AGOA Action Committee Draft Proposal and Framework for Discussion:

Enterprise for Development: A New US Policy Approach Toward Africa

Overview

This year the United States and Africa celebrate the 10th anniversary of the enactment of the African Growth and Opportunity Act (AGOA). AGOA, signed into law by President William J. Clinton and enhanced by President George W. Bush, with strong bipartisan Congressional support and unanimous backing from the 48 countries in sub-Saharan Africa, represents the first-ever comprehensive US trade law towards Africa. It marked an expansion of US Africa policy from an out-dated "foreign aid" donor-recipient model to a dynamic new US relationship with Africa based on partnership, trade, investment and enterprise solutions. In addition to providing Africa with the most generous US trade preference scheme enjoyed by any region of the world—giving duty- and quota-free access to the US market for essentially all products produced in eligible African countries - it institutionalized Africa's development as a priority in all organs of US government. AGOA birthed pioneering initiatives such as the OPIC Africa Equity and Infrastructure Funds, USAID Africa trade capacity-building programs such as the African Global Competitiveness Initiative, the US Department of Transportation's Open Skies initiative with African nations, and the US Department of Agriculture's agri-business programs. Further, AGOA ushered in annual US-Africa Trade and Economic Ministerial and private forums, which guaranteed African policy-makers regular access to their US counterparts.

The most significant achievement, however, has been AGOA's record in expanding African exports into the US – $300 billion in total AGOA exports and nearly $28 billion in non-oil exports – and the concomitant creation of more than 300,000 jobs over 10 years. Significantly, this progress in non-oil exports was made with a modest investment of about $2 million dollars annually in reduced tariff revenues for the US. While much more needs to be done, never in the history of the US has such a modest US investment resulted in such significant development gains for Africa. As a result of AGOA, the US-Africa relationship has been transformed into a solid partnership with a record of achievement.

Many of the same committed Americans and Africans who helped create and enact AGOA into law have united again in support of a new US policy approach toward Africa that builds on AGOA's demonstrated achievements. This new 6-pronged policy proposal, ***Enterprise for Development (EnDev),*** is being presented to the Obama Administration and Congress in support of their on-going work to strengthen and enhance expanded US engagement, trade, investment and proven poverty alleviation efforts with Africa.

Central to *EnDev* is broad recognition that the private sector, expanded trade, and enterprise development are proven prerequisites to raising people out of poverty; this has been the experience of all nations that have developed economically, including the United States and Asian and European countries. *EnDev* also recognizes that in addition to advancing incentives and trade preferences to increase trade and investment in Africa, strong policies must be enacted to strengthen and grow indigenous enterprises within Africa. Further, *EnDev* recognizes that successful policy implementation must be mutually beneficial and hence it must include measures to support job creation, export promotion and healthy prosperity in both the United States and Africa.

Enterprise for Development: 6-Pronged Policy Approach (Proposal Framework)

1. Protect, Extend and Expand AGOA

AGOA has proven to be among the most effective policy instruments towards Africa. The return on US investment is unparalleled given that AGOA's non-oil US trade preference costs US taxpayers only about $2 million dollars annually while impacting hundreds of thousands of lives in Africa. The Obama Administration and the US Congress should build on what is working. Getting AGOA to work better will require a stronger US and African commitment, a permanent extension and an expanded framework. To do this, Congress should:

- **Make AGOA permanent.** The short-term extensions that have taken place thus far do not provide the certainty needed for expanded investment and trade flows. AGOA is currently due to expire in 2015, with key apparel provisions expiring in 2012. Sourcing and investment decisions are made years in advance, therefore delay or doubt regarding AGOA's renewal may cause significant job loss and decreased export revenues in Africa. Export expansion is critically important to Africa's development. World Bank research indicates that if Africa had maintained the share of global trade it achieved during the 1980's, it could have generated an additional $100 billion dollars per year - more than the region received in annual aid flows from all sources during this period.

- **Expand AGOA coverage**. AGOA must be expanded to allow the duty- and quota-free (DFQF) import of all products including less sensitive agricultural products, particularly those subject to tariff rate quotas (TRQs) and those products, such as ethanol, that have been added to the US Harmonized Tariff Schedule since AGOA was enacted.

- **Protect AGOA from hyper-competitors in other parts of the world.** Current trade preference reform proposals before Congress to extend AGOA's DFQF provisions to countries such as Cambodia and Bangladesh that are already super-competitive in AGOA's strongest sector - apparel exports - would do irreparable economic damage to African countries benefiting from AGOA. These proposals would cause massive job losses in the poorest countries in Africa, which have already experienced a 25% decline in apparel exports as a result of the lapsing of the WTO Multi-Fiber Arrangement in 2005. Conversely, Cambodia and Bangladesh experienced a 58% growth in exports of apparel to the US over the same period. Together these two countries export nearly $6 billion dollars in apparel to the US annually – more than five times the amount exported by all 48 countries in sub-Saharan Africa combined. It is estimated that Walmart will purchase more apparel from Bangladesh in the coming year than the total value of all apparel imported into the US from all AGOA LDC countries. The US Congress must protect fragile African economies by not extending AGOA-type preferences to super-competitors who have demonstrated that they can grow without such preferences. The measurable benefit of granting trade preferences to Bangladesh and Cambodia's apparel sector would be a more than billion-dollar windfall (through tariff relief), at the expense of US taxpayers, to large US retailers and largely Chinese foreign trade companies who will not likely pass those savings on to the poor in Cambodia and Bangladesh.

