Progressive Economy

AGOA AT 14: SUCCESSES, FAILURES, AND NEXT STEPS

Edward Gresser
Director, ProgressiveEconomy
U.S. International Trade Commission
January 14, 2014

Thank you very much for this opportunity to testify before the Commission. By way of background, I direct the ProgressiveEconomy program at the GlobalWorks Foundation, a non-partisan 501(c)(3) organization here in Washington, D.C.. ProgressiveEconomy is a research project meant to deepen understanding of U.S. trade policy and the global economy, and has a special focus on supporting development and the reduction of poverty through trade.

I have followed the African Growth and Opportunity Act closely for 15 years, receiving the U.S. Trade Representative Office's Special Achievement Award in 2000 for contribution to passage of AGOA, and since then tracking the program's implementation and results as a trade policy researcher. As AGOA approaches its 2015 'sunset' date and Congress considers the next steps, my testimony will take up four questions:

- How have Africa and the U.S.-African economic relationship changed since the passage of AGOA in 2000?
- What role has AGOA played in these changes?
- What are its major successes since 2000, and where has it fallen short of expectations?
- In light of experience, how might Congress proceed as the program nears its expiration?

My own conclusions are as follows:

1. AGOA is a central element of both U.S.-Africa economic relations, and the broader African policy developed through the last three administrations. It should be renewed in a timely fashion.

2. AGOA's market access provisions in clothing and manufacturing, however, have yielded less benefit than I think is commonly recognized; the enhanced dialogues, Trade Hubs, and other features meant to increase awareness of U.S. market opportunities and policy rules have probably done more.

3. The greatest current challenge to Africa's ability to take full advantage of global market opportunities is a remaining weakness in infrastructure and trade logistics. While a next-generation AGOA program can usefully do more in market access, its main focus should be on trade facilitation and capacity-building.

AFRICA & U.S. AFRICAN POLICY, 2000-2013

I will begin by noting that fundamentally, the years since the passage of AGOA have been good ones for Africa. A comment from President Clinton at the time, drawn from his March 1999 address to the Conference on U.S.-Africa Partnership is very striking to re-read today:

> Ten years from now, we want to see more growth rates above 5 percent. A generation from now, we want to see a larger middle class, more jobs and consumers, more African exports, thriving schools filled with children—boys and girls—with high expectations and a reasonable chance of fulfilling them.[1]

A little more than ten years later, all those things have happened. To match these hopes against some figures, Africa's growth has averaged 5.6 percent since 2000. This has doubled continental GDP in real dollars, raising PPP-basis per capita income from $1390 to $2550, expanding the continent's middle class from 175 million to 300 million, and reducing the absolute poverty rate from 58 percent in 1999 to 49 percent by the last measurement in 2010 and a likely 42 percent in 2015. Trade has played an important part in this evolution, with African exports up from $93 billion to $430 billion. And primary-school completion rates are up from 58 percent to 73 percent for boys, and 48 percent to 66 percent for girls.

U.S. African policy too, I believe, has been well-designed and earned broad support in Africa and the United States. Joining PEPFAR, the Millennium Challenge Corporation, Feed the Future and other innovations of the past three administrations, AGOA has been a central pillar of this policy. It has three principal elements:

1. Additional access to the U.S. market, including long-term GSP privileges, near-universal exemptions of manufactured goods from tariffs with a special focus on clothing through a right to use 'third-country fabric', and more liberal (though not unlimited) access to American agricultural markets, with quotas still in force.

2. A major upgrade in U.S.-Africa business and political engagement through creation of the Trade and Economic Development Forum and encouragement of continuous government, business, and NGO dialogues, which subsequent administrations have implemented including through creation of three "trade hubs" based in Accra, Nairobi, and Johannesburg, which offer advice to businesses, matching with potential American partners, and guidance on U.S. regulatory policy; the holding of annual AGOA Ministerial meetings; and numerous lower-level dialogues.

3. A set of nine conditions for eligibility, which address human rights, economic reform, anti-corruption, labor standards, and other topics.

