

South Africa's Key Messages on the Future of AGOA

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SA-USA Relations

- The US is a valued partner to SA.
- US people and government strongly supported the the anti-apartheid struggle.
- The US has invested a great deal of energy and effort to support SA's democratic transition.
- The US has invested strongly in SA's social and economic development programs to address legacies of apartheid.
- US sees SA as a bulwark for democracy in Africa and as a base to promote regional integration and development across Africa.

SA-US Trade Relations

- SA accounts for less than 1% of US total trade with the world.
- SA is the US 40th import partner accounting for 0.38% of the USA's total imports in 2012.
- SA is the 35th largest export destination for the US accounting for 0.48% of US global exports.
- The US is SA's 3rd largest trading partner in 2012.
- US is SA 2nd largest export partner accounting for 8.75% of SA's total exports.
- The US is SA's 4th import partner accounting for 7.38% of SA's total imports.
- USA accounts for 8% of SA total trade with the world.

SA–US Trade Relations

- Two-way trade was valued at US\$15.082 billion in 2012 – recovery to the highwater mark of US\$ 15.025 billion in 2008.
- SA's exports to US amounted to US\$7.6 billion and imports US\$7.5 billion in 2012.
- SA's top exports include motor vehicles and parts (29%), non-ferrous metals (23%), iron/steel (10%), chemicals (9.5%), and other mining products (5.8%).
- Imports from the US include machinery and mechanical appliances (31%); vehicles and parts (12%); chemicals and man-made fibres (10%); transport equipment (9%); and professional & scientific equipment (8%).
- Trade basket is diverse and overall trade is balanced.

SA-USA Investment Relationship

- Two-way investments increased to US\$106 billion in 2011 from US\$96 billion in 2010.
- In 2011, SA's investments from the US was US\$61 billion
 - Direct investment accounts for 16% of total investments
 - Portfolio investments 80%
 - Other investments 4% (these include investments by monetary authorities, public corporations, governments, banking sector)
- Similarly, SA's investments to the US was US\$45 billion
 - Direct investment accounts for 8% of total investments
 - Portfolio investments 37%
 - Other investments 55%

*Source: South African Reserve Bank September 2013
Quarterly Bulletin*

SA-USA Investment Relationship

- USA FDI accounted for 7.6% of total FDI in SA
- SA FDI to the USA accounted for 4.32% of total SA outward FDI to the world
- Two-way FDI equaled US\$13 billion, with US FDI in SA accounting for 74% of this
- There are over 600 US companies in South Africa in various sectors of the economy
- SASOL is investing in mega integrated ethane cracker and gas-to-liquid projects in Louisiana, USA. According to SASOL, this represent the largest FDI manufacturing project in the history of the US.
- The current project costs for the ethane cracker are estimated at US\$5-7 billion while for GTL facility at US\$11-14 billion
- The projects will create approximately 1,200 permanent jobs and 7000 construction jobs, at peak construction, and thousands of indirect jobs.

Benefits of AGOA to South Africa

- Over 98% of South Africa's exports to the US enters duty-free:
 - 58% enters duty-free under MFN;
 - 18% of SA goods enter duty free under GSP;
 - 27% of SA goods enter duty free under AGOA.
- A DTI study estimates the overall contribution of AGOA and GSP to total South African manufacturing GDP and employment in 2010 was 2.78% and 11%, respectively.
- AGOA is an essential component of growth and development to address poverty and inequality in SA.

Benefits of AGOA to South Africa

- The sectoral benefits of AGOA/GSP (for 2010) were estimated as follows:

Vehicles:

- 8% of vehicles entered the US under AGOA/GSP – the rest under MFN duty free or paid duty.
- Imports from SA accounted for 10% of the US imports of light vehicles and 7% of the US market for light vehicles.
- Contributed 13% and 3% to manufacturing GDP and employment in SA.

Iron and steel:

- 11% of iron & steel imports enter the US under AGOA/GSP.
- Imports from SA accounted for 2.7% of US imports and 0.47% of total USA domestic market.
- Contributed 16% and 5% to manufacturing GDP and employment in SA.

Benefits of AGOA to South Africa

Chemicals:

- 6% of chemicals imports from SA entered under AGOA/GSP.
- Imports from SA accounted for 0.7% share of US imports and 0.1% of US domestic market.
- Contributed 2% to manufacturing GDP and 1% to employment in SA reflecting the relatively capital intensiveness of the sector.

