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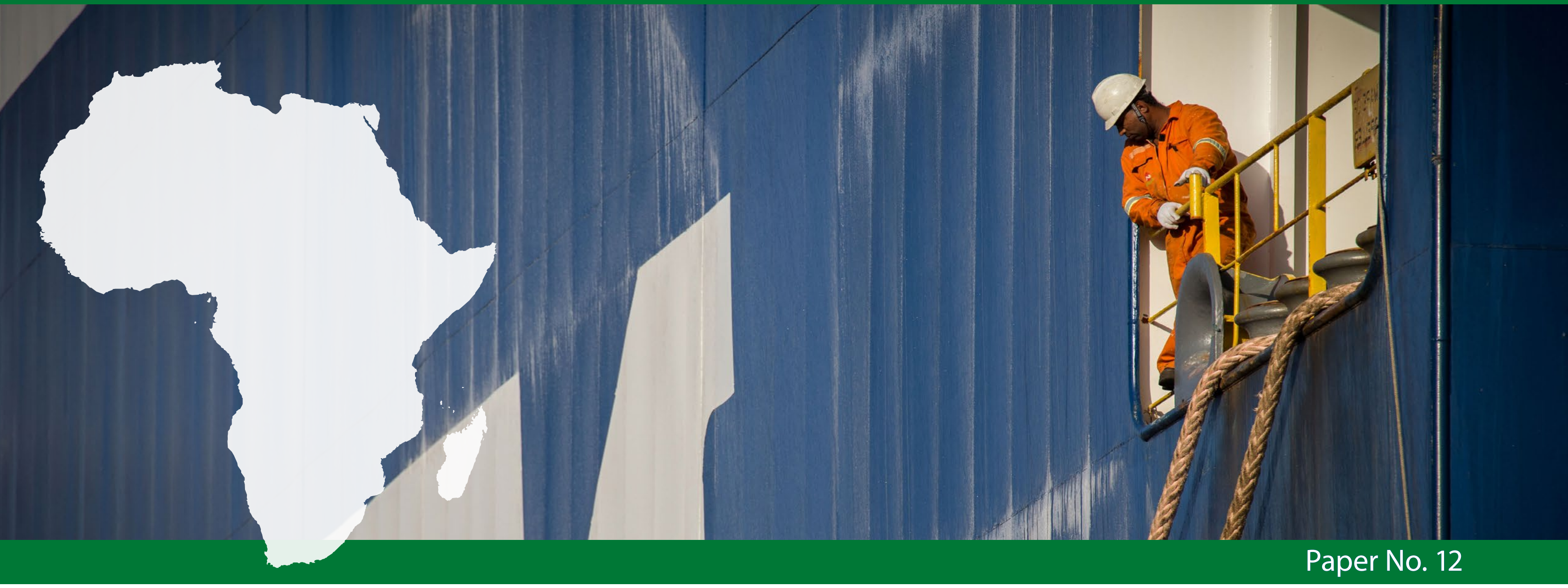

Paper No. 12

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

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Although many African countries have seen enormous growth over the last two decades, poverty remains entrenched. Few jobs have been generated for the large numbers of young people who enter the job market every year. Fundamentally, growth has not brought economic transformation, which is necessary to ensure equitable growth and human security.[1] Serious issues have prevented African countries from generating the necessary growth and jobs to transforming their economies. Prominent among these issues are poor economic policies, weak institutions, and insecurity.

AGOA, the African Growth and Opportunity Act, is central to U.S.-Africa trade and investment. It is a non-reciprocal U.S. program that provides duty-free access for qualifying exports from eligible Sub-Saharan Africa (SSA) countries and represents a clear opportunity for African countries to spur trade and growth, and ultimately take steps toward economic transformation. AGOA has created an estimated 300,000 direct jobs in beneficiary Sub-Saharan African countries, and an estimated 120,000 American jobs.[2] It also represents a powerful tool for economic transformation and ultimately peacebuilding, through the promotion of sound economic policies geared towards human security. Economic inequality and perceived resource imbalances are often at the root of conflict and instability; therefore, strategies to generate broad-based economic growth can contribute not only to improved livelihoods, but also peacebuilding and improved human security.[3]

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Total African exports under AGOA have more than tripled since the program's inception.[4] However, despite these successes, many opportunities for economic growth under AGOA have been missed, and it has not been well utilized for a number of reasons. The program has not been well publicized in Africa, and African governments have failed to organize to take full advantage of the opportunities provided by AGOA. For example, most African governments have failed to develop AGOA utilization plans; by December 2014, only 14 of the 41 AGOA-eligible countries had developed utilization strategies.[5] Supply-side constraints also mean that SSA countries lack the capacity to meet the strict quantity and supply requirements imposed by U.S. buyers.[6] Additionally, the manufacturing sector's total contribution to African economies has actually shrunk since 1980, as the sector has grown more slowly than African economies as a whole.[7] Trading costs as a percentage of production costs in Africa is about 12 percent, compared with 4 percent for Western Europe and 7 percent for Latin America.[8] These costs, coupled with poor transportation infrastructure and inefficient borders slow commerce and, as a result, SSA countries' exports are not globally competitive.

