

**North – South Cooperation: An Assessment of US Multilateral Trade
Arrangement with Sub-Saharan Africa under AGOA.**

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Abstract

This paper assesses AGOA within the broad ambit of North – South cooperation. AGOA is a multilateral trading scheme between the US and Sub-Saharan African (SSA) states. Under the scheme, limited access is granted to selected products from Africa to the US market while opening up Africa's market to US investment, goods and services. Based on the objectives, eligibility criteria, patterns of trade and investment, and the institution of AGOA, the paper argues that the scheme has the capacity and potential of further deepening the divide and unequal relationship between US and SSA. Like many other satellite arrangements between the North and South, trade, investment, and other economic exchanges are concentrated in a few countries thereby reinforcing the perpetuation of the phenomenon of 'centers of growth' and 'centers of stagnation'

Introduction

North-South is a simple term which describes the relationship between the industrial countries of the North and the developing countries of the South. The global economy is inherently characterized by an uneven relationship between the North and South. Although there is heterogeneity in the countries of the South, historically the relationship has significantly contributed to an uneven development and/or marginalization of the countries of the South by the more industrial countries of the North. The North – South interdependence cannot be viewed as a static phenomenon. While for some the relationship has led to increased manufacturing and export capacity in the South (Harris, 1986), for others the development in the South has been tangential, over-generalized, and concentrated in the newly industrializing countries (NICs) (Cox, 1987; Loxley, 1998).

Over the decades, the developed countries of the North have maintained, sustained and reproduced this relationship through various economic, political, social and cultural mechanisms. As the developed countries battled and competed for the control of global economic exchanges, multilateral trade arrangements were created between the developed countries and the developing countries to either maintain the existing trade relations or to change the pattern and direction of trade and other economic exchanges. As the process of globalization increased in the later part of the 20th century, the global economy was characterized by the growth in multilateral trading arrangements and regional trading areas (RTAs) under the guidelines set out by global trading institutions such as the GATT and its precursor, the WTO. For example, there were about 162 RTAs in 2002 and the WTO estimates that over 300 will be in effect by 2007 (Center for International Development (CID) 2004).

By the 1990s, the Cold War had declined and the former Soviet Union had collapsed. Capitalism had triumphed and there was need, especially by the United States, to build a community of free market nations to spread democracy and capitalistic principles. Europe had for years controlled and dominated economic activities in Africa through various trade and economic arrangements such as the satellitic Yaounde Conventions 1963 and 1969 and the Lome Conventions (1970s – 1990s). The US wanted a significant share of economic activities in Africa. From the 1990s there was a gradual shift in America's policy toward Africa. In 1995, the US Congress began a series of debates which eventually led to the enactment of the Trade and Development Act of 2000 with Sub-Saharan Africa and the Caribbean Basin. The part of the Act which defines trade relations between US and Sub-Saharan Africa is called the African Growth Opportunity Act (AGOA).

The AGOA became operational in 2001 and was to last until 2008. However, in 2004 it was extended to 2015, thus giving it more longevity. The primary purpose of AGOA is to gradually offer duty-free and quota-free access to selected SSA products to American market while opening up the regional economy to American businesses and investments. There are those who argue that for Africa's development must be deeply integrated into the global economy. For example, President Bush justified AGOA by noting that "no nation in our time has entered the fast track of development without first opening up its economy to world markets. The African Growth and Opportunity Act is a road map for how the United States and Africa can tap the power of markets to improve the lives of our citizens"

(<http://www.whitehouse.gov/news/releases/2002/01/2002102-4.html>). Bush's assertion is not dissimilar to earlier conclusions that prosperity in developing countries was linked to close integration with the North, based on manufacturing exports (Harris, 1986). The issue is not the degree of integration, but how has integration in the past affected the African economy. After all,

Africa has been an integral part of the world economy, and the phases of this integration of Africa's markets into the capitalist world economy date back to the period of the Trans-Atlantic slave trade (Wallerstein, 1986).

The North-South divide in the case of Africa has been maintained and sustained by Europe. The pattern of economic activities, especially trade and investments, was historically determined and conditioned along colonial lines with Britain and France dominating economic activities. Other industrial countries, the US and Japan, were marginalized in the exploitation of resources in Africa by European countries. For example, according to UNCTAD (1996), foreign direct investment (FDI) from the US stood at \$308 million between the periods from 1975 to 1980, fell to a negative of \$19 million in 1981 and 1985, and rose gradually to \$200 million from 1991 to 1993. Over the same period, Europe's FDI in Africa stood at \$472 million in 1975 to 1980 and \$41,134 million at the end of 1991 and 1993. With regard to diversity of investment in Africa, Hormeku (www.developmentgap.org/afpolicy.html) noted that of the 50 largest affiliates of the foreign based transnational corporations (TNCs) operating in the industrial and tertiary sectors in Africa in 1993, the six from the US were in distributive trade, transport and petrochemicals and metals. By contrast, the 30 firms from Europe (mainly from UK, France and the Netherlands) were into everything from food, beverages, tobacco, rubber, petrochemicals, non-metallic, coal and petroleum. And among the 25 TNCs affiliates in finance and insurance, only two were from the US and the rest were predominantly from Western Europe.

However, at the end of the cold war and the rising pace of globalization, America's policy toward Africa changed from intervention to what President Clinton espoused as policy of engagement and enlargement to build a community of free-market nations. According to Ron Brown (the late US Secretary of State for Commerce), the 1990s would not be a decade when the US would no longer cede the African market to her European friends or any one else (cited in Hormeku). In the 2003 annual report, (presented to the US Congress by the Office of the United States Trade Representative (USTR) AGOA was described as the cornerstone of President Bush's Administration's trade and investment policy toward sub-Saharan Africa. AGOA is intended to promote free market, expand US-African trade and investment, stimulate economic growth, and facilitate sub-Saharan Africa integration into the global economy (http://www.agoa.gov/resources/annual_3.pdf). The primary objective of the AGOA is to encourage increased trade and investment between US and SSA and to divert Africa's trade from Europe to US.

