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The Free Trade Future of AGOA

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This week Washington will host the fifth Sub-Saharan Africa Trade and Economic Cooperation Forum, which will bring together governments and representatives of the private sector and civil society to discuss how the African Growth and Opportunity Act (AGOA) "can continue to be a vehicle to increase trade, investment and economic cooperation between the United States and sub-Saharan African eligible countries."[1] Economic growth and development in sub-Saharan Africa depends greatly on increasing the competitiveness of African businesses and entrepreneurs. AGOA contributes to that goal by providing duty-free access to the U.S. market for most imports from the region. However, trade preferences are not the best long-term solution. For sub-Saharan African countries to take full advantage of trade to spur growth and development, their governments must remove barriers to trade among themselves and should enter into a full free trade agreement with the U.S. This will take time to negotiate and implement. The U.S. should begin work *now* to transform AGOA into a free trade agreement by its expiration in 2015.

What is AGOA?

The purpose of the African Growth and Opportunity Act (AGOA) is to use preferential trade access to the U.S. market as a catalyst for economic growth in sub-Saharan Africa by encouraging governments to open their economies and build free markets. It amends the U.S. Generalized System of Preferences to grant duty-free treatment to specified products from eligible countries. Congress passed AGOA as part of the Trade and Development Act of 2000, and President Bill Clinton signed it into law May 18, 2000.[2] In August 2002, President George W. Bush signed amendments to AGOA that expanded preferential access for eligible sub-Saharan African counties.[3] Two years later, President Bush signed the AGOA Acceleration Act of 2004, which extended preferential access for imports from eligible sub-Saharan African countries until September 30, 2015, and extended and clarified textile-related provisions in the Act.[4] As the law now stands, nearly all imports from eligible countries in sub-Saharan Africa enter the U.S. duty-free through 2015.

AGOA's trade incentives are intended to draw African governments into improving their political and economic governance because sound policy in these areas is necessary for economic development and growth.[5]

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As a result, sub-Saharan African countries are not automatically eligible for AGOA benefits. Instead, the U.S. president must designate eligible countries based on their progress toward establishing market-based economies, representative government, strengthening the rule of law, combating corruption, eliminating barriers to U.S. trade and investment, protecting intellectual property, reducing poverty, expanding health care and educational opportunities, and adopting labor standards. A country does not have to make progress in all areas in order to qualify for AGOA benefits. Currently, 37 of the 48 countries in sub-Saharan Africa are eligible for AGOA benefits.[6]

AGOA has been successful in increasing trade between the U.S. and eligible countries. The U.S. was the region's single largest export market in 2005, and overall trade between the U.S. and Africa has increased sharply since AGOA was adopted. According to the U.S. Trade Representative,

> Since its inception in 2000, AGOA has helped increase U.S. two-way trade with sub-Saharan Africa by 115 percent. In 2005, U.S. total exports to sub-Saharan Africa rose 22 percent from 2004, to $10.3 billion. U.S. total imports from Africa increased by 40 percent to $50.3 billion. In 2005, over 98 percent of U.S. imports from AGOA-eligible countries entered the United States duty-free.[7]

While a large part of this increase is due to increased oil imports and higher oil prices, the legislation has also helped increase non-oil imports from AGOA-eligible countries since 2000. Although there was a decline in overall non-oil imports from AGOA-eligible countries from 2004 to 2005, many sectors saw substantial growth over that period, including chemicals, agricultural products, fruits, nuts, and flowers.[8] Since 2000, sub-Saharan Africa has experienced GDP growth of over 3 percent—far above the average of less than 1 percent in the 1980s and 1990s.[9]

The Next Steps

Full realization of the benefits of free trade for development requires a broad-based multilateral effort to remove tariff and non-tariff barriers among developed and developing countries alike. According to the World Bank,

> Freeing all merchandise trade and abolishing all trade-distorting agriculture subsidies would boost global welfare by $80-280 billion a year by 2015…. [R]esearch suggests that developing countries would obtain about one-third of the global gain from freeing all merchandise trade, well above their one-fifth share of global GDP.[10]

The best way to achieve this goal is through the Doha Round of the WTO. However, even a successful completion of the Doha Round would not bring about global free trade. Many barriers would remain, as the WTO's trade rules do not require duty-free trade and permit developing countries to maintain higher tariff barriers than developed nations. Indeed, the U.S. Department of State reports that "Seventy percent of tariffs paid by developing countries go to other developing countries."[11] This is particularly true of sub-Saharan Africa, one of the world's most protectionist regions.

