Deepening Regional Integration in Africa: Maximizing the Utilization of AGOA in ECOWAS for Economic Transformation

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First signed into law in 2000, the African Growth and Opportunity Act (AGOA) was expanded and reauthorized for ten years in 2015. While many critics question how useful AGOA has been, particularly due to its strict origin requirements on products other than textiles, its impact has been substantial: AGOA has created an estimated 300,000 direct jobs in Sub-Saharan Africa and 120,000 in the United States. Still, it has been vastly underutilized. In 2014 the United States imported USD $2.3 trillion in goods, of which just over 1 percent came from AGOA countries.[1] The reasons for low utilization are well documented: Sub-Saharan African countries have not widely publicized AGOA at home nor addressed some of the key barriers that prevent their citizens from fully utilizing it. Additionally, many African countries lack the capacity to meet the strict volume and supply requirements imposed by U.S. buyers and are not competitive in exports. Further, the manufacturing sector in Sub-Saharan Africa (SSA) has been sluggish, even stagnant, over the last two decades, with just over 6 percent of all jobs in manufacturing in Africa. An export push is needed to maximize utilization of AGOA.

Beyond the development of AGOA utilization strategies at the national level, regional integration is the key to maximizing the utilization of AGOA. The Economic Community of West African States (ECOWAS) is considered one of the more effective economic blocs in Africa.[2] Appropriate policies and a three-pronged approach are needed to maximize AGOA utilization in ECOWAS through regional integration. First, ECOWAS must move to scale up the integration process and move toward the establishment of a regional industrial hub. Second, it is essential for the U.S. government to continue expanding its Africa strategy and trade capacity-building programs. Third, African governments must move to create a conducive policy environment for export firms to thrive by taking advantage of a rebalancing in Asia away from exports toward a consumption-led economy.[3] The reauthorization of AGOA presents a window of opportunity for Sub-Saharan Africa. There is concern in some quarters that AGOA may not be renewed after 2025, due to a rapidly changing global trade environment, notably the European Union's preferential trade agreements with African, Caribbean and Pacific (ACP) countries. These agreements provide bilateral access for European firms, unlike AGOA, which only provides preferential access for African goods coming into the United States and not the reverse. With the Trans-Pacific Partnership (TPP) all but ratified, Africa cannot sit around and wait. Sub-Saharan African countries must move to strengthen regional partnerships and increase export-led manufacturing before the 10-year window of opportunity provided by AGOA closes. A call to action is needed to enhance economic reforms and peacebuilding, deepen integration, diversify exports and increase export-led manufacturing, and move goods to more efficient spaces.

Policy Options and Recommendations

The following actions are critical to ensuring AGOA maximization in West Africa:

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1. **For ECOWAS**

a. **The customs union must be made more effective**: ECOWAS still faces serious challenges with tariff and non-tariff barriers and customs regulations. Member states must speed up the elimination and reform of tariff and non-tariff barriers; particularly the elimination of tariffs on industrial products. Further, ECOWAS should work to reduce the restrictive 60 percent rule of community origin. These changes will further deepen and enhance the integration process.

b. **Create a regional industrial base to increase export-led manufacturing:** A key issue in AGOA utilization in Sub-Saharan Africa is the waning manufacturing sector, coupled with an uncompetitive business environment. AGOA-eligible countries in West Africa can exploit economies of scale through the creation of a regional industrial base to be more competitive in exports and export-led manufacturing. This will facilitate the movement of goods to more productive spaces in the sub-region and enhance vertical and horizontal integration. On a related note, the move to a common industrial policy has been poorly implemented for a number of reasons, including a lack of funding. Member states must move to address this challenge and devote domestic budget resources to make it happen.

c. **Improve electricity and transport infrastructure:** ECOWAS countries have a poor transport network that increases the costs of goods. Ninety percent of the movement of goods and people in ECOWAS happens on roads, but the region has just 4.7 km of roads per 100 sq. km, well below the 6.8 km average for the entire African continent. Most of these road networks are within individual countries and do not provide cross-border access. Further, the quantity and quality of electric power in the region is inadequate, despite a great deal of potential. The Power Africa initiative is working to address some of the power deficit in SSA, but member states must likewise move to address the transport and power deficit for trade and manufacturing to grow and AGOA utilization to increase. Again, domestic budgets as well as foreign direct investments (FDI) and official development assistance (ODA) must be increasingly focused on these needs.

d. **Develop national and regional AGOA utilization plans:** Several enhancements were made to AGOA upon its reauthorization, including the biennial AGOA utilization strategy, which requires African governments or Regional Economic Communities to identify sectors in which they can be competitive and form plans to take advantage of this potential. The East African Community is currently working on a regional AGOA utilization strategy, while Ethiopia, Madagascar, and Kenya are among the few countries to develop a country-level strategy. ECOWAS should move to develop its own regional strategy and assist member states in developing their national AGOA utilization strategies and frameworks.

