New Trade and Investment Framework Agreement Between the United States and the Common Market for Eastern and Southern Africa

Laurie-Ann Agama and Saba Zeleke[1]
lagama@usitc.gov
202-205-3220

The United States recently signed a Trade and Investment Framework Agreement with the Common Market for Eastern and Southern Africa–the first such agreement between the United States and a regional organization in sub-Saharan Africa. This article describes recent U.S.-COMESA trade and investment trends.

The Common Market for Eastern and Southern Africa (COMESA) is a regional grouping of twenty countries in eastern and southern Africa.[2] The COMESA forms one of the largest trading blocs in sub-Saharan Africa, with 380 million consumers and a combined gross domestic product (GDP) totaling over $175 billion in 2000.[3] On October 29, 2001, the United States concluded a Trade and Investment Framework Agreement (TIFA) with the COMESA–the first such agreement between the United States and a regional organization in sub-Saharan Africa. The TIFA establishes a formal mechanism for regular consultation on trade and investment issues between the United States and the COMESA region. The major goals of the United States in pursuing a TIFA with the COMESA is to develop and expand trade in goods and services; promote the adoption of appropriate measures to encourage and facilitate trade; and secure favorable conditions for long-term investment, development and diversification of trade.[4] The United States has existing TIFAs with three countries in sub-Saharan Africa–South Africa, Nigeria, and Ghana.[5] In the past, TIFAshave been precursors to the negotiation of free-trade agreements.[6]

Trade and Investment Trends

U.S. trade with the COMESA region is very small. The COMESA countries, as a group, constituted less than 1 percent of the world market for U.S. exports, and supplied less than 1 percent of total U.S. imports in 2000. The COMESA region ranked 29th as a destination for U.S. exports among all nations, ahead of Turkey, but behind Sweden. Similarly, as a group, the COMESA countries were the 33rd largest U.S. supplier among single-country suppliers, larger than Iraq, but smaller than Norway. Figure 1 shows U.S. exports to COMESA rose from $4.2 billion in 1996 to a high of $4.8 billion in 1997, before falling back to $4.2 billion in 2000. This trend followed a similar pattern for economic growth which gained strength in 2000 for the second consecutive year, following the global slowdown in 1998. Moreover, U.S. exports to the COMESA region in the first nine months of 2001 increased 20 percent, to a total of $3.8 billion. The largest increase in U.S. exports to COMESA was in chemicals and related products (168 percent) (table 1). On the import side, figure 1 shows U.S. imports from the COMESA region declined from $4.4 billion in 1996 to a low of $3.9 billion in 1998, before rising significantly

[1] Staff economist and intern, respectively, at the U.S. International Trade Commission. The views expressed in this article are those of the authors. They are not the views of the U.S. International Trade Commission (USITC) as a whole or of any individual Commissioner.

[2] The members of COMESA agreement are: Angola, Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia and Zimbabwe.

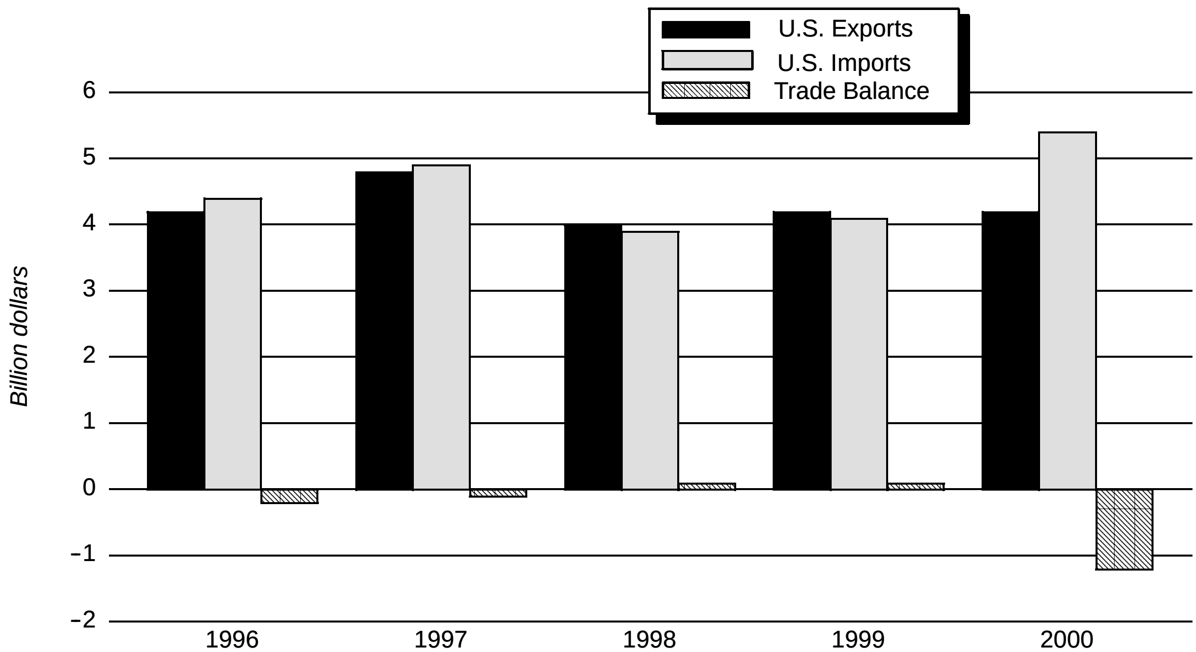
[3] USTR, “Remarks on the Signing of the U.S.-COMESA Trade and Investment Framework Agreement,” Oct. 29, 2001.

