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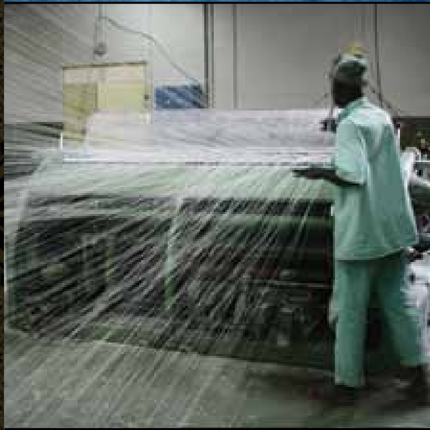
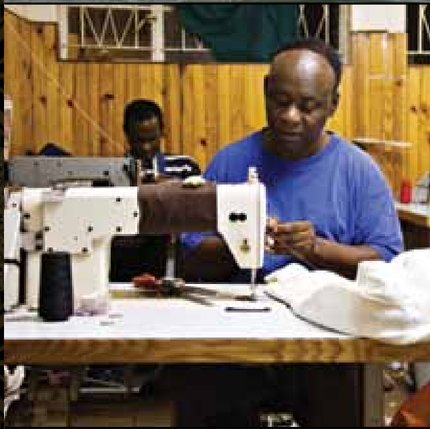
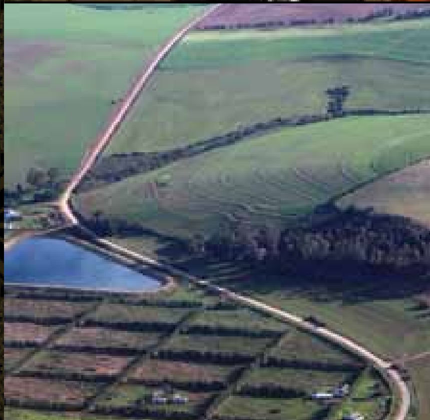

Improving AGOA:

Toward a New Framework for U.S.-Africa Commercial Engagement

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In collaboration with AGI partner institutions:

Institute of Statistical, Social and Economic Research (ISSER) - Ghana

Kenya Institute for Public Policy Research and Analysis (KIPPRA) - Kenya

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Introduction

Since its enactment in 2000, the Africa Growth and Opportunity Act (AGOA) has been the centerpiece of the commercial relationship between the United States and Africa. This unilateral preferential law has provided Sub-Saharan African countries with the opportunity to export a wide array of goods to the United States duty-free and also quota-free. There is no doubt that the past eleven years of AGOA have been beneficial to Africa as evidenced by expanded volume and scope of exports to the United States.

However, it is also quite evident that there are many concerns over the effectiveness of the Act. While there are tangible gains, the potential of AGOA remains largely unexploited. After eleven years, the global setting under which AGOA was enacted has changed and although the law has been amended a number of times, it is apparent there is need to not only consider marginal reforms but also more innovative approaches to strengthen the commercial relationship between Africa and the United States. As emerging economies such as Brazil, Russia, China and India have expanded their commercial linkages with Africa, the United States' commercial presence is shrinking. Experts from the Africa Growth Initiative at Brookings assert that now is the time for the Obama Administration to articulate a coherent strategy to deepen such relationship with Africa. In this publication, AGI scholars, together with collaborating partners in African think tanks, offer some suggestions to improve the Africa-U.S. trade relationship.

A Transformative Africa Growth and Opportunity Act: Statement Presented at the United States Congress is the official account of a 2011 Congressional Briefing presented by the Brookings Institution's Africa Growth Initiative. The statement calls for a reorientation of the US-Africa trade relationship with a primary goal of supporting the transformation of African economies.

Supporting Deeper Regional Integration in Africa. John Page and Nelipher Moyo investigate the progress made to support regional integration in Africa within the AGOA framework. They suggest a blueprint for facilitating deeper regional integration in Africa.

Promoting Private Sector Investments. Mwangi Kimenyi and Jeff Frank look at various strategies to increase U.S. investments in Africa. The authors suggest that the U.S. should use incentives such as tax cuts on repatriated profits to promote U.S. investments in Africa which would also facilitate job creation in America.

Ensuring Growth and Opportunity: Strengthening Job Creation for AGOA. Olumide Taiwo and Zenia Lewis analyze how AGOA can be utilized for increased employment generation in Africa. They suggest ways to scale up job creation by addressing the constraints on local labor markets and incentivizing the use of local employment.

Removing Barriers to Improve Competitiveness of Africa's Agriculture. Emmanuel Asmah and Brandon Routman discuss the challenges inherent in increasing African agricultural exports through AGOA and provide recommendations for both African and U.S. policymakers that would encourage the development of the sector.

AGOA in the Context of the EPAs: Considerations for Future Trade Policy. Katrin Kuhlmann and Mwangi Kimenyi examine the impact of Europe's Economic Partnership Agreements on U.S. Trade with Africa. The authors recommend that policymakers use caution when looking at Europe's model for trade liberalization as it has deleterious effects on regional integration.

Improving U.S. Trade Assistance to Enhance AGOA. John Mutenyo, Brandon Routman and Jessica Smith explore ways that the AGOA framework can improve aid for trade to enhance the impact of the policy on economic development. The roles of African and U.S. governments are highlighted to provide suggestions on how to better use trade assistance, under AGOA, to remove constraints on trade and improve market access.

Reflections on Kenya's Experience under AGOA: Opportunities and Challenges. Christopher Onyango and Moses Ikiara reflect on Kenya's experience under AGOA. They evaluate the opportunities and challenges the legislation presents for the country and make a number of recommendations for policymakers as to how to improve its effectiveness.

AGOA: Market Opportunity and Supply Capacity in Ghana. Elizabeth A. Asante, Simon Bawakyillenuo, and Clement Ahiadeke survey Ghana's experience with AGOA. Specifically, the authors investigate the challenges Ghana faces in utilizing AGOA's trade preferences, and offer policy recommendations which would help it overcome these obstacles.

Beyond AGOA: Frontiers for a New Pact with Africa. Hon. Mukhisa Kituyi analyzes the limitations of enhancing African benefits through the provisions of the current AGOA. He suggests that while short-term measures may be needed to consolidate gains made so far, a wider negotiated compact may be required for future U.S. - Africa economic relations.

Toward a Transformative Africa Growth and Opportunity Act:

Statement Presented at the U.S. Congress

Mwangi S. Kimenyi

The Africa Growth and Opportunity Act remains the most important piece of legislation defining the commercial relationship between the United States and Sub-Saharan Africa. There is no doubt that during the past 10 years, AGOA has left a clear imprint on the African continent. Although the gains have been uneven, some countries and sectors have benefited substantially from the AGOA tariff preferences. For example, as a result of these preferences, South Africa's share of manufactured and agricultural exports to the United States has increased substantially. Another notable success has been apparel exports—with countries such as Madagascar, Swaziland, Lesotho and Kenya recording substantial gains, especially for the period 2000–2005. However, after the expiration of the Multi Fibre Arrangement, apparel exports from Africa declined substantially as other more competitive countries edged out African exporters in the American market. As expected, however, the expansion of African exports to the United States as a result of AGOA preferences has contributed to economic growth, poverty reduction and employment creation, all core goals of the act.

Nevertheless, the achievements of AGOA have by and large been below expectations, and there is a consensus that AGOA's potential has not been fully exploited. In particular, AGOA has not contributed to any discernible economic transformation of African economies, as was envisaged. In fact, many countries have not been able to take advantage of AGOA to any significant degree. Furthermore, the employment impact of AGOA has been less successful because of limited value addition. Even in the case of African apparel exports, many of the components are assembled in other countries, with Africa value added ranging only between 10 and 20 percent. Looked at globally, Sub-Saharan Africa's share of the U.S. market's nonoil imports has actually declined in recent years. Notwithstanding the wide range of commodities subject to duty-free and quota-free access, Africa's exports to the United States remain only a tiny fraction of all U.S. imports. But probably the most noticeable weakness of AGOA is that it has not stimulated American investments in Africa. Thus, as other countries such as China, Brazil and India have accelerated their investment in Africa, the United States' investment in Africa has been largely stagnant. Ironically, and not withstanding AGOA, the relative U.S. commercial presence in Africa has shrunk in recent years.

In this statement, I start by briefly sketching the current status of AGOA, focusing broadly on its achievements and weaknesses. Overall, the message that emerges is that although AGOA has had

This paper was originally presented at a briefing for the U.S. Congress, "U.S.-African Economic Relations: AGOA and Beyond 2015," sponsored by the Africa Growth Initiative at Brookings and the Corporate Council on Africa in cooperation with Representative Donald Payne, on April 14, 2011. Attendees included Representative Donald Payne; Felix Mutati, Zambia's minister of trade; and Hage Geingob, Namibia's minister of trade.

a notable impact, its full potential remains unrealized. Next, I briefly review suggested reforms that should be undertaken in the short run. Finally, I propose deeper changes that would strengthen the U.S.-Africa commercial relationship by encouraging the transformation of African economies while increasing the American commercial presence.

AGOA's Current Status

In reviewing AGOA, there is a broad consensus that

- AGOA has made incremental contribution to the economies of several Sub-Saharan African (SSA) countries, with some countries benefiting more than others. This has been achieved mainly through increased trade volumes, job creation and capacity enhancement. AGOA has also had the benefit of mainstreaming trade in development, has contributed to some degree of diversification and has been instrumental in compelling African governments to improve the climate for business.

- Most of the AGOA-related trade is in the form of energy (oil and gas) and minerals. These commodities constitute more that 95 percent of the total trade by value. Yet it is well accepted that these products would have attracted buyers even without AGOA. Textiles, apparel, leather, leather products and agriculture are where the real impact of AGOA has been felt by the larger number of countries.

