, palladium, and manganese, all of which are on the United States Geological Survey (USGS) critical minerals list.

Figure 7. Modeled results: Percentage change in South Africa's exports, by sector



Source: Authors' estimates using GTAP model and database

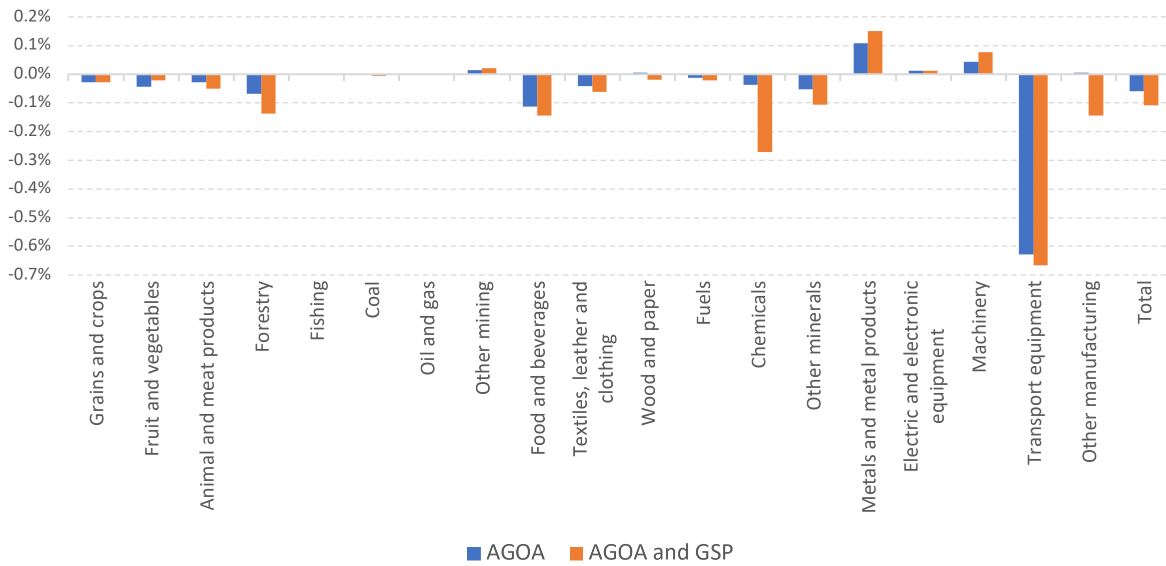
Second, because of changes in relative prices, some trade diversion occurs; away from the now higher priced U.S. (import) market to the lower priced rest of the world market. However, the overall impact of the latter effect is small, with South Africa's exports to the rest of the world increasing by less than 0.1% and 0.3% across scenarios 1 and 2 respectively.[13]

Given the small overall impact on South Africa's exports, the change in total production is similarly small, as shown in Figure 8. South Africa's total production/output is estimated to fall by 0.1% in both scenarios. The impact from preferential loss is highest in the transport

[13] A third effect, which also partially explains the increase in exports for sectors that do not see any tariff changes, is that some resources are reallocated to other sectors as they are "freed" up.

equipment sector, with the modeling results indicating a decline in production of up to 0.6%.

Figure 8. Modeled results: Percentage change in South Africa’s production, by sector



Source: Authors’ estimates using GTAP model and database

Broader implications of souring US-SA relations

The analysis from earlier sections broadly suggests that (1) the level of preferential margin provided to South African exporters through AGOA and GSP is small overall and (2) though there may be specific sectoral impacts, the loss of preferential trade access to the U.S. market through AGOA and GSP is likely to have a small overall impact on South Africa's economy. However, the trade analysis and CGE modeling cannot account for any broader consequences of a deterioration in U.S.-South Africa relations.

