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The African Growth & Opportunity Act: How Much Opportunity?

For Sub-Saharan Africa (SSA), trade could play a crucial role in development, both economically and politically. Economically, trade offers short- and long-term opportunities to improve economic efficiency and raise incomes. Politically, trade also can spur domestic reforms which would lead to greater stability and peace.

To help create incentives for SSA countries to implement economic reforms and contribute to improved market opportunities and stronger commercial ties to U.S. companies, Congress passed the African Growth and Opportunity Act (AGOA) in May 2000 as part of the Trade and Development Act of 2000. AGOA provides preferential access to U.S. markets for eligible products (1,853 tariff lines) from designated Sub-Saharan countries and improved access to credit and technical expertise.

The President may designate SSA countries as eligible to receive the benefits of the Act if they are making progress in such areas as:

- establishing market-based economies,
- democratizing government,
- eliminating barriers to U.S. trade and investment,
- combating corruption,
- increasing access to health care and education, and
- protecting human rights.

However, progress in each area is not a requirement for AGOA eligibility. Currently, there are 36 AGOA-eligible countries. Eligibility is reviewed annually.

AGOA allows duty- and quota-free market access for virtually all products as long as they are produced in and/or imported from a beneficiary Sub-Saharan African country. The exceptions include fabrics and yarns that are not parts of finished apparel products, and a few sensitive agricultural products.

AGOA grants the most liberal access to the U.S. market available to any country or region except for countries with which the U.S. has a free trade agreement. It has the potential to be more comprehensive with respect to trade provisions than the European Union's (EU) Lome agreement that provides duty-free status for agricultural goods produced in African, Caribbean, and Pacific countries.

The Role of Agricultural Commodities

The European Union (EU) is the largest market for SSA exports, with a 37 percent share. However, the U.S. is the largest single-country market, with 27 percent in 2000. The United Kingdom had a 7 percent share. The U.S. imported $7.6 billion (duty-free) under AGOA in 2001, which equaled more than a third of the value of total U.S. imports from the region. Ninety percent of the imports were petroleum products and 5 percent were apparel. Three countries—Nigeria, Gabon, and South Africa—received 93 percent of the benefits.

Imports from the 36 AGOA-eligible countries were down 10 percent from 2000, reflecting the 15-percent drop in oil prices between 2000 and 2001. However, when crude oil and precious metals and stones are excluded, U.S. imports from these countries rose 11 percent from 2000.

While oil dominates regional export values at the aggregate level, only a few countries in the region export oil (i.e., Nigeria, Cameroon, Gabon, and Angola). Agricultural commodities, however, are vital to the economic development and food security of the entire region. Agriculture contributes roughly 35 percent of the region's gross domestic product (GDP), more than for any other region in the world, and contributes about 25 percent of total export earnings.

More than half the SSA countries depend on three out of four primary commodities for over 50 percent of their export earnings. Beverages (coffee, cocoa, and tea), sugar, cotton, and tobacco accounted for more than 80 percent of agricultural export earnings of those countries in the late 1990s. Stimulating development and achieving a broad-based export gain will depend on agriculture.

Challenges of Competing in U.S. & Global Markets

The U.S. food market is a mature market with daily per capita calorie availability at roughly 3,800. The U.S. produces tobacco and cotton, which are important export crops for SSA countries. While U.S. imports of agricultural products grew in the last decade, the growth rate was slower than for nonagricultural products.

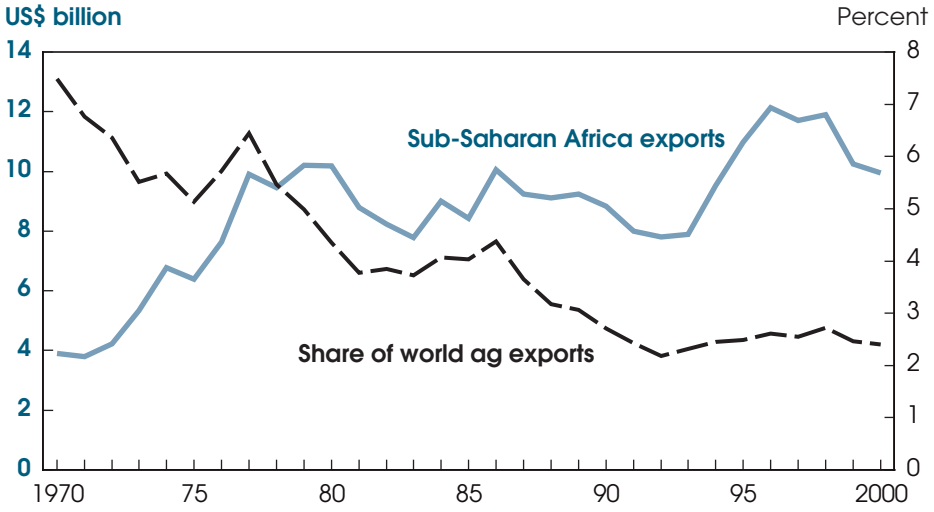
The highest value imported food commodity group is processed foods, followed by fruits, vegetables, nuts, and tropical products—including coffee and cocoa. Per capita consumption of coffee and cocoa has been flat during the last decade, as it was displaced by soda in the late 1980s and early 1990s. More recently, competition has come from bottled water.

