THE AFRICAN GROWTH AND OPPORTUNITY ACT (AGOA)

Background

The past few years have seen an unprecedented focus on efforts to increase U.S. trade and investment in Africa. On 18th May 2000, after a five-year battle in Congress, President Clinton signed into American law as Title 1 of the US Trade and Development Act a legislation called the Africa Growth and Opportunity Act (AGOA) that purports to make it easier to sell goods from sub-Saharan Africa and the Caribbean within the United States.

African countries have already been invited by the US government to express interest in their being designated eligible. A preliminary list of eligible countries completed so far named 34 countries. Ghana is included.

Nearly 2000 additional products from sub-Saharan Africa are expected to be eligible for AGOA benefits. This is in addition to the 4,650 products that have been eligible under the General Systems of Preferences (GSP), a system that the US generally employs to establish bilateral trade relations with other countries. The eligible product categories are textiles and apparel, animal and poultry products, arms and ammunition, aluminum and aluminum products, alcohol and non-alcohol beverages, ceramic products, cereals, cheese, chemical products, clock parts, cutlery, dairy products, dyes and coloring matter and eggs.

From a practical point of view, it is expected that out of this general range of products, textiles and apparel will be the first products with which African countries can begin to take advantage of AGOA. Textiles and apparel are one area of trade in which Asian countries, such as China, Indonesia, Malaysia and India have been able to break into the US market, using the GSP.

The textile and apparel market in the US is currently valued at $66 billion, and is projected soon to hit $100 billion. For an eligible sub-Saharan African country to begin to export its textiles to satisfy Us customs-related requirements such as the adoption of an effective visa system, domestic laws and enforcement measures to prevent illegal transshipment and the use of counterfeit documents relating to the export of apparel products to the US.

American Lawmakers hail the AGOA as a package that "advances U.S. economic and security interests by strengthening the relationship with regions of the world that are making significant strides in terms of economic development and political reform." It will expand a two-way trade and create incentives for the countries of sub-Saharan Africa to continue reforming their economies and participate more fully in the benefits of the global economy, they contend.

The 48 nations of Sub-Saharan African make up a market of 700 million people that offers enormous commercial potential for U.S. exporters. Trade with Africa - which totaled $22.5 billion in 1997 - constitutes less than 2 percent of overall U.S. foreign trade. Petroleum products, mostly from Nigeria, Angola and Gabon, account for two-thirds of U.S. imports from Africa.

As a condition for receipt of existing and potentially some new aid and trade benefits, the Africa trade Act requires African countries to follow stringent requirements of International Monetary Fund structural adjustment programs and satisfy a number of other economic policy demands.

Supporters of the AGOA, including the Clinton administration (and now Bush), most business groups, Africare, the African American Institute, a majority of the Black Caucus and the entire African diplomatic corps in Washington, argue that the legislation is a long overdue recognition of U.S. interests in Africa and an important first step in promoting U.S. trade and investment. The conditionalities in the legislation, argue supporters, are modest and in most cases are subject to the presidential discretion.

But opponents such as Representatives Jesse Jackson, Jr., Maxine Waters and 12 other members of the Black caucus as well as the 13 million member America Free Labour trade union federation, TransAfrica, the Sierra Club, Public Citizen, COSATU and a coalition of African NGOs argue the legislation imposes economic policy prescriptions without providing meaningful development for the poorest continent in the world.

Although the South African government now supports the legislation, Nelson Mandela's first reaction to the legislation was to call it "unacceptable." Congressman Jesse Jackson, with the assistance of labor, citizen and environment groups, drafted an alternative piece of legislation-the HOPE for Africa Act (H.R. 772) – that sought to focus U.S. Africa policy on debt relief, development assistance and social programs. That draft, however, was never brought to the floor for a full debate.

The arguments:

AGOA will promote reforms in Africa that will leverage efforts to increase investment, expand economic growth, and reduce poverty.

On one hand it is argued that trade can broaden the benefits of the global economy and lift the lives of peoples everywhere. The AGOA is a more mature, more pragmatic approach to African trade. Increased trade with Africa will help both the United States and Africa by creating new opportunities and markets.
The Act reaffirms the United State's commitment to working with Africa to promote sustainable development and to encourage economic reform. AGOA puts U.S. relations with Africa on a path that will create greater prosperity for all.

The preamble of the Act acknowledges the need to "promote stable and sustainable growth and development in Sub-Saharan Africa" and "to reduce poverty and increase employment among the poor." Further, it recognizes the importance of the provision of basic health and education for poor citizens, increased market and credit facilities for small farmers and producers and improved economic opportunities for women as entrepreneurs and employees.