The program's successes have been considerable, and the next version can and should build upon them. But these successes seem to me often somewhat misunderstood – particular, they seem a bit too heavily attributed to the market access benefits, and too little attributed to better information. In fact, Africa's major successes in exporting to the United States appear to result mainly from the improved information on the U.S. market African businesses, governments, and farm groups built up about the American market via AGOA's Ministerial conferences, Trade Hubs, and other dialogues. By contrast, the effects of the additional market access appear to be concentrated in automotive industry, while the clothing program viewed as a centerpiece of the program in 2000 has produced only modest results, and perhaps had some perverse effects.

Meanwhile, we are approaching a decade likely to post more challenges for Africa than did the last. With commodity prices down, the United States becoming more self-sufficient in energy, and Chinese growth rates fading a bit, Africa will likely benefit less from energy, metal, and other commodity exports than it did in the last decade. Instead it will need to rely more heavily on domestic demand and exports of value-added goods. Thus as we look ahead, it will be important not only to sustain the commitment to Africa AGOA represents, but to do some rethinking, perform some candid evaluations, and set some new priorities.

14 YEARS LATER: A LOOK BACK AT THE RECORD

The changes in African trade patterns since AGOA, and the changes in U.S.-African trade in particular, suggest why this is. Overall, sub-Saharan African exports have risen from $93 billion in 2000 to $430 billion in 2012. Most of this is not, at least directly, a result of AGOA; rather it reflects higher natural-resource prices and Asian demand. The WTO's trade statistics reports, unfortunately, combine the data for the 49 sub-Saharan states with data for the 5 North African states, and are not yet available for 2013. Nonetheless they illustrate the overall pattern of African merchandise export growth:[2]

- *Africa's total exports* have risen from $143 billion to $598 billion, or by $455 billion. This includes the $340 billion in growth for sub-Saharan exports, plus $110 billion more (with the largest share coming in Algerian and Libyan energy) for Egypt, Libya, Tunisia, Algeria, and Morocco.
- *By region,* Asia has accounted for $175 billion of Africa's $455 billion in total export growth. Europe is next at for $120 billion, followed by the U.S. and Canada combining for $75 billion, and internal African trade growth at $60 billion. The figures for 2013 will be somewhat lower, because of last year's decline in commodity prices and the U.S.' lower energy imports.
- *By product*, African exports have risen $295 billion in energy and mining, and by $65 billion in manufacturing, and by $40 billion in agriculture.
- *The U.S.* remains a modest customer for Africa's manufactured goods, at $9 billion or 9 percent of a $103 billion total; and a very small buyer of African agricultural goods, at $3 billion in a $57-billion market.

So as we assess AGOA and its relationship to Africa's last decade, the first thing we should recognize is that trade growth with the U.S. has been part of Africa's growth through trade, but only one part. Then we can look more closely at AGOA in Africa's trade with the United States. Here we do see strong growth, though it is volatile. Merchandise import totals have grown from $21 billion in 2000 to about $40 billion in 2013; merchandise exports, from $5 billion to $21 billion. Within these totals -

1. Most Import Growth in Natural Resources: As with African trade patterns overall, most growth in U.S.-African trade has been in energy and resources. Together these products – crude oil, refined petroleum, metal ores, platinum, diamonds in particular - account for $15 billion of the $20 billion in import growth from Africa since 2000. AGOA technically covers some of this by waiving specific duties of a nickel and dime per barrel of crude oil, but in practice these fees are equivalent to a 0.01 percent *ad valorem* tariff and too small to have measurable effect on trade. U.S. imports of African energy and metals reflect rising prices, demand, and additional production rather than response to AGOA's duty-free program. Their value remains changeable as prices change; the $40 billion in imports of African goods last year is well above the 2000 totals, but also represents a sharp decline from the $74 billion of 2011.

2. *Most Duty-free Growth in Automotive Sector:* In areas where AGOA eliminated tariffs, most U.S. import growth has come in cars, trucks, and auto parts from South Africa. Table 1 below shows that GSP and AGOA together apply to about $4.6 billion worth of non-oil imports, with South African automotive goods accounting for $2.3 billion or half the total.