Beyond the development of national utilization strategies, regional integration represents one of the most effective ways to address the issues preventing African countries from taking advantage of AGOA. Specifically, SSA countries can deepen regional integration by harmonizing trade policies to reap efficiency gains, improve trade logistics, exploit economies of scale, and develop competitive manufacturing industries to maximize AGOA.

## The African Growth and Opportunity Act

AGOA was signed into law in 2000 to enable qualifying SSA countries to export duty-free to the United States. Selection is limited to countries that show commitment to the rule of law, economic reform, and poverty eradication, and that facilitate the development of civil society and ensure political freedoms.[9] In 2015, AGOA was reauthorized and extended until 2025. The reauthorized AGOA made several enhancements to the first incarnation, including the Biennial AGOA Utilization Strategy. This essentially encourages SSA countries and African Regional Economic Communities (RECs) to identify sectors and products in which they believe they can be competitive and form plans to take advantage of this potential. The biennial strategy makes a strong case

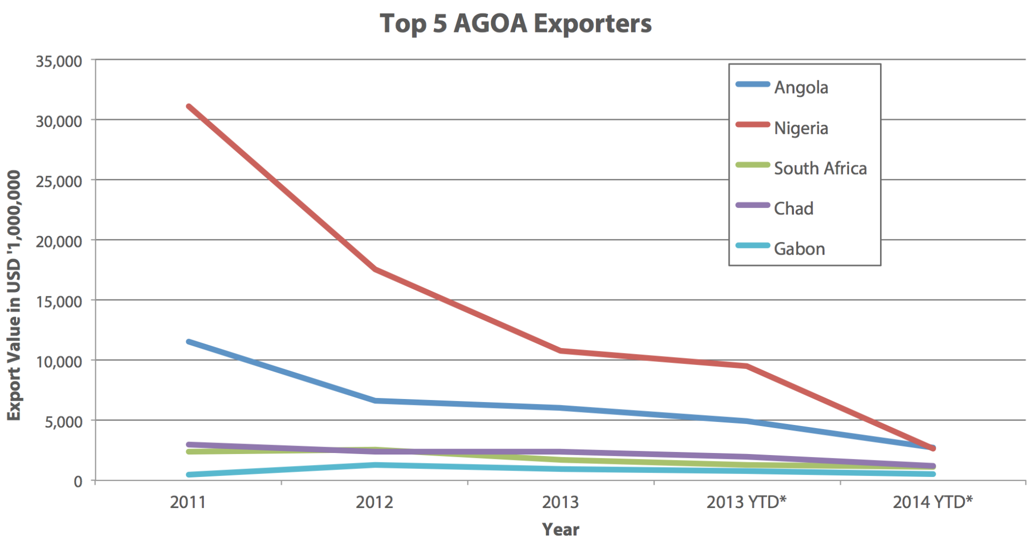


**Figure 1: AGOA utilization in SSA**

Source: U.S. Department of Commerce | * YTD - January-September for African countries and the RECs to determine their comparative advantage in products and sectors and move to do away with bottlenecks that have impeded AGOA utilization.

Despite successes, AGOA has been underutilized over the last 15 years. According to the Congressional Research Service, the United States imported USD $2.3 trillion in goods in 2014, of which just over 1 percent came from AGOA countries. Further, the pre-2015 AGOA was dominated by oil and minerals in terms of U.S. imports from Africa, with petroleum products, mostly from Nigeria and Angola, comprising around 68 percent of all AGOA imports to the United States in 2014.[10] In 2014, U.S. imports from SSA decreased by 32 percent to $26.7 billion.[11] This is attributed to a 51 percent decrease in imports of oil and minerals from SSA, as the United States is increasingly turning to oil produced domestically and diversifying its sources of energy.[12] More worrying is the fact that non-oil AGOA exports are also in decline, falling by 10 percent between 2013 and 2014 to $4.4 billion.[13] Given this, the case for export diversification is strong. AGOA cannot help drive economic transformation unless there is stronger product diversification in utilization. Exports by ECOWAS countries under AGOA have been in decline since 2012. However, overall trade between the United States and ECOWAS countries has been increasing since 2013. This is partly due to AGOA's exclusion of competitive African exports like sugar, peanuts, dairy, and tobacco.

