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CHALLENGES AND PROSPECTS FOR U.S.-AFRICA TRADE AND INVESTMENT RELATIONS

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INTRODUCTION

This year's Africa Growth and Opportunity Act (AGOA) Forum, held on August 2-3 in Washington, DC, marks 10 years of trade and development cooperation between the United States and Africa. With 38 African countries currently receiving preferential access for imports to the U.S. on over 6,400 products, AGOA has been a significant step in encouraging African political and economic reform efforts and promoting greater investment and growth for Africa. Since AGOA's inception, exports from eligible African countries to the U.S. increased from $23 billion in 2000 to $81 billion in 2008.

However, the benefits and impacts of AGOA on African countries could be even greater. Currently, about 90 percent of African exports to the U.S. under AGOA are energy-related products with 70 percent of total AGOA imports to the U.S. coming from oil producing countries Angola and Nigeria. There are also legitimate concerns regarding AGOA's potential expiration in 2015 and what it might mean for countries that depend on AGOA benefits.

Experts from the Africa Growth Initiative at Brookings examine the current AGOA framework and the progress made over the past 10 years. They provide recommendations on how African and U.S. policymakers should strengthen and extend AGOA in order to realize greater positive gains.

Consolidating Gains from the Africa-U.S. Trade: Post-AGOA Options Beyond 2015. Mwangi Kimenyi, with Stephen N. Karingi, Laura Páez, and Mekalie Paulos review the challenges inherent in the possible expiration of AGOA preferences in 2015 and what could happen to U.S.-Africa trade should they not be extended.

Addressing Uncertainty to Spur Investment in Africa. John Mutenyo and Nelipher Moyo examine the current pitfalls, which have limited foreign direct investment (FDI) in Africa under AGOA, and provide policy recommendations to mobilize private investment in all sectors of African economies.

AGOA and the African Agricultural Sector. Emmanuel Asmah and Olumide Taiwo investigate the demand-side constraints affecting AGOA agricultural exports and discuss the potential for U.S. and African policymakers to encourage greater growth in this vital sector for Africa's overall development.

AGOA and Regional Integration in Africa: A Missed Opportunity. Nelipher Moyo and John Page analyze the importance of regional integration in Africa and how AGOA can contribute to strengthening regional trading blocs.

Improving U.S. Trade Assistance under AGOA. Ezra Suruma and Zenia Lewis tackle aid for trade issues in the context of AGOA legislation. They provide recommendations on how U.S. aid for trade should be better organized and linked to specific countries and firms within Africa in order to fully realize the potential gains from AGOA.

Trade Logistics: AGOA's Next Frontier. Nick Krafft and John Page examine the supply-side constraints that have limited the competitiveness of African exports, despite AGOA preferences. They discuss how the U.S. and Africa can work through AGOA channels to improve trade logistics in Africa.

CONSOLIDATING GAINS FROM AFRICA-U.S. TRADE

POST-AGOA OPTIONS BEYOND 2015[1]

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INTRODUCTION

The Africa Growth and Opportunity Act (AGOA) has been the centerpiece of U.S. trade with sub-Saharan Africa (SSA). By complementing the Generalized System of Preferences (GSP) market access, AGOA has opened the U.S. market to over 6,000 products from 38 AGOA-eligible countries. This has helped to increase both the volume and diversity of U.S.-SSA trade. Exports from AGOA countries rose from $23 billion in 2000 to $81 billion in 2008. The non-oil imports' component of this trade is estimated to have risen 230 percent by 2008 despite AGOA's exclusion of competitive African exports like sugar, peanuts, dairy and tobacco. Furthermore, this expansion in African exports occurred even though the U.S. continues to subsidize agricultural products such as cotton.

The increase in trade has been accompanied by increased U.S. foreign direct investment (FDI) flows to Africa. From 2001 to 2007, U.S. FDI to Africa rose by 52 percent to $13.8 billion. In employment gains, estimates show that AGOA related trade and investments created over 300,000 new jobs in Africa during its first nine years. While an average of over 30,000 new jobs every year might look modest, this performance is noteworthy when compared to the jobless character of some of the recent rapid growth experienced in some of the African countries.

Yet, AGOA's achievements mask two important issues. First, the benefits have been uneven in both product and country diversity. Second, uncertainty regarding AGOA's future could make it difficult for the gains, though uneven, to be sustained through long-term investments and the creation of new regional value chains with the potential to deepen intra-African trade. A large number of studies show that the largest share of U.S. imports from Africa continues to be oil and other energy products. The diversification benefits of AGOA have been limited to a few countries that have been able to take advantage of the preferential market access to export non-oil products, with textiles and apparels dominating this diversification drive.