The Act supports regional economic integration efforts in Africa, an important step in creating larger and more viable regional markets on the continent.

Encourages more American-African trade and investment linkages.
The Act would create equity funds for use by American businesses willing to invest in Africa and would formalize meetings between African and American government officials through the creation of the United States-Sub-Saharan Africa Trade and Economic Cooperation Forum. This diversification of trade and investment linkages for both the United States and Africa is a potentially useful step for enhancing economic growth in both regions.

On the other hand, opponents of the Act argue that ***the trade Act promotes U.S. business interests at the expense of African economic growth and the real needs of Africa's poor.***

They contend that social needs rather than the economic market should be affirmed. Globalization with little regard for human aspirations and needs is simply wrong. "NAFTA for Africa" undermines African interests in sovereign, equitable development in order to promote U.S. corporate control of African economics and natural resources.

AGOA imposes harsh conditionalities that will be devastating to Africa, doesn't mention the debt crises, offers no labor or environmental protections, and does not encourage local development within Africa. The U.S. should take a more holistic approach to a new, mutually beneficial trade and investment policy that includes debt cancellation and aid provisions, as well as labor, human

rights and environmental standards.

History & Facts

- Trade with Africa constitutes less than 2 percent of overall U.S. foreign trade.
- Under AGOA, clothing made in Africa from African fabric would be allowed to rise from 1.5 percent of U.S. imports to 3.5 percent over eight years, boosting African exports of these products from about $250 million a year now to as much as $4.2 Action.
- AGOA allows African nations where the gross domestic product is less than $1,500 a year per person (all but six of the 48 sub-Saharan nations) to have four years of quota-free benefits for apparel made with third-country fabric.

While there appears to be wide support for the African Growth and Opportunity Act, this may only reflect the lack of careful analysis on what this Act means in practice for both the United States and Sub-Saharan Africa. While dozens of African ambassadors and other government leaders have publicly endorsed this Act, several African critics believe that the legislation fails to adequately address Africa's debt problems, poverty and overall economic crisis.

It must be stressed that opening markets by themselves will not produce economic development. Lower trade barriers for African goods entering the United States will not produce any benefit for most African states that are not in a position to export significant amounts of goods to the United States. There is no simple relationship between trade liberalization and poverty.

What AGOA Does

The Act offers African countries a series of rewards, including expanded duty free access to American markets for certain products, equity and infrastructure funds to support U.S. investment, and establishment of a mechanism to promote and review U.S. trade policy toward Africa. Yet to receive these benefits, African governments must remove restrictions on foreign investment, reduce corporate taxes and privatize state owned companies.

The benefits of these programs are, moreover, minimal. The Act, in theory allows for duty free imports of textiles if the textile imports do not damage U.S. companies. But a March 1999 Congressional Budget Office study suggested that in reality 90 percent of African textiles would probably be declared "import sensitive" and denied access to U.S. markets.

The legislation also provides authority for the president to provide "duty free" access to U.S. markets for certain African goods under a trade provision known as GSP. Yet according to the Deputy U.S. Trade Representative, more than 29 African countries already have GSP trade status and the real effect of this provision is simply to encourage the president to consider allowing "enhanced GSP" status for certain African products if they will not damage U.S. manufacturers. Each decision on each product would have to first be reviewed by both the U.S. Trade Representative and the International Trade Commission.

Supporters argue the real value of the Act is not so much in the specific lifting of trade restrictions, but in the framework it establishes for promoting trade with Africa including the call for a free trade agreement between the U.S. and Africa and the establishment of annual forums at which trade and finance ministers from Africa and the U.S. meet. Efforts to strengthen U.S. ties with Africa are indeed welcome, and the Clinton administration has already established a special trade office for Africa and the first ever meeting of African and U.S. trade and finance ministers was held in Washington in early 1999. But what are the benefits to those who do not attend meetings of government officials and other elites?

OBSERVATIONS AND COMMENTS

Given the record of its past relationship with the sub-Saharan Africa, US recognition of the need to address aid, trade and debt problems within an overall strategy is welcome. So, too, is the proposed use of investment guarantees to mobilise private foreign investment for Africa, which cur-

rently accounts for less than one percent of global private capital flows. More broadly, the US initiative is rooted in a recognition that the risks posed by Africa's marginalisation are exceptionally high, with deepening poverty and economic decline intensifying national and ethnic rivalries, contributing to environmental problems, and undermining the capacity of governments to provide basic social services.

