

# How ‘**AGOA 2.0.**’ Could Be Different

Outlining Africa’s Position on the AGOA Review process

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A White Paper | April 2014



United Nations  
Economic Commission  
for Africa



African Union

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## Contents

Foreword	ii
Letter from Ethiopia's Minister of Trade	iii
Acknowledgments	iv
Executive Summary	2
1. Introduction	4
2. The Yester Years: Overview Of AGOA's Performance Over The Last Thirteen Years	6
2.1 Overview of AGOA's Performance	6
2.2. Impediments to AGOA Performance	8
3. Justification For The Reauthorization of AGOA	11
3.1 Increased Readiness by AGOA Eligible Countries	11
3.2 Aligning AGOA with Africa's Development Aspirations	14
3.3 Support to Africa's Regional Integration Efforts	14
3.4. Africa's Special need	15
4. Relevance of Reciprocal Trade Preference Regimes (EPAs) to AGOA	17
5. Elements of The Enhanced AGOA	20
5.1. Third Country Fabric Provision as Integral to AGOA	20
5.2. Product Coverage	20
5.3. Revised Rules of Origin	21
5.3 (i) The Global Value Chain	21
5.3. (ii) Rules of Origin for Canned Tuna	22
5.4. Country Eligibility Issues	22
5.5. Graduation Provision	23
5.6. Promoting U.S. Investment in Africa	23
5.7. Streamlining U.S. Aid to Africa	24
5.8. Laying a Strong Foundation for a U.S. - Africa FTA	25
5.9. The AGOA Forum	26
6. Conclusion & Recommendations	28



## Foreword

The 2013 AGOA Forum held in Addis Ababa, Ethiopia ended on a positive note, with the United States committing to work for the seamless authorization of AGOA beyond 2015. To ensure certainty and predictability - concurrently avoiding unnecessary disruption to trade and investment - both the U.S. and Africa agreed that AGOA should be re-authorized in a timely manner for a long-enough period of time that benefits all strategic stakeholders.

At the Forum, the USTR Ambassador Michael Froman also expressed a desire to launch a comprehensive review of the AGOA trade preference program to assess the nature of trade and economic cooperation between the U.S. and sub Saharan Africa beyond 2015. He has also expressed a keen interest in getting Africa's viewpoint as part of the review process.

In my capacity as current Chairman of the African Union, I requested the African Union Commission (AUC) and the United Nations Economic Commission for Africa (UNECA) to provide input to this review process. Accordingly, a team made up of the African Trade Policy Centre (ATPC), UNECA and the AUC put together a white paper outlining Africa's position. The team also worked closely with the African Ambassador's Group based in Washington DC.

I would like to thank all those that contributed to laying out Africa's positions on how to make AGOA more mutually beneficial, and it is my sincere hope that the Obama Administration and the U.S. Congress will take this collective view into account in the AGOA review process.

Sincerely,

**Hailemariam Dessalegn**

Prime Minister

The Federal Democratic Republic of Ethiopia

April 1, 2014

**To: Ambassador Michael Froman,**  
United States Trade Representative  
Washington D.C.

Dear Ambassador Froman,

**RE: Outlining Africa's Position on AGOA**

In response to your letter dated September 30, 2013, **H.E. Prime Minister Hailemariam Dessalegn** - like he does in the **Foreword** - expressed his desire to provide Africa's input to the AGOA review process. To this end, the Prime Minister, as Current Chair of the Africa Union, requested the African Union Commission and the UNECA to form a team to work on a white paper that outlines Africa's view on the post - 2015 U.S. - Africa trade and economic cooperation.

In my capacity as Current Chair of the African Trade Ministers' Consultative Forum, it is my pleasure to share the report with you.

- i. This report shows that AGOA is on the right track but has not yet delivered on its full potential.
- ii. It describes AGOA's achievements and shortcomings and prescribes solutions for an enhanced AGOA to ensure realization of AGOA's objectives.
- iii. The white paper relates Africa's commitments in dealing with its constraints through the development of national AGOA response strategies and its various strategic policy documents.
- iv. Finally, Africa advocates for the reauthorization of AGOA before September 2014, demonstrating that both Africa and the U.S. stand to benefit from it. After all, Africa has moved from the 21st century development challenge to the century's opportunity.

On behalf of my fellow African Ministers, I'd like to take this opportunity to reiterate our belief that the AGOA review process should not be bogged down in too much detail at the expense of the seamless reauthorization of AGOA in a timely manner.

It is in this spirit that the attached paper focused on critical issues of concern rather than attempting to address a broad set of issues.

I strongly believe that AGOA embodies our joint aspiration that sub Saharan African countries become full-fledged members of the global economy and I look forward to working with you to make this a reality.

With regards;

  
**Kebede Chane**  
Minister



**Kebede Chane,**  
Minister of Trade,  
Federal Democratic Republic of Ethiopia

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**who collaborated in writing this white paper**



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**‘... AGOA embodies our joint  
aspirations that sub Saharan African  
countries become fully-fledged members  
of the global economy ...’**



## Executive Summary

Set to expire in September 2015, the African Growth and Opportunity Act (AGOA) is the central pillar of trade and economic relations between the United States and sub-Saharan Africa. As a result, discussions are currently underway to determine the nature of post-2015 trade & economic relations.

Both the Obama Administration and United States Congress have requested assessments of the unilateral program's 13-year existence and its future potential. Critical questions on the program's achievements, failures, strengths and shortcomings are being posed. This paper intends to contribute to the ongoing deliberations by outlining the views of AGOA eligible countries on the AGOA review process.

After a thorough examination of AGOA, we find that although trade flows between the program's beneficiaries and the U.S. have grown nearly three-fold - 70% of this is because of AGOA - these flows still do not reflect the natural symbiosis that should exist between the world's largest economy, and the world's fastest growing region.

This sub-optimal utilization of AGOA has, largely been due to Africa's supply-side issues such as capacity constraints, infrastructural challenges, institutional insufficiency, economic setbacks, marketing and merchandising inexperience, political risk and problems related with U.S. market requirements. Besides, the uncertainty and limited time frame associated with the AGOA legislation itself has also posed additional challenges; diminishing incentives for American multinationals to trade with and invest in Africa.

Nonetheless, in spite of the enormity of existing constraints and less-than-stellar trade, those objectives AGOA hoped to attain - expansion of trade and investment flows between the U.S. and Africa, diversification of Africa's economies, promotion of

sustained economic growth, alleviation of poverty, and better integration of the continent into the global economy - are still well within reach and can be fully realized by both the U.S. and Africa.

Starting with a call for the seamless reauthorization of AGOA for a period of at least 15 years, this paper argues that a reauthorized AGOA, dubbed *AGOA 2.0*, could be entirely different and even more mutually beneficial to both the U.S. and Africa as there's now increased readiness on the African side to take better advantage of the enormous opportunity AGOA provides.

As illustrated by country-specific initiatives to develop National AGOA Response Strategies, and strategically and effectively deal with supply side constraints, there are also other compelling reasons to reauthorize AGOA; including the need to align the program with Africa's special needs, and the developmental aspirations of a number of African countries working towards achieving a low-mid-income country status by 2025 and 2030.

Importantly, through AGOA's role in promoting regional value chains, this paper argues that a failure to reauthorize AGOA would hobble the momentum it has helped generate in regionalism over the last decade. Based on their relatively small and still mostly fragile economies, sub-Saharan Africa is, undoubtedly, in a much better position as an economically integrated unit.

We also provide an insight into economic partnership agreements as part of reciprocal trade arrangement regimes, and their relevance to the AGOA review process. The findings suggest that the U.S. should not emulate the EU's EPA trade discussions with AGOA eligible countries especially because of their bad timing and how detrimental they could be for Africa's regional integration aspirations.

Ultimately, this paper recommends that on top of reauthorizing AGOA by October 2014 to avoid unnecessary losses due to cancellation of orders, and

the possible relocation of firms producing in Africa - the program must also be enhanced.

In this regard, our suggestions include facilitating AGOA eligible countries to enter into global supply chains and distribution networks via allowing them 100% duty-free quota free (DFQF) access to the U.S. market, and also through adjusting AGOA Rules of Origin (RoO) so that sub Saharan African countries can fully exploit their comparative advantage.

In our estimation, one of the most effective ways to do this would be to allow duty-free access to the U.S. market for any products produced in the global supply chain, if a certain percentage of the product is processed in Africa. We also recommend that AGOA's Third Country Fabric Provision become an integral part of the revised act.

Under an enhanced AGOA, the U.S. should also streamline American aid to Africa. For instance, AGOA compacts could be developed for those countries that have generated their own National AGOA Response Strategies. In terms of promoting U.S. investment in Africa, the U.S. Congress should provide a zero-tax rate on repatriated earnings for U.S. companies that invest in non-extractive sectors in AGOA- eligible countries.

Penultimately, the U.S. Congress must look into how unilateral withdrawal of AGOA privileges can be deleterious to fragile economies, and also emphasize the importance of strengthening the annual AGOA Forum.

Lastly, we strongly recommend that **AGOA 2.0** take into account a possible U.S. - Africa free trade agreement by ensuring the sanctity of the continental integration road map so as not to further fragment Africa or weaken its integration process.

# Chapter 1

## Introduction

The African Growth and Opportunity Act (AGOA) was signed into law in May 2000 as Title 1 of the Trade and Development Act of 2000. As the most portentous trade program the United States has with Africa, AGOA was designed as a key element of America's development policy towards the region and essentially recognized the importance of trade as an engine of growth and development in a rapidly globalizing world economy. Since 2000, the program has provided duty-free and largely quota-free access to the U.S. market for products originating from AGOA eligible countries. In addition to the 4,600 product lines under the Generalized System of Preferences (GSP), AGOA provides eligible countries with access to the U.S. market for as many as 1,835 products.