Despite low utilization, experts have touted the gains achieved through AGOA, from increased exports to job creation, among other successes. But SSA countries are not taking advantage of the wide product coverage under AGOA. The impact AGOA can have on transforming the economies of SSA countries is not in doubt, but the real issue is maximizing its utilization to spur and consolidate growth for economic transformation.

## Regional Integration in ECOWAS

ECOWAS is of the African Union's eight RECs.  It is made up of 15 West African countries, with a market size of about 320 million people and a combined GDP of $396 billion. Created on May 28, 1975 with the signing of the Treaty of Lagos, its mission is to promote economic integration across the region. ECOWAS was founded in order to achieve shared economic growth for its member states by creating a single large trading bloc, with the end goal of moving toward an economic monetary union.

The ECOWAS commission has stated that the organization's first objective remains the promotion of trade between member states.[14] But little regional trade occurs; instead, the key trading partners for West African countries are outside the continent. Europe and the Americas are the main destinations of West Africa exports (68 percent). Regional trade is dominated by Nigeria and Côte d'Ivoire (87 percent of transactions), with Ghana and Senegal third and fourth respectively.[15] The share of intra-ECOWAS trade in world trade is low and decreasing: 8.1 percent in 2012 against 16.2 percent in 2001 for imports from member countries, and 9.6 percent to 7.8 percent for exports during the same period.[16] These figures may be underestimated—the United Nations Conference on Trade and Development estimates that informal cross-border trade in West Africa could represent 20 percent of Nigeria's GDP and 75 percent of Benin's.[17] Regardless, the relatively low level of intra-ECOWAS trade represents a serious problem, and is part of a continent-wide pattern—trade among SSA countries in general is only about 12 percent, compared to more than 60 percent in Europe.[18]

The economic and political rationale of West Africa's integration efforts is progressive. Despite that, however, ECOWAS countries are divided today. The Francophone countries are deeply linked economically and politically to France, while Nigeria and Ghana, the two largest Anglophone economies, have different economic goals.[19] There are also issues of tariff and non-tariff barriers, customs regulations, limited infrastructure (especially power), and roadblocks, which all hinder cross-border trade and economic transactions in the sub-region.

Even with these challenges, efforts at integration in the West African region are largely seen as fairly effective in comparison to other African RECs. The deepening of democratic governance in the region has resulted in some level of political stability. The United Nations Economic Commission for Africa assessed the progress made by ECOWAS towards regional integration in three segments.[20] The first phase includes significant progress made in the free movement of persons, an improving sense of peace and security, and the supervision of electoral processes. It considers these domains "the strength of ECOWAS," strengths that need to be consolidated to avoid losing gains made. The second phase includes steps toward the free movement of goods, services, and capital; better governance; and monetary union.[21] Here real progress has been made in terms of the integration of policies of member states, but huge constraints remain, including institutional capacities. The third phase includes sectoral policies such as a common industrial and mining policy. This has only been marginally achieved, primarily due to issues of funding.[22]

## A Viable Approach to Increasing AGOA Utilization in ECOWAS

ECOWAS could maximize its utilization of AGOA through a variety of scenarios, which are based on the product space approach (pioneered by Hausmann and Hidalgo).[23] They define product space as a network of inter-relatedness between products. Relatedness is associated with the similarity in the inputs required by a certain activity including particular skills, institutional capabilities, and infrastructural and technological requirements. Economic progress will occur when countries move from what they are already producing to others products that are sophisticated; in other words, by producing and exporting more high-value but related products. Therefore, AGOA-eligible countries in West Africa can exploit economies of scale through integration and become more competitive in export-led manufacturing by moving goods to more productive spaces in the region. These productive spaces are countries which are more efficient in producing high-value goods; they have the skills and infrastructure as well as the technical capabilities.

For example, Burkina Faso, Mali, and Benin are significant producers and exporters of raw cotton, but they lack the business framework, supply chain, skills, large middle class, and industrial structure of some of their coastal neighbors such as Ghana and Senegal.[24] These countries can benefit from the infrastructure, business frameworks, and skills of their neighbors by manufacturing textiles or apparel. This would add value to their cotton, increasing the value of exports and making the region more competitive. Similarly, Burkina Faso is a major producer of mangoes in West Africa, with over 250,000 metric tons per year, but the country lacks the processing capacity to move into the production of high-end produce like processed mangoes. An integrated agro-processing industry with a coastal neighbor such as Ghana or Côte d'Ivoire that has the competitive skills set and infrastructure for processing will be beneficial.

