POLICY RELEVANCE SUMMARY

Economic Potential and Limitation of AGOA in Sub-Saharan Countries

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The African Growth and Opportunity Act (AGOA) provide reforming Sub-Saharan African (SSA) countries the most liberal and duty-free access to the U.S. market. AGOA was signed into law in 2000 as Title 1 of The Trade and Development Act of 2000 as amendments to AGOA II in 2002 as section 3108 of the Trade Act of 2002. AGOA III which was signed into law in July 2004, extends both the trade benefits to 2020 and the rule that permits some countries to use fabric from another other country; called the third-country fabric provision. Currently, a total of 37 SSA countries qualify for the trade benefits offered by AGOA.

Based on the statistics from U.S. department of commerce; imports from AGOA-eligible countries increased by more than 50 percent from 1999 to 2003. The United States imported $24.4 billion of duty-free goods under AGOA in 2003. However, three sectors (i.e., energy-related products, textiles and apparel, and transportation equipment) accounted for over 90% of the imports. Major beneficiaries of AGOA were Nigeria, Angola, Gabon and South Africa, which accounted for 86% of total exports shipped in 2002 and 2003. Benefits to Nigeria, Angola and Gabon are credited to export of oil and natural gas products. Benefits to South Africa, and other countries such as Lesotho, Cameroon, Kenya, Chad and Madagascar accrue from export of textile and apparel products. Combined, the nine countries accounted for 91% of the total export in 2002 and 2003. Some reports indicate that AGOA created a total of 62,395 jobs through direct and indirect impacts in South Africa. Similar trends on new jobs creation are observed in Lesotho, Kenya, Madagascar, and Swaziland. A study to assess the potential benefit of AGOA on Tanzania indicate that in order for the benefits to trickle

down to the rural poor, Tanzania has to increase productivity and invest heavily in ginning, spinning and weaving industries.

Whereas AGOA creates a positive environment for the U.S. firms to invest in SSA, the benefits are still skewed toward export of oil and gas products. Most observers agree that growth in the petroleum and mining sectors probably would have occurred due to other market factors. Importantly, growth in these sectors produces relatively low direct benefits to poor households in rural areas. Since poor households depend on agriculture, expanding market access for agricultural products will have the greatest impact on both economic development and poverty alleviation. Health concerned and population diversity in the U.S. have created profound niche markets for year-round fresh fruits and vegetables, horticulture and floriculture products, organic food, aquaculture and seafood, spices, craft items and many more. Marketing research and investment in value-added processing plants, as well as the enhancement of export product quality and phyto-sanitary standards might diversify export opportunities for AGOA-eligible countries, and alleviate poverty in rural areas.

The Tanzania study also shows that the economic impact of AGOA is mainly thought new job creation. The sector that has created a significant number of jobs is the apparel and textile sectors. Of the $6.4 billion non-energy products exported under AGOA, apparel accounted for more than 36%. Lesotho is the major exporter of apparel under AGOA, rising from $251 million in 2001 to $393 million in 2003. However, two major problems do exist. First, in most AGOA-eligible countries major apparel plants are foreign owned. Weak or lack of will or capacity to enforce labor law, the working conditions and wages offered are very low. Wages range from $0.5/day in Malawi to $1.93/day in Lesotho. Despite job creation, such wages will have little or no impact on poverty alleviation. Second, Establishing an apparel factory requires relatively little capital investment compared to a textile mill that require several years to breakeven. Therefore, the bulk of investment has been concentrated on apparel production rather than the textile sector. Insistence of economic and/or political shocks could result in a complete collapse of the apparel and textile industries in these countries.

It is also a common knowledge that that many foreign investors are reluctant to make major long-term investments because AGOA is not a free trade agreement, thus creating policy uncertainties. For example, when a bill on AGOA III stalled in the U.S. legislative bodies, some foreign-owned firms in Madagascar started to relocate to Asian countries. At the same time, about one thousand garments workers in Swaziland lost their jobs due to downsizing. To remove this uncertainty it is argue that AGOA should not be a unilateral U.S. action but a trade agreement among these countries. While the trade concessions under AGOA are temporary and unilaterally determined by the United States, trade agreements tend to long-term and disputes are subject to mutual reviews that remove uncertainties in the decision-making process.

Internationally, export quotas of textile and apparel products under the World Trade Organization's (WTO's) Multi-fiber Agreement may be eliminated in January 2005. For AGOA-eligible countries, to survive the fierce competition in the world market, competitiveness and vertical integration are needed at every stage of the textile and apparel sectors-from cotton production to ginning, spinning and weaving the fabric. Also, without removal of domestic U.S. agriculture subsidies, these countries will never be able to compete with the U.S. agricultural products. AGOA-eligible countries may end up in partisan politics and fail to participate on issue of removing subsidies in the U.S. agriculture. Despite all these shortcomings, for eligible countries, AGOA is still a window of opportunity for developing trade-based economies that favor poor households. Careful planning in terms of investment and policy decisions are needed to counter the regressiveness of AGOA.