Over the years following its enactment, AGOA has been amended to increase product coverage, to extend the time frames for AGOA's operation, and to introduce key tenets such as the third-country fabric provision. In tandem, the number of AGOA eligible countries has varied over the years; with some countries included and others excluded from AGOA benefits based on the yearly assessment of the eligibility criteria. At the commencement of the Act in 2000, 34 sub-Saharan African countries were designated as eligible for the benefits. As of January 1, 2014, 40 of the 49 potentially eligible countries receive benefits under AGOA.

To take full advantage of the non-reciprocal AGOA provisions, the law mandated that eligible African countries meet pre-determined criteria on institution and policy reform, including market-based economies, the rule of law, political pluralism, elimination of barriers to U.S. trade and investment, protection of intellectual property, significant effort

to combat corruption, availability of policies to reduce poverty and increased health and education opportunities, the protection of human and worker rights, and the elimination of certain child labor practices.

Now that AGOA and its third-country fabric provision are set to expire in September 2015, there's a strong call for AGOA's reauthorization for at least 15 years on the African side, while both the Obama Administration and the U.S. Congress have expressed hope for the seamless extension of AGOA. However, both parties feel that AGOA needs to be enhanced so that it can be more beneficial to the respective stakeholders. Discussions are currently underway to determine what the future of U.S. - Africa relations could look like.

In line with this, United States Trade Representative (USTR) Ambassador Michael Froman, on September 30, 2013, requested the United States International Trade Commission (USITC) to provide four comprehensive investigative reports on the U.S. - Africa commercial relationship. These reports are expected to form the foundation for 'AGOA 2.0' as Ambassador Froman termed it at the August 2013 Forum in Addis Ababa, Ethiopia.

For Congress, a bipartisan group of both Senators and Congressmen requested the Government Accountability Office (GAO) to conduct a study on a number of AGOA related issues. The eleven questions outlined in the letter revolve around issues similar to those the USTR requested USITC to look into - questions relating to AGOA's performance to date, factors that hinder the effective utilization of AGOA, FTA issues, and changes or additions, if any, that ought to be done to make AGOA more effective.

This paper's objective is, therefore, to contribute to this discussion by outlining the views of AGOA eligible countries on the AGOA review process, and to also respond to the concerns and questions currently being raised by stakeholders in the United States.

The paper is organized in six parts, including the introduction. The second section provides an overview of AGOA's performance over the last thirteen years while also outlining those key challenges hindering the effective utilization of the opportunity AGOA presents. Part III provides justification for the reauthorization of AGOA for a minimum 15-year period, and in Part IV, effort will be expended on contextualizing the relevance of reciprocal trade preference regimes such as Economic Partnership Agreements (EPAs) to the discussion on the AGOA review process. The last part will outline key elements that should be incorporated in an enhanced post 2015 AGOA.

# Chapter 2

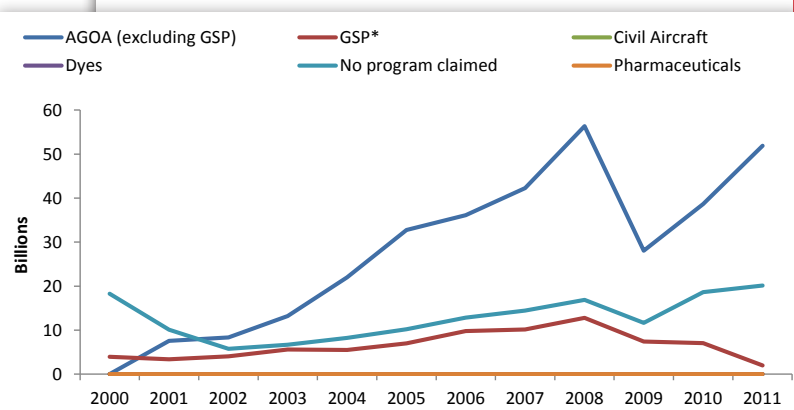
## The Yester Years

### 2.1 Overview of AGOA's Performance.

Since its inception, a number of studies have been undertaken to assess AGOA's progress and achievements. Results indicate that sub-Saharan Africa's trade with the U.S. has grown exponentially under AGOA. In a major review done by UNECA<sup>1</sup>, the unilateral program has had a measurable and sizeable impact on the U.S. - Africa trade dynamic from the start.

Between 2001 and 2013, the combined two-way trade between the United States and AGOA-eligible sub-Saharan African countries grew nearly three-fold, with an increasing share of these exports due to AGOA. In 2008, before the global financial crisis resulted in a reduction to trade flows, combined trade had reached \$100 billion; the aggregate exports from AGOA eligible countries stood at \$81.9 billion. By 2011, the U.S. was importing about \$53.8 billion worth of AGOA commodities – essentially, more than 70% of all U.S. imports from sub-Saharan Africa – and a significant increase from the \$22.2 billion in 2000. (See figure 1 below).<sup>2</sup>

**Figure 1: U.S. Imports from sub-Saharan Africa**  
(Customs Value by Import Program, 2000-2011)



1. The Africa Trade Policy Center (ATPC), **A Decade 2000 - 2010 of Africa - U.S. Trade under the African Growth Opportunities Act (AGOA): Challenges, Opportunities: A Framework for Post AGOA Engagement**, ATPC Work in Progress No. 81, 2010  
2. The years 2012 and 2013 saw a significant reduction in AGOA exports to the U.S.

In fact, African exports under AGOA have increased more than 500 percent over the decade, increasing from US\$8.15 billion in 2001 to US\$53.8 billion in 2011. In 2012 alone, U.S. imports from sub-Saharan Africa saw a 31 percent increase from the previous year.

While this does not get as much recognition as other facets, AGOA has also been beneficial to the U.S. commercial presence in Africa. Over the past 10-year period, this has trebled from US\$5.6 billion to US\$21.5 billion between 2001 and 2012. Illustratively, every one of the 50 American states increased its exports to Africa in 2012, and some states are exporting over US\$550 million in aggregate<sup>3</sup> and experts estimate that AGOA has created as many as 1.3 million jobs, benefiting 10 million people throughout Africa, while estimates from 2011 suggest that U.S. exports to sub-Saharan Africa accounted for over 100,000 jobs in USA.<sup>4</sup>

Senator Chris Coons (D, DE) sub committee chair for Africa on Senate Foreign Relations Committee observes that increased economic ties between sub-Saharan Africa and the U.S. allow the latter to project American values onto the former. Coons argues that U.S. businesses in Africa can set new standards by modeling transparency, good governance, environmental responsibility, fair labor policies and the defense of human rights.<sup>5</sup>

Alternatively, U.S. investment in Africa's economic growth and development via AGOA could also be a reason for Africa's goodwill towards America, contributing to the support the U.S. receives from the continent as the hegemony pursues its geo-political interest, and the fight against global terrorism. Nonetheless, we must put the various aspects of growth brought by AGOA into perspective by asserting that the preferential treatment accorded

3. Earl Gast, **Economic Statecraft: Embracing Africa's Market Potential: Hearing before the Subcommittee on African Affairs**, 112th Congress, Washington, DC 2012

4. Chris Coons, **Embracing Africa's Economic Potential: Recommendations For Strengthening Trade Relationships Between The United States And Sub-Saharan Africa**, Washington DC, 2013  
5. *ibid.*

to African products in the U.S. has not generated an increase in Africa's share of the world's largest consumer market.

Between 1990 and 2005, the whole of Africa contributed between 3.3 and 3.9 percent of total trade with the U.S.; in 2011, this was up marginally to 4.2 percent of U.S. imports of merchandise. Comparatively, the share of Africa's exports to the U.S. hovered around the 18 percent mark while figures increased from 3 percent to 13 percent for exports to China in the same period. This shows that more must be done to deepen the U.S. - Africa trade and investment relationship.

In addition to promoting U.S. - Africa trade, AGOA was also established to diversify African exports. While AGOA has, undoubtedly, facilitated production and exports of some processed and manufactured products to the U.S., it has yet to lead to any fundamental change in the structure of African exports to the market. Energy related products (crude petroleum, oil and gas) remained the dominant African exports to the US under AGOA.

Although the number of countries exporting non-energy products increased from 13 to 22, the continued dominance of primary commodities in the U.S. - African trade dynamic contrasts sharply with changing trends in the structure of intra-African trade that reveals that African countries are increasingly trading manufactured goods among themselves. Primary commodities and unprocessed raw materials have dominated African exports since the 1960s, and it is because of this that textiles and apparel were identified as major processed products to benefit from duty-free access to the U.S. market under AGOA.

Several AGOA beneficiaries including Kenya, Lesotho, Madagascar, Swaziland, Ghana, Ethiopia, and Mauritius, have achieved some level of export diversification through their textiles and apparel industry; increasing exports to the U.S. However, were it not for the uncertainty and limited time

frames of the legislation, AGOA dynamism could have led to an even bigger positive impact on the growth of Africa's textile and apparel sector.

For instance, between 2000 and 2009, with AGOA, exports of textile and apparel from sub-Saharan Africa increased by 23 per cent - from \$748 million to \$922 million. Over the same period, textile and apparel exports to the U.S. market from Bangladesh, Cambodia and Vietnam increased respectively from \$808 million to \$2,116 million, \$ 47 million to \$3,410 million, and \$1,871 million to \$5,058 million. The trend is partly explained by the expiry of the Multi-Fiber Arrangement (MFA), which eroded the preferences enjoyed by sub-Saharan African countries over Asian countries that did not enjoy AGOA's DFQF concessions.

By 2009, the aforementioned three Asian countries were exporting more than ten times the combined value of what all AGOA beneficiaries were exporting. Indicatively, African beneficiaries are not competitive and continue to need privileged access to the U.S. market and the markets of other developed countries.

On top of other objectives, AGOA was also meant to increase in the flow of foreign investment into Africa. It was anticipated that DFQF access for thousands of African products to the world's largest market would serve as a powerful incentive for American and other companies to invest in Africa. However, with six of the world's fastest growing economies, as per the IMF, Africa accounts for only about 1 percent of U.S. foreign direct investment.

