

# WebMemo



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## Economic Freedom and the African Growth and Opportunity Act (AGOA)

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The African Growth and Opportunity Act (AGOA), which has enhanced U.S.-African trade and investment relations since its inception in 2000, will have its seventh annual forum in Washington, D.C., July 14–16. Under the theme of “Mobilizing Private Investment for Trade and Growth,” a focal point for this year’s AGOA forum is to discuss ways of “creating a business climate that will encourage private investment and help mobilize capital to finance investment.”<sup>1</sup>

By granting trade preferences—such as quota and duty-free access to the U.S. market for most of the products from AGOA-eligible countries—AGOA has contributed to creating more job opportunities for workers. Additionally, these preferences have empowered African producers with stronger incentives to export their products to the global marketplace, particularly the U.S. market. Despite considerable progress, however, the local entrepreneurs are not fully equipped to enjoy maximum benefits from AGOA. According to the recent 2008 annual report on AGOA, submitted to Congress by the Office of the United States Trade Representative, “AGOAs continued successes will require intensified efforts to promote greater diversification and competitiveness of AGOA trade.”<sup>2</sup>

There may be no distinct formula through which to guarantee AGOA’s continuing successes while maximizing its eligible economies’ greatest trade potential. However, as a fundamental linking element between economic opportunity and lasting

prosperity, economic freedom is indispensable in amplifying and cascading the benefits of AGOA throughout African society.

**Enhancing Economic Development through AGOA.** AGOA, which aims to provide “tangible incentives for African countries to continue their efforts to open their economies and build free markets,”<sup>3</sup> has been the cornerstone of America’s trade and investment policy with sub-Saharan Africa. By encouraging trade and investment, AGOA has helped African nations take advantage of opportunities to improve growth by integration into the global economy.

Through AGOA, many African goods receive zero-tariff access to the U.S. market. In response to these lower costs, two-way trade between the U.S. and Africa has grown by over 170 percent since the introduction of AGOA in 2000, including an increase of more than 90 percent in non-oil/gas trade.<sup>4</sup>

Seizing the act as a powerful anti-poverty tool, the U.S. has also facilitated AGOA programs expanding entrepreneurial partnership with Africa. Trade and investment flows dwarf official development assistance. For example, in 2007, U.S. trade

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and investment with AGOA-eligible countries totaled more than \$80 billion. In comparison, combined development assistance to these countries from all donors that year was approximately \$40 billion.<sup>5</sup> Trade and investment have been proven to be more effective at promoting economic growth because they directly contribute to private-sector development. In this manner, trade efficiently spurs economic growth, increases entrepreneurial opportunities, and creates new and better paying jobs.

**Trade Alone Is Not Enough.** The last eight years of AGOA have brought tangible benefits to Africa. According to the World Bank, sub-Saharan Africa has achieved its highest rate of economic growth in more than three decades.<sup>6</sup> In its recent assessment, the International Monetary Fund also noted that many sub-Saharan countries benefited from improved terms of trade as well as policies designed to enhance macroeconomic stability.<sup>7</sup>

Although important, integration into the global economy via open trade and investment is but one dimension economic development. Africa still accounts for around 60–70 percent of the world's poor, in spite of the fact that Africa represents about 10 percent of the world's population.<sup>8</sup> To further facilitate Africa's economic development,

therefore, it is critical for African nations to look beyond trade and to strengthen their institutional framework.

**A Foundation of Economic Freedom.** Economic freedom is about empowering people. Greater economic freedom tends to generate more opportunities for people and creates lasting prosperity. By reducing barriers to economic activities, economic freedom forges a framework through which people can fulfill their dreams of success. Such assertions are substantiated by the data found in the *Index of Economic Freedom*, an annual study of economic freedom around the world by The Heritage Foundation and *The Wall Street Journal*. Identifying strong interconnectivity between the 10 key ingredients of economic freedom—which include openness to the global commerce, transparency, and the rule of law—the *Index* measures a country's degree of economic freedom between 0 and 100, scores that reflect the ability of ordinary citizens to make economic decisions on their own.

Empirical findings of the *Index* reveal that there is a strong positive relationship between the level of a nation's economic freedom and the prosperity its people. Incomes per head in the top 20 percent freest economies are more than double those in the next fifth and about seven times those

