

# ISSUE BRIEF

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## Congress Should Upgrade the African Growth and Opportunity Act

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The House Ways and Means Trade Subcommittee will convene a timely hearing on the African Growth and Opportunity Act (AGOA) on July 29. The hearing takes place at a critical juncture for America's engagement with Africa. AGOA, first enacted under President Bill Clinton and amended and extended by legislation three times under President George W. Bush, enjoys broad bipartisan support, represents the most significant economic arrangement between the U.S. and African nations, and has helped to expand trade and investment.

The current AGOA legislation is set to expire on September 30, 2015, and Congress and the Administration need to act quickly to ensure that uncertainty does not undermine the progress that has been made under AGOA. Ideally, Congress should lead the way and ensure that AGOA enhances the current economic partnership beyond a trade preference arrangement, encourages African economic integration, and sets the stage for a future free trade agreement (FTA) between the U.S. and the region.

### **Strengthen America's Economic Engagement with Africa**

AGOA has become the backbone of America's economic and development engagement with Africa. AGOA offers duty-free access to the U.S. market

for a wide variety of African products from countries that are making progress toward market-based economies, democracy, the rule of law, eliminating corruption, lowering barriers to trade and investment, reducing poverty, improving health and education, and improving human rights. Countries are granted AGOA eligibility based on their record and continued progress; if they retreat, their AGOA eligibility can be rescinded. Currently, 39 countries are AGOA eligible.<sup>1</sup>

Africa's place in today's world has changed considerably since Congress passed the initial AGOA legislation in 2000. Despite ongoing political and security turmoil in some countries, overall trade and investment policy has gradually improved and contributed to increased economic growth.

According to the *Index of Economic Freedom*, an annual data-driven economic policy analysis by The Heritage Foundation and *The Wall Street Journal*, African economies as a group have moved toward greater economic freedom since 2000.<sup>2</sup> Mauritius is now the world's eighth-freest economy. Other African nations—such as Cape Verde, Angola, Botswana, Liberia, and Sierra Leone—have also made notable improvements. These policy reforms have coincided with high economic growth. On average, since 2000, African countries have registered consistent annual growth rates of approximately 5 percent, which were only temporarily interrupted by the global economic downturn.<sup>3</sup>

AGOA has contributed to these positive outcomes. U.S. total merchandise trade with AGOA-eligible countries has more than tripled from \$18.7 billion in 1999 (before AGOA) to \$60.9 billion in 2013.<sup>4</sup> U.S. exports to AGOA-eligible countries

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CHART 1

## U.S. Trade with AGOA Nations

IN BILLIONS OF CURRENT U.S. DOLLARS



Source: U.S. Department of Commerce, International Trade Administration, TradeStats Express: National Trade Data, <http://tse.export.gov/TSE/TSEHome.aspx> (accessed July 28, 2014).

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increased from \$5.1 billion in 1999 to \$22.8 billion in 2013.<sup>5</sup> U.S. imports from AGOA-eligible countries increased from \$13.6 billion in 1999 to \$38.1 billion in 2013.

While AGOA has facilitated trade expansion, a trade preference arrangement does not maximize American engagement with the region. As Michael Froman stated in his first public speech after becoming the U.S. Trade Representative last year, “there is still more [the U.S.] can do to build on AGOA.”<sup>6</sup>

### Upgrading AGOA

Africa offers untapped opportunities and development potential, as evidenced by recent market research showing that investment interest by multinational corporations is “not just growing rapidly, but is also expanding beyond the traditional extractive industries to other fast-developing sectors in Africa.”<sup>7</sup>

Significantly, this potential could be greatly enhanced by regional market integration being pursued by the African Union (AU) in an effort to establish a Continental Free Trade Area (CFTA) by 2017 and integration of the Regional Economic Communities into a single customs union by 2028.<sup>8</sup> A 2013 study projects that African nations would realize significant economic benefits from regional integration and free trade.<sup>9</sup> If AGOA is renewed but remains sole-