In a 2011 UNECA study<sup>6</sup>, it was uncovered that instead of American firms investing in AGOA, much of the investment in Africa's textiles and apparel industry mainly came from Asian companies. Essentially, while both Africa and the U.S. have derived discernible benefits from their economic and trade

6. ATPC, **Report on a Survey of AGOA's Past, Present and Future Prospects: The Experiences and Expectations of Sub-Saharan Africa**, ATPC Work in Progress No. 85, May 2011

relationship, it is also obvious that potential for deepening this growth has not been fully exploited.

Illustratively, only three African countries - Nigeria, South Africa and Angola - accounted for eighty percent of total AGOA exports to the U.S. In 2013, South Africa was the only non-oil exporting African country among the beneficiary economies that the U.S. received goods from in the same year.

While this can be attributed to relatively low levels of development in Africa, it is also reflective of an abject failure for both the U.S. and Africa to seize upon trade and investment opportunities on both the U.S. and sub Saharan Africa sides. While U.S. - Africa trade increased three-fold from \$29.4 billion to \$94.3 billion between 2000 and 2011, there was an astounding fourteen-fold increase in Africa's trade relationship with China - from \$8.9 billion to \$127.3 billion in the same period.

## **2.2. Impediments to AGOA**

In spite of promising trends, AGOA is yet to realize its full potential. The key constraints that impede effective utilization of AGOA can be broadly classified as capacity constraints, infrastructural challenges, institutional issues, economic challenges, marketing and merchandising challenges, perceived political risks and problems related with U.S. market requirements.

### **2.2.1: Capacity Constraints**

Many AGOA eligible countries do not have the capacity to produce and export to the U.S. in requisite quality and/or at required quantity. Many African firms have poor production infrastructure - using old technology and operating on a small scale - which makes it very difficult for them to effectively compete in the U.S.

A recent joint WTO, UNECA, and AUC survey clearly shows that the main factors influencing lead firms' sourcing and investment decisions in Africa include not only production costs and market size, but also suppliers' ability to consistently meet

product requirements due to severe capacity constraints.<sup>7</sup>

Capacity constraints also emanate from Africa's poor human resource capital. Even though AGOA eligible countries have significant comparative advantage in terms of labor resources due to an abundant and inexpensive labor force, transforming this into meaningful competitive advantage has been difficult as many lack proper training and human resource management. Firms have difficulty recruiting and retaining quality labor force across Africa's entire production process as workers lack proper training or incentives.

Compared to countries such as China and Vietnam, Sub Saharan Africa's labor productivity is very low, meaning that capacity utilization in AGOA eligible countries is generally about half that of their Asian competitors. Additionally, limited entrepreneurial skills particularly in the production of goods and development of appropriate bankable projects, and the lack of relevant knowledge and capacity to ensure conformity with U.S. quality standards conspire to limit the extent to which African firms can take advantage of the AGOA opportunity.

The problem is especially exacerbated because much of Africa is made up of micro, small and medium sized enterprises that have difficulty in expanding due to severe financing constraints as they do not have strong relations with financial institution in comparison the few larger and better established firms.

### **2.2.2: Infrastructural Challenges**

Inadequate access to stable power, appropriate information and communication technology, reliable transport, road and railway networks, and efficient post harvest and cool-chain facilities, are some of the major infrastructural challenges that affect competitiveness of AGOA eligible countries.

7. For detailed results of the survey see UNECA, **Building Trade Capacities for Africa's Transformation: A critical review of Aid for Trade**, UNECA, Addis Ababa, 2013

Associatively, poor trade logistics caused by cumbersome documentation requirements, inefficient customs procedures, and poor handling of port facilities penalize firms that rely on imported inputs and doubly hit exporting firms by significantly adding to production cost via uncertainty and long delays – aspects that are unacceptable to most global buyers.

Firms in AGOA eligible countries identify input supplies — including availability, quality, and cost - as a major impediment in their respective operations, and these infrastructural challenges make the input supply (both imported and local) process extremely difficult. In the garment sector, for instance, inputs constitute roughly more than 70 percent of total production costs on average, and thus, inability to acquire large volumes of diverse inputs at required price, quality and time makes African firms highly uncompetitive.

Their Asian competitors, on the other hand, can source high quality inputs with decent prices and in the required time span. On the other hand, Africa's agro-processing production chains suffer from the lack of consistent quality and readily available raw materials.<sup>8</sup>

### 2.2.3: Economic Challenges

One major reason for buyers' failure to consider sub-Saharan African countries for their sourcing needs is a fear that they may not be able to find sufficient product and quality. This is directly attributable to the size of eligible country economies, their respective industry population - in terms of size mix, and number of firms – is much too small; posing serious comparative advantages challenges/ when juxtaposed with South East Asian countries that have a much stronger industry population. Even the textile and garment industry, which can be considered an AGOA success story falls significantly behind compared to its major competitors.

8 Hinh T. Dinh, *et al*, **Tales from the Development Frontier: How China and Other Countries Harness Light Manufacturing to Create Jobs and Prosperity**, The World Bank Group, 2013.

Putting AGOA eligible countries on the global map of the textile and garment industry requires changing the industry population in terms of numbers, size and mix. The earlier mentioned WTO, UN-ECA, and AUC joint survey reinforces this point as it identifies production costs and market size as the major factors limiting investment and sourcing from Africa.<sup>9</sup>

### 2.2.4: Institutional Issues

If AGOA exports from African countries have not picked up as much as they should have, it is not for lack of effort. A number of AGOA eligible African countries have provided their exporters with the requisite support through government agencies and business associations. There have also been donor-supported programs.

However, because some of these programs neither have the strategic direction nor the coordination. Their piecemeal efforts are, therefore, not sufficient to overcome the constraints that come with the weak institutional synergies between the production and trade sectors rife in AGOA beneficiary countries. On top of this, lacking are strong institutional mechanisms both at national and sub-regional levels to provide support for AGOA eligible countries in their effort to take advantage of AGOA.

In recent years, eligible countries are embarking on preparing National AGOA Response Strategies, which are expected to overcome these institutional challenges. (See section III for details on National AGOA Response Strategies).

### 2.2.5: Poor Marketing & Merchandising Skills

Oftentimes, the technical capacity to understand and take advantage of a given market is difficult due to inadequate technical capacity, and firms in AGOA eligible countries have acute limitation in foreign market knowledge and export marketing expertise.

9. UNECA , **Building Trade Capacities for Africa's Transformation: A critical review of Aid for Trade**, UNECA, Addis Ababa, 2013



A vast majority of these firms do not have the capacity to appropriately merchandize, cost or price their products for export. They have limited access to appropriate market information and the business contacts required to penetrate the U.S. market. Also, producers also do not know specific aspects of consumer taste, preferences and other marketing and international trade practices.

#### ***2.2.6: U.S. market requirements.***

The stringent U.S. market requirements are another impediment to increased exports particularly when it comes to agricultural products. The sanitary and phytosanitary standards (SPS) requirements from the U.S. impose additional demands on exporters, making this a major limitation to export agricultural products under AGOA.

But the heart of the matter is lack of awareness of SPS requirements and the cumbersome requirements that see some countries acquiring SPS certification for their export products after a 2 to 3-year period. Another impediment is the fact that most agricultural products lack sufficient value addition to qualify for export to the U.S.

#### ***2.2.7: Political Risk***

While conflict has been an ever-present facet on all continents since time immemorial, Africa suffers particularly from the significant difference between actual and perceived risk. Evidence shows that unfortunate political developments in AGOA eligible countries prevent optimal use of the AGOA opportunity, and conflicts and civil wars have set countries such as Côte d'Ivoire, Liberia, Mali, Madagascar, Sierra Leone and South Sudan back by destroying their social, economic and political institutions. At times, however, we note that the political risk perception is highly exaggerated negatively affecting trade and investment flow into the continent.

#### ***2.2.8: The Nature of the AGOA Legislation***

Because it is a unilateral program that must be renewed from time to time, AGOA can be deemed

unpredictable – something that does not bode well for those who could invest in the opportunity it presents. The uncertainty involved in the renewal process, for instance, is a major impediment for the effective utilization of AGOA as the uncertain and lengthy renewal of AGOA's third country fabric provision in 2012 resulted in a significant loss when orders to African beneficiaries were canceled.

Secondly, sanctions and unilateral actions imposed by the U.S. have had the unfortunate consequence of unintentionally inflicting huge collateral damage on innocent parties such as U.S. investors who lost out when AGOA status was revoked from countries like Democratic Republic of Congo and Madagascar, and in the latter case, the thousands of Malagasy women who lost their jobs.

# Chapter 3

## Justification for AGOA Reauthorization

After being amended five times since its initial enactment in 2000, AGOA is now scheduled to expire in September 2015. Fortunately, the objectives that the legislation hoped to achieve - expansion of trade and investment flows between the U.S. and Africa, diversification of Africa's economies, promotion of sustained economic growth, alleviation of poverty, and better integration of the continent into the global economy - are still valid and are yet to be fully realized.

In recognition of this potential, the African Ministerial consultative meeting at the 2013 AGOA Forum in Addis Ababa, Ethiopia called for the seamless reauthorization of AGOA by October 2014 for at least 15 years to ensure that trade with the U.S. took place on a more predictable, in a more reliable and on more legally secure basis that would inspire investor confidence. At the same forum, both the Obama Administration and Members of Congress echoed the call for a seamless AGOA renewal.

However, based on AGOA's past performance, critics question whether there is any rationale behind the call for the reauthorization of the preference program. In their estimation, a call for more time *per se*, will not lead to any dramatically positive results.

In the following sub sections, we shall make the case for AGOA's renewal.

### **3.1: Increased Readiness, AGOA Eligible Countries**

At the outset, it is important to acknowledge the logic behind the criticism that mere reauthorization of AGOA does not lead to a miraculous change in the utilization of AGOA.

Invariably, if the U.S. and beneficiary countries continue to approach AGOA on a business-as-usual basis, it is difficult to expect a different result in terms of AGOA performance.