1. U.S. Department of Commerce, International Trade Administration, AGOA News, Seventh AGOA Forum, at [http://www.agoa.gov/agoa\\_forum/agoa\\_forum7.html](http://www.agoa.gov/agoa_forum/agoa_forum7.html) (July 14, 2008).
2. Office of the United States Trade Representative, *2008 Comprehensive Report on U.S. Trade and Investment Policy Toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act (AGOA)*, May, 2008, at [http://www.ustr.gov/assets/Trade\\_Development/Preference\\_Programs/AGOA/asset\\_upload\\_file203\\_14905.pdf](http://www.ustr.gov/assets/Trade_Development/Preference_Programs/AGOA/asset_upload_file203_14905.pdf) (July 14, 2008).
3. U.S. Department of Commerce, International Trade Administration, *About AGOA, African Growth and Opportunity Act (AGOA)*, at <http://www.agoa.gov/index.html> (July 14, 2008).
4. U.S. Department of Commerce, International Trade Administration, Office of Trade and Industry Information (OTII), Manufacturing and Services, *TradeStats Express Home*, at <http://tse.export.gov/ITAHome.aspx?UniqueURL=42jf4a45jgkkaulddgjz245-2008-2-13-15-54-5> (July 14, 2008).
5. Danielle Langton, "U.S. Trade and Investment Relationship with Sub-Saharan Africa: The African Growth and Opportunity Act and Beyond," *Congressional Research Service*, updated September 12, 2007, at <http://italy.usembassy.gov/pdf/other/RL31772.pdf>; Organization for Economic Cooperation and Development, "Development Database on Aid from DAC Members: DAC online."
6. The World Bank, *Global Economic Prospects 2008*.
7. The International Monetary Fund, "Regional Economic Outlook: Sub-Saharan Africa," at <http://www.imf.org/external/pubs/ft/reo/2008/AFR/eng/sreo0408.htm> (July 14, 2008).
8. Xavier Sala-i-Martin, "The World Distribution of Income: Falling Poverty and ... Convergence Period," *Quarterly Journal of Economics*, Vol. 121, No. 2 (May 2006), pp. 351–397, at <http://www.columbia.edu/~xs23/papers/pdfs/qjec.2006.121.2.pdf> (July 14, 2008).

at the bottom quintile. Economies with higher levels of economic freedom also have lower unemployment and inflation rates.

More importantly, there is another noticeable dimension to the relationship between economic freedom and prosperity: the evolution of economic freedom and standard of living over time. Measured by 10-year compound averages, countries' improvements in their Index scores and their growth rates of real per capita GDP are positively related to each other. In other words, countries moving toward greater economic freedom tend to achieve higher growth rates of per capita GDP over time.<sup>9</sup>

The AGOA eligible countries, as a group, have moved toward increased economic freedom over the past decade, with the average country's economic freedom score improving about 5 percent.<sup>10</sup> However, this progress has stagnated in recent years. According to the 2008 Index, only six countries (Mauritius, Botswana, Uganda, South Africa, Madagascar, and Namibia) stand in the "free," "mostly free," and "moderately free" groups, while about half the world's "mostly unfree" economies and nine of the "repressed" economies are in Africa.<sup>11</sup> Property rights, freedom from corruption, and investment freedom are three areas that require the most reform efforts.

**What the U.S. Can Do.** Embracing international competition by integrating African countries into the global trade network will help many of the AGOA-eligible countries facilitate their transformation into freer economies. However, broader institutional reforms—such as combating against corruption and increasing transparency—need to be realized in order to achieve lasting eco-

nomics development. In order to spark Africa's long anticipated economic rejuvenation, the gains realized through participation in AGOA must be complimented by an increase in economic freedom rather than transitory outcomes.

Therefore, the U.S. must engage at the practical level in a way that encourages the AGOA eligible countries to pursue greater economic freedom. The U.S. cannot furnish these nations with the political will that is critically needed for such transformation, but by demonstrating serious, sustained interest in AGOA, the U.S. can ensure that its advice and concerns are taken into account. For example, the U.S. can:

- **Intensify** U.S. Trade Representative involvement in the AGOA economic ministries and associated forums;
- **Expand** the current Trade and Investment Framework Arrangement (TIFA) with some of the individual AGOA-eligible countries to all AGOA nations;
- **Continue** to look for bilateral economic consultations through the MCC and the USAID; and
- **Consider** transforming AGOA into a free trade agreement by its expiration in 2015.<sup>12</sup>

**Economic Freedom: A Proven Pathway to Lasting Prosperity.** A great deal more can be achieved through AGOA in the coming years, and it is in America's interest to play a leading role in helping African nations take the steps necessary to improve economic growth and development.

Improving and maintaining economic freedom has proven to be a reliable way to generate positive cycles of economic growth and enduring prosperity. America should encourage AGOA eligible countries

9. For more information on, please see Anthony B. Kim, the Heritage Foundation, "Economic Freedom Underpins Human Rights and Democratic Governance," *WebMemo* No. 1861, March 18, 2008, at [http://www.heritage.org/Research/TradeandForeignAid/upload/wm\\_1861.pdf](http://www.heritage.org/Research/TradeandForeignAid/upload/wm_1861.pdf).

10. Among 40 AGOA eligible countries as of July 2008, only those countries whose economic freedom the *Index of Economic Freedom* rates are considered.

11. Kim R. Holmes, Edwin J. Feulner, and Mary Anastasia O'Grady, 2008 *Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2008); *Economic Freedom in Five Regions, Sub-Saharan Africa*, at [http://www.heritage.org/research/features/index/chapters/pdf/index2007\\_RegionE\\_Sub-Saharan%20Africa.pdf](http://www.heritage.org/research/features/index/chapters/pdf/index2007_RegionE_Sub-Saharan%20Africa.pdf).

12. For more information, please see Brett D. Schaefer and Daniella Markheim, The Heritage Foundation, "The Free Trade Future of AGOA," *Webmemo* No. 1108, at [http://www.heritage.org/Research/Africa/upload/98169\\_2.pdf](http://www.heritage.org/Research/Africa/upload/98169_2.pdf).

to adopt policies that support such progress and reinvigorate U.S. economic and business partnerships by reaffirming its vision of economic freedom and lasting prosperity in Africa.

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