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## **THE AFRICAN GROWTH AND OPPORTUNITY ACT**

One of the most important tools for development is trade. Africa needs to increase its share of international trade in order to earn more resources to be able to finance its own development. Currently, Africa only has a 2 percent share of global trade, a 2/3 decrease from the 1980s, when it was 6 percent. In addition to unfair subsidies, access to rich country markets is limited for Africans. Quotas limit the quantity of products that may enter a certain market while tariffs often make products too expensive to compete. Sometimes tariffs are unevenly applied making it twice as expensive for African farmers to export processed goods (from which they could derive greater profits) than their unprocessed crops.

The Africa Growth and Opportunity Act (AGOA) is one way in which the U.S. has worked to open its markets to African producers. AGOA was enacted in 2000 as the first piece of trade legislation focused on increasing and enhancing trade between the United States and countries of sub-Saharan Africa by permitting the duty-free export to the U.S. of most African goods. In order to qualify for AGOA, countries must be working to improve the rule of law, human rights, and respect for core labor standards. Currently, 39 of 48 sub-Saharan African countries qualify.

### **The Impact of AGOA**

Statistics indicate that imports from AGOA-eligible countries have increased each year since enactment of the law, most recently rising by five percent in the first nine months of 2007 over the same period in 2006, although more than 90 percent of AGOA exports to the U.S. are oil and petroleum products. However, other industries such as agriculture commodities, textile and apparel, and automobiles are benefiting as well. More than \$500 million in new investments and approximately 250,000 jobs have been in Africa as a result of AGOA. Apparel has been particularly successful due to a special provision of AGOA that allows 26 of the 39 AGOA countries to use inexpensive fabric from anywhere in the world to make clothing that can be exported to the U.S. duty-free.

### **Examples of AGOA Successes**

In Lesotho, opportunities to export clothing duty-free into the U.S. created under the African Growth and Opportunity Act (AGOA) in 2000 sparked investment from Taiwan, China, and South Africa that funded the construction of clothing factories in this small, landlocked country. Today, the clothing industry in Lesotho employs 45,000 people (the clothing industry is now the number one employer in the country) and exports more than \$300 million of clothing to the United States annually. Increased interaction with US buyers has also prompted the government to adopt International Labor Organization (ILO) standards to promote its factories as safe and healthy places to work. In an effort to grow the industry and expand into fabric manufacturing, which requires consistent access to clean water, the government of Lesotho worked with the Millennium Challenge Corporation to incorporate funding for an enhanced urban water infrastructure into its compact (signed in July 2007).

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In Mali, producers of traditional mudcloth (called bogolan) handbags recently received one of the country's largest handicraft orders. Hallmark, in a partnership with PRODUCT (RED), ordered handbags for stores across the United States, its first order of the kind in Africa. This order has given more than 200 tailors and cloth dyers a steady income more than twice Mali's minimum wage. Exports of the handbags enter the U.S. under a special provision of the African Growth and Opportunity Act (AGOA) that allows them to enter free of duty. Assistance from US-funded programs like the West African Trade Hub as well as the Peace Corps helped Malian producers meet quality standards and understand export procedures. At the same time that the order has produced higher incomes for producers, up to 50 percent of the proceeds from the sale of the bags goes to the Global Fund to Fight AIDS, TB, and Malaria.

AGOA exports of textiles and apparel, minerals and metals, transportation equipment, and chemicals all increased during 2006.

### **Limitations of AGOA**

Though efforts have been made to extend AGOA and make it easier for African countries to take advantage of the benefits, AGOA as a tool is limited in its ability to truly alter African trade with the U.S. The scope and diversity of products could be expanded to create more opportunities for African countries. For example, full access to sensitive products such as sugar, beef, and footwear are not included under AGOA but could have great potential for African producers if they were added.

Moreover, AGOA itself only addresses market access; its impact will be limited because it does not reflect a comprehensive approach to trade policy. AGOA does not and is not intended to address subsidies in any way; therefore the competitive advantage of subsidized U.S. goods continues to impact African's ability to compete. What AGOA even more vividly reveals is the need for greater trade capacity assistance and the need to address supply side issues in Africa so that once the barriers to trade are removed, Africa can better take advantage of export opportunities in a broad range of sectors.

The lack of infrastructure (transportation, telecommunication, energy and water); finance and currency problems; and the need for legal and banking reforms work against Africa. Only by addressing capacity/infrastructure gaps, encouraging diversification of exports and transforming the international trading system to level the playing field will ensure that more trade benefits accrue to sub-Saharan Africa.