TABLE 1: U.S. MERCHANDISE IMPORTS FROM SUB-SAHARAN AFRICA, 2013

Total Imports	$41.8 billion
AGOA Members	$39.7 billion
AGOA	$27.1 billion
Oil	*$19.6 billion*
Automotive	*$2.3 billion*
Clothing	*$0.9 billion*
All other	*$0.5 billion*
MFN-Zero	$7.3 billion
Coffee/tea/spices	*$0.5 billion*
Gems & precious metals, & ores	*$3.9 billion*
Tariffed	$3.5 billion
Oil	*$3.0 billion*
GSP	$2.1 billion
Oil	*$0.9 billion*
Steel	*$0.4 billion*
Other	*$0.8 billion*
Non-AGOA Countries	$2.1 billion

Source: U.S. International Trade Commission Dataweb, at dataweb.usitc.gov

3. *Successes in non-traditional farm products:* Third, the last decade brought see some striking export success stories in products which received relatively little attention in 1999 and 2000. Examples include specialty products such as shea butter, incense and essential oils, Ethiopian birdseed, high-grade coffee, and flowers. The largest growth has been from South Africa, but other countries – Ethiopia, Ghana, Malawi and others – have also done well.

TABLE 2: NON-TRADITIONAL EXPORT SUCCESSES 2000-2013

Product	Sources	2000	2013	Growth
Shea butter/other lotions	South Africa, Ghana	$0.5 million	$9 million	1700%
Tree nuts*	S Africa, Kenya, Malawi	$8 million	$75 million	840%
Citrus	S Africa	$8 million	$60 million	650%
Birdseed	Ethiopia	$3 million	$22 million	630%
Flowers and cut plants	Kenya, S Africa, Ethiopia	$5 million	$12 million	120%

Source: U.S. International Trade Commission Dataweb, at dataweb.usitc.gov

These are value-added, labor-intensive products of the sort designers of the AGOA program in 2000 very much hoped to see. Some, such as flowers and citrus, are usually tariffed; shea butter and Ethiopian birdseed, by contrast, are duty-free under MFN tariffs. This suggests that AGOA's Ministerial sessions, Trade Hubs, and business-to-business dialogues have helped provide better information to African businesses and farm groups about the American market and regulatory systems, opening up opportunities that may in earlier years have been readily available and in which Africa is highly competitive, but which have not in the past been tapped simply because producers and potential buyers lacked information.

More generally, however, U.S. imports of African farm products remains relatively modest, with great potential for future growth. Last year's $2.7 billion in imports was likely an historical record, and triple the $0.7 billion USDA reports for 2000.[3] Nonetheless it remains far below the $20 billion in African farm goods flowing to Europe, or the $12 billion flowing to Asia. American agricultural purchases remain clustered in four main areas: high-value South African produce such as oranges and wines; quota-managed trade in tobacco and sugar; cocoa beans from Cote d'Ivoire, which are MFN-duty free; and other 'primary' products such as coffee, tea, and vanilla beans, though branding and intellectual property is raising Africa's share of income from these products.

4. Little Change in Clothing Imports – The intricately negotiated 'third-country fabric' clause of AGOA, by contrast, appears to have brought only modest import growth. Several AGOA members have been successful clothing exporters - imports from Kenya in particular risen rapidly over the past five years, Lesotho and Swaziland remain successful, and Madagascar's clothing exporters were quite successful until the country's suspension from the program in 2007. But as Table 3 below shows, Africa's overall share of the U.S. market has declined since 2000 (or more accurately, since the abolition of textile quotas in 2004) and imports of African clothing remain well below their $1.7 billion peak achieved in 2004. This suggests that tariff margins provide less incentive for importers than we had hoped in 2000.

TABLE 3: U.S. CLOTHING IMPORT PATTERNS 2000-2013

Exporter	**2000**	**2013**	**Growth**
Nicaragua	$0.34 billion	$1.4 billion	+306%
Cambodia	$0.8 billion	$2.6 billion	+215%
Haiti	$0.26 billion	$0.8 billion	+204%
China/HK/Macao	$14.2 billion	$34.0 billion	+140%
Indonesia	$2.2 billion	$5.2 billion	+137%
Bangladesh	$2.1 billion	$4.9 billion	+134%
World	***$64.2 billion***	***$87.4 billion***	***+36%***
AGOA	**$0.73 billion**	**$0.94 billion**	**+28%**
CAFTA ex. Nicaragua	$8.8 billion	$6.5 billion	-26%
Mexico	$8.7 billion	$3.9 billion	-55%