- Appreciable modifications have been made to AGOA to suit emerging concerns. These include extending the act to 2015 and the third-country rule of origin. These modifications have enabled SSA countries to continue reaping the benefits of AGOA.

- Very little foreign direct investment has responded to the AGOA initiative, and even less of this investment has originated in the U.S. By and large, under AGOA no sound and consistent investment and export promotion initiatives have been taken by the U.S. government. Increasingly, U.S. firms that have been willing to risk and invest in Africa have faced what would be considered unfair competition because of the generous official support extended by firms from other countries.

- The SSA export basket continues to comprise primary raw materials and semi-finished products with limited value added. This means that AGOA has not been very successful in transforming the SSA economies. And this limited value added also means that duty-free and quota-free access has had only a limited multiplier effect for job creation and poverty reduction.

- The SSA countries continue to suffer constraints on both the supply and demand sides, and at the structural and strategic levels, that hinder them from effectively exploiting the opportunities opened by AGOA. Thus, the SSA countries have managed to exploit only a handful of the approximately 6,400 articles that are admissible under the Generalized System of Preferences and AGOA.

- The regional AGOA hubs are doing a commendable job, but they need to broaden their scope to serve both present and future AGOA-eligible nations.

- Despite commitments made by the U.S. government two years ago that future engagement will focus more on regional economic communities, there has not been any significant increase in support.

- AGOA remains a top-down, unilateral arrangement that gives the SSA beneficiaries little space for making a real contribution. By and large, AGOA does not give much scope for cooperation between the U.S. and African countries.

- From a business perspective, AGOA has built-in weaknesses because it is unpredictable and some of its provisions come close to expiring before they are extended. This unpredictability has been detrimental to the act's overall success. Furthermore, the unilateral withdrawal of trade preferences undermines investments, especially in otherwise fragile states.

Short-Run Priorities to Maximize Potential Gains from AGOA

There is no question that AGOA is important to both Africa and the United States. However, there is broad agreement that significant reforms need to be made to maximize the gains that AGOA makes possible. In the longer run, and taking into account the changing environment on the African continent, especially with new players, it is critical that the act be overhauled. In the short run, especially during AGOA's remaining current life span, several changes can make it more effective in serving the interests of both SSA countries and the U.S.:

- Include provisions concerning AGOA's life span to create certainty and confidence for investors and American importers.

- Renew, on a long-term basis, the Third-Country Fabric Provision beyond the 2012 deadline to enable SSA cotton-producing countries to realize the benefits of a revived sectoral value chain.

- Expand AGOA to include currently excluded agricultural products other than sugar where SSA countries have a comparative advantage in supply. Doing this will increase the benefits that will flow through such products as tobacco (e.g., from Malawi), peanuts (Gambia) and dairy (Kenya). Also review, revise and simplify rules of origin to facilitate the exporting of products such as tuna and textiles/apparel.

- Trade development assistance and capacity building should be a component of the preference program. Increasing aid for trade is seen an important condition for solving the supply side constraints.

- There needs to be a structured development strategy to increase collaboration and thus reduce or eliminate administrative, regulatory, certification and product conformity assessment that is geared toward achieving mutual recognition based on acceptable and predictable international standards. For example, products that have attained EU certification should not be subjected to further testing under AGOA. There should also be sunset clauses for concluding the sanitary and phytosanitary process, which is currently taking up to six years.

- There should be investment in capacity building for export competitiveness; for awareness creation for micro, small and medium-sized enterprises; and for youth empowerment and gender mainstreaming in export trade. Investment in capacity building should also extend to creating awareness to embrace environmental practices in production processes.

- Efforts should be made to improve collaboration between the U.S. and African trade promotion organizations—and particularly U.S. business associations and chambers of commerce—to inculcate good business practices, to promote the sharing of innovative business techniques and corporate social responsibility programs and to encourage support for SSA in developing intellectual property programs that recognize innovation and creativity in industry and crafts.

Toward a Transformative Economic Growth Strategy

Africa has emerged from the recent global economic and financial crisis in better shape than many other regions, and indeed it is doing better than would have been expected, given its fragile economies. To some degree, this due to the fact that the African economies are poorly integrated with other world economies, and thus the transmission of the crisis through financial markets was limited. However, in the African countries, prudent macroeconomic management, deepened political and governance reforms and improvement in the business environment have been even more important. Other factors that have contributed to better-than-expected economic performance have been the sustained external demand for commodities; expanded trading opportunities with Europe, Asia and the U.S.; and the increased investments by new partners, especially Brazil, Russia, India and China—known as the BRICs. Finally, the rising demand for natural resources has been a primary driver of African economic growth during the past decade.

Africa today is much different from the Africa of 2000 when AGOA was enacted. The continent is more open and a much better place to do business. Many African countries have reformed their institutions of governance and have put in place ambitious strategies to transform their economies. As noted above, though AGOA is an important piece of legislation that has provided opportunities through expanded market access, it has not been transformative. As such, AGOA is not consistent with the aspirations of African nations today. In essence, a continuation of AGOA in its current form would not be in sync with the economic transformation of African economies. AGOA has served Africa well, but looking ahead, it is time for a comprehensive approach to the U.S.-Africa relationship that will support Africa's economic transformation. Furthermore, this relationship must also be mutually beneficial to the United States by increasing its commercial presence in Africa.

The transformative strategies envisaged by African countries include a number of broad measures—such as putting an emphasis on information and communication technologies; the modernization of agriculture; improving the competitiveness of the manufacturing sector; and increasing the value added of natural resources and agricultural products and enlarging markets through regional integration. Together, these strategies call for accelerated investments in infrastructure, including information and communication technologies, transportation and energy. In addition, the transformation process demands improvements in the quality of human capital through strengthening the development of skills. Although market access as currently provided by AGOA is important, the transformation of African economies must largely be predicated on improved competitiveness. Furthermore, deepening regional integration will serve to exploit value chains across the continent while expanding intra-Africa trade.

The United States is slowly being edged out of Africa by the BRICs, which are aggressively investing in Africa. In addition to their desire to gain access to raw materials, the BRICs are involved in activities that contribute to the transformation agenda, including infrastructure development, investments in industry and engagement in public-private partnerships. Given this increasingly competitive situation, for the United States to continue to be a meaningful player, it must step up its involvement by also taking an aggressive approach. However, this will not be possible without substantial support for private firms from the U.S. government.

To support this transformative growth strategy, the United States should support the SSA countries as they work toward achieving a common regional economic agenda. The African Union recognizes eight regional economic communities. These RECs are the loci of the AU's strategy for consolidating intra-Africa trade and also trade with other regions. Each of the RECs has an elaborate development master plan that could serve as an entry point for U.S. engagement.

The other areas of U.S.-Africa engagement and cooperative effort should include the development of infrastructure (water, roads, railways and airways); investment in both renewable and nonrenewable energy (hydropower, thermal, nuclear, wind and solar); and the promotion of joint assistance projects in agriculture, such as collaborative research and the sharing of innovative developments to quickly commercialize beneficial agricultural practices that help alleviate poverty and improve food security.

Conclusion

As we approach the final years of AGOA's current life span, the U.S. and SSA need to take a two-pronged approach. In the short run, the focus should be on reforming AGOA to address the various weaknesses identified above that limit its effectiveness. These reforms should begin immediately while, at the same time, developing a long-term strategy to enable SSA and its international partners, especially America, to aggressively embrace the transformative agenda outlined in this statement.

Supporting Deeper Regional Integration in Africa

John Page and Nelipher Moyo

The African Growth and Opportunity Act (AGOA) states that "Congress supports: expanding United States assistance to Sub-Saharan Africa's regional integration efforts," and over the years, the United States has reiterated its commitment to supporting regional integration. Most recently, in August of 2010, U.S. secretary of state Hillary Clinton stated that "regional integration has gotten too little attention within the AGOA framework, but I think it should be at the top of our shared agenda."

Although AGOA has had some success in promoting trade and growth in Africa, the lack of meaningful progress on regional integration is apparent. To support real regional integration in Africa, AGOA will need to acknowledge the importance of the region's economic communities and the role that they can play in supporting trade.

Two facts underline the urgency of the regional integration agenda. First, Africa consists of 53 separate countries, each with its own border and barriers to the movement of goods, capital and people. India, with about the same land area, has no internal barriers. Second, 40 percent of Africa's population lives in countries without access to the sea; globally, about 4 percent of the world's population lives in such landlocked countries. Taken together, these facts mean that for most Africans, prosperity depends not only on their own efforts but also on those of their neighbors. America has correctly recognized that sustainable growth in Africa will require greater regional integration, but the question is: How can AGOA support deeper regional integration in the future?

How Can AGOA Support Deeper Regional Integration in the Future?

AGOA has facilitated the removal of intraregional trade barriers and the creation of new trade partnerships in Africa. This is especially true in the apparel industry, where new regional partnerships have been formed to take advantage of AGOA benefits. The garment industry in Madagascar is one example. Under AGOA, Madagascar's apparel exports to the U.S. increased from $53 million in 1992 to $469 million in 2004.[1] More impressively, the industry developed a truly regional supply chain, sourcing zippers from Swaziland, denim from Lesotho, and cotton yarn from Zambia and South Africa. There are a number of ways that AGOA can support deeper regional integration:

Increasing the Role of Regional Economic Communities

It is difficult to imagine how AGOA will achieve its stated mandate of "supporting regional integration in Africa" without engaging the various regional economic communities (RECs) on trade-related matters. Today, there is very little high-level engagement between U.S. trade officials and officials in the various RECs. To facilitate meaningful regional integration in Africa, the U.S. should establish mechanisms to include the RECs in AGOA-related discussions and provide them with the space within which they can work toward actionable solutions to the numerous challenges that prevent their members from taking full advantage of AGOA.

