ATPC
Briefing
No. 16

Economic Commission for Africa

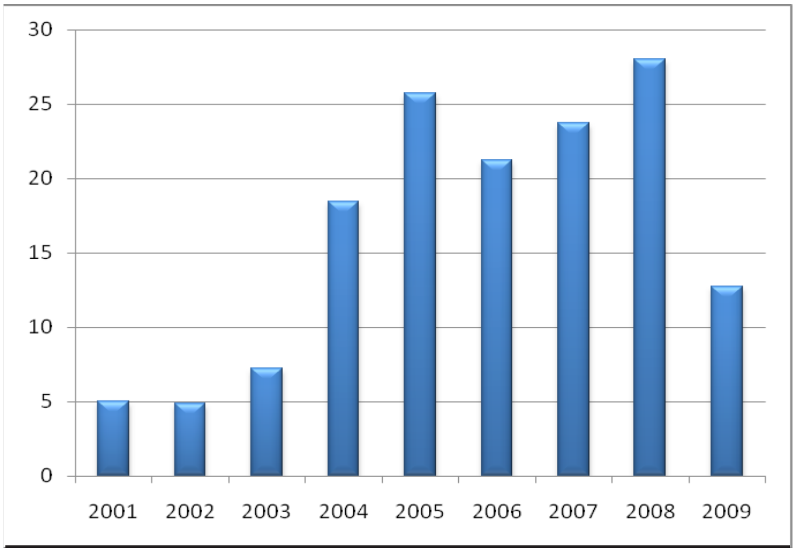
African Trade Policy Centre

African U.S. Trade in the Spotlight: A Decade of AGOA*

The African Growth and Opportunity Act (AGOA), being the cornerstone of U.S. and Sub-Saharan African (SSA) trade relations since 2000, was envisaged to tackle Africa's trade and investment constraints. In a bid to accelerate economic growth, it offers additional duty-free and largely quota-free access to U.S. markets as a supplement to the General System of Preferences (GSP) - a total of 6,000+ products. At present, 38 SSA nations are AGOA-eligible of which 27 have eligibility for textile and apparel benefits, this sector holding the most promise for value added and structural transformation. With five years left to its expiration, there are concerns as to the extent to which AGOA's aims of expanding African-U.S. trade, diversifying SSA exports and facilitating Africa's integration into the global economy have been achieved.

Since the inception of the initiative, total U.S. AGOA imports have risen over five-fold, from $5 billion in 2001 to over $28 billion in 2008 (see figure 1).

Figure 1: U.S. Imports from AGOA-Eligible Countries, $bn

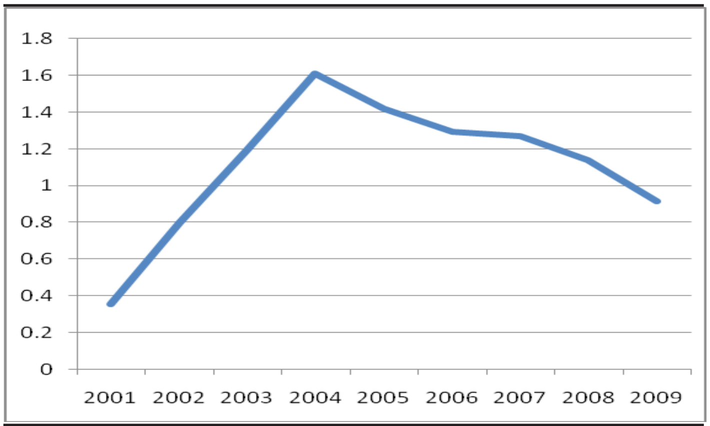


Source: U.S. Department of Commerce, 2010.

* This policy brief is based on a longer paper entitled "A Decade (2000-2010) of African-U.S. Trade Under the African Growth and Opportunity Act (AGOA): Challenges, Opportunities and a Framework for Post-AGOA Engagement' by Laura Paez, Stephen Karingi, Mekalia Paulos (UNECA) and Mwangi Kimenyi (Brookings Institute.

In terms of overall textiles and apparel imports, a considerable supply response of over 300% took place, illustrating an evident economic payoff for a group of countries (see figure 2).

Figure 2: U.S. Textile & Apparel Imports from AGOA-Eligible Countries, $bn

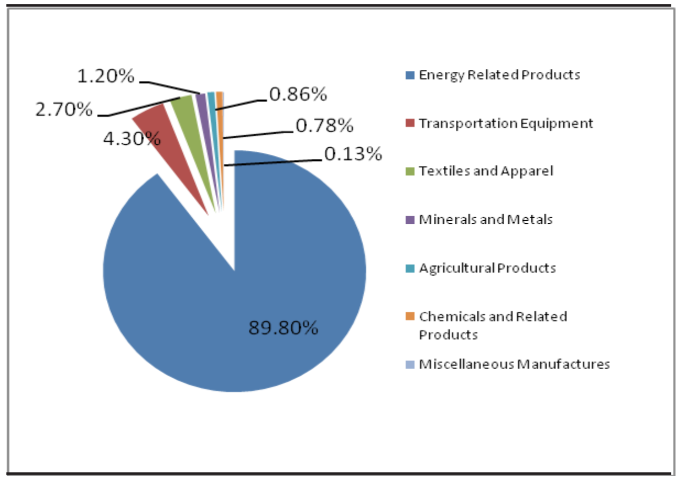


Source: U.S. Department of Commerce, 2010.

