Order Code RL31772

Report for Congress
Received through the CRS Web

U.S. Trade and Investment Relationship with Sub-Saharan Africa: The African Growth and Opportunity Act and Beyond

March 10, 2003

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Summary

Following the end of the apartheid era in South Africa in the early 1990s, the United States sought to increase economic relations with sub-Saharan Africa. President Clinton instituted several measures that dealt with investment, debt relief, and trade. Congress required the President to develop a trade and development policy for Africa.

The economic challenges facing Africa today are serious. Unlike the period from 1960 to 1973, when economic growth in sub-Saharan Africa was strong, since 1973 the countries of sub-Saharan Africa have grown at rates well below other developing countries. There are some signs of improvement, but problems such as HIV/AIDS and the debt burden are constraining African economic growth.

In May 2000, Congress approved a new U.S. trade and investment policy for sub-Saharan Africa in the African Growth and Opportunity Act (AGOA; Title I, P.L. 106-200). U.S. trade with and investment in sub-Saharan Africa have comprised only 1-2% of U.S. totals for the world. AGOA extends preferential treatment to imports from eligible countries that are pursuing market reform measures. Data show that U.S. imports under AGOA are mostly energy products, but imports to date of other products are growing. AGOA mandated that U.S. officials meet regularly with their counterparts in sub-Saharan Africa, and two of these meetings have been held.

AGOA also directed the President to provide U.S. government technical assistance and trade capacity support to AGOA beneficiary countries. Government agencies that have had roles in this effort include the U.S. Agency for International Development, the Assistant U.S. Trade Representative for Africa (established by statute under AGOA), the Overseas Private Investment Corporation, the Export-Import Bank, the U.S. and Foreign Commercial Service, and the Trade and Development Agency. In addition to domestic programs, the United States is a member of several multilateral institutions that also provide technical capacity building.

In AGOA, Congress declared that free-trade agreements should be negotiated, where feasible, with interested sub-Saharan African countries. Related to this provision, negotiations on a free-trade agreement with the Southern African Customs Union, which includes South Africa and four other countries, are expected to begin in April 2003.

Several topics may be important to Congress in the oversight of AGOA and in potential legislation amending the Act. These issues concern the expiration of the Act, rules of origin provisions concerning textiles and apparel, the use of AGOA's benefits by more countries, and the HIV/AIDS epidemic. This product will be updated periodically.

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Introduction

All of us share a common vision for the future of Africa. We look to the day when prosperity for Africa is built through trade and markets.

– President George W. Bush to delegates at the African Growth and Opportunity Forum in Mauritius, January 15, 2003.

As reflected in the above statement by President Bush, a key element in U.S. policy toward Africa is the potential benefit from improved commerce between the two regions. This interest in increasing bilateral commerce began after the end of the apartheid era in South Africa in the early 1990s. In 1993, Congress approved the end of anti-apartheid restrictions, and later that year Commerce Secretary Ron Brown led a business delegation to South Africa.

With the end of apartheid, President Clinton instituted numerous measures to help the region and increase U.S. trade and investment there. In 1994, he announced a $600 million aid and investment package for South Africa. In 1997, he proposed the Partnership for Economic Growth and Opportunity in Africa, which offered different levels of economic benefits to countries in sub-Saharan Africa (SSA), depending on their economic reform measures.

At the same time, Congress was developing legislation that sought to improve U.S.- Africa trade relations. In the 1994 legislation to implement the Uruguay Round multilateral trade agreements (P.L. 103-465), Congress directed the Administration to develop and implement a comprehensive trade and development policy for the countries of Africa. Disappointed with the Administration's first report under this provision, some Members developed legislation to authorize a new trade and investment policy for sub-Saharan Africa. In May 2000, Congress approved such legislation in the African Growth and Opportunity Act (AGOA; Title I, P.L. 106-200). AGOA offers trade preferences and other economic benefits to countries in SSA that are pursuing market reform policies.

Figure 1: Africa

Source: Map Resources. Adapted by CRS. (M.Chin 03/03)

Both the executive and legislative branches continue to consider ways in which to improve trade relations between the United States and SSA. In mid-year 2002, the Congress amended AGOA to further increase market access for products from SSA.[1] The Administration plans to soon begin free-trade negotiations with the South African Customs Union (Botswana, Namibia, Lesotho, South Africa, and Swaziland). Furthermore, President Bush and some Members of Congress are calling for AGOA to be extended beyond its 2008 deadline.

[1]Section 3108 of the Trade Act of 2002, P.L. 107-210.

This report presents perspectives on the African economic trends and provides an overview of U.S. trade and investment flows with SSA. It discusses the provisions of AGOA and the changes that have occurred since its enactment. It concludes with a brief discussion of issues of congressional interest.

Perspectives on the Sub-Saharan African Economy

Historical Perspectives[2]

The pattern of Africa's economic growth from 1960 to present serves as a benchmark for today's policymakers. Between 1960 and 1973 economic growth was reasonably strong in much of SSA. The subsequent two decades were, however, a period of stagnation or decline for most countries.[3] This period has been labeled by some scholars as 'Africa's growth tragedy'.[4] The roots of the malaise, according to them, lie in a failure of governance. Some analysts have argued that this manifested itself in inefficient public services, extensive market interventions and protectionist and inward-looking economic policies and civil war.[5] These issues of governance, it has been argued, created political instability which in turn led to an adverse environment for investment and economic growth.[6]

Africa's slow growth and stagnation have been attributed to slow accumulation of both human and physical capital, low productivity growth and pressures from high population growth rates. The ratio of investment to GDP in SSA in the historical period averaged 9.6 percent of GDP (measured in international prices) relative to nearly 15.6 percent in other developing countries.[7] It has been argued that SSA's stock of human capital is well below developing countries norm and the region's relative position has deteriorated over time, particularly with respect to attainment of secondary education.

The data show that typically there was a single main break in the growth trends for most African economies. This break occurred at some point between 1973 and 1980, followed by persistent stagnation until 1992. Recent data demonstrate that many countries have made a modest recovery since about 1994, but the levels of

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[2]This section was written by Anjula Sandhu, Research Associate, Foreign Affairs, Defense, and Trade Division.

[3]A Hoeffler, "The Augmented Solow Model and the African Growth Debate", CSAE, University of Oxford, March 2000.

[4]See, for example, W Easterly and R Levine, "Africa's Growth Tragedy: Policies and Ethnic Divisions", *Quarterly Journal of Economics*, Vol. 112, Issue 4, November 1997.

[5]R J Langhammer, (2000) "The Reasons for Slow Growth in Africa", International Economic Relations and Development Economics, The Kiel Institut of World Economics.

[6]L. Pritchett, "Where Has All the Education Gone?" *World Bank Research Paper*, #1581, March 1996.

[7] Shantayanan Devarajan, "Is Investment in Africa Too Low or Too High? Macro and Micro Evidence," *World Bank Research Paper*, #2519, January 2001.

growth have tended to remain far below the first post-colonial phase.[8] For the four decades as a whole, SSA's average per capita income growth of 0.9 percent lagged behind that of other developing countries by 1.5% and approximately 3% below that of the high performing African (Botswana and Mauritius) economies.[9]

Commentators tend to treat Africa as a single unit of analysis, thus side-stepping the fact that many countries exist within the continent. In fact, there is a wide variation in the growth performance of individual African countries. In a recent study it was found that in a group of 36 African countries, 22 countries exhibited reasonably robust growth before the long period of stagnation. The remaining 14 either experienced steep growth rollercoasters or showed persistent stagnation at growth rates below 1.5 percent throughout the last three decades. In this study, the growth rates achieved by Botswana and Mauritius stand out.[10]

The consequence of the long period of stagnation in growth for a large number of African economies, combined with high population growth rates, is that little or no progress has been made in raising the standards of living in these countries.[11] Between 1960 and 1994, out of 35 SSA countries for which comparable data exist, 16 suffered at least 20% loss in income per capita measured in 1985 constant US dollars. Most of the losses were registered after 1975.[12] In contrast to the situation of SSA, developed countries have sustained a remarkably steady per capita growth of approximately 2% for about 100 years, and some newly industrializing countries have maintained income growth rates above 3% for nearly three decades, thus enabling them to gain significant ground on the industrialized countries.[13]

Current Perspectives

According to the World Bank, sub-Saharan Africa achieved a 2.7% rate of GDP growth in 2001. This figure, although outpacing the 1.3% world GDP growth rate, was still bested by the average 4% growth rate recorded by developing countries as a whole. The effects of the slowdown in the global economy on Africa have been mitigated by several factors. Most African countries were helped by lower oil prices in 2001, thus minimizing inflation and improving the current account of these countries. Economic reforms instituted by many African governments, including lowering fiscal deficits, eliminating exchange controls, the adoption of flexible

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[8]*The Economist*, May 13-19, 2000.

