

# WebMemo



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## African Growth and Opportunity Act Forum at 10: Reaffirm Economic Freedom

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The African Growth and Opportunity Act (AGOA) Forum, more formally known as U.S.-Sub-Saharan African Trade and Economic Cooperation Forum, commemorates its 10-year milestone in Zambia on June 9–10. The forum is at its critical juncture as Africa's place in the world has been rapidly changing. Despite some setbacks caused by political turmoil in some countries in the region, sub-Saharan Africa's overall trade and investment environments have improved over the past decade, recognizing the benefits of free trade and the importance of advancing economic freedom.

With many of the region's 48 economies bouncing back from the recent global economic crisis faster than other economies in the world, sub-Saharan Africa is "increasingly viewed as an opportunity rather than a burden."<sup>1</sup> In this new and evolving economic reality in which some fear that American leadership in the region is weakening, Washington should seize the opportunity to reinforce its vision of economic freedom and prosperity in the region through the AGOA Forum.

**Going Global with Greater Economic Freedom.** Stories of sub-Saharan African economies are no longer just about natural-resource-driven growth or lingering political volatility. Recent years' economic reforms and improved policy environments in many countries in the region have made sub-Saharan Africa one of the notable regions in the world.

According to The Heritage Foundation's *Index of Economic Freedom*, an annual data-driven economic

policy analysis, sub-Saharan African economies, as a group, have gradually moved toward greater economic freedom over the past decade. The 2011 *Index* in particular shows more encouraging developments in the region.<sup>2</sup> With 28 countries in the region enhancing their economic freedom scores, sub-Saharan Africa is the most improved region in the 2011 *Index*.

Mauritius continues to be among the world's 20 freest economies, and five of the world's top 10 score gainers in the 2011 *Index*—Rwanda, Djibouti, Seychelles, Guinea-Bissau, and Cape Verde—belong to the region. Trade facilitation and other regulatory reforms have strongly contributed to advancing economic freedom in these countries, enhancing competitiveness and the general entrepreneurial environment.

It is not coincidental that overall poverty in Africa is also declining. Volumes of economic research have shown that the entrepreneurship encouraged by greater economic freedom leads to innovation, economic expansion, and overall human development. According to a 2010 empirical study by two renowned scholars from Columbia University and the Massachusetts Institute of Technology, "African

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poverty is falling...much faster than you think!”<sup>3</sup> The study notes that, if right policies are adopted, “the lesson we draw is largely optimistic: even the most benighted parts of the poorest continent can set themselves firmly on the trend of limiting and even eradicating poverty within the space of a decade.”<sup>4</sup>

**Time to Move AGOA Beyond Preferential Trade.** With improved policy environment as well as the rich resource endowment, many economies in sub-Saharan Africa have become more attractive trading partners for the rest of the world.

For the United States, AGOA has been the backbone of its economic engagement with sub-Saharan Africa. The purpose of AGOA has been to use preferential trade access to the U.S. market to encourage governments in the region to open their economies and build free markets. Since its inception in 2000, AGOA has contributed to creating stronger incentives for African entrepreneurs to export their products to the global marketplace and take advantage of tangible opportunities to improve growth by trade.

Currently, 38 of the 48 countries in sub-Saharan Africa are eligible for AGOA benefits, and overall merchandise trade under AGOA expanded by over 280 percent to \$84.3 billion in 2010 from \$22 billion in 2000.<sup>5</sup>

As the law now stands, nearly all imports from AGOA-eligible countries in sub-Saharan Africa will enter the U.S. duty-free through 2015. But while AGOA has facilitated trade expansion and diversification for sub-Saharan African economies, there has been a growing acknowledgment that trade preference programs alone are not enough to promote

America’s more dynamic economic engagement with the region.

Equally notably, the benefits of AGOA are unfortunately limited. The U.S. continues to undermine the competitiveness of African entrepreneurs with its domestic subsidies and other tariff and non-tariff barriers. These protectionist policies severely undercut America’s credibility and trade leadership in the region.

As a result, while trade between Africa and the U.S. has expanded, trade among African countries has expanded even more rapidly, and the new partners are assuming the center stage of the region’s trade relationship. Overtaking the U.S., China has become Africa’s main trading partner, and emerging partners—including India, South Korea, and Brazil—account for around 40 percent of the continent’s merchandise trade, up from 23 percent a decade ago.<sup>6</sup>

**What the U.S. Should Do.** Secretary of State Hillary Clinton and U.S. Trade Representative Ron Kirk lead the U.S. delegation to this year’s two-day AGOA Forum. In the forum’s inaugural address 10 years ago, President George W. Bush underscored, “We have a unique opportunity to build ties of trade and trust that will improve the lives on both our continents, and we will seize this opportunity.”<sup>7</sup> Indeed, the United States should reinforce its vision for the next 10 years of AGOA to spur the establishment of a region-wide customs arrangement and eventually transform AGOA into a free trade agreement between the U.S. and sub-Saharan Africa.

To facilitate this process, the United States should encourage AGOA-eligible countries to pursue great-

1. William Wallis, Andrew England, and Katrina Manson, “Africa: Ripe for Reappraisal,” *Financial Times*, May 18, 2011, at <http://www.ft.com/intl/cms/s/0/2ab8b334-817c-11e0-9c83-00144feabdc0.html> (June 7, 2011).
2. Terry Miller and Kim R. Holmes, *2011 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones and Company, Inc., 2011), at <http://www.heritage.org/index>.
3. Maxim Pinkovskiy and Xavier Sala-i-Martin, “African Poverty Is Falling...Much Faster Than You Think!” June 17, 2010, at [http://www.columbia.edu/~xs23/papers/pdfs/Africa\\_Paper\\_VX3.2.pdf](http://www.columbia.edu/~xs23/papers/pdfs/Africa_Paper_VX3.2.pdf) (June 7, 2011).
4. *Ibid.*
5. See TradeStats Express, at <http://tse.export.gov/TSE/TSEReports.aspx?DATA=NTD> (June 8, 2011).
6. See African Economic Outlook, at <http://www.africaneconomicoutlook.org/en> (June 8, 2011).
7. *The Washington Post*, “President Bush on Terrorism and Trade,” transcript of President George W. Bush’s speech at the First U.S.-Sub-Saharan African Trade and Economic Cooperation Forum, October 29, 2001, at [http://www.washingtonpost.com/wp-srv/nation/specials/attacked/transcripts/bushtext\\_102901.html](http://www.washingtonpost.com/wp-srv/nation/specials/attacked/transcripts/bushtext_102901.html) (June 8, 2011).

er economic freedom. The U.S. cannot furnish these nations with the political will that is critically needed for such transformation, but by demonstrating serious, committed interest in freer trade and advancing AGOA into a greater future, the U.S. can ensure that its advice and concerns are taken into account.

**Recommitting to Economic Freedom.** There may be no distinct formula through which to guarantee AGOA's continuing successes while maximizing its eligible economies' greatest trade potential.

However, a focal point of this year's AGOA Forum should be about renewing America's leadership in the region and recommitting to economic freedom and cooperation, which is indispensable in amplifying and cascading the benefits of AGOA throughout African society.

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