Toward a Transformative Africa Growth and Opportunity Act:

Statement Presented at the U.S. Congress

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The Africa Growth and Opportunity Act remains the most important piece of legislation defining the commercial relationship between the United States and Sub-Saharan Africa. There is no doubt that during the past 10 years, AGOA has left a clear imprint on the African continent. Although the gains have been uneven, some countries and sectors have benefited substantially from the AGOA tariff preferences. For example, as a result of these preferences, South Africa's share of manufactured and agricultural exports to the United States has increased substantially. Another notable success has been apparel exports—with countries such as Madagascar, Swaziland, Lesotho and Kenya recording substantial gains, especially for the period 2000–2005. However, after the expiration of the Multi Fibre Arrangement, apparel exports from Africa declined substantially as other more competitive countries edged out African exporters in the American market. As expected, however, the expansion of African exports to the United States as a result of AGOA preferences has contributed to economic growth, poverty reduction and employment creation, all core goals of the act.

Nevertheless, the achievements of AGOA have by and large been below expectations, and there is a consensus that AGOA's potential has not been fully exploited. In particular, AGOA has not contributed to any discernible economic transformation of African economies, as was envisaged. In fact, many countries have not been able to take advantage of AGOA to any significant degree. Furthermore, the employment impact of AGOA has been less successful because of limited value addition. Even in the case of African apparel exports, many of the components are assembled in other countries, with Africa value added ranging only between 10 and 20 percent. Looked at globally, Sub-Saharan Africa's share of the U.S. market's nonoil imports has actually declined in recent years. Notwithstanding the wide range of commodities subject to duty-free and quota-free access, Africa's exports to the United States remain only a tiny fraction of all U.S. imports. But probably the most noticeable weakness of AGOA is that it has not stimulated American investments in Africa. Thus, as other countries such as China, Brazil and India have accelerated their investment in Africa, the United States' investment in Africa has been largely stagnant. Ironically, and not withstanding AGOA, the relative U.S. commercial presence in Africa has shrunk in recent years.

In this statement, I start by briefly sketching the current status of AGOA, focusing broadly on its achievements and weaknesses. Overall, the message that emerges is that although AGOA has had

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a notable impact, its full potential remains unrealized. Next, I briefly review suggested reforms that should be undertaken in the short run. Finally, I propose deeper changes that would strengthen the U.S.-Africa commercial relationship by encouraging the transformation of African economies while increasing the American commercial presence.

AGOA's Current Status

In reviewing AGOA, there is a broad consensus that

- AGOA has made incremental contribution to the economies of several Sub-Saharan African (SSA) countries, with some countries benefiting more than others. This has been achieved mainly through increased trade volumes, job creation and capacity enhancement. AGOA has also had the benefit of mainstreaming trade in development, has contributed to some degree of diversification and has been instrumental in compelling African governments to improve the climate for business.

- Most of the AGOA-related trade is in the form of energy (oil and gas) and minerals. These commodities constitute more that 95 percent of the total trade by value. Yet it is well accepted that these products would have attracted buyers even without AGOA. Textiles, apparel, leather, leather products and agriculture are where the real impact of AGOA has been felt by the larger number of countries.

- Appreciable modifications have been made to AGOA to suit emerging concerns. These include extending the act to 2015 and the third-country rule of origin. These modifications have enabled SSA countries to continue reaping the benefits of AGOA.

- Very little foreign direct investment has responded to the AGOA initiative, and even less of this investment has originated in the U.S. By and large, under AGOA no sound and consistent investment and export promotion initiatives have been taken by the U.S. government. Increasingly, U.S. firms that have been willing to risk and invest in Africa have faced what would be considered unfair competition because of the generous official support extended by firms from other countries.

- The SSA export basket continues to comprise primary raw materials and semi-finished products with limited value added. This means that AGOA has not been very successful in transforming the SSA economies. And this limited value added also means that duty-free and quota-free access has had only a limited multiplier effect for job creation and poverty reduction.

- The SSA countries continue to suffer constraints on both the supply and demand sides, and at the structural and strategic levels, that hinder them from effectively exploiting the opportunities opened by AGOA. Thus, the SSA countries have managed to exploit only a handful of the approximately 6,400 articles that are admissible under the Generalized System of Preferences and AGOA.

- The regional AGOA hubs are doing a commendable job, but they need to broaden their scope to serve both present and future AGOA-eligible nations.

- Despite commitments made by the U.S. government two years ago that future engagement will focus more on regional economic communities, there has not been any significant increase in support.

- AGOA remains a top-down, unilateral arrangement that gives the SSA beneficiaries little space for making a real contribution. By and large, AGOA does not give much scope for cooperation between the U.S. and African countries.

- From a business perspective, AGOA has built-in weaknesses because it is unpredictable and some of its provisions come close to expiring before they are extended. This unpredictability has been detrimental to the act's overall success. Furthermore, the unilateral withdrawal of trade preferences undermines investments, especially in otherwise fragile states.

Short-Run Priorities to Maximize Potential Gains from AGOA

There is no question that AGOA is important to both Africa and the United States. However, there is broad agreement that significant reforms need to be made to maximize the gains that AGOA makes possible. In the longer run, and taking into account the changing environment on the African continent, especially with new players, it is critical that the act be overhauled. In the short run, especially during AGOA's remaining current life span, several changes can make it more effective in serving the interests of both SSA countries and the U.S.:

- Include provisions concerning AGOA's life span to create certainty and confidence for investors and American importers.