Fortunately, that is not the case. Starting at the 10<sup>th</sup> AGOA Forum in Zambia, African Trade Ministers have undertaken a more focused discussion on how to approach AGOA in a more strategic manner, underscoring the need for beneficiary countries to develop their respective National AGOA response strategies.

The simple yet powerful logic behind this exercise is premised on the major constraints outlined in Chapter 2 and shows that the challenges are much too complex and much too interrelated to deal with in isolation. Piece meal efforts to overcome these challenges have not yielded results and so, developing National AGOA Response Strategies is deemed a powerful framework to ensure that countries assess their key export promotion challenges in a more coordinated manner.

In 2012, the African Trade Policy Center at the UN Economic Commission for Africa and the African Union Commission undertook a comprehensive gap analysis on the AGOA utilization. The findings in Table 1 on Page 12 clearly indicate that supply side constraints are largely to blame for the current poor performance under AGOA.

**Table 1: Summary of GAP Analysis on AGOA**

Expectations	Actuality	GAP Exists	GAP Description
Exports from Sub-Saharan Africa to the U.S. would increase substantially since 2000, with an increasing share of these exports utilizing AGOA preferences.	Exports from Sub-Saharan Africa to the U.S. have increased substantially since 2000, with an increasing share of these exports utilizing AGOA preferences.	No	N/A
U.S. investments in Africa would increase commensurately with a strong involvement of U.S. Small and Medium Size Firms engaging in Africa.	US investments in Africa have increased significantly but investments are dominated by large firms in the mining and financial services sectors of a few countries.	Yes	Limited investments by U.S. SMEs in Africa  Limited U.S. investments in sectors such as agriculture and food processing; and labor-intensive manufactures.  Concentration of U.S. investments in very few countries.
AGOA's reach would be broad across AGOA-eligible beneficiary countries	AGOA's impact across countries has been very disparate. A few countries have enjoyed a relatively robust response. However, most countries have experienced a weak response. With some not experiencing any response at all.	Yes	Country response to AGOA has been stymied by supply-side constraints that have affected some countries and sectors more than others. These supply-side factors include deficiencies in (i) export firm productive capacity, (ii) technical skill sets, business service availability, and entrepreneurship, (iii) international market sophistication, (iv) trade facilitation, (v) physical infrastructure, and (vi) effective policy support.
AGOA's impact on development would stimulate light manufactures (e.g. textiles, apparel, leather), as well as agriculture and food processing.	AGOA's impact on development in agriculture and food processing has been very limited, while impact on development in light manufactures has been limited (except for apparel).	Yes	Sector response to AGOA has been stymied by a lack of a robust and focused sectoral strategy response to supply-side constraints by all relevant stakeholders, i.e., public, private and donors, to the supply-side constraints.
Benefits would be temporary - and the productive capacities of exporting firms would be emerge so that they are able to take advantage of US market as trade preferences erode.	Exporting firms have been very sensitive to the erosion and expiration of tariff preference coverage and have had some difficulty building productive capacity.	Yes	Gap in the development of the productive capacities in exporting firms.

Source: AUC & ATPC 2012 Guidelines on Developing a National AGOA Strategy, A joint AUC and ATPC/UNECA Document, Addis Ababa.

As Table 1 above shows, the lack of a strategic approach to the opportunity AGOA presents is the main reason for the existing gap in AGOA utilization. Increased readiness via development of National AGOA Response Strategies can propel AGOA uptake going forward.

The experience of countries that have already embarked on this exercise shows that the development of a national strategy provides a momentous opportunity for African countries to generally deal with supply side constraints - welcoming AGOA 2.0 with a renewed sense of commitment and preparation.

Illustratively, Ethiopia has been able to bring all key stakeholders together to agree on priority areas that should be the major focus areas of the national strategy. The Ethiopian strategy also identifies sector specific constraints in select priority areas as well as appropriate support programs and policy interventions to overcome them. Moreover, the strategy put together a National Institutional Structure that oversees the development and implementation of the Strategy and reports to the Prime Minister.

A 2013 Economic Report on Africa<sup>10</sup> provides guidance by suggesting that exercises of this magnitude significantly improve previously unsuccessful efforts to develop and implement industrial strategies.

Drawing from nine country case studies, the report examines key constraints and opportunities for African countries and suggests a policy framework for African countries to promote value addition and economic transformation – a commodity based industrialization. By capitalizing on its significant human and natural resources, and putting in place appropriate policies and strategies for significant value addition, the report argues that African countries can embark on the kind of economic transformation that will ensure a shift in sectoral compositions of outputs in favor of high productivity activities that will create jobs and lift millions out of poverty. Conversely, the nine case studies at the heart of the report also clearly show that although efforts to create effective backward and forward

10. UNECA and AUC, **Making the Most of Africa's Commodities: Industrializing for Growth, Jobs + Economic Transformation**, UNECA and AUC, Addis Ababa, 2013

linkages for commodity based industrialization are being undertaken throughout the continent, these are, nonetheless, being hampered by structural and country specific constraints. Overcoming country or industry specific constraints calls for strategic and systematic industrial policies that must be defined at national level, taking the specific country context into account. Simply put: Policymakers cannot make simple generic solutions for critical success factors, which differ widely by country, sector and value chain.<sup>11</sup>

National AGOA Response Strategies have the same exact goal. It is expected that they will be developed based on the thorough analysis of multiple factors that influence the economic terrain of each country. Country strategies would, thus, depend on firm level capacities and characteristics, economy wide issues, sectoral profiles and characteristics of particular value chains, institutional issues including stakeholder and state level capacity, among others.

Signaling the gravity attached to the matter, the 8th Ordinary Session of the Conference of Ministers of Trade of the Member States of the African Union, held in October 2013 in Addis Ababa, instituted a monitoring and evaluation mechanism for the implementation of AGOA by requesting beneficiaries to submit an annual evaluation report based on their National AGOA Response Strategies. This annual report would also be invaluable in tracking AGOA performance at continental levels.

Given the past poor performance amongst most AGOA beneficiaries, and due to the fact that many of the known constraints on exports are still in place, it may be fair to ask whether AGOA eligible countries can actually take better advantage of the AGOA opportunity simply because they have developed national strategies. However, as Dinh, *et al*, 2013 suggest, in a recent comparative World Bank analysis of Asian countries and select sub Saharan African countries, conditions facing sub Saha-

11. *ibid*

ran Africa today are not too different from those countries like Vietnam and China faced in the early years of their respective industrialization.<sup>12</sup>

This shows that rather than the existence of the problems, what matters is how strategically the challenges are being dealt with. Hence, AGOA beneficiaries should not necessarily wait until all the constraints are resolved before embarking on transforming their export industry. As latecomers, not only can Africa learn from Asia's experiences, the region can also do so much better.

This is what makes the case for extending AGOA preferences not merely an emotional one. African countries are now dealing with supply side constraints in a more strategic manner. That said, it is clear that developing a strategy is not sufficient unless those policy and programmatic interventions identified in the strategy are put in place. And this requires a concerted effort from both the U.S. and beneficiary countries. Besides, preferential trade schemes (including the ACP-EU Lome Conventions and Cotonou Partnership Agreement trade regimes) may be necessary but not sufficient to enhance the trade and economic growth performance of beneficiary countries. Supply-side constraints are, on their own, major barriers to the effective utilization of market access programs.

In Part V, we will discuss key elements that an AGOA 2.0 should incorporate to not only enhance the program, but also make it achieve its overall objectives around economic development.

### ***3.2 Aligning AGOA with the development aspirations of African countries***

Invariably, we must ask why Africa requires an AGOA extension of 15 years. An assessment of the last century shows that the successful development experiences of almost all countries can be traced to effective exploitation of the U.S. market.

12. Hinh T. Dinh, *et al*, **Tales from the Development Frontier: How China and Other Countries Harness Light Manufacturing to Create Jobs and Prosperity**, The World Bank Group, 2013

On top of factoring in how long it takes to create effective supply chains and distribution networks, the rationale for at least 15 years is based on AGOA's original objectives. The program's architects hoped that it would provide sub-Saharan African countries with meaningful opportunities to sustainably transform their economies through expanded trade and investment flows between the U.S. and Africa.

Every credible indication, thus far, shows that the African economies will undergo significant transformation within the next decade, and if Africa can sustain its economic momentum and growth rates of the last decade, it is very likely that the continent will follow in the Asian Tigers' footsteps. Projections are that by 2025 and 2030, a number of African countries will leverage their opportunities with AGOA to attain middle-income country status, thus making AGOA architect aspirations a reality.

Thus, if AGOA were not renewed, African countries would be denied a growth opportunity at a time when they are beginning to harness their resources to do so – amounting to what development economist Ha-Joon Chang would term 'kicking away the ladder.'

### *3.3 Support to Africa's Regional Integration Efforts*

Africa's post colonial political, economic and geographic fragmentation contributed to the creation of barriers to trade, investment and the operation of supply chains: Africa is the world's most expensive region with which to do business and this is reason is partly to blame for Africa's intra-regional trade being lowest in the world. The 8 Regional Economic Communities (RECs), that are the building blocks of Africa's integration, have, for various reasons, demonstrated a slow pace of integration.<sup>13</sup>

13. Some of the reasons for the slow pace of regional integration include lack of prioritization of regional integration issues, proliferation of initiatives that leads to lack of harmonization of policies and activities, low-level institutional mechanisms, poor infrastructural facilities, among others. There is, however, a need to recognize that economic integration will not happen overnight. Although the process of integration has taken some time, Africa is committed to regional commercial and economic integration.

However, of recent, there is renewed vigor for regional integration. At their Summit in 2012, the African Heads of State and Government have called for the Continental Free Trade Area (CFTA) to be in place by 2017. Regional integration efforts are a key way to improve these intra-African trade ties and AGOA has had a critical role to play in Africa's integration efforts. In fact, regional integration is well recognized as the legislation specifically calls for expanding U.S. assistance to sub-Saharan Africa's regional integration efforts. Therefore, if AGOA were not reauthorized, it would hobble the momentum it helped generate by, among other things, helping promote regional value chains.

