US–Africa Trade: Adding Value?

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Introduction

The following document provides a summary of a meeting held at Chatham House on 27 May 2015, at which Stephen Lande, president of Manchester Trade Ltd, spoke on the topic of current US–Africa trade relations.

Although African exports to the US declined between 2011 and 2013, the US remains a major trading partner for many African countries. A key aim of the 2014 US–Africa Leaders Summit was to renew US business interest in African markets, and the summit saw the announcement of new trade and investment worth $33 billion. At the heart of the US–Africa relationship is the African Growth and Opportunity Act (AGOA).

The speaker examined the then ongoing discussions around AGOA and presented his views on the future of US–African trade relations.

This meeting was held on the record. The following summary is intended to serve as an aide-memoire for those who took part, and to provide a general summary of discussions for those who did not.

For more information - including recordings, transcripts, summaries, and further resources on this and other related topics – visit www.chathamhouse.org/research/africa.

Stephen Lande

It is frustrating that, in recent years, good ideas and initiatives from various African economic institutions have been diluted or ignored because sub-Saharan African countries all follow different agendas.

The Trade Facilitation Agreement (TFA) emerged from a desire of Western companies to get their products through customs more quickly. But, as the TFA is an agreement under the umbrella of the World Trade Organization (WTO), in order for it to be adopted two-thirds of WTO member states had to vote in favour. The US courted African nations to secure this result, but the overall US strategy reflected a poor attitude on its part. African nations were unsure how the TFA would be of benefit to them, because the agreement would be in the interest of developed countries. It was also unclear to African governments how much aid they would receive from the programme. These questions elicited a negative reaction in the US. At a meeting in Equatorial Guinea, US representatives informed their African counterparts that the TFA was in Africa’s interest and that the US knew better. Ultimately, Ghana and Nigeria agreed to the TFA, setting off a domino effect as other African countries yielded to pressure.

In Europe the attitude towards African agreement to Economic Partnership Agreements (EPAs) was similar. The European Union (EU) agreed to negotiate in the interest of African nations, as long as African governments signed EPAs. Non-compliant African countries were threatened with the removal of preferences and special aid programmes. The EPAs were not necessarily compatible with African regional economic integration because rules about the origin of goods made it difficult to have a free flow of goods. Establishing a common external tariff was also difficult, because within Africa’s regional blocs major traders had duty-free entry into some European countries. The African Union (AU) proposed that it would agree to the EPAs, but only on the condition that EPA principles were agreed upon between Africa and Europe in order to protect African regional integration; or if discussions were delayed until after the Doha Round of WTO negotiations, to allow for an examination of agreements governing poor countries’ trade with rich countries. The EU disagreed on both counts. African states could not unify on a position,

1 Following Congressional approval, a 10-year extension to AGOA was signed into law by US President Barack Obama in June 2015.
resulting in a situation where 33 African states signed EPAs, while the remaining countries had different agreements. Every country in Africa, with the possible exception of Libya, has some form of free trade agreement with a neighbouring country or group of countries. Most recently, the Democratic Republic of the Congo (DRC) and Ethiopia agreed to a tariff schedule to eliminate duties within the Common Market for Eastern and Southern Africa (COMESA).

AGOA has been moderately successful in five countries: Kenya, Lesotho, Madagascar, Mauritius and Swaziland. However, AGOA is limited because it is not supported by aid programmes and has failed to generate the level of growth initially envisaged. Despite the possibility of out-of-cycle reviews and petitions, AGOA is only evaluated annually, and AGOA partner countries have less security because they are faced with greater and less clear conditionalities. Within the AGOA framework, there is recognition that other tools may be more effective than removing a trade benefit. More positively, AGOA does not require the complete removal of a product from trading lists but can merely limit the benefits.

African responses to the original draft of AGOA were calculated. The AU, together with the United Nations Economic Commission for Africa (UNECA) produced a paper in April 2014 recommending the development of an ‘AGOA 2.0’, and proposing improvements to the agreement, most notably to the rules on origin. A major problem facing African countries is the principle that for all products aside from fabrics, 35 per cent of the direct processing cost must be attributed to an African country before that country receives any benefit. This does not include packaging or overheads, and the low cost of labour in Africa means that very few African countries can benefit. This demonstrates the importance for Africa of building its processing and manufacturing sectors. As value chains are becoming regional and product assembly can be traced more easily, a rule could be developed whereby if Africa can demonstrate a quantifiable input of approximately 10 per cent when African products reach the US, there could be a 10 per cent duty reduction.