CHALLENGES OF A POST-AGOA FRAMEWORK

What are the main challenges for Africa posed by the expiration of AGOA preferences? What could be expected beyond 2015 if AGOA is not renewed? How would Africa fare under such a scenario? The temporary, unilateral and conditional nature of AGOA makes these questions pertinent and the answers should be assessed in the light of AGOA's achievements.

Preference margin erosion and losing export trade: The 7.7 percent preference margin afforded by AGOA and the addition of 541 agricultural products to the 519 products that are already eligible for preferences under the U.S. GSP have yielded considerable benefits. There is evidence that some African countries have managed to diversify their exports, create jobs and attract FDI as a result of AGOA. Intra-African and South-South trade have deepened as a result of the preference margins supported by liberal rules of origin, especially in textiles and apparel. During the time that AGOA preferences have been in place, there have been increased local private sector investments directed at exploiting the opportunities afforded by AGOA. But the firms set up to exploit AGOA have not fully matured nor are they internationally competitive. As empirical research shows, firms take time to mature just as economic transformation does not occur overnight. Termination of AGOA preferences implies that the SSA countries currently benefiting from AGOA preferences would lose part if not all of their U.S. market share to competitors from other developing countries.

FDI diversion and specialization: Understandably, the debate on AGOA has focused primarily on trade performance. However, it misses an important but limited contribution from AGOA, the diversification gains from U.S.- and non-U.S. investments. Such gains have been realized in automobile and transport-related exports from South Africa, the utilization of existing capacity in the textile sector in Kenya, and the emergence of the textile industry in Lesotho, Mauritius, Ghana and Madagascar. Opportunities like these could be lost in a post-AGOA future. Beyond Africa losing future FDI, the expiring of AGOA preferences could easily strip previous investments in sectors such as textiles and apparel where location was primarily determined by the market access opportunities from AGOA. The experience of the Caribbean Basin Initiative is telling with Caribbean countries witnessing a dismantling of their nascent textile industries due to exposure to NAFTA and Chinese competition.

Employment loss and reversals in gender equality gains: Poverty reduction remains the ultimate objective of AGOA. Some progress has been made through job creation associated with AGOA. In addition, AGOA has also helped tackle inequality in African countries by creating more employment opportunities, especially for women. There has certainly been a human development dimension to AGOA's achievements. Thus, immediate consequences of an AGOA phase-out could include large job losses and a reversal in gains made in reducing poverty.

POST-2015: POSSIBLE SCENARIOS FOR AGOA'S FUTURE

In 2015, Africa will be faced with two scenarios in its relationship with the United States: a renewal of AGOA or a definite phase-out of this trade preference scheme. Both scenarios require serious analysis since they each have significant implications for Africa's future.

An extension of AGOA beyond 2015: If AGOA is extended beyond 2015, several issues need to be addressed in order to improve participation from more African countries. The initiative would require reforms and accompanying measures to address the current concentration of benefits to a limited number of countries and products. An improved AGOA should help re-orient FDI to more sectors as opposed to the current bias that targets primarily textiles, apparel and oil sectors. A renewed AGOA should be made more inclusive, accessible and permanent. This could be achieved if AGOA's renewal addresses the following key issues which severely determine U.S. market access for Africa's exports:

- Compliance with standards in sanitary and phyto-sanitary measures
- Elimination of supply-side constraints
- Diversification of exports
- Sectoral carve-outs for national treatments and most-favored nation treatments.

In particular, while the U.S. explores the possibility of extending preferential schemes to other developing countries, U.S. aid for trade could help African countries exploit potential gains and consolidate their ability to access and establish presence in U.S. markets through AGOA.

AGOA Phase-out: In case AGOA is not renewed beyond 2015, three possible scenarios could shape U.S.-Africa relations.

A first scenario might entail the U.S. deepening the implementation of the bilateral investment treaties (BITs), trade and investment framework agreements (TIFAs) and trade and investment development cooperation agreements (TIDCAs). The challenge with this scenario is that not all African countries have BITs, TIFAs or TIDCAs with the U.S. And if these countries decide to work on those agreements individually, they might be faced with challenges such compliance with environmental and labor standards as experienced by the central American countries when engaging in bilateral negotiations with the U.S.

The second scenario might comprise of the U.S. seeking to consolidate gains through BITs, TIFAs and TIDCAs at a sub-regional level. This would demand greater coordination among the African countries, ideally in the context of the regional economic communities (RECs). The experiences and lessons from the economic partnership agreements would be useful here for the African countries.

The third scenario could envisage the U.S. seeking bilateral agreements either at country or sub-regional level that are not only reciprocal but also deeper in their scope and level of commitment than the economic partnership agreements. In the event of any of these scenarios, the African countries must carefully evaluate the advantages and challenges that such agreements portend to their international, regional and national development objectives.