AGOA is not dissimilar from other multilateral trading arrangements based on neo-classical models such as the Yaounde Conventions and the Lomé Conventions between Europe and

Africa. The intent of this paper is to assess the impact of AGOA on participating Sub-Saharan African countries. This paper will argue that like other neo-classical schemes of the past, AGOA has the capacity and potential for further deepening the divide and unequal relations between US and SSA. The paper also contends that while AGOA ensures increased purchase and consumption of American products and services, it carries with it certain essential ingredients of American capitalistic philosophy and governance.

Background to the Creation of AGOA

The background to the creation of AGOA lies in US foreign policy of post-Cold War. America's foreign policy toward Africa by the end of the Cold War was characterized by indifference, and as a result there was no coordinated trade policy for the continent. Pax Americana and the spread of capitalist liberal ideology were later to become the dominant US foreign policy from the mid 1990s. In this new world order Africa, (which had hitherto received little attention from either the West and Eastern blocs) was to become further marginalized. The West became preoccupied with restructuring and transformation efforts in Eastern Europe and the Commonwealth of Independent States (CIS). There was virtually no place for Africa except where there were humanitarian catastrophes caused by conflicts or natural disasters. In contrast to the neglect of Africa, the Western countries showed concern to the East. For instance, in 1991, the West announced a \$24 billion package of assistance to Russia in addition to its earlier pledge to the CIS of \$80 billion. The West neglected Africa's right for assistance to implement such programs as the UN Program for Action for African Economic Recovery and Development, and the New Agenda for African Development (Gambari, 1996).

By the end of the Cold War, the US policy toward Africa was characterized by budget cuts and inaction on issues perceived to be controversial (Shraeder, 1996). Budget cuts resulted not only in the reduction of staff in the Bureau of African Affairs but also in the closing of American consulates and embassies in Cameroon, the Comoro Islands, Kenya and Nigeria and closure of CIA's operations and withdrawal of its staff in some parts of the continent (Shraeder, 1996). US military assistance to Africa declined from \$279.2 million in 1985 to \$38 million in 1994; the economic support fund to Africa dropped from \$452.8 million in 1985 to \$15 million in 1994; and development assistance increased only slightly from \$1.14 billion in 1985 to \$1.34 billion in 1994. In fact by 1994, Africa's share of total US foreign assistance programs had fallen from 10.3% or \$18.13 billion of its overall budget in 1985 to \$1.36 (or 7.6%) of US overall budget of \$17.99 billion in 1994 (Shraeder, 1996).

On the trade side, while America continued to be a significant player in trade in Africa, Europe through its history of colonial domination and multilateral trade arrangements continued to dominate trade in Africa and control the markets for raw materials. There was also increasing need by African countries to diversify their dependence on Europe on trade and concern over the global trading patterns which had been maintained and mediated by GATT (replaced by the World Trade Organization (WTO)). Finally, the process of globalization had led to increased demand for elimination of barriers to trade and movement of capital and services.

From the mid 1990s, therefore, there began a gradual shift in America's policy toward Africa. President Clinton initiated programs to address some of the problems faced by the region. He had adopted the policy of "engagement and enlargement" with the aim of expanding the community of market democracies through which global order would grow both more prosperous and more secure (Ambrose and Brinkley, 1997). The enlargement of the community of market democracies was anchored on four main points: 1) strengthen the community of market democracies; 2) foster and consolidate new democracies and market economies where possible; 3) counter the aggression and support the liberalization of states hostile to democracy; and 4) help democracy and market economies take root in regions of greatest humanitarian concern (Ambrose and Brinkley, 1997). This economic policy became the key global leverage to persuade other countries to open up their markets to US multinational corporations, products, investments, services and expertise while opening up US markets to selected products as well as services from these countries.

By US policy of enlargement, domestic growth for Africa depended largely on a foreign policy that promoted US exports and global free trade. Accordingly in July 1994, Clinton began a series of policy papers which eventually wove his foreign policy themes of enlargement into the so-called En-En document: The National security strategy of Engagement and Enlargement. Central to this policy document was the belief that "the line between our [US] domestic and foreign policies has increasingly disappeared – that we [US] must revitalize our economy if we [US] are to sustain our military forces, foreign initiatives, and global influence, and that we must engage actively abroad if we are to open foreign markets and create jobs for our people" (Ambrose and Brinkley, 1997:408). From this time onward, domestic renewal had become the bases for US foreign policy and thus the active pursuit of US new imperialism of trade. In 1995 the US Congress began a series of debates which eventually led to the enactment of AGOA in 2000. The conclusion reached by these debates was that AGOA should be examined in a broader perspective of America's desire to gain further access to markets for supply of materials for its expanding industries, markets which had hitherto been controlled by Europe.

