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The Parliamentary Budget Office (PBO) has been established in terms of the Money Bills Amendment Procedure and Related Matters Act (Act no. 9 of 2009). The PBO provides independent, objective and professional advice and analysis to Parliament on matters related to the budget and other money bills. The PBO supports the implementation of the Act by undertaking research and analysis for the finance and appropriations committees.
The PBO provides a quarterly analysis of economic developments for Members of Parliament following the release of quarterly economic data by Stats SA, the South African Reserve Bank and the National Treasury.

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Introduction

This Quarterly Economic Brief (QEB), compiled by the Parliamentary Budget Office (PBO), provides an update on the performance of the South African economy for the third quarter of 2023. The QEB provides economic updates, particularly on macroeconomic performance, based on the most recent quarterly and monthly data releases from organisations such as Statistics South Africa (Stats SA), the South African Reserve Bank (SARB), the United Nations and the International Monetary Fund (IMF).

Global economic outlook

The gloomy outlook for the global economy and major economies, such as the United States of America (USA), Europe, Japan and China has not changed much since the PBO's September 2023 QEB. Even the USA, which grew at 5.2 per cent in the third quarter of 2023, is expected by the OECD to face a "shallow recession" during the first half of 2024. The OECD expects global growth of 2.9 per cent in 2023 and 2.7 per cent in 2024. They also expect inflation to decline in support of recovery to 3 per cent in 2025. However, the uncertainties and the possibility for renewed supply chain problems and rising oil and commodity prices, due to high levels of geopolitical conflict, could cause inflation to increase again. If central banks once again opt to fight supply-side induced inflation by increasing interest rates, to dampen demand by reducing economic activity and increasing unemployment levels, then the outlook for the global economy appears very gloomy.

On 7 October 2023, Hamas, the militant group that governed Gaza, attacked Israel and killed 1200 people, including many civilians. They also took 240 hostages. The tensions in the Middle East have been exacerbated by Israel's ongoing, extraordinarily violent campaign in Gaza ostensibly to root out Hamas, which has caused the deaths and injuries of thousands of Palestinian civilians. The Gaza Ministry of Health reported that between 7 October and 5 December 2023, 16 248 Palestinians, of which about 70 per cent are women and children, have been killed. Gaza residents have been forcefully moved from their homes and do not have access to water, food, medicines, health care and humanitarian aid is blocked by Israel. Palestine has been experiencing a humanitarian crisis that the United Nations Commissioner of Human Rights, on 6 December 2023, has described as "catastrophic". This dire situation poses major threats to stability in the region with the likelihood that other countries will get drawn into the conflict. The World Bank's October 2023 Commodity Markets Outlook warns that an escalation of conflict in the Middle East will lead to higher and more volatile commodity prices. However, they do not expect commodity prices to rise if the conflict abates.

During 2023, the ongoing war by Russia in Ukraine has continued for more than 650 days. This catastrophe has been causing massive levels of human, physical and environmental damage in Ukraine. The war is also causing tensions beyond the region where Russia's relationship with the rest of the BRICS countries has led to increasing tension across the eastern and western parts of the globe. One potential consequence of these tensions is that the USA seems to be pushing its western allies to support the deglobalisation of trade and financial flows across the world. At the same time, the BRICS group, including their six new members Argentina, Egypt, Ethiopia, Iran, Saudi Arabia and the UAE, have increased their efforts to de-dollarise their trade and to build stronger trade linkages amongst other developing countries. The impact of these geopolitical tensions and their impact on global economic growth, trade and investment is very uncertain at present. However, given that investors in productive assets and physical infrastructure prefer stability and less uncertainty, it seems likely that they will take a wait-and-see posture and hold their money in more liquid, financial assets.

The conflict around the globe and the hardship caused by global climate change events has contributed to increased conflict within African countries, particularly in the Sahel (which consists of Burkina Faso, Chad, Mali, Mauritania, and Niger) and the Central African Republic. There has also been continued conflict and flash points in countries such as Sudan and Ethiopia. Sustainable development and economic growth are not likely to occur when there are conflicts in the region and on the continent.

Unfortunately, the benefits that some African countries may incur from being blessed with resources that are vital to the transition from fossil fuels to renewable and cleaner energy options may lead to increasing conflict within those countries. Experience teaches us that broader tensions between eastern and western powers may well spillover into who has access and control to these resources. The blessing of having mineral products could turn into a resource curse due to increased conflict between political groups within African countries backed by different global powers who want to control African resources.

