Building Regional Markets: AGOA and the Economic Partnership Agreements

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Unilateral trade preferences under the African Growth and Opportunity Act (AGOA) have been the hallmark of U.S. trade policy toward Sub-Saharan Africa for the past decade. With the approaching expiration of AGOA in 2015, both the Executive Branch of the U.S. government and the U.S. Congress have begun a thorough examination of the program's effectiveness with a view to either extending the current preferences beyond 2015 or replacing them with new legislation. Although AGOA is the most expansive of the U.S. preference programs and has played a positive role in U.S.-African relations, it does come with certain limitations. AGOA continues to restrict trade in certain key agricultural commodities like sugar and peanuts, and—like most preference programs—it has struggled to create broad, sustainable opportunities for economic diversification. At the same time, however, it is to be praised for treating the region as a cohesive whole and continues to have untapped potential that could be realized if coupled with the right policies to build needed capacity and address market barriers.

Europe has also had a long history of using unilateral trade preference programs with its developing country trading partners, and the least developed countries (LDCs) continue to get duty-free quota-free access to the European market under the Everything But Arms program, while other developing countries are eligible for preferential market access, albeit not as comprehensive, under Europe's Generalized System of Preferences (GSP) and GSP+ programs. Recently, however, the European Union moved away from comprehensive preferences for non-LDCs and began to negotiate more reciprocal Economic Partnership Agreements (EPAs) with all the African, Caribbean and Pacific countries. This new trade policy tool has been met with heavy criticism and resistance by African policymakers and with skepticism by international trade experts. Both the scholarship on the EPAs and their reception by African stakeholders indicate that the tool is not right for Africa. This paper briefly discusses EPAs, their overlap or inconsistency with AGOA, and offers some lessons to keep in mind as U.S. policymakers consider their future options.

Implications for Economic Diversification under the EPAs

Without question, sustainable economic diversification and value-added trade will be needed in order for Sub-Saharan Africa to truly and sustainably develop. Any trade policy with any trading partner should advance this goal, yet some trade tools better promote economic diversification than others, and the hard work ultimately falls upon the Africans themselves.

Analysis has shown that EPAs clearly create benefits for European companies. But their ability to increase and diversify African trade is questionable. Under the provisions of EPAs, African countries are allowed to maintain existing tariffs on 20 percent of tariff lines under a "sensitive product" exemption that effectively enables countries to protect nearly all their domestic production.[1] The remaining 80 percent of tariff lines will be liberalized for European imports. Taken together, these provisions make both economic growth and diversification under EPAs nearly impossible. Due to the sensitive product exemptions, African companies have little incentive to innovate and improve existing production. Where trade is liberalized with Europe (the other 80 percent), more efficient European companies will dominate, making it difficult for African companies to expand into new products and causing trade diversion away from lower-cost, third-country producers, including the United States, in addition to significant revenue loss from tariffs.[2]

Further solidifying Europe's position in the African market, EPAs contain a notorious "most favored nation (MFN) clause" that stipulates that all parties to an EPA must give Europe equivalent access to any preference negotiated with another trading partner, including other African countries. Countries have already signaled challenges to the MFN clause, and it runs directly counter to a legal requirement in AGOA that African countries receiving trade preferences not grant any special trade access to their markets that could have a "significant adverse effect" on trade with the United States. Taken together, the trade provisions in EPAs significantly undermine the potential of increasing trade with non-EU partners and cut against AGOA's attempt to create new trade opportunities between Sub-Saharan Africa (SSA) and the United States.

Implications for Regional Trade under EPAs

Although international markets are important to SSA, the development of regional markets is perhaps most critical to long-term economic growth, diversification and food security. A striking common feature within SSA is the limited trade among the region's various countries. Though the SSA countries have long sought to trade internationally, their intra-African trade remains disappointingly low. It is well accepted that for African countries to really exploit their productive capacities and develop competitive economies, they must trade with each other. Through expanded intra-African trade, nations can exploit regional value chains and more effectively vertically integrate production processes. Thus, any trade policy tool that seeks to promote sustainable economic growth in Africa must strive to promote intra-Africa trade.

