Trade Preferences and Value Chains

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Generally, African countries have not effectively exploited the various trade preferences extended to them by the United States' African Growth and Opportunity Act (AGOA) and by the European Union's Economic Partnership Agreements (EPAs). In fact, only a very small percentage of the roughly 6,000 duty-free, quota-free product lines allowed by AGOA have been utilized. These preferences could ideally catalyze intra-African trade and increase the competitiveness of African businesses. But to achieve such positive outcomes, they must be revised and redesigned in a way that does not penalize cooperation among African countries in their production of exports. In short, trade preferences should promote rather than discourage cross-border value chains.

To some extent, AGOA, as it currently stands, has been successful in helping to create value chains. These value chains have tended to cluster in the apparel sector, where the legislation allows multiple countries to add inputs to the production of goods under its special "rules of origin" provision. This has encouraged Tanzania to export cotton to Kenya for the production of textiles, and it has also motivated Mauritius and South Africa to invest in the apparel sector in other African countries.

However, some aspects of AGOA have negated progress in this regard. Specifically, when the United States has in the past *revoked* a country's AGOA eligibility, whole value chains were often harmed. For instance, when Madagascar's status was rescinded in January 2010 due to an undemocratic change in the country's government, other AGOA beneficiaries were also punished inadvertently. Negative effects rippled through the apparel sector in Zambia (which produces cotton), Swaziland (zippers) and Lesotho (denim fabric).

The European Union has its own trade preferences, which are part of its EPAs. Although these agreements are intended to foster value chains in Africa, they have been counterproductive. One reason is that their membership configuration does coincide perfectly with those of the continent's regional economic communities (RECs). Countries like Malawi, Zambia and Zimbabwe comprise part of the SADC REC, but are grouped with the COMESA EPA; the Democratic Republic of Congo, also part of the SADC, belongs to the CEMAC EPA. The task of harmonizing trade policy or creating a customs union is obviously complicated by these arrangements, which only exacerbate the problem of overlapping REC membership.

To a large extent, the point of the EPAs is to promote trade liberalization. They allow for the immediate access of African goods to EU markets and a reciprocal but gradual opening of European goods to African markets. Unfortunately, both sides of this exchange have the potential to undercut intra-African trade. Regarding the latter, Africa's small and still emerging industries will be hurt by an influx of products from their more developed European counterparts, some of which enjoy heavy subsidies. Regarding the former, the EPAs call for an elimination of taxes on African raw material exports—although some of this money is used to add value to these products through processing or manufacturing. In sum, the effect of such a policy will damage regional value chains and entrench Africa in its role as mainly a supplier of raw materials.

Recommendations

The EPAs and AGOA can and should be redesigned to correct the issues outlined above. To combat the problem regarding the revocation of AGOA benefits, the United States should allow newly AGOA-ineligible countries to continue providing inputs to regional supply chains (without allowing them to directly export to the U.S.). It should reform the "rules of origin" requirements for sectors other than apparel, such as manufactured goods.

Likewise, the EU should reconfigure the EPAs. First, they should be implemented and carefully sequenced in such a way that respects the RECs' integration agendas. Second, rather than opening up African markets to European imports indiscriminately, the EPAs should allow Africa's tariffs to fluctuate depending on a particular country's level of industrialization. Countries develop, in part, through their strategic use of tariffs to strengthen their local industries; foreign-imposed regulations that restrict the use of tariffs, like the International Monetary Fund's Structural Adjustment Program from decades ago, have generally produced poor development outcomes, including the stagnation of many Sub-Saharan African economies.

Finally, a more difficult but obvious improvement would be for the European Union and the United States to harmonize their individual preference programs for Africa. This, in conjunction with the other recommendations presented here, would help Africa foster value chains and intraregional economic integration.

References

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