[9]L. Pritchett (1998), "Patterns of Economic Growth: Hills, Plateaus, Mountains, and Plains", World Bank Paper, July 1998, (hereafter, *Pritchett*) [www.worldbank.org/wbi/attackingpoverty/ events/Turkey_0199/pritch.pdf].

[10]*Pritchett, p.18.*

[11]W. Easterly (1996) "Why Is Africa Marginal in the World Economy? In: G Maasdrop, ed, *Can South and Southern Africa Become Globally Competitive Economies?* (New York: St Martin's Press, 1996), pp. 19-30.

[12]D. Rodrik, "Where Did All the Growth Go? External Shocks, Social Conflcit and Growth Collapses" mimeo, London School of Economic and Political Science, August 1998.

[13] Pritchett, p. 12.

exchange rates, and reducing trade barriers, have been credited with improving the climate for growth.[14] Increased exports due to AGOA, and increased export competitiveness due to the depreciation of the South African Rand and the CFA-franc also contributed to growth.[15] Growth was retarded by continued weakness of commodity prices, drought and potential famine in certain regions of SSA, and the growing HIV/AIDS pandemic. It has been estimated that in order for the region to achieve one of the UN Millenium Development Goals of halving the incidence of poverty by 2015, growth needs to be in the range of 7-8% on a sustained basis.[16]

Growth Challenges. Despite the region's improved economic performance, the economic challenges facing Africa remain enormous. First, average growth rates mask wide disparities in economic growth among the forty-eight countries of SSA. Second, African countries still generate too little savings and attract too little investment. According to the UN Economic Commission for Africa, Africa must devote at least 25% of its GDP to investment to achieve sustainable growth.[17] Yet, World Bank figures indicate that gross domestic investment (public and private) in Africa only accounted for 17.9% of GDP in 2000. Net foreign direct investment (FDI) at $6.3 billion was the equivalent of 2% of GDP. While FDI worldwide remains stable, FDI flows to Africa as a percentage of flows to developing countries as a whole have fallen from approximately 25% in 1970 to 5% today. While GDP growth is positive for Africa as a whole, average population increases of 2.7% in the 1990s have caused per capita GDP to fall during much of the period. The average African's income was $474 in 2000 compared with $665 in 1980. Meanwhile, the fertility rate, at 5.2 births per woman, is one of the highest in the world.[18]

HIV/AIDS. The HIV/AIDS pandemic is also straining African economies and threatens to curtail future economic growth. SSA's incidence of HIV/AIDS is the highest in the world at 8.38%, but seven countries in southern Africa have infection rates over 20%. Botswana, long considered one of the region's most successful economies, had an infection rate of 38.8% in 2001. Life expectancy in Botswana has fallen to 39 years, and for the region as a whole, it has fallen to 47 years. The pandemic not only diverts resources from education and investment to care for the

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[14] Alan Gelb, and Rob Floyd, "The Challenge for Globalisation in Africa," *South African Journal of International Affairs,* Winter 1999, p. 5.

[15] The CFA franc is the common currency for the states of the West African Economic and Monetary Union. See p.25 for more details. The CFA franc depreciated against the U.S. dollar primarily because of the currency's peg to the Euro which depreciated against the dollar in 2001.

[16] Evangelos Calamitsis, "The Need for Strong Domestic Policies and International Support," *IMF Finance and Development*, December 2001, p. 11; for a description and a list of the UN Millenium Development Goals, see the United Nations Development Program website, [http://www.undp.org/mdg/].

[17] United Nations, *Economic Report on Africa 2002*, pp. 37.

[18] World Bank, *African Development Indicators*, 2002.

sick and dying, but it also disproportionately strikes some of the most productive members of society: skilled workers, teachers, and professionals.[19]

Debt. The debt burden carried by SSA countries has also been identified as a drag on the economies of the region. At the end of 2002, the states of SSA owed foreign creditors $208.9 billion. While SSA's debt is comparable to other regions in terms of absolute amount, per capita share ($251 per head), or debt service as percentage of export earnings (12%), its debt burden is considered onerous because of its high ratio of debt to income. Debt accounted for 71% of African income in 2002. Some have called the present levels of debt in Africa unsustainable and have campaigned for its cancellation. Others maintain that outright cancellation of the debt would create a moral hazard by, in effect, condoning bad economic and governance policies. In 1997, the G-7 nations adopted a plan to reduce debt to sustainable levels for highly indebted poor countries (HIPC). To date, several African countries have taken advantage of the HIPC program, although some have criticized the scope and pace of the program. In Sec. 121 of AGOA, Congress recognized this effort, but also called for bilateral and multilateral debt relief programs to encourage trade and investment, support the development of free markets and the private sector, and promote broad-based economic growth in order to assist beneficiary countries in reducing their debt.[20]

U.S. Trade and Investment Trends

U.S. Trade with Sub-Saharan Africa

The United States conducts a small share of its total trade with sub-Saharan Africa. In 2002, the United States exported $5.9 billion to sub-Saharan Africa, or 0.9% of total U.S. exports of $629.6 billion. The United States imported $18.2 billion from the region, or 1.6% of its total imports of $1,154.8 billion.

Although U.S. trade with sub-Saharan Africa is small compared with major trading partners, it is comparable to U.S. trade with several other developing regions. For example in 2002, the United States traded $35 billion (exports plus imports) with the Andean Pact countries (Bolivia, Colombia, Ecuador, Peru, and Venezuela), $32 billion with the Mercosur countries (Brazil, Argentina, Uruguay and Paraguay), $24 billion with the countries of sub-Saharan Africa, $23 billion with the countries of South Asia (Bangladesh, Bhutan, India, Nepal, Pakistan, and Sri Lanka), and $21 billion with the Central American Common Market (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua).[21]

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[19] See CRS Issue Brief IB10050, *AIDS in Africa*, by Raymond W. Copson.

[20] See CRS Report RS21329, *African Debt to the United States and Multilateral Agencies*, by Jonathan Sanford.

[21] Regional trade figures compiled by CRS from data on the U.S. International Trade Commission data website at (http://dataweb.usitc.gov). Although these other regions include fewer countries than sub-Saharan Africa, most U.S. trade with sub-Saharan Africa

(continued...)

Most U.S. trade with the region is with a small number of countries. Eighty-two percent of U.S. imports from the region were from four countries in 2002: Nigeria (32%), South Africa (23%), Angola (18%), and Gabon (9%). Exports were similarly concentrated, with 60% of U.S. exports to two countries: South Africa (42%) and Nigeria (14%). All other countries accounted for 6% or less of U.S. exports. (See figures 1 and 2.)

