

# ISSUE BRIEF

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## Time to Renew and Enhance the African Growth and Opportunity Act

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The African Growth and Opportunity Act (AGOA) is at a critical juncture for America's economic engagement with Africa. The current AGOA is set to expire on September 30, 2015. Although both Congress and the Obama Administration have repeatedly expressed their intention for a "seamless" renewal, they need to act quickly and decisively to ensure that uncertainty does not undermine the progress that has been made under AGOA.

Over the past 15 years, AGOA has enjoyed broad bipartisan support and helped to expand trade and investment with African nations, serving as the cornerstone of the ongoing U.S. economic partnership with the continent. Beyond merely renewing AGOA on a long-term basis, Congress should chart the course ahead and ensure that AGOA sets the stage for transforming its current arrangement as a trade preference program into a free trade agreement (FTA) between the U.S. and the region. Now is the time to revitalize and expand AGOA.

### **AGOA: Centerpiece of U.S. Engagement with Sub-Saharan Africa**

The purpose of AGOA has been 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 (GSP) to grant duty-free treatment to specified products from eligible countries.<sup>1</sup>

Congress passed AGOA as part of the Trade and Development Act of 2000, and President Bill Clinton signed it into law on May 18, 2000.<sup>2</sup> In August 2002, President George W. Bush signed amendments to AGOA that expanded preferential access for eligible sub-Saharan African countries.<sup>3</sup> 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.<sup>4</sup> As the law now stands, nearly all imports from eligible countries in sub-Saharan Africa enter the U.S. duty-free through that date.

As the backbone of the U.S.-African commercial relationship, AGOA provides duty-free access to the U.S. market for 6,400 products from 40 countries. Trade between Africa and the U.S. has more than tripled since AGOA's enactment in 2000, and U.S. direct investment in Africa has grown nearly sixfold. It is in the interest of the U.S. to proactively engage in emerging African markets to boost U.S.-Africa trade and investment. Additionally, AGOA has contributed to the creation of more than 1 million jobs in Sub-Saharan Africa and more than 100,000 American jobs.<sup>5</sup>

### **AGOA Deserves Concrete Action and Decisive Leadership**

Timely renewal of AGOA as well as establishing a strategic vision for building the trade preference program into a dynamic economic partnership

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with Africa is critical to maintaining and enhancing America's engagement with the region. If AGOA is not extended in a timely manner by September 2015, America's credibility in Africa would be severely diminished, not to mention the negative impacts on U.S.–Africa trade and investment relations.

The coming months will show whether President Barack Obama is willing to demonstrate a serious commitment to Africa and exhibit decisive leadership in fulfilling the promise of America's greater economic involvement with the region. So far, President Obama's policy record on Africa has been less than impressive.

During the 2014 U.S.–Africa Leaders Summit, the President made his case for upgrading America's trade with Africa by saying that “we can work with Congress to renew and modernize AGOA before it expires, renew it for the long term.”<sup>6</sup> Although the specific call for renewing AGOA was a positive sign, the President provided few specifics on AGOA modernization beyond extending the current framework.

The Africa of 2000, when AGOA was created, is very different than the Africa of today. While the region is not without significant challenges, “Africa rising” has become more than a powerful narrative. The continent boasts some of the fastest growing economies in the world. A new globally integrated

entrepreneurial class is emerging and driving reforms in many African countries. While Sub-Saharan Africa as a whole remains one of the lowest scoring regions in economic freedom in the *Index of Economic Freedom*, the region continues to register some of the most widespread gains.<sup>7</sup> Failing to recognize the changing economic reality on the ground in Africa by simply renewing AGOA would weaken long-term U.S.–Africa economic engagement.