Each year, the U.S. trade representative holds a high-level meeting with African heads of state and ministers of trade and commerce. Given the number of participants and divergent interests among the various countries, these meetings are often concluded without any meaningful AGOA-related agreements. In addition to these meetings, the U.S. trade representative should meet with the heads of the RECs to discuss regional priorities. Many of the supply side constraints to success under AGOA (transportation, trade barriers, etc.) will require a concerted regional approach. The start of high-level dialogue between the U.S. trade representative, other relevant U.S. government officials and representatives from the RECs is essential to enhancing regional integration under AGOA.

Addressing Concerns about Revoked Eligibility

The current AGOA eligibility procedures discourage the development of regional supply chains. Removing a country from AGOA, even for the right reasons, also punishes that country's regional trading partners. The Madagascar success story we cited above had an unhappy ending for regional suppliers when it lost its AGOA eligibility. The RECs can help to reduce the negative impact of changes in AGOA eligibility on regional supply chains. RECs should be encouraged to propose transition plans to help their AGOA-eligible members cope in a way that reduces the regional impact while respecting U.S. guidelines.

One option we have proposed in the past is to allow a non-compliant country to continue to provide eligible inputs to the AGOA-eligible countries within the regional group but to restrict direct exports from the non-compliant country to the U.S. Another option is to allow a country declared ineligible to continue to export goods that contain a specified amount of inputs from AGOA eligible countries in the regional group under a transitional arrangement.[2]

Revising the Rules of Origin

The AGOA rules of origin for non-apparel goods support regional cumulation by allowing AGOA-eligible countries to use inputs from their eligible neighbor to meet the 35 percent local content requirement. Despite this seemingly generous provision, non-apparel/non-oil imports remain well below their potential. In 2010, U.S. AGOA imports were $44 billion; however, only about 5 percent of those were non-oil/non-mineral/non-apparel goods.[3] One of the primary reasons for this is the low manufacturing capacity in the majority of Sub-Saharan African countries.

Although a 35 percent local content requirement may seem generous by world standards, given the special circumstances in Africa—the motive for the creation of AGOA in the first place—a lower local content requirement is needed. The underutilization of non-apparel benefits suggests that the rules of origin for non-apparel goods should be revised to a level that can be more easily satisfied by the region's countries. The appropriate local content requirement should be determined based on an assessment of manufacturing capabilities in AGOA-eligible countries.

To further promote regional value chains, AGOA could offer even lower local content requirements for RECs that meet a certain standard of integration. This would encourage regional integration while facilitating increased manufacturing capacity in non-apparel industries. The success of the special rule for apparel provides evidence that more flexible rules of origin can stimulate the development of regional value chains in Africa.

African Governments and Regional Integration

Strategies to enhance regional integration within the AGOA framework cannot succeed without concerted effort among African governments to implement regional integration policies. The East African Community has achieved the most significant progress toward integration and as such it is better positioned to realize the full benefits of AGOA. Similar effort is needed to advance integration within Africa's other RECs.

In the wake of the global financial and economic crisis, African countries with high levels of intraregional trade were able to recover faster from the crisis than those countries with low levels. Regional supply chains can help serve as a buffer against global shocks. However, intraregional trade barriers continue to hinder the creation of regional supply chains. The removal of intraregional trade barriers should be made a priority for African governments.

Lack of infrastructure remains a significant obstacle to trade in Africa. Regional collaboration is needed for infrastructure development. Within the various regional hubs / trade corridors, governments should agree upon priority infrastructure projects and develop joint mechanisms to finance such projects. The current state of ad hoc regional engagement falls short of what is needed to address the continent's infrastructure deficit. As Africa moves to attract investors under AGOA, such efforts should be complemented with strategies to improve infrastructure.

The 2011 AGOA Forum sets deeper regional integration as a priority for Africa. To realize this goal, Africa should develop a regional strategy to take advantage of AGOA. This strategy should highlight regional priorities and serve as the platform for engagement with the U.S. on trade-related matters. Indeed, regional integration is essential for growth and opportunity in Africa. Within the existing framework, AGOA can help to support regional integration in Africa by providing a platform for engaging the RECs, adopting a regional perspective to minimize eligibility issues, and lowering the local content requirement for non-apparel rules of origin to promote the region's industries.

Endnotes

1 Foreign Trade Division, U.S. Census Bureau, "Trade in Goods with Madagascar," 2005.

2 John Page, and Nelipher Moyo, "AGOA and Regional Integration in Africa: A Missed Opportunity," in *AGOA at 10: Challenges and Prospects for U.S.-Africa Trade and Investment Relation*s (Brookings, 2010).

3 U.S. International Trade Commission, "United States–Sub-Saharan Africa Trade Data: U.S. Imports from AGOA Eligible Countries," 2010, http://reportweb.usitc.gov/africa/by_sectors_agoa.jsp.

Promoting Private Sector Investment

Jeff Frank and Mwangi S. Kimenyi

Ultimately, the success of the African Growth and Opportunity Act is dependent on the profitability of investment directed at harnessing the trade preferences afforded by the act. It was expected from the outset that AGOA would trigger higher levels of foreign direct investment as a result of the profit opportunities associated with the trade preferences. More specifically, it was expected that the trade preferences would be sufficient to make it attractive for U.S. investors. In turn, higher levels of FDI would expand job opportunities, incomes and result in poverty reduction. AGOA is credited with both job creation and increasing FDI.[1] Between 2001 and 2007, FDI increased by 52 percent to $13.8 billion.[2] Nevertheless, the U.S. commercial presence in Africa remains small, and its relative importance is being eroded rapidly with the aggressive investment stance taken by Brazil, Russia, India and China, known as the BRICs.[3] Whereas FDI from the U.S. is primarily focused on oil and mineral extraction, investment from the BRICs is increasingly diverse. While FDI from the BRICs declined across all continents during the recent economic downturn, FDI to Africa decreased the least, from $72 billion in 2008 to $59 billion in 2009.[4]

Notwithstanding the opportunities afforded by AGOA, many U.S. investors remain reluctant to enter African markets. In addition to the real and perceived high costs of doing business on the continent, specific aspects of tact lead investors to discount its potential benefits. To increase FDI flows from the United States to Africa, policymakers should consider a variety of options.

Creating a Predictable Environment

Although AGOA has been extended a number of times, from the perspective of an investor, the act is "short term." Initially, AGOA was set to last until 2008, but it has been extended and is now set to expire in 2015. Investors consider such time frames insufficient to make investments, many of which are associated with large sunk costs. Many years are needed to establish the infrastructure and market share required for foreign trade with the United States. Equally, many African countries do not already have industries for AGOA-eligible commodities and await new investment to develop potential businesses. Thus, the overall framework with regard to the duration of the act needs to be reconsidered to ensure that it has inbuilt investment incentives.

Of immediate concern are the implications of AGOA's expiration in 2015. Given that investors are unsure of whether an extension will be forthcoming, they are unlikely to undertake any substantial investments. One suggestion is to institute a "grandfather clause" that would allow companies to continue benefiting from AGOA on contracts negotiated before the 2015 deadline, regardless of whether the act is extended or not. Such grandfathering of contracts would allow companies to operate under the AGOA trade policy as it is at the time of signing for a predetermined period of years.

Grandfather clauses have been used in other trade policies such as the General Agreement on Tariffs and Trade as well as the North American Free Trade Agreement.[5] Under a grandfather clause, investors and business leaders would be able to negotiate contracts with certainty that no matter how U.S. legislation affects AGOA in the future, they would be able to operate under consistent trade guidelines.

Financing Investment

With the high perceived risk of investing in Africa, many financial institutions are reluctant to lend for such investments. Thus, unless there is an alternative facility for investment finance, American investments in Africa will remain low and the potential benefits under AGOA will remain unexploited. There is therefore an urgent need for creative approaches to ease access to investment finance. For example, the White House recently launched a program designed to facilitate investment in young companies called the Startup America Initiative, which provides a range of tools to help build young companies and offers a model for how the U.S. could also facilitate investment in Africa. This program supports investment financing by providing $2 billion in matching funds for high-growth companies.[6] To facilitate investment in Africa, the U.S. could provide similar matching funds to U.S. companies investing in Africa. Additionally, the program proposes an elimination of the capital gains tax on the sale of certain small business stocks. Likewise, the U.S. could assist in the financing of investment in Africa by offering a reduction or elimination of the capital gains tax on the sale of stocks of African companies. This measure would offer an added incentive for investing in African companies and also increase the profits of U.S. investors selling African stock. In ways like these, the U.S. government should engage the private sector with a view to identifying viable approaches to investment finance.

Tax Incentives on Repatriated Profits

Although the investment climate in Africa has improved a great deal, much remains to be done to make the continent a competitive destination for FDI. Ultimately, the African governments must shoulder the main responsibility of attracting investments.

To complement the actions of the African governments, the United States should consider a more aggressive approach to supporting firms that invest in Africa. Currently, there is a scramble to invest in Africa by companies based in the BRIC nations, and this scramble is also being heavily facilitated and supported by the BRIC governments.[7] Such support is allowing the BRICs to access vital natural resources and also dominate important sectors of the African economies. It is therefore in the interest of the United States to support firms not only to make AGOA more effective but also to maintain a competitive commercial presence in the African market.

Although the removal of taxes on profits made in Africa can increase FDI flows, such approaches may not be politically feasible. An alternative policy would be to reduce the tax on repatriated income rather than attempting to abolish taxes altogether. In addition, tax credits could be extended to firms based on the number of jobs they create both domestically and in Africa. Tying tax benefits to job creation in the U.S. and Africa would not only make AGOA a true partnership but would also help build support with American constituents.

High-Level Trade Missions to Africa

Although many policy initiatives can be designed and executed through AGOA, the U.S. also has the ability to spur trade in Africa simply by influencing how Africa is perceived. One strategy would be to organize a series of trade missions to the region consisting of a delegation of American trade officials accompanied by heads of U.S.-based investment groups and business leaders. By conducting these trade missions to the region, the U.S. could reduce the perception of investor risk while simultaneously attracting the attention of African companies looking for partnerships abroad. President

Barack Obama and Secretary of State Hillary Clinton could play a central role by taking the lead and being part of such missions.