Encouraging as the US initiative may be, it is flawed in a number of crucial areas.

- It sees Africa as one big market for the US corporate sector to export to without any tangible reciprocal benefit for African countries. Indeed section 8 (a)(1) betrays the real motive and declares who the real beneficiary is: "the lack of competitiveness of sub-Saharan Africa in the global market, especially in the manufacturing sector, make it a limited threat to market disruption and no threat to United States jobs" The next paragraph goes ahead to show that annual textile and apparel exports to Africa amounts to no more than 1 per cent.
- It will bring into the orbit of trade and development assistance "partners" a small cluster of countries regarded by the US President as "success stories", threatening to undermine region-wide initiatives - such as the UN's Special Initiative on Africa - which offer a greater hope of success. Moreover, the US proposals offer relatively minor concessions on trade, mainly in the form of enhanced preferences, allied to insignificant additional aid flows.
- The Act mentions the eradication of poverty as one of the goals (Sec 3 (1)) yet new development assistance provisions are absent. In the past three years the US aid budget has been slashed, with spending on development declining from 0.15 per cent to 0.10 per cent of GNP contrary to commitments made five years ago in Rio de Janeiro for ODA to be raised to 0.7 per cent of GNP. Today, the US is at the bottom of the OECD aid list, yet the new initiative offers no new aid, even for areas such as health and education identified as priorities.
- Aid quality issues are also not addressed in the Act. This is not an approach to development co-operation, which will underpin a successful international initiative.
- Eligibility requirements for qualification under section 4 of the Act is conditional upon countries implementing economic reform measures deemed acceptable to the US President. These include:
    1. Promoting free movement of goods and services and factors of production between US and sub-Saharan Africa.
    2. Rapid trade liberalisation,
    3. the withdrawal of trade barriers which protect local agriculture,
    4. Incentives for investment.
    5. Reducing high import and corporate taxes
    6. Foreign investment issues, such as the provision of national treatment for foreign investors
    7. The protection of property rights, such as protection against expropriation, etc.

In practice, these correspond to the economic reforms promoted under structural adjustment programs, and the proposals made under the Multilateral Agreement on Investment (MAI) compliance with which is likely to serve as a litmus test for good practice. The reality is that compliance with these programs is associated with slow growth, a poor record on investment and, in many cases, failure to protect social investment.

- The trade incentives envisaged under the Act focus on improvements to the US's Generalised System of Preferences, with a commitment to reducing tariffs and enlarging product coverage to include sensitive items such as textiles. As one element in an integrated trade and development strategy, enhanced preferences could yield important benefits. However, experience under the GSP confirms that African countries have been unable to seize existing opportunities because of supply side constraints, including high transport costs and poor infrastructure. Implementation of the Uruguay Round agreement, under which general liberalisation and the phasing out of the Multi-fibre Agreement (MFA) will erode preferences, will have the effect of eroding the already limited advantages of prefer-

ences. Failure to address the deeper structural problems associated with Africa's dependence on primary commodities is another source of concern in the US proposal.

- While the eligibility criteria are very emphatic on privatisation and unleashing of the market forces in the economies of sub-Saharan Africa, the same is contradicted by the central role of the executive in the US where the Act seeks to invest the US president with sweeping powers in directing trade. Why doesn't the Act just leave the US private sector and Africa's business community to strike their own balance?
- It should also be noted that efforts to promote private investment would not be successful as long as Africa's debt crisis persists. The IMF-World Bank framework for Highly Indebted Poor Countries (HPIC), which though is a move in the right direction, still fails to address the debt problem of majority of the countries of Sub-Saharan Africa.
- The Act is silent on what opportunities and concessions will be accorded to Africa to export manufactured, processed and semi-processed goods into the US nor whether the US will open itself to importing services from sub-Saharan Africa. It thus only succeeds in reinforcing stereotype compartmentalization that relegates sub-Saharan Africa as a market for US (and other industrialised countries') manufactures and services and a source of cheap raw materials and labour.

Some Serious Problems with the Act

The Act would only help a relatively small number of countries that are at the level of economic development to take advantage of the major incentives in the legislation; it could potentially threaten regional trade initiatives. Hence, trade concessions are in fact quite minor because most African countries are not at a point where they can take serious advantage of the GSP tariffs.

