Improving U.S.Trade Assistance to Enhance AGOA

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One of the main objectives of AGOA was to promote export-led economic development in Sub-Saharan Africa (SSA). Prior evidence shows that an expansion of trade with other countries is associated with not only economic growth but also a reduction in poverty and overall increase in living standards. Good examples of countries that have experienced rapid economic development driven by trade include Brazil, China, India, South Africa, and the Southeast Asian "Tigers." AGOA has made trade between the U.S. and SSA attractive by increasing the duty-free coverage of products. However, trade preferences can only lead to increased export production if beneficiary countries and their respective firms are prepared.

Less-developed countries are not taking full advantage of trade preferences. Most of the AGOA-eligible nonoil firms are small and medium-sized enterprises. These SMEs, such as those in the apparel sector, remain inefficient and constrained in their productive capacities due to a lack of skills, capacity and other resources. Citing the Asian example from Kawai and Wignaraja, SMEs tend to have less knowledge regarding free trade agreements, and thus less preference usage.[1] Therefore, trade assistance targeted to SME industries can help AGOA stimulate more local and diversified production. More multiplier and spillover effects to economic development come from production by SMEs than oil and unprocessed agricultural commodities, whereas the diversification of trade buffers fragile SSA economies from shocks. Thus, responding to the specific needs of SMEs could enhance AGOA's impact on development. Bringing more SMEs into production requires increasing knowledge about trade preferences, streamlining the export process with regard to phytosanitary procedures, bolstering trade financing and identifying regional and firm-specific needs for technical assistance.

AGOA, however, is not designed to address trade constraints; nor is it a technical assistance program. From AGOA I (2001) to AGOA IV (2006), the legislation has not outlined a framework for trade assistance. Instead, it makes suggestions to other U.S. entities to develop initiatives that create an environment receptive to trade and investment. An effort should be made to make AGOA comprehensive regarding trade assistance as a complement to trade liberalization, not a substitute. An improved AGOA framework should focus on the following trade assistance issues the identification of firm specific technical needs, consultation with African nations, allocation of trade assistance to demand, and integration of regional trade hubs with regional economic communities.

Focusing in on Firm-Specific Issues

Aid for trade, also referred to as trade capacity building (TCB) by the U.S. Agency for International Development (USAID), is donor assistance that provides financing and technical assistance to improve trade, without which many developing countries cannot successfully trade with the developed world. TCB includes a breadth of activities that are lacking in most developing countries, particularly AGOA-eligible ones—to name a few: physical infrastructure development, trade facilitation, governance transparency and interagency coordination, financial sector development and assistance in understanding World Trade Organization agreements. The diffuse scope of TCB activities prevents the allocation of trade assistance to be utilized in depth on issues specific to regions or firms looking to enter U.S. markets. To better express regional and firm-specific needs, SSA governments should actively establish priorities for trade assistance that are in line with their goals for development and constraint issues.

Moving Trade Assistance Closer to the Ground

AGOA formulates trade assistance initiatives ex ante to consultation with recipients; the Paris Declaration on aid effectiveness suggests a departure from this top-down aid approach. Trade assistance with better linkages to African priorities and the AGOA policy itself enhances the ability of AGOA to promote long-lasting trade with SSA countries. Trade policy models from Japan, Europe and China can provide "do's and don'ts" to coordinating trade preferences with assistance. The Japanese, through the Tokyo International Conference on African Development, offer good examples of using ex post requests of aid monies after co-formulation between African and Japanese firms and governments. USAID's best practices report for regional trade hubs also suggests co-formulation to improve trade assistance programs. Additionally, the coordination of U.S. policies with other donor countries is necessary to avoid negative global implications.

Matching Trade Assistance Allocations to Demand for Aid

According to USAID, U.S. trade assistance distributed to all global regions through the Millennium Challenge Corporation, USAID and other government agencies totaled $2.2 and $1.8 billion in 2008 and 2009, respectively.[2] Infrastructure demands in SSA alone exceed the amount of U.S. trade assistance. The World Bank's Africa Infrastructure Country Diagnostic Report estimates that the SSA region requires a 10-year annual investment of $12.7 billion ($7 billion under a more pragmatic strategy) to build infrastructure capacity.[3] Trade assistance should be carefully matched to demand from African countries and firms. The Africa Global Competitiveness Initiative (AGCI) was slotted to run from 2006 to 2009, yet AGOA trade preferences last until 2015. The extension of AGCI and other trade assistance initiatives should be discussed at the Lusaka AGOA summit. Furthermore, AGOA legislation should make trade assistance predictable to avoid shocking emerging industries and thus defeating the original goal of economic development.

Strengthening Regional Trade Hubs

One way in which USAID is making ideal use of trade assistance funds is through ACGI via the USAID regional trade hubs. The hubs in Botswana, Ghana, Kenya and Senegal serve as a forum for African governments, civil society and the private sector firms to request information and technical assistance. The experience of Minata Kone, a female Burkinabe entrepreneur, is an example of how the trade hubs work. In 2005, Kone was trying to break into the processed cashew market when she approached the West African trade hub. Her goal was to obtain technical assistance in order to reach export quality standards and purchase the correct equipment; her operation now creates 330 jobs, mostly for women.[4]

To scale up and extend these kinds of trade hub successes, U.S. and African governments should consider deeper joint coordination of trade hubs with the regional economic communities (RECs), which are African-led entities responsible for economic integration across African borders. Combining USAID trade hubs with these RECs would make trade assistance more efficient and longer lasting. The RECs have deeper insight as to the specific supply constraints that firms in their respective regions face and can continue the trade hub concept after TCB funding is phased out.

In conclusion, future AGOA legislation should ideally provide a framework for trade assistance. Explicitly, the duration of AGOA trade assistance efforts needs to coincide with AGOA trade preferences. AGOA should take a comprehensive stance toward export-led growth, ensuring that constraints to increased trade are dealt with in coordination with African priorities for development.

Endnotes

[1] M. Kawai and G. Wignaraja, "The Asian 'Noodle Bowl': Is it Serious for Business". Asian Development Bank Institute (ADBI) Working Paper Series No. 136, (April 19, 2009), http://www.adbi.org/working-paper/2009/04/14/2940.asian.noodle.bowl.serious.business/.

[2] USAID Trade Capacity Database, "Table 1 United States Trade Capacity Building Assistance by Category: Sub-Saharan Africa," last updated 2009, http://tcb.eads.usaidallnet.gov/query/do?_program=/eads/tcb/fundingByCountry&cocode=0SSN+&usaid=N+&output=1&filetype=1&submit=Get%20Data.

[3] R. Carruthers, R. Krishnamani, and S. Murray, "Improving Connectivity: Investing in Transport Infrastructure in Sub-Saharan Africa," Africa Infrastructure Country Diagnostic Background Paper 7 (Phase 11), World Bank, 2009, www.infrastructureafrica.org/system/files/BP7_Transport_maintxt.pdf.

[4] U.S. Agency for International Development, "Compendium of African Trade-Related Success Stories and Case Studies," 2010, http://www.usaid.gov/locations/sub-saharan_africa/initiatives/SuccessStoriesCompendium-2010.pdf.