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

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