As the AGOA Forum meets in Washington this year, it is an opportune time to reflect on the achievements of this landmark legislation after 10 years. But even more important, the forum should deliberate on the future of the U.S.-Africa trade and investment relationship. Some policy issues that we consider important for discussion should include the issue of AGOA's certainty beyond 2015; the need to better link U.S. Aid for trade programmes to AGOA's identified constraints; simplifying AGOA's rules of origin so as to catalyze national and regional diversification and new regional value chains in other sectors such as agro-processing; and a focus on enhancing the regional dimension of the AGOA framework.

ENDNOTES

1. This briefing note is based on a longer paper by Laura Páez, Stephen Karingi, Mwangi Kimenyi and Mekalia Paulos entitled "A Decade (2000-2010) of African-U.S. Trade Under the African Growth and Opportunities Act (AGOA): Challenges, Opportunities and a Framework for Post-AGOA Engagement" prepared under the African Trade Policy Centre of the Economic

Commission for Africa for the forthcoming 5th African Economic Conference in October 2010 organised jointly by African Development Bank and United Nations Economic Commission for Africa (UNECA).

2. Stephen Karingi, Laura Páez and Mekalia Paulos are staff members of UNECA. Mwangi Kimenyi is a Senior Fellow at the Brookings Institution. The views expressed in this briefing note are those of the authors and do not necessarily reflect those of the United Nations or the Brookings Institution.

ADDRESSING UNCERTAINTY TO SPUR INVESTMENT IN AFRICA

JOHN MUTENYO
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The Africa Growth and Opportunity Act (AGOA) has facilitated a significant increase in trade between the United States and Africa. Exports from AGOA-eligible African countries to the U.S. increased from $23 billion in 2000 to $81 billion in 2008. While intended to spur growth in all export sectors, African exports to the U.S. continue to be dominated by oil and gas, which account for about 90 percent of all AGOA exports.

It is essential that AGOA preferences benefit all sectors of African economies in order to have the intended effect of promoting growth and development. However, a number of constraints continue to hamper non-oil AGOA exports, including: AGOA's short time horizon, potential competition from other developing countries, and difficulty in mobilizing private investment. It is important to recognize and address these constraints in order to help Africa fully capitalize on its potential under AGOA.

SHORT ON TIME

When the law establishing AGOA was enacted in 2000, the duty free provision was meant to last for only eight years but was later extended to 2015 in July 2004. Similarly, the apparel agreement was supposed to come to an end in 2007 but was also extended to 2012 in December 2006. The underlying assumption behind these timeframes was that AGOA-eligible commodities were already being produced in Africa and so the agreement would simply spur increased production and exporting. At the inception of AGOA, Africa's production capacity was quite low, however, and substantial time was necessary to establish the productive capacity and infrastructure to take advantage of the benefits of the preference scheme. Many countries required foreign investors to build capacity to produce AGOA-eligible products. The eight year time period in the first AGOA bill was much too short to attract investors and develop production capacity. Similarly, an expiration date of 2015 will severely limit current and future investment.

Although AGOA provides incentives for investors arising from the duty-free market access, the risk associated with the short and uncertain life of the law lowers the potential benefits substantially. Investors are concerned about making large investments, such as in efficient high-technology processing plants, as they may not recoup their capital before the expiry of AGOA. This is compounded by other barriers that investors already face in African countries, including infrastructural and institutional weaknesses. While some African governments have done their part in improving the business environment, the life and uncertainty of AGOA has undermined such investments.

INCREASING COMPETITION

The elimination of the Multi-fibre Arrangement (MFA) in January 2005 removed the quota system and opened up the apparel sector to competitive market forces. This exposed AGOA apparel-producing countries to competition from cheaper and larger producers from China, India and other East Asian countries. AGOA apparel exports progressively plummeted from \$1.7 billion in 2004 to \$0.9 billion in 2009.

External competition continues to be a major constraint for AGOA apparel producers. AGOA producers now face the risk that the U.S. government may extend similar benefits to other developing countries that are already far more competitive than African countries. While this has not happened yet, there have been proposals by Congress to extend AGOA-like benefits to countries such as Cambodia and Bangladesh. Such a preference scheme would lead to an erosion of the preferences granted to African countries under AGOA. In essence, extending benefits to more competitive developing countries that are already claiming a large share of the U.S. export market would greatly undermine the core objectives for which AGOA was enacted.

DIFFICULT INVESTMENT CLIMATE

Private investment, both domestic and foreign, is essential for developing a strong export base in Africa. Foreign direct investment (FDI) inflows to Africa have increased significantly from about $10 billion in 2000 to $88 billion in 2008. However, the majority of FDI inflows to Africa are concentrated in oil and other mineral resources. In order to develop a diversified base of exports from Africa, there is need for private investment in a diverse range of industries. These, however, have to be backed by market availability.

