



## Bread for the World

# AGOA 2003 and African Agriculture

*"In an era of global trade and global terror, the futures of the developed world and the developing world are closely linked. We benefit from each other's success. We're not immune from each other's troubles."*

President George W. Bush at the  
U.S. – Sub-Saharan Africa Trade and Economic Cooperation Forum,  
October 29, 2001.

## I. Introduction

The Africa Growth and Opportunity Act (AGOA), included in the Trade and Development Act of 2000, was passed by the U.S. Congress and signed into law by President Bill Clinton in May 2000. The primary objective of AGOA, authorized until 2008, is to encourage increased trade and investment between the United States and sub-Saharan Africa (SSA) through the reduction of tariff and non-tariff barriers to trade, expansion of U.S. assistance for regional integration, negotiation of mutually beneficial and reciprocal trade agreements, promotion of private sector engagement and democratization. AGOA directs the president of the United States to convene an annual meeting between the U.S. government and representatives of eligible African countries (the U.S. – Sub-Saharan Africa Trade and Economic Cooperation Forum), and to prepare an annual report to Congress on U.S. trade and investment policies with SSA. Presently, 38 of the 48 sub-Saharan African countries are AGOA-eligible based on specific criteria, including continued progress toward establishing a market-based economy, rule of law and economic policies to reduce poverty.

Supporters of AGOA argue that it creates a policy environment for the United States to engage Africa in trade relations similar to those extended to other regions, thus aiding fledgling African economies to develop. Opponents of the legislation say AGOA is fundamentally flawed because it is based on questionable "trickle-down" economic theory and lacks an institutionalized role for civil society. Some opponents still argue that AGOA imposes stringent eligibility requirements in spite of the fact that nearly 80 percent of sub-Saharan African countries have already been granted AGOA eligibility status.

## II. AGOA's Impact

The U.S. administration's 2002 report on AGOA states that the legislation has helped transform the economic landscape of SSA by stimulating new trade opportunities for African and American businesses, and creating new jobs and investments worth hundreds of millions of dollars. It reports that U.S. imports from SSA increased by more than 50 percent from 1999 to 2001. The United States imported \$7.6 billion of duty-free goods under AGOA in 2001, which accounted for more than a third of the total imports (\$21.3 billion) from SSA.

Crude oil dominated all imports from SSA, totaling 64 percent of the total value of imports, followed by platinum group metals (7 percent), apparel (4.5 percent) and diamonds (2.5 percent). Four countries –

Angola, Gabon, Nigeria and South Africa – accounted for the bulk (84 percent) of U.S. total imports from SSA. Meanwhile, U.S. exports to SSA rose by 17.4 percent from the previous year, from \$5.9 billion to nearly \$7 billion. However, SSA accounts for less than 1 percent of overall U.S. exports and less than 2 percent of U.S. imports.

Although data on the impact of AGOA is sparse, the U.S. Trade Representative (USTR) reports that many new jobs have resulted. A 2002 report by a South African-based research group said that AGOA had a direct impact on 19,395 jobs and indirect impact on another 43,000 jobs in South Africa. Similar trends on new jobs and benefits have been observed in East and West Africa.

While the general business climate has improved since the passage of AGOA, the steady growth in the petroleum and mining sectors probably would have occurred due to other market factors. Also, growth in these sectors produces relatively low direct benefits to Africa's poor. Currently, one third of Africa's population is undernourished, and nearly half live on less than \$1 a day. Most of the poor live in rural areas and depend largely on agriculture, which accounts for 35 percent of SSA's gross domestic product, 40 percent of its exports, and 70 percent of its employment. Expanding AGOA's application to African agriculture would have a significant impact on reducing hunger and poverty and, therefore, on improving overall conditions in SSA. The International Food Policy Research Institute estimated that a 1 percent increase in agricultural productivity would raise the income of 6 million African people above \$1 per day. A \$1 increase in agricultural production generates about \$2.32 in economic growth. Thus, expanding market access and lowering trade barriers for African agricultural products through AGOA will have the greatest impact, not only on the poorest people in SSA, but also on national economies.

