IMPROVING U.S. TRADE ASSISTANCE UNDER AGOA

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Since the implementation of the Africa Growth and Opportunity Act (AGOA), aggregate trade between the United States and AGOA-eligible countries has nearly quadrupled. Exports to the U.S. from AGOA countries have increased from $23 billion in 2000 to a peak of $81 billion in 2008, according to the U.S. International Trade Commission. However, the majority of these exports are energy related—primarily oil and gas.[1] AGOA can have more significant effects in stimulating local production in Africa if it emphasizes building the capacity of small and medium enterprises (SMEs) through trade assistance, providing more country-level and firm-specific resources and assistance, enhancing support for competitive trade financing, and formalizing joint cooperation between African AGOA countries.

In the past, U.S. aid for trade has addressed a broad range of economic development issues. For example, aid for trade has included financing improvements in infrastructure, modernization of the regulatory framework, introduction of new technology, and the overall enhancement of the investment climate. The United States Agency for International Development (USAID) has been one of the leading agencies in providing trade capacity building (TCB) assistance in at least 110 nations all over the world. This effort is significant and has undoubtedly increased the capacity of many developing nations to engage in trade negotiations, improve business regulations, deepen the financial sector, and attract foreign direct investment to become more competitive.

However, aid for trade has also been interpreted to cover so many aspects of the economy that it does not specifically address problems facing firms that are attempting to break into AGOA trade. Increased technical assistance and aid focused on the production chain are integral in the short and medium term. Firm-specific training, capacity building, trade financing, and the linking of potential African exporters with financial institutions and potential U.S. importers should be intensified if the AGOA framework is to succeed in enabling SMEs to trade more successfully with the United States. Such initiatives are particularly important to those African countries that have lagged in utilizing AGOA preferences.

INCREASED COUNTRY LEVEL SUPPORT

Although the U.S. has made some strides in this direction, more efforts and resources are needed to effectively reach all the AGOA countries. From 2001-2009, the United States provided over $3.3 billion in trade capacity building assistance to sub-Saharan Africa, according to the USAID Trade Capacity Building database. The U.S. makes significant contributions to trade capacity building broadly through the Millennium Challenge Corporation, and USAID also implements the Africa Global Competitiveness Initiative (AGCI) to help promote export competitiveness of African enterprises. The aims of this initiative are diverse and include improving the business and regulatory environment for trade and investment, providing knowledge and skills, helping with access to financial services, and infrastructure investment. The AGCI has opened four regional global competitiveness hubs managed by USAID regional missions in western, southern and eastern/central Africa to provide information and technical assistance. The hubs are providing much needed trade assistance in their regions. However, increasing the presence of trade assistance support at an individual country level could increase the benefits to AGOA countries. While it would not be necessary to have a hub type resource in every AGOA country, having a formal point of contact within a specific nation to inform firms on available trade assistance resources would be useful.

FIRM-SPECIFIC ASSISTANCE

More assistance to African firms is desperately needed for AGOA to be considered successful. In Uganda, efforts to increase textile exports to the United States have been minimal despite numerous incentives and unwavering support by the Uganda government to export-oriented firms attempting to break into the U.S. market. For example, Uganda grows high-quality cotton but lacks the capacity to produce apparel for the U.S. market. Ugandan firms have attempted to export apparel to the United States using both locally produced and imported fabric. The production based on imported fabric has yielded disappointing results mainly because of the additional costs of transporting ready-made fabric from outside. Production based on domestic fabric is more promising since it requires lower transportation costs. It is possible that in the zeal to benefit from AGOA some African nations may have moved too fast without thoroughly analyzing the feasibility of the proposed ventures. However, their subsequent difficulties show that these African countries need trade assistance that goes beyond improvements in infrastructure and the business environment to break into the U.S. market. Providing more firm-specific trade assistance and resources would increase the success of emerging sectors like Uganda's apparel industry.

COMPETITIVE TRADE FINANCING

Similar appeals for trade assistance could be made for other sectors, such as non-traditional exports in the agricultural sector. For instance, firms attempting to transition from the export of raw coffee beans to processed coffee have faced innumerable problems of raising capital for market research, marketing to importers in the U.S., and meeting packaging and sanitary standards. In addition to U.S government assistance for private African firms, encouraging development financial institutions to do much more to extend short- to medium-term financing to such firms would help African businesses take advantage of the AGOA opportunity. This could be done by injecting additional resources into regional financial institutions such as the African Export Import Bank, the African Development Bank, the Preferential Trade Area (PTA) Bank and the East African Development Bank so they can provide more trade finance to African exporters. Currently, the financing available to African SMEs is very expensive compared to what is available in the advanced economies, and high capital costs weaken these firms' capacities to compete. An important aspect of trade assistance should therefore include competitive trade financing. As the situation stands today, trade financing is often expensive or nonexistent. Many would-be exporters find that African banks are unwilling or unable to extend the magnitude of the financing required to engage in exports to the United States.

JOINT COOPERATION IN TRADE ASSISTANCE

It may be that a joint coordinating body, such as a secretariat of both the African Union and United States, could assist in organizing trade assistance and accelerating AGOA trade. Such a secretariat could work to both unify AGOA countries and provide additional oversight assistance for AGOA implementation in sub-Saharan Africa. However, it is important that this secretariat be free to act without excessive restraint by either the U.S. or African countries. This would expand and guide the efforts of the USAID regional hubs where African exporters could go to obtain financial, technical and market advice and assistance on how to export to the United States. An examination of the effectiveness of the institutions that are available to assist African exporters could be done as a prelude to the establishment of a formal AGOA coordination secretariat in Africa.

For the time being, the full potential of AGOA will remain unexploited. The reality on the ground is that the capacity and capability of African producers to reach the U.S. market remains negligible compared to that of other continents. If AGOA is to change this situation, then trade assistance will have to go much further than it has so far.

ENDNOTES

1. In 2008, around 90 percent of all U.S. purchases from AGOA countries were oil imports.