Investors have often cited poor infrastructure, corruption, bureaucracy and access to capital as some of the major constraints to doing business in Africa. Working together with African policymakers, AGOA should help to stimulate private investment for non-oil exports. This is critical to increasing Africa's trade capacity.

POLICY RECOMMENDATIONS

Much can be done to address these constraints and to help African countries take full advantage of AGOA. First, if the goal of AGOA is to promote lasting growth and development, then the AGOA time horizon should be extended for a more sizeable period. Recognizing that the U.S. Department of Agriculture rulemaking process for new agricultural products can take up to three years to process for goods that are "economically significant," it is important to extend the AGOA time horizon to allow new exporters the opportunity to take full advantage of AGOA. This will provide investors with the market certainty they need to make long-term investments in Africa.

Second, AGOA should be exclusive to Africa. Firms that have invested to exploit the opportunities accorded by AGOA would be adversely impacted by extending AGOA-like benefits to other developing countries. These firms need more time to engage in exporting and acquire the capacity to compete in international markets. The extension of AGOA-like benefits to other developing countries will only hamper or even reverse the progress that has been made to develop Africa's export sector.

The U.S. could adopt a more nuanced approach to extending trade preferences to developing countries in other regions by extending preferences to specific beleaguered sectors in those countries. Bangladesh exports more apparel to the United States than all of sub-Saharan Africa combined. Therefore, preferences should be extended to other sectors in Bangladesh that are less developed. This will have the impact of promoting development in less developed countries worldwide without putting African producers out of business.[1]

The U.S. can also help to stimulate private investment in Africa by offering tax incentives to U.S. companies that invest in select non-oil industries in Africa and export back to the

United States. U.S. policymakers should work with their African counterparts to identify key potential growth industries that would be eligible for these tax advantages. The focus should be on industries that have low production capacity at present but have the potential for stimulating growth.

In turn, African governments should continue to remove barriers that increase transaction costs in Africa by improving regional infrastructure, reducing corruption, enforcing property rights, improving governance and facilitating loans for businesses involved in export activities.

ENDNOTES

1. Thahane, Timothy. The 2010 AGOA Leaders Forum. April 26, 2010. Washington, DC.

AGOA AND THE AFRICAN AGRICULTURAL SECTOR

EMMANUEL ASMAH
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The Africa Growth and Opportunity Act (AGOA) is indeed a laudable development by the U.S. to encourage and support African countries pursuing the difficult reforms necessary to create open markets and growth-oriented economies. African countries benefiting from AGOA are already diversifying their export bases; nearly all of them have improved significantly in the United Nations Conference on Trade and Development (UNCTAD) diversification index. Furthermore, countries such as Kenya and Lesotho have developed their textile and apparel industries, which have absorbed large amounts of surplus labor and spurred economic growth.[1]

However, export growth under AGOA is predominantly driven by oil and gas and very little by agricultural products. Data shows that about 90 percent of all U.S. imports from sub-Saharan Africa in 2008 are energy-related products. In fact, 70 percent of all U.S. imports in 2008 are from Nigeria and Angola, which mainly export oil. While total U.S. imports under AGOA have more than tripled between 2000 and 2008, the U.S. Department of Agriculture (USDA) reports that U.S. imports of agriculture, fish and forestry products from sub-Saharan Africa only increased by 49 percent from $568 million in 2001 to $846 million in 2009.[2] If this comparison elicits concern, a comparison of AGOA agricultural imports to total U.S. agricultural imports is cause for deeper concern, bearing in mind that these are exports from a group of 38 AGOA eligible countries. In 2008, AGOA imports represented 1 percent of U.S. imports of agricultural products. Total agricultural imports from AGOA countries are reported to be in the range of $1.2 billion to $1.4 billion per year. About $1 billion of these transactions take place under the existing Most Favored Nations (MFN) framework, leaving trade preferences under the General System of Preferences (GSP) and AGOA to account for the remaining balance. A further breakdown suggests that AGOA agricultural imports account for only about $120 million - 200 million per year and about 85 percent of these originate from South Africa alone. Based on these accounts, AGOA's impact on African agriculture is very limited. Yet, agriculture is the sector with the highest potential for poverty reduction and job creation in Africa.

To put this in context, the agricultural sector employs between 60 and 80 percent of the population in many African countries. Therefore, promoting growth in this sector should be an important focus of the periodic reviews of AGOA's performance. An issue of concern is that AGOA has not provided impetus for transforming smallholder African farms into large-scale enterprises that can help African countries take advantage of opportunities from AGOA. While it is true that African countries need to address the supply-side constraints facing agriculture, it is also important to realize and investigate the demand-side constraints affecting AGOA agricultural exports. Some of these constraints include:

- U.S. agricultural subsidies have essentially drowned out any competitive advantage of Africa's agriculture sector under AGOA. With U.S. farmers continuing to receive subsidies, African policymakers are reminded that subsidizing agriculture not only constitutes government intervention in markets, but it is also against the spirit of the AGOA reforms. These subsidies make American agricultural exports cheaper than locally produced products in AGOA beneficiary countries, ultimately destroying the possibility of growth in African smallholder farming.