### Renew and Upgrade AGOA

While AGOA has facilitated trade expansion, a trade preference arrangement does not maximize American engagement with the region. As Michael Froman stated in his first public speech after becoming the U.S. Trade Representative, “there is still more [the U.S.] can do to build on AGOA.”<sup>8</sup> Africa offers untapped opportunities and development potential, as evidenced by recent market research showing that investment interest by multinational corporations is “not just growing rapidly, but is also expanding beyond the traditional extractive industries to other fast-developing sectors in Africa.”<sup>9</sup>

Significantly, greater U.S. trade and investment engagement could greatly enhance this potential. A 2013 Brookings Institution study projects that

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1. According to AGOA, the President must designate eligible countries based on their progress in areas such as establishing market-based economies, representative government, strengthening the rule of law, combating corruption, eliminating barriers to U.S. trade and investment, safeguarding intellectual property, reducing poverty, expanding health care and educational opportunities, and protecting human rights. AGOA.info, “AGOA Country Eligibility,” <http://agoa.info/about-agoa/country-eligibility.html> (accessed February 25, 2015).
  2. U.S. Department of Commerce, International Trade Administration, “Summary of AGOA I,” <http://trade.gov/agoa/legislation/index.asp> (accessed February 25, 2015).
  3. U.S. Department of Commerce, International Trade Administration, “Summary of AGOA II,” <http://trade.gov/agoa/legislation/agoa2.asp> (accessed February 25, 2015).
  4. U.S. Department of Commerce, International Trade Administration, “Summary of AGOA III,” <http://trade.gov/agoa/legislation/agoa3.asp> (accessed February 25, 2015).
  5. News release, “Joint Statement on the U.S. Africa Leaders Summit and the 13th Annual AGOA Forum,” U.S. Senate, Committee on Finance, August 4, 2014, <http://www.finance.senate.gov/newsroom/chairman/release/?id=07609622-fdb0-4491-ac92-599e94088a1a> (accessed February 25, 2015).
  6. Barack Obama, “Remarks by the President at the U.S.–Africa Business Forum,” The White House, August 5, 2014, <http://www.whitehouse.gov/the-press-office/2014/08/05/remarks-president-us-africa-business-forum> (accessed February 25, 2015).
  7. Terry Miller and Anthony B. Kim, 2015 *Index of Economic Freedom* (Washington, DC: The Heritage Foundation and Dow Jones & Company, Inc., 2015), <http://www.heritage.org/index/>.
  8. Anthony B. Kim, “Time to Upgrade the African Growth and Opportunity Act,” The Daily Signal, June 27, 2013, <http://dailysignal.com/2013/06/27/time-to-upgrade-the-african-growth-and-opportunity-act/>.
  9. Jonathan Wakely, “More Good News for Foreign Investment in Africa,” Cov Africa, June 23, 2014, <http://www.covafrika.com/2014/06/more-good-news-for-foreign-investment-in-africa/> (accessed February 25, 2015).

African nations will realize significant economic benefits from regional integration and free trade.<sup>10</sup> Indeed, African regional economic blocs are setting the stage for greater regional bloc integration.<sup>11</sup> If AGOA is renewed, but remains solely a limited trade preference arrangement, the U.S. will fail to capitalize fully on Africa's progress toward economic integration and its growing consumer base.<sup>12</sup>

### What the U.S. Should Do

Instead of simply renewing AGOA, the U.S. should update and enhance it to encourage African economic integration and set the stage for eventual free trade between the U.S. and Africa. Specifically, the U.S. should:

