The Future of the African Growth and Opportunity Act

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Fifteen years ago, when President Bill Clinton signed the landmark African Growth and Opportunity Act (AGOA) into law, the United States opened the door to a new way of engaging with Africa. The new trade initiative, which gave duty- and quota-free access to the $11 trillion US market for over 6,000 African products, represented an important paradigm shift in the relationship between the United States and Africa, from one based on charity and paternalism to one of respect and partnership. For the first time African leaders were at the table, working with members of the United States Congress on both sides of the aisle to craft a US policy initiative that gave African nations a powerful tool to seek sustainable, market-based solutions to the continent's seemingly intractable poverty.

It was followed, under the administration of President George W. Bush, by the creation in 2004 of the Millennium Challenge Corporation (MCC) and the President's Emergency Plan for AIDS Relief (PEPFAR). While the MCC and PEPFAR counted as development assistance, both rested on the premise that African input and ownership of programs funded by these initiatives were critical to their success and sustainability.

Today, with Congress considering the renewal of AGOA, it is a good time to reflect on what has been achieved, what lessons we have learned, and what can be done to improve the legislation so that it can better help Africa maintain its current growth trajectory and create a prosperity that is both broad-based and sustainable.

Since 2000, AGOA has been responsible for creating an estimated 1.3 million direct and indirect jobs in Africa, supporting about ten million people. Two-way trade between the United States and Africa has tripled since 2001 to $63 billion in 2013. While petroleum products accounted for an 86 percent share of that figure, AGOA non-oil exports to the United States were $4.9 billion in 2013, more than three times what they were in 2001.

Behind that $4.9 billion figure—more than $50 billion over the life of AGOA—is where the real story of African transformation is taking place, representing as it does the building blocks of Africa's road to sustainable prosperity—job creation, skills development, trade capacity-building, entrepreneurship, value addition to raw commodities, and economic diversification. Countries that previously were on the margins of the global economy have begun under AGOA to participate more actively. Across borders, AGOA is contributing to regional integration, albeit modestly, through the creation of regional value chains, particularly in the apparel sector.

There are, too, the knock-on benefits of deeper corporate engagement in Africa. In Lesotho, for example, screening and treatment for HIV/AIDS in factories producing clothing for America retailers saves almost 2,000 lives annually and ensures that those infected can continue to be healthy enough to work. Global commodities companies such as Cargill provide critical support for programs in cocoa and cotton-growing countries to train annually tens of thousands of farmers to adopt better, more sustainable agricultural practices to increase yields and incomes.

But AGOA has also made clear the serious constraints that are keeping so many Africans stalled in poverty. While 39 African nations are currently eligible for AGOA benefits, only a small number of non-oil producing beneficiaries are able to take advantage of the legislation, and the majority of those only in a limited way. The problems range from lack of infrastructure and inadequate energy, to poor business regulation and the balkanization of the African continent. But rather than being seen as insurmountable barriers, they should be understood as guides to ways in which the United States can use all the policy tools at its disposal—AGOA, MCC, public-private partnerships, development assistance, and financing and loan guarantee instruments—to tackle these problems.

We have also learned that creating incentives for Africa to develop export sectors is not enough. We also need to include incentives for the American private sector to invest in Africa. In spite of AGOA, China overtook the United States as Africa's top trading partner in 2009, and in 2013 China-Africa trade was worth almost $210 billion, more than three times the $63 billion in US-Africa trade for that year. In addition, China has responded decisively to Africa's $100 billion infrastructure deficit by becoming the continent's go-to partner for large energy and transportation projects, and Beijing has committed $1 trillion by 2025 in financing to Chinese companies doing business in Africa.

While it is certainly true that China's growing presence in Africa has much to do with its hunger for Africa's raw resources, it is also true that China clearly recognizes Africa's strategic and economic importance as it strives to become a global superpower. By 2030, Africa will be home to 25 percent of the world's population and by 2020, with its burgeoning middle class, it will comprise a $1.4 trillion a year consumer market. 60 percent of the world's uncultivated cropland is in Africa and the economist Paul Collier estimates that Africa is sitting atop $3.5 trillion in extractable minerals and other "sub-soil" wealth.

In spite of the African Leaders Summit held in Washington last August, it is not clear if either Washington or the private sector is fully cognizant of the challenge and the opportunity that Africa presents for our future global leadership. Since AGOA's passage in 2000, the United States has put together a patchwork of initiatives that complement legislation—Trade Africa and Power Africa, for example—but it has yet to devise a deep strategic plan that fully integrates Africa into our global policy vision.