The Creation of AGOA

The bill which led to the creation of AGOA was initiated in 1995, and after a five-year battle it was passed by the US Congress on May 18, 2000 under the Trade and Development Act Title II which came into force on October 1, 2000. It designated 34 sub-Saharan African countries as beneficiaries and modified the Harmonized Tariff Schedule (HTS) of the US to reflect the apparel and textile trade preferences made available under Section 112 of the Act. Further, it delegated sole authority to the Office of the United States Trade Representative (USTR) to publish determinations regarding whether a country had established an effective visa system and met the other customs-related requirements under section 112 of the Act (<http://www.ustr.gov/regions/Africa/factsheet.pdf>). It gave the President of the United States the authority to designate a sub-Saharan African country as eligible or to remove it from the list of designated beneficiary of SSA countries, or a country deemed not to be making sufficient progress or violating the eligibility criteria. AGOA was intended to advance US economic and security interests in SSA countries which are making significant progress toward economic development and political reforms. It was based on the principle that increased trade and investment flows would have greater impact on the economic environment in which trading partners eliminate obstacles to trade and capital flows and encourage the development of a prosperous private sector that would offer greater economic opportunities to Africans. Its primary objective was therefore to offer duty-free and quota-free access to a wider range of products from SSA to American markets for an initial period of eight years. Conventional orthodox economists would argue that AGOA is a non-reciprocal trade agreement in that SSA countries are not required to offer duty- and quota-free access to American products. This assumption is parochial, for AGOA not only lays down certain economic and political criteria to be satisfied by SSA countries, it ensures increased purchase and consumption of American products and services and carries with it certain essential ingredients of American capitalist philosophy and governance.

Objectives of AGOA

According to section 103 of the Act, the objectives of AGOA are as follows:

1. Encourage increased trade and investment between the United States and Sub-Saharan Africa;
2. Reduce tariff and non-tariff barriers and other obstacles to sub-Saharan African and United States trade;
3. Expand United States assistance to sub-Saharan Africa's regional integration efforts;

4. Negotiate reciprocal and mutually beneficial trade agreements, including the possibility of establishing free trade areas that serve the interest of both the United States and the countries of sub-Saharan Africa;
5. Focus on countries committed to the rule of law, economic reform, and the eradication of poverty;
6. Strengthen and expand the private sector in sub-Saharan Africa, especially enterprises owned by women and small business;
7. Facilitate the development of civil societies and political freedom in sub-Saharan Africa;
8. Establish a United States-sub-Saharan African Trade and Economic Forum; and
9. Accession of the countries of sub-Saharan Africa to the Organization for Economic Cooperation and Development (OECD), Convention on Combating Bribery of Foreign Public Officials in International Business Transactions (AGOA 2000 http://www.agoa.gov/agoa_legislation/agoatext.pdf).

From the above it is quite clear that the objectives are wide-ranging and beyond ordinary non-reciprocal tariff-free trade arrangements. This paper will argue that as noble and desirable as AGOA is, it is an economic and political arrangement that has the capacity and potential for further deepening the divide and unequal relationship that exists between the US and SSA. This position will be substantiated by reviewing at the eligibility criteria, the Trade and Economic Forum, trade exchanges, and patterns of trade and investment between US and SSA under AGOA since the introduction of the scheme.

Eligibility Criteria

The Act as described above, presents certain economic and political requirements which participating SSA countries must fulfill before becoming actively involved. According to section 104 of the Act, the President of the United States is authorized to designate a Sub-Saharan African country as eligible if the President determines that the country has:

- (1) Established, or is making continual progress toward establishing:
 - (A) a market-based economy that protects private property rights, incorporates an open rules-based trading system, and minimizes government interference in the economy through measures such as price controls, subsidies, and government ownership of economic assets;
 - (B) the rule of law, political pluralism, and the right to due process, a fair trial, and equal protection under the law;
 - (C) the elimination of barriers to United States trade and investment, including by – (i) the provision of national treatment and measures to create an

- environment conducive to domestic and foreign investment; (ii) the protection of intellectual property; and (iii) the resolution of bilateral trade and investment disputes;
- (D) economic policies to reduce poverty, increase the availability of health care and educational opportunities, expand physical infrastructure, promote the development of private enterprise, and encourage the formation of capital market through micro-credit or other programs;
 - (E) a system to combat corruption and bribery, such as signing and implementing the Convention on Combating Bribery of Foreign Public Officials in International Business Transactions; and
 - (F) protection of internationally recognized worker rights, including the right of association, the right to organize and bargain collectively, a prohibition on the use of any form of forced or compulsory labor, a minimum age for the employment of children, and acceptable conditions of work with respect to minimum wage, hours of work, and occupational safety and health;

(2) Does not engage in activities that undermine United States national security or foreign policy interests; and

(3) Does not engage in gross violation of internationally recognized human rights or provide support for acts of international terrorism and cooperates in international efforts to eliminate human rights violation and terrorist activities (AGOA 2000 http://www.agoa.gov/agoa_legislation/agoatext.pdf).

Based on these criteria, the President of US initially approved the designation of 34 SSA countries as eligible for tariff preferences under AGOA. As of January 2006, the list has increased to 37 countries. These countries are Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Cape Verde, Chad, Republic of Congo, Democratic Republic of Congo, Djibouti, Ethiopia, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, South Africa, Swaziland, Tanzania, Uganda, and Zambia (Rice 2005; AGOA, 2006).

The US insists that the conditions of eligibility be followed. In fact, President Bush drew the link between trade, good governance, and political stability when he noted during the signing of AGOA III into force, "it is important for our people [Americans] to understand, by opening United States market, we make it more likely there will be peace on the continent of Africa . . . AGOA

nations are strengthening the rule of law . . . lowering trade barriers, combating corruption, and eliminating child labor . . . and setting an example for the entire continent, demonstrating that governments that respect individual rights and encourage the development of their markets are more likely to grow economically and achieve political stability" (www.watradehub.com/Home%20page/WHAT%20IS%20AGOA.htm).