- Renew, on a long-term basis, the Third-Country Fabric Provision beyond the 2012 deadline to enable SSA cotton-producing countries to realize the benefits of a revived sectoral value chain.

- Expand AGOA to include currently excluded agricultural products other than sugar where SSA countries have a comparative advantage in supply. Doing this will increase the benefits that will flow through such products as tobacco (e.g., from Malawi), peanuts (Gambia) and dairy (Kenya). Also review, revise and simplify rules of origin to facilitate the exporting of products such as tuna and textiles/apparel.

- Trade development assistance and capacity building should be a component of the preference program. Increasing aid for trade is seen an important condition for solving the supply side constraints.

- There needs to be a structured development strategy to increase collaboration and thus reduce or eliminate administrative, regulatory, certification and product conformity assessment that is geared toward achieving mutual recognition based on acceptable and predictable international standards. For example, products that have attained EU certification should not be subjected to further testing under AGOA. There should also be sunset clauses for concluding the sanitary and phytosanitary process, which is currently taking up to six years.

- There should be investment in capacity building for export competitiveness; for awareness creation for micro, small and medium-sized enterprises; and for youth empowerment and gender mainstreaming in export trade. Investment in capacity building should also extend to creating awareness to embrace environmental practices in production processes.

- Efforts should be made to improve collaboration between the U.S. and African trade promotion organizations—and particularly U.S. business associations and chambers of commerce—to inculcate good business practices, to promote the sharing of innovative business techniques and corporate social responsibility programs and to encourage support for SSA in developing intellectual property programs that recognize innovation and creativity in industry and crafts.

Toward a Transformative Economic Growth Strategy

Africa has emerged from the recent global economic and financial crisis in better shape than many other regions, and indeed it is doing better than would have been expected, given its fragile economies. To some degree, this due to the fact that the African economies are poorly integrated with other world economies, and thus the transmission of the crisis through financial markets was limited. However, in the African countries, prudent macroeconomic management, deepened political and governance reforms and improvement in the business environment have been even more important. Other factors that have contributed to better-than-expected economic performance have been the sustained external demand for commodities; expanded trading opportunities with Europe, Asia and the U.S.; and the increased investments by new partners, especially Brazil, Russia, India and China—known as the BRICs. Finally, the rising demand for natural resources has been a primary driver of African economic growth during the past decade.

Africa today is much different from the Africa of 2000 when AGOA was enacted. The continent is more open and a much better place to do business. Many African countries have reformed their institutions of governance and have put in place ambitious strategies to transform their economies. As noted above, though AGOA is an important piece of legislation that has provided opportunities through expanded market access, it has not been transformative. As such, AGOA is not consistent with the aspirations of African nations today. In essence, a continuation of AGOA in its current form would not be in sync with the economic transformation of African economies. AGOA has served Africa well, but looking ahead, it is time for a comprehensive approach to the U.S.-Africa relationship that will support Africa's economic transformation. Furthermore, this relationship must also be mutually beneficial to the United States by increasing its commercial presence in Africa.

The transformative strategies envisaged by African countries include a number of broad measures—such as putting an emphasis on information and communication technologies; the modernization of agriculture; improving the competitiveness of the manufacturing sector; and increasing the value added of natural resources and agricultural products and enlarging markets through regional integration. Together, these strategies call for accelerated investments in infrastructure, including information and communication technologies, transportation and energy. In addition, the transformation process demands improvements in the quality of human capital through strengthening the development of skills. Although market access as currently provided by AGOA is important, the transformation of African economies must largely be predicated on improved competitiveness. Furthermore, deepening regional integration will serve to exploit value chains across the continent while expanding intra-Africa trade.

The United States is slowly being edged out of Africa by the BRICs, which are aggressively investing in Africa. In addition to their desire to gain access to raw materials, the BRICs are involved in activities that contribute to the transformation agenda, including infrastructure development, investments in industry and engagement in public-private partnerships. Given this increasingly competitive situation, for the United States to continue to be a meaningful player, it must step up its involvement by also taking an aggressive approach. However, this will not be possible without substantial support for private firms from the U.S. government.
To support this transformative growth strategy, the United States should support the SSA countries as they work toward achieving a common regional economic agenda. The African Union recognizes eight regional economic communities. These RECs are the loci of the AU's strategy for consolidating intra-Africa trade and also trade with other regions. Each of the RECs has an elaborate development master plan that could serve as an entry point for U.S. engagement.

The other areas of U.S.-Africa engagement and cooperative effort should include the development of infrastructure (water, roads, railways and airways); investment in both renewable and nonrenewable energy (hydropower, thermal, nuclear, wind and solar); and the promotion of joint assistance projects in agriculture, such as collaborative research and the sharing of innovative developments to quickly commercialize beneficial agricultural practices that help alleviate poverty and improve food security.

Conclusion

As we approach the final years of AGOA's current life span, the U.S. and SSA need to take a two-pronged approach. In the short run, the focus should be on reforming AGOA to address the various weaknesses identified above that limit its effectiveness. These reforms should begin immediately while, at the same time, developing a long-term strategy to enable SSA and its international partners, especially America, to aggressively embrace the transformative agenda outlined in this statement.