- **Renew AGOA through at least 2025.** Failure to renew AGOA on a long-term basis risks discouraging investment and long-term trade contracts and undermining America's credibility as a reliable economic partner in the region.
  - **Reauthorize the Generalized System of Preferences.** On July 31, 2013, the Generalized System of Preferences, the U.S. trade program designed to promote trade in developing countries, expired without renewal for the eighth time in its 30-year history. Given the critical linkage between AGOA and the GSP and the substantial trade benefits arising from the arrangement, Congress should renew the GSP. Furthermore, Congress and the Administration should seize this unique opportunity to reform the program.<sup>13</sup> Reform can reorient the GSP toward
- **Revise rules of origin to levels corresponding with other trade agreements.** In the 2013 World Trade Organization (WTO) Bali Agreement on trade facilitation, U.S. negotiators made a commitment to make the rules of origin for least-developed countries "transparent and simple...contribut[ing] to facilitating market access." Encouragingly, the U.S. recently took the final step to implement the WTO Trade Facilitation Agreement. However, further lowering rules of origin to levels equal to other free trade agreements would encourage global production integration for GSP imports.<sup>14</sup>
  - **Incentivize AGOA-eligible countries to pursue greater economic freedom.** Congress should consider revising the AGOA eligibility requirements to include explicit entrepreneurial environment criteria, particularly in the policy areas of regulatory efficiency and open markets, which are addressed in the annual *Index of Economic Freedom*, a data-driven cross-country analysis.<sup>15</sup>
  - **Facilitate greater private-sector-to-private-sector engagement.** Thriving private sectors are the best source of inclusive and broad-based economic growth because they aggressively seek out opportunities for trade, investment, and partnership. The U.S. should leverage its existing network

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10. Simon Mevel et al., "The African Growth and Opportunity Act: An Empirical Analysis of the Possibilities Post-2015," Brookings Institution and U.N. Economic Commission for Africa, July 2013, <http://www.brookings.edu/~media/research/files/reports/2013/07/agoa%20beyond/130729%20agoa%202013webfinal.pdf> (accessed February 25, 2015).

11. Eleanor Seggie, "Intra-Africa Trade Is Growing, Slowly," Moneyweb, January 26, 2015, <http://www.moneyweb.co.za/moneyweb-mybusiness/intraafrica-trade-is-growing-slowly> (accessed February 25, 2015).

12. Patrick McGroarty, "African Consumer Spending Expected to Double by 2020," *The Wall Street Journal*, August 3, 2014, <http://blogs.wsj.com/frontiers/2014/08/03/african-consumer-spending-expected-to-double-by-2020/> (accessed February 25, 2015).

13. Ryan Olson, "The Generalized System of Preferences: Time to Renew and Reform the U.S. Trade Program," Heritage Foundation *Background* No. 2942, September 10, 2014, <http://www.heritage.org/research/reports/2014/09/the-generalized-system-of-preferences-time-to-renew-and-reform-the-us-trade-program>.

14. Working Group on Global Trade Preference Reform, "Open Markets for the Poorest Countries: Trade Preferences That Work," Center for Global Development, April 2010, [http://www.cgdev.org/sites/default/files/1423918\\_file\\_OpenMarkets\\_Final\\_0.pdf](http://www.cgdev.org/sites/default/files/1423918_file_OpenMarkets_Final_0.pdf) (accessed February 25, 2015).

15. Miller and Kim, 2015 *Index of Economic Freedom*.

of Trade and Investment Framework Agreements (TIFAs) to address private-sector issues. With the launch of the three regional Trade and Investment Hubs and an expanded Commerce Department presence, the TIFAs could be useful vehicles for bringing U.S. and African officials together to advance U.S. commercial interests on the continent.<sup>16</sup>

### **Aim High for Mutual Benefit**

Substantial bipartisan support continues for forging close relations with African countries and promoting economic growth, stability, and good governance. AGOA has helped to advance this goal, but trade preference legislation falls short of the full potential for an American economic partnership with the region. The Obama Administration and Congress should work together not only to renew

AGOA in a timely fashion, but also to upgrade it into an instrument that advances economic freedom in Africa and sets the stage for a free trade agreement between the U.S. and the continent.

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16. Witney Schneidman, "2015: A Pivotal Year for Obama's Africa Legacy," *The National Law Review*, January 6, 2015, <http://www.natlawreview.com/article/2015-pivotal-year-obama-s-africa-legacy> (accessed February 25, 2015).