Promoting greater levels of FDI from the U.S. to Africa through the African Growth and Opportunities Act is beneficial for both the U.S. and Africa. Although the U.S. continues to provide the region with various forms of assistance, increased levels of FDI hold the potential for leading to more sustainable economic growth and development. It is therefore critically important that promoting U.S. investments be prioritized in evaluations of the Africa-U.S. commercial relationship.

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Ensuring Growth and Opportunity:

Strengthening Job Creation for AGOA

Olumide Taiwo and Zenia Lewis

The Africa Growth and Opportunity Act (AGOA) benefits the U.S. and Africa by providing free market access, encouraging investment opportunities, and, for Africa, providing opportunities to facilitate job creation and poverty reduction. Although statistics show that oil-related products account for more than 90 percent of exports from Africa, non-oil exports increased by 230 percent between 2000 and 2008 alone. This increase has been followed by investment in new and non-traditional export sectors, which are in turn seeing the growth of export-processing zones and new factories across Africa focused most notably in textile and apparel industries. If the participating African countries incentivize the use of local employment while enforcing better labor standards, AGOA has the potential to use these investments to vastly scale up African job creation.

To date, the employment gains from AGOA have been constrained for several reasons, but especially because of limitations faced by labor markets in Africa. First, Africa ranks as one of the most difficult regions of the world for hiring workers, and half of the 10 most difficult countries for employing laborers are in Sub-Saharan Africa.[1] High production costs are also a major issue, as illustrated by a 2008 report by the United Nations Conference on Trade and Development. The report looks at a case study of Kenyan and Bangladeshi garment manufacturers, and shows that a critical barrier to the competitiveness of garments made in Kenya is the cost of production, which is three times higher than costs faced in Bangladesh. Furthermore, of these high production costs, the largest determinants are high wage costs, which are 138 percent higher in Kenya than in Bangladesh.[2] The problem of high wage demand is widespread throughout many African countries, and is often due to factors such as the high cost of transportation faced by laborers.

The problems of high production costs and wages are compounded by the problem of skills mismatch, an issue that arises when available workers lack the technical skills demanded by new companies. These uncomplementary employment problems must be addressed to ensure that new firms in Africa hire from the local population and are not motivated to import labor from elsewhere.

A well-publicized recommendation for improving local employment under AGOA is the idea of inserting a clause in the legislation requiring that a certain fraction of labor employed in AGOA factories or related investment projects consists of African nationals. Considering that investors are private companies, such a provision will encounter immediate problems in places where there is a skills mismatch or labor costs are higher than employers' willingness to pay. Such a clause would ultimately result in decreased incentives for investment in the country. Finding the precarious balance between attracting foreign investment and incentivizing the use of local labor must be a goal for African governments to fully maximize the benefits of AGOA.

It is a welcome development that both U.S. policymakers and African countries are beginning to pay close attention to the employment component of the range of AGOA benefits. The African Union ministers of trade remarked at the fall 2010 AU–AGOA conference that any discussion of AGOA should prioritize ensuring job creation and poverty reduction resulting from investments related to AGOA.[3] In furthering this discussion, it is imperative that each country considers necessary changes to ensure that AGOA-motivated investments, factories and projects translate into increases in local employment. Ultimately, it is up to individual African governments, and not the AGOA legislation itself, to develop policies that ensure both private firms and local laborers benefit from the increased investment.

African governments must work to lower some of the constraints faced by businesses with regard to labor. Increasing access to necessary vocational training will be an obvious priority for African governments, while incentivizing private firms to do so as well. In addition, providing new businesses with incentives to locate in low-wage areas must be a priority. Some of the high wage costs result from high costs of transport for workers, therefore facilitating export-processing zones where new investors have access to low-wage workers and lower production costs could motivate additional investment and, in turn, job creation. EPZs should, of course, also provide improved infrastructure, as well as more direct access to ports, airports and tax incentives, like temporary tax exemptions for investors or the duty-free importation of materials needed for production in order to further incentivize investment through lower production costs. It must be noted that as governments work to attract investment, they should also work to enforce existing labor standards. Workers' rights should not be sacrificed as a part of any strategy for scaling up foreign interest. Many EPZs operate under flexible labor laws where workers' rights are bypassed, but this approach should not be encouraged by African governments. The AGOA legislation states that its beneficiaries must implement "acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health."[4] Thus, private investors and, more important, local governments should be expected to abide by and enforce such standards with AGOA-related firms and in general practice. Recent news headlines about ill treatment of workers in Zambia by foreign firms have only been exacerbated by the reaction of local government, which has done little to punish or rebuke exploitation and seems to imply that domestic employers can be similarly culpable.[5] Sacrificing the treatment of local workers for the sake of attracting foreign investors has not and will not benefit any side involved in the long term.

Job creation has the potential to expand profoundly in the attractive investment environment that AGOA has created for African countries. Addressing the labor market constraints outlined above will ensure that the greatest possible gains are realized from AGOA with respect to Africa's employment needs.

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Removing Barriers to Improve the Competitiveness of Africa's Agriculture

Emmanuel Asmah and Brandon Routman

Although the Africa Growth and Opportunity Act has been associated with significant success since its enactment in May 2000, many eligible countries have not exploited the act's full potential. This underutilization of AGOA is evidenced by the fact that energy-related products have accounted for almost 90 percent of its exports. In comparison, agricultural products make up a microscopic share, less than 1 percent—which is quite small, considering that roughly two-thirds of Africa's population is engaged in this sector.[1]

Increased agricultural exports to the United States and other developed countries could have a substantial impact on Africa's economic development. However, a number of obstacles undermine the capacity of Africans to export their products. In this paper, we touch on a number of them and propose several policy recommendations that might help Africa achieve a better future.

U.S. Subsidies

The U.S. heavily subsidizes its agricultural industry, which increases world supply and depresses prices. Given the high costs of agricultural production in Africa, these subsidies erode the benefits otherwise afforded by the duty-free provisions under AGOA. A study conducted by Oxfam America found that eliminating the U.S. cotton subsidy would significantly help the West African countries of Benin, Burkina Faso, Chad and Mali. According to Oxfam's calculations, ending this subsidy would raise the average household income of cotton growers in these countries by between 40 and 160 percent of their expenditures on food per capita.[2] Moreover, given that these four countries are also categorized as experiencing "low human development" by the United Nations, this extra income is sorely needed.

However, the outright removal of agriculture subsidies is not politically feasible. The U.S. interest groups that advocate for them are simply too strong a political force in Washington. That said, given the fiscal difficulties that the U.S. currently faces, now might be a good time to call for their reduction.

Trade Restrictions

Another point of criticism of the U.S. has to do with the fact that AGOA does not extend preferences to certain products that are important to African farmers. One aspect of this criticism deals with tariff rate quotas. Essentially, these are two-tiered tariffs; there is one tax for imports up to a certain volume, or "in-quota" tariffs, and a different tax levied on additional imports, or "over-quota" tariffs.

A number of key agricultural categories are subject to these tariffs, including dairy, sugar, cotton, peanuts, beef and tobacco—many areas where Africa has a comparative advantage. Products in the beef and cotton categories often do not exceed the volume threshold to activate the over-quota tariff. But others, especially in the sugar and tobacco categories, often do and face very steep over-quota tariffs as a result. For instance, the in-quota tariff for certain tobacco products is zero; yet the over-quota tariff can be as high as 350 percent of the value of the import![3]

Improvements to this system have been called for and should be considered. One recommendation is to make all in-quota imports under AGOA duty free. (For many products, although not all, this is already the case. Thus, such a proposal would likely be relatively easy to institute.) Another, more dramatic step would be to apply the UN Millennium Declaration's proposal of duty-free, quota-free market access from least developed countries for *all* exports, whether or not they are imported before or after some quota is filled. Even if such a measure were not taken, steps *toward* this direction taken by a country like the U.S. could catalyze other developed countries to follow its lead—especially if the U.S. chose to exercise its considerable diplomatic strength.

Value-Added Goods

One important measure of the state of Africa's exports deals with the extent to which its products are exported in their raw form or, alternatively, the extent to which value is added to them *before* they are sent abroad. In these terms, Africa has not fared well; the vast majority of its exports are shipped in their unprocessed form.

Consider the cocoa sector. Between 2005 and 2009, AGOA exports of cocoa and its by-products amounted to roughly $90 million annually; in comparison, chocolate, a processed form of cocoa, amounted to only about $17,000.[3] U.S. tariffs are at least partially at fault for this discrepancy. Cocoa is well protected from tariffs; chocolate is not. Reforming U.S. trade policy would therefore be important in changing this outcome.

Africa's Efforts

However, U.S. trade policy is not mainly responsible for the failure of value-additive processes to take hold in Africa. Nor is it primarily U.S. subsidies or trade restrictions that keep Africa's agricultural industries from burgeoning and its exports at low levels. Instead, the severe lack of technical, human and infrastructural capacity limits the region's ability to fully maximize the potential gains from AGOA. Thus, any agenda to strengthen the continent's productive competitiveness must focus on improving its business environment.

In particular, African governments must shoulder the primary responsibility of providing a business-friendly environment and enacting reforms that are conducive for vibrant private sector growth. Thus it is imperative that these governments step up domestic resource mobilization efforts and make the right investments in education, skills training, infrastructure (motorable roads, reliable transportation modes, energy provision, etc.)—all of which are fundamentals for any competitiveness agenda.

The U.S. should do its part, too, by working to reduce the impact of its subsidies and to reform its trade policies. Furthermore, it should strengthen programs like the Overseas Private Investment Corporation, the Millennium Challenge Corporation, and the African Global Competitiveness Initiative, which exist to assist Africa in its process of capacity building—particularly, as a priority, to extend the AGCI, which is set to expire in 2011. The efforts of these programs indirectly, and sometimes directly, affect Africa's ability to utilize AGOA's benefits.

