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The African Growth and Opportunity Act: A Preliminary Assessment

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This report was prepared by Mr. Craig VanGrasstek, President, VanGrasstek Communications, Washington, DC. The opinions expressed in it are those of the author and do not necessarily reflect the views of the UNCTAD secretariat.

Introduction

The African Growth and Opportunity Act (AGOA) was enacted into law as part of the Trade and Development Act of 2000 (Public Law 106-200). It is the latest in a series of regional initiatives in United States trade policy that are based on the general philosophy of "trade, not aid" as the chief tool for promoting economic development. The intention is to offer trade preferences to the beneficiary countries as a complement to foreign aid, and encourage them to adopt reforms in their economic, investment and trade policies. The most immediate benefit that it extends to sub-Saharan African countries is expanded product coverage under the Generalized System of Preferences (GSP), as well as tariff- and quota-free exports of textile and apparel products to the United States. The programme also contemplates the future negotiation of a free trade agreement (FTA) between the United States and those countries, which would entail the exchange of reciprocal commitments rather than the one-way preferences of AGOA, but not extend to the President the authority to negotiate such an arrangement. Other provisions establish a higher priority for the region in US foreign economic policy agencies, provide for closer coordination between the United States and African countries, and increase aid and technical assistance.

AGOA has now been in place long enough for a very preliminary assessment of its impact to be undertaken. President Clinton designated the first countries under the programme in October 2000, and then designated products for AGOA treatment that December; the first shipments of duty-free goods entered the United States in January 2001. While it may take several years before sufficient data are available to conduct a comprehensive review of the programme's duty- and quota-free treatment for the beneficiary countries, we now have enough information to make provisional judgements.

Two US government agencies have already offered preliminary assessments of AGOA's impact. The AGOA statute requires that the President submit to Congress a comprehensive annual report on the operation of the programme. This report is the responsibility of the Office of the United States Trade Representative (USTR), which asked in 2000 that the United States International Trade Commission (USITC) produce annual reports for five years on this topic. The USITC issued its second annual report in December 2001,[1] while the USTR issued its most recent AGOA report in May 2002.[2] Both of these reports offer a wealth of information on specific steps taken to implement the programme, as well as data on the trade flows over the past few years. However, they do not necessarily exhaust the analytical possibilities. The USTR report is issued by an agency that is charged with both promoting and implementing the initiative, a point that may explain the "spin" it gives to some facts.[3] The USITC report provides a great deal of data on tariff rates and trade flows, but reaches no firm conclusions regarding the relationship between them.

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[1] *US Trade and Investment with Sub-Saharan Africa — Second Annual Report,* USITC Publication 3476 (Washington, DC: USITC, 2001).

[2] *2002 Comprehensive Report on US Trade and Investment Policy Toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act* (Washington, DC: USTR, 2002), hereinafter cited as "USTR, *2002 AGOA Report*".

[3] For example, the first empirical observation in the report is that "US imports from sub-Saharan Africa have increased 61.5 percent over the last two years" (p. 1). While true, this statement glosses over the fact (noted 23 pages later) that these imports declined by 9.3 per cent during 2001. Neither the increase in 1999–2000 nor the decrease in 2000–2001 should be attributed *post hoc ergo propter hoc* to AGOA.

The purpose of the present report is to offer an early assessment of the utility of the AGOA tariff preferences as an instrument of special and differential (S&D) treatment for the beneficiary countries. The objective here is neither to praise nor to condemn AGOA, but instead to reach quantifiable conclusions regarding its actual utility for the exporting countries. The report does so first by examining the general trends in the S&D treatment that the United States extends to developing countries, and then by placing AGOA in this broader context. The overall thesis of this analysis can be summarized as follows: tariff preferences in general offer a relatively small and declining margin of preference to developing countries, and the additional benefits of the AGOA preferences represent a modest expansion over the preferential treatment that sub-Saharan countries already enjoyed under the GSP. There are exceptions to this general rule, both for specific countries and for products, but the general pattern is clear. Apart from the textile and apparel sector, where substantial trade barriers imply equally substantial margins of preference for AGOA beneficiary countries, the programme's duty-free benefits appear to offer only a slight improvement over the status quo for most African exports. That point is especially true for those countries that have already enjoyed duty-free access to the US market for virtually all of their non-textile exports. Even in the case of textile and apparel exports, the global quota regime suggests that the benefits extended under AGOA are time-bound.

These observations suggest that the non-tariff aspects of the programme may ultimately be much more important to the beneficiary countries than are the tariff preferences per se. Those features of the AGOA fall outside the scope of the present analysis. For further information on the technical assistance and other measures that various agencies of the US Government are providing to promote reform in sub-Saharan African countries, see the USTR report.[4]

The place of special and differential treatment in US trade policy

AGOA does not extend wholly new or unique benefits to sub-Saharan African countries. On the contrary, it is only the latest in a series of preferential arrangements with specific regions of the developing world. As can be appreciated from the data in table 1, the US trade regime today is a patchwork quilt of special programmes and agreements, in which those countries that receive only "normal trade relations" (NTR) account for just over half of all US imports.[5] Most sub-Saharan African countries were already designated for benefits under the GSP when AGOA came into being, and many of them also enjoyed the broader product coverage that is available to LDCs.[6] The real benefits of the programme thus need to be compared with the status of countries in US policy prior to AGOA. The difference between AGOA status and ordinary NTR treatment may appear rather wide, but the more appropriate comparison is between AGOA and GSP (either in its ordinary or LDC versions).