The goal of AGOA is to integrate sub-Saharan African nations into the global economy through trade and economic liberalization. Trade preferences alone will not accomplish this. To achieve this goal, the United States should seek to transform AGOA into a true free trade agreement between the U.S. and sub-Saharan Africa. The U.S. should use AGOA preferences as a lever for trade liberalization in the region by legislating incremental steps that must be met to maintain AGOA eligibility over the next decade:

- **Require eligible countries to eliminate tariffs on essential medicines and medical equipment by 2007.** Few policies are as short-sighted and counterproductive as applying tariffs to imports of pharmaceuticals and essential medical supplies and equipment. According to the World Health Organization, a third of the world's population has insufficient access to essential medicines and medical treatment.[12] Although the WTO Pharmaceutical Agreement sets forth reciprocal elimination of import tariffs on thousands of pharmaceutical products, only about 15 percent of WTO member countries are party to the agreement.[13] "Access to medicines is lowest in poor countries, which also have the lowest life expectancy, high disease burdens, and relatively high tariffs," according to Roger Bate of the American Enterprise Institute and Richard Tren of Africa Fighting Malaria. "While the leaders of the poorest countries are happy to lobby for more aid and demand that pharmaceutical companies offer their drugs at reasonable costs, they routinely tax medicines until they are unaffordable.... [K]eeping high import tariffs hurt[s] the sickest and poorest citizens in poor nations."[14] Despite the clear need for the poor in sub-Saharan Africa to have access to essential medicines, their governments continue to drive up prices through tariffs and other taxes.

- **Require AGOA-eligible nations to eliminate all duties on imports from other eligible sub-Saharan African nations by 2010.** Trade between African countries faces many hurdles, including poor infrastructure, corruption, and informal barriers such as onerous regulations. However, many African countries continue to maintain tariff barriers to goods from their neighbors that increase prices for consumers. As a result, interregional trade makes up only about 10 percent of the area's total exports, significantly less than levels in every other region of the world except the Middle East.[15] According to Marian Tupy of the Cato Institute, "Strikingly, trade liberalization within SSA [sub-Saharan Africa] could increase intra-SSA trade by 54 percent and account for over 36 percent of all the welfare gains that SSA stands to receive as a result of global trade liberalization."[16] Many of the economic groupings in Africa do little to promote trade liberalization, such as Central African Economic and Monetary Community (CEMAC), or have undertaken few steps toward greater economic integration, such as the Economic Community of West African States (ECOWAS). Existing free trade groups within sub-Saharan Africa, such as the Southern African Customs Union (SACU) and the Common Market for Eastern and Southern Africa (COMESA), are fragmented across the region but could be a good base upon which to build a regional customs union that would eliminate tariffs on intraregional trade in the near future. This would serve to boost investment and the competitiveness of regional producers.