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Building Regional Markets: AGOA and the Economic Partnership Agreements

Katrin A. Kuhlmann and Mwangi S. Kimenyi*

Unilateral trade preferences under the African Growth and Opportunity Act (AGOA) have been the hallmark of U.S. trade policy toward Sub-Saharan Africa for the past decade. With the approaching expiration of AGOA in 2015, both the Executive Branch of the U.S. government and the U.S. Congress have begun a thorough examination of the program's effectiveness with a view to either extending the current preferences beyond 2015 or replacing them with new legislation. Although AGOA is the most expansive of the U.S. preference programs and has played a positive role in U.S.-African relations, it does come with certain limitations. AGOA continues to restrict trade in certain key agricultural commodities like sugar and peanuts, and—like most preference programs—it has struggled to create broad, sustainable opportunities for economic diversification. At the same time, however, it is to be praised for treating the region as a cohesive whole and continues to have untapped potential that could be realized if coupled with the right policies to build needed capacity and address market barriers.

Europe has also had a long history of using unilateral trade preference programs with its developing country trading partners, and the least developed countries (LDCs) continue to get duty-free quota-free access to the European market under the Everything But Arms program, while other developing countries are eligible for preferential market access, albeit not as comprehensive, under Europe's Generalized System of Preferences (GSP) and GSP+ programs. Recently, however, the European Union moved away from comprehensive preferences for non-LDCs and began to negotiate more reciprocal Economic Partnership Agreements (EPAs) with all the African, Caribbean and Pacific countries. This new trade policy tool has been met with heavy criticism and resistance by African policymakers and with skepticism by international trade experts. Both the scholarship on the EPAs and their reception by African stakeholders indicate that the tool is not right for Africa. This paper briefly discusses EPAs, their overlap or inconsistency with AGOA, and offers some lessons to keep in mind as U.S. policymakers consider their future options.

Implications for Economic Diversification under the EPAs

Without question, sustainable economic diversification and value-added trade will be needed in order for Sub-Saharan Africa to truly and sustainably develop. Any trade policy with any trading partner should advance this goal, yet some trade tools better promote economic diversification than others, and the hard work ultimately falls upon the Africans themselves.

Analysis has shown that EPAs clearly create benefits for European companies. But their ability to increase and diversify African trade is questionable. Under the provisions of EPAs, African countries are allowed to maintain existing tariffs on 20 percent of tariff lines under a "sensitive product" exemption that effectively enables countries to protect nearly all their domestic production.[1] The remaining 80 percent of tariff lines will be liberalized for European imports. Taken together, these provisions make both economic growth and diversification under EPAs nearly impossible. Due to the sensitive product exemptions, African companies have little incentive to innovate and improve existing production. Where trade is liberalized with Europe (the other 80 percent), more efficient European companies will dominate, making it difficult for African companies to expand into new products and causing trade diversion away from lower-cost, third-country producers, including the United States, in addition to significant revenue loss from tariffs.[2]

Further solidifying Europe's position in the African market, EPAs contain a notorious "most favored nation (MFN) clause" that stipulates that all parties to an EPA must give Europe equivalent access to any preference negotiated with another trading partner, including other African countries. Countries have already signaled challenges to the MFN clause, and it runs directly counter to a legal requirement in AGOA that African countries receiving trade preferences not grant any special trade access to their markets that could have a "significant adverse effect" on trade with the United States. Taken together, the trade provisions in EPAs significantly undermine the potential of increasing trade with non-EU partners and cut against AGOA's attempt to create new trade opportunities between Sub-Saharan Africa (SSA) and the United States.

Implications for Regional Trade under EPAs

Although international markets are important to SSA, the development of regional markets is perhaps most critical to long-term economic growth, diversification and food security. A striking common feature within SSA is the limited trade among the region's various countries. Though the SSA countries have long sought to trade internationally, their intra-African trade remains disappointingly low. It is well accepted that for African countries to really exploit their productive capacities and develop competitive economies, they must trade with each other. Through expanded intra-African trade, nations can exploit regional value chains and more effectively vertically integrate production processes. Thus, any trade policy tool that seeks to promote sustainable economic growth in Africa must strive to promote intra-Africa trade.

Although there are many reasons for low intraregional trade, EPAs do not build regional markets, as some have claimed. Aside from EPAs' political nature, which has pitted LDCs against more developed countries in the rush to preserve preferences, EPAs undermine nascent regional markets. In addition to the market dynamics discussed above, the various carve-outs for sensitive products do not overlap among regions, further complicating already-fragmented nascent regional markets.[3] EPAs also limit opportunities for cumulation, making value-added production across borders and regions difficult.[4]

Regional integration is very important for product diversification and in enabling smaller African producers to realize economies of scale. Cooperation with neighbors is especially vital for landlocked economies with limited access to ports and markets. To the extent that EPAs undermine regional expansion of trade, they are not suited to support the sustainable economic growth of the African countries.

The Way Forward: AGOA and EPAs

U.S. and European trade policies vis-à-vis SSA are unlikely to have much impact unless they complement African initiatives to build regional markets. Although the implications of the different trade policy models require significant further analysis, some immediate suggestions are as follows: overhaul policies to better support regional integration and diversification; expand market access to include products of importance to SSA, including all agricultural products; make rules of origin more transparent and predictable across SSA; coordinate the processes for sanitary and phytosanitary (SPS) procedures across the Atlantic; and treat trade capacity building and focused development assistance as a necessary compliment to trade policies.

The Africans have put forward a model for regional integration that merits greater support from trading partners and donors. This comprehensive regional framework, the Development Corridors movement, started with Nelson Mandela's vision when he was president of South Africa and is now widely recognized by African institutions, including the African Union's New Partnership for African Development. Through the Development Corridors spatial development strategy, which builds on trunk infrastructure to connect more remote and rural areas to markets, regional trade has the potential to increase by as much as $250 billion during the next 15 years if the corridors are properly supported.[5]

The developed country trading partners' policies toward SSA will work best if these partners grant meaningful market access across sectors and to both more and less developed countries in the region alike. For the United States, this would include opening the U.S. market to key agricultural imports from Africa, like sugar and peanuts, that are currently subject to restrictive tariff rate quotas. For Europe, this would mean reshaping EPAs, including elimination of the MFN clause, which limits the ability of SSA to expand trade regionally and with partners other than Europe.

With respect to both the United States and Europe, rules of origin should be as simple as possible, and cumulation needs to be possible SSA-wide. Cumulation is currently uncertain under EPAs, because many countries have not concluded agreements, yet open cumulation is critical for realizing future opportunities. For trade in agriculture, SPS rules and procedures also need to be as transparent and predictable as possible. Although the United States and Europe have different food safety priorities, U.S. and European SPS procedures and processes could be better coordinated and streamlined. Given that approximately 80 percent of SSA's population depends on farming for their livelihoods, improving the process to help agricultural producers meet standards would help diversify trade under AGOA beyond apparel to expand opportunities in agriculture as well.[6]

To address the needs of both agricultural and nonagricultural entrepreneurs, development assistance, including trade capacity building, needs to be systematically and strategically coordinated with European and U.S. trade policies toward Africa. America's efforts to build capacity and markets in SSA have, thus far, lacked a regional focus and have not been sufficiently linked to specific business needs. European efforts could also be stepped up, and once again, regional integration should be a central goal. Trade capacity-building assistance initiatives should also be coordinated with African governments, and particularly with businesses, to help target needs and make policies as predictable and useful as possible.

Finally, we offer a word of caution as the future of AGOA is contemplated. When reviewing AGOA, the United States should avoid adopting the EPA model, which has provoked such a strong negative reaction among the Africans and which deters regional integration, diverts trade and fails to engender what Africa needs most—sustainable economic diversification; the promotion of new opportunities for value-added production, especially in agriculture; and the development of regional markets. EPAs in their current form are not a good framework for linking trade with economic development. Instead, to build regional markets, it will be better for all concerned to focus more on the Development Corridors that stem from the SSA nations themselves. The United States should also take a careful look at the implications of EPAs and press for change from the EU, and, at the same time, avoid repeating the same mistakes as policymakers look to the future of trade with Sub-Saharan Africa.

Endnotes

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Improving U.S.Trade Assistance to Enhance AGOA

Jessica Smith, Brandon Routman and John Mutenyo

One of the main objectives of AGOA was to promote export-led economic development in Sub-Saharan Africa (SSA). Prior evidence shows that an expansion of trade with other countries is associated with not only economic growth but also a reduction in poverty and overall increase in living standards. Good examples of countries that have experienced rapid economic development driven by trade include Brazil, China, India, South Africa, and the Southeast Asian "Tigers." AGOA has made trade between the U.S. and SSA attractive by increasing the duty-free coverage of products. However, trade preferences can only lead to increased export production if beneficiary countries and their respective firms are prepared.

Less-developed countries are not taking full advantage of trade preferences. Most of the AGOA-eligible nonoil firms are small and medium-sized enterprises. These SMEs, such as those in the apparel sector, remain inefficient and constrained in their productive capacities due to a lack of skills, capacity and other resources. Citing the Asian example from Kawai and Wignaraja, SMEs tend to have less knowledge regarding free trade agreements, and thus less preference usage.[1] Therefore, trade assistance targeted to SME industries can help AGOA stimulate more local and diversified production. More multiplier and spillover effects to economic development come from production by SMEs than oil and unprocessed agricultural commodities, whereas the diversification of trade buffers fragile SSA economies from shocks. Thus, responding to the specific needs of SMEs could enhance AGOA's impact on development. Bringing more SMEs into production requires increasing knowledge about trade preferences, streamlining the export process with regard to phytosanitary procedures, bolstering trade financing and identifying regional and firm-specific needs for technical assistance.