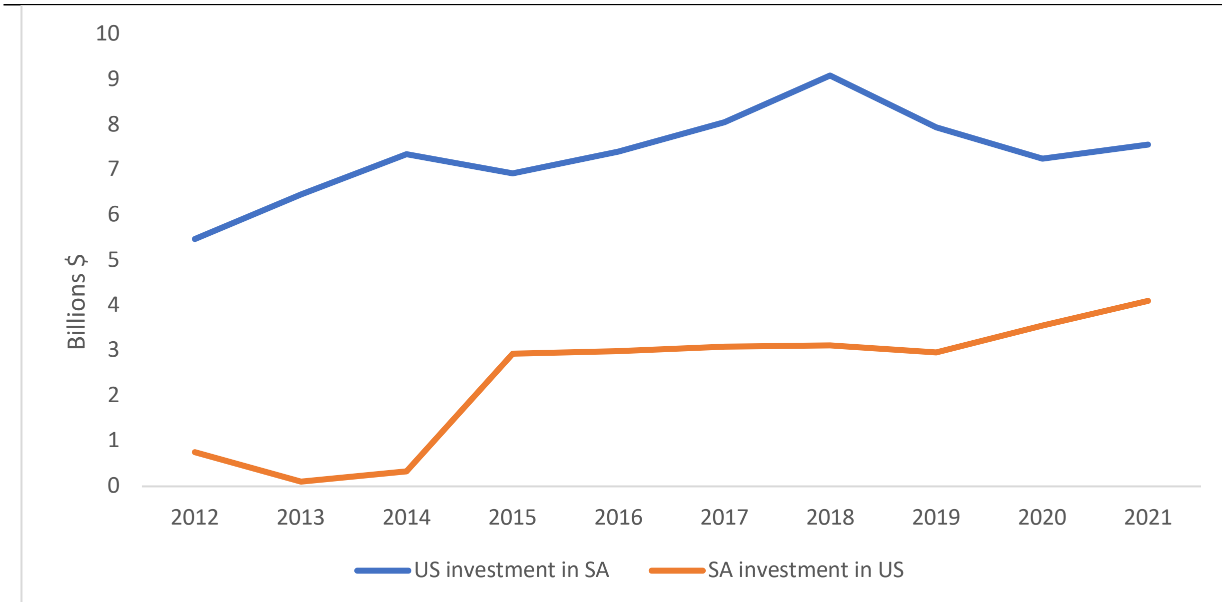
In the instance that South Africa loses AGOA benefits, *how* it loses it will have a direct impact on the extent to which South Africa's economy is impacted over the medium- to long-term. If the country is graduated out of AGOA (or GSP) for its upper middle-income status, the possible longer-term impact will be far less, or even negligible. If, however, it was stripped on the grounds of foreign policy, this could have significant impacts, including deteriorating market confidence, capital outflows, and currency depreciation.

US investment in South Africa

From a narrow perspective, South Africa continues to depend on the U.S., both from a capital account and employment perspective. Between 2012 and 2021, U.S. investment in South Africa has increased by 38.1%: From \$5.5 billion to \$7.6 billion. It followed a non-linear trajectory—hitting a high of \$9.1 billion in 2018 before declining again. In 2021, U.S. foreign direct investment (FDI) amounted to 1.8% of South Africa's GDP and 18.4% of all FDI (total FDI was \$41.3 billion).[14][15] This relationship is not solely one way—South African investment in the U.S. has significantly increased as well, from \$755 million to \$4 billion between 2012 and 2021—a 4.4x increase.

[14] U.S. Bureau of Economic Analysis. South Africa - International Trade and Investment Country Facts
[15] U.S. Bureau of Economic Analysis. South Africa - International Trade and Investment Country Facts

Figure 9. U.S.-South Africa direct investment

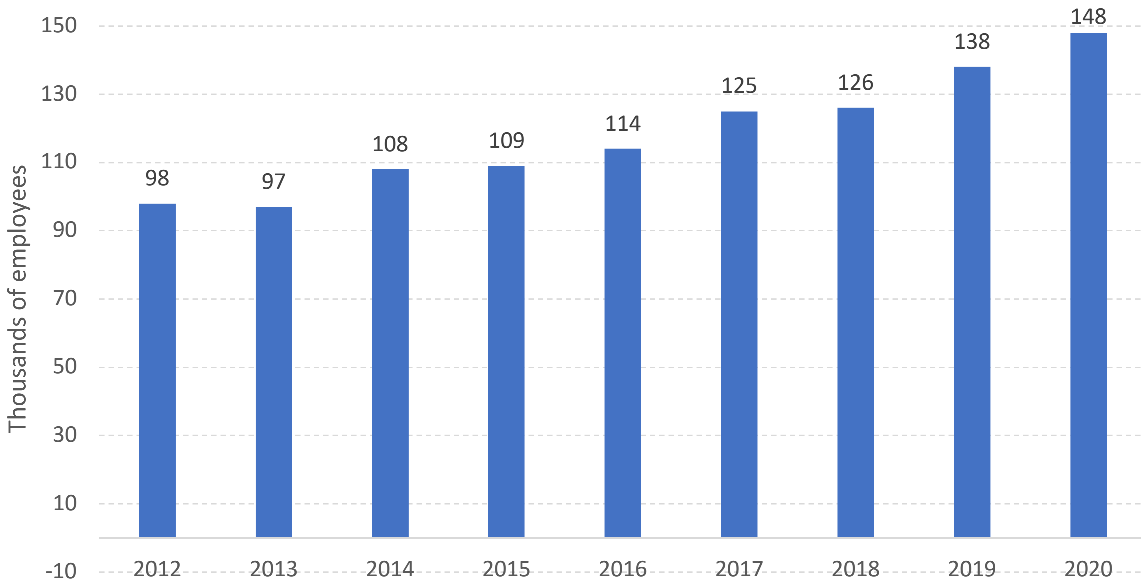


Source: U.S. Bureau of Economic Analysis Database

Approximately 600 U.S. businesses operate in South Africa.[16] Between 2012 and 2020, employment by U.S. multinational corporations (MNCs) increased by 51%, from 98,000 employees to 148,000. On the contrary, just 7,000 people were employed in the U.S. by South African MNCs in 2020.