Despite these trends, the U.S. remains a major market for coffee and cocoa. The U.S. accounts for more than 25 percent of the world's raw coffee imports, and close to 20 percent of cocoa beans. However, most U.S. coffee imports are being supplied by Latin American, not African, countries. Colombia, Guatemala, Brazil, Mexico, and Costa Rica account for about two-thirds of U.S. coffee imports. Cote d'Ivoire dominates the cocoa market, however, supplying almost half of U.S. imports.

Bananas and pineapples are also important export crops for SSA countries, but Latin American countries dominate the U.S. market for these commodities as well. Latin America has had an advantage stemming from proximity to the U.S. market, from trade agreements (such as the Caribbean Basin Initiative), and in some cases, because of a higher quality product.

Market competition for traditional African export commodities has risen. Regional transportation policies favoring domestic carriers have raised shipping costs. As a result, the region has lost market share at the global level and in the U.S. market. SSA's share of global agricultural exports declined steadily between 1970 and the early 1990s (at an annual rate of roughly 7.5 percent), and has held fairly stable at the current rate of about 2.5 percent.

Sub-Saharan Africa's Market Share of Global Ag Exports Has Shrunk in Recent Years



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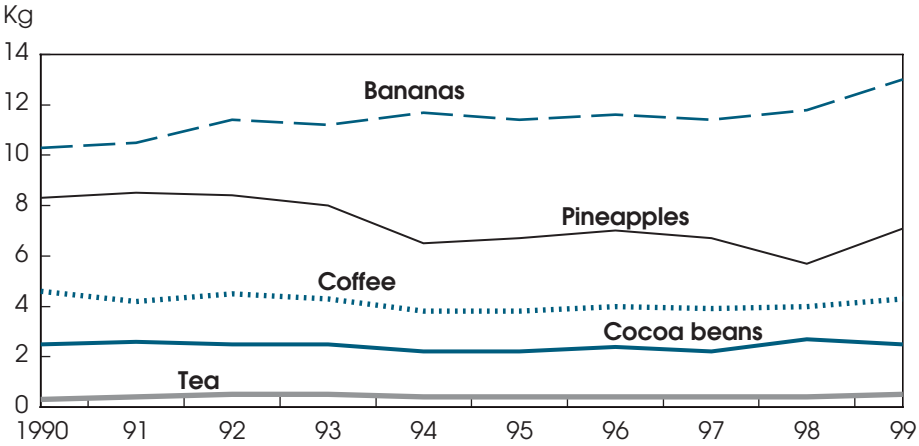
U.S. Per Capita Consumption of Coffee and Cocoa Remains Flat



Key export crops for Sub-Saharan African countries. Consumption measured as annual per capita supply in kilograms.

Economic Research Service, USDA

Another constraint facing SSA is lack of established sanitary and phytosanitary (SPS) requirements—measures adopted by governments to protect animal, plant, or human health. Establishing SPS measures can take many years, particularly with limitations in:

- certification process,
- trained inspectors,
- testing facilities, and
- enforcement of standards.

Declining market share has translated into a serious financial loss. SSA's share of global agricultural exports was 4.35 percent in 1980. Had this share remained constant through 2000, SSA's agricultural exports could have reached $18 billion in 2000 as opposed to the actual value of $10 billion. The estimated loss in export revenue resulting from declining market share during the last two decades totaled more than $95 billion.

SSA's share of the U.S. agricultural import market continues to fall—from 2.5 percent in 1996 to 1.9 percent in 2001—as total U.S. agricultural imports rise. Additionally, prices for a majority of Sub-Saharan agricultural export commodities have declined. In 2000, for example, prices for coffee and cocoa had fallen to about 25 percent of their peak level of the late 1970s.

Value-Added Commodities Present Opportunity

What potential export opportunities exist for this region? Value-added commodities are a possibility as demand for processed agricultural products rises—and prices for processed goods are obviously much higher than for raw agricultural products.

Currently, SSA exports mostly unprocessed agricultural products—processed products account for less than 10 percent of the region's agricultural exports. Developed countries (e.g., Canada, Germany, and Sweden) dominate exports of processed coffee and cocoa to the U.S. market. The U.S. import value of processed coffee is about 3 times as high as the raw product, and the import value for processed cocoa is more than twice that for unprocessed cocoa. Under AGOA, African countries have the potential to increase their share of these exports because they produce the raw materials and will be exempt from any tariffs that other producers have to pay.

But investment is needed before this region can enter into the processed market. In 1998, 85 percent of global foreign direct investment (FDI) went to high- and middle-income countries. Most of the FDI directed at developing countries goes to China. SSA countries received less than 1 percent of global FDI in 1999. Although FDI to the region grew threefold between 1994 and 1999, most of the benefits went to South Africa and to oil exporters like Nigeria and Angola.

Reasons for low inflow of FDI include:

- political instability;
- low GDP growth rate of SSA;
- trade restrictions in many SSA countries;
- highly variable real effective exchange rates;
- corruption; and
- poor market infrastructure.

Global trade liberalization will reduce trade barriers and increase trade competition, but it also means that the competitive edge SSA currently enjoys under the AGOA will be reduced in the future. In the meantime, however, AGOA will provide an edge for African countries. The U.S. market share of the region's agricultural exports is low relative to other regions of the world, leaving significant potential for growth. The mature U.S. consumption market is diversifying, which can create opportunities for African exporters.

Improvement in market information should allow SSA countries to make choices. Niche markets for commodities such as organic fruits and vegetable exports represent opportunity for growth. The AGOA initiative—and similar pursuits by other high-income countries—should expand market opportunities. Further integration into global markets should lead to increased foreign investment and assistance to link the region to the global economy. AO

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