Beyond AGOA: Frontiers for a New Pact with Sub-Saharan Africa

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As the sunset phase of the African Growth and Opportunity Act approaches, the fashioning of future economic arrangements between the U.S. and Sub-Saharan Africa (SSA) can gain substantially from an approach that seeks to take stock of the gains made under AGOA. The U.S. Congress should address identified weaknesses in the architecture and implementation of the legislation in order to meet the challenges of the new epoch we have entered internationally. This may be a uniquely convenient time to construct a new pact that will shape and galvanize the joint efforts and mutual benefit of the peoples of the U.S. and SSA.

The Limits of a Preferential Trade Arrangement

The initial assumption behind AGOA was that preferential market access would spur greater export of goods eligible that SSA countries were already producing. This may have held true for oil and gas producers in Nigeria and Angola, and automobile manufacturers in South Africa. Oil, gas and automobiles from these three countries account for more than 90 percent of the SSA countries' total exports to the U.S.[1] For virtually all other countries, however, AGOA's failure to spur increased exports underlines the challenge of making unilateral market access a tool for Africa's sustainable development.

Some of the heretofore unmet challenges for unlocking Africa's export potential can be addressed by making adjustments to AGOA. These improvements were very much part of the AGOA reform and extension agenda promoted in 2005, and are reemerging in the debate about extending AGOA beyond 2015. These suggestions include:

- Having a longer time horizon to ensure that investors can recoup their investments before the preferences are lifted and to allow for longer-term investor confidence.
- Expanding the list of tradable products to include sugar, tobacco, beef and dairy products, where some SSA countries are competitive producers.
- Creating a longer and more predictable time frame for the use of third-country fabrics for apparel manufacturers.
- Simplifying compliance requirements; assisting the meeting of standards, including the SPS requirements, for market access; and accrediting regional certification agencies for compliance.
- Fashioning a basket of incentives for enhanced flows of foreign direct investment to SSA for AGOA-related investments.
- These measures are necessary to consolidate the gains made thus far under AGOA. Yet many of SSA's challenges cannot be

remedied by a law designed primarily to offer a time-bound preferential market access for a limited basket of products. The drift toward greater global liberalization, with its attendant leveling of the playing field, calls for more innovations to strengthen the weak players in international trade. The story of African textile and apparel exports is a good example.

The textile and apparel sector witnessed the most spectacular growth in the early years of AGOA. Starting from $355 million in 2001, the sector topped off at $1.6 billion in exports in 2004, creating 300,000 direct jobs in SSA and many more indirect opportunities up the supply chain.[2] The expiration in 2005 of the waiver granted under the Multi Fibre Arrangement rudely interrupted this momentum, and exports had plummeted to $900 million by 2009. Scores of Chinese "container factories" shipped out of Africa and set up in Bangladesh, Cambodia and Vietnam, taking with them more than 100,000 jobs.[3]

The sector has recorded some recovery since then, with a 13.9 percent growth in volume between January 2010 and January 2011. Additionally, some countries had significant increases; for example, Kenya and South Africa showed jumps of 83.8 percent and 186.68 percent, respectively, in sales for January 2011.[4] However, the future is clouded in uncertainty. On the horizon are the expected expiration of the waiver on third-country fabrics in 2012 and the possibility of an AGOA-like trade preference grant for the Bangladesh and Cambodia apparel sectors. These combined measures will wipe out the remnants of Africa's third-most-successful export sector.

Understanding the conditions that make sustainable investment in the textile industry more attractive is important for unlocking the potential of this sector. Creating a predictable time frame, securing preferences from erosion and dealing with supply side constraints remain daunting tasks if the original promise of this sector will be realized beyond 2015.

Agriculture remains the key sector for addressing poverty in Africa. In spite of the doubling of the number of agricultural products exported into the U.S. market, Africa's share of U.S. agricultural imports has declined to 1 percent.[5] Unlocking the benefits of AGOA for the agricultural sector may require solving supply side challenges, more than focusing on market access.

Nonetheless, debate on critical areas, such as the role of U.S. domestic subsidies to cotton farmers that have effectively locked out West African producers, remains pertinent to any discussion on African trade. Including dairy products, tobacco, peanuts and sugar, which are currently excluded by tariff rate quotas, would double SSA agricultural exports under AGOA.

