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Over the course of its next three issues, CCA's *Africa Business Report* will present varying perspectives from Washington-based thought leaders who will share their visions for AGOA. These articles are appearing in advance of the Tenth AGOA Forum, which takes place in Lusaka, Zambia, on June 7-10.

This issue features articles by Witney Schneidman, President of Schneidman & Associates, who also served as Deputy Assistant Secretary of State for African Affairs in the Clinton administration, and Stephen Lande, who is President of Manchester Trade.

Our next issue will feature articles by Paul Ryberg and Rosa Whitaker.

What Next For AGOA?

Witney Schneidman

In 1995, a small group in Congress began to plot a new course in U.S.-African relations. The leaders of this group, Representatives Rangel, McDermott, Royce and their staffs, among others, had grown frustrated with the limited impact of aid and Africa's isolation from the global economy. Indeed, the 1980s had been a "lost" decade for the continent, and into the first half of the 1990s, the region experienced negative economic growth. In contrast, the countries of East Asia were growing at 8 percent and China was beginning its double digit economic take off.

It took Congress, with the support of the Clinton Administration, five years to pass the African Growth and Opportunity Act into law. Building on the Generalized System of Preferences, this truly innovative legislation allows nearly 6,500 products into the U.S. duty and quota free from 38 eligible countries. AGOA reoriented U.S. policy toward Africa from a welfare relationship to one that emphasized competitiveness, economic growth and job creation. The legislation was predicated, correctly, on the belief that trade, on a non-reciprocal basis, would be a sustainable stimulus to Africa's social and economic development.

Africa's Growth Trajectory

In the decade since AGOA went into effect, much has changed on the continent. The IMF forecasts that seven out of the ten fastest growing economies in the world over the next ten years will be in Sub-Saharan Africa. *The Economist* projects that over the next five years, the average African economy will outpace its Asian counterpart. There is now a consumer class in Africa that is larger than India's in terms of size and purchasing power.

China has overtaken the U.S. as Africa's largest trading partner and its two-way trade, as projected by Standard Bank, will triple to \$300 billion by 2015. The European Union has initiated or completed Economic Partnership Agreements (EPAs) with virtually every African country. These EPAs contain Most Favored Nation (MFN) clauses that give EU companies preferential access – to the disadvantage of American companies. India, Brazil and, of course, South Africa, have stepped up their commercial engagement throughout the region.

Challenges, nevertheless, remain and Africa continues to be the poorest region in the world. The Mo Ibrahim Index of African Governance for 2010 concluded that over the last five years there has been “impressive sustained economic progress and human development” which is “in contrast to the deterioration in national performance in security, rule of law, participation and rights.”

In short, competition in the African market is intensifying dramatically. It is likely to

strengthen further, especially as governments work to resolve issues related to the rule of law, transparency and accountability.

Obama and Africa

For the U.S. to remain competitive in Africa, the Obama administration needs to take several actions. The Commerce Department should not close its offices in Dakar, Accra and elsewhere; it should reprogram slots from more traditional markets. USAID should reprogram resources to revitalize the African Global Competitiveness Initiative (AGCI). This initiative, started by President Clinton, expanded by President Bush and terminated last September by USAID, has been vital to the increase in non-petroleum AGOA exports, which have grown from \$1 to \$4 billion since 2001.

American business also needs an administration advocate to advance U.S. commercial interests in the complex African market. Two former Commerce Secretaries, the late Ron Brown, and the current White House Chief of Staff, Bill Daley, were tireless in their support for American companies in Africa. Unfortunately, the last visit to Sub-Saharan Africa by a Commerce Secretary was in 2002.

A major part of this advocacy effort should be to increase U.S. exports to Africa. Last year, the U.S. exported \$17 billion of goods and services to the region, which supports about 100,000 jobs in the U.S. As African economies continue to expand, so should U.S. exports. Africa should be a visible part of the president's National Export Initiative.

Enhancing AGOA

The June 8-10 AGOA Forum, to be attended by Secretary of State Hillary Clinton and U.S. Trade Representative Ron Kirk, could be a turning point for AGOA. Hopefully, the administration will make an unequivocal statement in support of extending the third country fabric provision, now set to expire in 2012.

As for AGOA, set to end in 2015, Zambia's trade minister, Felix Mutati, made a compelling point during a recent Washington visit when he said that companies and governments want predictability, not permanence. To that end, the U.S. and its African partners should use the AGOA Forum to establish a mechanism, as advocated by Minister Mutati, which would identify goals to trigger the transition over time to a post-AGOA or, perhaps, a reciprocal free trade relationship.