[4] USTR, “Agreement Between the Government of the United States of America and the Common Market For Eastern and Southern Africa Concerning the Development of Trade and Investment Relations,” Oct. 29, 2001.

[5] The U.S.-South Africa TIFA was signed on Feb. 18, 1999, the U.S.-Ghana TIFA on Feb. 26, 1999, and the U.S.-Nigeria TIFA was signed on Feb. 16, 2000.

[6] USTR, *U.S. Trade and Investment Policy Toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act,* May 2001.

Figure 1
U.S. Trade with COMESA, 1996-2000



Source: Compiled from official statistics of the U.S. Department of Commerce.

to $5.4 billion in 2000. These changes were the result of a measure implemented in 1997 that made crude oil imports from least-developed beneficiary countries under the U.S. Generalized System of Preferences (GSP) program. This change in GSP policy resulted in significant shifts in U.S. imports from sub-Saharan Africa, especially in terms of energy-related imports and total imports from Angola. In the first nine months of 2001, imports from COMESA totaled $4 billion, an increase of 2 percent compared to the same period in the previous year. This was mainly due to an increase in U.S. imports from the following five countries: Madagascar, up $118 million (117%) as a result of increases in sales of chemicals and related products, agricultural products, miscellaneous manufactures and textiles and apparel; Kenya, up $17 million (21%) because of increases in sales of chemicals and related products, textiles and apparel, and agricultural products; Namibia, up $12 million (54%) due to increased U.S. imports of minerals and metals, and energy-related products; Mauritius, up $11 million (5%) due to increased U.S. imports of special provisions, machinery, chemicals and related products, and miscellaneous manufactures; and Swaziland, up $10 million (29%) due to increased U.S. imports of machinery, miscellaneous manufactures, textiles and apparel, and electronic products. The U.S. trade balance with COMESA moved from a surplus during 1998-1999 to a deficit in 2000, reflecting the sharp increase in U.S. imports from the COMESA region (figure 1). This turnaround in the U.S. trade balance was due, in large part, to an increase in imports of oil and energy-related products. In the first nine months of 2001, the U.S. trade deficit narrowed considerably.

The top U.S. exports to COMESA in 2000 by 1-digit SITC commodity classification were machinery and transport equipment, food and live animals, miscellaneous manufactured articles, and chemicals and related products (table 1). The top five U.S. commodity exports to COMESA were aircraft and aircraft equipment, wheat and meslin, arms and ammunition, maize, and telecommunications equipment. The largest U.S. export markets within the COMESA region were Egypt (77.7 percent), Kenya (5.6 percent), Angola (5.3 percent), Ethiopia (3.9 percent), and Namibia (1.9 percent). With respect to imports, the major items imported from the COMESA region in 2000 by 1-digit SITC commodity classification were mineral fuels, lubricants and related materials, miscellaneous manufactured articles, manufactured goods classified chiefly by material, and food and live animals (table 1). The top four U.S. commodity imports from COMESA were crude and non-crude oil, coats and jackets, textiles and

Table 1
U.S. trade with COMESA, by 1-digit SITC commodities, 1996-2000

(Million dollars)

Exports

SITC	Item	1996	1997	1998	1999	2000	Jan.-Sept. 2000	Jan.-Sept. 2001	Change Jan.-Sept. 2000 over Jan.-Sept.2001
0	Food and live animals	1290	1010	988	1012	1192	878	765	-13%
1	Beverages and tobacco	49	53	77	119	20	19	2	-89%
2	Crude materials, inedible, except fuels	146	111	94	90	94	70	89	27%
3	Mineral fuels, lubricants and related materials	72	66	48	29	47	26	40	54%
4	Animal and vegetable oils, fats and waxes	74	85	81	77	68	51	32	-37%
5	Chemicals and related products, n.e.s.	198	230	213	200	226	149	399	168%
6	Manufactured goods classified chiefly by material	199	164	167	134	133	96	112	17%
7	Machinery and transport equipment	1526	2207	1749	1880	1826	1417	1823	29%
8	Miscellaneous manufactured articles	528	782	505	539	498	373	378	1%
9	Commodities & transactions not classified elsewhere	69	92	105	91	115	78	150	92%
	Total	4151	4800	4027	4171	4219	3157	3790	20%