AGOA has laid a strong foundation for dialogue and partnership between U.S. and African governments and businesses. It fosters an environment that is stimulating new development and investments in SSA. The annual U.S. – SSA Trade and Economic Cooperation Forum, along with the parallel events sponsored by businesses and civil society groups, facilitate contacts and strengthen relationships. There is also an increased understanding within Africa of the complexities, challenges and opportunities of economic and political reform, which will enable African businesses to be more competitive in the global economy. Yet, all of these accomplishments remain only the first steps toward what many hope will be a much fuller and more mutually beneficial trade and investment engagement between Africa and the United States.

### **III. Views and Concerns**

The contentious debate (mainly in the United States) that accompanied the enactment of AGOA continues today. Various internal barriers prevent about 10 countries from satisfying AGOA's eligibility requirements. The technical capacity of African public and private institutions and individuals to successfully navigate within the structural relationships created by AGOA, and to extract gains from them, varies considerably. Former Assistant USTR Rosa Whitaker recently asserted that after two short years, "African governments are clamoring for more trade and investment, not less." As 2003 begins, AGOA is part of the U.S. trade policy landscape, yet remains a hot-button issue for some advocacy organizations in the United States, who say that it does not provide a broad range of opportunities for African businesses to trade and grow.

AGOA's impact in the apparel manufacturing sector has been impeded by a provision in the law requiring African manufacturers to obtain fabric from other African or American manufacturers. An exemption to this law allows only least developed countries to purchase fabric from the world market. South Africa and Mauritius, which produce fabric and are not eligible for this exemption, are arguably economically benefiting from the status quo. However, AGOA-eligible countries in Africa that are classified as least developed are pushing for an extension of the exemption-set to expire in September 2004-that allows them to source fabric from any supplier worldwide. The World Bank estimates that the removal of this one provision would magnify AGOA's impact on African apparel exports five-fold. However, export quotas maintained on Asian

and South American countries under the Multi-Fibre Agreement are soon to be eliminated, exposing Africa to stiff competition from more efficient producers in those regions.

Many foreign investors are reluctant to make major long-term investments in African countries precisely because AGOA is not a free trade agreement. Advocates for the reform of AGOA assert that it should be more than a unilateral U.S. action expanding market access, but an effective catalyst for training, financing, and mobilizing Africa's resources for community-based economic development. The United States has also announced its intent to begin negotiating its first free trade agreement with an African entity, the five-member Southern African Customs Union (S.A.C.U.)

Yet, some opponents of AGOA argue that it offers Africa inherently unequal trading relationships with the United States, and that it parallels the World Trade Organization's (WTO's) efforts to secure unlimited access in developing countries for lucrative banking and insurance interests in exchange for limited market access. They assert that AGOA provides multinational corporations with unhindered access to African markets, whereas fledgling African companies are not well equipped to take advantage of new opportunities offered by AGOA. Finally, critics of AGOA reform proposals assert that without the parallel removal of domestic U.S. agriculture subsidies and other trade distorting practices, AGOA will never be able to unleash the economic potential of the African agriculture sector.

Multilateral negotiations at the WTO could offer opportunities for industrialized countries to reduce their agricultural protectionism and trade-distorted subsidies in ways that could be important to Africa. While the trade concessions under AGOA are temporary and determined by the United States unilaterally, WTO trade liberalization would be permanent and disputes would be subject to multilateral views. In fact, the current round of WTO trade negotiations are supposed to focus on developing-country concerns, including proposals for differential treatment of countries with special needs. If agriculture is liberalized, low-income food-deficit countries will need transitional assistance.