Any SSA country which is not continually making progress in meeting these requirements can have its eligibility terminated by the President. Eligibility process is reviewed annually by a USTR-chaired Sub-committee of the Trade Policy Staff Committee (TPSC). It is important to note that there is no SSA membership of the TPSC where vital decisions for recommendation to the US President are made. The reviews rely on information culled from US embassies, sub-Saharan African governments, US government agencies, other reliable information sources and public response (<http://www.ustr.gov/regions/Africa/factsheet.pdf>). Based on the results from the review effort, the USTR makes recommendations to the President regarding the designation of AGOA beneficiary countries. In fact, since its inception, four SSA countries (Central African Republic 2004, Cote d'Ivoire 2005, Eritrea 2004, and Mauritania 2006) have been removed from the scheme for either not making progress or violating the eligibility criteria (AGOA, 2006).

In December 2005, the President of US designated Burundi eligible to join AGOA with effect from January 2006 (Bush, 2005). A liberal trading arrangement intended to create interdependent and symmetrical exchange relations should include all the participating parties in the decision making process. The removal of a country from the list of designated countries as a beneficiary country is based on section 502(b) of the US Trade Act of 1974 as amended, which states that the President shall not designate any country as a beneficiary country if:

1. The country is a Communist country, unless its products receive normal trade relations treatment, it is a member of the WTO and International Monetary Fund or is not dominated or controlled by international communism;
2. The country is a party to an arrangement or participates in any action that withholds or has the effect of withholding vital commodity resources or raise their prices to unreasonable levels, causing serious disruption to the world economy;
3. The country affords preferential treatment to products of a developed country which has or is likely to have a significant adverse effect on US commerce;
4. The country has nationalized, expropriated or otherwise seized property, including trademarks, patents, or copyrights owned by a US citizen without compensation;
5. The country does not recognize or enforce arbitrary awards to US citizens or corporations;

6. The country aids or abets, by granting sanctuary from prosecution, any individual or group which has committed international terrorism;
7. The country has not taken or is not taking steps to afford internationally-recognized worker rights, including the right of association, the right to organize and bargain collectively, freedom from compulsory labor, a minimum age for the employment of children, and acceptable conditions of work with respect to minimum wages, hours of work and occupational safety and health;
8. The country has not implemented its commitment to eliminate the worst forms of child labor, as defined by the International Labor Organization's Convention 182 (http://www.agoa.gov/resources/annual_3.pdf).

The implication of section 502(b)(2) is that, if for example, the Organization of Petroleum Exporting Countries (OPEC) decides to increase the price of crude by reducing its production as was the case in the late 1970s and 1980s, Nigeria's participation in AGOA will be terminated. The rules of termination like the rules of entry are set down by the US and the power is exercised by the US President.

Since 2001, AGOA has been modified two times – in 2002 and 2004 respectively. The 2004 modification referred to as AGOA Acceleration Act, extended the longevity of AGOA to 2015, extended third-country fabric provision to three years (from September 2004 to September 2007), and expanded eligibility to allow non-AGOA produced collars, belts, waistbands etc. for all import categories (www.agoa.gov/agoa_legislation/agoa_legislation3.html). Under the AGOA multilateral trade arrangement, the US expanded the list of duty-free treatment under GSP to AGOA eligible countries to more than 1,800 tariff line items in addition to the standard GSP list of approximately 6,000 items available to non-AGOA GSP beneficiary countries (<http://www.agoa.gov/faq/faq.html>, www.ustr.gov/releases/2001/10/01-90.htm, www.agoa.info/index.php?view=trade). These products range from raw materials, semi-processed, processed, semi-assembled parts, spare parts, and textiles to finished manufactured products (<http://www.ustr.gov/regions/africa/annex29.pdf>). Although these products have been classified as eligible for duty-free treatment under AGOA, they are required to meet certain specifications and standards such as weight, quality, quantity, unit price etc.

From the above, it is clear that AGOA is a trading arrangement between unequal countries in which major decisions regarding the eligibility process, products qualification and modification are dictated by the US and in which the President of the US has absolute powers to designate and remove a participating SSA country. Further, the eligibility criteria is an embodiment of American capitalism which requires participating SSA countries to give unlimited access to its trade and

investment and sign up to international regimes on investment. It further shows America's double standards: while on the one hand America requires SSA countries to minimize government interference in the economy through measures such as price control, subsidies, and government ownership of economic assets, on the other hand it provides subsidies to its farmers and restricts and regulates the import of certain materials, e.g. steel and textile.

The Trade and Economic Cooperation Forum

According to section 105 of the Act, the President is required to set up the United States-Sub-Saharan African Trade and Economic Cooperation Forum, referred to as the Forum. The Forum shall convene annually and shall be composed of appropriate officials of the US government and officials of the governments of SSA countries to foster close economic ties. The meetings will discuss possibilities of expanding trade and investment relations between the US and SSA and the implementation of the Act, including encouraging joint ventures between small and large businesses (AGOA, 2000 http://www.agoa.gov/agoa_legislation/agoatext.pdf). In addition to the Forum, the President is further required to, in consultation with the Congress, encourage US non-governmental organizations to host annual meetings with non-governmental organizations from SSA, as well as meeting with the private sectors and representatives from US and SSA. The Forum was created on May 16, 2001 and has since held annual meetings in US and Africa respectively.

The Forum is also used as a platform to announce major projects or programs that will foster and boost trade and other exchanges in Africa. So far, the following programs/projects have been announced by the US government to support the expansion of trade and other exchanges in Africa:

- The creation of Trade Office in Johannesburg by the US Trade and Development agency; and the creation of \$200 million line of credit by the Overseas private Investment Corporation (OPIC); the signing of two agreements -- U.S-Nigeria Joint Declaration on Electronic Commerce, and Trade and Investment Framework Agreement (TIFA) between the Common Market for Eastern and Southern Africa (COMESA) and the US (Bureau of African Affairs, 2001) in 2001
- The opening of further Trade Office in Botswana, Kenya, Ghana and Senegal; the investment of \$200 million over five years to improve basic education and teacher training in Africa into the Millennium Challenge Account.