- AGOA did not eliminate the quotas which existed prior to its enactment. Under the existing framework, exports of sugar, tobacco, dairy and beef are constrained by country-specific quotas that are based on a country's share of exports to the U.S. during a period that long predates AGOA. These and other processed agricultural products are also exempted from duty-free import to the U.S. under AGOA.

- African exports to the U.S. still face non-tariff barriers arising from the export approval process. For example, exports have

> to meet sanitary standards. However, the problem is not that these standards are unattainable, but that the process of approval is cumbersome and time consuming for African exporters. These complaints are coming not only from newcomers to the exporting business in Africa, but also from those that have already been regularly exporting similar items to European markets.

As U.S. representatives and delegations from African countries meet to review AGOA at 10 years and to develop new strategies, it is imperative that they keep the agricultural issues on the front burner. The lack of a supportive environment for agriculture in Africa in terms of infrastructure and high-quality inputs and seeds is part of the reason why the continent's agricultural products are not competitive. African governments should certainly invest more to support their local agricultural industries in these areas. However, the U.S. also bears part of the blame. African governments expect the U.S. to eliminate or reduce subsidies for American farmers. The U.S. should also make strong efforts to diversify its investments in Africa in ways that support the continent's agricultural sector rather than strictly focusing on the oil sector. Within the framework of AGOA, the U.S. could provide incentives for the American agro-industry to invest in Africa's agricultural sector. This can be done in partnership with the New Partnership for Africa's Development's Comprehensive African Agriculture Development Program (CAADP). In addition, export quotas to the U.S. predating AGOA should be eliminated and AGOA's doors should be open to all African agricultural products. Finally, as part of its trade capacity building program in Africa, the USDA should work toward simplifying the export approval process while at the same time maintaining health and safety standards.

ENDNOTES

1. UNCTAD Handbook of Statistics, 2009.

2. U.S. Department of Agriculture - Foreign Agricultural Service.

AGOA AND REGIONAL INTEGRATION IN AFRICA

A MISSED OPPORTUNITY BEYOND 2015

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JOHN PAGE

True to its name, the Africa Growth and Opportunity Act has created a number of opportunities for Africa that would not otherwise exist, but it is in danger of missing a critical opportunity. AGOA can do more to support the meaningful integration of Africa's economies. Without effective regional integration Africa simply cannot compete in the global market for manufactures, traded services—such as tourism and IT-based services—and high value added agriculture. The region's ability to create high paying jobs and sustain growth depends on these industries. Integrating locally to compete globally is fundamental to Africa's long-term economic success.

WHY IS REGIONAL INTEGRATION SO IMPORTANT FOR AFRICA?

The continent's economies are small, both in population and economic size. Moreover, 40 percent of Africans live in countries without effective access to the sea, compared with 4 percent of the world's population. Many countries' ability to trade depends significantly on relationships and agreements with neighboring countries whose roads and ports are necessary for trade. Today, transport and power links between countries are limited, and poorly performing institutions—such as regulation of commerce and customs—raise the cost of trade logistics. Transportation costs in Africa can be as high as 77 percent of a product's export value.

Despite the overwhelming economic logic and the political rhetoric in favor of tighter regional ties, Africa has had relatively little success in forming effective regional groupings. Take the case of the Common Market for Eastern and Southern Africa (COMESA), a regional economic grouping that spans from Cairo to the Cape, encompassing 19 member states with a population of 430 million. This is a potential regional market of significant size and diversity, but COMESA is a "common market" in name only. In fact, it has not achieved free trade among its members, movements of people across its borders remain problematic, and it is a long way from integrating its financial markets. With a few exceptions, notably the East African Common Market and the Southern African Development Community (SADC), Africa's other regional economic groups have similar problems.

HOW CAN AGOA HELP?

Mainly by encouraging the development of regional value chains. One of the reasons why regional integration initiatives in Africa have shown so little dynamism is that the business community sees few opportunities in cross-border trade with neighbors. Unlike Asia where regional value chains have grown to serve global markets, in Africa there is little "production sharing" among countries. Trade among African countries in intermediate goods and components is low and therefore there is little pressure from the private sector for effective infrastructure and institutions to support regional trade.

In some ways, AGOA is well structured to support the development of regional value chains. Its rules of origin allow beneficiary countries to qualify for the minimum local input/processing requirements of using inputs from other AGOA beneficiaries. Intermediate inputs and components purchased from Uganda for example can "count" as part of the local inputs of a Kenyan firm exporting to the United States. In textiles and clothing, the third-party fabric allowances have made it easier for AGOA countries to procure low-cost inputs from one another.