Source: U.S. International Trade Commission Dataweb, at dataweb.usitc.gov

This result is striking given the high hopes placed in the clothing program and the sustained political commitment to it over the past decade. One likely reason is a declining power of tariff margins to influence sourcing decisions – as supply chains grow more complex, rules of origin needed to ensure that that preference benefits go to their intended beneficiaries impose greater penalties on buyers. This hypothesis is bolstered by the fact that market share for Mexico and the CAFTA countries (except Nicaragua) has declined more rapidly than for Africa, and that MFN exporters in Asia have seen market share rise despite the high tariffs – averaging 12.2 percent and ranging up to 32 percent – applied to clothing. Nonetheless, tariff margins retain at least some influence, as clothing imports from Nicaragua and Haiti – two small, low-income western-hemisphere exporters with "third-country" benefits similar in some ways to those of AGOA members – have grown rapidly.

It is also disappointing to note that the clothing program has become a source of discord in designing trade policy for least-developed countries, and perhaps in multilateral negotiations. Several AGOA members have reportedly opposed similar benefits for other very low-income regions with larger export totals, and the African Union has recently called not only for a renewal of AGOA but for avoiding any 'erosion' of AGOA preferences. In practice this suggests freezing the U.S. tariff system in place. As I will note below, this is not only a complication for trade policy, but may be diverting attention from new policies which could achieve much more (including in clothing), for sub-Saharan exporters to the United States.

NEXT PHASE: AFRICAN LOGISTICS AND THE HIGH COST OF TRADE

AGOA of course is scheduled to end in 2015, and Congress and the Administration are now looking ahead. How should they build upon the program's success, and what should they do in areas where it has fallen short?

In a few areas, the United States can offer more. The concept of AGOA since 2000 – to remove trade barriers created by the U.S. government that might block opportunity for Africa – remains admirable, idealistic, and consistent with hopes to (a) promote growth, economic integration, and poverty reduction in Africa, and (b) develop a close U.S.-Africa relationship in the decades to come, with demographic and growth trends suggesting Africa will likely be a major source of global growth. In some agricultural areas – value-added chocolate being one example, butter and cheese another – quotas and prohibitory tariffs on above-quota exports remain in force on African goods; in manufacturing, however, AGOA's market access program is broad and the U.S. retains few meaningful barriers.

There are real and merited options for new market access in a 'seamless' and long-term or permanent extension of the program. But in my view the more important the challenge is to match market access with improvement of Africa's capacity to export and participate fully in value chains. This means a focus on trade facilitation and capacity-building programs, which would help improve Africa's overall competitiveness (and also support African exports worldwide, rather than to the United States alone.).

Tariff benefits are only one reason to import from a particular source, and experience shows they are usually not the most important reason. Geography and capacity to export in an efficient, low-cost and timely way – and the mirroring capacity to import and provide the inputs a modern manufacturing industry needs in an equally efficient, low-cost, and timely way – appear to significantly outweigh tariff policy.

Research by the World Bank suggests that this is the area on which AGOA's next phase should focus. One important example is the *Logistics Performance Index*, a biannual review and ranking of 155 countries' performance on an array of infrastructure metrics including road, port, air, telecom, rail, and other services. It places only one African country (South Africa) among the top 50 countries in the LPI. On the other hand, African countries make up 25 of the countries in the lowest-ranked 50 states and 8 of the lowest 10. The LPI finds Africa roughly comparable to other developing regions in road transport, but significantly less able to provide high-quality services in seaports, air services, rail, and telecommunications infrastructure.[4]

One particularly striking observation is that turnaround for containerized seaport cargoes in sub-Saharan African ports is about twice as long as turnaround in other regions:

> In ports with efficient logistics, dwell time can be just two or three days. In the main port gateways for the developing countries in Asia, North Africa, the Middle East, and Latin America, it is no longer than seven days or so. But in Sub-Saharan ports, it is a staggering 14 days on average. … in the least developed countries of Sub-Saharan Africa, much dwell time results from collusion among control agencies, port authorities, private terminal operators, logistics operators, and large shippers. At Douala, for example, the port— not an external facility— is an importer's cheapest storage option for up to 22 days.[5]

