



Recalibrating U.S. Economic Engagement with Africa in Light of the Implementation of the AfCFTA and the Final Days of the Current AGOA Authorization

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The Africa for which the 2000 African Growth and Opportunity Act (AGOA) was promulgated does not exist. This is the case for at least three reasons. One, the emergence of China's development cooperation model which has left behind roads, rails, bridges and airports, and investments in mining, fishing, and manufacturing¹ has opened the eyes of African policymakers and leaders to the possibility of an alternative way that is characterized less by sharing best practices and developing strategies, and more by something that Africans can see and touch. This factor significantly changed the psyche of African leaders and will determine how Africa values and shapes partnerships with the rest of the world—including the United States. The second major shift is the birth of the African Continental Free Trade Area Agreement (AfCFTA)—a groundbreaking force for integration with the potential to create an industrial revolution across Africa and resist the types of deals that keep the continent at the bottom of global value chains. Third, the import of Agenda 2063—Africa's development blueprint that simply did not exist when AGOA was promulgated.

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What these developments mean for a post-AGOA dispensation is that the African Union (AU), which has consistently defended an extension of AGOA on its existing non-reciprocal preferential terms, will insist on this position. But they should also do more.

With the opportunity for AGOA renewal in 2025, the United States has a chance to establish a truly solid development-oriented partnership emphasizing industrial and trade capacity development and collaboration to overcome the foundational bottlenecks that hinder the realization of AGOA's potential. This paper seeks to demonstrate how this can be done.

The paper argues for an AGOA-*plus* package that does two things:

One: extends the non-reciprocal AGOA preferences.

Two: adopts a strong U.S. commitment in partnership with the African Union, that sets the parameters of U.S. support for the AfCFTA, especially to build African productive capacity in the value chains that are emerging out of AfCFTA State Party commitments. This partnership should advance technology, financing and investment for industry initiatives linked to sectors included in both AGOA and the AfCFTA—especially for women and young entrepreneurs.

The above components of an AGOA-*plus* package are in the strategic interest of the United States to ensure AGOA's stated objectives to promote economic growth through good governance and free markets are met.² The landscape in which the U.S.-Africa partnership is unfolding has drastically changed in the 22 years since AGOA was enacted and does not lend itself to an outcome that is predetermined externally and gifted to Africa. The AGOA-*plus* package will therefore need to be co-created with African States and perhaps have a stronger role for U.S. agencies focused on finance, investment, and industry to ensure that experimentation with traditional aid models (projects and pilots) goes to scale.

The Africa Growth and Opportunity Act: From Promise to Practice

AGOA offers Sub-Saharan African countries duty-free access in 5,240 tariff items if the goods are wholly obtained or sufficiently manufactured in an AGOA country (the latter requiring third-country materials to have been substantially transformed).³ Its singling out of Sub-Saharan Africa (out of the broader group of developing countries) by way of waiver granted by the World Trade Organization's (WTO) Council on Trade in Goods⁴ has long shown what a trade-led pathway to an Africa beyond aid can look like—offering eligible countries the possibility to enter the lucrative U.S. market on preferential terms better than those available to other WTO members, including some least developed countries outside of Africa.

AGOA has impacted countries like Lesotho,⁵ and Kenya,⁶ and Ghana.⁷ However, the broad picture across most beneficiary countries is one of undiversified exports over the 22 years of AGOA's existence. According to the Brookings Institution, in 2014, crude oil accounted for 46% of all AGOA imports, and energy-related products more generally represented 67% of all AGOA imports into the United States.⁸ According to the United States International Trade Commission (USITC), U.S. imports from Sub-Saharan African countries increased by \$4.9 billion between 2016–2018, with imports of Nigerian crude petroleum and South African precious metals, non-numismatic coins, and diamonds taking the lead. Under AGOA for the same period, crude petroleum and petroleum products from Nigeria were the main driver behind the \$2.0 billion (12.9%) increase in U.S. imports, accounting for about three-quarters of the overall increase in U.S. imports under AGOA.⁹

In assessing a new U.S. engagement with Africa, understanding why AGOA has not broken the commodity export trap must be at the heart of the conversation.



Aligning AGOA to Africa's Preferred Development Approach

A U.S.-Africa partnership must, as a core design issue, center around accelerating industrialization in Africa. Africa's development blueprints are clear, especially in relation to the very high importance of industrialization in the continent's development agenda. Agenda 2063, adopted by the AU Summit in January 2015, is the critical compass for Africa's future development. When AGOA was enacted, there was no continent-wide development strategy to which all African Union member states subscribed. At the heart of Agenda 2063—the Africa we want—is Africa's integration and industrialization agenda with areas like the AfCFTA, value added industry, and the movement of people as some of the key priorities. All partnerships in the post-Agenda 2063 dispensation would rightly be weighed against their contribution to these grand objectives. At the November 2022 Extra Ordinary Industrialization Summit, AU Heads of State took decisions reiterating their commitment to the following: Africa's industrialization ambitions¹⁰ the Industrial Development Decades for Africa (IDDA) I, II and III,¹¹ and to the Plan of Action for Accelerated Industrial Development of Africa (AIDA).