- The creation of the East African Counterterrorism Initiative with a package of \$100 million, the creation of the African Global Competitiveness Initiative, and AGOA Diversification Fund.

The Forum is not a decision making apparatus but rather a meeting to assess the direction and level of trade between US and SSA. The Forum reinforces a platform of unequal members in which vital policies and decisions are made by the US.

Assessment and Implications of AGOA

AGOA was passed as part of the Trade and Development Act of 2000 to provide benefits to SSA countries with the most liberal access to the US market and as well as improved access to US credit and technical expertise (<http://www.agoa.gov/faq/faq.html>). Critics of AGOA opine that given the pace of globalization, the domination of trade in Africa by Europe, AGOA is an instrument intended to divert SSA's international trade from Europe to America, thus helping American companies battling against European competitors. In other words, like other forms of satellitic liberal trade agreements (e.g. the Lome conventions), AGOA seeks to diversify and deepen SSA's economic dependence on developed capitalist countries.

When AGOA was passed in May 2000, some support and concerns were expressed by both African leaders and commentators. For instance, President Mbeki of South Africa while welcoming AGOA remarked that while opening markets, including African markets to products from sophisticated economies, there was need to increase the capacity of the African economies to produce something that they can export, other than raw materials (<http://www.un.org/ecosocdev/geninfo/afrec/vol12no1/usbill>). Similarly, President Abdou Diouf of Senegal while welcoming the initiative called for a "Clinton Plan for Africa". Nelson Mandela was more critical when he described AGOA as unacceptable. To some, AGOA is simply an attempt at re-colonization of Africa (Kintu 1999). In an address to the leaders of West Africa during his visit to Africa from July 8 -12, 2003, President Bush pledged that 'we will ensure that the nations of Africa are full partners in the trade and prosperity of the world' (<http://usinfo.state.gov/regional/af/potus2003/a307081.htm>). AGOA is not a trade arrangement of equal partners. The institutions of AGOA e.g. the Forum, are not democratic and the rules and regulations governing AGOA reflect the overall economic and political interest of US to establish and sustain a global capitalist economy.

However, views about AGOA became promising during the first Forum when among others it was noted by the Lesotho Minister of Industry, Trade and Marketing, Mpho Meli Malie that “we have viewed AGOA as a ray of hope – an initiative that is there to assist us pull ourselves up by the bootstraps, a window of empowerment, a window of opportunity for job creation and poverty alleviation, a vehicle for attraction of foreign direct investments through the lucrative market access opportunities that it affords” (Bureau of African affairs 2001: 4). It was also reported that as a result of AGOA there was an estimated 126% increase in Madagascar's export to America and \$100 million investment in Lesotho by a Taiwan denim factory which was expected to create 5,000 new jobs (Financial Times, 2001). In 2004, it was reported that the signing of AGOA Accelerated Act would rescue and create 40,000 jobs in the textile industry in Madagascar. Similarly, trade under AGOA has been boosted in Ethiopia following an export agreement secured between an Ethiopian textile company (Adey Abeba Thread and Yarn) and PUFU, an Israeli multinational corporation based in New York (www.agoa.info/index.php?view=story=news&subtext=386). Export of energy-related products from Nigeria, Angola, South Africa and Gabon under AGOA increased from 2001 - 2003(http://agoa.info/index.php?view=trade_stats&story=agoa_trade).

SSA remains an important region to the global economy and indeed to America because of its natural resource endowments, strategic importance and the growing size of its population. For instance, Africa accounts for over 16 percent of US imported crude oil, and it is estimated that this figure will increase to 20 percent by the next decade (Commission on Capital Flows to Africa, 2003). In the remainder of this section the paper will examine the pattern of trade in SSA before and after the introduction of AGOA, the flow of FDI from America to SSA, and implications for the North-South debate.

(a) Share of SSA's Import and Export Markets

Although SSA accounts for less than one percent of US merchandise exports, the evidence presented in table 1 shows that two-way trade between US and SSA has been increasing steadily since the creation of AGOA. According to figures compiled by the US Department of Commerce (2004:2), AGOA imports increased 88 percent to \$26.6 billion in 2004. Although trade increased, it was concentrated on the top five AGOA countries, namely South Africa, Nigeria, Angola, Ethiopia and Kenya. In the area of services, US recorded a \$2.2 billion surplus in services trade with SSA in 2002 (United States International Trade Commission (USITC) 2004). The primary US cross-border service exports to SSA included tourism and passenger transport, business services, education, and freight transport and port services (USITC 2004).

Table 1: US Trade with SSA 1998 – 2002 (in \$ millions)

	1998	1999	2000	2001	2002	2003	2004
US Exports	6,694.0	5,568.5	5,925.8	6,941.8	6,026.1	6870.9	8565.7
US Imports	13,139.6	14,042.9	23,480.4	21,286.8	17,934.7	25633.3	35874.9

Sources: Office of Africa, (2002 and 2003); US Department of Commerce International Trade Administration, (2005)