Although there are many reasons for low intraregional trade, EPAs do not build regional markets, as some have claimed. Aside from EPAs' political nature, which has pitted LDCs against more developed countries in the rush to preserve preferences, EPAs undermine nascent regional markets. In addition to the market dynamics discussed above, the various carve-outs for sensitive products do not overlap among regions, further complicating already-fragmented nascent regional markets.[3] EPAs also limit opportunities for cumulation, making value-added production across borders and regions difficult.[4]

Regional integration is very important for product diversification and in enabling smaller African producers to realize economies of scale. Cooperation with neighbors is especially vital for landlocked economies with limited access to ports and markets. To the extent that EPAs undermine regional expansion of trade, they are not suited to support the sustainable economic growth of the African countries.

The Way Forward: AGOA and EPAs

U.S. and European trade policies vis-à-vis SSA are unlikely to have much impact unless they complement African initiatives to build regional markets. Although the implications of the different trade policy models require significant further analysis, some immediate suggestions are as follows: overhaul policies to better support regional integration and diversification; expand market access to include products of importance to SSA, including all agricultural products; make rules of origin more transparent and predictable across SSA; coordinate the processes for sanitary and phytosanitary (SPS) procedures across the Atlantic; and treat trade capacity building and focused development assistance as a necessary compliment to trade policies.

The Africans have put forward a model for regional integration that merits greater support from trading partners and donors. This comprehensive regional framework, the Development Corridors movement, started with Nelson Mandela's vision when he was president of South Africa and is now widely recognized by African institutions, including the African Union's New Partnership for African Development. Through the Development Corridors spatial development strategy, which builds on trunk infrastructure to connect more remote and rural areas to markets, regional trade has the potential to increase by as much as $250 billion during the next 15 years if the corridors are properly supported.[5]

The developed country trading partners' policies toward SSA will work best if these partners grant meaningful market access across sectors and to both more and less developed countries in the region alike. For the United States, this would include opening the U.S. market to key agricultural imports from Africa, like sugar and peanuts, that are currently subject to restrictive tariff rate quotas. For Europe, this would mean reshaping EPAs, including elimination of the MFN clause, which limits the ability of SSA to expand trade regionally and with partners other than Europe.

With respect to both the United States and Europe, rules of origin should be as simple as possible, and cumulation needs to be possible SSA-wide. Cumulation is currently uncertain under EPAs, because many countries have not concluded agreements, yet open cumulation is critical for realizing future opportunities. For trade in agriculture, SPS rules and procedures also need to be as transparent and predictable as possible. Although the United States and Europe have different food safety priorities, U.S. and European SPS procedures and processes could be better coordinated and streamlined. Given that approximately 80 percent of SSA's population depends on farming for their livelihoods, improving the process to help agricultural producers meet standards would help diversify trade under AGOA beyond apparel to expand opportunities in agriculture as well.[6]

To address the needs of both agricultural and nonagricultural entrepreneurs, development assistance, including trade capacity building, needs to be systematically and strategically coordinated with European and U.S. trade policies toward Africa. America's efforts to build capacity and markets in SSA have, thus far, lacked a regional focus and have not been sufficiently linked to specific business needs. European efforts could also be stepped up, and once again, regional integration should be a central goal. Trade capacity-building assistance initiatives should also be coordinated with African governments, and particularly with businesses, to help target needs and make policies as predictable and useful as possible.

Finally, we offer a word of caution as the future of AGOA is contemplated. When reviewing AGOA, the United States should avoid adopting the EPA model, which has provoked such a strong negative reaction among the Africans and which deters regional integration, diverts trade and fails to engender what Africa needs most—sustainable economic diversification; the promotion of new opportunities for value-added production, especially in agriculture; and the development of regional markets. EPAs in their current form are not a good framework for linking trade with economic development. Instead, to build regional markets, it will be better for all concerned to focus more on the Development Corridors that stem from the SSA nations themselves. The United States should also take a careful look at the implications of EPAs and press for change from the EU, and, at the same time, avoid repeating the same mistakes as policymakers look to the future of trade with Sub-Saharan Africa.

Endnotes

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