- **Require that eligible nations incrementally lower tariffs on U.S. imports beginning in 2010, with the target of eliminating tariffs on 95 percent of goods by 2015.** While almost all African countries have been reducing tariffs since the 1980s, the average unweighted tariff rate for sub-Saharan Africa is still a high 16.4 percent (16.2 percent for AGOA countries).[17] By comparison, the average unweighted tariff rate of the United States is 3.9 percent.[18] And the average rate conceals countries with higher or lower tariff levels. Nigeria, one of the largest AGOA economies, heavily protects its market from imports, setting average duty levels for agricultural and non-agricultural products at average applied tariffs of 50.2 percent and 25.3 percent respectively, and 29 percent overall.[19] As a result, Nigerian consumers and businesses spend more on everything from fruit and vegetables to electronics and machinery. Even South Africa, with one of the lowest average tariff rates at 5.8 percent, imposes high tariffs on various consumer and industrial goods.[20] Coupled with the significant and costly non-tariff barriers that exist in most AGOA countries, these rates keep the cost of imports artificially high and the benefits of access to a wide variety of foreign products low. Freer trade would enable more goods and services to reach consumers at lower prices, giving families more income to save or spend on other goods and services. Freer trade would create a level of competition that engenders innovation and job creation, the ability to diversify into new markets, and an improved investment climate. In the short run, eliminating tariffs on U.S. imports will have revenue implications and will require adjustments from African businesses. Thus, reduced tariffs should be phased in over a five-year period and facilitated by assistance for trade capacity building. The mechanisms for this are already in place, with the U.S. spending $199 million on such assistance in sub-Saharan Africa in 2005.[21]

Tariff and non-tariff barriers in developed countries pose a significant obstacle to developing country exports. While developed countries generally maintain relatively low average trade barriers, their highest trade barriers tend to apply to goods that developing countries export. The World Bank and Oxfam estimate that trade barriers erected by developed countries cost developing countries $100 billion a year.[22] Non-tariff barriers also pose significant problems. For instance, agricultural subsidies encourage production and put downward pressure on agricultural prices. Michael Moore, former Director-General of the World Trade Organization, estimated that removing all tariff and non-tariff barriers “could result in gains for developing countries in the order of $182 billion in the services sector, $162 billion in manufactures and $32 billion in agriculture.”[23] The U.S. has partially addressed these trade distortions through AGOA and should commit to eliminating all remaining tariffs on goods from eligible nations and unilaterally phasing out agricultural subsidies.

Conclusion

Congress and the administration are on the right track. AGOA offers economic opportunity to the region that will do far more to achieve long-term development than economic assistance. Despite hundreds of billions of dollars in development assistance, sub-Saharan Africa remains little better off than it was decades ago. The bulk of evidence shows that while there may be a role for assistance and donor nations, the key to development lies in the hands of the governments of developing countries. They must remove obstacles to development by adopting policies that bolster economic freedom, good governance, and the rule of law—policies that are the key to economic growth and development with or without foreign assistance. AGOA encourages these policies by making its benefits contingent on progress towards them.

However, the benefits of AGOA are limited. The U.S. continues to undermine the competitiveness of African entrepreneurs with domestic subsidies and other tariff and non-tariff barriers, and African governments rob their people of the full benefits of trade by maintaining trade barriers to imports from other African nations and from the U.S. U.S. policymakers should take advantage of the next ten years of AGOA to use the its preferential trade access as a lever to lower trade barriers on essential medicines and supplies from abroad, spur the establishment of a region-wide customs arrangement, and transform AGOA into a free trade agreement between the U.S. and sub-Saharan Africa.