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[4] See especially sections V ("Trade Capacity Building") and VI ("Technical Assistance and Other AGOA-Related Initiatives") in USTR, *2002 AGOA Report*.

[5] In current US law and practice, the term "most favoured nation" (MFN) has been replaced by "normal trade relations." This change was made by law in 1998. From a practical perspective, there is no difference between NTR and MFN. While "MFN" is the more appropriate term in WTO usage, we use "NTR" in most of this paper because this is primarily an examination of US law and policy.

[6] The pre-AGOA status of specific countries under the GSP is set out in table 4.

Table 1
The hierarchy of preferences in the US trade regime

Listed in declining order of preference; shares of 2001 imports from a total of $1,132.6 billion

		Share of total US imports	Average tariff on imports	Share enjoying preferences
Reciprocal preferences				
Free trade Agreements (FTA)	Canada, Israel, Jordan and Mexico enjoy comprehensive duty-free access	31.7%	0.1%	54.8%
Non-reciprocal regional preferences				
African Growth and Opportunity Act (AGOA)	Sub-Saharan African countries enjoy duty-free access for nearly all goods; some also have duty- and quota-free access for textiles and apparel	0.8%	0.7%	46.6%
Caribbean Basin Initiative (CBI)	Central America and Caribbean countries enjoy duty-free for most goods, and “NAFTA parity” for all others	1.8%	2.8%	41.1%
Andean Trade Preferences Act (ATPA)	Four Andean countries enjoy duty-free access for most goods (this expired in late 2001 but may be renewed soon)	0.8%	1.5%	19.4%
Non-reciprocal global preferences				
Generalized System of Preferences (GSP)	Beneficiaries enjoy duty-free access for some goods, but many items are excluded; product coverage is wider for the least developed countries	9.8%	3.6%	14.1%
Non-preferential treatment				
Normal trade relations (NTR)	Formerly known as most favoured nation (MFN); NTR for some Communist or transitional economies is conditional upon their emigration practices	53.9%	2.2%	0.0%
Denied NTR	Cuba, the Lao People's Democratic Republic and the Democratic People's Republic of Korea are subject to non-NTR rates	<0.1%	35.1%	0.0%
Trade embargo	Iraq and the Islamic Republic of Iran receive NTR treatment but are subject to partial trade embargoes	0.4%	0.3%	0.0%
World		100.0%	1.6%	22.1%

Note: Except for countries that are subject to trade embargoes, imports from a country are counted in the category representing the most favourable treatment that it receives. For example, imports from AGOA, ATPA and CBI countries are classified here under those programmes even though they are also eligible for GSP treatment.

Source: Classifications from the Harmonized Tariff Schedule of the United States (2002). Trade data calculated from the USITC's trade database.

AGOA is in the second tier of preferential treatment, below free trade agreements but above the GSP. Its main shortcomings vis-à-vis an FTA is that there are a few products that AGOA does not cover and the benefits are not permanent. AGOA is one of three regional preferential programmes that are more generous than the GSP, insofar as they each cover a wider range of products than the GSP and are not restricted by that programme's limitations (e.g. "competitive need" limits on specific products from specific countries). AGOA appears to be the most comprehensive of the three regional programmes in its actual utilization. A higher share of imports from AGOA countries entered the United States on a preferential basis in 2001 than did imports from the beneficiary countries of the Caribbean Basin and Andean programmes, and the average tariff rate on total US imports from AGOA countries was below 1 per cent.

The figures in table 1 give only the grossest data about the actual use of these programmes, and do not tell us whether they stimulate any additional trade between the United States and the beneficiary countries. We do not yet have enough time-series data on US imports under AGOA to reach definitive conclusions on this point, but the experiences with other preferential agreements and programmes offer useful guidance. As shown in table 2, the data do not support a strong link between preferences and export performance. The table summarizes the changes in US imports of non-oil,[7] non-apparel[8] products from major partners during 1991–2001. If preferential tariff treatment were a major determinant of success in export competition, we would expect to find a tight correlation between the degree of preferences and the rate of growth in exports. The data show no such pattern. While both Canada and Mexico enjoyed nearly complete duty-free access to the US market during this period, the growth in Canada's exports to the US market was below the world average, while Mexico was well above. Among developing countries, one would expect the beneficiaries of the Caribbean Basin Initiative (CBI) and the Andean Trade Preferences Act (ATPA) to do much better than countries that enjoy the much less generous benefits of the GSP; the same should be true for the beneficiaries of the special GSP programme for LDCs. Quite to the contrary, however, imports from the CBI, ATPA and LDC countries grew at a much slower rate than imports from the world as a whole, while the ordinary GSP beneficiary countries slightly outperformed the world average. And how can one explain the wide range of experience among the countries enjoying no preferences at all? Japan greatly underperformed the global average, the European Union approximated it and China beat it by a vast margin. That observation is especially troublesome when one considers that China exports more high-tariff goods such as textiles and footwear than do Japan and the European Union; if tariff rates determined export performance, China should have performed poorly by comparison with Japan and the European Union.

The only conclusion that one can reliably draw from table 2 is that countries' performances in