The World Bank's annual *Trading Across Borders* report finds similar results as it studies the cost, paperwork, and time of containerized shipping in 185 countries. Its results find African countries with higher port costs and longer times to market than their rivals:

Table 4: CONTAINERIZED SHIPPING – PAPERWORK, TIME, & COST BY REGION

Exporter	Average required documents	Time to market	Cost per exported container*
African littoral states	8 documents	26 days	$1,010
Africa inland states	7 documents	39 days	$974
Latin America	6	17	$780
(El Salvador)	*7*	*13*	*$580*
African island states	7 documents	20 days	$728
Littoral South Asia	7	20	$690
(Pakistan/Karachi)	*8*	*22*	*$411*
Middle East/N. Africa	6	20	$665
(Egypt)	*8*	*12*	*$395*
ASEAN	7	16	$440
(Cambodia)	*8*	*22*	*$595*

Source: Trading Across Borders 2013, at http://www.doingbusiness.org/data/exploretopics/trading-across-borders

** Combining the cost of document preparation, customs clearance, and port and terminal handling, but excluding inland transport costs. These latter costs are also typically higher in sub-Saharan Africa than in competing regions.*

To put this in perspective, the rough average value of the cargo in a full container is about $20,000. This means each $200 in additional costs is the equivalent of an extra 1 percent tariff imposed by the importer. Time delays and documentation costs are harder to quantify, but a 2012 paper for the National Bureau of Economic Research by David Hummels and George Schaur estimates that each additional day in transit is the rough equivalent of adding 0.6 percent to 2.2 percent to the cargo's cost.[6] Assuming this is reasonably accurate, the 10 days' extra transit time, and the $550 in additional seaport costs incurred in littoral Africa as opposed to Southeast Asia would be the equivalent to a U.S. tariff of about 20 percent.

Moreover, these export costs and port issues are not the whole story. Gaps in the time and cost of container imports and air cargo appear to be even larger than in export costs. These are essential to close in order to give African manufacturers and value-added food companies the capacity to produce in the volume and variety required by global supply and value chains.

OPPORTUNITY TO IMPROVE

Addressing these barriers to exports may offer very significant potential benefits. For example, a study released earlier last year by World Bank and World Economic Forum based on computer modeling suggested that were the world's countries to move half-way from their current standings in logistics, African GDP would rise by 12 percent – more than any other region in the study – as African exports rose by 64 percent and imports by 55 percent. This would imply a potential export level near $800 billion, as opposed to the $430 billion measured in 2012.

Improvements like these are quite feasible. The major reports on trade facilitation, in fact, show both individual success stories and reasons to believe Africa's overall logistical environment is improving. The *Logistics Performance Index*, for example, finds very rapid improvement in Benin's ranking after implementation of a Single Window at the Port of Cotonou. The Trading Across Borders database finds seaports in Ghana, Senegal, Mauritius, South Africa, Togo, Benin, Mozambique, Djibouti (which serves Ethiopia) extremely competitive with those in other developing regions, and also that Africa's time to delivery has dropped by 2 days. Note that this does not mean Africa's environment is improving faster than other regions – Southeast Asia, Latin America, and others are also improving - but that sustained attention to trade facilitation can bring results within relatively short times.

This potential dovetails with Africa's obligations under the WTO's newly completed Agreement on Trade Facilitation. Over the next five years, the 37 African WTO members – a list coinciding not perfectly but closely with the 38 AGOA participants – will need to adopt reforms including the following:

- Publication of all import and export forms on the Internet.
- Pre-arrival processing of manifests for air and sea cargoes.
- Developing risk assessment management in African seaports and airports.
- Customs-agency collaboration at inland border points to ensure that cargoes from land-locked countries reach ports and exit transit countries more rapidly.