AGOA, however, is not designed to address trade constraints; nor is it a technical assistance program. From AGOA I (2001) to AGOA IV (2006), the legislation has not outlined a framework for trade assistance. Instead, it makes suggestions to other U.S. entities to develop initiatives that create an environment receptive to trade and investment. An effort should be made to make AGOA comprehensive regarding trade assistance as a complement to trade liberalization, not a substitute. An improved AGOA framework should focus on the following trade assistance issues the identification of firm specific technical needs, consultation with African nations, allocation of trade assistance to demand, and integration of regional trade hubs with regional economic communities.

Focusing in on Firm-Specific Issues

Aid for trade, also referred to as trade capacity building (TCB) by the U.S. Agency for International Development (USAID), is donor assistance that provides financing and technical assistance to improve trade, without which many developing countries cannot successfully trade with the developed world. TCB includes a breadth of activities that are lacking in most developing countries, particularly AGOA-eligible ones—to name a few: physical infrastructure development, trade facilitation, governance transparency and interagency coordination, financial sector development and assistance in understanding World Trade Organization agreements. The diffuse scope of TCB activities prevents the allocation of trade assistance to be utilized in depth on issues specific to regions or firms looking to enter U.S. markets. To better express regional and firm-specific needs, SSA governments should actively establish priorities for trade assistance that are in line with their goals for development and constraint issues.

Moving Trade Assistance Closer to the Ground

AGOA formulates trade assistance initiatives ex ante to consultation with recipients; the Paris Declaration on aid effectiveness suggests a departure from this top-down aid approach. Trade assistance with better linkages to African priorities and the AGOA policy itself enhances the ability of AGOA to promote long-lasting trade with SSA countries. Trade policy models from Japan, Europe and China can provide "do's and don'ts" to coordinating trade preferences with assistance. The Japanese, through the Tokyo International Conference on African Development, offer good examples of using ex post requests of aid monies after co-formulation between African and Japanese firms and governments. USAID's best practices report for regional trade hubs also suggests co-formulation to improve trade assistance programs. Additionally, the coordination of U.S. policies with other donor countries is necessary to avoid negative global implications.

Matching Trade Assistance Allocations to Demand for Aid

According to USAID, U.S. trade assistance distributed to all global regions through the Millennium Challenge Corporation, USAID and other government agencies totaled $2.2 and $1.8 billion in 2008 and 2009, respectively.[2] Infrastructure demands in SSA alone exceed the amount of U.S. trade assistance. The World Bank's Africa Infrastructure Country Diagnostic Report estimates that the SSA region requires a 10-year annual investment of $12.7 billion ($7 billion under a more pragmatic strategy) to build infrastructure capacity.[3] Trade assistance should be carefully matched to demand from African countries and firms. The Africa Global Competitiveness Initiative (AGCI) was slotted to run from 2006 to 2009, yet AGOA trade preferences last until 2015. The extension of AGCI and other trade assistance initiatives should be discussed at the Lusaka AGOA summit. Furthermore, AGOA legislation should make trade assistance predictable to avoid shocking emerging industries and thus defeating the original goal of economic development.

Strengthening Regional Trade Hubs

One way in which USAID is making ideal use of trade assistance funds is through ACGI via the USAID regional trade hubs. The hubs in Botswana, Ghana, Kenya and Senegal serve as a forum for African governments, civil society and the private sector firms to request information and technical assistance. The experience of Minata Kone, a female Burkinabe entrepreneur, is an example of how the trade hubs work. In 2005, Kone was trying to break into the processed cashew market when she approached the West African trade hub. Her goal was to obtain technical assistance in order to reach export quality standards and purchase the correct equipment; her operation now creates 330 jobs, mostly for women.[4]

To scale up and extend these kinds of trade hub successes, U.S. and African governments should consider deeper joint coordination of trade hubs with the regional economic communities (RECs), which are African-led entities responsible for economic integration across African borders. Combining USAID trade hubs with these RECs would make trade assistance more efficient and longer lasting. The RECs have deeper insight as to the specific supply constraints that firms in their respective regions face and can continue the trade hub concept after TCB funding is phased out.

In conclusion, future AGOA legislation should ideally provide a framework for trade assistance. Explicitly, the duration of AGOA trade assistance efforts needs to coincide with AGOA trade preferences. AGOA should take a comprehensive stance toward export-led growth, ensuring that constraints to increased trade are dealt with in coordination with African priorities for development.

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Reflections on Kenya's Experience Under AGOA: Opportunities and Challenges

*Christopher Onyango and Moses Ikiara**

Kenya was among the first Sub-Saharan Africa countries to qualify for preferences under the Africa Growth and Opportunity Act. Undoubtedly, AGOA has played a positive role in Kenya's economic development. Apart from significantly increasing the country's exports, it has directly created more than 20,000 new jobs. Nonetheless, Kenya has not fully exploited the opportunities presented by the legislation. This paper reflects on Kenya's experience under AGOA thus far, examines the opportunities and challenges the legislation presents, and makes a number of recommendations for both Kenyan and U.S. policymakers to improve AGOA.

Kenya's Experience

Kenya's bilateral trade with the United States increased fivefold between 2000 and 2010, from \$163 million to \$875 million. During this period, Kenya's exports to the U.S. expanded from a paltry \$36 million to \$284 million, with the highest growth from 2003 to 2005. More than 90 percent of the exports from Kenya to the U.S. have benefited from AGOA and the Generalized System of Preferences.

The bulk of Kenya's exports under AGOA are in the textile and apparel sector, comprising more than 94 percent of total exports in 2009. Among AGOA-eligible countries, Kenya is the second-largest exporter of these products to the U.S., and it has a market share of 23.2 percent. The sector has also been prominent in the economic life of Kenya's export-processing zones (EPZs). Although the sector constitutes only 25 percent of the enterprises located in the EPZs, it generates more than 90 percent of Kenya's apparel exports under AGOA and contributes 85 percent of the jobs created in the zones.

The declining trend of exports under AGOA in Kenya is replicated in other African AGOA beneficiary countries and has been mainly attributed to the end of the Multi Fibre Arrangement (MFA). Under the MFA, the U.S. and Europe restricted the volume of garment and textile imports from developing countries. As a result, AGOA gave a significant advantage to countries in Sub-Saharan Africa. With the expiration of the MFA, African exports have come under increasing pressure, and the region's share of U.S. textile imports fell by 21.9 percent and 18.9 percent in 2007 and 2008, respectively. Meanwhile, during the same period, Asia's share of these exports increased.

Opportunities and Challenges

Although AGOA has given its beneficiary countries unprecedented access to the U.S. market, the opportunities presented by the legislation have not been utilized to their fullest potential, and likewise the challenges it poses have not been overcome. These opportunities and challenges include the development of value chains, diversification, high transportation costs to the U.S. market, the persistence of nontariff barriers, the high cost of doing business, uncertainty about the future of AGOA, limited credit facilities, and the potential erosion of preferences. It is useful to outline each one.

The development of value chains. AGOA and existing regional integration structures (i.e., the East African Community and the Common Market for Eastern and Southern Africa) present the opportunity for the development of regional value chains of many products, including textiles and clothing. This is because AGOA's rules of origin allow a beneficiary country to source raw materials and inputs from other beneficiary countries. Production sharing among members of existing regional trading agreements provides opportunities for supporting both regional investments in trade as well supply to the U.S. market.

Although the textile rules of origin were ostensibly put in place to encourage vertical integration of the textile and clothing industry in Africa, little of this has taken place. For instance, while Kenya's textile firms have successfully used AGOA export window, this growth sharply contrasts with performance at lower levels of the value chain, where cotton production is barely 10 percent of demand. Further, there is limited or low regional trade in intermediate goods and components; hence, more than 90 percent of textile export products use non-originating raw materials.

Diversification. AGOA has also had a limited impact on Kenya's agricultural sector. Nonetheless, the share of its products under AGOA increased from 1.4 percent in 2007 to 4.6 percent in 2009. Yet the sector has immense potential to reduce poverty and create jobs in both Kenya and on the whole continent. Increased agricultural exports under AGOA could help to diversify Kenya's exports and boost production capacity in the sector.

High transportation costs to the U.S. market. The long physical distance between Kenya and the U.S. translates into high transportation costs and thus weak price competitiveness of products in the U.S. market. This problem is compounded by the absence of direct air freight services and limitations associated with sea transportation. The cost of air freight is high, while sea freight takes about 28 to 30 days to ship goods from Mombassa to the U.S. This time period is long, especially for perishable products.

The persistence of nontariff barriers. Under AGOA, the product approval process is long and cumbersome. Moreover, AGOA health and safety standards are very strict. Often, AGOA-eligible countries do not have mechanisms to adequately address these issues.

The high cost of doing business. A number of factors contribute to the high cost of doing business: poor physical infrastructure; high electricity tariffs; and expensive inputs like imported fertilizers, machinery and packaging materials, which are not readily available locally.

Uncertainty about the future of AGOA. Uncertainty regarding the future of AGOA—it is set to expire in 2015—makes it difficult to guarantee a secure market for trade and investment. Along the same lines, the potential removal of a country from its AGOA-beneficiary status can be a significant disincentive for a company considering moving its operations to Africa. Uncertainty about the extension of the Third-Country Fabric Provision, set to expire in 2012, presents a challenge for investors in Kenya.

Limited credit facilities. The lack of adequate export credit facilities for micro, small and medium-sized enterprises hinders these businesses from exploiting AGOA opportunities. Indeed, these enterprises require funds to cope with domestic supply or production constraints, to meet the cost of exporting to the U.S. and to conform to U.S. market requirements.