Backs Structural Adjustment Programs that deepen poverty.
The Act imposes stringent criteria for participation and some of these criteria contradict the aim of alleviating poverty. For example, the Act requires adherence to the International Monetary Fund's Structural Adjustment Programs (SAPs), even though these programs have been responsible for major cutbacks in the provision of health and education to the poorest citizens.

The Act acknowledges that crippling debt is a serious hindrance to economic growth on the continent and recommends, in non-binding language, support for the Heavily Indebted Poor Countries Initiative (HIPC) of the IMF/World Bank. However, the HIPC imposes extremely harsh conditions.

There is a growing understanding, then, that effective Africa policy will require complementary initiatives to reduce Africa's debt, which currently exceeds $314 billion. Yet the Act hardly deals with this situation. This is true even though efforts to promote private investment cannot be successful within the context of this persisting debt crisis.

While free trade may be a good way of promoting growth, to achieve greater equity it requires a relatively level playing ground. As the AGOA admits, the playing ground between the United States and Africa is grossly unequal. Nowhere is this problem more important than in the realm of agriculture. The average American farmer gets $14,000 worth of subsidies a year. Contrast this to the average African farmer, who is most likely to be a woman and who receives no subsidy or worse, actually suffers from government interference in local markets.

While internal agricultural liberalization would be a good thing, the reduction of tariffs on American agricultural products would likely result in dumping. Dumping would cause the fall of local prices hurting the majority of small-scale African farmers. The net result, then, would be lower food production locally and increased dependency of foreign imports. This means less food security and more dependency for the continent, not the "economic self-reliance" that the Act claims as a goal.

Adherences to acceptable environmental and labor standards are not part of the eligibility requirements for African countries to participate in this Initiative. Thus, this Act misses an opportunity to apply pressure to improve these standards in Africa, where repression of labor and disregard for basic environmental standards are not uncommon.

The Case Against the Africa Growth and Opportunity Act

Since the end of the Cold War US policy toward Africa has drifted and become increasingly erratic. Independent observers thus welcome this new thinking and initiatives. Unfortunately, objective analysis suggests that the new Africa Growth and Opportunity Act does not represent a step forward in US-African relations.

The Act does break new ground: it proposes, along with other initiatives, to shift America's relationship with Africa from aid to trade. This recognizes a reality: US aid to Africa has been steadily declining since the early 1990s. Many, most notably the Congressional Black Caucus, have called for aid to be restored to the levels of the early 1990s, including the restoration of earmarked sums as is still provided for Eastern Europe, Israel/Egypt, etc. The US budget since 1998 has continued the downward trend with slight increases only in military training and debt relief.
To replace this faltering commitment the Act proposes to promote African exports to the US and US investment in Africa.

Promoters of the Act, however, have been unable to demonstrate how African producers will benefit, beyond possibly some slight increases in textile exports from Kenya and Mauritius—and even these, as US trade unions point out, may simply be transshipments from Asia.

Those who will benefit from this change in administration policy are obvious. As reported in the South African business magazine, Finance Week: "the prime beneficiaries of the Clinton African plan are the major American corporations" (June 5-11, 1997:17). Hundreds of millions of dollars in guarantees are specifically allocated to insure US investment, particularly those who reap the rewards of the forced privatization of African telecommunications and infrastructure.

The rules are of course quite different for African governments: to qualify for any assistance, particularly in the crucial area of debt relief, African governments must accept structural adjustment and free market provisions. NAFTA-like provisions to link US-African markets likewise target independent African regional market initiatives.

In short, while the supporters of the Act speak of assisting Africans, African-Americans, and women, the only groups targeted for assistance are the multinationals that largely control Africa's trade and access to rich markets.

For over two decades we have witnessed the US, the IMF, and the World Bank insist on structural adjustment, foreign investment, and export promotion as the solution to Africa's development crisis—and reject real debt relief while cutting aid levels. It is time to recognize that these policies have failed, and led not to growth but inequality and increasing poverty.

Those seeking more equitable and beneficial relationships with Africa might consider:
Reducing multinational corporations' control over African exports and markets; Promoting fair prices for Africa's exports, particularly raw materials and processed goods; Supporting African democratic movements, and human and academic rights,
Setting aside structural adjustment policies—as is being discussed in Asia, and
Providing more equitable, earmarked aid – as is done for other areas of the world.

The Wrong Framework, the Wrong Symbolism

A closer examination reveals that the AGOA establishes the wrong framework and is a step in the wrong direction. The legislation establishes a framework that might at best help a few more eco-

nomically advanced countries – but will bring few if any benefits to the majority of people in Africa. Indeed at its core are policies now proven to increase poverty and decrease the provision of public goods such as health care and education.

