



**National Agricultural  
Marketing Council**  
Promoting market access for South African agriculture

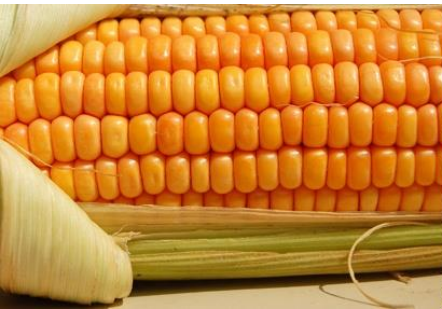
# **Economy wide effect of a possible erosion of AGOA preferential access for South Africa**

Presentation at NAMC Seminar

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Presented by:

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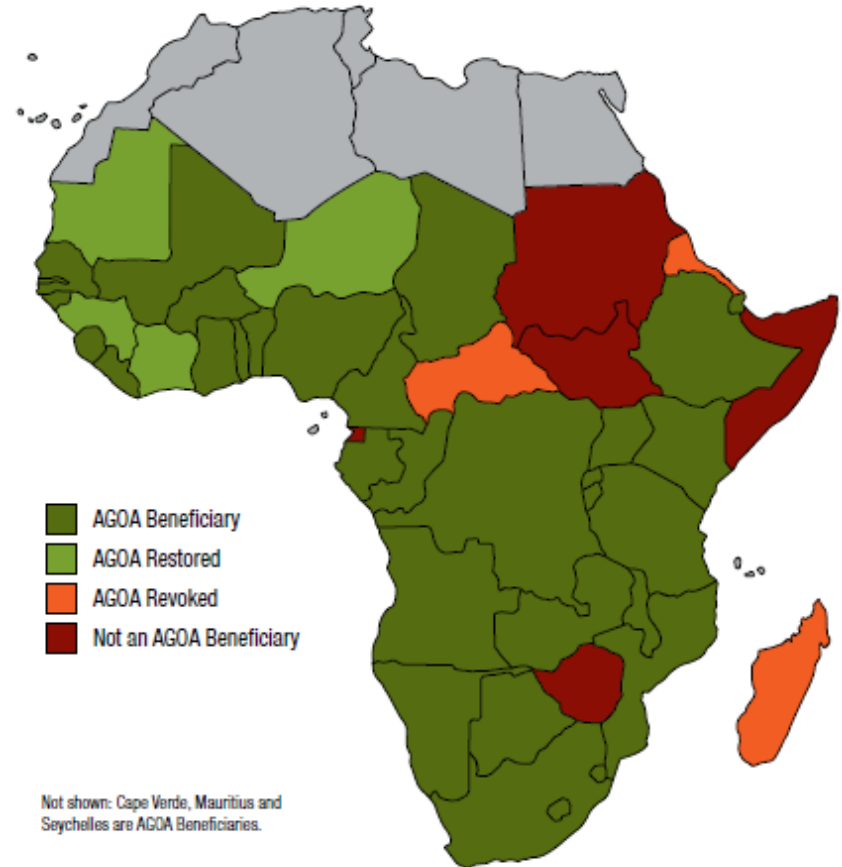


# Presentation Outline

- Introduction
- Literature on AGOA
- Methodology
- Results
- Conclusions

# Introduction

- AGOA: US Act which regulates particular aspects of international trade with qualifying SSA countries
- It provides duty-free treatment to imports (into USA) of specific products from SSA
- There are 49 candidate SSA countries and currently 39 of these countries (a number that changes periodically) qualify for the preference benefits



# Introduction

- South Africa is the most industrialised of all AGOA beneficiary countries
- Dispute arose on the eve of renewal of AGOA
- Antidumping duty on US bone-in chicken (and other SPS issues) used as a bargaining tool by US to threaten SA's exclusion
- Dispute finally resolved as RSA has made concessions
- Question: what would have happened had SA been excluded?



# AGOA literature

- African LDCs have failed to benefit from international trade
- The benefits of AGOA: preferential duty-free treatment for specific articles under the U.S. GSP
- At present more than 98% of US imports from AGOA beneficiary countries are duty free
- U.S. imports from AGOA beneficiary countries represent a small share (1%) of total U.S. imports