Rather than being just one of a number of ad hoc initiatives, the AGOA of the future should be a central pillar of a multifaceted and integrated engagement between the United States and Africa where trade and investment are the principle drivers of development on the continent, where aid flows are leveraged to attract private investment, and where we work as allies on issues of global importance such as counterterrorism, counterfeit and illegal drugs, and illicit financial flows.

What enhancements need to be made to AGOA to ensure it remains a vital tool to realize these goals?

The first and most urgent step is for Congress to renew AGOA for a further 15 years, as requested by the Obama administration, and to renew it as soon as possible (rather than waiting until the September deadline). Experience has shown that delaying renewal of AGOA or key parts of it creates uncertainty among investors and US importers who rely upon predictability in their relationship with suppliers. This is particularly true of the apparel sector which plans production lines months in advance to ensure clothing is in stores for the next shopping season. Similarly, investors looking to invest in industries that benefit from AGOA are deterred from committing capital or including Africa in their long-term planning when they are uncertain of AGOA's future. Renewing the legislation for a full 15 years will go a long way to supporting investor confidence.

AGOA should also include incentives to encourage US business to invest in and source products from Africa. While China is America's biggest current competitor in Africa, the European Union, Brazil, and India are also beginning to overshadow US business on the continent. An enhanced AGOA should provide tax incentives to US companies for repatriation of profits made in Africa. This incentive should be tied to requirements that those businesses engage in practices that build capacity in Africa, such as employing local workers, undertaking skills development, sourcing inputs locally, and instituting capacity-building programs in local communities. A Development Tax Credit could be established for American companies sourcing manufactured goods from Africa with significant African content. Adding these tax incentives to AGOA would send an important signal to American business that investment in Africa is a priority, and it would also attract more investment from small and medium size American companies looking to expand overseas.

Such an incentive could be further supported by mobilizing private capital more efficiently by strengthening and streamlining the Overseas Private Investment Corporation (OPIC) which has returned profits to the United States Treasury for 35 consecutive years, and by strengthening the United States Export-Import Bank.

While AGOA's stated purpose is to encourage African exports to the United States, it is widely recognized that it is just as important for African countries to trade with each other. Thus far, AGOA has only modestly impacted intra-African trade and regional integration, which remains weak. The AGOA of the future could include provisions that expand the role of the United States trade hubs set up by the original legislation in Botswana, Ghana, and Kenya to enable them to work with African nations to strengthen regional integration and facilitate the faster passage of goods through border posts and on to ports.

In addition, Congress needs to revisit the way in which countries gain and retain their AGOA eligibility which depends on a country fulfilling a number of requirements governing progress towards a market economy, enforcement of the rule of law and systems to combat corruption, fair labor laws, and not undermining US national security. Thus far eligibility has been very unevenly applied, with oil-producing nations effectively getting a pass.

Losing eligibility is not only devastating to fragile economies which have used AGOA to step on to the first rung of the manufacturing and trade ladder, it also undermines regional integration. A case in point is Madagascar which lost its AGOA benefits following the military coup in 2009. Under AGOA, Madagascar exported over $200 million in apparel each year to the United States. Not only did the revocation result in massive layoffs, it also punished denim suppliers in Lesotho, cotton yarn suppliers in Zambia, and zipper manufacturers in Swaziland, thus undermining progress towards the kind of export clustering that has made southeast Asian apparel manufacturers so hypercompetitive.

While Madagascar has regained its AGOA eligibility, this year Swaziland's was revoked due to labor issues. With an unemployment rate close to 40 percent, Swaziland is now set to lose around 17,000 jobs in its apparel sector. Under the current AGOA, countries have no recourse to dispute a rejection or revocation of eligibility. This needs to change so that those affected can negotiate a way forward that preserves progress made under AGOA while the country works with US assistance towards ameliorating the problem.

Finally, the US government must provide more substantial funding for technical assistance and trade capacity building (TCB) in AGOA beneficiary countries. In 2012, the United States obligated about $94.6 million in TCB assistance, dramatically down from the previous five years during which TCB funding averaged over $600 million per year. Implicit in AGOA is the promise that the United States will share its unparalleled competencies with AGOA beneficiaries. We need to make good on this promise.

There is no question that over the past 15 years most parts of Africa have made remarkable economic progress and the continent has attained sustainable momentum towards greater prosperity. But far too many Africans still live in poverty, and by 2030 the United Nations estimates that the net addition to the working age population for sub-Saharan Africa will reach 21 million a year. If there are jobs for those workers and they have surplus cash to spend on imported goods, the benefits will accrue far beyond the continent. It is critical that the United States both works with Africa to make this outcome attainable and positions itself to be a major beneficiary of the outcome.