Figure 2. U.S. Imports from Sub-Saharan Africa, 2002

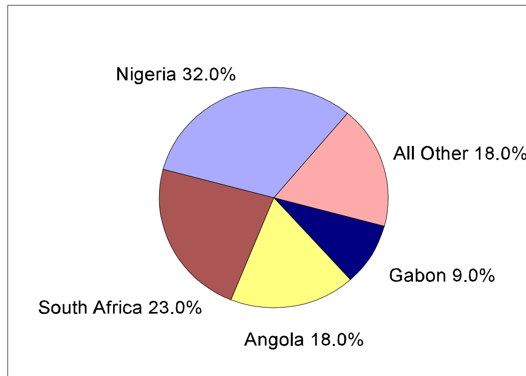
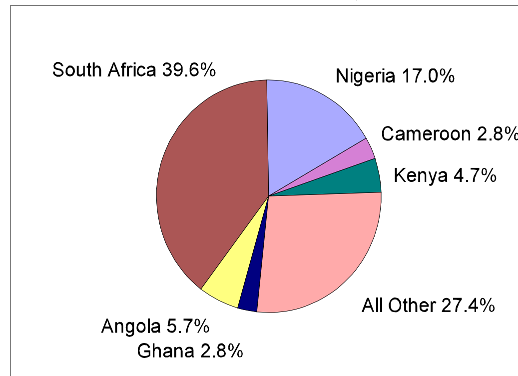


Figure 3. U.S. Exports to Sub-Saharan Africa, 2002



Source: U.S. International Trade Commission data website at (http://dataweb.usitc.gov).

Natural resources dominate U.S. imports from sub-Saharan Africa. Almost four-fifths of all U.S. imports from the region in 2002 were either energy products (64%), which were almost exclusively petroleum, or minerals and metals (15%) (see figure 3). Nigeria supplied 50% of U.S. petroleum imports from the region, Angola supplied another 28%, and Gabon supplied 13%. The most important mineral/metal imports were platinum, followed by diamonds. Other notable U.S. imports, much less in total value, were trousers, automobiles, sweaters, and cocoa.

U.S. exports to sub-Saharan Africa were more diverse. Transportation equipment was the leading export sector in 2002 (32% of U.S. exports to the region), followed by agricultural products (16%), chemicals and related products (12%), machinery (11%), and electronic products (11%). Mining equipment was the leading export item, followed by aircraft and aircraft parts, wheat, automobiles and telecommunications equipment (see figure 4).

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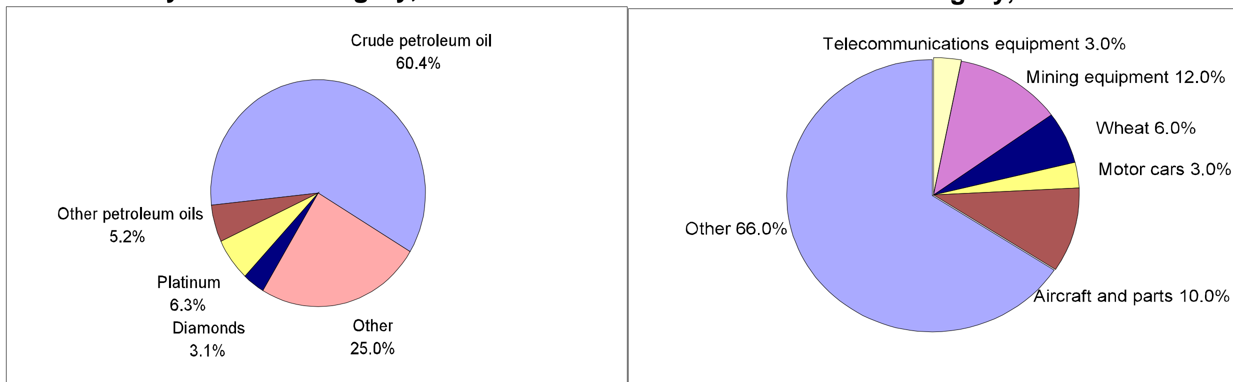
[21](...continued)
is concentrated in a small number of countries.

Figure 4. U.S. Imports from Sub-Saharan Africa by Product Category, 2002 **Figure 5. U.S. Exports to Sub-Saharan Africa by Product Category, 2002**



Source: U.S. International Trade Commission data website at [http://dataweb.usitc.gov/]

The United States is among sub-Saharan Africa's major trading partners. In 2000 (latest data available), France was the leading industrial supplier to SSA with 10.1% of the market, followed by the United States (6.8%), Germany (6.5%), and the United Kingdom (5.6%).[22] The United States was decidedly the most important single country destination for exports from SSA, purchasing 27.0% of the region's exports, followed by the United Kingdom (7.2%), France (6.3%), and Germany (5.9%).[23] The entire European Union accounted for 35.2% of SSA's imports and 37.2% of its exports.[24]

U.S. Investment in Sub-Saharan Africa

Similar to trade, U.S. investment in Sub-Saharan Africa is a very small percent of the worldwide U.S. total. At year-end 2001, the stock of U.S. direct investment in sub-Saharan Africa was $10.2 billion, or less than 1% of the $1,381.7 billion in total U.S. direct investment abroad.[25] U.S. investment in Africa is heavily toward resources: 11% of total U.S. investment in the petroleum sector worldwide is in Africa (including northern Africa), compared to 3% of total U.S. investment in manufacturing worldwide, and only .09% of total worldwide U.S. investment in finance, insurance and real estate. About three-fourths of all U.S. direct investment in Africa is in the petroleum industry.

Four countries accounted for 75% of the stock of U.S. direct investment in sub-Saharan Africa at the end of 2001. South Africa was the leading location for U.S.

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[22]Office of the U.S. Trade Representative, *2002 Comprehensive Report on U.S. Trade and Investment Policy Toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act*, House Document 107-216. May 20, 2002. p. 24. Data were derived from the International Monetary Fund, *Direction of Trade Statistics* 2001.

[23]*Ibid.*

[24]*Ibid.*

[25]U.S. Department of Commerce, Bureau of Economic Analysis, *Survey of Current Business*, September 2002, pgs. 93, 94.

direct investment in sub-Saharan Africa, representing 29% of the total for the region. About one-third of U.S. investment in South Africa is in manufacturing, and little is in petroleum. South Africa was followed by Equatorial Guinea, Angola, and Nigeria, which represented 17%, 15%, and 14%, respectively, of the stock of U.S. direct investment in the region.[26] These latter three countries are petroleum exporters.

In recent years, the United States has been the leading source of foreign direct investment in sub-Saharan Africa. According to the United Nations Conference on Trade and Development, the United States accounted for more than 37% of total flows to sub-Saharan Africa from developed countries during the period 1996-2000, followed by France (18%) and the United Kingdom (13%).[27]

AGOA: An Update

In May 2000, Congress approved legislation, the African Growth and Opportunity Act (AGOA; Title I, Trade and Development Act of 2000; P.L. 106-200), to assist the economies of sub-Saharan Africa and to improve economic relations between the United States and the region. This section examines the major provision of AGOA and what has happened since enactment.

Beneficiary Countries and Trade Benefits

Subtitle A of AGOA authorized the President to designate sub-Saharan African countries as beneficiary countries eligible to receive duty-free treatment for certain articles that are the growth, product, or manufacture of that country. It directed that in designating a beneficiary country, the President must determine that the country (1) has established, or is making continual progress toward establishing a market-based economy and is taking other designated actions; (2) does not engage in activities that undermine U.S. national security and foreign policy interests; and (3) does not engage in gross violations of internationally recognized human rights or provide support for international terrorism.

Subtitle B of AGOA describes trade-related benefits that are available to AGOA-eligible countries. Among these benefits is preferential duty-free treatment for certain articles under the U.S. Generalized System of Preferences (GSP). The GSP program is a unilateral trade preference that allows certain products from designated developing countries to enter the United States duty-free. Certain categories of articles (see box) are identified in statute as ineligible for this duty-free treatment, because they are "import sensitive." AGOA provides that the President can grant GSP duty-free treatment to all of these articles except one category (see box, textiles and apparel). First, however, after receiving advice from the International Trade Commission, the President must determine that an article is not import-sensitive in the context of imports from AGOA beneficiaries. These

[26] *Ibid.*, pgs. 77, 94.

[27] United Nations Conference on Trade and Development. *World Investment Report 2002: Transnational Corporations and Export Competitiveness*, p. 51.

additional articles qualifying for GSP duty-free treatment have to be the growth, product, or manufacture of an AGOA beneficiary country, and they must meet the GSP rules of origin as amended under AGOA. AGOA beneficiaries are exempt from certain limits under the GSP program on allowable duty-free imports ("competitive need limitation").