For instance, before it lost its AGOA eligibility, Madagascar sought inputs for its garment from other Sub-Saharan African countries. Zambia supplied cotton, Lesotho and Mauritius supplied fabrics and zippers came from Swaziland in a remarkable instance of regional value chain fostered by AGOA. There's also solid empirical evidence that shows the existence of strong linkage between AGOA and Africa's regional integration efforts and its critical role for the development and economic transformation of the continent. Thus, reauthorizing AGOA would, not only promote regional integration by creating regional value chains but also enhance the competitiveness of beneficiary countries in today's dynamic global trade.

A 2013 trade liberalization and market expansion study in the east and central African region shows a significant welfare gain and increased industrial production across the region due to deeper regional integration.<sup>14</sup> Using a gravity model approach<sup>15</sup>, this paper analyzed how

14. UNECA, *Two Decades of Trade Liberalization and Market Expansion in East Africa: Towards a New Economic Geography?* UNECA, Addis Ababa 2013

15. The gravity model uses real data to assess the sensitivity of trade flows with respect to policy factors under investigation. The gravity equation relates the natural logarithm of the dollar value of trade between two countries to the log of their respective GDPs, a composite term measuring barriers and incentives to trade between them, typical

trade liberalization would affect trade flows, production and export structures within that region. The same method was also applied to the proposed Tripartite Arrangement between COMESA, SADC and EAC region, and although variation in terms of country level distributions was observed, the simulation results suggest a net welfare gain of \$10.7 billion.

More importantly, the study shows that increased aggregate demand in the East and Central African region from the Tripartite Arrangement results in increased industrial production across the region as new firms join the regional market. This is one powerful instance where regional integration is seen as a catalyst for structural transformation. Of course the extent of these benefits depends upon the extent of readiness at country level. We will return to this point in Part V while discussing an enhanced AGOA.

Successful regional integration in Africa will also benefit the U.S.-based investors hoping to benefit from economies of scale as new markets come into play, this will lead to lower transaction costs and, generally, the cost of doing business within sub Saharan Africa. Deeper regional integration should also help attract U.S. investors hoping to benefit from economies of scale as compared to having to deal with each country separately.

The establishment of a CFTA would mean a coming together of a population of over a billion people and a growing middle class consumer group of over 300 million people with a spending capacity of US\$ 1.3 trillion. Therefore, allowing AGOA to continue its role in supporting the growth of middle class in Africa is, in words of Sen. Coons, a worthy goal and a smart strategy that would also lead to job growth in the U.S.<sup>16</sup>

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ly the log of the distance between their capitals, and terms measuring barriers to trade between each of them and the rest of the world.  
16. Chris Coons, **Embracing Africa's Economic Potential: Recommendations For Strengthening Trade Relationships Between The United States And Sub-Saharan Africa**, 2013

Lastly, reauthorizing AGOA in support of Africa's regional integration efforts also helps mainstream Africa's major economic development initiatives including the African Development Bank's Program for Infrastructure Development in Africa (PIDA), Accelerated Industrial Development of Africa (AIDA), the Comprehensive Africa Agriculture Development Plan (CAADP), *et al.* Additionally, regional integration programs and projects make the U.S. - Africa trade and economic cooperation arrangements more sustainable and more meaningful.

### 3.4. Africa's Special Need

African countries – both LDCs and non-LDCs - have special needs, and these special needs are what ought to qualify them for different treatment from other developing countries/regions by countries such as the U.S. Because their economies remain relatively small and fragile, their common need for regional integration remains a priority.

Also because African countries are at severe competitive disadvantage in global markets, AGOA attaches great importance to the development of the textile and apparel sector in AGOA eligible countries and to the expansion of the export of their products to the U.S. market. It is in recognition of this competitive weakness that emerging countries such as China and India have given special market access concessions to African countries. An enhanced trade preference regime under AGOA 2.0 should allow the U.S. to proactively respond to Africa's special need.

Like indicated in the empirical analysis undertaken by UNECA/Brookings, should AGOA be terminated, this should lead to a return to the U.S. Generalized System of Preferences (GSP) and also a US\$ 1.3 billion loss for Africa in 2025 (as compared to a baseline scenario where AGOA is assumed to continue on current terms). Exports in core would fall severely in core sectors like milk and dairy (over 76%), meat, textile, apparel and leather products.

Based on WTO compatibility and the need to adhere to the principle of non-discrimination in the provision of preferences under the GSP, a question may be raised as to the appropriateness of responding to Africa's special need.<sup>17</sup> The crucial issue here is whether the U.S. should provide similar market access concessions to LDCs and non-LDCs in other developing regions of the world. As noted in the AUC/ UNECA/ACP/RECs proposal for a common and enhanced trade preferences system for LDCs and LICs, the requirement of non-discrimination does not mean that uniform treatment must be given to all developing countries.

In line with this reasoning, the WTO's Appellate Body stated, in the 2004 case EC-Conditions for Granting of Tariff Preferences to Developing Countries, that " We read Para 3(c) [of the Enabling Clause] as authorizing preference-granting countries to "respond positively" to "needs" that are not necessarily common or shared by all developing countries. Responding to the "needs of developing countries" may thus entail treating different developing-country beneficiaries differently.

Africa's special needs are also captured in President Obama's 2012 U.S. Strategy towards Sub-Saharan Africa, and AGOA 2.0 should ensure the effective implementation of Obama's strategic four pillars: strengthening democratic institutions; spurring economic growth, trade, and investment; advancing peace and security; and promoting opportunities and development. As a program meant to spur economic growth, trade and investment and provide genuine opportunities for the transformation of African economies, premature withdrawal of AGOA works against this very strategy.

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17. Simon Mevel, *et al*, **The African Growth And Opportunity Act: An Empirical Analysis of The Possibilities Post-2015**, The Africa Growth Initiative At Brookings and the United Nations Economic Commission For Africa, 2013

# Chapter 4

## Relevance of Reciprocal Trade Preference Regimes such as Economic Partnership Agreements to the AGOA Review Process

A discussion on the re-authorization of AGOA may not, necessarily, constitute an appropriate platform to discuss reciprocal trade agreements or economic partnership agreement (EPA)-like agreements with the U.S. However, EPAs themselves could be an illustration of why reciprocal agreements may not, for the moment, be the most mutually beneficial trade arrangements between Africa and more developed partners. For instance, the European Parliament, in 2013, brazenly reversed an earlier decision to wait until the beginning of 2016 to foist EPAs on Africa – bringing forward the deadline to October 2014 – without, ostensibly, fully appreciating how EPAs impact issues of global importance such as Africa’s regional integration.<sup>18</sup>

Thus, we must ask: Are EPAs a good model to emulate in trade discussions between AGOA eligible countries and the U.S.? After all, some African countries have acceded to them, and of recent, regions such as ECOWAS are in advanced stages of become party to these pacts. Nonetheless, it is also undeniable that many of these ‘agreements’ are progressing much further along not because EPAs are ideal for the promotion of development and regional integration, but to avoid the loss of access to EU markets.

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18. Steve McDonald, *et al*, **Why Economic Partnership Agreements Undermine Regional Integration**, The Wilson Center, Washington, DC, April 2013.

In this regard, McDonald, Lande and Matanda suggest that, if Africa is going to ameliorate the negative impact of EPAs, the AU must respectfully insist that deadlines, such as the October 2014 one, be postponed, allowing for various prerequisites that will enable an equitable negotiated conclusion since the region will be a collective like the EU.

Some African countries were not willing to see this sort of adverse situation and were willing to break away from their regional groupings in order to safeguard market access on crucial tariff lines. Both scenarios would have repercussions beyond the world of trade negotiators, and spill over to the political domain.

As clearly stated in the Cotonou Agreement - the most comprehensive partnership agreement between developing countries and the EU - EPAs were meant to primarily serve as instruments for the promotion of sustainable development, eradication of poverty, reinforcement of regional integration initiatives as well as the gradual integration of African countries into the global trading system. But contrary to the stated objectives, EPAs, in their current application and especially because of their ill timing, will not promote development. Therefore, in the ongoing AGOA review process, it is, appropriate to investigate the kind of reciprocal trade preference regimes proposed by the EU’s EPAs.

The reality is that African countries and regions are signing EPAs simply because they are under pressure – like in the case of Mauritius and Seychelles or simply because this is a last resort – since countries like Zimbabwe and Madagascar were pariah nations due to internal political turmoil. Detailed reviews of current progress in EPAs negotiations across the five African regions supports the overall feeling of how unhealthy the negotiation process is.

Interestingly, the way EPAs are negotiated has created a divisive environment that undermines Africa’s regional integration. Termed ‘fatally flawed pacts,’<sup>19</sup> it appears that not only do EPAs throw an unnecessary spanner into the current wheels of regional integration, the European Commission’s approach to has been publicly criticized by some EU member states.

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16. *ibid*



For instance, in a rare high-level December 5, 2013 plea to the European Commission from European member states, eight trade and development ministers from Denmark, France, Ireland, the Netherlands and United Kingdom asked Commissioner Catherine Ashton to show more flexibility in negotiating with ACP countries, softening the EC's stance on a number of issues that have impeded the conclusion of regional EPAs so far. The last such letter dates back to 2008, when Denmark, Ireland and The Netherlands issued a similar message to the Commission in the face of wide-ranging criticisms from Afro - Caribbean Pacific (ACP) quarters and European civil society.<sup>20</sup>

In the east and southern Africa (ESA) region, for instance, Zimbabwe completed ratification in March 2012 and started provisional application from 14 May 2012. Comoros and Zambia, on the other hand, have not shown any intention to sign. In the Central African Region, only Cameroon has signed an EPA and even that isn't being implemented yet.