The ongoing geopolitical conflict and the increasing severity of global climate change events seem likely to cause developing country unemployment to grow. Unlike developed countries, developing countries have not had employment return to pre-Covid-19 pandemic levels. Developing countries are also less likely to be able to reduce public debt, which increased during the pandemic. Unless there is a global solution to developing countries' debt problems, more developing countries will likely default on their sovereign debt. Without the necessary changes, the interest premiums on developing country sovereign debt will rise and the debt problems will grow. Just as developed countries have not been willing to adequately increase their efforts and to support developing countries' efforts to reduce global warming, they seem unlikely to provide adequate support to reduce the risks associated with elevated sovereign debt.

The South African economic situation: Gross domestic product[1]

South Africa's gross domestic product (GDP) contracted by 0.2 per cent in the third quarter of 2023 when measured on a quarter-on-quarter seasonally adjusted (qqsa) basis, following two consecutive quarters of growth. This contraction occurred despite less intense power cuts. There were 20 days of stage 5 and 6 loadshedding in the third quarter; down from 46 days in the second quarter.

The GDP data for the third quarter indicates that, over the initial nine months of 2023, the South African economy had 0.3 per cent growth. Inadequate electricity supply has had negative consequences for mines, factories, and households that may have exacerbated the poor performance of the economy. Declining freight rail capacity has also constrained growth and exports. At the same time, global economic conditions have not supported domestic growth.

Output fell in five of the ten economic sectors in the third quarter. Notably, agriculture, construction and manufacturing were the largest negative contributors to growth – a concerning trend as these are the country's productive sectors that are relatively more labour-intensive.

The agriculture sector decreased sharply by 9.6 per cent, weighing most on the third quarter GDP. The decline was mainly due to reduced production of field crops, animal and horticulture products. The industry faced multiple challenges including, the avian influenza (AI) outbreak and severe floods in the

[1] All expenditure/growth data is seasonally adjusted and annualised unless otherwise stated

Western Cape that damaged farm infrastructure. Moreover, the industry faces downside risks stemming from ageing water infrastructure and climate-related issues.

Table 1: Quarterly economic performance by industry

% change q/q	Agriculture	Mining	Manufacturing	Utilities*	Construction	Trade	Logistics**	Business services***	Government	Personal services	GDP
2020Q4	8,1	-1,3	5,5	0,5	2,0	1,3	4,6	2,9	0,2	1,4	**2,7**
2021Q1	5,0	4,1	0,1	-0,8	0,3	0,8	-2,5	0,6	0,1	1,0	**0,6**
2021Q2	10,1	2,0	-1,3	0,6	-1,3	3,3	6,6	-0,9	-0,5	2,5	**1,3**
2021Q3	-25,8	-1,2	-3,7	0,3	-1,1	-4,6	-1,5	0,8	0,3	0,2	**-1,9**
2021Q4	15,3	-3,2	1,9	-3,1	-2,7	4,0	2,6	-0,5	-0,2	2,6	**1,4**
2022Q1	-0,9	-2,6	4,3	2,5	-0,6	2,9	1,3	1,9	1,3	0,2	**1,5**
2022Q2	-11,8	-3,1	-5,6	-1,4	-2,6	-1,1	2,7	2,1	-1,5	0,3	**-0,8**
2022Q3	31,4	1,9	1,6	-2,6	4,1	1,2	3,4	1,1	0,4	-1,0	**1,8**
2022Q4	-2,4	-3,0	-1,2	-2,0	0,4	-2,2	0,9	-1,6	-0,7	-0,1	**-1,1**
2023Q1	-11,9	1,4	1,5	-1,0	1,1	0,7	1,1	0,6	0,3	0,8	**0,4**
2023Q2	2,8	0,8	2,1	-0,8	-0,2	-0,3	-1,8	0,4	0,7	0,7	**0,5**
2023Q3	-9,6	-1,1	-1,3	0,2	-2,8	-0,2	0,9	0,5	0,1	0,6	**-0,2**

Source:StatsSA
*Utilities includes electricity, gas and water
**Logistics includes transport ,storage and communication
***Business services includes finance, real estate and business services

The mining industry contracted by 1.1 per cent following a 0.8 per cent increase in the third quarter of 2023. The decline resulted from reduced output in platinum group metals (PGMs), gold, other metallic minerals, and manganese ore. Weaker demand from China continues to present risks to export prices that impact output volumes.

The manufacturing sector declined by 1.3 per cent in the third quarter. Among the ten manufacturing subsectors, eight reported negative growth, with food, beverages and tobacco contributing significantly to the sector's overall decline. However, the motor vehicle manufacturing category maintained its momentum during this period. Looking ahead, the manufacturing sector's prospects are likely to be hampered by ongoing power outages, operational challenges at Transnet, and higher interest rates that subdue domestic demand.