This is a technically complex task for African Customs services, but not one that is financially overwhelming for governments. (The World Bank, for example, estimated in 2012 "that the costs of implementing the measures likely to be covered by a new Trade Facilitation Agreement [are] relatively modest: they range from $7 million - $11 million."[7] The next years of AGOA should use the extensive set of trade capacity-building programs developed by USAID, the informational and technical assistance programs run by the four Trade Hubs, and perhaps also MCC contracts to ensure that African countries can fully implement these new obligations.

Another option is to include a regular and honest assessment of progress on trade facilitation in the regular AGOA reports published by the U.S. government. This would include dwell times in ports, cooperation between the customs services of different African countries, costs of implementing trade facilitation, telecommunications costs and Internet access, and the implementation of WTO Trade Facilitation obligations. A consistent record of improvement may well help countries – particularly small ones like Benin, which wins considerable credit from the LPI for implementing a Single Window program at the Cotonou Port – to attract investors and importers; publicity about lack of progress likewise may be a useful push to agencies uncomfortable with change.

This is of course a more complex and technical task than granting market access. It will require consultation within the U.S. government, and between the U.S. and African governments and institutions, and with the private sector, about the expertise most useful for Africa and the options for financing a capacity-building program with U.S. aid budgets under even more pressure than usual.

But there is a good foundation on which to build. The U.S. Trade Representative Office, the US Agency for International Development, and Cabinet Departments concerned with U.S.-African trade, including State, Commerce, SBA, DHS, and Agriculture, have developed considerable expertise in capacity-building through the Millennium Challenge Account, the CAFTA, and AGOA itself. And while American aid budgets are presumably unlikely to rise, African governments are relatively cash-rich after the past decade's resource boom, and should be expected to make investments in better infrastructure while drawing expertise from foreign donors and the private sector.

CONCLUSION

As the African Growth and Opportunity Act passed in 2000 nears its end-point, I believe Americans should take pride in the commitment it represents to full partnership with Africa. Joined with other innovations of the Clinton, Bush, and Obama presidencies, AGOA represents a far-sighted and generous approach to foreign policy which has brought substantial benefits to Americans and Africans alike. It should certainly be renewed.

However, it would be unfair to both sides were we simply to use the occasion as an opportunity to congratulate ourselves on work well done, and ignore areas in which the program's results are less than they could be. Nor should we allow support for AGOA to reduce commitment to poverty reduction and development elsewhere in the world. Instead, the key to a second successful decade of U.S.-African economic engagement might lie in another comment President Clinton made as AGOA moved toward implementation:

> "Not something done for Africa, or about Africa, but with Africa."

A focus on trade facilitation in the next five years will help us make this concept more real: bringing greater benefits to Africa in growth, investing African governments more deeply in internal reform, and helping both of us realize the full potential of our transatlantic partnership.

Thank you again for this opportunity to testify before the Commission, and I welcome any questions you may have.

[1] *Remarks to the Conference on U.S.-Africa Partnership for the 21st Century*, Bill Clinton, March 16, 1999, at http://www.presidency.ucsb.edu/ws/index.php?pid=57264&st=africa&st1=

[2] WTO. *International Trade Statistics 2013*, merchandise trade tables at http://www.wto.org/english/res_e/statis_e/its2013_e/its13_merch_trade_product_e.htm; and *International Trade Statistics 2001*, at http://www.wto.org/english/res_e/statis_e/its2002_e/its02_toc_e.htm

[3] USDA, *Global Agricultural Database*, at http://apps.fas.usda.gov/gats/default.aspx

[4] World Bank, *Logistics Performance 2012*, pg. 24, at http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/TRADE/0,,contentMDK:23188613~pagePK:210058~piPK:210062~theSitePK:239071,00.html

[5] Ibid., pg. 24

[6] Hummels, David, and Schaur, George, *Time as a Trade Barrier*, National Bureau of Economic Research, January 2012, at http://www.nber.org/papers/w17758

[7] Selina Jackson and Gerard McLinden, *WTO Trade Facilitation Agreement: A Development Opportunity*, July 10, 2013, at http://blogs.worldbank.org/trade/wto-trade-facilitation-agreement-development-opportunity. Also see *Trade Facilitation Costs Likely* See for example *Trade Facilitation from an African Perspective*, UN Economic Commission for Africa, November 2013, pp. 40-43, at http://www.uneca.org/publications/trade-facilitation-african-perspective