Benefits of AGOA to the US

- The benefits from AGOA flow both ways.
- US information note at AGOA Forum in June 2013 indicates that AGOA created over 100 000 jobs in the US.
- The US consumers and firms are beneficiaries as they purchase competitive products or inputs under AGOA that often enter further production processes in the US creating employment in the USA.
- There are security dimensions in that AGOA hope to promote prosperity and contribute to stability. It also encourages African countries to:
 - strengthen the rule of law
 - strengthen protection of intellectual property rights
 - remove barriers to trade and investment
 - protect human rights and worker rights

US Concerns

- Engagement with US representatives highlight certain issues:
 - Trade frictions (anti-dumping duties, SPS measures etc)
 - tariff disadvantage compared to the EU due to the TDCA
- Mentioned that GSP sets an eligibility criteria that any country “offering preferential treatment to products from other developed countries that might have an adverse effect on US products” may be removed from GSP (graduated).
- AGOA provides that beneficiary countries should eliminate barriers to US trade and investment.
- Sometimes raised that AGOA should be reformed to address concerns of poorest African countries.
- Trade frictions addressed through the Bilateral Trade and Investment Framework Agreement (TIFA) meetings annually.

Responding to US Concerns

- The TDCA was concluded in 1999 while AGOA was enacted on 18 May 2000.
- Full impact of TDCA is being felt now due to completion of the tariff phase-down and is also affecting SA negatively.
- Only two legal options available to address EU competitive advantage in SA market:
 - Option 1 - A Free Trade Agreement (FTA).
 - USA and SACU attempted an FTA between 2003 and 2006.
 - US requirement to include intellectual property rights, environment, investment, and services sectors where SACU has no common legal framework proved to be an insurmountable obstacle.
- The example of the EPA in Africa is not to be followed – drawn out and undermines regional integration in Africa.

Responding to US Concerns

Option 2: MFN tariff reductions in SA.

- This will open our market to imports from all countries and benefits will not necessarily accrue to the US.
- Most likely low cost competitors from Asia will benefit.
- Third scenario is to graduate SA from AGOA.
- This would be punitive.
- It would undermine important economic sectors in SA at enormous social and economic cost.
- It will undermine SA industry and employment.

Responding to US Concerns

- Implications go beyond SA as removing SA from AGOA will reduce intra-African trade and regional integration.
- AGOA rules of origin creates value chains in the continent.
- For products to qualify under AGOA, companies source inputs from across Africa or the US and this supports economic diversification and industrialisation.
- SA exports zips, buttons, sewing thread, wadding, tapes and elastics to Lesotho that in turn expands Lesotho's apparel exports to the US.
- SA textile industry procures some inputs regional garment producers (Lesotho, Swaziland, and Mauritius) for export to the US.

Building a Virtuous Cycle

- In our view, we need to use AGOA as the basis to build a virtuous cycle of trade and investment that is mutually beneficial for SA and the US and supports regional integration in Africa.
- AGOA has generated goodwill between Africa and the USA and has established a firm basis for deepening trade and investment relations.
- We must not weaken it in any way.
- Prospects for growth in Africa are strongly positive.
- To take advantage, we need to focus efforts on interventions for greater US investment in Africa.
- US companies investing in SA will derive direct commercial benefit and have a platform for expansion into growing markets in Southern Africa.

Building a Virtuous Cycle

- Studies indicate that US FDI sources up to 50% of inputs from the US.
- Greater FDI into SA and Africa will increase US exports and support the US National Export Strategy.
- In 2011, US auto companies in SA imported R4.1 billion (US\$550 million) worth of components, gears to SA 8.3% of total imports from the US.
- Transnet agreement with General Electric to manufacture 100 Model C30ACi diesel locomotives in SA requires imports of engines, alternators and other hardware and manufacturing from the US.
- GE expansion into Africa using SA as a base underway.

Africa's Integration Agenda

- We have an ambitious integration agenda in Southern and Eastern Africa.
- This is focused on market integration, and regional infrastructure and industrial development.
- These programmes are being pursued in SACU, SADC and the TFTA.
- The economic advantages arising out of larger integrated and connected regional markets are clear.
- There are enormous opportunities for US companies to participate in the trade and investment opportunities that are emerging.
- The great advantage of AGOA is it establishes a common legal framework with a major partner thereby supporting, not inhibiting, our integration agenda.