[16] U.S. Department of State. The United States and the Republic of South Africa Fact Sheet. August 8, 2022. https://www.state.gov/the-united-states-and-the-republic-of-south-africa

Figure 10. Employment by US MNCs in South Africa

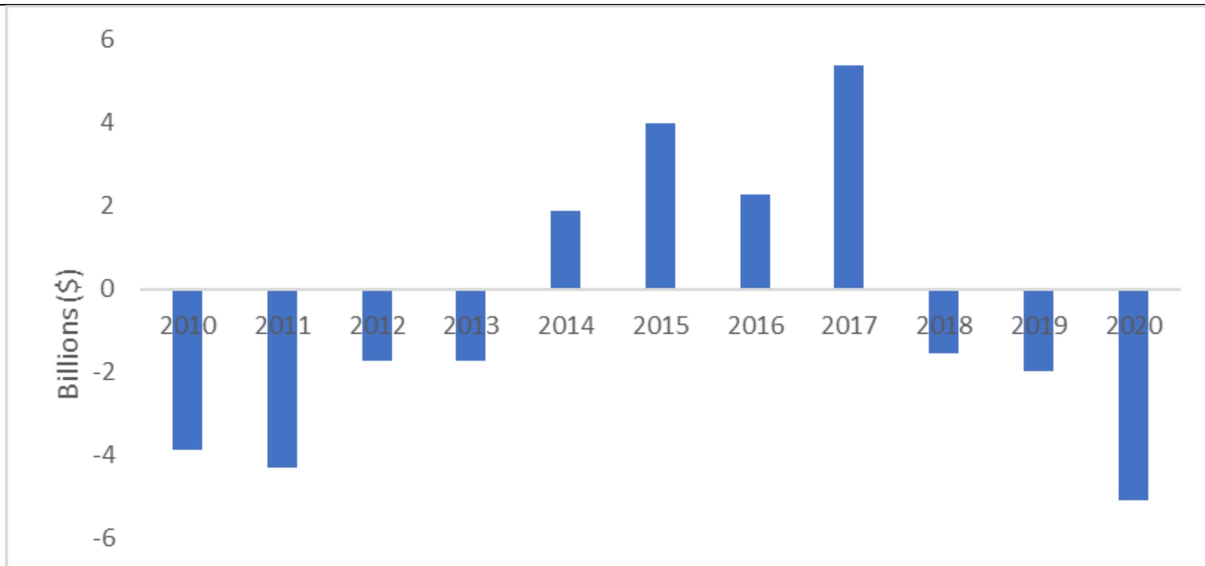


Source: U.S. Bureau of Economic Analysis Database

The presence of these companies yields multidimensional benefits. For example, Ford Motor Company employs 4,000 people at its plant in Pretoria alone. Ford is now investing another $1 billion to expand production by 20% and will generate another 1,200 jobs.[17] However, the majority of Ford's output is exported to the EU rather than the U.S.[18]—so an AGOA suspension would have limited impact, but the associated loss of confidence could impede future investments from U.S. based MNCs like Ford. The U.S.-South Africa economic relationship is important to both countries, but South Africa benefits more from it—in terms of investment, exports, and employment. A loss of U.S. investment will exacerbate a deteriorating level of net FDI into South Africa, which has already declined significantly and has been negative since 2018.

[17] "Yellen lauds Ford's 100-year history in South Africa, flags more investments." Reuters. January 26, 2023
[18] In 2021, 58.2% of South Africa's $11.2 billion in automotive and component exports went to the EU.

Figure 11. Foreign direct investment, net (BoP, current US$)



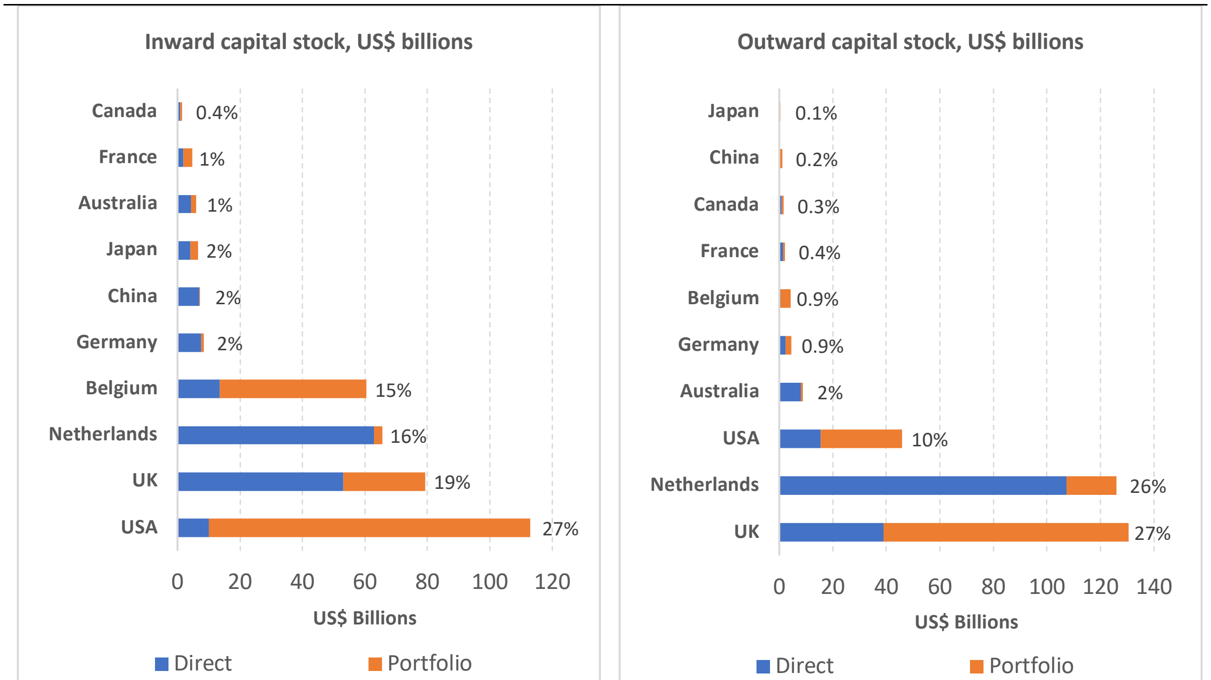
Source: U.S. Bureau of Economic Analysis