In the near term, the U.S. should begin to phase in MFN agreements as a condition for extending AGOA benefits past 2015, especially with middle-income countries. Finally, as the Obama Administration revises the U.S. corporate tax code, it should drop to zero the tax on repatriated income from investments by U.S. companies in AGOA-eligible countries, outside the extractive sectors. Not only would this increase the return and lower the risk for American companies – who rarely consider doing business in Africa – it would contribute to accelerated economic development on the continent.

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The Future of AGOA

Stephen Lande

At the time of its inception, AGOA was the most expansive of any unilateral preference program introduced to promote economic development. The program was designed to jump start African production by creating unprecedented market access opportunities and putting to rest tariff escalation whereby processed and manufactured products paid higher duties than raw materials. It included all products, with the exception of a few, and liberal origin rules. Nonetheless, as measured in pure trade terms, AGOA has not succeeded as Africa's share of the non-petroleum U.S. market has actually declined. However, as measured by its impact on Africa's emergence as a full participant in the world economy, the program is a success.

While AGOA beneficiaries merit most of the credit through real reform and sound fiscal management, the U.S. should be rightly proud of the contribution of AGOA as well as MCC and USAID programs. These programs emphasized the importance for Africa to mainstream external trade and create an enabling climate for foreign investment. The Tenth AGOA Forum should celebrate the accomplishments of the program.

Yet, since its inception, other than some technical amendments, AGOA has not been modified. In that same space of time, much has changed. Africa's global position has been enhanced, the U.S. commercial presence is receding in comparison with

other third countries, and U.S. development assistance is being scaled back.

With this in mind, I suggest that the co-chairs of the Tenth AGOA Forum meeting in Lusaka, Zambia, June 8-10, launch and chair a task force to develop parameters for future U.S.-Africa economic relations. It is fortunate that the co-chairs are Secretary of State Hillary Clinton, who as a legislator and in her current position has been committed to developing a mature relationship with Africa, and whose husband developed the initial AGOA, and Zambian Trade Minister Felix Mutati who has been in the lead in identifying steps which both sides must take to realize the potential of AGOA. The African side should consist of representatives from the AU, the Regional Economic Communities (RECs), and some key countries. The U.S. side should include representatives from each of the agencies involved in designing and implementing the U.S. economic approach to the region as well as representatives of appropriate Congressional committees. Opportunities must be provided for input from the private sector and civil society. Joint background studies can be carried out by such groups as UNECA, the AfDB, Brooking and CSIS.

With the program set to expire in 2015, the timing could not be better. The ideas generated by the task force should be presented to the Eleventh Forum and form the basis for administration proposals to the 112th Congress, which will convene a few months after the Eleventh Forum. The 112th Congress must agree on a future AGOA, or to develop a new program – an Obama initiative. If not, with the program

scheduled to conclude the year after the 112th Congress ends, investor angst would occur with a negative impact on investment flows.

The task force should not only build on AGOA, but go beyond it. Below are five important themes for it to consider:

1. Revamping U.S. investment promotion programs to ensure that U.S. companies do not lose opportunities: U.S. policy should protect against third country governments supporting their national firms with more robust financing options. Also, rather than placing more onerous restrictions on its investors in such areas as corrupt practices, fossil fuel power generation, and environmental protection, the U.S. should work to expand existing OECD standards to cover China and India as well. Other steps should be taken to overcome unfounded impressions in U.S. corporate circles that African investment carries far greater risk than investment in other regions. Although there may be a marginal greater risk, the fact is that the returns on investment in Africa exceed 20 percent annually. For their part, African beneficiaries would be expected to maintain a level playing field and an enabling environment for U.S. investment. However, since nationals of other countries are investing in Africa under current conditions, it indicates that some of the problem is in the U.S.

2. Intensifying support of large regional groupings: Efforts should focus on the formation of large customs unions such as by ECOWAS and the Tripartite Group. Given the carving up of Africa into a multitude of countries, most too small to

attain economies of scale, world class production requires effective economic grouping. If U.S. firms requiring long production runs are to operate in such an environment, there must be unfettered movement of goods throughout the region, particularly by the elimination of border customs facilities among REC members. Imported goods should be taxed at the entry point into customs unions and then move freely across borders as is done in the EU and SADC.

3. Introducing more reciprocity and predictability into the process. The suggested joint task force should focus on agreeing on the type of future regime that sets out a clear roadmap for moving from a unilateral to more reciprocal program while providing predictability in the market access provided into the U.S.

4. Perfecting AGOA product coverage: Working with the 111th Congress, the Administration should end the exclusion of key African agricultural exports and renew and enhance third-country fabric provision allowing African assembled garments to enter the U.S. duty-free.

5. Enhancing the effectiveness of policies promoting democracy, good governance and enabling environment for investment: One should replace unilateral U.S. sanctions for AGOA eligibility with collective, targeted, and flexible actions. A good example of effective action is the recent collective approach to restoring democratic rule in the Cote d'Ivoire.

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