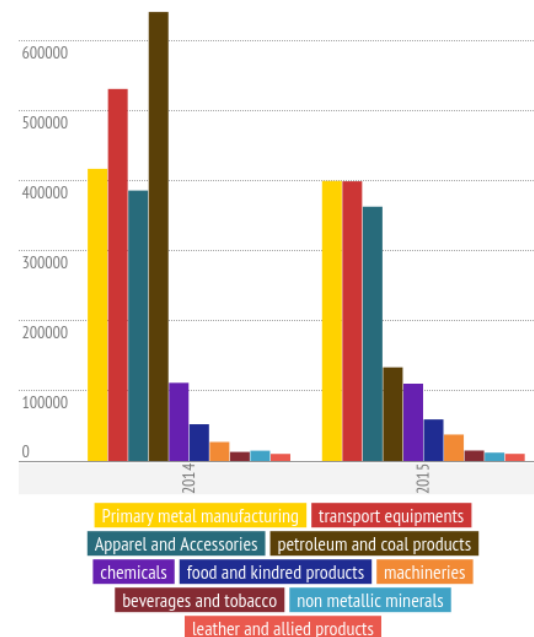


**Source:** [www.unctad.org](http://www.unctad.org)

# AGOA literature

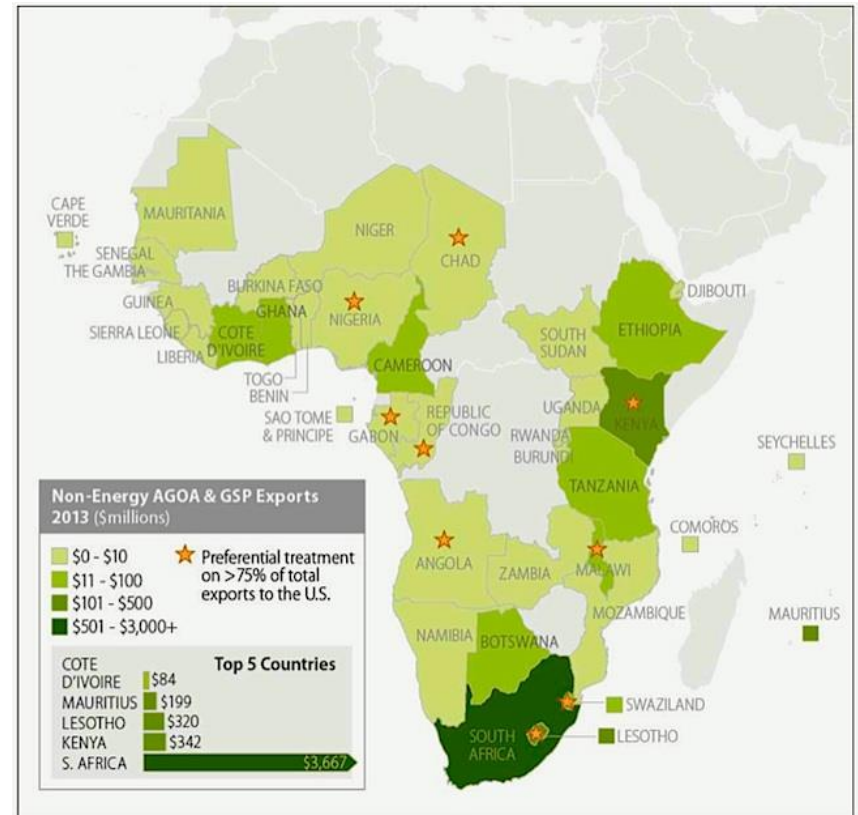
- Oil is consistently the top duty-free U.S. import from AGOA countries accounting for 68% of such imports in 2014
- Among non-energy products, apparel is the top export for a number of AGOA countries
- Apart from apparel and energy products, South Africa accounts for the majority of U.S. imports under AGOA
- Vehicles in particular have become a considerable South African export under AGOA

Products exported under AGOA  
(Million USD)



# AGOA literature

- South Africa accounts for the majority of U.S. imports under AGOA – has a much more diverse range of manufactured goods than other AGOA countries
- SA agric exports under AGOA oranges, mandarins, raisins, frozen orange juice, tobacco, essential oil of lemon, vegetable seeds, wine and other juices



Source: [www.blogguinee.net](http://www.blogguinee.net)

# Methodology

- Objective: to quantify the effect of erosion of AGOA preferential access for a number of selected products.
- The standard GTAP model was used - it is part of the family of computable general equilibrium (CGE) models
- CGE model is a numerical model based on general equilibrium theory
- CGE models are capable of illustrating a complete view of an economy (single country or multicountry) as the interconnected activities of economic agents
- The database combines detailed bilateral trade, trade protection data together with transport information that is characteristic of economic linkages between regions or within a region/country
- This study uses GTAP database version 7 (with 2004 as the base year)



# Methodology

- In the database there are 113 regions and 57 commodities that are aggregated into 11 commodities and 8 regions
- **Regions:** South Africa; United States of America; Africa; European Union; BRIC; Asia; Americas; and Rest of the world.
- **Commodities:** Vegetables, fruits and nuts; Grains and crops; Livestock and meat products; Sugar; Beverages and tobacco; Processed food; Mining and extraction; Text and clothing; Manufacturing; Utilities, transport and construction; and Other services