The transport, storage and communication sector recorded positive growth. It expanded by 0.9 per cent in the third quarter. Its growth was due to increased economic activity in land and air transport, transport support services and communications.

Expenditure on GDP

South Africa's expenditure on GDP decreased by 0.1 per cent in the third quarter of 2023, indicating weakness in underlying domestic demand, which has been exacerbated by higher interest rates. The decline in growth was primarily due to a 3.4 per cent reduction in gross fixed capital formation (investment). Investments in machinery and equipment declined in the third quarter, following a short-lived sharp rise in the second quarter, including renewable energy products. This decline is part of a broader trend of decreasing investment during the decade-long period of fiscal consolidation.

In terms of external trade, a significant 8.6 per cent quarter-on-quarter contraction in imports, coupled with another slight expansion in exports, meant that net trade made a positive contribution to GDP. The bottlenecks at the ports and the torching of trucks on the N3 may have negatively impacted imports and exports in the third quarter. Lower imports are also a feature of a weak demand economy (reflected in the contraction in real domestic expenditure).

Table 2: Quarterly sector performance of expenditure components of GDP

% change q/q	Household consumption	Government Consumption	Invesment*	Exports	Imports	Exp on GDP
2020Q4	3,5	0,4	4,8	5,6	11,2	**2,7**
2021Q1	0,5	-0,6	-2,7	1,2	6,6	**0,7**
2021Q2	1,7	0,5	-0,2	3,1	0,3	**1,4**
2021Q3	-2,9	0,6	-0,1	-6,8	-3,4	**-1,8**
2021Q4	2,9	0,2	1,5	8,3	8,5	**1,5**
2022Q1	1,2	0,9	2,9	3,7	6,2	**1,5**
2022Q2	0,1	-0,9	0,4	0,2	4,9	**-0,9**
2022Q3	-0,1	0,5	0,4	2,0	0,2	**1,7**
2022Q4	0,7	-0,7	1,5	-3,2	-0,8	**-1,1**
2023Q1	0,4	1,3	1,8	4,3	4,8	**0,3**
2023Q2	-0,2	1,8	3,8	0,6	3,2	**0,7**
2023Q3	-0,3	0,3	-3,4	0,6	-8,6	**-0,1**

Source: Stats SA
*Investment refers to gross fixed capital formation

On the household front, strained consumers cut back on consumption expenditure for a second consecutive quarter. Final household consumption declined by 0.3 per cent with all main categories, except semi-durable goods declining. Transport, recreation and culture, housing and utilities all recorded quarterly declines. In contrast, spending on clothing and footwear as well as restaurants increased in the third quarter.

Final government consumption increased by 0.3 per cent in the third quarter, mainly due to an increase in compensation of employees. Exports of goods and services increased by 0.6 per cent, largely due to increased spending on vehicles and transport equipment, precious metals, and vegetable products.

Employment

The official unemployment rate decreased to 31.9 per cent in the third quarter of 2023 from 32.6 per cent in the second quarter of 2023. According to Stats SA, a number of persons moved from the "not economically active" and "unemployed statuses" to the employed category between the two quarters, resulting in a 0.7 percentage point decline in the unemployment rate.

The number of employed persons increased by 399 000 while the number of those who are unemployed decreased by 72 000 to 7.8 million in the same quarter.

The number of employed persons increased to 16.7 million in the third quarter and has surpassed pre-COVID levels of 16.4 million. However, unemployment still remains above pre-pandemic levels.

Table 3: Key labour statistics – Quarterly Labour Force Survey (QLFS)

	2Q 2023	3Q 2023
Labour force ('000s)	**24 268**	**24 594**
Employed	16 346	16 745
Unemployed - official	7 921	7 849
Unemployed - *broad	11 872	11 733
Not economically active ('000s)	**16 478**	**16 292**
Discouraged job seekers	3 182	3 156
Other (not economically active)	13 296	13 136
Unemployment rates		
Official unemployment rate	32.6%	31.9%
Broad unemployment rate*	42.1%	41.2%
Labour force Participation Rate	59.6%	60.2%

* The broad unemployment rate includes discouraged job seekers
Data: Quarterly Labour Force Survey, Stats SA

According to Stats SA, formal sector employment increased by 287 000 in the third quarter while informal sector employment increased by 29 000 over the same period. The formal sector job gains were mainly in Financial Intermediation, Insurance, Real Estate and Business Services (237 000), Community and Social Services (up by 119 000) and Agriculture (61 000). Formal sector job losses were in the productive sectors of Manufacturing (53 000), Mining (35 000), Transport (20 000) and Utilities (16 000). The decline in investment in machinery and equipment and productive sector employment raises concerns about the impact of a prolonged period of high interest rates on the economy.