"Contagion" effects from political isolation

In the medium to long-term, South Africa's foreign policy choices are likely to impact not only relations with the U.S., but those of the U.S.'s allies as well. South Africa has strong trade relations with economies such as the U.K. and EU. Specific trade agreements in place with these regions would make the unilateral revoking of preferences difficult. However, in an extreme scenario, these trade agreements may not prevent the imposition of specific, or targeted, sanction regimes on South Africa, or the prospect of more informal "investment strikes."

While the likelihood of formal sanctions is remote, it is worth noting the importance, and concentration, of investment flows between South Africa and regions closely aligned to the U.S., highlighted in Figure 12. The U.S., U.K., Netherlands, Belgium and Germany are amongst the largest contributors to South Africa's trade and investment portfolio. Together, these five countries account for close to 80% of total (direct and portfolio) capital stock in South Africa. In the other direction, more than 50% of South African outward capital stock resides in just two countries: the U.K. and Netherlands. A deterioration of South African relations with any of the aforementioned countries which leads to any sort of investment sanctions—or even a partial investment strike—could have significant negative impacts on South African capital markets and their economy in general.

Figure 12. South African capital stock, selected sources and destinations (data labels reflect % of total), 2021



Source: Based on data from the South African Reserve Bank. Figures converted to US$ using 2021 exchange rate.

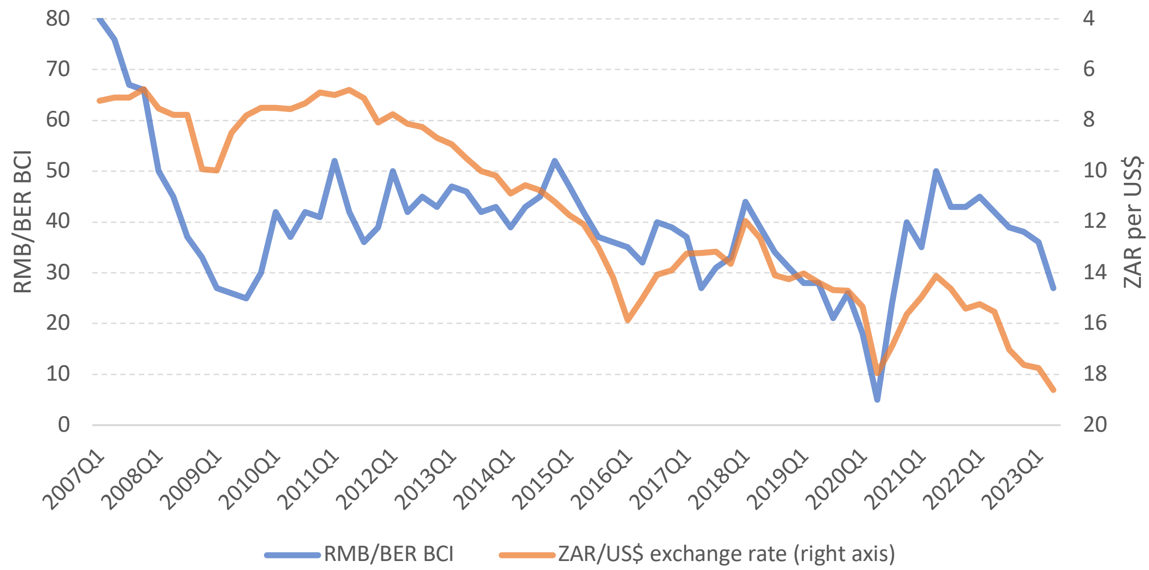
Weighing down an already fragile economy

South Africa has been experiencing long-term economic stagnation and a crisis of confidence. The first sharp decline came after 2007 after the combined effects of the global financial crisis and the onset of electricity blackouts (termed "loadshedding"). The second large dip came during the start of the COVID-19 pandemic in 2020. In contrast to other emerging markets, it is estimated that (in real terms) South Africans are almost 5% poorer in 2022 than they were in 2008.[19]

Business confidence and economic growth have eroded on the back of a myriad of challenges, including prolonged energy shortages, crime, and corruption. The lack of business confidence is reflected in the RMB/BER Business Confidence Index (BCI), which has been above the 50 (neutral) mid-point in only 2 of the last 62 quarters going back to the beginning of 2008.[20] Significant exchange rate volatility (and continued depreciation of South Africa's currency) underline South Africa's crisis of confidence.