In the EAC region, after the July 2013 meeting of technical and senior officials, outstanding issues still remain. Further discussions on Rules of Origin, Cumulation and Agriculture were to be held at the Technical and Senior Officials level and consensus was not reached on issues such as the Most Favored Nation (Article 15) and Duties and Taxes on Exports (Article 16).

What is left on display is that all these countries succumbed to the pressure from the EU in order to avoid trade disruption and the consequences of the EU Market Regulation. Fortunately, most African countries have been reluctant to fully accede to EPAs because of their anti-developmental content.

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20. See more at: [http://www.ecdpm.org/Web\\_ECDPM/Web/Content/Content.nsf/0/215F8D6E2D674136C-1257C71002D6214?OpenDocument#sthash.vv6GIB4k.dpuf](http://www.ecdpm.org/Web_ECDPM/Web/Content/Content.nsf/0/215F8D6E2D674136C-1257C71002D6214?OpenDocument#sthash.vv6GIB4k.dpuf)

Similarly, ECOWAS has decided to sign the economic partnership with the European Union to protect exports from the region.<sup>21</sup> The EU is providing West African nations with a phase-in period of 20 years, on top of US€6.5 billion in order to help West Africa cope with the agreement's implementation costs. The EU has agreed to refrain from using export subsidies on agricultural goods exported to the region, and agreed to provide ECOWAS with information regarding the nature and amount of support it provides to its farmers. However, Africa is aware that this form of EPAs may not support its industrialization agenda and could potentially exacerbate food insecurity and increase unemployment.

Ultimately, even negotiating EPAs in blocs also threatens Africa's regional integration architecture. Thus, an EPA type of trade relationship cannot serve as a good model for post 2015 Africa- U.S. trade regime if AGOA is to continue to serve as a "key element of US development policy towards Africa."

Hence, as to U.S. – sub Saharan Africa economic relations, it would be prudent to delay any request for FTA until such time as African countries have hastened the pace of regional integration by completing negotiations for a continental FTA and customs union. Premature negotiations would negatively affect the pace of regional integration as empirical evidence from a 2013 UNECA/Brookings study shows.<sup>22</sup>

21. It is important to point out that the recent announcement by ECOWAS of the decision to sign EPAs with the EU does not necessarily mean member countries would immediately sign. Each country has to undertake thorough consultations with stakeholders including the private sector and civil society that would delay the actual signing. Besides, there is issue of implementation once the agreements are signed. The fact that Nigeria, for instance, has not been able to implement ECOWAS' decision to introduce a uniform 10% VAT across the region (largely due to domestic pressure) is one possible indicator of possible challenges to these EPAs.

22. Simon Mevel, *et al*, **The African Growth And Opportunity Act: An Empirical Analysis of The Possibilities Post-2015**, The Africa Growth Initiative At Brookings and the United Nations Economic Commission For Africa, 2013

The study explores the effects of EPAs between the EU and Africa as well as a hypothetical EPA-like agreement between the U.S. and Africa, both in the context of AGOA. Whatever the EPA scenarios envisaged, the 2013 report shows that any positive outcome depends on Africa's progress in terms of regional integration. Currently negotiated EU-Africa EPAs or/and a hypothetical U.S.-Africa EPA-like arrangement would result in significant tariff revenue losses, which could have negative impact on real income levels.

However, if a Continental Free Trade Agreement (CFTA) is in place when EPAs become effective, the negative effects for Africa could be mitigated and in some cases offset. Thanks to deeper regional integration, intra-African trade would increase considerably.<sup>23</sup> Moreover, it's worth noting that such an increase in intra-African trade would be noticeable for industrial products; offering potential to help structurally transform African economies. One argument by the EU for advocating EPAs as the framework for its trade relationship with ACP countries is the need for WTO compatibility.

The EU has insisted on EPAs being built on Article 24 of GATT, which was meant to govern regional trade arrangement FTAs between developed countries and not between a group of developed and another group of developing countries. Thus, if the political will were there as AGOA has demonstrated, the grant of non-reciprocal preference to African countries would not have difficulty getting a waiver from the WTO.

Finally, it is important to point out that there should be little, if any, concern on the U.S. side on the current state of EPAs agreement in Africa. In a recent analysis, Lande & Matanda (2014) suggest that the reductions in the first phase will eliminate duties only on products

23. *ibid.*

with MFN duties of five percent, which may not have a significant impact on AGOA or trade between the U.S. and Africa. A diversionary impact on U.S. imports will be felt only at the end of the second phase (December 2024).<sup>24</sup>

The duty reduction schedule in the recent ECOWAS – EU EPA text, for instance, shows that there's no immediate impact on Africa's other trading partners such as the U.S. The agreement covers 75 percent of the tariff lines in the ECOWAS schedule and provides for a 20-year phase in period for duty free treatment for EU imports.<sup>25</sup>

The duty reductions will take effect in 4 five-year periods, beginning on December 2019. The second, third and fourth phases take effect respectively on December 31<sup>st</sup>, 2024, December 31<sup>st</sup> 2029 and December 31<sup>st</sup> 2034.

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24. Stephen Lande & Dennis Matanda, **What Must Be Done**, *Ideas to Enhance AGOA* Manchester Trade, Washington, DC, March 2014

25. The other twenty five percent of these duties are excluded including products carrying the highest duty rate of 35 percent.

# Chapter 5

## Elements of an Enhanced AGOA

A mere reauthorization of AGOA - even for a minimum period of 15 years - will not lead to any new dramatic results in terms of how AGOA impacts its respective stakeholders. Thus, to ensure that AGOA achieves its full potential and promise, AGOA 2.0 should be able to correct some of the major shortcomings of the current law. The revision of some provisions in the current act cannot be overemphasized, and the following ought to be considered:

### *5.1: Make the Third country Fabric Provision an Integral Part of the Revised AGOA.*

AGOAs third country fabric provision allows beneficiaries countries to use yarn and fabric from any country, and this has been a key factor for the success of the apparel industry in Africa. In fact 95 percent of the apparel and textile products under AGOA are dependent on the third country fabric provision. However, the provision on apparel and textile has been subject to renewal every two or three years, and this has resulted in major uncertainties and has negatively affected AGOA eligible countries in terms of significant loss of orders and consequently, unemployment. This provision is too critical to be left to such uncertainties.

Also because African apparel exporters remain relatively and contextually competitive with Asian exporters who have decades of comparative advantage because of third country fabric, it ought to be coterminous with the life of an enhanced AGOA.

### *5.2: Product Coverage*

Although AGOA allows duty free and largely quota free market access to the U.S. market for as many as 1,835 beneficiary products in addition to the over 4,600 GSP products, tariffs on products excluded from AGOA - especially on agricultural goods, re-

main high. A number of studies show that AGOA's broader economic impact could be improved if preferences were extended to all products.<sup>26</sup> Extending AGOA product-eligibility would boost African exports to the U.S. Hence AGOA 2.0 should allow AGOA eligible countries a 100% duty-free quota free (DFQF) access to the U.S. market.

The Brookings/UNECA study supports this recommendation<sup>27</sup> and shows that a non-full extension would carry far fewer benefits than a 100 percent duty-free quota free (DFQF) access. Indeed, as much as a 99 percent addition of product lines into DFQF scheme would only increase AGOA-eligible countries' exports to the U.S. by US\$33.3 million (compared to the baseline scenario in 2015). On the other hand, a 100 percent DFQF access would stimulate Africa's exports to the U.S. by US\$105 million.

Therefore, granting DFQF access for the 1 percent most sensitive import products to the U.S. would generate most benefits to Africa. These key products are primarily sugar, cotton, peanuts, leaf tobacco and diamonds. It also appears that some textile and apparel products (i.e. woven fabrics, bed linen of cotton, bedspreads, table linen of cotton, kitchen linen, curtains, hand made as well as mechanically made lace) which are granted DFQF to lesser developed countries under AGOA IV - but only if they are originating entirely from one or more lesser developed AGOA countries - would gain significantly if the DFQF is granted to all AGOA-eligible countries and should restrictions in terms of origin where the products are fabricated be relaxed.

Moreover, it is important to note that U.S. producers would not be hurt by such expansion of product-eligibility under AGOA. Essentially, the U.S. industries that claim damage are very few and far in

26. Niall Condon and Mathew Stern, **The Effectiveness of the African Growth and Opportunity Act (AGOA) in increasing trade from Least Developed Countries: A systematic Review.** London: EPPi-Centre, Social Science Research Unit, Institute of Education, University of London, 2011.

27. Simon Mevel, *et al*, **The African Growth And Opportunity Act: An Empirical Analysis of The Possibilities Post-2015**, The Africa Growth Initiative At Brookings and UNECA, 2013

between, and their concerns with market access are limited to a single country.

### 5.3: Revised Rules of Origin

The utilization of preferential schemes tends to depend positively on preference margins, and worldwide progress on trade liberalization is inevitably bound to reduce preference margins. This explains why the issue of simpler and more flexible rules of origin is becoming increasingly relevant. As rightly pointed out in UNECA's 2013 Economic Report on Africa, the global shift in production and trade patterns presents African countries with unprecedented opportunities to embark on an industrial strategy focusing on commodity-based value addition, the continent can transform itself economically, emerging as an important player in the global economy.

A relaxed rule of origin (RoO) would make this transition easier by providing powerful incentives for those that engage in high-productivity activities, especially in manufacturing sector. Respectfully, the recent WTO Ministerial Conference in Bali adopted some voluntary guidelines, aimed at making imports originating from LDCs more transparent and simpler, as well as facilitating accumulation.

Here, the U.S. could consider amending the Rules of Origin under an enhanced AGOA in line with the guidelines approved in Bali, and extend this simpler and more flexible treatment to exports originating from all African countries. This step would support regional integration by harmonizing Rules of Origin treatment across the continent.