# Methodology

- The policy shock in this study involves the **complete erosion of the AGOA preferential access** granted by USA on South Africa's most traded agricultural products.
- The identified products that are prominent in the bilateral trade between South Africa and USA are fruits (vegetables, fruits and nuts – GTAP concordance), sugar and wines (part of beverages and tobacco GTAP concordance).
- The broader GTAP concordance for vegetables, fruits and nuts, beverages and tobacco were shocked
- Summary of the policy shock (applied tariffs by USA on imports from South Africa):
  - **Vegetable, nuts and fruits: 3.4%**
  - **Sugar: 6.2%**
  - **Beverages and tobacco: 1.8%**

# Methodology

- In the GTAP model the measure of overall economy welfare effects of a policy is known as the equivalent variation (EV).
- EV is composed of a number of effects such as allocative efficiencies, technical efficiency, terms of trade, endowment effects and other effects.

Table 1: Welfare effects (decomposed) of the policy change (in \$)

	Allocative efficiency effects	Terms of trade	Other effects	Total s
South Africa	-0.22	-3.1	0.21	<b>-3.11</b>
United States of America	0.33	1.3	0.52	<b>2.15</b>
Africa	-0.14	0.46	0.00	<b>0.33</b>
European Union	-0.38	0.2	-0.19	<b>-0.36</b>
BRIC	-0.1	0.12	-0.19	<b>-0.16</b>
Asia	-0.15	-0.1	-0.17	<b>-0.41</b>
Americas	-0.55	1.05	-0.12	<b>0.38</b>
Rest of the world	-0.03	0.06	-0.07	<b>-0.04</b>
<b>Total</b>	<b>-1.23</b>	<b>0.01</b>	<b>0.00</b>	<b>-1.23</b>

# Results

**Table 2: Effects of the policy change on industry output (in % change)**

<b>qo[*SA]</b>	<b>Policy effect (%)</b>
Vegetables, fruits and nuts	-0.16
Grains and crops	0.01
Livestock and meat products	0.01
Sugar	-0.24
Beverages and tobacco	-0.04
Processed food	0.01
Mining and extraction	0.00
Text and clothing	0.01
Manufacturing	0.01
Utilities, transport and construction	0.00
Other services	0.00

# Results

**Table 3: Effects of the policy change on trade balance (expressed in \$)**

<b>DTBALi[*SA]</b>	<b>Trade balance - dtbali(\$ millions)</b>	<b>Changes in values of exports, vxwfob – FOB (%)</b>	<b>Changes in values of imports, viwcif – CIF (%)</b>
Vegetables, fruits and nuts	-7.89	-0.40	-0.04
Grains and crops	0.8	0.07	-0.04
Livestock and meat products	0.43	0.06	-0.03
Sugar	-3.48	0.00	0.01
Beverages and tobacco	-2.88	-1.45	-0.03
Processed food	0.61	-0.26	-0.01
Mining and extraction	-0.51	0.02	-0.01
Text and clothing	0.64	0.03	-0.01
Manufacturing	12.76	0.02	-0.01
Utilities, transport and construction	1.17	0.01	-0.01
Other services	0.81	0.02	-0.01

# Results

**Table 4: Effects of the policy change on the demand (quantity) for factor endowment (in%)**

<b>qfe[**SA]</b>	<b>Land</b>	<b>UnSkLab</b>	<b>SkLab</b>	<b>Capital</b>
Vegetables, fruits and nuts	-0.09	-0.17	-0.17	-0.17
Grains and crops	0.06	0.01	0.01	0.01
Livestock and meat products	0.08	0.00	0.00	0.00
Sugar	0.02	-0.25	-0.25	-0.24
Beverages and tobacco	0.11	-0.04	-0.04	-0.04
Processed Food	0.14	0.01	0.00	0.01
Mining and extraction	0.05	0.01	0.01	0.01
Textile and clothing	0.14	0.01	0.01	0.01
Manufacturing	0.15	0.01	0.01	0.01
Utilities, transport and construction	0.15	0.00	0.00	0.00
Other services	0.14	0.00	0.00	0.00

# Conclusion

- Erosion of AGOA preferential access for SA would result in:
  - South Africa's welfare declining (by \$3.11 million)
  - USA's welfare inclining (by \$2.15 million)
  - The overall welfare effects on other regions being minimal
  - Demand for factor endowment being anticipated to decline
  - The trade balance (of absorption of foreign earnings) also being affected
- An instance of the removal of the AGOA treatment would be bad for the South African economy

Thank You