But AGOA's eligibility criteria work in the opposite direction. Eligibility is determined on a country by country basis and the U.S. president conducts annual reviews to determine whether or not a country meets the eligibility criteria. Countries can be eligible one year and not eligible the next. This process has resulted in nine countries being added to AGOA and seven removed since 2002.

Under the current system, the removal of a country from AGOA has ripple effects on trading partner countries, as their inputs are no longer AGOA eligible. AGOA has no mechanism to offset trading partner losses or otherwise lessen the shock when an AGOA country is removed. This has the unintended consequence of discouraging regional supply chains in favor of one that is wholly sourced in a single country. Investors are likely to be apprehensive about creating regional supply chains if it is unclear whether certain inputs will disqualify their product from one year to the next.

The case of Madagascar is illustrative. Madagascar's budding apparel sector uses denim fabric from Lesotho, zippers from Swaziland, and cotton yarn from Zambia, Mauritius and South Africa. Despite significant protest from the private sector, Madagascar was removed from AGOA in January 2010 due to an undemocratic change of government. While the response to Madagascar's coup may have been appropriate, removing Madagascar from AGOA not only punishes Madagascar, but it also punishes the country's five regional trading partners, who are all AGOA beneficiaries.

It is possible to restrict eligibility for AGOA to countries that follow principles of good governance and AGOA's rules while at the same time reducing the uncertainty faced by investors interested in developing regional value chains. To do so, the AGOA rules of origin will need to be modified to ensure that AGOA eligible countries that are part of regional trading blocs are not punished for the behavior of their non-compliant regional trading partners. One option is to allow a non-compliant country to continue to provide eligible inputs to the AGOA eligible countries within the regional group, but restrict direct exports from the non-compliant country to the U.S. Another, as in the case of Madagascar, 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. If the country continues to violate AGOA eligibility rules, preferences would be gradually removed but at a clear and predictable rate for investors.

AGOA could provide a further boost to regional integration by establishing clear eligibility criteria for qualified regional trading blocs, based on progress in trade and financial integration and including them as negotiating partners. In the case of Madagascar, for example, negotiations with the Southern Africa Development Community (to which all six countries belong) on a phase out of preferences for goods with substantial regional content, could have helped to minimize the losses to the five remaining AGOA beneficiary countries from the removal of Madagascar. In addition to reducing regional losses, such negotiations would also strengthen the role and relevance of the SADC Secretariat.

IMPROVING U.S. TRADE ASSISTANCE UNDER AGOA

EZRA SURUMA
ZENIA LEWIS

Since the implementation of the Africa Growth and Opportunity Act (AGOA), aggregate trade between the United States and AGOA-eligible countries has nearly quadrupled. Exports to the U.S. from AGOA countries have increased from $23 billion in 2000 to a peak of $81 billion in 2008, according to the U.S. International Trade Commission. However, the majority of these exports are energy related—primarily oil and gas.[1] AGOA can have more significant effects in stimulating local production in Africa if it emphasizes building the capacity of small and medium enterprises (SMEs) through trade assistance, providing more country-level and firm-specific resources and assistance, enhancing support for competitive trade financing, and formalizing joint cooperation between African AGOA countries.

In the past, U.S. aid for trade has addressed a broad range of economic development issues. For example, aid for trade has included financing improvements in infrastructure, modernization of the regulatory framework, introduction of new technology, and the overall enhancement of the investment climate. The United States Agency for International Development (USAID) has been one of the leading agencies in providing trade capacity building (TCB) assistance in at least 110 nations all over the world. This effort is significant and has undoubtedly increased the capacity of many developing nations to engage in trade negotiations, improve business regulations, deepen the financial sector, and attract foreign direct investment to become more competitive.

However, aid for trade has also been interpreted to cover so many aspects of the economy that it does not specifically address problems facing firms that are attempting to break into AGOA trade. Increased technical assistance and aid focused on the production chain are integral in the short and medium term. Firm-specific training, capacity building, trade financing, and the linking of potential African exporters with financial institutions and potential U.S. importers should be intensified if the AGOA framework is to succeed in enabling SMEs to trade more successfully with the United States. Such initiatives are particularly important to those African countries that have lagged in utilizing AGOA preferences.

INCREASED COUNTRY LEVEL SUPPORT

Although the U.S. has made some strides in this direction, more efforts and resources are needed to effectively reach all the AGOA countries. From 2001-2009, the United States provided over $3.3 billion in trade capacity building assistance to sub-Saharan Africa, according to the USAID Trade Capacity Building database. The U.S. makes significant contributions to trade capacity building broadly through the Millennium Challenge Corporation, and USAID also implements the Africa Global Competitiveness Initiative (AGCI) to help promote export competitiveness of African enterprises. The aims of this initiative are diverse and include improving the business and regulatory environment for trade and investment, providing knowledge and skills, helping with access to financial services, and infrastructure investment. The AGCI has opened four regional global competitiveness hubs managed by USAID regional missions in western, southern and eastern/central Africa to provide information and technical assistance. The hubs are providing much needed trade assistance in their regions. However, increasing the presence of trade assistance support at an individual country level could increase the benefits to AGOA countries. While it would not be necessary to have a hub type resource in every AGOA country, having a formal point of contact within a specific nation to inform firms on available trade assistance resources would be useful.