**Table 2: SSA's Principal Industrial Country trading Partners
(\$ billions and Market share)**

	1999	% Share	2000	% Share	2001	% Share	2002	% share	2003	% share
SSA' Imports										
France	7.9	10.0	8.7	10.5	8.3	9.5	8.2	9.4	9.5	8.4
US	5.7	7.2	5.9	7.1	6.9	7.9	6.0	6.9	6.8	6.1
Germany	5.9	7.4	5.6	6.8	6.6	7.5	7.3	8.4	8.7	7.8
UK	4.9	6.2	4.8	5.8	5.1	5.8	5.3	6.1	6.4	5.7
Japan	3.8	4.8	3.7	4.5	3.3	3.8	3.6	4.2	4.0	3.6
Italy	2.5	3.2	2.8	3.4	2.9	3.3	3.1	3.5	3.5	3.1
Total EU	30.0	38.1	30.5	36.8	32.0	36.5	33.5	38.6	40.7	36.2
SSA's Exports										
US	14.8	20.2	23.6	27.0	22.3	25.9	18.8	20.4	27.0	24.3
UK	5.3	7.2	6.3	7.2	8.2	9.5	8.1	8.8	9.1	8.2
France	5.2	7.2	5.5	6.3	6.3	7.3	6.0	6.5	6.8	6.1
Germany	4.6	6.3	5.1	5.8	5.6	6.6	6.0	6.5	6.0	5.4
Italy	4.4	6.0	4.5	5.1	4.0	4.7	4.3	4.6	4.4	3.9
Japan	3.5	4.8	4.4	5.0	4.1	4.7	5.2	5.7	6.1	5.5
Total EU	31.2	42.5	35.6	40.7	38.7	44.8	39.0	42.4	43.5	39.1

Sources: Office of Africa, 2002 and 2003; US Department of Commerce International Trade Administration, 2005

Figure 1
SSA's Pricipal Industrial Countries Trading Partners: Exports (in \$ billions)

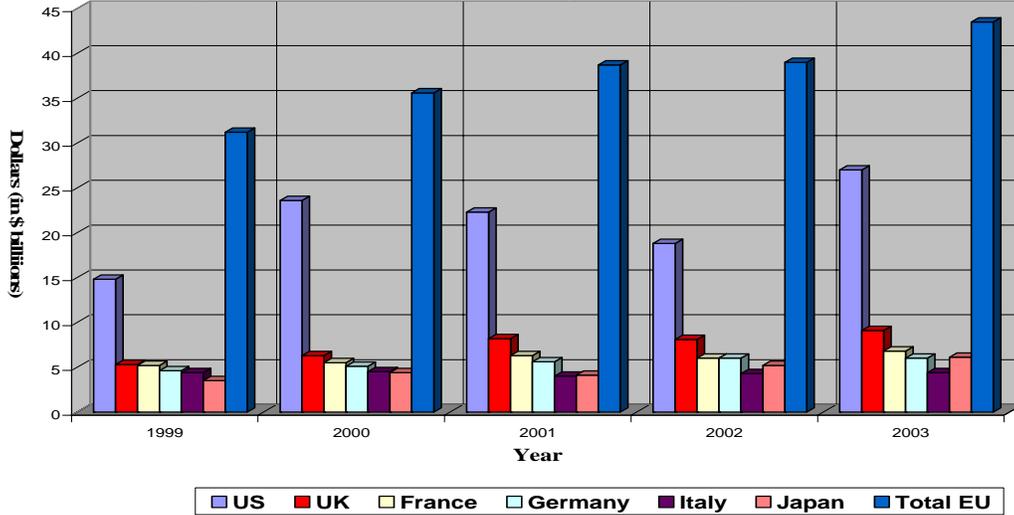


Figure 2
SSA's Pricipal Industrial Countries Trading Partners: Imports (in \$ billions)

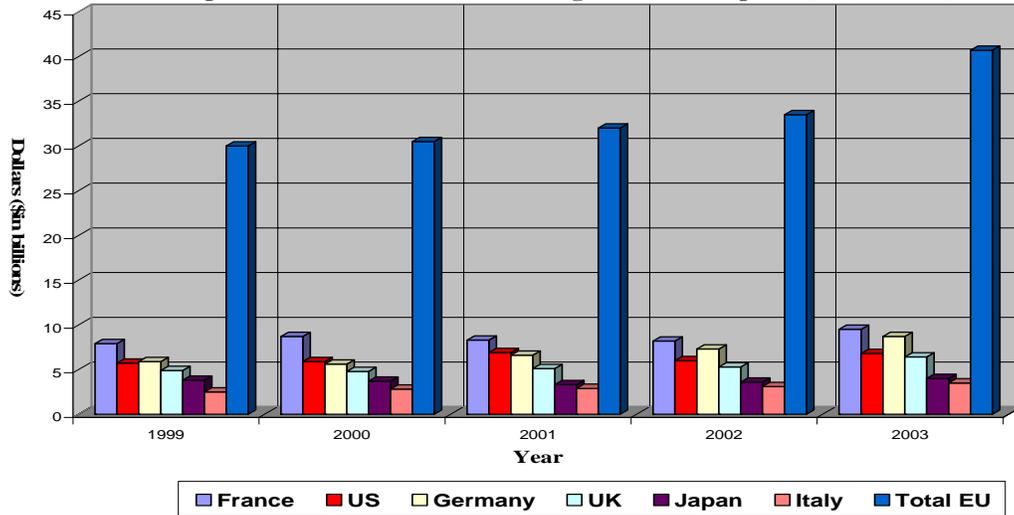


Table 2 and figures 1 and 2 above show that, although Europe as a bloc continues to dominate Africa's global trade, America's share of Africa's trade has significantly increased. In fact, the table further shows that the US is the largest destination of SSAs' exports, purchasing 24.3% of the regions exports in 2003. The table likewise reveals that European Union's purchases declined from 42.4% in 2002 to 39.1% in 2003. These facts indicate that the direction of trade is gradually changing: from Europe to the US. This is in line with one of the objectives of the US in creating the AGOA: to gain more access to SSA's trade which has been dominated by Europe.

