Removing Barriers to Improve the Competitiveness of Africa's Agriculture

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Although the Africa Growth and Opportunity Act has been associated with significant success since its enactment in May 2000, many eligible countries have not exploited the act's full potential. This underutilization of AGOA is evidenced by the fact that energy-related products have accounted for almost 90 percent of its exports. In comparison, agricultural products make up a microscopic share, less than 1 percent—which is quite small, considering that roughly two-thirds of Africa's population is engaged in this sector.[1]

Increased agricultural exports to the United States and other developed countries could have a substantial impact on Africa's economic development. However, a number of obstacles undermine the capacity of Africans to export their products. In this paper, we touch on a number of them and propose several policy recommendations that might help Africa achieve a better future.

U.S. Subsidies

The U.S. heavily subsidizes its agricultural industry, which increases world supply and depresses prices. Given the high costs of agricultural production in Africa, these subsidies erode the benefits otherwise afforded by the duty-free provisions under AGOA. A study conducted by Oxfam America found that eliminating the U.S. cotton subsidy would significantly help the West African countries of Benin, Burkina Faso, Chad and Mali. According to Oxfam's calculations, ending this subsidy would raise the average household income of cotton growers in these countries by between 40 and 160 percent of their expenditures on food per capita.[2] Moreover, given that these four countries are also categorized as experiencing "low human development" by the United Nations, this extra income is sorely needed.

However, the outright removal of agriculture subsidies is not politically feasible. The U.S. interest groups that advocate for them are simply too strong a political force in Washington. That said, given the fiscal difficulties that the U.S. currently faces, now might be a good time to call for their reduction.

Trade Restrictions

Another point of criticism of the U.S. has to do with the fact that AGOA does not extend preferences to certain products that are important to African farmers. One aspect of this criticism deals with tariff rate quotas. Essentially, these are two-tiered tariffs; there is one tax for imports up to a certain volume, or "in-quota" tariffs, and a different tax levied on additional imports, or "over-quota" tariffs.

A number of key agricultural categories are subject to these tariffs, including dairy, sugar, cotton, peanuts, beef and tobacco—many areas where Africa has a comparative advantage. Products in the beef and cotton categories often do not exceed the volume threshold to activate the over-quota tariff. But others, especially in the sugar and tobacco categories, often do and face very steep over-quota tariffs as a result. For instance, the in-quota tariff for certain tobacco products is zero; yet the over-quota tariff can be as high as 350 percent of the value of the import![3]

Improvements to this system have been called for and should be considered. One recommendation is to make all in-quota imports under AGOA duty free. (For many products, although not all, this is already the case. Thus, such a proposal would likely be relatively easy to institute.) Another, more dramatic step would be to apply the UN Millennium Declaration's proposal of duty-free, quota-free market access from least developed countries for *all* exports, whether or not they are imported before or after some quota is filled. Even if such a measure were not taken, steps *toward* this direction taken by a country like the U.S. could catalyze other developed countries to follow its lead—especially if the U.S. chose to exercise its considerable diplomatic strength.

Value-Added Goods

One important measure of the state of Africa's exports deals with the extent to which its products are exported in their raw form or, alternatively, the extent to which value is added to them *before* they are sent abroad. In these terms, Africa has not fared well; the vast majority of its exports are shipped in their unprocessed form.

Consider the cocoa sector. Between 2005 and 2009, AGOA exports of cocoa and its by-products amounted to roughly $90 million annually; in comparison, chocolate, a processed form of cocoa, amounted to only about $17,000.[3] U.S. tariffs are at least partially at fault for this discrepancy. Cocoa is well protected from tariffs; chocolate is not. Reforming U.S. trade policy would therefore be important in changing this outcome.

Africa's Efforts

However, U.S. trade policy is not mainly responsible for the failure of value-additive processes to take hold in Africa. Nor is it primarily U.S. subsidies or trade restrictions that keep Africa's agricultural industries from burgeoning and its exports at low levels. Instead, the severe lack of technical, human and infrastructural capacity limits the region's ability to fully maximize the potential gains from AGOA. Thus, any agenda to strengthen the continent's productive competitiveness must focus on improving its business environment.

In particular, African governments must shoulder the primary responsibility of providing a business-friendly environment and enacting reforms that are conducive for vibrant private sector growth. Thus it is imperative that these governments step up domestic resource mobilization efforts and make the right investments in education, skills training, infrastructure (motorable roads, reliable transportation modes, energy provision, etc.)—all of which are fundamentals for any competitiveness agenda.

The U.S. should do its part, too, by working to reduce the impact of its subsidies and to reform its trade policies. Furthermore, it should strengthen programs like the Overseas Private Investment Corporation, the Millennium Challenge Corporation, and the African Global Competitiveness Initiative, which exist to assist Africa in its process of capacity building—particularly, as a priority, to extend the AGCI, which is set to expire in 2011. The efforts of these programs indirectly, and sometimes directly, affect Africa's ability to utilize AGOA's benefits.

Endnotes

1 Emmanuel Asmah, Olumide Taiwo, *AGOA and the African Agriculture Sector*. AGOA at 10: Challenges and Prospects for U.S.-Africa Trade and Investment Relations. July 2010

2 Julian M. Alston, Daniel A. Sumner, and Henrich Brunke, *Impacts of Reductions in U.S. Cotton Subsidies on West African Cotton Producers* (Boston: Oxfam America, 2007).

3 David Skully, "U.S. Tariff Rate Quotas and AGOA Market Access," International Food and Agricultural Trade Policy Council, July 2010.