FIRM-SPECIFIC ASSISTANCE

More assistance to African firms is desperately needed for AGOA to be considered successful. In Uganda, efforts to increase textile exports to the United States have been minimal despite numerous incentives and unwavering support by the Uganda government to export-oriented firms attempting to break into the U.S. market. For example, Uganda grows high-quality cotton but lacks the capacity to produce apparel for the U.S. market. Ugandan firms have attempted to export apparel to the United States using both locally produced and imported fabric. The production based on imported fabric has yielded disappointing results mainly because of the additional costs of transporting ready-made fabric from outside. Production based on domestic fabric is more promising since it requires lower transportation costs. It is possible that in the zeal to benefit from AGOA some African nations may have moved too fast without thoroughly analyzing the feasibility of the proposed ventures. However, their subsequent difficulties show that these African countries need trade assistance that goes beyond improvements in infrastructure and the business environment to break into the U.S. market. Providing more firm-specific trade assistance and resources would increase the success of emerging sectors like Uganda's apparel industry.

COMPETITIVE TRADE FINANCING

Similar appeals for trade assistance could be made for other sectors, such as non-traditional exports in the agricultural sector. For instance, firms attempting to transition from the export of raw coffee beans to processed coffee have faced innumerable problems of raising capital for market research, marketing to importers in the U.S., and meeting packaging and sanitary standards. In addition to U.S government assistance for private African firms, encouraging development financial institutions to do much more to extend short- to medium-term financing to such firms would help African businesses take advantage of the AGOA opportunity. This could be done by injecting additional resources into regional financial institutions such as the African Export Import Bank, the African Development Bank, the Preferential Trade Area (PTA) Bank and the East African Development Bank so they can provide more trade finance to African exporters. Currently, the financing available to African SMEs is very expensive compared to what is available in the advanced economies, and high capital costs weaken these firms' capacities to compete. An important aspect of trade assistance should therefore include competitive trade financing. As the situation stands today, trade financing is often expensive or nonexistent. Many would-be exporters find that African banks are unwilling or unable to extend the magnitude of the financing required to engage in exports to the United States.

JOINT COOPERATION IN TRADE ASSISTANCE

It may be that a joint coordinating body, such as a secretariat of both the African Union and United States, could assist in organizing trade assistance and accelerating AGOA trade. Such a secretariat could work to both unify AGOA countries and provide additional oversight assistance for AGOA implementation in sub-Saharan Africa. However, it is important that this secretariat be free to act without excessive restraint by either the U.S. or African countries. This would expand and guide the efforts of the USAID regional hubs where African exporters could go to obtain financial, technical and market advice and assistance on how to export to the United States. An examination of the effectiveness of the institutions that are available to assist African exporters could be done as a prelude to the establishment of a formal AGOA coordination secretariat in Africa.

For the time being, the full potential of AGOA will remain unexploited. The reality on the ground is that the capacity and capability of African producers to reach the U.S. market remains negligible compared to that of other continents. If AGOA is to change this situation, then trade assistance will have to go much further than it has so far.

ENDNOTES

1. In 2008, around 90 percent of all U.S. purchases from AGOA countries were oil imports.

TRADE LOGISTICS

AGOA'S NEXT FRONTIER

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The Africa Growth and Opportunity Act (AGOA) is now 10 years old. While it has scored some successes—in particular 13 percent average yearly growth of apparel exports to $914 million[1]—it has failed to spur broad-based export growth and diversification. Excluding petroleum products, automobiles (which are solely driven by South Africa) and apparel, Africa's manufactured exports to the United States under AGOA have grown at only 7.5 percent per year. Without South Africa and these three products, AGOA countries exported only $47 million of manufactured goods to America in 2009.

This anemic performance is not a result of AGOA's rules of origin—which even for textiles and clothing—are relatively generous. Rather, the constraints to more robust export growth under AGOA have come from the supply side. African firms find it hard to compete even with generous preferences.

Africa's lack of competitiveness does not come primarily from the inefficiency of its workers, managers or capital equipment. In a series of careful plant-level studies, the World Bank has shown that with their lower wages, African enterprises can compete with Chinese and Indian firms in factory floor costs in some product lines, such as garments and other simple manufactured goods.[2] Africa's major supply side constraint is actually in trade logistics, which determine the cost of getting goods to and from the factory gate. African countries have among the highest trading costs in the world.