"Import-sensitive" articles that are ineligible for preferences under GSP:

1. Textile and apparel articles which were not eligible articles for purposes of this subchapter on January 1, 1994, as this subchapter was in effect on such date.
2. Watches, except those watches entered after June 30, 1989, that the President specifically determines, after public notice and comment, will not cause material injury to watch or watch band, strap, or bracelet manufacturing and assembly operations in the United States or the United States insular possessions.
3. Import-sensitive electronic articles.
4. Footwear, handbags, luggage, flat goods, work gloves, and leather wearing apparel which were not eligible articles for purposes of this subchapter on January 1, 1995, as this subchapter was in effect on such date.
5. Import-sensitive semi-manufactured and manufactured glass products.
6. Any other articles which the President determines to be import-sensitive in the context of the Generalized System of Preferences.

Textiles and Apparel. AGOA also allows duty-free and quota-free treatment for textiles and apparel under any of the following conditions:

- Apparel must be assembled in one or more AGOA beneficiary countries from U.S. fabric that was made from U.S. yarns and cut in the United States;

- Apparel must be assembled in one or more AGOA beneficiary countries from U.S. fabric that was made from U.S. yarns. The apparel must be cut in an AGOA country and assembled using U.S. thread; or

- Apparel must be assembled in one or more AGOA beneficiary countries from fabric made in one or more AGOA beneficiary countries from yarn made in the United States or an AGOA beneficiary country. These imports were limited under AGOA to 1.5% of all U.S. imports (in aggregate square meter equivalents) in fiscal year 2001, increasing to 3.5% over eight years. (This limit was later amended; see below.) If a product is assembled in a less-developed AGOA beneficiary country (defined as having a per capita gross national product less than $1,500 in 1998 as measured by the World Bank), that product qualifies for duty-free and quota-free treatment through September 30, 2004, regardless of the country of origin of the fabric.

To receive the duty-free and quota-free treatment for textile and apparel products as described above, beneficiary countries must adopt an efficient visa system to prevent unlawful transshipment. They also must work with the U.S. Customs Service to report exports and prevent illegal trade. AGOA provided that the Secretary of Commerce must monitor for surges in imports, with the possible withdrawal of duty-free treatment if imports surge beyond a certain level.

Developments Since Enactment of AGOA. AGOA was enacted on May 18, 2000. On October 2, 2000, President Clinton recognized the first AGOA beneficiary countries. He identified 34 out of the 48 sub-Saharan African countries as eligible for AGOA benefits. On December 21, 2000, he granted GSP duty-free treatment to more than 1,800 items from AGOA-eligible countries. These items were selected after public review, advice from the International Trade Commission, and interagency review and recommendation. (These 1,800 items are in addition to about 4,600 items already duty-free under GSP.)

During 2001, the Administration declared that 12 AGOA countries had met the additional requirements for duty-free and quota-free treatment for apparel and textiles. Ten of the 12 countries qualified for the provisions for less-developed countries (see the third bullet on the preceding page). Early in 2001, in response to interim regulations that the U.S. Customs Service had issued in October 2000 (65 Fed. Reg. 59,668), some legislators protested that the interim regulations denied duty-free benefits for knit-to-shape articles, contrary to what they said was the intent of the Act.[28]

Amendments to AGOA. In 2002, AGOA was amended in the Trade Act of 2002 (P.L. 107-210). An important change pertained to the cap that AGOA had set on apparel assembled in an AGOA country from fabric made in an AGOA country (see the third bullet above). The Trade Act of 2002 doubled this cap, increasing it to 7% in fiscal year 2008. The Act, however, left the cap unchanged under the special rule for lesser-developed countries. The Act also allowed Namibia and Botswana to qualify for the special rule for lesser-developed countries, even though their per capita incomes exceed the limit set under AGOA.

The Trade Act of 2002 specifically extended AGOA benefits to knit-to-shape articles and to garments cut in both the United States and an AGOA beneficiary country ("hybrid cutting"). It also made a correction to extend AGOA benefits to merino wool sweaters knit in AGOA beneficiary countries.

The Trade Act included other related provisions. It stated that U.S. workers could be found eligible for trade adjustment assistance, if U.S. production shifted to an AGOA beneficiary country and other conditions were met. It authorized $9.5 million to the Customs Service for textile transshipment enforcement, and specified that two permanent positions be assigned to South Africa for AGOA enforcement and additional travel funds be allocated for verification in sub-Saharan Africa. It also required that $1.317 million of the Customs Service budget be spent on programs to help sub-Saharan African countries develop visa and anti-transshipment systems.

AGOA requires that the President monitor and report annually on the progress of each country in meeting the terms for AGOA-eligibility. Under this requirement,

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[28]On March 6, 2001, the Chairman and Ranking Member of the House Ways and Means Committee and 8 other Members from both parties wrote to the Secretary of the Treasury saying that the U.S. Customs Service interpretation of benefits for knit-to-shape articles was "wrong." See, Text: Ways and Means AGOA Letter to O'Neill, *Inside U.S. Trade*, March 9, 2001.

President Bush has made, at the end of each year, annual designations of the countries eligible for AGOA benefits for the following year.

Current Beneficiaries. At present, 38 sub-Saharan African countries are designated as AGOA-eligible, although implementation of trade benefits for two of these countries is not final. Of the 36 countries that may receive trade benefits, 19 have met the additional requirements to receive duty-free treatment for their textile and apparel products, and of those, 17 qualify for the special rule for lesser-developed countries. (See table 1 for a list of sub-Saharan African countries and their status under AGOA.)

Imports under AGOA have been a significant share of all U.S. imports from sub-Saharan Africa. In 2001, AGOA imports were $8.2 billion, or 39% of total U.S. imports from sub-Saharan Africa of $21.1 billion. In 2002, AGOA imports rose to $9.0 billion, or 49% of total U.S. imports of $18.2 billion from the region. Considering the AGOA-eligible countries only, rather than the entire region, U.S. imports under AGOA are an even higher 64% of all U.S. imports from those countries.[29]

Imports under AGOA have been predominately energy-related products. This sector accounted for 76% of AGOA imports in 2002, which is a decline from the 83% share in 2001. The reason for the decline is not because energy imports under AGOA have dropped, but rather other imports have increased. For example, AGOA imports of transportation equipment were 4% of all AGOA imports in 2001, but those imports grew by 81% and are now 6% of all imports under AGOA. More so, imports of textiles and apparel were 4% of AGOA imports in 2001, but those imports have more than doubled and are now 9% of all AGOA imports.

Country Status under AGOA
(as of March 4, 2003)

Status	Countries
Not Designated as Eligible (10)	Angola; Burkina Faso; Burundi; Comoros; Equatorial Guinea; Liberia; Somalia; Sudan; Togo; Zimbabwe.
AGOA Eligible Only; Not Eligible under Apparel Provision (19)	Benin; Central African Republic; Chad; Republic of the Congo; Côte d'Ivoire; Democratic Republic of Congo*; Djibouti; Eritrea; Gabon; The Gambia*; Guinea; Guinea-Bissau; Mali; Mauritania; Niger; Nigeria; Sao Tome and Principe; Seychelles; Sierra Leone.

[29] Data from the International Trade Commission data website at (http://dataweb.usitc.gov).

AGOA Eligible, Eligible for Apparel Provision, Special Rule Does Not Apply (2)	Mauritius; South Africa
AGOA Eligible, Eligible under Apparel Provision, and Special Rule Applies (17)	Botswana; Cameroon; Cape Verde; Ethiopia; Ghana; Kenya; Lesotho; Madagascar; Malawi; Mozambique; Namibia; Rwanda; Senegal; Swaziland; Tanzania; Uganda; Zambia
* - Designated by President Bush as AGOA-eligible on December 31, 2002, but implementation of trade benefits pending.	

Source: AGOA web site maintained by the U.S. Department of Commerce at [http://www.agoa.gov].

Not surprisingly, since petroleum imports are by far the major imports under AGOA, Nigeria, a leading oil producer, is the major import supplier under AGOA. Nigeria supplied 60% of AGOA imports in 2002, and together with South Africa (15%) and Gabon (13%) accounted for 88% of all AGOA imports last year. In comparison, 14 AGOA-eligible countries accounted for less than 1% of AGOA imports, and of those, 5 did not ship anything.