The potential erosion of preferences. There have been proposals for the U.S. to extend the trade benefits currently available to AGOA-beneficiary countries to developing countries outside Africa. This would erode the preference margins that

Kenya and many other African countries currently enjoy. Many of the countries that would receive these benefits, such as Bangladesh and Cambodia, have significantly higher levels of trade with the U.S. than do the majority of Sub-Saharan African countries.

Policy Recommendations for the Kenyan Government

To enable Kenya to better take advantage of AGOA, while meeting the challenges and seizing the particular opportunities described above, we offer the following policy recommendations for the Kenyan government:

Negotiate a bilateral agreement for air freight transportation. Direct flights into the U.S. from Kenya would significantly reduce the transportation costs faced by exporters. The Kenyan government should work with the private sector to create the appropriate environment to encourage couriers to operate this route. This may also require offering incentives for air freight couriers to establish the route. Direct air freight routes between Kenya and Europe have helped to increase the volume of perishable goods exported from Kenya.

Identification and prioritization of export products. Kenya should consider setting up a task force to identify products for which the country has a comparative advantage in producing and to diversify its export base. South Africa has diversified its exports to include agricultural products, chemicals, minerals, machineries and energy-related products; Kenya may be able to learn from its experience. Targeted incentives could be considered to nudge exporters toward producing new products.

Enhancing competitiveness. A number of measures should be implemented to reduce transaction costs and increase productivity. Among the key issues are infrastructure development, better transportation systems, trade facilitation and worker training. Additionally, exporters require capacity building in the areas of market research, product development and supply chain management. U.S. development assistance should target these and similar constraints.

Building domestic and regional supply chains. Measures such as conditional incentives for exporters that procure raw materials and intermediate inputs from beneficiary countries in key regional economic communities should be considered. As a regional and continental leader, Kenya should aggressively pursue the growth of intraregional and intra-continental trade and the development of regional supply chains, as platforms for strengthening international export competitiveness.

Addressing AGOA's uncertainty. Kenya and other African governments should negotiate with the U.S. to make AGOA more long term, predictable and transparent. These outcomes are important for encouraging strategic and sustainable planning and investment.

Policy Recommendations for the U.S. Government

To enable the United States to better implement and administer AGOA vis-à-vis Kenya, we offer the following policy recommendations for the U.S. government:

Extend the third-party fabric arrangement and simplify product eligibility requirements. The U.S. should simplify existing rules of origin and extend the third-party fabric requirement. Suspension of this rule could adversely affect the production and exportation of textiles and apparel.

There is a need to further simplify existing rules of origin and extend the third-party fabric requirement, taking into account the fact that the envisaged vertical integration of the cotton value chain has not taken root in Kenya. Suspension of the rule could adversely affect the production and exporting of textiles and apparel because exporters would relocate to other more competitive countries and regions. Furthermore, enforcement of stringent standard requirements—including residue levels of pesticides, sanitary and phytosanitary standards, traceability, social accountability and environmental safety—discourage export diversification into other sectors, such as agroprocessing, where Kenya has a competitive advantage. This issue could be revisited to ease any requirements that do not threaten health and safety standards.

Development assistance. U.S. development assistance should target AGOA-related constraints, including infrastructure development, trade logistics and value chain development in order to promote production capacities, diversification and greater program utilization. In particular, the U.S. could provide technical assistance to strengthen and develop domestic and regional supply chains.

Maintenance of preference margins. The envisaged extension of preferences to non-AGOA beneficiaries would seriously undermine the gains already made by Kenya, especially in the textile and apparel sector. The U.S. should consider improving country-level support to ensure that such local industries are not adversely affected. Moreover, the rationale behind the initial limitation of AGOA to eligible African countries should not be forgotten as the program is being extended to other beneficiaries. Thus, giving extra preferences or support to the original targeted countries could be explored.

Addressing uncertainties. The benefits the Kenya has received under AGOA should be enhanced and sustained with a longer-term view. Depending on the industry, it can take years for a business to recoup its initial investment and start to make a profit. Therefore, it is important for AGOA to maintain a longer time frame that will allow investors to invest in Africa and begin to reap gains from those investments.

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AGOA: Market Opportunity and Supply Capacity in Ghana

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Ghana has enjoyed access to the U.S. market under the African Growth and Opportunity Act since its inception in 2000. AGOA presents a significant opportunity for Ghana to increase its manufacturing capacity and diversify its exports. However, after 11 years, it has become apparent that despite early success, Ghana has not been able to exploit the trading opportunities afforded by AGOA. Ghana's exports to the U.S. increased from $116 million in 2002 to $222 million by 2008.[1] The majority of the country's exports to the U.S. are raw materials, with cocoa, wood and ores being among the top export products. A lack of supply capacity, lack of financial resources and AGOA's ad hoc implementation has led to its underutilization.

AGOA Opportunities: Free Access to U.S. Markets

In the last two decades, Ghana has recorded growth of about 4.6 percent, and much of this growth has been driven by price increases in the country's two key commodity exports, cocoa and gold, as well as by donor inflows to the country. Over the years, these sources of growth have suffered sharp variations such that the economy has oscillated between crises largely determined by the world prices of cocoa and gold, and variable and unpredictable donor support. Ghana has therefore been challenged to find new pillars of growth while protecting and expanding its current main sources.

The generous preferences offered to African countries under AGOA were initiated at a crucial time of stiff global industrial competition and productive efficiency. The removal of import tariffs and quotas on a large variety of local products presented a great opportunity for Ghana to expand its exports to the United States. AGOA had the positive effect of encouraging the different sectors of the Ghanaian economy to collaborate. AGOA was expected to trigger industrialization as domestic firms expanded and diversified in order to add value to local products for export. It was also anticipated that the ensuing industrialization would increase employment by absorbing surplus labor. To date, however, these expectations have not been met.

Approaches to Implementing AGOA

Upon the enactment of AGOA, the government of Ghana, under the leadership of the New Patriotic Party, promptly began to lay groundwork to position the country to exploit the benefits extended by the act. Specific products were identified for preferential access under_AGOA, and structures were put in place to enhance private sector export capacity for the selected products. Public institutional support included the establishment of an AGOA Secretariat at the Ministry of Trade and Industry and a Ghana AGOA Committee.

The Secretariat provided the main administrative framework to facilitate AGOA's implementation and consisted mainly of temporarily reassigned Ministry of Trade and Industry personnel. The Ghana AGOA Committee composed of representatives from both the government of Ghana and the private sector. Ghana focused attention on the textiles/garment industry and obtained export certification visas in 2002. The AGOA Committee embarked on study tours to other African countries to learn lessons from their successful experiences, especially in the textiles/garments industries, and sought to initiate regional collaborative partnerships. The activities of the AGOA committee, among other factors, contributed to increased textile/garment exports to the U.S. market that peaked in 2007.

Capacity development and education on AGOA and its benefits formed an important aspect of the measures adopted by the state. It embarked on free intensive training of tailors and seamstresses on how to sew to U.S. standards. However, there was no additional capacity to absorb those who had been trained, nor were there regional linkages that would have facilitated the absorption of the trained labor. Eventually, the training centers set up by the government closed down and currently, only one in the Light Industrial Area of Accra remains active. Nationwide awareness of efforts related to the creation of employment initiatives based on AGOA has long stalled. The West African Trade Hub–Accra is continuing this educational role, but can only reach exporters able to attend their workshops or visit their office or Web site.

The government also established the Presidential Special Initiatives (PSIs) which were public–private partnerships whereby the state mobilized financial and technical resources to empower smallholder private sector businesses and farmers to increase their production capacity for exporting purposes. In design and objective, the PSIs had the potential to help the country attain the diversified industrialization levels needed to meet U.S. market demand. However, the four PSIs, despite their excellent program designs and potential, are no longer functioning—mainly because of a lack of adequate financing.[2]

Challenges of Meeting the Demands of a Global Market

The inability of Ghana to benefit significantly from AGOA can be explained by looking briefly at its difficulties with respect to three main challenges: its lack of supply capacity, the result of low industrialization; its lack of financial resources; and its lack of a national strategy on AGOA.

The Lack of Supply Capacity

A low rate of industrialization and an associated lack of supply are among the primary reasons why Ghana was unable to meet the demand of the U.S. market. Ghanaian firms were not able to make the necessary adjustments—upgrading equipment, expansion, retooling production processes—that were necessary for them to meet the demands of U.S. market. Many lacked the machinery to add value or bring output up to acceptable standards for exporting. With limited cash reserves, firms had to wait for importers to receive/accept products and then pay, which resulted in irregular production and difficulties dealing with contractors and labor force. Many Ghanaian firms quickly lost contracts from U.S. businesses. Today, few firms process products for export to the American market.

The Lack of Financing

One of the main constraints on Ghana vis-à-vis AGOA has been a relative inability to finance investments for industrial production. Although the government established a fund—the Ghana Export Development and Investment Fund (EDIF)—its effectiveness has been limited. EDIF was established in October 2000 to provide financial resources for the development and promotion of Ghana's export trade. EDIF was widely advertised as part of the national AGOA sensitization process, and would-be exporters were educated about EDIF and encouraged to access either its grant or credit components. Though EDIF's credit component had the lowest interest rate among commercial banks rates in Ghana, access of the fund has been very low. Evidence shows that the modus operandi for accessing EDIF—through designated commercial banks in Ghana—had produced a conflict of interest for these banks. Those commercial banks that were mandated to administer EDIF appeared to be more interested in selling their own loan programs to exporters than that of EDIF. Applicants for EDIF were therefore subjected to strategic administrative delay tactics to the point where these exporters simply gave up in despair. The temporary nature of AGOA has also been cited as hindering many firms and exporters from taking the risk to borrow non-EDIF loans because many do not think that it is possible to both pay back loans and recoup their initial investment within the time frame of AGOA.