Trade logistics have become an increasingly large obstacle to African trade performance because of a profound change in the nature of international trade that has taken place in the last quarter century: the explosion of "trade in tasks." In some manufacturing activities, a production process can be decomposed into a series of steps or tasks. As transport and coordination costs have fallen in many parts of the world, it has become efficient to produce different steps in the process in different countries. Task-based production has expanded dramatically in the past 25 years. From 1986-1990, imported intermediates constituted 12 percent of total global manufacturing output and 26 percent of total intermediate inputs. By 1996-2000, these figures had risen to 18 percent and 44 percent respectively. Globally, the import intensity of export production rose from about 67 percent in 1986-1990 to 78 percent in 1996-2000.[3]

For countries that have failed to industrialize, task-based production is a potential lifeline. It is easier to specialize in a single task than in the entire range of tasks needed to produce a product. This specialization can boost learning, both in terms of manufacturing processes and supply chain management. However, trade in tasks also amplifies the importance of trade logistics. In task-based production, high shares of intermediates in final output magnify the effect of changes in logistics costs on value added and profit margins. Countries at the final stages in the production chain of a task-traded good are unlikely to be competitive if their trade costs on imported intermediates are high, and countries hoping to enter upstream in a global value chain cannot afford to have high trade costs for their exports. Beyond these direct costs, the predictability and reliability of supply chains are increasingly important in a world of just-in-time production sharing.

As the disappointing AGOA export totals show, Africa has mostly missed the task-based industrial revolution, largely because of poor trade logistics. In 2010, the World Bank assessed the trade logistics performance—from customs procedures, transport costs and infrastructure quality to the ability to track and trace shipments, timeliness and the competence of the domestic logistics industry—of 150 countries. Not surprisingly, OECD and other high-income countries lead the league table of logistics performance. At the other extreme low-income, landlocked countries, especially in Africa, score the worst. As a region, Africa has the poorest overall trade logistics performance.[4] Infrastructure deficiencies interact with poor public institutions and lack of competition among service providers to create a vicious circle of constraints to the efficient movement of goods and services. At the firm level, this translates into a substantial "export tax" on value added. One set of estimates for Kenya, Tanzania and Uganda places the average cost of trade logistics at the equivalent of a tax of between 25 and 40 percent on value added.[5]

Clearly, AGOA cannot and should not attempt to address Africa's infrastructure constraints, but—through the regular meetings of it members and its role in the U.S. aid architecture—it can become an important lobby for increased attention and funding from the international donor community. It can also promote innovative ideas for public-private partnerships to increase infrastructure investment and improve operating efficiency.

While infrastructure is important, institutions and the regulatory environment are equally important. Customs reform and modernization is a largely unfinished agenda in Africa, and even where countries have implemented a customs modernization program, the coordination of border procedures between customs and other agencies (responsible say, for health and safety standards) remains an important constraint. Reform of logistics services markets, especially transport regulations, is also high on the agenda for reform.

AGOA can help improve the "software" of trade logistics by sharpening the focus of U.S. technical assistance. As another essay in this report notes, U.S. trade capacity building assistance to sub-Saharan Africa has totaled over $3.3 billion from 2001-2009, with over $700 million in 2009 alone. However, these resources are spread across a wide range of capacity building efforts and have not led to major reductions in trade costs.[6] To spur administrative and institutional changes, AGOA can also open up a dialogue on how key administrative and regulatory reforms designed to lower trade costs should enter into its eligibility criteria.

For landlocked countries, both the physical and institutional constraints to efficient logistics are compounded by the need to depend on neighboring countries for access to markets. Regional integration arrangements that focus on lowering trade friction for member countries will enhance their competitiveness. As noted in a separate contribution to this set of essays, AGOA can do more to promote effective regional integration.

Without greater attention and resources to lower the costs of trade, African countries will fail to capitalize on AGOA's generous preferences and rules of origin. AGOA has done reasonably well on preferences; its next frontier should be trade logistics.

ENDNOTES

1. Many of these gains were realized in the first half of the decade, before the elimination of the Multi-Fibre Arrangement eroded some of the original gains in recent years.

2. Eifert, B., Gelb, A., and Ramachandran, V. (2005). "Business Environment and Comparative Advantage in Africa: Evidence from the Investment Climate." Washington, DC: World Bank.

3. UNIDO (2009). "Industrial Development Report 2009." Vienna: UNIDO.

4. World Bank (2010) "Connecting to Compete 2010: Trade Logistics in the Global Economy - The Logistics Performance Index and its Indicators," Washington, DC: The World Bank.

5. Morrissey, O. (2004). "Trade Policy & Transport Costs: How EU Aid Can Promote Export Growth in East Africa." London: DFID EC-PREP.

6. USAID Trade Capacity Building Database.

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