The World Economic Forum's Global Competitiveness Index (2015-2016) assesses the competitiveness landscape of 140 economies, providing insight into the sources of their efficiency. Infrastructure and skills act as major constraints to competitiveness in West Africa.[25] West Africa can, however, be more competitive as a region than individually. In developing a regional cotton textile and garment industry, or an integrated agro-processing industry, countries like Burkina Faso, Benin, or Mali that are not competitive in indicators such as infrastructure, business framework and skills can benefit from superior indicators of their neighbors such as Côte d'Ivoire, Ghana or Senegal with Global Competitiveness Index of 3.9, 3.6 and 3.7 respectively. This arrangement will move goods to more efficient countries in the region. But this concept would only be aided by faster progress in realizing reforms in the ECOWAS customs union, as well as by fully implementing sectoral policies such as the common industrial policy.

Not everyone agrees with the approach outlined above. There are concerns that agro-processing, apparel, and textile production are low-skilled manufacturing industries, and that AGOA beneficiaries should look to higher skilled manufacturing rather than concentrating on low-earning sectors. It is true that agro-processing, apparel, and textiles are low hanging fruit in the manufacturing sector. However, given the current levels of infrastructure and capacity within the region, these sectors are where West Africa needs to begin.[26] Over time, it can learn and move into high-skilled manufacturing. This level of manufacturing will encourage the growth of similar support mechanisms like decent logistics, urban transportation, reliable power supply, and legal framework for hiring labor for industry, consequently enabling further diversification in exports.[27]

Additionally, trade logistics will play an important role in increasing West Africa's AGOA utilization. Efficient logistics connect firms to domestic and international markets through reliable supply chain networks. Countries faced with low trade logistics performance are less competitive because they incur higher transaction costs. The World Bank Logistics Performance Index (LPI) ranks West African countries at 2.3 on efficiency of logistics in facilitating trade, behind Southern African and Eastern African countries which each have a 2.7 score.[28] To improve competitiveness, West Africa countries should aim to boost logistics in trade.

In a nutshell, if regional partnerships are strengthened and comparative advantage is secured in the product space by AGOA beneficiaries in West Africa, it will facilitate movement of goods from less efficient countries to more efficient ones, and increase value addition and export-led manufacturing, which will trigger further export diversification.

## Conclusion

The reauthorization of AGOA to 2025 should be a welcome proposition for SSA. But will AGOA be renewed post-2025? There are concerns it will not. This is attributed to the changing global trade environment, most notably the European Union's preferential trade agreement with African, Caribbean, and Pacific (ACP) countries, which is providing two-way access for European firms, while AGOA does not provide preferential access for U.S. firms. With the Trans-Pacific Partnership (TPP) agreement on the horizon, SSA countries must position themselves for deeper integration and export-led manufacturing before the 10-year window of AGOA closes.

The reauthorization of AGOA presents a window of opportunity for Africa, but also a call to action to seize this window to enhance economic reforms and peacebuilding; deepen integration; diversify exports and increase export-led manufacturing; and move goods from less efficient spaces to more efficient ones. The next 10 years ought to be where export-led manufacturing takes center stage. The central lingering question is how SSA countries can take advantage of the benefits of AGOA to increase exports, and on the other side how the United States can spur manufacturing in SSA and promote structural economic growth in the region.

## Policy Options

In answering the above questions, it is crucial for the U.S. government to continue expanding on its strategy and trade capacity-building in Africa. The most important need is assistance in deepening regional integration in ECOWAS (and other RECS), particularly in harmonizing the processes of the Free Trade Agreement and especially the removal of tariffs on industrial products. Moreover, it is essential that African governments establish effective dialogue with the private sector, civil society, and policymakers to chart new and robust ways to be relevant in the new trade policy environment.

One of the key outcomes of the World Trade Organization's 2014 Bali meeting was the Trade Facilitation Agreement (TFA). Trade facilitation looks at how procedures and controls governing the movement of goods across national borders can be improved to reduce cost burdens and maximize efficiency. Studies suggest moving goods more quickly and efficiently would create $1 trillion in export gains, a $960 billion GDP increase, and 21 million new jobs.[29] Hence harmonization of the customs union by all member states of ECOWAS will go a long way to increasing intra-community trade and learning to compete by upgrading into regional and global value chains. Industrialization, predominantly export-led manufacturing, remains vital for Africa's economic transformation and human security, and for providing employment for millions of youth across the continent.

The sectoral strategy on the common industrial policy will be pivotal in enhancing export-led, competitive manufacturing in the region. In order for ECOWAS to be competitive and be able to export more under AGOA, it needs to increase its share of manufacturing in total global exports. A regional industrial trade base, which employs economies of scale and moves goods from less efficient to more efficient countries, will help maximize AGOA in ECOWAS.

For a set of policy options and recommendations related to harnessing regional integration to maximize AGOA utilization in West Africa, see the accompanying Africa Program Policy Brief No. 6 by George Boateng.

*George Boateng served as a Southern Voices Network Scholar at the Wilson Center from April to June 2016. He is a Research Analyst at the African Center for Economic Transformation (ACET) in Accra, Ghana, which is a member of the Southern Voices Network.*

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