On the foreign direct investment (FDI) front, U.S. flows increased by 52% to $13.8 billion between 2001 and 2007. AGOA has also galvanized Southeast Asian FDI as transnational corporations sought to exploit AGOA preferences, thereby reinforcing South-South trade. Finally, in employment gains, over 300,000 new jobs are estimated to have been attributed to the Act.

However, AGOA successes remain disproportionally distributed among beneficiary countries as well as in export diversity. The prominence of energy, mineral and related products in U.S. imports persists (see figure 3), portraying that diversification still remains an enduring challenge for Africa. Only a selected number of countries have availed themselves of AGOA preferences, most notably in textiles and apparels.

Figure 3: Leading U.S. Imports from AGOA-Eligible Countries, 2009



Source: U.S. Department of Commerce, 2010

Challenges of the AGOA Framework

Short Time Horizon Undercutting Investments: AGOA's temporary, unilateral and conditional nature has discouraged long-term investments as the ten year 'window of opportunity' (the Act was later extended until 2015) dissuaded investors in light of the difficulty of recouping capital prior to its expiry, thus lowering potential gains considerably. Hence, it may be argued that uncertainty with regards to AGOA's time horizon has undercut related investments substantially.

Competitive Environment Increasing: The expiry of the Multi-Fibre-Agreement (MFA) in 2005 rendered the textile and apparel sector open to competition, particularly from Asia. In consequence, exports plummeted in the ensuing years by over 40% (see figures 1 & 2) . This was contrary to the general perception that African market access would be ensured to those countries which had protected their markets through 'grandfather clauses', highlighting that preferences remain crucial for the nascent textile and apparel sector in SSA. Furthermore, recent proposals by the U.S. Congress to extend AGOA-like benefits to nations such as Cambodia and Bangladesh have the potential of leading to the erosion of preferences granted to SSA, and a subsequent loss in market share in favor of more competitive Asian recipients.

Agriculture Exports Remain Low: Agricultural commodities account for less than 1% of AGOA exports. Although AGOA adds 541 products to the existing 519 which qualify under the U.S. GSP, effectively half of these goods face preference erosion as preferential treatment is afforded to other non-African developing countries. Further, the exclusion of key revenue generating exports such as sugar, peanuts, dairy and tobacco diminish potential gains. Additionally, U.S. subsidies for domestic producers, such as cotton subsidies, continue to artificially lower cotton prices, eliminating potential competitive advantages for African agriculture. Moreover, more than 200 tariff lines (17% of total dutiable agricultural tariff lines) do not enjoy preferences neither under AGOA nor the U.S. GSP. Finally, non-tariff barriers such as SPS impose additional demands on SSA exporters.

AGOA-Eligibility Revocation Impacting on Regional Integration: Integrating Africa's economies locally to compete globally is vital to the continent's long-term economic success. As AGOA-eligibility is reviewed annually by the U.S., it has the option of unilaterally revoking benefits if certain economic, political and human right conditions are unmet by beneficiaries. Yet, such a suspension of AGOA benefits in a beneficiary country can have significant ripple effects on its regional trading partners. For instance, Madagascar's recent ineligibility (on account of an undemocratic coup) has affected several countries which are also AGOA beneficiaries, as Madagascar's apparel sector uses denim fabric from Lesotho, zippers from Swaziland, and cotton yarn from Zambia, Mauritius and South Africa.

Trade Logistics Hampering AGOA Utilization: Africa's major supply side constraint is trade logistics, which determines the cost of transferring goods from the factory gate to end consumers. Infrastructural deficiencies, coupled with poor public institutions and lack of competition among service providers, hamper the efficient movement of goods. For instance, in East Africa, the average cost of trade logistics is equivalent to a tax of between 25% and 40% on value-added, which impedes entering markets with competitive prices.

Challenges of a Post-AGOA Fraemwork

The prospect of a post-AGOA scenario begets three imperative questions. What are the main challenges the expiry of AGOA preferences may pose on Africa? What could be reasonably expected beyond 2015 in the absence of AGOA renewal? How would Africa fare under this scenario?

Risk of Preference Margin Erosion: The 7.7% preference margin of AGOA, while being rather low, has not only contributed to increased exports to the US but has also played a significant role in creating new regional value chains and promoting intra-African trade. Notable among these are cotton exports from Tanzania to Kenya for textile production and South African and Mauritian FDI in other African countries' textile sectors. A phase-out of AGOA could thus spell a reversal of such gains as current beneficiaries, with primarily possess nascent industries, lose US market share to competitors such as Cambodia and Bangladesh with regards to textiles. Additionally, SSA countries which have yet to benefit from AGOA (approximately 50%) stand to face an even more difficult environment if AGOA is not renewed, thus missing out on harnessing the Act's trade, FDI and employment opportunities.

