

AGOA-NEXT

< By Rosa Whitaker >

The African Growth and Opportunity Act (AGOA) has turned three, and it is working. But how well and for how long?

As intended, sub-Saharan Africa's exports to the U.S. of clothing and some other manufactures are up dramatically. Tens of thousands of jobs have been created. The region has captured new investment as an export platform. Local entrepreneurs have been awakened to the possibilities of producing for the giant American market. A review of recent "policy intention documents" provided by countries to the International Monetary Fund (IMF) shows that AGOA has become an increasingly important complement of countries' plans to achieve growth and debt sustainability.

Still, the future is uncertain. A number of issues urgently need to be addressed if the promise and intent of AGOA are to continue being realized. The clothing and textile benefits must be protected and expanded. The life of the overall legislation must be extended beyond 2008. More needs to be done to help African countries diversify their exports and exploit the comparative advantage they ought to enjoy in agriculture.

Trade preferences cannot do the trick alone. Developed world tariffs are increasingly the least of the hurdles confronting African exporters. If African producers are to compete effectively in regional and global markets, more attention must be paid to reducing time and monetary costs of getting African products to market, and to developing the necessary human resources. Standards of all kinds—from pest control regulations to technical quality requirements—are becoming significant trade barriers.



Factory worker in Africa

AGOA's authors recognized that if African economies were to achieve sustained, poverty-reducing growth, they would have to move beyond reliance on one or two raw commodities to generate export revenues. A 1998 IMF study of countries qualifying for assistance under the

STEPS



Highly Indebted Poor Country (HIPC) program found that in case after case, countries fell into debt traps following the unexpected fall of a key commodity price.

Traditional aid was clearly not helping

African economies convert to value-added production for export. The debt these economies were incurring was not translating into effective export capacity. Needed: a quick way, based on easily transferable skills and technology, to get Africa off the

bottom link of the global value chain. Clothing and textiles had proved themselves the answer elsewhere. Why not in Africa?

AGOA guaranteed qualified African countries a duty-free share of U.S. clothing imports. The poorer countries were allowed to use low cost fabric sourced from the East, while richer ones had to use African or U.S. fabric. With Asian clothing producers ever vigilant for opportunities to access the U.S. market and U.S. retailers always on the prowl for low cost imports, the results have been quite impressive.

U.S. clothing imports under AGOA totaled 42 million square meter equivalents the first year the legislation was in effect. This represented just 17% "fill rate" of what AGOA countries could have shipped to the U.S. duty free under the law. In year two, shipments soared to 188 million sme, and a 60% fill rate. In year three, which ended on September 30 this year, shipments hit 264 million sme, worth \$1.4 billion. The fill rate went down to 36%, but only because the limit on duty free imports was higher.

There have been problems. U.S. Customs, to prevent countries like China from using AGOA to end-run import quotas, has interpreted the act's product definitions and rules of origin very narrowly, creating uncertainty as retailers draw up their global sourcing plans. It took longer than expected for many countries wanting clothing preferences to demonstrate they had required systems in place to prevent transshipment.

Nonetheless, if you look at U.S. imports from the 38 countries that are now members of the AGOA club, clothing is for the first time overtaking non-ferrous metals as the

second most valuable category after petroleum products. Can this last?

From October 1, 2004, as the law now stands, all AGOA beneficiaries will have to start using fabric sourced either from the U.S., locally or from other AGOA-qualified countries. Efforts are being made to ramp up regional production, but it is doubtful that supplies of the right quality and price will be available in time. Orders are already being cancelled as a result of this uncertainty. Others are threatened. The Asian firms who dominate the sector could well relocate. The garment business is mobile.

The expiration of the WTO agreement on clothing and textiles (ACT) means, in theory anyway, that WTO members will no longer be able to use quotas to control imports. As things now stand, from January 1, 2005, the U.S. will have to lift quantitative restrictions on imports from China. However, duties of around 18% will remain in effect.

So duty-free AGOA garments will retain some margin of preference, but a smaller one. Whether that margin will be enough to justify firms continuing to use Africa as a production platform is questionable given the huge volumes China will be able to ship. The issue may turn out to be moot if the U.S. finds other ways to control surging Chinese exports. Importers are waiting to see how this will play out, but some are already taking their business elsewhere.

The bottom line is heavy with ifs. If AGOA's least developed beneficiary countries can keep using third country fabric beyond next year, and if some alternative mechanism is put in place to curb post-ACT Chinese exports, and if AGOA as a whole is extended well beyond 2008, then there's a chance Africa's garment factories will survive long enough to be customers



Ship entering port

for African fabric spun from Africa yarn. In the meantime, it is essential that additional ways be found to promote Africa's economic diversification.

In broadening the range of products covered by the pre-existing Generalized System of Preferences, AGOA's authors hoped to do just that, but the results have been mixed. South Africa, an already diversified economy actively seeking to become even more so, has done well. Because of AGOA, BMW builds cars near Pretoria for the U.S. market. But South Africa has been the exception, not the rule.

Part of the answer may lie in providing tax incentives to U.S. firms to invest in African manufacturing, infrastructure development and services. This is advocated by the AGOA 3 Action Committee, launched in June by The Whitaker Group in conjunction with Jack Kemp, Carl Ware and other leaders in the business and non-governmental organization community. AGOA 3 updates and strengthens the original legislation. Tax incentives were also endorsed by the Commission on Capital Flows to Africa chaired by former Eximbank president and former Corporate Council on Africa Chairman

James Harmon. According to a study by the Institute for International Economics, it could increase U.S. foreign direct investment in Africa by \$1.6 billion over 2000 levels.

AGOA 3 could also help by changing the rules that bar agencies like the Overseas Private Investment Corporation and Eximbank from supporting investment in sectors, especially agriculture, seen as competitive threats in the U.S.

Whatever gets done to enhance AGOA, and as popular as the initiative is in Africa, the real prize for the region is a successful conclusion to the WTO's Doha negotiating round. The gains Africa stands to reap from the scaling back of rich country agriculture subsidies, and the phasing out of tariff schemes that penalize value-added, dwarf any conceivable yield from AGOA preferences. ☉

Rosa Whitaker, president and founder of The Whitaker Group, was the first Assistant U.S. Trade Representative for Africa, serving under Presidents Bill Clinton and George W. Bush. She played key roles in the passage and implementation of AGOA and is co-chairman of the AGOA 3 action committee.