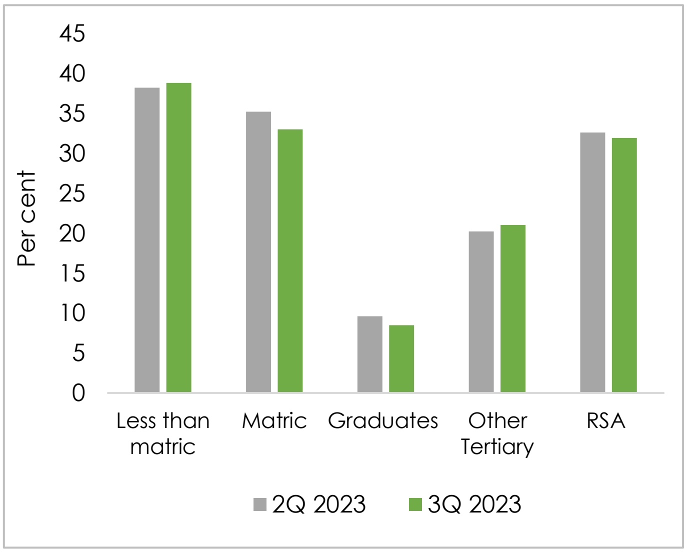
The expanded unemployment rate (which includes individuals who desire employment regardless of whether they actively seek work) remains unacceptably high even after it decreased by 0.9 per cent to 41.2 per cent in the third quarter of 2023.

At a provincial level, the largest employment increases were recorded in KwaZulu-Natal (152 000), Limpopo (70 000), North-West (61 000) and Mpumalanga (44 000). Employment losses were only recorded in Free State (3 000) in the third quarter of 2023.

Gender and racial disparities continue to persist in South Africa's labour market. In the third quarter of 2023, the unemployment rate for women stood at 34.0 per cent, while it was 30.1 per cent for men. Moreover, the unemployment rate for the black population was 36 per cent during the same period, significantly higher than the 7.6 per cent unemployment rate for the white population.

Youth in South Africa have an unemployment rate higher than the national average and continue to suffer due to labour market conditions. According to the Quarterly Labour Force Survey (QLFS), South African Youth aged 15-34 years recorded an unemployment rate of 43.4 per cent.

Figure 1: Unemployment rate by education level – third quarter of 2023



Source: Stats SA

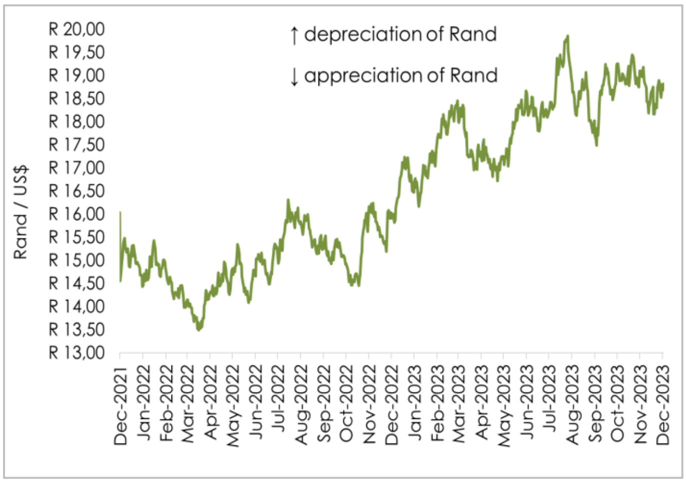
The most recent unemployment data indicates that having a tertiary education, particularly a degree, increases the probability of finding employment. In the third quarter of 2023, individuals with educational attainment below matric recorded an unemployment rate of 38.8 per cent, while graduates experienced a reduced unemployment rate of 8.5 per cent compared to the previous quarter.

Exchange rate

The South African rand and other developing country currencies weakened in 2023. Year-to-date, the rand has weakened by 9.5 per cent against the US dollar reaching R18.80 to a US dollar at the beginning of December 2023. The weakness in the rand largely reflected a strengthened US dollar. The US dollar strengthened against global currencies when the US Federal Reserve Bank rapidly hiked policy rates in response to increasing inflation. These rate hikes led to large capital flows out of developing countries to the USA.

The rand's depreciation may also reflect weaker economic growth prospects in China (the largest importer of SA's commodities). In other words, the rand may have weakened because of the expectation by currency traders that SA would export fewer commodities to China. These traders' perceptions with regard to the effect of severe electricity loadshedding on domestic economic growth outlook, uncertainty about possible capital outflows amid South Africa's stance on the Russia–Ukraine war and logistical constraints at Transnet's ports may have influenced their trade of the rand and rand derivative instruments as well.