Overwhelmingly, the constraints on enhanced SSA exports to the U.S. are located on the supply side. Archaic customs procedures, erratic and uncoordinated transportation regulations, red tape in cross-border movement and other trade logistics nightmares demand solutions that go beyond the scope of AGOA's original framework. Consider that the margin of preference given to SSA under AGOA is 7.7 percent, and transportation logistics add up to 40 percent of the export cost of African merchandise.[6] The AGOA advantage is totally wiped out by transportation costs in the face of other exporters that pay up to 30 percent more duty to enter the U.S. market.

Access to low-cost credit and efficient financial sector operations to unlock the potential of small and medium-sized enterprises in SSA remains a key area of intervention for realizing the promise of AGOA. Similarly, unstable macroeconomic and governance conditions adversely affect the cost of doing business with many of the SSA countries.

Efforts Aimed at Dealing with Extraneous Challenges

The evolution of AGOA during the past decade has been accompanied by measures to mitigate these sets of challenges. Governance considerations in the eligibility criteria have to some extent contributed to disciplining corrupt and dictatorial regimes. However, entry point eligibility criteria remain without a system to monitor, enforce and sustain improvements in governance. Sanctions for declining governance standards in countries like Guinea, Madagascar and Niger have come belatedly after a total collapse in democratic governance.

The Millennium Challenge Corporation (MCC) has signed agreements with a number of countries whose governments have demonstrated improved attention to the concerns and aspirations of their people. This has substantially reinforced the pursuit of good governance. However, the impact of this initiative on enhancing AGOA-related challenges remains modest and difficult to measure because there is little coherence between the MCC and AGOA initiatives.

The African Global Competitiveness Initiative (AGCI), which is managed by USAID, has targeted trade-related infrastructure and capacity challenges in some landlocked countries with encouraging results. Although its operations have been restricted by the country-specific nature of the program, it points to and validates the critical role that addressing supply side constraints will play in building on the gains of AGOA.

The Challenges Going Forward

The key policy challenge before the U.S. government and its SSA partners is how to design a pact that nurtures the gains realized to date under AGOA but also goes beyond trade provisions to address the overarching impediments to Africa's development. For such a pact to evolve, the process of creating it is as important as the final product. The voices of experience from a decade of AGOA can inform the policy dialogue on what worked and why. Areas of success must be protected from an increasingly hostile international environment. Although AGOA remains an American law, a unilateral grant of market access, its successor will require a process of dialogue whereby goals are agreed to and the road map to attain them is affirmed between the parties to the agreement. A starting point may be the establishment of a task force by the U.S. government and its SSA partners involving top-level policymakers and enterprise and thought leaders from both the SSA nations and the U.S.

A fundamental consideration in any new pact is that it must focus the role of regional economic communities (RECs) in disciplining trade rules, reducing trade costs and prioritizing components of aid for trade. Experience shows that deeper regional integration is associated with a modernization of customs procedures, more simplified cross-border movement of commerce, greater adherence to standards and regulations, and generally a reduction in the cost of trade logistics.

Beyond reducing trading costs, RECs are emerging as a major force in the expansion of African production zones and enhanced investment areas. This presents a platform for dealing with fragmentation in SSA and expanding intra-Africa trade.
A new pact will require mechanisms that can sustain adherence to governance commitments and be enforced by peer pressure within the region. Building on the African Peer Review Mechanism of the New Partnership for Africa's Development would be a good starting point for this.

Although the U.S. has complemented AGOA with financing facilities like the MCC and the AGCI, a new platform should consider more coherence between these funds and the agreed-on goals of the partnership. If trade and economic partnerships are expected to gradually replace aid as the tool for addressing SSA's poverty, then development assistance may need to be made more consistent with the goals of strengthening private enterprise to build the economic infrastructure that SSA so strongly needs.

Endnotes

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[1] Statistics from the U.S. Department of Commerce, "Kigali Declaration," October 29, 2010.

[2] L. Páez, S. Karingi, M. Kimenyi, and P. Mekalia, "A Decade (2000–2010) of African-U.S. Trade under the African Growth Opportunities Act (AGOA): Challenges, Opportunities and a Framework for Post AGOA Engagement," African Development Bank, 2010.

[3] "African Cotton and Textiles Industries Federation Report," May 5, 2011.

[4] *U.S.-Africa Trade Report* 14 no. 4 (April 30, 2011).

[5] E. Asmah and O. Taiwo, "AGOA and the African Agricultural Sector," in *AGOA at 10: Challenges and Prospects for U.S.-Africa Trade and Investment Relation*s (Brookings, 2010).

[6] N. Kraft and J. Page, "Trade Logistics: AGOA's Next Frontier," in *AGOA at 10: Challenges and Prospects for U.S.-Africa Trade and Investment Relation*s (Brookings, 2010).