Although the direction of trade is gradually being altered, trade under the plan is concentrated on three main sectors: energy-related, textile and apparel, and transportation equipment. These three sectors account for the vast bulk (over 90%) of exports of AGOA, and are in turn dominated by Nigeria, Angola, Gabon, and Chad (energy-related), Lesotho, Kenya and Madagascar (textile and apparel); and South Africa (transportation equipment) (USITC (2006) www.agoa.info/index.php?view=trade stats&story=all groups). This conclusion is evident in Tables 3 and 4, which show the principal SSA countries, and the sectoral analysis of SSA trade under AGOA.

Table 3: Export of Principal SSA Countries under AGOA 2004 – 2005 (\$ million)

Countries	2004*	2005*
Nigeria	15,416,604	22,460,617
Angola	4314937	8314666
Gabon	1919407	2487530
South Africa	1781039	1472352
Chad	568918	1180265
Lesotho	447803	388584
Kenya	286688	278267
Madagascar	316817	275466

* Figures include GSP

USITC (2006) www.agoa.info/index.php?view=trade stats&story=agoa trade

Table 4: Total Export to the US under AGOA and GSP by Product sectors 2002 – 2004 (in \$millions and percentages)

Product sectors	2002	%	2003	%	2004	%
Agricultural products	212436	23	240931	21	265101	23
Forest products	29792	25	33370	24	33889	19
Chemicals and related products	136164	30	176786	30	221839	31
Energy-related products	6824776	58	11223684	64	23053406	88
Textile and apparel	803333	71	1202077	77	1620735	90
Footwear	300	22	800	54	935	45
Minerals and metals	372961	14	412519	14	728092	17
Machinery	17828	8	11140	6	17300	9
Transportation equipment	544711	88	731636	89	539245	83
Electronic products	8832	18	12934	20	15742	22
Miscellaneous manufactures	40595	35	59188	48	62639	49
Total	8991729	49	14105065	55	26558922	74

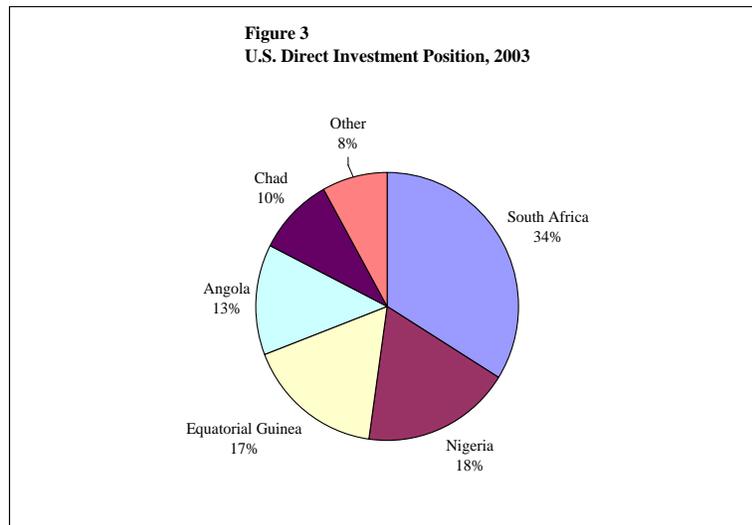
USITC (2006) www.agoa.info/index.php?view=trade stats&story=all groups

The implication is that the creation of AGOA has not significantly altered the kinds of commodities traded on and the patterns of trade transactions in SSA between the region and US and, indeed, industrialized countries. Historically, the incorporation of Africa into the capitalist world economy placed Africa in a peripheral position in which its primary role was to supply raw materials and semi-processed goods to industries in the west. This pattern has not changed or altered with the creation of AGOA. Although AGOA has been generous in expanding the commodities under the tariff-free arrangements to include raw materials, processed, parts, semi-manufactured, assembled and finished products, trade has been concentrated on a few products, mainly minerals. For example, AGOA accounted for half of total US imports (which was \$9 billion in 2002) from SSA, of which three quarters, i.e. \$6.8 billion of AGOA were petroleum or energy-related products, mainly from Nigeria and Gabon; textile and apparel accounted for \$803.3 million, passenger vehicles from South Africa accounted for \$544.7, and agricultural products accounted for \$212.4 million (Office of Africa, 2003:14). The limitation of trade to these products is a reflection of the poor state or lack of manufacturing sector and low levels of total factory productivity in the economies of the region. The poor state of the manufacturing sector in SSA is in part due to low investment and low flow of FDI, and minuscule internal effort at research and development (World Bank Group, 1996). If this trend continues, AGOA has the capability of deepening the dichotomy between centers of growth (among the oil producing countries of AGOA and South Africa) and centers of stagnation (Amir, 1972). For instance, the top four markets in SSA – South Africa, Nigeria, Angola and Kenya - accounted for 70% of US exports in 2002 with South Africa sharing 42%, Nigeria 18%, Angola 6.2% and Kenya 4.5% (Office of Africa 2003). Similarly, US imports from the region remained highly concentrated among Nigeria, South Africa, Angola and Gabon. In the main, it means that the structure and patterns of dependence on the US by SSA countries have not changed since the introduction of AGOA, and this pattern will continue unless there is significant investment in the manufacturing sector and improvement in the infrastructural facilities in the region.

In the textile industry AGOA has created a paradoxical situation: While apparel export accounted for \$1.2 billion in 2003, it made some parts of SSA “dumping grounds” for America second hand clothes. For instance, the declared value of American second hand clothing exported to Africa in 2002 was \$59.3 million (The New York Times, 2004:W1). In Uganda, used clothing (locally known as *mivumba*) accounts for 81% of garment purchases. As a result of this uneven exchange, some countries in SSA (Nigeria, Ethiopia, Eritrea, South Africa) have imposed prohibitions on imported second hand clothes (*Financial Times*, 2004:W7).