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[1] "United States – Africa Trade and Economic Corporation Forum," Site hosted by the U.S. Department of Commerce, at http://www.agoa.gov/agoa_forum/AGOA%20Forum%202006%20Announcement.pdf.
[2] "Summary of AGOA I," Site hosted by the U.S. Department of Commerce, at http://www.agoa.gov/agoa_legislation/agoa_legislation.html.
[3] "Summary of Amendments to AGOA -- AGOA II," Site hosted by the U.S. Department of Commerce, at http://www.agoa.gov/agoa_legislation/agoa_legislation2.html.
[4] "President Bush Signs African Growth and Opportunity Act," The White House, Office of the Press Secretary, July 13, 2004, at http://www.whitehouse.gov/news/releases/2004/07/20040713-3.html; and "Summary of AGOA Acceleration Act of 2004 -- AGOA III," Site hosted by the U.S. Department of Commerce, at http://www.agoa.gov/agoa_legislation/agoa_legislation3.html.
[5] For a discussion, see Brett D. Schaefer, "How Economic Freedom Is Central to Development in Sub-Saharan Africa," Heritage Lecture #922, February 3, 2006, at http://www.heritage.org/Research/TradeandForeignAid/hl922.cfm.
[6] Countries currently eligible for AGOA benefits are: Angola; Benin; Botswana; Burkina Faso; Burundi; Cameroon; Cape Verde; Chad; Republic of Congo; Democratic Republic of Congo; Djibouti; Ethiopia; Gabon; The Gambia; Ghana; Guinea; Guinea-Bissau; Kenya; Lesotho; Madagascar; Malawi; Mali; Mauritius; Mozambique; Namibia; Niger; Nigeria; Rwanda; Sao Tome and Principe; Senegal; Seychelles; Sierra Leone; South Africa; Swaziland; Tanzania; Uganda; Zambia. See "Proclamation by the President: To Take Certain Actions Under the African Growth and Opportunity Act, 2005," The White House, Office of the Press Secretary, December 22, 2005, at http://www.whitehouse.gov/news/releases/2005/12/20051222.html.
[7] "2006 Comprehensive Report on U.S. Trade and Investment Policy Toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act," Prepared by the Office of the United States Trade Representative, May 2006, p. 1, at http://www.ustr.gov/assets/Document_Library/Reports_Publications/2006/asset_upload_file236_9455.pdf.
[8] "2006 Comprehensive Report on U.S. Trade and Investment Policy Toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act," pp. 19-21.
[9] "2006 Comprehensive Report on U.S. Trade and Investment Policy Toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act," p. 16; and World Bank, World Development Indicators Online, at http://www.worldbank.org/data/onlinedatabases/onlinedatabases.html.
[10] "Chapter 4: Realizing the Development Promise of Trade," in World Bank, Global Monitoring Report 2005, pp. 132–135.
[11] U.S. Department of State, "The U.S. Approach to International Development: Building on the Monterrey Consensus," p. 3.
[12] World Health Organization, *The World Medicines Situation*, (Geneva: World Health Organization, 2004), p. 63.
[13] See …, p.6, at http://www.aei-brookings.org/admin/authorpdfs/page.php?id=1136.
[14] Roger Bate and Richard Tren, "The WTO and Access to Essential Medicines: Recent Agreements, New Assignments," The American Enterprise Institute, February 16, 2006, pp. 1, 4, at http://www.aei.org/publications/pubID.23900,filter.all/pub_detail.asp.
[15] Statistics are for 2004. Share of interregional trade in the area's total merchandise exports for North America was 56 percent; 23.3 percent for South and Central America; 73.8 percent for Europe; 20.7 percent for the Commonwealth of Independent States; 50.3 percent for Asia; and 5.6 percent for the Middle East. World Trade Organization, *International Trade Statistics: 2005*, p.40, at http://www.wto.int/english/res_e/statis_e/its2005_e/its05_byregion_e.htm.
[16] Marian L. Tupy, "Trade Liberalization and Poverty Reduction in Sub-Saharan Africa," Cato Institute, December 6, 2005, Executive Summary, at http://www.cato.org/pubs/pas/pa557.pdf.
[17] Figures are for 2002. All tariff rates are based on unweighted averages for all goods in ad valorem rates, or applied rates, or MFN rates whichever data are available in a longer period. World Bank, Trends in Average Tariff Rates for Developing and Industrial Countries, 1981-2003, at http://siteresources.worldbank.org/INTRANETTRADE/Resources/tar2002.xls.
[18] World Bank, Trends in Average Tariff Rates for Developing and Industrial Countries, 1981-2003, at http://siteresources.worldbank.org/INTRANETTRADE/Resources/tar2002.xls.
[19] World Trade Organization, Trade Policy Review: Nigeria, at http://www.wto.org/english/tratop_e/tpr_e/tp247_e.htm.
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[21] "2006 Comprehensive Report on U.S. Trade and Investment Policy Toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act," p. 1.
[22] Collier and Dollar, Globalization, Growth, and Poverty, p. 9; Oxfam, "Rigged Rules and Double Standards: Trade, Globalisation, and the Fight Against Poverty," May 15, 2001.
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