Imports under AGOA have outpaced U.S. imports overall. From 2001 to 2002, AGOA imports grew by 10%, while total U.S. imports worldwide grew by 2%. Thus, although AGOA imports are a small share of the total, that share grew from 2001 to 2002. Of note, while imports under AGOA grew by 10%, imports from all of sub-Saharan Africa actually fell by 0.1%.

United States-Sub-Saharan Africa Trade and Economic Cooperation Forum

Under AGOA, the President was required to establish within a year of enactment, after consultation with Congress and the other governments concerned, a United States-sub-Saharan Africa Trade and Economic Cooperation Forum (hereafter called the Forum). The Act stated that the President was to direct certain top officials to host the first Forum meeting with their counterparts from AGOA-eligible countries and countries attempting to meet AGOA eligibility requirements.[30] The purpose of the Forum meeting is to "discuss expanding trade and investment relations between the United States and sub-Saharan Africa and the implementation of [AGOA] including encouraging joint ventures between small and large businesses."

[30]Representatives from appropriate sub-Saharan African regional organizations and government officials from other appropriate countries in sub-Saharan Africa also could be invited.

AGOA also required the President to encourage non-governmental organizations and the private sector to hold similar annual meetings, and it required the President to instruct U.S. delegates to the Forum to promote a review of HIV/AIDS in each sub-Saharan African country and the effect on economic development. It required the President to meet, to the extent practicable, with heads of governments of sub-Saharan African countries at least every two years to discuss expanding trade and investment relations, and the first such meeting should be within one year of enactment.

AGOA was enacted May 18, 2000, and almost a year later, on May 16, 2001, President Bush established the Forum and announced plans for its first meeting in Washington in October 2001. The first Forum was held October 29-30, 2001, in Washington, D.C. President Bush addressed the Forum and announced several initiatives: (1) a $200 million Overseas Private Investment Corporation (OPIC) support facility to give U.S. firms access to loans, guarantees, and political risk insurance for investment projects; (2) a regional office of the Trade and Development Agency (TDA) in Johannesburg to help attract new investment; and (3) the Trade for African Development and Enterprise Program, initially funded at $15 million, to establish regional hubs to help African businesses in the global market. (These initiatives were established; see later sections.) Also at the first Forum, U.S. Trade Representative Zoellick signed two agreements: (1) the U.S.-Nigeria Joint Declaration on Electronic Commerce; and (2) a Trade and Investment Framework Agreement with the Common Market for Eastern and Southern Africa.

The second Forum was held January 13-17, 2003, in Port Louis, Mauritius. In a videotaped message, President Bush announced that he would ask Congress to extend AGOA beyond its 2008 deadline. He also outlined other U.S. support for Africa, including: assignment of U.S. agricultural officials to the regional business hubs established after the first Forum; a fiscal year 2004 budget request for a 50% increase in development assistance; and an additional $200 million over five years for education and teacher training to the region.

The second Forum had three segments. The segment for civil society was attended by representatives from non-governmental organizations. The segment for businesses included a trade exhibition. The segment for government officials was attended by representatives from all 38 AGOA-eligible countries. U.S. Trade Representative Zoellick led the 25-member U.S. delegation. Representative Thomas, Chairman of the House Ways and Means Committee, led a separate congressional delegation.

Technical Assistance and Capacity-Building

AGOA legislation directed the President to target U.S. government technical assistance and trade capacity building in AGOA beneficiary countries (Sec. 122). This mandate includes assistance to both government and non-governmental actors. The Act directs the President to target technical assistance to governments- (1) to liberalize trade and exports; (2) to harmonize laws and regulations with WTO membership; (3) to engage in financial and fiscal restructuring, and (4) to promote greater agribusiness linkage. The Act also includes assistance for developing private sector business associations and networks among U.S. and sub-Saharan African

enterprises. Technical assistance is also to be targeted to increasing the number of reverse trade missions, increasing trade in services, addressing critical agricultural policy issues, and building capabilities of African states to participate in the World Trade Organization, generally, and particularly in services. Between 1999-2001, the United States spent approximately $192 million on trade capacity building assistance to sub-Saharan Africa.[31]

U.S. Agency for International Development (USAID). AGOA's mandate to encourage trade related technical assistance primarily is being implemented by USAID's Trade for African Development and Enterprise (TRADE) program. The Agency's TRADE initiative is designed to provide technical assistance to help Africans reform their trade and investment policies, promote U.S.-African business linkages, support African regional trade integration, and to take full advantage of the provisions of AGOA. Three "Regional Hubs for Global Competitiveness" have been established in Botswana, Ghana, and Kenya to further technical assistance objectives.[32] The TRADE initiative supplants USAID's Africa Trade and Investment Policy Program (ATRIP) which operated from 1998-2003.

Several AGOA-related initiatives originate from AID field offices. Capacity building programs involving the Southern Africa Development Community (SADC) have provided assistance to increase the level of SADC duty-free exports to the United States under AGOA. It has also developed programs to assist in customs reform, to promote local entrepreneurs, and to work for the establishment of a regional free-trade area. USAID claims that through this technical support, an additional seven states in SSA have become eligible for AGOA.[33]

As mentioned above, AGOA encourages the establishment of private sector linkages between U.S. and SSA businesses. To this end, two International Business Linkages have been established by the Corporate Council on Africa with funding provided by USAID. The linkage programs assist African companies to prepare business plans, to achieve International Standards Organization (ISO) certification, to participate in U.S.-led trade delegations, to attend trade shows in the United States, and to identify public and private sector export financing. The linkage programs also assist U.S. firms by identifying trade and investment opportunities in Africa, by steering U.S. firms to appropriate government and private sector contacts, and by identifying sources of financing. The Southern African International Business Linkage (SAIBL) program has recently increased its scope with a two-year pilot program to Botswana, Tanzania, and Zambia. The West African International Business Linkage (WAIBL) also hosts regular business forums in West Africa.

Assistant U.S. Trade Representative for Africa (AUSTRA). Sec. 117 of AGOA supported the creation of this position to serve as the "primary point of contact in the executive branch for those persons engaged in trade between the

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[31] AGOA, *2002 Comprehensive Report*, p. 41.

[32] The website for the hub in Gabarone, Botswana is, [http://www.satradehub.org/].

[33] U.S. Agency for International Development, *2003 Budget Justification to the Congress-Annex I: Africa*, p.428.

United States and sub-Saharan Africa," and the chief adviser to the U.S. Trade Representative (USTR) on trade and investment issues pertaining to Africa. This position previously had been established by President Clinton in 1998. One primary function of AUSTRA is to make the yearly determinations as to which countries are eligible for AGOA benefits generally, and also its special textile and apparel benefits. The AUSTRA also coordinates regional technical assistance seminars in Africa composed of interagency delegations from the United States and their African counterparts and funded by AID. Two of these forums held in Cameroon and Uganda in March 2002 were attended by over 1000 delegates from countries in central, eastern, and southern Africa. The AUSTRA also sponsors projects for WTO training for SSA trade negotiators, provides support for the newly established Trade Advisory Committee on Africa, and maintains the www.agoa.gov website.

Overseas Private Investment Corporation (OPIC). In 2001, OPIC initiated the Africa Millennium Fund in response to Sec. 123 of AGOA. It committed $227.5 million to the fund and seeks to leverage that amount with $122.5 million from private investors for a total capitalization of $350 million. This initiative will fund telecommunications, transport, electricity, water, and sanitation. The legislation also calls for the fund to invest in projects from women entrepreneurs and to "innovative investments that expand opportunities for women and maximize employment opportunities for poor individuals." At this point, the fund has not been fully subscribed, and hence, its funds including the matching funds from OPIC have not begun to be disbursed.