(b) US Direct Investment in SSA

The global flow of foreign direct investment (FDI) to SSA continued to trail other regions. According to the United Nations (2004) inflows of FDI to SSA from all sources in 2003 increased to \$10.6 billion from 2002 inflows of \$8.9 billion. SSA accounts for less than 1% of direct investment from America. In 2003, US net FDI flows to SSA was \$1.4 billion, representing only 1% of total US FDI overseas (USITC, 2004:ii). From 1996 – 2000, US was the leading source of FDI in Africa reaching \$9.2 billion. In 2001, the cumulative US direct investment in SSA was \$10.2 billion, an increase of 5.8% from the 2000 level. As of 2003 the US investment position (the measure of the stock of FDI as opposed to flows) in SSA was \$11.5 billion (US Department of Commerce International Trade Administration, 2002 and 2005). The stock of US investment, as illustrated in figure 3, was concentrated on the energy sector in Equatorial Guinea (17.0%), Chad (9.6%), Nigeria (18.1%), and Angola (13.3%), and in South Africa (34.0%), and others (8.0%) (US Department of Commerce International Trade Administration, 2005).



Similarly, available figures for 2001 indicate that direct investment position generated about \$1.3 billion income to US parent companies, including investment earnings and net interest on outstanding loans to their African affiliates. According to US Department of Commerce (2004), US affiliates in Africa had worldwide sales of nearly \$29.5 billion, and net income of \$1.9 billion. In 2002, US affiliates in SSA reported estimated total assets of \$56.2 billion (US Department of Commerce International Trade Administration, 2005). US direct investment in Africa supports US trade and fuels American industries. The share of SSA to US direct investment has not increased significantly in spite of the creation of AGOA and the region's significance to America. For AGOA to make any significant impact on trade, America has to place serious emphasis on the development of the manufacturing sector and improvement in infrastructures in SSA.

(c) Implications

Infrastructure development which provides a catalyst for economic growth and development remains low in SSA and AGOA lacks the institutions to provide capital for infrastructures needed to boost the creation and expansion of businesses. AGOA I and II created uncertainty in the investment climate as it was originally intended to end by 2008. Like other multilateral trading schemes between the North and South which lacked longevity, the life span of AGOA is not sufficient to encourage businesses in Africa to invest on long term basis. Although AGOA may offer short term investment opportunities, especially in the textile sectors in South Africa, Lesotho, Madagascar and Ethiopia, the future remains very unclear as to the longevity of the scheme. Business planners and decision-makers base their investment decision and strategies on long term sustainability which is lacking in AGOA. For instance, there is uncertainty about what will happen to AGOA after 2015; what will be its fate given the rising dissent and resentment in the US over closure of textile companies and outsourcing of American jobs. Furthermore, the creation of trade requires huge capital investment, and businesses will be cautious as it might be a risky venture to borrow capital from financial institutions for investment in new factories and/or expansion of existing once on a plan whose end life is about ten years.

Of equal significance to business enterprises in Africa is the issue of elimination of quotas on textile products on a global basis by the WTO under the Multi-fiber Agreement by 2005 (www.agoa.info/index.php?view=.&story=news&subtext=387). Should that happen that textile producers in AGOA countries will face fierce competition with more developed textile industries in Asia. AGOA III did not take this issue into consideration. Equally important to business investors is the removal under AGOA III by 2008 of the waiver from normal rules of origin for wearing apparel which applies to Lesser Developed Beneficiary Countries (LDBC). Under the current arrangement LDBC apparel are eligible for duty-free treatment regardless of the third-country origin of the fabric and regardless of the origin of the yarn. However under AGOA III this waiver will expire in 2008. The implication is that textile firms which source some of their materials from third-country will not qualify for duty-free trade under AGOA (www.watradehub.com/Home%20page/WHAT%20IS%20AGOA.htm)

Further, the introduction of new port security regimes by the US government to address the problem of global terrorism will increase the cost of shipment from SSA to America. As yet, only the port of Durban in South Africa has been approved by the US government under the Container Security Initiative (CSI). This will demand that all SSA exports to the US will have to pass through

the port of Durban. This might have serious consequences, as trade, especially in textile might be diverted to other competitive sources in Asia.

Conclusion

The divide between the North and South still exists. The creation of AGOA was a significant attempt by the US to compete with Europe, to have a significant share of SSA's trade, and to offer SSA countries limited access to America's market while opening the region's market to American goods, services, expertise and investment. AGOA is a mechanism that encourages growth in Africa through selected exports rather than through national self-sufficiency. It is essentially a neo-classical trading arrangement between unequal countries in which the US seeks to alter the hitherto established European-controlled pattern and structure of international trade between Africa and the rest of the world. The rules and conditions of trade and other exchanges under AGOA are set and dictated by the United States. The institutions of AGOA are not democratic and are controlled by the US. The USTR (which is the US department that is in charge of AGOA) is only accountable to the President and not to the Forum; hence it reinforces structures of new imperialism in which the establishment of market economies propels America's involvement in economic and political development of other countries. As conceived by President Clinton and pursued by Bush, AGOA is a tool for the expansion of a free market community to SSA.

From the records thus far, AGOA has made some progress in increasing the flow of trade from SSA to the US. However, in the area of attracting FDI, the result is abysmal. Although SSA's direction of trade may have altered, the mono-cultural nature of the region still persists. Therefore, viewed as a mechanism by the North to reduce the gap, AGOA has instead perpetuated it. AGOA could be re-negotiated to include the establishment of a strong manufacturing sector in SSA countries. In a fast growing capitalist global economy, SSA requires a long-term trading arrangement which would create the necessary infrastructure needed for a strong manufacturing and industrial base that could compete with other regions. Until that occurs, SSA will continue to be a battlefield for western capitalist countries seeking markets and investment opportunities for their multinational corporations.

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