- **No diminution of AGOA Benefits.** Current trade preference proposals before the US Congress would change AGOA's definition of "least developed" rendering the strongest, yet still fragile, economies of South Africa, Ghana, Kenya, Mauritius, Namibia and Botswana ineligible for AGOA benefits. Many of these countries are regional economic anchors and stabilizers in Africa. Taking away their benefits would deal a harsh blow not only to their national economies, but also to the economies of their even poorer neighbors and the sub-regional efforts to integrate economically. Research by Paul Collier demonstrates that for every 1% growth in a country's economy, its neighbor grows by 0.4%.

- **Develop tax incentives and credits for US investors in Africa.** While AGOA has expanded African exports to the US, it has failed to deliver the anticipated investment response that is critical for job creation and Africa's overall integration into the global economy. The new *EnDev* AGOA urges the Obama Administration and Congress to enact development tax incentives and credits for US companies investing in Africa. Under this tax initiative, US companies investing in non-oil and non-mineral sectors in AGOA-eligible countries would be permitted to repatriate profits to US tax-free. Retailers and companies sourcing products from AGOA-eligible African countries would receive a development tax credit for sourcing products made in Africa with significant African content. Lack of US investment incentives is a key reason why China and other nations are outpacing US investments and engagement in Africa. While it is not recommended that the US subsidize its companies along the lines of China, America must open the US tax code to promote development in Africa and expand opportunities for US business in the region if it is truly committed to growing American exports and economic opportunities in the region. Congress should also mandate the Executive Branch to work to ratify bilateral and multilateral tax treaties with African nations and regional bodies. Out of the 67 nations with whom the United States has signed tax treaties, South Africa is the only sub-Saharan African country to have such a treaty with the US.

- **Support regional integration through AGOA**. Key international economic organs of the US government, including USAID, OPIC, the Millennium Challenge Corporation (MCC), the Ex-Im Bank, the US Department of Commerce, USTR, the US Department of Agriculture and the US Department of Transportation, should all review initiatives related to African economic development, and report to Congress on how such initiatives can be improved to support regional integration, poverty alleviation, trade capacity building, trade and investment expansion and overall economic development in Africa. The Offices of US Executive Directors of both the World Bank and the African Development Bank should encourage and support institutional initiatives to advance regional integration in Africa. Further, because 30% of Africans live in landlocked countries, AGOA's "Rules of Origin" provision should be amended to permit sourcing of inputs from any country in the region in order to promote intra-African trade.

- **Local employment criteria**. To protect against foreign workers being brought in to work in African factories, a new AGOA bill should encourage local laws requiring that African factories producing AGOA-eligible products employ a certain percentage

of African citizens. This provision would be conditioned upon compliance with existing US and African international commitments.

- **Delink AGOA from the Doha Round outcome.** New trade preference reform proposals before Congress would terminate AGOA benefits unless the Doha Round is successfully concluded. This is unfair to Africans who would be rendered poorer by the US because America and the European Union cannot reach a consensus in the WTO negotiations.

2. Partner to Revitalize Africa's Agricultural Sector

More than 70% of Africans are employed directly or indirectly in the region's agricultural sector. While the Obama Administration is to be congratulated on its support for the Global Agriculture and Food Security Program, it should also develop an effective and robust plan to work with African nations to revitalize the region's agricultural sector, support local processing and value-addition for Africa's primary and raw agricultural products, establish partnerships with US agricultural companies and other institutions to advance the agricultural sectors in the region, support increased sourcing of African agricultural products to feed Africa through the World Food Programme and other anti-hunger initiatives, execute initiatives to develop more indigenous African agricultural industries including technology transfers, technical assistance in farming techniques and assistance for African agricultural exporters to meet US sanitary and phyto-sanitary requirements, and boost overall US support for a Green Revolution in African agriculture. While increasing agricultural productivity in Africa is a critical tool of poverty alleviation, it should not be the sole focus because job creation through light manufacturing is the most effective way for a country to transition out of poverty.

In addition to removing quantitative restrictions on agricultural imports, the US government should work towards ending subsidies for American agriculture. The 2008 Farm Bill, which prescribes subsidies and other support for agriculture, will cost U.S. taxpayers $307 billion over the next five years. Ending farm subsidies would make some agricultural products imported from African countries more competitive, resulting in higher farm incomes and reduced poverty in Africa. A 2007 Oxfam study, for example, found that a complete removal of subsidies to American cotton growers would increase the world price of cotton by between 6% and 12% and increase household income in West Africa by between 2.3% and 5.7%.