On October 29, 2001, President Bush announced the creation of a $200 million OPIC support facility for additional projects. This facility is seen as a soft earmark to distribute existing funds and does not require the creation of additional OPIC instruments.[34] In FY2001, OPIC invested in five new finance or insurance projects with a value of approximately $31.8 million in Côte d'Ivoire, Kenya, Nigeria, Uganda, and Zambia. The total stock of OPIC commitments in Africa reached nearly $1 billion in 2001 with $713.8 million in loan guarantees (11% of all OPIC backed loan guarantees) and $274.9 million in risk insurance (3% of all OPIC risk insurance).[35] Several projects announced in FY2002 include a $15 million loan guarantee to support construction of low-income housing in South Africa, a $22 million loan for the rehabilitation of a rail link between Mozambique and Malawi, a loan for the extension and upgrade of a wildlife preserve in Mozambique, financing for well-drilling in Uganda, and with the Department of Energy, a loan to provide alternative cooking technology (solar powered ovens) to Ugandan households.[36]

Export-Import Bank (Ex-Im). AGOA expressed the sense of Congress to continue to expand the bank's financial commitments to its loan, guarantee and insurance programs to African countries. The legislation also commended the Bank's sub-Saharan Africa Advisory Committee for its work in fostering economic cooperation between the United States and SSA. This committee was recently

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[34]Conversations with OPIC official, October 31, 2002; February 5, 2003.

[35]2001 OPIC Annual Report, p.25, 40.

[36]OPIC Press Release, January 15, 2002, August 29, 2002.

reauthorized to September 30, 2005.[37] The recently passed legislation reauthorizing the Bank also created an Office of Africa that was charged with "increasing Bank activities in Africa and increasing visibility among United States companies of African markets for exports."[38]

The Ex-Im Bank does not finance imports into the United States. However, it does provide loans and guarantees for U.S. exports to the region, some of which can be used to manufacture goods eligible for import to the United States under AGOA. This financing can cover manufacturing equipment, the purchase of U.S. fabric, yarn, and thread necessary for eligibility under AGOA textile provisions, or other raw materials or components used for manufacturing. Ex-Im operates in 37 SSA countries, although Bank activity and eligibility for specific programs vary according risk factors. In FY2002, Ex-Im made no long-term loans to Africa, and Africa accounted for 2.3% of the loan guarantees and 5% of the medium-term insurance instruments funded by the Bank with a total exposure of $3.2 billion.[39] By contrast in FY2001, Africa accounted for 0.6% of the loans, 4.5% of the loan guarantees, and 1.3% of the medium-term insurance instruments funded by the Bank with a total exposure of $2.5 billion.[40] The largest Ex-Im transaction involving Africa in FY2002 was a long-term guarantee for a Nigerian purchase of a General Electric liquified natural gas plant for $135 million.[41]

In order to increase its lending activities in Africa, the Bank began its Africa Pilot Program (STIPP) in 1999 to provide short-term export credit to sub-Saharan African countries, many of whom are not eligible for other Ex-Im financial instruments. This program was initially funded at $100 million. Ex-Im also announced in 2000 a pilot program to provide export credits to African countries to purchase U.S. HIV/AIDS medicines.[42] This program allows countries to extend payment of these pharmaceutical purchases to five years from standard repayment terms of six months. These export credits have covered two contracts valued at $15 million for medicines and HIV detection equipment to Nigeria and Togo.[43] In addition, the Bank reported that as a result of Paris Club sovereign debt restructuring negotiations, it had entered into agreements to restructure or to forgive public sector debt obligations totaling $92 million with eight sub-Saharan African nations in FY2002. These agreements wrote-off all of the Bank's public sector debt exposure in Mozambique, Tanzania, and Uganda.[44]

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[37] Export-Import Bank Reauthorization Act, 12 U.S.C. 635(b)(9)(B)(iii).

[38] 12 U.S.C. 635a.

[39] Ex-Im Bank, 2002 Annual Report, pp. 22-25.

[40] Ex-Im Bank, 2001 Annual Report, pp. 20-23, 29.

[41] 2002 Annual Report, p. 31.

[42] See "Short-Term Africa Pilot Program," [www.exim.gov/africa-i/afr02fac.html].

[43] Conversation with Export-Import Bank Official, February 6, 2003.

[44] Ex-Im, *2002 Annual Report*, p. 39.

U.S. and Foreign Commercial Service (USFCS). In Sec. 125 of AGOA, Congress found that USFCS presence in SSA had been reduced since the 1980s and that the level of staffing in 1997 (seven officers in four countries) did not "adequately service the needs of U.S. businesses attempting to do business in sub-Saharan Africa."[45] Accordingly, the legislation required the posting of at least 20 USFCS officers in not less than 10 SSA by December 31, 2001 "subject to the availability of appropriations."[46] Presently, USFCS has officers in Côte d'Ivoire, Ghana, Kenya, Nigeria, and three offices in South Africa with a total of 28 Commercial Officers, Specialists, and Assistants. USFCS seeks to comply with AGOA by opening additional offices in Botswana, Cameroon, Senegal, and Tanzania. In FY2003, the agency received budget authority to hire eight additional USFCS officers to staff these country offices.[47]

Commercial Service officers seek to facilitate the development of markets for U.S. exporters in the countries where they are stationed. Officers assisting U.S. exporters provide evaluations of potential business partners in the country, facilitate U.S. business contacts with local firms, identify potential local distributors or agents of U.S. exports, provide local financing options, and arrange partner background checks. Commercial Service officers also prepare the Country Commercial Guides which chronicle the business environment of the country.

Sec. 125(c) of the legislation directs the International Trade Administration (ITA) to develop an initiative (a) to identifythe best U.S. export prospects to the region; (b) to identify tariff and non-tariff barriers that impede U.S. exports to Africa; (c) undertake discussions with African states to increase market access for these goods and services. This activity is being carried out by the ITA in its Market Access and Compliance Unit (MAC). The Unit states that U.S. firms face entrenched tariff and other trade barriers in many African countries, and that its current staff of nine staffers is not adequate to cover the SSA region. In FY2003, MAC was given budget authority to add four analysts and negotiators to address these issues.[48]

Trade and Development Agency (TDA). Although not tasked with specific directives in AGOA, the TDA contributes to trade capacity building in Africa by funding project planning studies, including feasibility studies, training programs and orientation visits (reverse trade missions in which foreign government officials visit U.S. manufacturers). TDA targets activities that could generate significant U.S. export potential, that could facilitate access to natural resources important to the United States, and that are a priority for host nations and international development efforts. In FY2002, TDA contracted 71 projects in SSA

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[45] AGOA, Sec. 125(a)(4).

[46] AGOA, Sec. 125(b).

[47] International Trade Administration, "Budget Estimates FY2003," Exhibit 13, p.99; Conversation with ITA official, March 6, 2003.

[48] International Trade Administration, "Budget Estimates FY2003," Exhibit 13, p. 65; Conversation with ITA official, March 6, 2003.

for a total of $9.7 million, or approximately 13% of its program expenditures.[49] At the first AGOA Forum in October 2001, the President promised a regional TDA office in Johannesburg, South Africa. TDA subsequently established an office there.

Multilateral Initiatives

In addition to domestic agency programs, the United States participates in several multilateral institutions that provide technical capacity building. Two that operate in Africa are the Integrated Framework and the Joint Integrated Technical Assistance Program.

Integrated Framework. The Integrated Framework (IF) was created by six multilateral institutions [the International Monetary Fund (IMF), the International Trade Center (ITC), the United Nations Commission on Trade and Development (UNCTAD), the United Nations Development Program (UNDP), the World Bank and the World Trade Organization (WTO)] to coordinate their development activities to bolster the developing countries' performance in the multilateral trading system. Its activities are designed to encourage developing countries to integrate trade development into their development assistance programs, known as Poverty Reduction Strategy Papers (PRSP). After the completion of a three-nation pilot program that included the African countries of Madagascar and Mauritania and a third, non-African country, the IF is being expanded to 11 other nations including Malawi, Senegal, Lesotho, Ethiopia, Eritrea, Djibouti, Burundi, Guinea, and Mali. As of March 2002, contributions to the IF trust fund amounted to $9.8 million.[50]

The nations involved with the IF implement this process with the World Bank. First, the Bank prepares a diagnostic trade integration study that assesses the obstacles to a country's full integration to the multilateral trading system and its economic competitiveness. From this survey, an action plan is developed by the Bank, in consultation with the local governments and businesses, detailing technical assistance that can overcome these obstacles. Then a country's PRSP is amended to reflect these technical assistance priorities in order to be considered for funding by donor organizations.[51]

Several issues have been raised with regard to the IF. First, coordination of resources to avoid duplication of effort has been cited as a concern, both within the IF partner organizations and between the IF and bilateral donor organizations. In many countries, coordination is an ad hoc activity, achieved as a result of personal relationships rather through any institutional coordination. A second concern is that heightened expectations among the recipient nations may not be fulfilled by the IF process. Thus far, IF work has centered on preparing strategies for implementation. Yet the details of the implementation strategy for these proposals have not been

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[49] U.S. Trade and Development Agency, *2002 Annual Report*, [http://www.tda.gov/abouttda/report2002/pabr_africa-me.html]), accessed January 22, 2003.