However, an exception clause should be included in this provision to protect some industries that are already developing well in the continent. One possible exception could be the apparel industry. An enhanced AGOA should make improvements on AGOA (RoO) to make it less restrictive allowing AGOA eligible countries to have the required flexibility to exploit their comparative advantage, and we recommend the following changes:

### 5.3 (i): Consider Relaxing the AGOA Rules of Origin to allow African countries to be part of the Global Value Chain

Over the last decade, the global supply chain has undergone significant transformation. A single product now undergoes a long production chain before turning into a final product. A final product a consumer buys has parts that are produced in many parts of the world and this has significantly changed the notion of product rules of origin. Major producers around the world put in place global commercial networks in their production process while controlling brands and product specification. If African countries could connect to global value chains, even at lower end of the chain, this could accelerate the pace of their integration into the global economy.

A 2013 UNECA report on aid effectiveness puts this eloquently.

*...(A) firm's participation to regional and global production networks can favor, at least to some extent, the accumulation of tacit knowledge and capabilities (notably knowledge of foreign markets), as well as the development of a modern business culture sensitive to the requirements of the customers in term of product specifications and timely delivery. In that respect, being connected to global value chains, even at the low end, can pave the way for moving up the value chain and diversifying the set of activities a firm performs.<sup>28</sup>*

Following, the U.S. can play a critical role in helping Africa enter into the global production chain by modifying the AGOA rules of origin in a manner that allows a duty-free access to the U.S. market for products produced in the global supply chain if a certain percentage of the product is of African origin. Lande & Matanda (2014) suggest that an en-

28. UNECA, **Building Trade Capacities for Africa's Transformation: A critical review of Aid for Trade**, UNECA, Addis Ababa. 2013 Sutton and Kellow (2010) make similar when discussing the transition path of Ethiopian firms from trading to manufacturing. They note that half of the leading manufacturing firms have emerged from the trading sector that already has the deepest and most acute knowledge of local and international market conditions.

hanced AGOA could consider reducing the 35% origin requirement for least developed countries that mostly have limited capacity to add value beyond low priced labor inputs, which do not come close to meeting the 35 percent value-added requirement (Garments sewn from third country fabrics only qualify because the 35 percent value-added does not apply).<sup>29</sup> Of course, the specific percentage can be determined based on the objective state of the African economies. For instance, allowing duty free privileges for products that have a 10-15% African content will provide significant incentive to global companies to place their global commercial network in Africa, and this will undoubtedly encourage significant investment flows in Africa - hastening the pace of industrialization in the continent.

### 5.3 (ii): Revisit Rules of Origin for Canned Tuna

Tuna fish is one glaring instance of the opportunity lost under AGOA. Even though the combined exclusive Economic Zones of AGOA-eligible countries contain the largest stock of tuna fish of the world, they have not been able to export canned tuna to the U.S. market. This is mainly because under AGOA rules of origin, it is the flag of the vessel that catches the fish rather than the nation that processes and cans the tuna that largely determines the rule of origin.

Relaxing the rules of origin on canned tuna would result in tremendous benefit to AGOA eligible countries by helping them build what is already a dynamic burgeoning canned tuna industry in countries such as Ghana, Kenya, Mauritius, Senegal and Seychelles. Suggestively, the current 35% value added requirement should also be replaced with a simple tariff shift requirement or be reduced to 10% valued added requirement. Alternatively, the revised rule of origin may allow for the sourcing of a third country raw tuna for canning and export. Ultimately, relaxing of the rules of origin would surely see another AGOA success story in AGOA exports, akin to the apparel industry.

29. Stephen Lande & Dennis Matanda, *What Must Be Done, Ideas to Enhance AGOA* Manchester Trade, Washington, DC, March 2014

### 5.4: Country Eligibility Issues (Alternatives to Unilateral Withdrawal)

Every year, the U.S. determines eligibility based on a review of country performance against specific criteria. This, no doubt, has significant value as it encourages sub Saharan African countries to build market-based economies based on strong democratic and rule based systems.

However, many question whether the unilateral withdrawal of country eligibility by the U.S. serves its intended purpose. The sudden withdrawal of AGOA benefits from Madagascar due to unfortunate political developments resulted in significant economic loss, put hundreds of thousands of people in economic hardship, and led to a major setback to regional economic integration by disrupting nascent regional product value chains. More importantly, this action showed that sudden withdrawal of benefits may not positively or effectively influence the political developments that led to the withdrawal of country eligibility in the first place.

In our assessment, unilateral withdrawal of country eligibility should be revisited in AGOA 2.0. The U.S. may be better served by working with African Union and Regional Economic Communities to make the unilateral sanctions and conditionalities exerted due to governance issues more effective.

Relatively, in recent years, African countries have made meaningful strides in prompting good governance by putting in place a strong peer review mechanism. The collective action and peer pressure that comes from fellow African countries and regional and continental organizations may be more effective in staving bad governance. The withdrawal of eligibility can come in after a phased approach after allowing countries in the region to change the course of unfortunate political developments in eligible countries. This approach will not only lessen collateral damage to American and African firms and innocent people in beneficiary countries, but will also help achieve the intended U.S. objectives more effectively.

### 5.5: Graduation Provision

AGOA was originally meant to provide opportunity for sub Saharan Africa. However, there's a recent argument that non-LDCs - countries that are doing better economically - should be excluded via graduation from the program. However, it is important to carefully examine the danger of introducing graduation provisions to AGOA since this measure would run against on going efforts to strengthen Africa's regional integration and boost intra-African trade. In fact, at this stage of the U.S. - Africa partnership, graduation could be deemed punitive to success and be counter-productive to economic growth and regional integration in Africa.

Furthermore, graduation would destroy industries at enormous economic and social costs to affected countries and progressively exclude middle-income countries currently eligible for AGOA from the preferential scheme would seriously hit African exports to the U.S.<sup>30</sup> Indeed, exports of African countries to the U.S. would fall in all product categories with the largest decrease being found in textile and apparel with -36.6 percent (-2.2 percent in agriculture and food, -1.3 percent in mining and energy and -3.9 percent in the other industries (excluding textile and apparel).

That said, it is understandable that certain American groups should push for inclusion of graduation in AGOA as they have unfairly been denied market access to South Africa's market. Nonetheless, because these industries are few in number and raise legitimate concerns, it may be more viable and mutually beneficial if these concerns were addressed in a bilateral manner, for instance, via Trade and Investment Framework Agreements (TIFAs).

### 5.6: Promoting U.S. investments to Africa

Despite efforts by both parties, the investment flows from the U.S. to Africa have been less than stellar.

Currently only about 1 percent of U.S. FDI flows to Africa.<sup>31</sup>

<sup>30</sup> *ibid*.

<sup>31</sup> Of course in terms of sheer numbers, U.S. direct investment

Moreover, the investment concentrates in only a few sectors; i.e., mining and financial services; and in few countries, i.e., Egypt, Nigeria, South Africa, and Angola. These investments are attributed mainly to large firms and underscore the limited investment activity of America's small and medium enterprises in Africa. This poor investment flow has also affected the trade flow between the two parties as U.S. investment in Africa could play a critical role in opening up market opportunities.

The U.S. Congress can influence the flow of U.S. investment in Africa by providing certain incentives to U.S. businesses that invest in Africa. The Brookings Institution recently recommended that the Congress provide a tax rate of zero on repatriated earnings for US companies that invest in non-extractive sectors in AGOA- eligible countries.<sup>32</sup> Some estimates show that such an incentive could increase U.S. investments in Africa by 20 percent with a relatively minimal loss of tax revenue.<sup>33</sup>

Secondly, like we referred to earlier, the small industry population in Africa is one of the major reasons for lack of competitiveness of AGOA eligible countries. Increased US investment in Africa would potentially change this as the increased US investment help put AGOA eligible countries on the global sourcing map. Besides, since the US investors can find their own market, this will strengthen the link between trade and investment.

### 5.7: Streamline U.S. Aid to African Countries

Although AGOA provisions stipulate that USAID and other federal agencies can provide technical assistance and trade capacity support to AGOA eligible countries, in practice, the most import elements of enhancing productive capacity and building infrastructure haven't had top priority.

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position in Africa has increased significantly from \$11.891 billion in 2000 to \$53.522 billion in 2010, an increase of 350%. However this largely come from extractive industries and concentrate. However, this increase in U.S. direct investment position in Africa of \$41.6 billion represented about 1.6% of the increase in U.S. direct investment position worldwide over the same period.

<sup>32</sup> The Brookings Institution's Africa Growth Initiative. *The Africa Growth and Opportunity Act: Looking Back, Looking Forward*,

<sup>33</sup> *ibid*

As noted by the Council on Foreign Relations Task Force Report on US Approach to Africa, USAID has not funded heavy infrastructure projects in Africa since the 1970s while investment in Africa's agricultural development declined sharply during the 1990s. The critical constraints to the competitiveness of African products in the US and global markets have not been adequately addressed within the framework of AGOA.

Besides, U.S. aid has not been well aligned with continentally agreed frameworks including the regional integrations plans. This problem is in fact similar to that observed with other major donors. A joint WTO, UNECA and AUC survey shows that African countries and RECs strongly feel that Aid for Trade has so far displayed an uneven degree of alignment across continentally-agreed frameworks for supporting Africa's development and this sentiment is also shared, to some extent, by donors.<sup>34</sup>

An increase in U.S. aid-for-trade to Africa and the targeting of the aid to the development of infrastructure and building of productive capacity in Africa would greatly enhance the benefits of U.S. market access concessions to the continent. But this requires streamlining U.S. support to Africa. And to make it more effective and to especially ensure that the support is targeted towards effective utilization of the AGOA opportunity, the reauthorized act should have provisions to encourage the development of an AGOA compact for AGOA eligible countries.

As per the recommendation of the 8<sup>th</sup> Ordinary session of the African Ministers of Trade, the Compact should be developed for eligible countries that have effectively developed and implemented National AGOA Response strategies. That way the AGOA compact for each country will have an organic link with National AGOA response strategy developed by each respective country.