2. **For the United States Government**

a. **The USAID West Africa Trade and Investment Hub should increase investment in export-led manufacturing:** The U.S. program on trade capacity building in West Africa is fairly effective. However, an increase in investment towards manufacturing would enhance export competitiveness in the region. A deliberate and direct approach to investment in export-led manufacturing in the region will not only maximize AGOA utilization but will better position Sub-Saharan Africa in the global trade environment post-AGOA.

b. **A post-AGOA policy framework is necessary**: Discussion of the U.S.'s post-AGOA policy framework should begin right away. Long-term clarity of U.S. post-AGOA trade policy toward Africa is imperative, as has happened with the Trans-Pacific Partnership and is happening with the Trans-Atlantic Trade and Investment Partnership. The United States, with consultation from the African Union and African governments, must make sure that U.S. and African firms can plan for an orderly transition to a new U.S.-Africa framework after 2025, possibly one focused on a continental free trade zone with reciprocity.

3. For African Governments

a. West African firms must be educated on the benefits of AGOA: Policymakers have overlooked huge gaps in knowledge about AGOA in West Africa, which have prevented businesses from utilizing it. Export firms and individuals at the country level, including government officials tasked with implementing trade policies, must be educated on how AGOA works and the benefits it can provide. This should be done through civil society engagements to sensitize individuals and export firms on AGOA utilization.

b. Easing supply side constraints: West African governments should create policies that foster an enabling environment that encourages export firms in the region to compete. It is critical to lessen supply side constraints that will minimize production to trade cost. This can be achieved by investing in infrastructure and logistics, and incentivizing export firms to improve sanitary and phyto-sanitary standards. This will empower local firms to upgrade and participate in regional and global value chains. Subsequently, export firms will be guaranteed a good return on investments and enhanced competitiveness.

c. Diversify exports: In 2014, U.S. imports from SSA decreased by 32 percent, due partly to a 51 percent decrease in U.S. mineral, fuel, and oil imports from SSA.[4] The United States is increasingly utilizing hydraulic fracking of oil and developing other oil sources, as well as alternative energy. With fluctuating primary commodity prices on the world market, the case for export diversification is heightened. African countries should improve the effectiveness of Export Processing Zones (EPZs) to enhance their competitiveness and further diversify their exports.[5]

For a more in-depth analysis of ways to maximize AGOA utilization in West Africa, see the accompanying Africa Program Research Paper No. 12 by George Boateng.

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1 Brock R. Williams, "African Growth and Opportunity Act (AGOA): Background and Reauthorization," *CRS Report R43173* (Washington, D.C.: Congressional Research Service, 2015). https://www.fas.org/sgp/crs/row/R43173.pdf

2 United Nations Economic Commission for Africa (UNECA), *An assessment of progress towards regional integration in the economic community of west African states since its inception* (Addis Ababa: UNECA, 2015). http://repository.uneca.org/handle/10855/23038

3 Yaw Ansu, Margaret McMillan, John Page, and Dirk Willem te Velde, *Promoting Manufacturing in Africa* (London: SET ODI and Accra, Ghana: African Center for Economic Transformation, 2016). http://set.odi.org/promoting-manufacturing-in-africa/

4 International Trade Administration, *U.S. Trade with sub-Saharan Africa, January-December 2014* (Washington, D.C.: International Trade Administration, 2014) http://trade.gov/agoa/pdf/2014-us-ssa-trade.pdf

5 Aubrey Hruby, *Diversifying African Trade: The Road to Progress* (Washington, D.C.: Atlantic Council Africa Center and Rabat, Morocco: OCP Policy Center, 2015). ISBN: 978-1-61977-961-7. http://www.atlanticcouncil.org/publications/reports/diversifying-african-trade

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