Figure 2: The rand-dollar exchange rate



Source: SARB

Box 1: Factors contributing to the long-term weakness of the rand

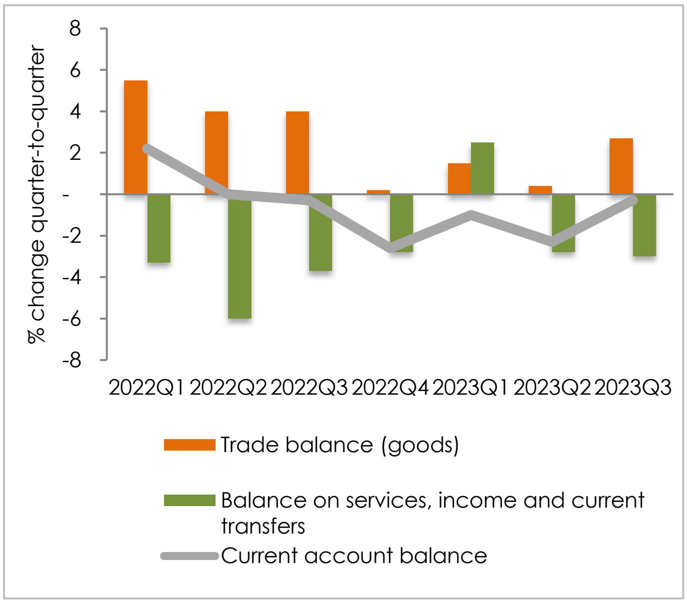
Some commentators, including Wells (2023), attribute the long-term weakness of the rand to the policies of the South African Reserve Bank and National Treasury. These policies, such as Regulation 28, permit major South African companies to shift their primary listings offshore and relax capital controls, facilitating a significant movement of South African assets offshore. These policies have caused large levels of financial outflows (profits and dividends earned in South Africa) out of the country. This continuous outflow of wealth has to be converted to pounds and dollars. The rand depreciates because of this reduced demand for rands and increased demand for the currencies that receive wealth extracted from the country.

This situation is made worse because South Africans currently hold more investments offshore than what foreign investors hold within South Africa. Therefore, the income derived from our offshore investments, in terms of interest, dividends, and profit, is considerably less than what foreigners earn from their investments in South Africa. Simply put, foreign investors earn far more primary income from their investments in SA than SA investors earn from their investments offshore. The extent of this phenomenon is such that our primary income deficit exceeds our trade and services surplus, driving our current account into deficit even though we export more than we import. This imbalance contributes to the rand's weakness as capital continuously flows out of the economy in the form of interest payments, dividends and profits that are paid to foreign investors, including the large flows to former South African companies that have moved their listings abroad.

Current account

The current account deficit narrowed to R19.3 billion (0.3% of GDP) in the third quarter of 2023 from a revised R185.2 billion (2.7% of GDP) in the second quarter of 2023. While the deficit of the secondary income account narrowed, the third quarter deficit widened due to noticeably wider deficits in the services account and primary income account. The shortfall in services and primary account income on the current account grew for a second consecutive quarter from R207.4 billion in the second quarter of 2023 to R208.5 in the third quarter. South Africa's trade surplus grew between the two quarters to R189.1 billion from R22.2 billion. The value of merchandise imports reduced while that of goods exported grew. The main reason for the negative current account balance remains net outflows due to the balance on services income and current transfers. While financial transfers out of the country on the current account increased, the size of the current account deficit declined from 2.0 per cent to 0.2 per cent of GDP because the trade surplus increased from 0.4 to 2.7 per cent of GDP during the quarter.

Figure 3: Change in the balance of the current account (as a percentage of GDP)