FDI Diversion and Specialization a Concern: FDI-driven specialization in textiles and apparel raises a major concern, particularly in the event of AGOA preference cessation in 2015. The market access opportunities afforded by AGOA have been instrumental in attracting related investments. Such FDI is very mobile and lends itself to rapid dismantling, which could replay an MFA scenario of market loss to Asian competitors triggering de-industrialization as during the MFA phase-out. Particularly telling is the experience of the Caribbean Basin Initiative which suffered a dismantling of their incipient textile industries in the face of NAFTA and Chinese competition.

Employment and Gender Equality Gains to be Lost: AGOA has expanded employment opportunities, particularly in the textile and apparel sectors, namely in Lesotho, Kenya, Madagascar, Mauritius and Swaziland. It has also made headway in addressing gender inequality by increasing the participation of women in related employment schemes. However, most of the textile manufacturing companies have been established in export processing zones (EPZs) which have yet to promote the much sought industrialization and economies of scope in the host country. In spite of evidence of some skills creation, training has thus far been limited to basic production needs. Greater skills development, decent working conditions and enhancing the gender equality dimension are necessary.

Way Forward: AGOA Post-2015

Africa faces two options in 2015: a renewal of AGOA or a definite phase-out of its preferences. Considering the crucial implications of both, either alternative merits scrutiny.

AGOA Renewal Beyond 2015: In the event AGOA is extended beyond 2015, several issues ought to be addressed in order to improve the participation of African countries to tackle the twin problems of high export concentration in select countries and products as well as a heavy FDI bias towards the textiles, apparel and energy sectors. A renewed AGOA should be more inclusive, accessible and permanent as preferences still play a vital role in Africa's industrialization efforts. In addition, the following issues merit attention:

- Requirements, Standards & SPS Compliance in Export Markets: These have been key in deterring a greater reaping of AGOA benefits. Non-tariff measures such as restrictive rules of origin, lack of sufficient physical and human capacities with regards to SPS, as well as differentiated labeling and special documentary requirements, among others, connote high costs for African exporters.

- Elimination of Supply-Side Constraints: Market access in the absence of measures addressing crippling structural constraints such as weak distribution networks and communication and transport infrastructure is unlikely to result in significant and sustainable export growth or develop the backward linkages imperative for SSA economic development.

- Export Production and Destiny Diversification Necessary: Even though greater export diversification is a key AGOA objective, product coverage remains insufficient due to the exclusion of major export revenue generating goods such rice, sugar and peanuts. In addition, although AGOA has afforded FDI and job creation prospects, related value addition has been limited.

- Sectoral Carve-outs of National Treatment and MFN Treatment Key: AGOA should include sectoral carve-outs for sectors such as textiles to afford continued protection to countries which have not yet solidified their industrial base or are facing de-industrialization as Asian textile and apparel exporters penetrate US markets in the aftermath of the MFA expiration.

Probable Post-AGOA Scenarios: A post-AGOA framework may entail one of the following three scenarios regarding African-US relations.

The first scenario concerns the US deepening the implementation of the bilateral investment treaties (BITs), trade and investment framework agreements (TIFAs) and trade, investment and development cooperation agreements (TIDCAs). In this event, African countries that currently are not party to such agreements face a key challenge. Prospects of leveraged agreements with the US may be meek if they engage in bilateral negotiations, as was the experience with Central American countries under a similar setting.

A second scenario may comprise of the US seeking to consolidate gains through BITs, TIFAs and TIDCAs at a sub-regional level. This would demand greater coordination on behalf of countries engaged in regional negotiations, and might pose considerable challenges – as is the case of the Economic Partnership Agreements (EPAs) – if such negotiations end up cutting across the existing RECs structure.

A third scenario may involve the US seeking that these bilateral agreements go deeper than the EPAs reciprocal treatment. By making these greater commitments, countries may lose out on the opportunities of having adequate policy space for their development needs. In the event of any of these scenarios, African beneficiaries must prudently assess the advantages and challenges of such agreements in light of their international trade, regional integration and national development objectives.

Policy Recommendations

In order for AGOA to contribute to shaping a more meaningful U.S.-Africa trade and investment relationship, relevant policy recommendations include:

- The need for a longer time horizon and AGOA certainty beyond 2015.

- A better linkage of the Aid for Trade Initiative with AGOA, particularly in addressing identified constraints being faced by SSA.

- Simplifying AGOA rules of origin, conducive to greater value addition at national and regional levels.

- A greater focus on enhancing the regional dimension of AGOA, especially in the context of the regional integration agenda of the RECs.

- To ensure lasting innovation and skill creation in beneficiary countries so as to move up the value chain, trade and FDI partnerships between governments and foreign interests should condition enjoyment of AGOA benefits on capacitating local employees and firms.

- Industrial and FDI policies should foster domestic investments. If local interests are embedded in AGOA related FDI, durability and stability of such interests may deliver more sustainable investments and ease the risk of a rapid dismantling of the industrial base.