3. Make US Aid Smart and Effective

There is broad recognition that foreign aid has not produced a good return on US investment. Over the past 50 years, the US has provided more than $325 billion in aid to Africa with questionable results given the size of the investment. The US is good at delivering emergency and humanitarian assistance to Africa, but weak at developing and delivering 'development assistance' which should promote sustainable prosperity and move a significant number of people out of poverty into productive activities.

The Obama Administration should conduct a comprehensive review of the US aid program to Africa with a view to reforming US aid delivery and making it smarter and more effective. One idea that has garnered a lot of well-deserved attention recently is one proposed by Columbia University economists Glenn Hubbard and William Duggan, that the US launch a

Marshall Plan for Africa that extends loans to businesses in developing countries to spur economic development in much the same way as the original Marshall Plan helped rebuild Europe following World War Two. As they wrote in the ***The Aid Trap: Hard Truths About Ending Poverty***, "[The Marshall Plan's] single aim was a thriving domestic business sector in every single country. And it worked. Aid can indeed help to end poverty, by helping the business sector." There is no other effective engine of job creation. Aid reform should include:

- A review of how much US aid has actually been delivered to Africa vs. how much it has enriched US entities that make up the aid-industrial complex. Aid is designed to help the poor and not enrich companies.

- An investigation into how much USAID procurement projects have been given to NGOs and companies owned and managed by former USAID employees.

- A review of how effective aid has been in achieving its stated objectives. The US taxpayers have a right to know if they are getting a return on their investment.

- There should be a specific reform agenda for US trade capacity-building initiatives. In addition, the African Global Competitiveness Initiative, which will expire in 2011, should be reformed and expanded.

- Because no nation in the world, including the United States, has developed economically without enterprise development, USAID should devote more attention and resources to indigenous enterprise development and expansion in Africa. Enterprise solutions, including funding for USAID to extend loans to African businesses, stronger USAID development partnerships with African and US companies, and regional integration should be a focus of the new and reformed USAID, which must divert its focus from charity support to energizing and supporting Africa's business sector.

- USAID should revise its policies and develop plans to support regional energy and transport infrastructure in Africa—key impediments to expanded intra-Africa trade and economic development.

4. Expand and Reform the Millennium Challenge Corporation (MCC)

There are numerous obstacles to the effective aid delivery and expansion of the Millennium Challenge Account (MCA). Many African countries lack the capacity to quickly develop comprehensive compacts, and it has taken too long for the MCC to deliver funds to the region. Politically, it is also difficult for Congress to provide continued support to the MCC when it does not know how the funds will be used, and to which projects and sectors the funds will be devoted.

Further, the MCC has failed to demonstrate that it is building capacity among Africa's indigenous enterprises or that it is providing benefits to American companies seeking to procure contracts through the MCC. As a result, it lacks a strong record of achievement and a strong US and African constituency, both of which are required if the MCC is to secure the long-term funding needed to continue. Anecdotal evidence suggests that a large portion of MCC

procurement contracts in Africa have gone to Chinese companies that appear not to be providing jobs to Africans or transferring know-how and technology to African companies when executing MCC-related projects. The MCC must look beyond the ability of Chinese companies to tender the lowest bids because that is to be expected given how highly Chinese companies are subsidized by their government. The MCC must aim for a great multiplier development benefit - a triple bottom-line effect - in Africa. It is, therefore, recommended that the MCC:

- Focus its resources exclusively on the energy and transportation sectors, which account for the highest costs of doing business in Africa. With a focus on these two sectors, MCC and African countries would not have to wait for years for a compact to be developed. The focus on these sectors would also address a significant funding gap by other donors, and Congress would know in advance precisely what type of projects it is funding. The energy sector focus should also include renewable energy and green technology. Energy and transport infrastructure are two sectors where America leads the world. Refocusing the MCC on these two sectors would provide mutual gains for the US and Africa alike, and a strong MCC constituency on both sides of the Atlantic.

- Americans are increasingly demanding that foreign aid also benefit the US economy. American and indigenous African companies should be given priority bidding in MCC procurement projects with more preferential treatment accorded to US-African commercial joint ventures. This would help to transfer know-how, capacity and technology to African companies struggling to compete in the global economy and deliver jobs and support to African people. The MCC requires African governments to invest in its people and it’s also important for the MCC to demonstrate that it, too, is committed to investing in African people and enterprises. This proposal would have to be drafted carefully to ensure compliance with US international obligations.

- The MCC should be encouraged to pursue regional compacts.

5. <u>Increase financing for US exports to Africa through the US Export-Import Bank.</u>

The Ex-Im Bank should commit additional financing for US exports to sub-Saharan Africa as part of the President’s National Export Initiative. The Bank should focus this financing on US exports to Africa, some of which will be used to manufacture goods eligible for import to the US under AGOA. In addition, the bank should increase its commitment to financing small- and medium-sized businesses who wish to export goods to Africa.

6. <u>Increase support to the Overseas Private Investment Corporation (OPIC)</u>.

OPIC provisions restricting support for sensitive sectors like apparel and textiles should be discontinued. This should include additional support for African equity and infrastructure funds, increased assistance to small- and medium-sized companies in Africa and more funding for the African Technical Assistance Initiative, financing for regional infrastructure projects in Africa.

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