At the core of the Act is another attempt to force African governments to prioritize a series of free market principles, including cuts in government expenditures, privatization of government corporations, new rights for foreign investors to buy African natural resources and state firms without limits, deep cuts in tariffs, and membership in the World Trade Organization.

These policies are not new. The World Bank and IMF have been imposing these policies on poorer countries in the world for decades, but even the multilateral institutions have acknowledged that these policies have not improved conditions for the poorest segment of the world's population.

The Africa Growth and Opportunity Act is therefore a step in the wrong direction. This legislation is an attempt to force African countries to prioritize macroeconomic policies that are not appropriate for the level of development in Africa.

An Alternative Vision

The legislation assaults the sovereignty of African countries. It establishes a long list of new anti-development conditions that African countries would be required to meet annually simply to maintain U.S. aid and trade status. It brings out the worst elements of **NAFTA** and IMF's **Structural Adjustment Program** and stuffs them onto Africa without consideration for African peoples' own interests, i.e. aspirations for democracy, freedom from dictatorship, poverty and economic exploitation, human rights, improving labor conditions or other public priorities. It omits debt relief, which is Africa's current greatest impediment to development. [***More capital is flowing out of Africa in the form of "debt servicing" than is coming in as investment and aid.***] It does not focus on the development of African entrepreneurs but rather expands government assistance to U.S. companies moving into Africa. It gives teeth and legitimacy to **U.S. Predatory Approach to Africa**.

Rep. William Jefferson (d-LA) couldn't have revealed it better that, "**Africa is a reservoir of opportunities for American businesses.**" This legislation is exclusively aimed at making Africans pave the way for U.S. companies to move into their countries and take over those economies backed by the entire force of the U.S. government without consideration for Africa's own needs among which is to develop their own enterprises. It dramatically expands opportunities for U.S. businesses to operate in African economies at the expenses of and in disregard of African interests. It sets out new conditions, i.e., unlimited investment rights for U.S. businesses that African countries must meet. It shifts the focus of U.S. Africa Policy to subsidize American companies' investment in Africa.

African people must view this legislation as undermining their sovereignty and independence. It does not reflect any of their national interests nor is it planned to handle them. On those grounds, this legislation is another form of colonization of Africa that renders it totally unacceptable. The U.S. Congress should look into critical issues which are hurting Africa, such as, debt relief, the havoc of arms shipment into Africa, stoppage of U.S. support for African dictators and self-imposed military regimes so that democracy can be given a chance to take root. Africans do not want to be baby-sitters of their natural wealth but need and want to develop enterprises, which can process their raw materials into finished goods in order to generate employment and income for their people. For example, Uganda is a major cotton grower. Yet only 20% of that is locally processed; the remaining 80% is exported as raw material to provide employment and higher incomes to foreign countries. A change in that imbalance should be the focus of any leader who wishes to improve employment opportunities, build business, create jobs and open new markets within outside Africa.

Real Concessions from Africa

In exchange for these illusory benefits, the AGOA demands that African countries must meet certain benchmarks and performance criteria. The Act makes it clear that these conditions must be understood in the context of the standards that operate in the WTO. For instance, the Act instructs the President of the United States to “encourage” African countries to bring their legal regimes in compliance with the standards of the WTO. African countries are also expected to liberalise their services sectors, by making further commitments in the WTO General Agreement in Trade and Services (GATS) in order to remove tariff and non-tariff barriers.

Some of these requirements are contained in the WTO agreements, which African governments have found to be to their disadvantage and are struggling to change. They include issues such as TRIPS, TRIMS and agriculture support. Other requirements like labour standards and investment form part of the new issues which the US has been trying to promote, against the wishes of African and other developing countries.

Therefore by making these requirement as conditionality for some supposed benefits, the AGOA sets a trap for African governments to concede to the wishes that the US government is having difficulty achieving in the WTO.

In summary, it must be emphasized that AGOA’s textiles and apparel quota provisions are a classic bait and switch. The Act provides African nations with quota free access to the US market, but its supporters fail to mention that in four years, such access will be valueless. When textile and apparel quotas are lifted world-wide in 2005 (under the terms of the GATT deal that AGOA’s backers all supported) all production will shift to Asia, where profit margins are by far the highest in the industry. AGOA thus encourages African nations to bet their fortunes on an industry that is officially scheduled to collapse in a few years.