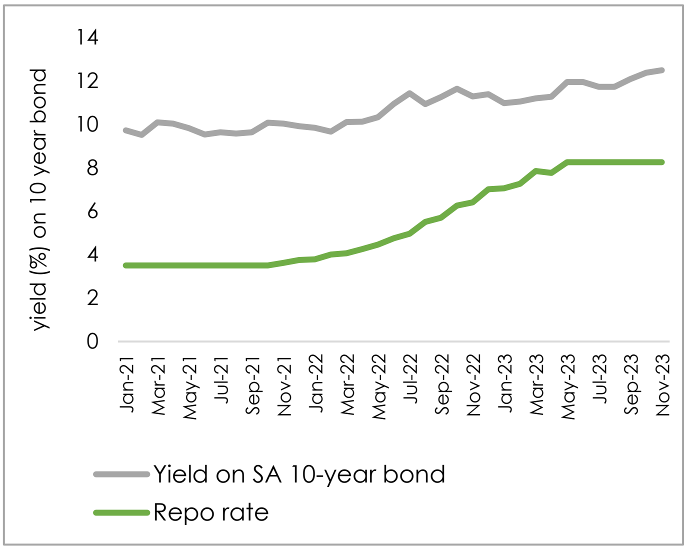


Source: SARB

Sovereign risk

The yield on South Africa's 10-year bond remained elevated throughout much of 2023, reaching 12.4 per cent in November 2023 compared to 10.9 per cent in January 2023. Higher yields indicate higher borrowing costs. The increase in domestic bond yields reflects speculative behaviour in global markets, which may be affected by the expectations of bond traders about a range of domestic challenges including higher inflation and interest rates, the depreciation in the exchange rate of the rand and persistent bouts of loadshedding.

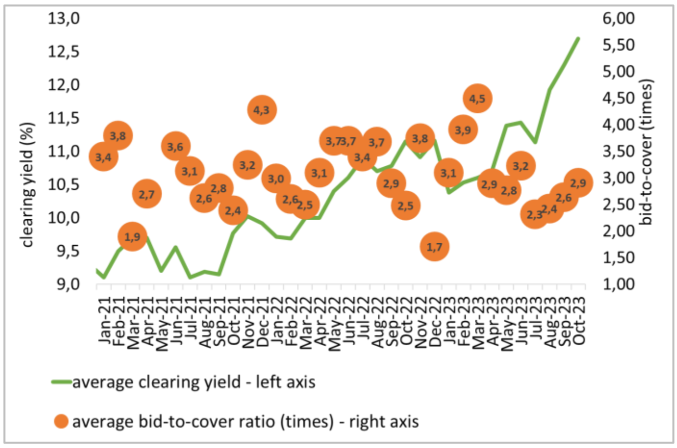
Figure 4: Yield on SA 10-year bond



Source: National Treasury, SARB

Domestic bond yields were also impacted by global events over this period, including geopolitical conflict, high inflation and elevated global interest rates in advanced economies. Higher interest rates in advanced economies often trigger capital outflows from emerging market economies such as South Africa. However, the large increases in interest rates since the end of 2021 by the SARB may probably be the largest contributor to the expectation of higher bond yields by bond traders.

Figure 5: Bond auction performance - 10-year fixed rate



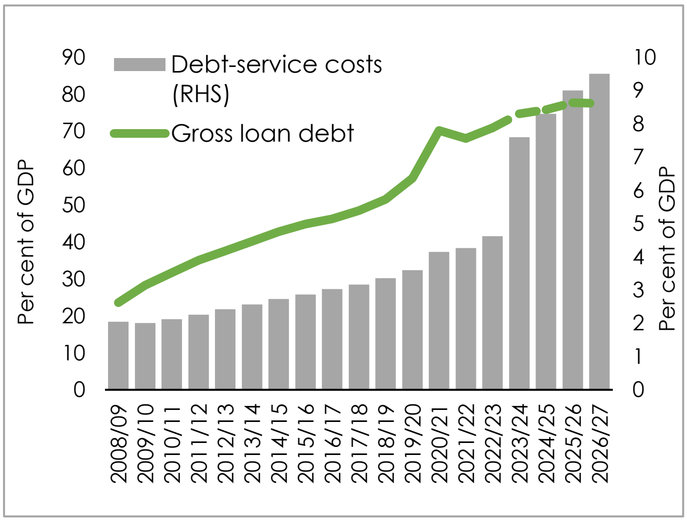
Source: National Treasury, PBO calculations

Falling tax revenue due to weakened economic growth prospects and declining commodity prices is expected to exert added pressure on rand-denominated bond yields. In October 2023, the average clearing yields (the interest government has to pay to finance the budget deficit and refinance maturing debt) increased. At the same time, the demand for domestic bonds at the government's weekly bond auctions increased.

The 2023 MTBPS indicates that the government expects debt to stabilise at a higher level of 77.7 per cent of GDP in 2025/26 compared with the 73.6 per cent estimated in the 2023 Budget Review. This increase is mainly due to an increase in the main budget deficit. As a result, the government's gross borrowing requirement will be substantially higher than previously expected, which would likely require a larger issuance of long-term government bonds.

The government also expects debt service costs (interest payments) to increase from 17.3 per cent of overall main budget expenditure in 2023/24 to 19.2 per cent during 2026/27. Debt service costs are mainly determined by factors such as the debt stock, new borrowings, and changes in macroeconomic variables such as interest rates, inflation, and exchange rates.