Imports

SITC	Item	1996	1997	1998	1999	2000	Jan.-Sept. 2000	Jan.-Sept. 2001	Change Jan.-Sept. 2000 over Jan.-Sept.2001
0	Food and live animals	194	305	230	175	209	150	200	33%
1	Beverages and tobacco	69	104	30	62	55	40	33	-18%
2	Crude materials, inedible, except fuels	89	75	62	67	74	56	41	-27%
3	Mineral fuels, lubricants and related materials	3051	3171	2337	2574	3665	2651	2587	-2%
4	Animal and vegetable oils, fats and waxes	1	0	0	0	0	0	0	0%
5	Chemicals and related products, n.e.s.	80	159	68	26	34	17	66	288%
6	Manufactured goods classified chiefly by material	332	370	357	343	268	187	196	5%
7	Machinery and transport equipment	23	13	9	18	18	13	9	-31%
8	Miscellaneous manufactured articles	540	646	760	779	947	686	802	17%
9	Commodities & transactions not classified elsewhere	50	100	55	47	137	105	55	-48%
	Total	4429	4943	3908	4091	5407	3905	3989	2%

Source: Compiled from official statistics of the U.S. Department of Commerce.

apparel, and floor coverings. Angola was the largest supplier of U.S. imports from the COMESA region, with $3.3 billion in sales (mostly of oil) to the United States, representing 61.6 percent of U.S. imports from COMESA in 2000. Egypt ranked second, with $925 million in sales and a 17.1 percent share. Third was Mauritius, with $286 million in sales, representing a 5.3 percent share. U.S. imports from DROC totaled $212 million, and from Madagascar $158 million.

Figure 2 shows foreign direct investment (FDI) inflows from all countries into the COMESA region from 1995 to 2000. During this period, foreign direct investment[7] to COMESA fell from $1.8 billion in 1995 to $1.5 billion in 1996, rose sharply to a high of $4.9 billion in 1999, before declining slightly to $4.6 billion in 2000 (figure 2). This reflects the sharp drop in inflows to Angola from $2.5 billion in 1999 to only $1.8 billion in 2000, as investment inflows to Angola's petroleum industry took a pause from the dynamic development in previous years.[8] FDI inflows to the COMESA region were unevenly distributed. In 2000, Angola and Egypt (the major COMESA oil producing countries) together accounted for 66.3 percent of inflows, the next four countries (Sudan, Mauritius, Uganda and Zambia) received 27.3 percent, while the remaining countries in COMESA shared the 6.4 percent balance.

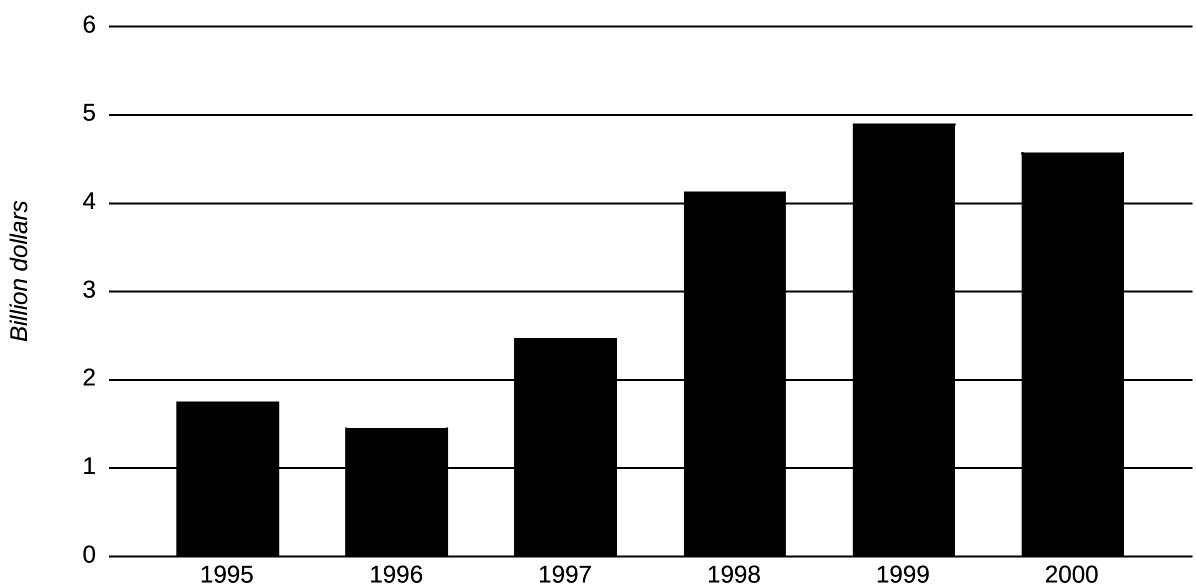
The COMESA countries hope that the recently signed TIFA will trigger significantly increased trade-related FDI inflows from the United States. There are also expectations that the African Growth and Opportunity Act (AGOA),[9] which improves market access for African exports on favorable terms, will increase the share of United States FDI going into the COMESA region.

[7] Foreign direct investment (FDI) is defined as an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy in an enterprise resident in an economy other than that of the foreign direct investor.

[8] United Nations, *World Investment Report,* 2001, p. 20.

[9] The following 13 COMESA countries are AGOA beneficiaries: Djibouti, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Swaziland, Uganda, and Zambia.

Figure 2
COMESA: Foreign Direct Investment Inflows, 1995-2000



Source: United Nations, *World Investment Report*, 2001.