[19] See Annex 2.
[20] The RMB/BER BCI score can range between 100 (where all respondents replied "satisfactory" to the index's composite survey indicator questions) and 0 (where all respondents replied "unsatisfactory").

Figure 13. RMB/BER Business Confidence Index and ZAR/US$ exchange rate

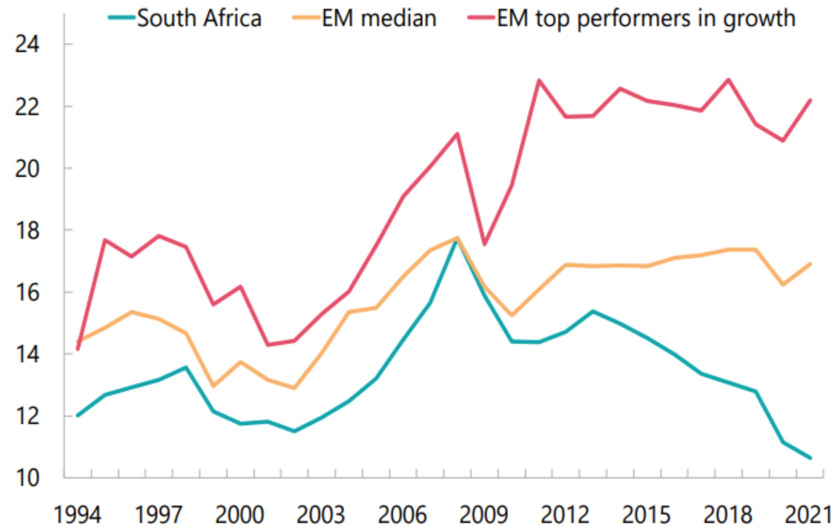


Source: U.S. Bureau for Economic Research and South African Reserve Bank

In addition to the energy crisis, other factors that have undermined business confidence and the private sector are the mismanagement of state-owned enterprises, corruption, labor (and civil) unrest, declining infrastructure, and shortages of skilled labor. These factors have also contributed to a decline in South Africa's private sector investment (gross fixed capital formation (GFCF)), which fell from 18% of GDP in 2008 to 12% of GDP in 2022[21], making it home to one of the lowest levels in emerging markets.

[21] Based on data from IMF.

Figure 14. Gross fixed capital formation, private sector (% of GDP)



Source: IMF

In 2023, the South African Reserve Bank flagged capital flows, declining market depth, and liquidity as high risk in its Risk and Vulnerability Matrix. While exogenous factors—such as the recent volatility in the U.S. banking sector and unhedged interest rate risks—are affecting multiple emerging markets, South Africa's situation is exacerbated by its energy crisis, grey-listing, and foreign policy decisions. Capital outflows were identified as one of the biggest risks facing South Africa in the SARB's Financial Stability review in 2023.[22]

Further jeopardizing U.S.-SA relations is likely to only exacerbate the precarious state of South Africa's economy. The fallout of damaged U.S.-South Africa relations is already evident: Investors have cited it as a cause for waning business confidence in the most recent RMB/BER survey. The South African Reserve Bank has flagged U.S.-led sanctions as a factor that would pose severe risks to South Africa's financial sector. In the days after the U.S. Ambassador to South Africa went public with the allegations of loading weapons onto Lady R, the South African rand hit a record low—R19.46 to the US dollar, plunging roughly 5%.

The role of critical minerals

In 2021, South Africa was the world's biggest exporter of several minerals identified as critical by USGS. As Figure 15 shows, the U.S. imported nearly 100% of its chromium from South Africa along with over a quarter of its manganese, titanium, and platinum. The USGS has also noted that South Africa is home to 70% of the world's manganese

[22] South African Reserve Bank. Financial Stability Review. First Edition (2023)