Figure 6: Gross loan debt and debt-service costs



Source: National Treasury

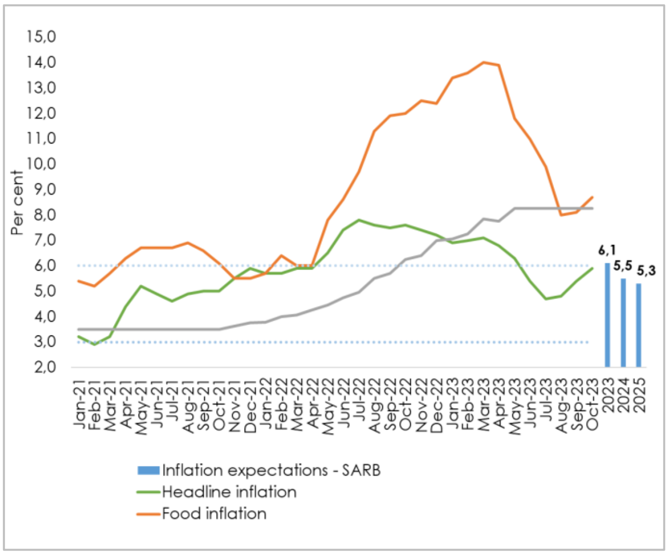
Inflation and monetary policy

Headline consumer price inflation (CPI) for all urban areas increased to 5.9 per cent in October 2023, from 5.4 per cent in September 2023. The most notable contributors to the 5.9 per cent annual inflation rate were food and non-alcoholic beverages (NAB), which increased by 8.7 per cent in October 2023. Housing and utilities as well as transport costs also increased by 5.4 per cent and 7.4 per cent, respectively.

Headline inflation remains within the SARB's inflation target range of 3 to 6 per cent. As a result, the SARB's Monetary Policy Committee (MPC) maintained the repurchase rate at its current level of 8.25 per cent in their November 2023 committee meeting.

The repurchase rate has been at a 14-year high of 8.25 per cent since May 2023.

Figure 7: Inflation is within the SARB's target range



Source: Stats SA, BER

The PBO expects the SARB to maintain its restrictive, growth and employment-eroding monetary stance, even though increased demand is not the cause of higher prices. However, this approach, while benefiting the banks and the wealthy with higher interest incomes, will further hurt economic activity and will not ease the ongoing cost of living pressures on households.

Domestic economic outlook

The economy was subject to a range of shocks in the third quarter, including the worst of the avian flu outbreak, severe flooding, the taxi strike in the Western Cape and bouts of intense loadshedding.

GDP growth is expected to be 0.8 per cent in 2023 and is forecast to average 1.4 per cent from 2024 to 2026. The support for economic development over the medium term is limited given that the 2023 MTBPS did not provide a credible path to growth and reducing unemployment. Instead, it has led to a medium term approach that will further depress aggregate demand and constrain service delivery.

The MTBPS has not taken adequate account of the serious domestic and global risks that affect the South African economy, particularly risks to political and socio-economic stability associated with hunger, deprivation and poor access to basic services.

The fiscal consolidation stance and the structural reforms proposed by the National Treasury do not transform the economic structure but favour dominant large corporations and financial institutions that focus on high short-term returns rather than long-term productive investment, job creation and economic growth.

Structural economic transformation is required to tackle the high levels of unemployment, poverty and inequality, constraining aggregate demand in the economy. The South African economy remains extremely concentrated (in terms of market share and wealth) with a high level of financialisation. Economic policy, particularly macroeconomic policy, has to consider this economic context.

In 2023 MTBPS, the government missed an important opportunity to steer the current fiscal and economic growth trajectory in a different direction. The budget can contribute towards achieving economic growth by directing more resources towards social welfare, public services, and infrastructure development in pursuit of a new demand-led growth trajectory.

Table 4: Revised SA growth outlook

GDP growth outlook - calender year*	2023	2024	2025
National Treasury - Budget 2023	0.9%	1.5%	1.8%
National Treasury - MTBPS 2023	0.8% ↓	1.0% ↓	1.6% ↓
South African Reserve Bank - January 2023	0.3%	0.7%	1.0%
South African Reserve Bank - November 2023	0.8% ↑	1.2% ↑	1.3% ↑
IMF - World Economic Outlook - January 2023	1.1%	1.3%	1.4%
IMF - World Economic Outlook - October 2023	0.9% ↓	1.8% ↑	1.6% ↑
Bureau for Economic Research - January 2023	0.5%	1.4%	1.8%
Bureau for Economic Research - October 2023	0.8% ↑	1.6% ↑	2.1% ↑
UNCTAD - January 2023	1,3%		
UNCTAD - October 2023	0.0% ↓		
*Growth projections correspond to publication date and not forecast date			
Data: National Treasury, South African Reserve Bank, International Monetary Fund, BER, UNCTAD			

Brief 1: An update on the African Growth and Opportunities Act (AGOA)

Overview

The twentieth annual forum of the African Growth and Opportunities Act (AGOA) between trade officials of the United States of America (USA) and sub-Saharan African countries took place in Johannesburg from 2 to 4 November 2023. There was much at stake for South Africa and other sub-Saharan Africa because the extension of AGOA beyond 2025 was on the agenda. This box will provide some background on AGOA, opposition to extension of AGOA in the USA, explain the benefits to South Africa and its neighbouring countries of ensuring an extension of the Act and key outcomes of the twentieth forum.

