Supporting Deeper Regional Integration in Africa

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The African Growth and Opportunity Act (AGOA) states that "Congress supports: expanding United States assistance to Sub-Saharan Africa's regional integration efforts," and over the years, the United States has reiterated its commitment to supporting regional integration. Most recently, in August of 2010, U.S. secretary of state Hillary Clinton stated that "regional integration has gotten too little attention within the AGOA framework, but I think it should be at the top of our shared agenda."

Although AGOA has had some success in promoting trade and growth in Africa, the lack of meaningful progress on regional integration is apparent. To support real regional integration in Africa, AGOA will need to acknowledge the importance of the region's economic communities and the role that they can play in supporting trade.

Two facts underline the urgency of the regional integration agenda. First, Africa consists of 53 separate countries, each with its own border and barriers to the movement of goods, capital and people. India, with about the same land area, has no internal barriers. Second, 40 percent of Africa's population lives in countries without access to the sea; globally, about 4 percent of the world's population lives in such landlocked countries. Taken together, these facts mean that for most Africans, prosperity depends not only on their own efforts but also on those of their neighbors. America has correctly recognized that sustainable growth in Africa will require greater regional integration, but the question is: How can AGOA support deeper regional integration in the future?

How Can AGOA Support Deeper Regional Integration in the Future?

AGOA has facilitated the removal of intraregional trade barriers and the creation of new trade partnerships in Africa. This is especially true in the apparel industry, where new regional partnerships have been formed to take advantage of AGOA benefits. The garment industry in Madagascar is one example. Under AGOA, Madagascar's apparel exports to the U.S. increased from $53 million in 1992 to $469 million in 2004.[1] More impressively, the industry developed a truly regional supply chain, sourcing zippers from Swaziland, denim from Lesotho, and cotton yarn from Zambia and South Africa. There are a number of ways that AGOA can support deeper regional integration:

Increasing the Role of Regional Economic Communities

It is difficult to imagine how AGOA will achieve its stated mandate of "supporting regional integration in Africa" without engaging the various regional economic communities (RECs) on trade-related matters. Today, there is very little high-level engagement between U.S. trade officials and officials in the various RECs. To facilitate meaningful regional integration in Africa, the U.S. should establish mechanisms to include the RECs in AGOA-related discussions and provide them with the space within which they can work toward actionable solutions to the numerous challenges that prevent their members from taking full advantage of AGOA.

Each year, the U.S. trade representative holds a high-level meeting with African heads of state and ministers of trade and commerce. Given the number of participants and divergent interests among the various countries, these meetings are often concluded without any meaningful AGOA-related agreements. In addition to these meetings, the U.S. trade representative should meet with the heads of the RECs to discuss regional priorities. Many of the supply side constraints to success under AGOA (transportation, trade barriers, etc.) will require a concerted regional approach. The start of high-level dialogue between the U.S. trade representative, other relevant U.S. government officials and representatives from the RECs is essential to enhancing regional integration under AGOA.

Addressing Concerns about Revoked Eligibility

The current AGOA eligibility procedures discourage the development of regional supply chains. Removing a country from AGOA, even for the right reasons, also punishes that country's regional trading partners. The Madagascar success story we cited above had an unhappy ending for regional suppliers when it lost its AGOA eligibility. The RECs can help to reduce the negative impact of changes in AGOA eligibility on regional supply chains. RECs should be encouraged to propose transition plans to help their AGOA-eligible members cope in a way that reduces the regional impact while respecting U.S. guidelines.

One option we have proposed in the past is to allow a non-compliant country to continue to provide eligible inputs to the AGOA-eligible countries within the regional group but to restrict direct exports from the non-compliant country to the U.S. Another option is to allow a country declared ineligible to continue to export goods that contain a specified amount of inputs from AGOA eligible countries in the regional group under a transitional arrangement.[2]

Revising the Rules of Origin

The AGOA rules of origin for non-apparel goods support regional cumulation by allowing AGOA-eligible countries to use inputs from their eligible neighbor to meet the 35 percent local content requirement. Despite this seemingly generous provision, non-apparel/non-oil imports remain well below their potential. In 2010, U.S. AGOA imports were $44 billion; however, only about 5 percent of those were non-oil/non-mineral/non-apparel goods.[3] One of the primary reasons for this is the low manufacturing capacity in the majority of Sub-Saharan African countries.

Although a 35 percent local content requirement may seem generous by world standards, given the special circumstances in Africa—the motive for the creation of AGOA in the first place—a lower local content requirement is needed. The underutilization of non-apparel benefits suggests that the rules of origin for non-apparel goods should be revised to a level that can be more easily satisfied by the region's countries. The appropriate local content requirement should be determined based on an assessment of manufacturing capabilities in AGOA-eligible countries.

To further promote regional value chains, AGOA could offer even lower local content requirements for RECs that meet a certain standard of integration. This would encourage regional integration while facilitating increased manufacturing capacity in non-apparel industries. The success of the special rule for apparel provides evidence that more flexible rules of origin can stimulate the development of regional value chains in Africa.

African Governments and Regional Integration

Strategies to enhance regional integration within the AGOA framework cannot succeed without concerted effort among African governments to implement regional integration policies. The East African Community has achieved the most significant progress toward integration and as such it is better positioned to realize the full benefits of AGOA. Similar effort is needed to advance integration within Africa's other RECs.

In the wake of the global financial and economic crisis, African countries with high levels of intraregional trade were able to recover faster from the crisis than those countries with low levels. Regional supply chains can help serve as a buffer against global shocks. However, intraregional trade barriers continue to hinder the creation of regional supply chains. The removal of intraregional trade barriers should be made a priority for African governments.

Lack of infrastructure remains a significant obstacle to trade in Africa. Regional collaboration is needed for infrastructure development. Within the various regional hubs / trade corridors, governments should agree upon priority infrastructure projects and develop joint mechanisms to finance such projects. The current state of ad hoc regional engagement falls short of what is needed to address the continent's infrastructure deficit. As Africa moves to attract investors under AGOA, such efforts should be complemented with strategies to improve infrastructure.

The 2011 AGOA Forum sets deeper regional integration as a priority for Africa. To realize this goal, Africa should develop a regional strategy to take advantage of AGOA. This strategy should highlight regional priorities and serve as the platform for engagement with the U.S. on trade-related matters. Indeed, regional integration is essential for growth and opportunity in Africa. Within the existing framework, AGOA can help to support regional integration in Africa by providing a platform for engaging the RECs, adopting a regional perspective to minimize eligibility issues, and lowering the local content requirement for non-apparel rules of origin to promote the region's industries.

Endnotes

[1] Foreign Trade Division, U.S. Census Bureau, "Trade in Goods with Madagascar," 2005.

[2] John Page, and Nelipher Moyo, "AGOA and Regional Integration in Africa: A Missed Opportunity," in *AGOA at 10: Challenges and Prospects for U.S.-Africa Trade and Investment Relation*s (Brookings, 2010).

[3] U.S. International Trade Commission, "United States–Sub-Saharan Africa Trade Data: U.S. Imports from AGOA Eligible Countries," 2010, http://reportweb.usitc.gov/africa/by_sectors_agoa.jsp.