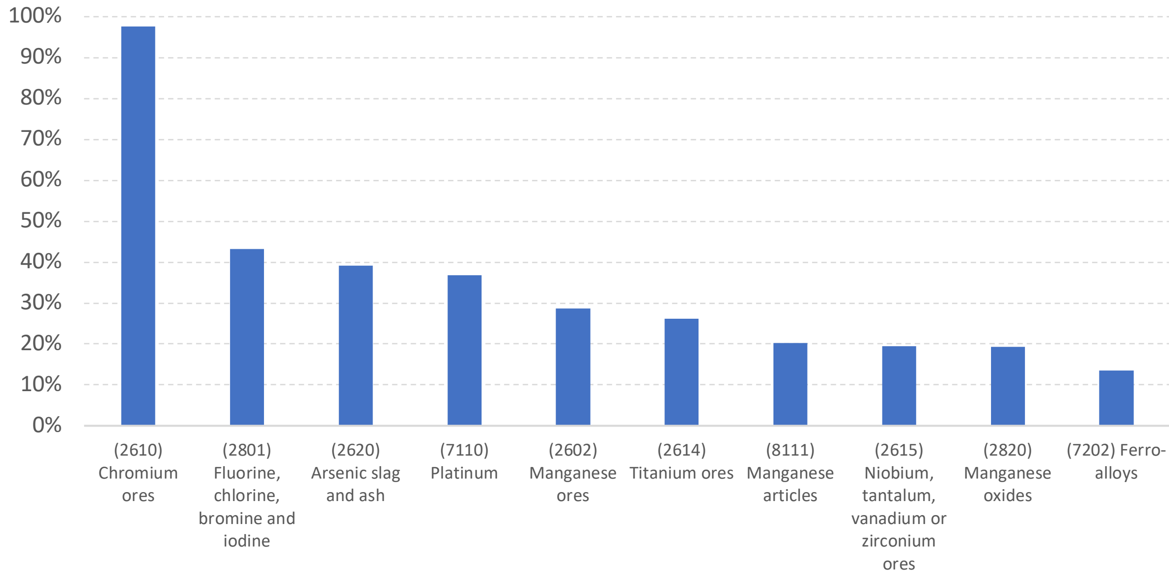
reserves—which, of a list of 50 critical minerals, is one of the only ones without a satisfactory substitute.[23] The U.S. is likely to continue to increase imports of and production using these minerals, particularly manganese. There's already been an observable increase in the worldwide demand for manganese: In 2021, South Africa exported $2.9 billion in manganese ore, and the production increase over the past decade has been significant, jumping 167% from 7.2 million tons in 2010 to 19.2 million tons in 2021. Export sales for manganese have increased 268% over the same period, from R9.3 billion to R35.3 billion.

In September 2022, Gabon, the U.S.'s primary existing source for manganese (comprising 67% of U.S. manganese imports between 2017-2020), experienced a coup. The political instability triggered by the coup comes with an inherent degree of uncertainty and mining companies will be hesitant to make greenfield and brownfield investments in manganese. The U.S. will be unable to meet its manganese demand through domestic production—it only has low-grade reserves that are costly to extract.

Thus, it's likely the U.S. will seek to increase its manganese imports from South Africa. The U.S. has shown that it's willing to use various trade instruments to build critical minerals security—for example, the U.S.-Japan Critical Minerals Agreement functions as a free trade agreement for sourcing minerals for the Inflation Reduction Act (IRA) tax credit. Given the significant share of mineral resources in Africa, including 21% of graphite reserves, 47% of cobalt reserves, and 85% of manganese reserves, incorporating a critical minerals provision into AGOA would incentivize mining investment in Africa. Without it, minerals sourced in Africa do not earn IRA tax credits. The critical minerals trade provision can strengthen the security of supply for the US and counter the increase in critical minerals export restrictions in Brazil, Russia, India, China, and South Africa ('BRICS' countries). OECD data indicate that as of 2021, China had 35 natural resource export restrictions, compared with 17 from Russia, 32 from India, 14 from South Africa, and 7 from Brazil. In 2021, the EU, U.S. and Australia did not have any.[24][25]

[23] USGS Manganese Profile. https://pubs.usgs.gov/periodicals/mcs2023/mcs2023-manganese.pdf
[24] OECD Database https://www.oecd.org/trade/topics/trade-in-raw-materials/
[25] Gracelin Baskaran and Ben Cahill. "Six New BRICS: Implications for Energy Trade." Center for Strategic and International Studies.

Figure 15. Share of critical minerals imported by US from SA, greater than 10% in 2022 (Values in brackets are US$ billions)



Source: Authors' calculations based on data from U.S. Census Bureau.

Note: Critical minerals identified based on draft list published by International Trade Administration. HS 8-digit codes aggregated to HS 4-digit for illustrative purposes. For list of products see here: https://www.federalregister.gov/documents/2022/10/04/2022-21418/draft-harmonized-system-hs-code-list-of-critical-supply-chains

Concluding remarks

The possibility of South Africa losing AGOA preferences has been mooted for at least the last decade, primarily due to improvements in its overall levels of economic development. However, South Africa's foreign policy posture following the onset of the Russia-Ukraine war has shone a new light on this possibility. With this, the dominant narrative has been that the loss of AGOA preferences would have disastrous consequences for South Africa.

Conversely, this paper shows that the direct impact of the loss of AGOA preferences on South Africa's exports, employment, and economic growth is likely to be quite small. This is primarily because of the structure of South Africa's exports to the U.S. (which is heavily commodities oriented), its relatively low usage of AGOA (and GSP) preferences, and the low (in aggregate) level of preferential margin afforded by these regimes.

Instead, the real consequences of South Africa exiting AGOA will be in the *how* and *why*. If it occurs because South Africa is unable to reconcile its foreign policy differences with the U.S., the wider impact may be much more significant. Despite its proximity to countries such as Russia and China (through BRICS, for example), South Africa remains heavily reliant on its investment partnerships with the U.S.' traditional allies, such as the EU and United Kingdom.