Background

AGOA legislation was passed by the US Congress in 2000 to allow eligible sub-Saharan African countries to export some products to the USA without import duties. The stated purpose of the legislation was to help sub-Saharan African countries and to improve the USA's economic relations with the region. AGOA provides duty-free access for an additional 1,800 products along with the more than 5,000 products allowed duty-free access under the Generalized System of Preferences program, which is also a program that provides eligible developing countries with duty-free access to US markets.

As of 2023, 35 countries in Sub-Saharan Africa are designated as eligible for the trade benefits provided under AGOA. To qualify under AGOA, products must adhere with the relevant local processing (Rules of Origin) and customs requirements. This includes criteria that a good either must be wholly obtained or sufficiently manufactured in an AGOA country. The purpose of the legislation is not only to help sub-Saharan African countries but also to influence those countries' policies and to protect the interests and properties of US individuals and businesses.

AGOA requires qualifying countries to align not only with US trade policies but also with certain US political and economic values and other criteria, such as upholding market-based economies, the rule of law and political pluralism and ensuring the protection of intellectual property rights.

South Africa's trade with the United States under AGOA

AGOA was introduced in 2000 and was extended until 2008 and several times since then. The latest extension in 2015 extended AGOA until 2025. AGOA has been relatively important for South Africa's trade relationship with the United States as exports qualifying for AGOA customs duty exclusions amounted to just over 20 per cent of South Africa's export to the USA between 2018 and 2022. Between 2018 and 2022, total exports to the United States accounted for 8 per cent of all South African exports. Exports under AGOA, in turn, accounted for 1.7 per cent of South Africa's global exports.

The benefits of extending AGOA for South Africa

AGOA provides an opportunity for South Africa to:

- **Strengthen trade ties with a key partner:** The United States is South Africa's second-largest trading partner, following China. Extending AGOA would enable South Africa to maintain and enhance economic relations with one of its largest trading partners.
- **Expand exports and diversify products:** AGOA offers South Africa the opportunity to expand and broaden its export base, focusing on value-added products, particularly manufactured products and services given the market presence of South African goods in the United States.
- **Attract Foreign Direct Investment (FDI):** The extension of AGOA could attract FDI, especially in sectors with export potential and value chains where greater localisations is possible. It also draws investment into areas where technology needs align with market access opportunities.

- **Create jobs in key industries:** AGOA has the potential to support creation of jobs in both agriculture and manufacturing sectors.

For AGOA to be extended, bipartisan consensus in the U.S. Congress is required followed by formal ratification through a Presidential signature.

Opposition to AGOA in the USA

The primary opposition to AGOA stems from U.S. producers concerned about increased import competition from AGOA beneficiary countries. These concerns are moderated because the volume of U.S. imports under AGOA are low compared to its total imports. However, some specific companies that produce goods that are imported through AGOA, have lobbied the US government to exclude products from AGOA. AGOA has also been criticised for falling short of its goals. While acknowledging various benefits, critics contend that AGOA has not significantly contributed to transforming the continent.

The outcome of the 2023 AGOA Forum

AGOA mandates an annual forum to convene on trade, investment relations and its implementation. This forum brings together officials from both the United States and AGOA-eligible countries. Prior to the twentieth annual AGAO forum in Johannesburg, the African Trade Ministers converged on a unified common position, advocating for a minimum ten-year extension when the Act expires in 2025. They emphasised the need to retain all existing AGOA-eligible beneficiary countries in the programme. The Ministers also called for early renewal of AGOA in order to ensure certainty and predictability for investors and buyers and not put AGOA benefits at risk.

The twentieth forum concluded with broad support for AGOA's continuation, a view echoed by the Biden Administration and certain members of the US Congress. However, the US Congress has not yet scheduled a date for a decision on the future of South Africa's elgibility. Crucial considerations also include the length of the extension, the possibility of expanding AGOA to more African countries, and the potential integration of an investment-led approach to enhance the productive sectors in the African continent to promote value-addition and mineral beneficiation.