## **Bread for the World's Recommendations**

Bread for the World is a U.S. Christian citizens' movement against hunger. Its nationwide grassroots membership of concerned individuals and churches mobilize a quarter of a million letters to the U.S. Congress each year on issues that are important to hungry people. Bread for the World has made a long-term commitment to work for reducing hunger in Africa. Bread for the World believes that trade has the potential to help lift African people out of the cycle of hunger and poverty; however, that potential can only be realized with the establishment of institutions and policies that raise economic productivity and achieve equitable distribution of benefits. We urge the U.S. government to adopt a comprehensive Africa policy, including a strengthened AGOA, increased development assistance (including the promised Millennium Challenge Account), increased emphasis on agriculture and rural development, and a vigorous response to famine and civil conflicts. U.S. policy, including AGOA, should be responsive to the New Partnership for African Development (NEPAD), which is Africa's own comprehensive development policy. The highest priority for U.S. and African development policy should be to reduce hunger and poverty.

To strengthen AGOA's impact on hunger and poverty, Bread for the World recommends that AGOA be revised in these ways:

1. In order to encourage the production, processing and transporting of more, and better quality exports, the United States should support AGOA-eligible countries in the areas below. Many economic development goals can be achieved within the existing framework of AGOA by increasing appropriations targeted to strengthen the capacity-building provisions of the Act:

- a. Technical training and capacity building in agricultural production, trade, processing, research and

markets, especially for institutions serving smallholder farmers, small-scale rural businesses, co-operatives, and marketing and transport organizations;

- b. Specialized technical training to increase African capacity to negotiate in the WTO.
- c. Infrastructure development, including the creation of modern packaging plants, increased investment in storage plants, regional bulk commodity management facilities, and value-added processing, as well as the enhancement of export product quality and phyto-sanitary standards;
- d. Improvement of transport and communication networks to reduce transaction and marketing costs related to agricultural trade, including support for efficient ocean freight and air freight systems, direct port-to-port linkages, and incentives to reduce handling charges for AGOA commodities;
- e. Market product and price information gathering, delivery and access to farmers, traders, processors and policy makers;
- f. Creating a comprehensive information database on U.S. and African agribusinesses to serve as a clearinghouse for specific inquiries regarding international trade, laws, contacts, etc.

2. Obtaining necessary capital is a major constraint on development. The U.S. government should press the Overseas Private Investment Corporation (OPIC) and the Export-Import Bank to respond to the AGOA policy dialogue and bring significant new resources to help African countries attract more investment capital. In addition, the U.S. government should reduce the risks for commercial bank lending to agribusiness, provide training in market and loan facilities, establish loan guarantee funds, defray supervisory costs, and promote an increase in the number of U.S. financial firms doing business in Africa.

3. AGOA should encourage and support African countries in the establishment and enforcement of effective laws, rules and regulations governing international trade and marketing.

4. The U.S. government should establish an AGOA agricultural trade advisory team to facilitate communication between African and American stakeholders. The advisory team would include designees of U.S. and African governments, educational institutions, the private sector, including smallholder producer organizations, and non-governmental organizations.

5. Consumer preferences in the United States have increased demand for high-quality niche products and value-added products, such as year-round fresh fruits and vegetables, higher value horticulture and floriculture products, organic tea, raw cotton, cotton seed, spices, nuts, processed seafood and folk craft items. The United States should provide technical assistance for eligible countries to identify and access these niche agricultural markets, especially for products from smallholder farmers.

6. The U.S. government should provide tax incentives for U.S. companies to make trade, agriculture and infrastructure investments in Africa.

7. The current round of WTO negotiations should address issues that are important to Africa, including trade liberalization in Africa.

**Most of these changes will take additional financial resources. This underscores why increases in development assistance (including the promised Millennium Challenge Account) are necessary to strengthen mutually beneficial trade that will help reduce hunger and poverty in sub-Saharan Africa.** (January 28, 2003)



**Bread for the World**  
*Seeking Justice. Ending Hunger.*

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