At the extreme end, a sharp deterioration in U.S.-S.A. relations could result in these regions and countries imposing unilateral measures to punish South Africa. Such actions would likely have a strong dragging effect on South Africa's already brittle economy. On the other hand, the inclusion of a critical minerals provision into a 'reformed AGOA' or other trade agreement could both counter potential critical mineral export restrictions and strengthen critical minerals diplomacy between the two countries. While outside the scope of this study, further exploration is warranted to better understand these political-economy dynamics, beyond just the loss of AGOA (and GSP) preferences.

Annex 1: GTAP model[26]

The Global Trade Analysis Project (GTAP) is a multi-region database with inter-regional linkages that originate from bilateral trade flows. Intra-industry linkages are captured by a regional input-output structure. The GTAP database covers bilateral trade data, structure of production, consumption, and intermediate usage of commodities and services.

Version 10A of the GTAP database provides four reference years for the global economy: 2004, 2007, 2011, and 2014. The database divides the world into 141 regions and 65 sectors and contains information on bilateral trade flows for commodities in these regions. For the purposes of this modeling exercise, the GTAP model was aggregated into 22 (product and services) sectors and 6 regions. The latest reference year, 2014, was used for the purpose of this analysis.

A standard computable general equilibrium (CGE) GTAP model is used to simulate the tariff increase scenarios through the GTAP database. The standard model assumes perfect competition and constant returns to scale. Standard closures were utilized, with the exception that unskilled labor wages are assumed to be fixed (or "sticky") for South Africa and SACU member states. This allows for the introduction of unemployment (an excess supply of unskilled labor) in the model.

To better reflect the possible impacts, and counterfactual, of changing tariffs, applied ad valorem import tariffs were updated to 2022 values for U.S. imports from South Africa (and the rest of the world) and for South African imports from the U.S. (and the rest of the world). Trade-weighted applied tariffs were estimated using trade and tariff data from U.S. ITC, U.S. Census Bureau and South African Revenue Service. Tariffs were matched to GTAP sectors using a correlation table matching HS 2022 to GTAP's sectoral classification (GSEC).

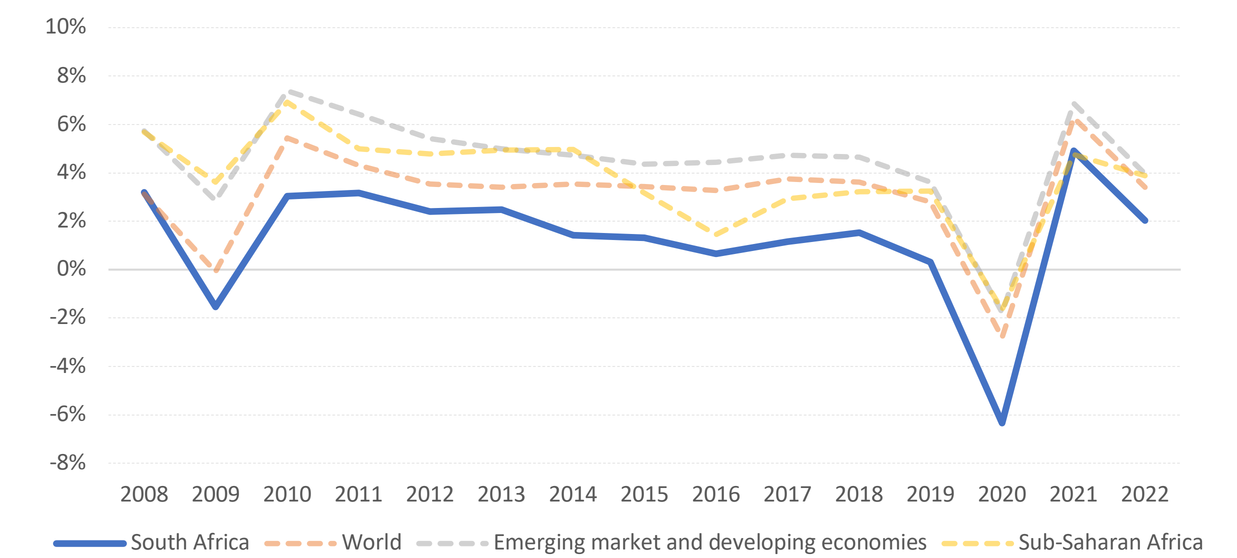
[26] For more on the GTAP database and GTAP model, see here: https://www.gtap.agecon.purdue.edu/default.asp

Annex 2: Summary of South Africa's growth trends

Economic growth

Over the last 15 years, South Africa's growth has lagged that of other emerging market peers both within and outside of Africa.