The Lack of a National Strategic Plan for Benefiting from AGOA

Ghana has lacked a clear-cut AGOA implementation strategy to maximize the act's benefits for national development. Implementation has been carried out in an ad hoc manner, with no reference to national development targets. The transient government arrangement that has characterized the institutionalization of AGOA has been due to the lack of a national strategic plan. The National Development Planning Commission, which is responsible for setting national goals, objectives and targets, has not been up to the task of incorporating the AGOA program into the national development framework. This has been demonstrated by the lack of coordination between the relevant institutions involved in the export business.

Policy Recommendations

From the backdrop of Ghana's experiences and challenges under AGOA, the following policy recommendations are advanced to both the Ghanaian and U.S. governments.

Policy Prescriptions for the Government of Ghana

These policy prescriptions for the government of Ghana follow from the problems identified above:

- Develop a national implementation strategy for AGOA that establishes targets for national development.
- Invest in intensive industrialization with revenues from Ghana's oil production and exporting. The country's newly discovered oil resources should be utilized to diversify and increase manufacturing capacity in other sectors of the economy.
- Review existing arrangements for EDIF. Its inaccessibility could be eliminated by establishing a separate Bank for Export Development, which could be decentralized by setting up regional branches.
- Continue to collaborate with other countries to intensify regional integration in order to protect and increase Africa's shared trade interests.

Policy Proposals for the U.S. Government

Proposals for the U.S. government also follow from the identified problems:

- Readdress the temporary nature of AGOA. A longer time horizon would give governments the incentive to integrate AGOA into their national development planning.
- Improve the communication of new U.S. customs laws and do more training of U.S. customs officers on AGOA to eliminate the hindrances faced by African exporters at U.S. ports.
- Create more intermediary and technical supports—more trade hub offices.
- AGOA's bias toward energy-related products should be addressed by adjusting it to require a certain a percentage of agricultural products. This will

encourage the development of a more systematic industrialization strategy for Ghana and other nations, and AGOA thus could begin to play the important role of generating and strengthening productive interactions between agriculture (the foundation of Ghana's economy) and the rest of the economy.

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Beyond AGOA: Frontiers for a New Pact with Sub-Saharan Africa

*Mukhisa Kituyi**

As the sunset phase of the African Growth and Opportunity Act approaches, the fashioning of future economic arrangements between the U.S. and Sub-Saharan Africa (SSA) can gain substantially from an approach that seeks to take stock of the gains made under AGOA. The U.S. Congress should address identified weaknesses in the architecture and implementation of the legislation in order to meet the challenges of the new epoch we have entered internationally. This may be a uniquely convenient time to construct a new pact that will shape and galvanize the joint efforts and mutual benefit of the peoples of the U.S. and SSA.

The Limits of a Preferential Trade Arrangement

The initial assumption behind AGOA was that preferential market access would spur greater export of goods eligible that SSA countries were already producing. This may have held true for oil and gas producers in Nigeria and Angola, and automobile manufacturers in South Africa. Oil, gas and automobiles from these three countries account for more than 90 percent of the SSA countries' total exports to the U.S.[1] For virtually all other countries, however, AGOA's failure to spur increased exports underlines the challenge of making unilateral market access a tool for Africa's sustainable development.

Some of the heretofore unmet challenges for unlocking Africa's export potential can be addressed by making adjustments to AGOA. These improvements were very much part of the AGOA reform and extension agenda promoted in 2005, and are reemerging in the debate about extending AGOA beyond 2015. These suggestions include:

- Having a longer time horizon to ensure that investors can recoup their investments before the preferences are lifted and to allow for longer-term investor confidence.
- Expanding the list of tradable products to include sugar, tobacco, beef and dairy products, where some SSA countries are competitive producers.
- Creating a longer and more predictable time frame for the use of third-country fabrics for apparel manufacturers.
- Simplifying compliance requirements; assisting the meeting of standards, including the SPS requirements, for market access; and accrediting regional certification agencies for compliance.
- Fashioning a basket of incentives for enhanced flows of foreign direct investment to SSA for AGOA-related investments.
- These measures are necessary to consolidate the gains made thus far under AGOA. Yet many of SSA's challenges cannot be

remedied by a law designed primarily to offer a time-bound preferential market access for a limited basket of products. The drift toward greater global liberalization, with its attendant leveling of the playing field, calls for more innovations to strengthen the weak players in international trade. The story of African textile and apparel exports is a good example.

The textile and apparel sector witnessed the most spectacular growth in the early years of AGOA. Starting from $355 million in 2001, the sector topped off at $1.6 billion in exports in 2004, creating 300,000 direct jobs in SSA and many more indirect opportunities up the supply chain.[2] The expiration in 2005 of the waiver granted under the Multi Fibre Arrangement rudely interrupted this momentum, and exports had plummeted to $900 million by 2009. Scores of Chinese "container factories" shipped out of Africa and set up in Bangladesh, Cambodia and Vietnam, taking with them more than 100,000 jobs.[3]

The sector has recorded some recovery since then, with a 13.9 percent growth in volume between January 2010 and January 2011. Additionally, some countries had significant increases; for example, Kenya and South Africa showed jumps of 83.8 percent and 186.68 percent, respectively, in sales for January 2011.[4] However, the future is clouded in uncertainty. On the horizon are the expected expiration of the waiver on third-country fabrics in 2012 and the possibility of an AGOA-like trade preference grant for the Bangladesh and Cambodia apparel sectors. These combined measures will wipe out the remnants of Africa's third-most-successful export sector.

Understanding the conditions that make sustainable investment in the textile industry more attractive is important for unlocking the potential of this sector. Creating a predictable time frame, securing preferences from erosion and dealing with supply side constraints remain daunting tasks if the original promise of this sector will be realized beyond 2015.

Agriculture remains the key sector for addressing poverty in Africa. In spite of the doubling of the number of agricultural products exported into the U.S. market, Africa's share of U.S. agricultural imports has declined to 1 percent.[5] Unlocking the benefits of AGOA for the agricultural sector may require solving supply side challenges, more than focusing on market access.

Nonetheless, debate on critical areas, such as the role of U.S. domestic subsidies to cotton farmers that have effectively locked out West African producers, remains pertinent to any discussion on African trade. Including dairy products, tobacco, peanuts and sugar, which are currently excluded by tariff rate quotas, would double SSA agricultural exports under AGOA.

Overwhelmingly, the constraints on enhanced SSA exports to the U.S. are located on the supply side. Archaic customs procedures, erratic and uncoordinated transportation regulations, red tape in cross-border movement and other trade logistics nightmares demand solutions that go beyond the scope of AGOA's original framework. Consider that the margin of preference given to SSA under AGOA is 7.7 percent, and transportation logistics add up to 40 percent of the export cost of African merchandise.[6] The AGOA advantage is totally wiped out by transportation costs in the face of other exporters that pay up to 30 percent more duty to enter the U.S. market.

Access to low-cost credit and efficient financial sector operations to unlock the potential of small and medium-sized enterprises in SSA remains a key area of intervention for realizing the promise of AGOA. Similarly, unstable macroeconomic and governance conditions adversely affect the cost of doing business with many of the SSA countries.

Efforts Aimed at Dealing with Extraneous Challenges

The evolution of AGOA during the past decade has been accompanied by measures to mitigate these sets of challenges. Governance considerations in the eligibility criteria have to some extent contributed to disciplining corrupt and dictatorial regimes. However, entry point eligibility criteria remain without a system to monitor, enforce and sustain improvements in governance. Sanctions for declining governance standards in countries like Guinea, Madagascar and Niger have come belatedly after a total collapse in democratic governance.

The Millennium Challenge Corporation (MCC) has signed agreements with a number of countries whose governments have demonstrated improved attention to the concerns and aspirations of their people. This has substantially reinforced the pursuit of good governance. However, the impact of this initiative on enhancing AGOA-related challenges remains modest and difficult to measure because there is little coherence between the MCC and AGOA initiatives.

The African Global Competitiveness Initiative (AGCI), which is managed by USAID, has targeted trade-related infrastructure and capacity challenges in some landlocked countries with encouraging results. Although its operations have been restricted by the country-specific nature of the program, it points to and validates the critical role that addressing supply side constraints will play in building on the gains of AGOA.

The Challenges Going Forward

The key policy challenge before the U.S. government and its SSA partners is how to design a pact that nurtures the gains realized to date under AGOA but also goes beyond trade provisions to address the overarching impediments to Africa's development. For such a pact to evolve, the process of creating it is as important as the final product. The voices of experience from a decade of AGOA can inform the policy dialogue on what worked and why. Areas of success must be protected from an increasingly hostile international environment. Although AGOA remains an American law, a unilateral grant of market access, its successor will require a process of dialogue whereby goals are agreed to and the road map to attain them is affirmed between the parties to the agreement. A starting point may be the establishment of a task force by the U.S. government and its SSA partners involving top-level policymakers and enterprise and thought leaders from both the SSA nations and the U.S.

A fundamental consideration in any new pact is that it must focus the role of regional economic communities (RECs) in disciplining trade rules, reducing trade costs and prioritizing components of aid for trade. Experience shows that deeper regional integration is associated with a modernization of customs procedures, more simplified cross-border movement of commerce, greater adherence to standards and regulations, and generally a reduction in the cost of trade logistics.

Beyond reducing trading costs, RECs are emerging as a major force in the expansion of African production zones and enhanced investment areas. This presents a platform for dealing with fragmentation in SSA and expanding intra-Africa trade.
A new pact will require mechanisms that can sustain adherence to governance commitments and be enforced by peer pressure within the region. Building on the African Peer Review Mechanism of the New Partnership for Africa's Development would be a good starting point for this.

Although the U.S. has complemented AGOA with financing facilities like the MCC and the AGCI, a new platform should consider more coherence between these funds and the agreed-on goals of the partnership. If trade and economic partnerships are expected to gradually replace aid as the tool for addressing SSA's poverty, then development assistance may need to be made more consistent with the goals of strengthening private enterprise to build the economic infrastructure that SSA so strongly needs.

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