34. UNECA, *Building Trade Capacities for Africa's Transformation: A critical review of Aid for Trade*, UNECA, Addis Ababa 2013

In addition to streamlining US aid, the introduction of the AGOA compact will also offer a great opportunity to invest US resources in area that really matter as AGOA eligible countries will have a say in identifying priority areas for support based on their AGOA national response strategies. This new mechanism will be a significant departure from previous aid for trade supports. As discussed, the competitiveness of African firms and their ability to connect to global value chains are dampened by a wide array of constraints and an aid well streamlined with national AGOA Response Strategies has huge potential to address these constraints.

As a joint WTO, ECA and AUC survey finds, only 32 per cent of the respondents from African country suppliers indicated that they had benefited from past Aid for Trade support to help address their supply constraints showing a huge untapped potential. Hence an enhanced and a well-aligned aid for trade can significantly improve the extent to which African countries can utilize AGOA.

A lesson can be drawn in this regard from the experiences of the Millennium Challenge Corporation (MCC). MCC's unique model, which includes supporting development initiatives that have significant impact in recipient countries, can be adapted to the AGOA compact. Through the compact, beneficiary countries can identify critical areas of challenge such as infrastructure, trade capacity building, and project that will help solve key supply side constraints that impede taking advantage of the large market in the U.S. The recent initiatives by President Obama such as *Power Africa* and *Trade Africa* can also be channeled through the national compacts.

#### **5.8: Lay a Strong Foundation for a U.S. - Africa Free Trade Agreement (FTA)**

Like we alluded to in Chapter 4, premature FTA negotiations have an adverse impact not only the economies of AGOA eligible countries, but Africa as a whole in terms of loss of government revenue, de-industrialization, and rise in the level of un-

employment. Once regional integration goals are realized and supply-side capacities and the competitiveness of the economies of African countries are greatly enhanced, however, entering in to an FTA with the U.S. will have considerable positive impacts.

Until Africa attains a certain level of global competitiveness, it will be premature and counter-productive for it to enter in to reciprocal trade arrangement with globalized parties like the United States. Once African countries have built their production and trade capacity and intensified their regional integration efforts, as discussed above, entering in to a FTA will be mutually beneficial with significant positive outcomes.

A U.S. - Africa FTA, that provides for unimpeded flows of goods and services between the world's biggest economy and the world's fastest growing region, could serve as a powerful and dynamic instrument for the promotion of not only the economic growth of the parties but also of global prosperity and security. Such results can only be attained, however, if and only if the FTA is put in place at the right time. As discussed in part 3.3 of this paper, the timing has to be aligned with Africa's regional integration efforts.

Regional integration has been accorded high priority in Africa's strategy for integrating effectively into the global trading system and for achieving rapid and sustainable economic growth. If it is to serve as a useful instrument for the promotion of Africa's economic growth and development, a U.S. - Africa FTA must enhance and build on the continent's integration initiatives.

**The FTA must be designed in such a way that it:**

- i. Takes into account Africa's continental integration road map and does not fragment Africa or weaken its integration process;
- ii. Provides for a sufficiently long transition period, anchored to the attainment of competitive bench-

marks, for the elimination of tariffs by African countries on American products;

iii. Provides adequate resources to meet the adjustment costs of the opening up African markets to U.S. products;

iv. Incorporates binding commitments for the U.S. to support the elimination of supply-side constraints, infrastructure development and the building of productive capacity, and the enhancement of the transformation and competitiveness in Africa;

v. Adequately recognizes the significant differences in the levels of economic development between the U.S. and Africa, and does not impose obligations that are more onerous or greater than those required of them under the WTO.

To conclude, the vision of Africa is to eventually participate in the global trading system as equal partner as the continent does not envisage remaining beneficiary of non-reciprocal trade preference indefinitely. It is in this regard that in recent years African countries have adopted a number of initiatives to enhance their productive and trade capacities to increase competitiveness. To this end, negotiations for an FTA between the U.S. and Africa should begin in 2025 to allow sufficient time for conclusion of the agreement before the *Enhanced AGOA* expires in 2030.

**5.9: The AGOA Forum: Maintaining Momentum**

There is no doubt that the yearly AGOA Forum has played a significant role in facilitating AGOA objectives. As the only platform that brings key decision makers in the U.S. and Africa to deliberate on the trade and economic relations of the two parties, increase the understanding of AGOA, reviewing its achievements and discussing the challenges that hinder the full integration of the African economies in to the global economic order. The forum has gotten better over the years both in terms of organization and substance. The increased participation of the private sector at the forums over the years is one



strong indication of the positive direction the yearly forum is taking.

That said, the forum could play an even more effective role if a clear M&E mechanism were introduced at the yearly deliberations. Currently, there are no mechanisms to review AGOA's performance at both country and continental levels. As the forums end every year without issuing outcome documents, its in fact impossible to monitor progress made at these annual deliberations.

Following persistent requests from beneficiary nations, the U.S., agreed to a joint meeting report at the 2013 AGOA Forum held in Addis Ababa, Ethiopia. If this becomes a forum norm, such a move will significantly improve the quality of yearly deliberations and also help track progress over the years. Short of that, one runs the risk of meeting fatigue and lack of confidence on the deliberation mechanism.

Over the last four years, the AGOA eligible countries have undertaken a mid-term review by meeting few months before the Forum to strategize on how to engage the U.S. side. While the U.S. has not shown much interest in integrating this exercise into the Forum structure, an enhanced AGOA should improve on this by putting in place a clear mechanism to monitor the progress of AGOA over the years. For instance, there should be a dedicated session every year in which performance report is presented by AGOA eligible countries. The US side should also examine the results of its capacity building efforts by evaluating the results of National AGOA compacts.

The Forum could also benefit by increased engagement of the private sector at the yearly forums, and though there are encouraging signs in this regard, much remains to be done to exploit the forum structure. For instance, country specific *Doing Business* forums could be held at the AGOA forum, to attract more interest from the private sector.

AGOA eligible countries could take turns and

bring high level delegations (preferably led by head of governments) to country specific doing business forums. This makes the forum an important platform where serious business deals could be concluded.

Finally, an Enhanced AGOA should institute a provision to elevate the U.S. - Africa partnership to the next level. In addition to the yearly AGOA forum held at the trade Ministers level, the engagement of the two parties should be at the head of state level every two or three years under a U.S. - Africa Summit. In this regard, the decision by President Obama to hold a U.S. - Africa summit in August 2014 is a welcome development.

## Conclusion & Recommendations

AGOA embodies the joint aspirations of both the U.S. and sub Saharan Africa. As envisaged, the program could create a meaningful opportunity eligible countries to fundamentally change the structure of beneficiary economies. Nonetheless, while it has helped usher in a 500 percent increment in African exports to the U.S. over the last decade and created as many as 1.3 million jobs, much remains to be done in terms of product diversification and bringing forth changes in the structure of African economies.

A number of constraints such as capacity, infrastructure, institutions, economies, marketing/merchandizing, political risk, and problems related with U.S. market requirements, continue to ensure that AGOA eligible African countries have not been able to fully exploit the full potential of AGOA. In recent years, however, focus on approaching AGOA in a more strategic manner is currently in the works. There is now increased readiness by AGOA eligible countries as evidenced by the development of National AGOA Response Strategies. This strategic exercise provides a momentous opportunity for African countries to directly address supply side constraints.

As African economies undergo a structural transformation in the next decade or so, AGOA can play its rightful role by providing a meaningful opportunity for the transformation and by strengthening regional integration efforts. Therefore, if AGOA were to be authorized in a timely manner for a period of at least 15 years, it is especially hoped that AGOA 2.0 should appropriately address some of the major shortcomings akin to AGOA.

### **Accordingly, AGOA should incorporate these:**

1. The Third country Fabric Provision should be made an integral part of AGOA 2.0. This avoids the

uncertainties surrounding the renewal of the provisions and ensures that African exporters of apparel products remain relatively competitive by having the flexibility to source yarn and fabric from third countries.

2. AGOA Rules of Origin should be made less restrictive, allowing AGOA eligible countries to have the required flexibility to exploit their comparative advantage.

### **Specifically:**

i. Revisit the AGOA rules of origin for canned tuna by allowing AGOA eligible countries to export canned tuna duty free as long as the tuna is processed and canned in their country or in their territorial waters. Considerations may also be made to allow a sourcing of a third country raw tuna for production of canned tuna to be exported under the AGOA regime. Additionally, the current 35% value added requirement should be replaced with a simple tariff shift requirement or reduce it to 10% valued added requirement.

ii. Facilitate the entry of AGOA eligible countries in to the global production chain by modifying the AGOA rules of origin in a manner that allows a duty-free access to the U.S. market for products produced in the global supply chain if a certain percentage of the product is of African origin.

3. Allow AGOA eligible countries a 100% duty-free quota free (DFQF) access to the U.S. market to significantly boost African exports to the U.S., especially in agricultural products.

4. Replace the practice of unilateral withdrawal of country eligibility by introducing a phased approach that provides AUC, RECs and neighboring countries a chance to change the course of unfortunate political developments in eligible countries.

5. Promote U.S. investment in Africa by providing targeted tax incentives. Specifically, provide a tax

rate of zero on repatriated earnings for U.S. companies that invest in non-extractive sectors.

6. Streamline U.S. aid to Africa and make it more effective by encouraging the development of an AGOA compact for AGOA eligible countries that have developed their National AGOA response strategies.

7. Lay a strong foundation for U.S.- Africa FTA by supporting regional integration efforts in Africa. In this regard, ensure that the timing of the FTA should take account of the road map for Africa's continental integration and does not fragment Africa or weaken its integration process.

8. Strengthen the annual AGOA forum by introducing a clear mechanism for exchange of ideas on AGOA's M&E mechanism at the yearly deliberations and by enhancing the participation of the private sector at the forum through the conduct of country specific doing business forums. A clear road map should also be put forward to elevate U.S. - Africa partnership to the next level by providing for the conduct of U.S.-Africa summit at the head of state level every two or three years.



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