Aligning AGOA with Africa's preferred approach requires looking beyond trade to include additional complementary factors, like technology, human capital, and boosting productive capacities. In turn, this requires inviting the United States to incentivize American trade support institutions and companies to share technology in a modality that yields results for all—while advancing Africa's industrial drive with a focus on value addition, diversification, and transformation away from exporting raw materials. A contemporary approach to U.S. relations with Africa requires supporting enterprises to invest in concrete industrial projects within Africa so that this partnership can further enable the footprint of value-added industrialization.

Frontloading Agency in Unlocking Africa's Potential

The primary responsibility to create conditions for prosperity lies with African countries, governments, and peoples. Ensuring that governments themselves prioritize action to improve their own performance through building the enabling environments for exports, industry, and investment must be an important part of the U.S.-Africa partnership moving forward. The capability of standards-setting institutions, testing laboratories, and trade facilitation measures to boost exports are some areas that African governments should prioritize as a down payment for greater results out of this partnership. This would not only benefit the AGOA but also the AfCFTA—given that the latter agreement is modelled on international standards.

Pandemics, Wars, and Learnings for AGOA

The African leaders looking at how to advance the U.S.-Africa partnership still experience the transmitting impacts of the COVID-19 pandemic. While on the one hand, these impacts demonstrated the risk of overreliance on external sources for personal protective equipment, vaccines, and pharmaceuticals; they, on the other hand, brought front and center the fault lines in a trade policy that did not incentivize domestic production in these key areas. With international borders closed and supply chains broken, Africa's capacity for resilience surfaced with Rwanda manufacturing masks¹² that mitigated the spread of the pandemic and Senegal producing vaccines¹³—products traditionally imported into Africa, to the tune of 99%.¹⁴

The war in Ukraine further affirmed what COVID-19 left uncertain. According to a 2022 United Nations Development Programme (UNDP) Report, Africa's reliance on Ukraine and Russia for its grain imports exposed a sharp vulnerability—with major concerns on food, fuel, and fertilizer.¹⁵ The role of trade policy in responding to these challenges will be at the fore of African leaders' minds as they engage with the United States in shaping a new partnership. These leaders will want a partnership that strengthens, not weakens, resilience.



The Mega Shift toward “Make in Africa”: Implications for AGOA

The most seminal shift post-AGOA promulgation is the emergence of the AfCFTA: a treaty binding forty-four (and counting) of the fifty-five African countries to offer preferential tariff and services regulatory (non-discriminatory) treatment to each other to advance industrialization within Africa.

Much has been written about the transformative power of the AfCFTA.¹⁶ UNDP’s 2021 simulations on attaining additional benefits if African heads of state took action to, as part of the pandemic recovery, adopt regulations as a stimulus for COVID-19 recovery for an 18-month period, revealed that African businesses would reap revenues of about \$500 billion.¹⁷ In addition, the sectors in which women are most represented stood to increase by about 18%, nearly double the earlier predicted estimates. All of the assessments agree that the AfCFTA is Africa’s strongest accelerator for industrial transformation.

The AfCFTA’s promise—to offer its State Parties zero-duty treatment on an initial 90% of tariff lines and non-discriminatory treatment in five priority services sectors including transport, communication, finance, business services, and tourism—merges the power of nondiscrimination with Africa’s urgency to industrialize, creating the world’s largest free trade area, by number of members. Because AfCFTA member states collectively own some of the world’s largest and most precious natural resource reserves, the AfCFTA has strong potential to disrupt global production systems for the benefit of Africa. As such, those who move quickly in establishing new types of relationships with Africa anchored in investment and production within the AfCFTA space will be the ones that succeed.

A 2021 report from both the AfCFTA Secretariat and UNDP identified ten value chains emerging from the exchange of tariff and services offers amongst AfCFTA State Parties, which can inform business, with a level of certainty, on where to invest for the AfCFTA markets. This report revealed opportunities in automobiles; lithium-ion batteries; clothing, textiles, and apparel; cocoa, soya, and leather products; pharmaceuticals and vaccines; mobile financial services; and entertainment and cultural services.¹⁸ These are some of the sectors to which partners of Africa, like the United States, should pay close attention—as they signal what is emerging as being concretely on offer in the single African market.

The novelty of the AfCFTA is the offer to African countries of a trade-led solution out of the poverty trap that has gripped them for decades. By opening up markets for intra-African trade, the AfCFTA creates opportunities for value addition on the continent: an approach that is unique from the pattern that defines Africa’s trade with the rest of the world, including the United States, which is largely dominated by the exportation of raw materials. The United Nations Economic Commission for Africa (UNECA) studied the character of intra-African trade and confirmed that “Intra-African trade embodies a far larger share of industrial and value-added goods than Africa’s trade with the rest of the world.”¹⁹

From AGOA’s perspective, this should be a point of interrogation: why are African countries unable to add value when the export market is the United States? Typically, this points to challenges with production capacity as well as meeting standards in the U.S. market; be they sanitary and phytosanitary, or technical standards relating to testing, labeling, or other certifications such as ascribing origin in ways that meet the rules framework. A post-2025 U.S.-Africa partnership must correct these issues—including through strengthening the U.S. investment footprint within Africa to ensure joint-ventured production for export, leveraging capabilities of U.S. enterprise to produce with African businesses, for the AGOA market.