[50] "IF at a Glance," [www.if.wto.org/glance_e.htm].

[51] *Ibid*.

worked out, thus raising questions as to whether they will be executed by the IF organizations or by bilateral donors.[52]

Joint Integrated Technical Assistance Program (JITAP). An initiative of the WTO, ITC, and UNCTAD, this program works to strengthen human and institutional capacity specifically in the African states of Benin, Burkina Faso, Côte d'Ivoire, Ghana, Kenya, Tanzania, Tunisia, and Uganda. New states included in the launch of JITAP II in January 2003 include Botswana, Cameroon, Malawi, Mali, Mauritania, Mozambique, Senegal, and Zambia.[53] This program assists participating countries with negotiations in the Doha round; and advises on implementation of the existing Uruguay Round agreements, including assistance with the adjustment of national legislation and regulation; the development of effective customs programs; and the provision of effective export promotion and financing strategies.[54] Thirteen donor nations (Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, the Netherlands, Norway, Sweden, Switzerland and the United Kingdom) had contributed approximately $12.6 million to this fund as of September 2002.[55]

Regional Cooperation and Free Trade Agreements

AGOA declares the policy that free trade agreements (FTAs) should be negotiated, where feasible, between interested countries in SSA and the United States in order to serve as a catalyst for increasing trade and investment. In addition, regional economic agreements have also been encouraged. Attention in this regard has focused on South Africa and regional economic organizations to which it belongs. On November 4, 2002, USTR Robert B. Zoellick notified Congress that negotiations would be initiated with the members of the Southern African Customs Union (SACU). These negotiations are expected to begin in April 2003.

Southern African Customs Union FTA (SACU).[56] SACU is a customs union composed of South Africa, Botswana, Lesotho, Namibia, and Swaziland. The original SACU agreement dates from 1910 and was revised in 1969. A new agreement to more fully integrate the smaller states into decision-making for the area, which was previously dominated by South Africa, was signed on October 21, 2002. The agreement is characterized by free movement of goods within SACU, a common external tariff, and the common revenue pool which is apportioned among the member states.

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[52] Discussion among participants of the Washington International Trade Association program on Trade Capacity Building Initiatives, Washington D.C., November 6, 2002.

[53] WTO News: "Donors pledge substantial support to JITAP II," December 20, 2002, [www.wto.org/english/news_e/pres02_e/pr328_e.htm].

[54] "Joint Integrated Technical Assistance Program" [ww.jitap.org/clusters]

[55] WTO News: "JITAP Management Meeting," September 17, 2002, [http://www.wto.org/english/news_e/news02_e/jitap_manag_meeting_17sep02_e.htm])

[56] For more information, see CRS Report RS21387, *United States - Southern African Customs Union (SACU) Free Trade Agreement: Background and Potential Issues*, by Ian F. Fergusson.

A large degree of economic integration exists among the SACU states because of the agreement, perhaps contributing to the U.S. decision to negotiate an FTA with SACU, rather than just South Africa. However, South Africa is the dominant economy of the region, accounting for 87% of the population, and 92 % of the gross domestic product of the customs area. U.S. exports to SACU totaled $3.1 billion in 2001, led by aircraft, vehicles, construction and agricultural equipment, and computers. U.S. imports from SACU totaled $4.8 billion, composed of minerals such as platinum, diamonds, and titanium, textiles and apparel, vehicles, and automotive parts.[57]

Potential issues in negotiating an FTA with SACU concern the openness of the South African telecommunications industry; services trade; intellectual property rights, especially with regard to the sensitive issue access to HIV/AIDS medicines; and the existence of certain import, export, and exchange controls in the SACU countries. The ability to negotiate and to implement an FTA with the United States may also become an issue to resolve, especially among the smaller states of SACU. South Africa currently has a free trade agreement with the European Union that, while not including the other members of SACU, is considered by some observers to put U.S. firms at a competitive disadvantage compared to their European counterparts.

Although discussion of potential partners for free-trade agreements revolves around South Africa and SACU, several other regional groupings may prove to be partners for future trade agreements with the United States. The Southern African Development Community (SADC), the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC), and the West African Economic and Monetary Union (WAEMU) have all taken steps to begin the process of economic integration, either through trade liberalization or through steps to promote monetary union. While these groups are being encouraged in their attempts at regional integration, they are not immediate prospects for FTAs with the United States. Background on these groups appears in an Appendix.

U.S. Trade and Investment Framework Agreements (TIFA). The United States has negotiated TIFAs with Ghana, Nigeria, and South Africa, and with the COMESA and WAEMU regional arrangements. Generally, TIFAs commit the signatories to expand trade of goods and services, to encourage private sector investment, and to resolve problems and disputes through consultation and dialogue. To facilitate these objectives, the signatories of each agreement have established a Council on Trade and Investment to provide a venue for consultation on trade issues of interest or concern to the parties, and to work toward the removal of impediments to trade and investment flows. TIFAs are often considered to be first steps to the negotiation of free trade agreements.

U.S. Bilateral Investment Treaties (BIT). The United States has signed BITs with Cameroon, Republic of the Congo (Brazzaville), Democratic Republic of Congo (Kinshasa), Mozambique, and Senegal. The goals of the BIT are to protect U.S. investments abroad, and to encourage market oriented domestic policy in host

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[57]U.S. International Trade Commission data website at [http://dataweb.usitc.gov]

countries. Generally, BITs ensure national treatment for U.S. investments, limits on expropriations, free repatriation of funds, limitations on the imposition of trade distorting or inefficient practices on U.S. investments-including requirements in hiring, and the right of submission of investment disputes to international arbitration. These treaties are promoted by the U.S. government as a method of encouraging the development of international law and trade standards within the partner country.

New Partnership for Africa's Development (NEPAD). NEPAD is a key policy vehicle of the African Union (AU), whose leaders formulated and adopted the initiative in July 2001. Described by its proponents as a multi-sector, sustainable development policy framework, NEPAD seeks to reduce poverty, increase economic growth, and improve socio-economic development prospects across Africa. Major NEPAD aims are to attract greater investment and development aid to Africa, reduce the continent's debt levels, and broaden global market access for African exports. NEPAD emphasizes increased democratization, political accountability, and transparency in governance in African states as primary means of achieving its goals.[58]

European Union Activity. By way of comparison, the European Union (EU) has also been active in promoting trade between itself and the countries of sub-Saharan Africa. The ***EU-South Africa Agreement on Trade, Development, and Cooperation*** entered into force on January 1, 2000. This agreement creates a free-trade area between the participants during a 12-year asymmetric transition period. The EU pledges to remove tariffs on 95% of imports from South Africa during a 10-year period with most products granted duty-free status in 2002. South Africa will remove duties on 86% of its tariff lines during a 12-year period with most eliminations occurring between 2006-2012. Notably, the agreement does not provide tariff relief to several important South African agricultural exports, nor to aluminum.