The US favours conditionality, but this causes problems. For example, in response to the 2009 coup in Madagascar, the US suspended the country’s AGOA eligibility, threatening the jobs of 30,000 seamstresses and weakening the economic strength of ordinary Malagasy – the very group that could oppose the coup plotters. This disrupted the only regional supply chain that existed between Mauritius and Madagascar. Instead of taking this action, the US could have adopted a middle-ground response, such as applying peer pressure or using targeted sanctions (which it has effectively used outside Africa).

The recent summary bill of the House Ways and Means Committee sets out US opinion that the EU is adopting unfair trade practices towards Africa by forcing African countries to sign agreements. The bill also argued that this approach is inconsistent with the EU’s own development objectives. Underlying this, but not mentioned in the bill, is US concern that the EPAs may lead to discrimination against US exports into Africa. The bill recommended that the US Administration report to Congress within the first year of AGOA and then again five years later, and that regional groups or countries that are ready to negotiate should be identified.

The renewal of AGOA could be more positive. Unfortunately, a capacity-building element of the bill was not put through because it would have needed more fundraising.
Summary of Question and Answer Session

Questions

Does the US’s negotiation approach compare unfavourably with the EU’s because the US system balances many different parts controlled by different parties?

How will AGOA progress when the AU’s member states have differing agendas, and when new emerging players are vying for space in Africa?

Can you comment on the usefulness of the US–Africa Leaders Summit in relation to AGOA? Was it more style than substance?

Stephen Lande

If either Africa or the US held a strong position on AGOA, then the framework could have been vastly improved. African governments tend to make decisions based on the external partners that they like the most. African textile industries are most concerned with AGOA, as demonstrated in a trade ministerial meeting in December 2014 where only textile producers made comments. This was because they had previously experienced problems, and so were looking to ensure AGOA was renewed quickly in order to minimize any future issues. A delegation of representatives from Gabon, Mauritius and Lesotho travelled to the US to emphasize that the renewal of AGOA was a priority, and that improvements to the framework were secondary. As a result, a committee of the US International Trade Commission, tasked with evaluating AGOA, was directed to produce a non-controversial programme because AGOA needed to be approved quickly.

Tobacco and peanuts are not included in AGOA but cotton is. The tariff-rate quota system (TRQ) for tobacco is based on historical market share. This means that while Malawi has a small share, large producers of tobacco such as Zambia, Tanzania and Mozambique have no share. The TRQ could have been altered to reflect current market realities, but this was rejected by the US.

Most African countries produce peanuts, and so this commodity could become an extremely important export. But 75 per cent of countries in Africa are unable to export their peanuts because of the prevalence of aflatoxins. The US could enable improvements to the peanut trade by investing in the removal of aflatoxins, but instead it has provided duty-free treatments for cotton. This has not benefited African nations, which are more deeply impaired by subsidies that the US government provides to its own cotton farmers – which in turn make it difficult for African farmers to sell cotton in markets such as China. While peanut production is widespread, there are only four primary cotton producers: Benin, Chad, Mali and Burkina Faso. So problems with US–Africa trade deals have not arisen from the bipartisan nature of the US government, but because there was pressure to renew AGOA quickly.

The US Senate Foreign Relations Subcommittee on Africa draws its chair and its ranking member from Delaware and Georgia. These states are the largest producers of poultry in the US. This means that rather than examining the bigger picture, the committee has focused on the difficulties that faced US companies when shipping poultry into South Africa. Historically, poultry has represented a serious issue in trade relations.

The AU’s trade commissioner and its deputy chair are effective leaders in trade negotiations, but more would be gained if mercantilist principles were set aside and trade agreements worked on instead. It
would then only be a matter of time until there was differentiated production that would allow trade to flow.

An analysis of whether net infrastructure in Africa has improved as a result of Chinese investment would be useful, particularly if it included an assessment of whether improvements have been on a geographical or sectorial basis.

Dr Alex Vines OBE

The number of African leaders in attendance at the US–Africa Leaders’ Summit was impressive, but it is likely that this was because many wanted to visit the White House. Interestingly, the exclusion of Zimbabwe was not an issue, and the summit exemplified that African leaders do view the US differently to Europe. Whether anything was achieved, however, is yet to be seen.

Stephen Lande

The Summit has become institutionalized, and so it will take place again under the new president. It is unfortunate that US policy predicated so much on topics sometimes unrelated to that policy. For example, in order to show US condemnation of atrocities in the DRC, Hillary Clinton removed the DRC from AGOA without a hearing. Furthermore, the US Securities and Exchange Commission ensures that companies that sell products requiring minerals originating in conflict areas exercise due diligence in order to refrain from using conflict minerals. The over-zealous application of this ruling has led many companies to refuse to buy minerals in Africa as a whole. Instead, they source from China, Japan and Australia. Many would suggest that if economic activity is being undertaken in a conflict zone, this should be encouraged as it may provide income for the country in a post-conflict environment.