1. The countries eligible for AGOA benefits are Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Chad, Comoros, Republic of Congo, Cote d'Ivoire, Djibouti, Ethiopia, Gabon, The Gambia, Ghana, Guinea, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, South Africa, Tanzania, Togo, Uganda, and Zambia. Madagascar and Mali were restored to AGOA eligibility in 2014, and Swaziland is scheduled to lose its eligibility in 2015. International Trade Administration, “AGOA Eligibility: General Country Eligibility Provisions,” <http://trade.gov/agoa/eligibility/index.asp> (accessed July 28, 2014).
2. Terry Miller, Anthony B. Kim, and Kim R. Holmes, *2014 Index of Economic Freedom* (Washington, D.C.: The Heritage Foundation and Dow Jones & Company, Inc., 2014), <http://www.heritage.org/index>.
3. World Bank, *The Africa Competitiveness Report 2013*, <http://www.worldbank.org/content/dam/Worldbank/document/Africa/Report/africa-competitiveness-report-2013-main-report-web.pdf> (accessed July 28, 2014).
4. U.S. Department of Commerce, International Trade Administration, TradeStats Express: National Trade Data, <http://tse.export.gov/TSE/TSEHome.aspx> (accessed July 28, 2014).
5. Ibid.
6. U.S. Trade Representative Michael Froman, “Remarks to the U.S. Global Leadership Coalition,” Office of the United States Trade Representative, June 25, 2013, <http://www.ustr.gov/about-us/press-office/press-releases/2013/june/remarks-united-states-trade-representative-michael-fr> (accessed July 28, 2014).
7. Jonathan Wakely, “More Good News for Foreign Investment in Africa,” CovAfrica, June 23, 2014, <http://www.covafrika.com/2014/06/more-good-news-for-foreign-investment-in-africa/> (accessed July 28, 2014).
8. James M. Roberts, “2014 Global Agenda for Economic Freedom,” Heritage Foundation *Special Report* No. 153, May 2, 2014, <http://www.heritage.org/research/reports/2014/05/2014-global-agenda-for-economic-freedom>.
9. Simon Meval et al., “The African Growth and Opportunity Act: An Empirical Analysis of the Possibilities Post-2015,” Brookings Institution, July 2013, <http://www.brookings.edu/~media/research/files/reports/2013/07/agoa%20beyond/130729%20agoa%202013webfinal.pdf> (accessed July 28, 2014).

ly a trade preference arrangement, the U.S. will fail to fully capitalize on Africa's progress toward economic integration.

In addition, if the U.S. fails to advance AGOA beyond a trade preference arrangement, it risks losing ground to European and other nations eager to enter into more robust partnerships with African economies. Instead of simply renewing AGOA, the U.S. should craft it to encourage African economic integration and set the stage for eventual free trade between the U.S. and Africa. Specifically, the U.S. should:

- **Renew AGOA through at least 2025.** Failure to renew AGOA on a long-term basis risks discouraging investment and long-term trade contracts and undermining America's credibility as a reliable economic partner in the region.
- **Encourage regional economic integration.** The AU has announced its intent to finalize agreements for regional economic communities by 2014, integrate them between 2015 and 2016, and establish a continental free trade area by 2017.<sup>10</sup> Economic analysis indicates that regional economic integration would provide significant economic benefits, and the U.S. should encourage these efforts through AGOA.
- **Further incentivize AGOA-eligible countries to pursue greater economic freedom.** The U.S. cannot furnish these nations with the political will needed for controversial policy changes, but by demonstrating serious, committed interest in freer trade and advancing AGOA into a greater future, the U.S. can ensure that its advice and concerns are taken into account.
- **Facilitate greater private-sector-to-private-sector engagement.** Thriving private sectors are the best source of inclusive and broad-based economic growth as they seek out opportunities for trade, investment, and partnership. Undeniably, the private sector in both the U.S. and Africa

has been playing an indispensable role in turning the promise of AGOA into tangible economic reality. The U.S. currently has some initiatives to encourage private-sector market access such as regional trade hubs, but these efforts are underutilized and poorly coordinated. AGOA should address these shortfalls by specifically incorporating plans to enhance private-sector-to-private-sector engagement.

- **Express America's support for Africa's plan to enact a continental FTA and incorporate that plan into AGOA's reauthorization.** While AGOA is useful, it is an incomplete approach to increasing U.S.-African trade that ignores the advantages of free trade within Africa and the mutual benefits that Africans and Americans would realize from free trade.

### **AGOA Deserves Concrete Action, Not More Rhetoric**

The coming expiration of AGOA presents a timely opportunity to upgrade the arrangement to solidify America's engagement with Africa and benefit individual Americans and Africans. Congress should seize the opportunity to upgrade AGOA into an instrument that advances dynamic expansion of the private sector in Africa, effectively encourages economic integration within the region, and sets the stage for an FTA between the U.S. and Africa.

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10. African Union, "Decisions, Resolutions and Declarations," Assembly of the Union Eighteenth Ordinary Session, January 29-30, 2014, [http://www.au.int/en/sites/default/files/ASSEMBLY%20AU%20DEC%20391%20-%20415%20%28XVIII%29%20\\_E.pdf](http://www.au.int/en/sites/default/files/ASSEMBLY%20AU%20DEC%20391%20-%20415%20%28XVIII%29%20_E.pdf) (accessed July 28, 2014).