Cotonou Agreement. This agreement, signed in Cotonou, Benin between the European Union and 71 African, Caribbean, and Pacific nations (ACP) in February 2000, extends non-reciprocal, duty-free access for industrial and processed agricultural goods to the EU market granted by the 4th Lomé Convention to the end of 2007. The extent of the duty-free access conferred by Cotonou was subsequently enhanced in March 2001 by the "Everything but Arms" initiative, which granted developing countries tariff-free access to all goods, except for sugar, rice, and bananas, for which products a tariff-rate quota system will be maintained during a phase-out period ending in 2009. Provisions of the Cotonou Agreement call for the negotiation of trade liberalization agreements with regional economic partnerships that could include the regional African groupings discussed below. Preliminary negotiations on the Regional Economic Partnership Agreements began on September 27, 2002.

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[58] This paragraph was prepared by Nicolas Cook, Analyst in African Affairs. For more information, see: CRS Report RS21353, *New Partnership for Africa's Development (NEPAD)* and CRS Report RS21332, *The African Union*.

AGOA: Future Challenges

Several issues may be important to Congress in the oversight of AGOA. These issues concern the expiration of the Act, rules of origin provisions concerning textiles and apparel, the spread of the benefits of AGOA to more countries, the continued eligibility of certain countries for AGOA benefits, and the HIV/AIDS epidemic.

- **Expiration.** AGOA expires on September 30, 2008. Some observers contend that this expiration date inhibits long-term investment in the region by creating uncertainty over the extent of future tariff preferences. In addition, several countries are slower in taking advantage of AGOA due to their need for greater technical assistance and capacity building. Thus, their window for profiting from AGOA is correspondingly shorter. President Bush, in his speech to the AGOA Forum in Port Louis, Mauritius, pledged to seek an extension of AGOA beyond 2008, but did not discuss the duration of such an extension.

- **Rules of Origin.** The Act's rules of origin provisions may dilute the potential benefits to Africa of AGOA's textile and apparel provisions. The "yarn-forward" principle (see discussion of AGOA above, p.9) currently applies only to medium-income countries, but it will be applied to the lesser developed beneficiary countries starting on October 1, 2004. In that same year, Article 2 of the WTO's Agreement on Textiles and Clothing (ATC) terminates the worldwide system of quotas for textile and apparel trade. Thus, a restrictive standard for rules of origin under AGOA, even with the program's duty-free and tariff-free access, could be viewed by some as a hindrance at a time when countries are gaining duty-free access to the U.S. market without any rule-of-origin restrictions. One study claims that the gains made by AGOA countries may be substantially reduced due to the impact of these events.[59]

- **Diversification of Benefits.** While textile and manufacturing industries make up a growing part of U.S. imports under AGOA, these imports are dwarfed by AGOA imports from the petroleum and mining sectors. These industries are highly capitalized and do not provide extensive employment opportunities for workers. AGOA benefits are also concentrated in few countries with 87% of AGOA imports originating in Nigeria, South Africa, and Gabon. Moreover, several countries eligible for AGOA do not export under the program at all. If a goal of the program is to increase African country participation, it may be achieved by the concentration of trade capacity building and technical assistance on the lowest performing countries. The addition of AGOA eligible items of trade relevance to these countries may might spur greater participation.

- **Eligibility Standards.** A country's eligibility for AGOA benefits may become the subject of controversy. Lesotho, which is considered an AGOA

[59]Aaditya Mattoo, Devesh Roy, and Arvind Subramanian, *The African Growth and Opportunity Act and its Rules of Origin: Generosity Undermined?*, World Bank Policy Research Paper, October 2002.

success story, has been the subject of persistent complaints from indigenous labor groups regarding working conditions in newly developed textile plants. Two countries, Swaziland and Eritrea, have received warnings from the State Department that their human rights record does not meet AGOA eligibility requirements. Other countries, such as Gabon and Madagascar, recently have conducted disputed elections. Several countries have questionable commitment to privatization and tariff reform.

- **HIV/AIDS.** The HIV/AIDS pandemic is destabilizing the economies of Africa and threatens any progress achieved by AGOA as additional income is spent, not to raising living standards, but to treat a population afflicted with the disease. Due to the disease, life expectancy is falling in several AGOA eligible countries and in the region as a whole. HIV/AIDS disproportionally strikes some of the most productive members of society such as skilled workers, professionals and teachers. Even with the advantages that AGOA preferences confer, investors may be deterred from the region by high medical costs, by constant replacement of workers stricken with the disease and the attendant training costs, and by the destabilizing risks associated with a society containing a large, dying population.

Appendix: Regional Economic Integration Among Sub-Saharan Africa Nations.

Southern African Development Community (SADC). This group is composed of the nations of Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe. Originally formed by front-line states to lessen economic dependence on the apartheid regime in South Africa, the group expanded to include South Africa in 1994. The 1996 Protocol on Trade committed each signatory to remove duties and non-tariff barriers to SADC members within 12 years, to provide national treatment for each other's goods, to bind existing tariffs at current levels.

The economic dominance of South Africa makes economic integration of the SADC region more problematic. South Africa accounts for 82% of the GDP of the region, and it comprises 62% of the region's intra-SADC imports and 70% of the SADC region's exports.[60] With per-capita income at approximately $3,000, it dwarfs the average per-capita income of many of the other states. In addition, smaller states within SADC are concerned about their lack of economic competitiveness as their home markets are opened up to goods from South Africa. The reliance of many governments on duty revenue has also become a source of concern in implementing reductions of tariff barriers. The relationship between SADC and the Southern African Customs Union (SACU), especially concerning SACU's greater access to the South African market, has become a concern for SACU countries because they fear the loss of market share to SADC countries.

Common Market for Eastern and Southern Africa (COMESA). Founded in 1982 as the Preferential Trade Area of Eastern and Southern Africa, current member states of the COMESA include Angola, Burundi, Comoros, Djibouti, Ethiopia, Kenya, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Somalia, Sudan, Swaziland, Uganda, Zaire, Zambia and Zimbabwe. On October 31, 2000, nine states of COMESA (Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia and Zimbabwe) launched a free trade area that eliminated tariffs on goods originating in the member states. These states have also worked towards establishing coordinated policies in other areas such as rules-of-origin, dispute settlement, applications of safeguard measures, and uniform customs procedures. The group aims for a customs union with a common external tariff by 2004. The goal of monetary union by 2025 is expected to be advanced by the introduction of limited currency convertibility and improved coordination of fiscal and monetary policy during this time period.

Political and economic difficulties are facing several countries within the COMESA community. Civil war continues in the Democratic Republic of Congo; Angola recently emerged from civil strife; and Zimbabwe is facing economic

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[60] Beverly M. Carl, *Trade and the Developing World in the 21st Century*, (Ardsley, NY: Transnational Publishers, 2001) p. 205.

collapse. Drought and famine are also plaguing countries in the region. In addition, several countries have withdrawn from COMESA: Tanzania in 2000, and Mozambique and Lesotho in 1997.

East African Community (EAC). Comprised of Kenya, Uganda, and Tanzania, this organization seeks to revive historic tariff-free trade that had been established among the three British colonies in 1923. However, this cooperation broke down in the 1970s due to widespread transhipments and the varied economic paths of its participants. The three countries re-established the community in 1999 and have made plans for an asymmetric tariff schedule, in which Kenya will immediately reduce its tariff to zero, while Uganda and Tanzania will have four years in which to reciprocate. The outlook for this grouping is also complicated by a dominant country presence. Most industrial trade in the bloc originates from Kenya, and there is little bilateral trade between Tanzania and Uganda. Nonetheless, two neighboring countries, Rwanda and Burundi, have been invited to join.

West African Economic and Monetary Union (WAEMU). This grouping was originally created to administer the CFA franc (*Communauté financière africaine)*, a currency formerly tied to the French franc prior to its disappearance in 2000 (It is still backed by the French treasury). Its members are Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal, Togo, and Guinea-Bissau, the sole non-francophone member. The member states have espoused the long-term goal of a full economic union with a common market, macroeconomic convergence, regulatory harmonization, and a common investment policy. A preferential tariff arrangement was concluded for member states in 1995, and a customs union with a common external tariff of 22% became operational in 2000. While the WAEMU countries have achieved a relatively high degree of integration, it has been reported that intra-member trade has not greatly expanded. As in other areas, regional conflicts have interrupted the consolidation of economic gains.