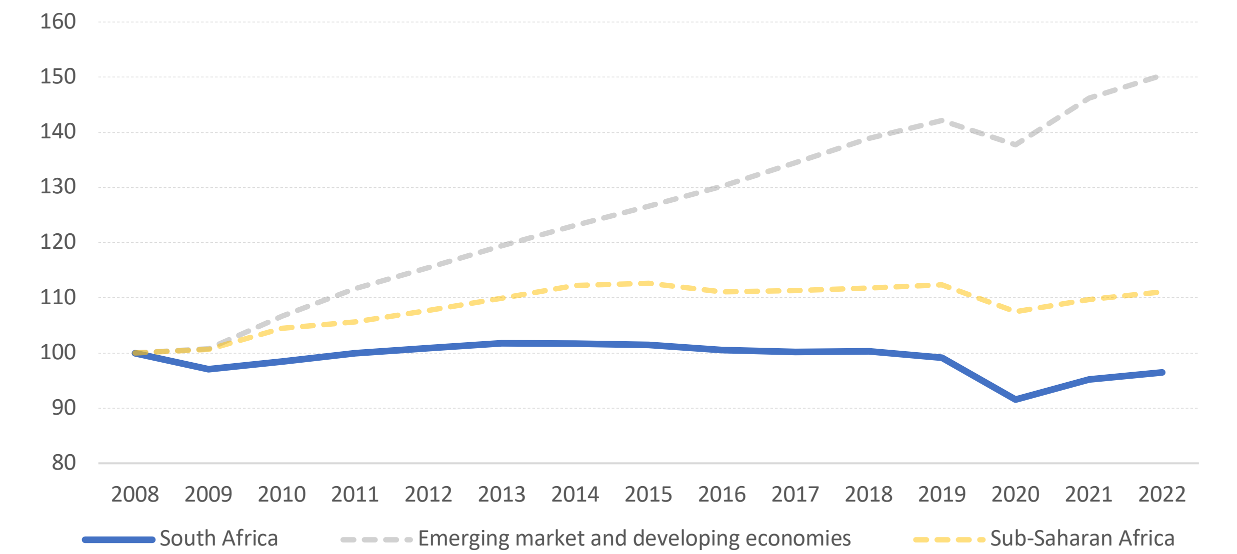
Figure 16. SA's GDP growth (annual change in constant prices)



Source: Based on data from IMF WEO

Whereas between 2008 and 2022 per capita incomes in emerging markets and sub-Saharan Africa have grown by 50% and 11% respectively, South Africa's per capita income has fallen by 5% in this same time period.

Figure 17. SA's per capita income growth (proxied by PPP $), 2008 = 100

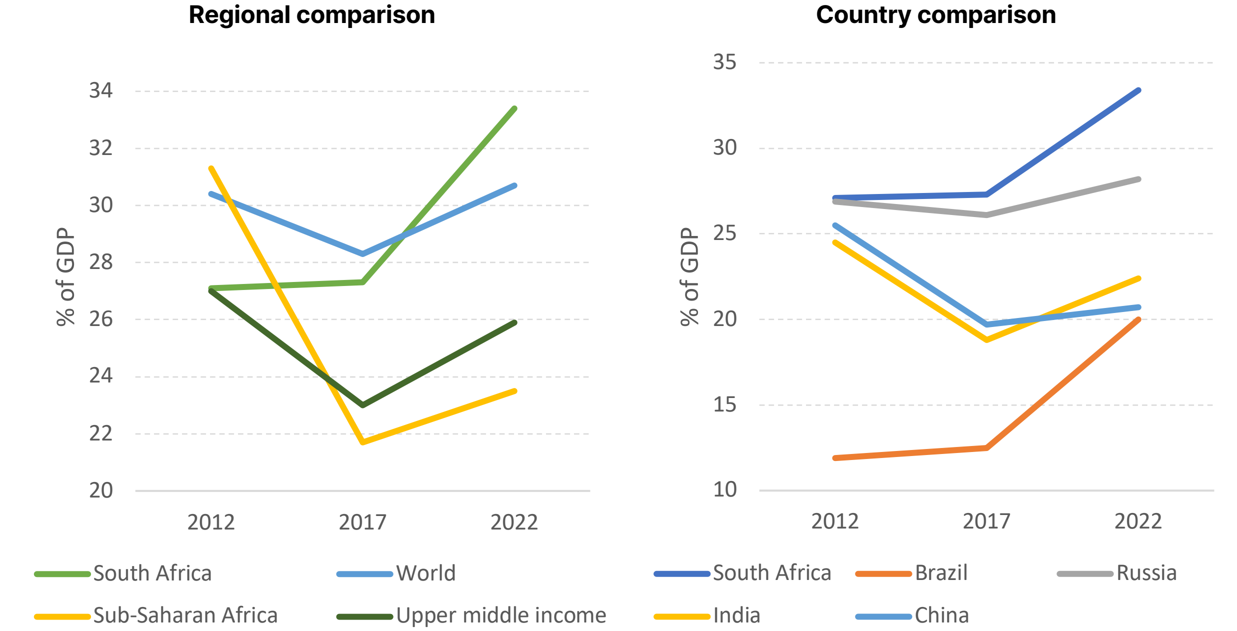


Source: Based on data from IMF WEO

Export-oriented economy

South Africa's economy is highly reliant on its exports, which amounted to 33.4% of GDP in 2022—higher than all other BRICS countries and the averages for the world, upper middle income, and African countries overall. Thus, changes in external trade policies can have significant knock-on economic effects.

Figure 18. Exports of goods and services (% of GDP)



Source: Based on data from World Bank

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