Where Next? A Recalibrated Agenda for a Reinvigorated U.S.-Africa Trade, Industry, and Investment Partnership

There is a unique opportunity to create a stronger U.S.-Africa partnership. An AGOA-*plus* model answers, at least in part, that important question on the minds of Africa's leaders: how to build resilience—in production and supply chains—using the AfCFTA as the core lever.

This paper shared some insights on what the U.S. government should consider in approaching discussions on this partnership. Below is a summary of five key policy options and recommendations that would frame a recalibrated U.S.-Africa trade partnership in light of the implementation of the AfCFTA and the final months of the current AGOA authorization.

Policy Options and Recommendations

- 1. Place mutual respect at the heart of deliberations.** The U.S. government should come to the table with a demonstrable interest in listening to and exchanging with Africa, and an openness to be guided by the views of Africa (on issues concerning the approach to capacity building that will work for developing value chains for example). The conversation should be about an effective U.S.-Africa partnership for sustainable development. Getting this right is requisite because the discussions are with an empowered and stronger African Union.
- 2. Establish from the outset that AGOA is only one part of U.S.-Africa economic cooperation: the future must be AGOA-*plus*.** There are other, equally important tenets of the economic relationship like investment, industrialization, financing, technology transfer, and effective trade capacity-building focused on the infrastructure of trade.
- 3. Extend and expand AGOA beyond 2025.** However, an extended AGOA should learn from what has and has not worked to ensure that the next iteration expands Africa's market share and accelerates sustainable development. Specifically:
 - Expand the scope of AGOA to include services exports from Africa. Sectors in which African countries have growing capacity include professional services (supplied through the temporary presence of natural persons), consulting services, business-processing outsourcing, and digitally enabled services, among others. Linked to this is the need to offer early investment in regulatory and human capital development that is also facilitated through certification procedures that will promote utilization of new AGOA-services related market opportunities.
 - Rethink the AGOA Eligibility Criteria to offer the private sector more predictability and certainty. Pursuing other ways to sanction more directly the behavior of political actors rather than penalizing the private sector through AGOA suspension, should be found.
 - Maintain AGOA as a non-reciprocal trade arrangement that offers African countries duty and quota free market access. Quota free access is key in sending a strong signal to investors that their success will not be met with exclusion from eligibility for the scheme. Rather, the message should be that there will be reward for going to scale.
 - The AfCFTA is not a customs union that can determine its signatories' common external tariff and require its members to engage as a single block with other countries. However, even in the absence of this requirement (to engage with the continent as a block) it is important that the AfCFTA is given a chance to get on its feet and start to walk, especially given the potential U.S. impact on Africa's industrialization ambitions in the context of a reciprocal trade deal. For this reason, the renewal of AGOA should be considered as a cornerstone for the success of the AfCFTA, by ensuring AGOA remains on non-reciprocal terms.



4. **Because weak capacity to utilize trade opportunities is one of the main challenges, the United States should invest strongly in an AfCFTA Exports Accelerator that focuses on building capacity for production and export.** An inventory of the bottlenecks that have held back both AGOA and intra-African trade is an important reference point for design of the Accelerator. A collaborative approach should be woven together with both the AfCFTA Secretariat (along the lines of the Memorandum of Understanding announced by President Biden at the recently concluded U.S.-Africa Leaders Summit) and other relevant AU organs.
5. **The African diaspora should be ring-fenced, by the U.S. government, as the gateway to supporting the AfCFTA—leveraging their deep roots in the continent, which are valued beyond quantifiable financial gain.** The diaspora investors are more likely to stay the course even where the proverbial valley of death threatens entrepreneurial ventures, mainly because Africa is home for them, too. Investors and remitters are likely to also calculate the rewards in cultural bonds strengthened, and in family and identity connections reinforced. There have been important welcoming initiatives, like the Ghana Year of Return, in which considerable interest was recorded by the diaspora. The diaspora should be engaged as investors and these relationships tapped into due to cultural, historical, and family bonds as well. And the AfCFTA must be that opportunity that drives this diaspora partnership—in all African countries that have ratified the Agreement.

Conclusion

This fundamental truth holds: AGOA can do more to effectively support Africa in reaching its full potential for trade-led growth and sustainable development. Now is the time for an AGOA-*plus* approach that takes the lessons from the past 22 years to shape a more mutually beneficial partnership. Doing this well will require the United States allowing its responsibility as a global leader on development to guide as the core compass. This vision will necessitate holding firm against the temptation to seek a Free Trade Agreement with Africa. Rather, it will take listening to African priorities, re-calibrating AGOA to suit the Africa of the future, and designing the complementary pieces of the U.S.-Africa economic relationship to ensure that this partnership is the wind in the sail towards the Africa we all want.

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