

Focus on AGOA and AfCFTA

Presentation to Jack Simons Party School

By

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Purpose of Presentation

- To introduce a discussion, as requested, of two trade arrangements – one, the African Growth and Opportunity Act (AGOA), topical, the other, the African Continental Free Trade Area (AfCFTA), potentially strategic;

Part 1. Weaponization of AGOA

- AGOA has become topical following the May 11 statement by US Ambassador Reuben Brigety alleging clandestine arms sales to Russia;
- This led to much media speculation that SA could have trade benefits under the African Growth and Opportunity Act (AGOA) withdrawn;
- This has now reached the point of an ill-disguised attempt in some quarters to weaponize AGOA in a quest to cajole SA to shift from its declared position of non-alignment in Ukraine war, weaken its commitment to BRICS and ultimately line up with imperialism in its quest to “contain China” and shore up its waning hegemony;

What is AGOA?

- The Africa Growth and Opportunity Act (AGOA) is an Act of the US Congress providing non-reciprocal trade preferences for African countries deemed to be “making continual progress” in meeting eligibility criteria outlined later;
- Non-reciprocal trade preferences are reductions or eliminations of customs tariffs that are granted without requiring beneficiary countries to grant any tariff reductions or removals in return;
- AGOA preferences remove duties on around 1,800 tariff lines, these are in addition to reductions or eliminations of duties on a further 3,400 lines under the US’s General System of Preferences (GSP) applying to all developing country WTO members;

Eligibility and Conditionalities

- AGOA came into force through an Act of the US Congress on 18 May 2000 and ran initially for 15 years.
- It was driven by members of the Congressional Black caucus but also reflected neo-liberal ideas that trade liberalisation was key to development;
- AGOA was renewed in 2015 for a further 10 years and is due to expire in 2025. Debate and discussion about a possible further renewal is underway.
- AGOA is available to all “eligible” Sub Saharan African countries classified as “developing” – which the US defines as having a GDP per capita less than \$ 1.500 in 1998 prices – the same threshold applies to its GSP;
- To qualify as “eligible” for AGOA benefits, countries must be judged to be “making continual progress” towards the following:
 - “a market based economy that protects private property rights, incorporates an open rules-based trading system, and minimises government interference in the economy through measures such as price controls, subsidies, and government ownership of economic assets”

Conditionalities ctd

- “the rule of law, political pluralism...”
- “the elimination of barriers to US trade and investment, including by – the provision of national treatment...the protection of intellectual property..”
- “economic policies to reduce poverty, increase the availability of healthcare and educational opportunities...”
- “a system to combat corruption and bribery...”
- “protection of internationally recognised workers’ rights...”
- “does not engage in activities that undermine US national security or foreign policy interests”
- “does not engage in gross violations of internationally recognised human rights...”

Reviews and Withdrawal of Benefits

- Eligible countries are subject to regular (or special) reviews, which begin by soliciting comments from US stakeholders on extent to which criteria are being met, then a response from country concerned before President submits report to Congress that could lead to suspension of some or all benefits;
- To date most restrictions or removals have been on “political” or “human rights” rather than “economic governance” grounds – countries currently in this category are Burundi, Burkina Faso, Cameroon, Eritrea, Ethiopia, Mali, Mauritania, South Sudan and Zimbabwe. Rwanda, however, had its benefits restricted when it refused to accept imports of second-hand clothing;
- Equatorial Guinea, Mauritius and Seychelles have been “graduated out” because they have reached GDP/capita threshold.

South Africa in AGOA

- SA was included in AGOA in 2000 and again after its renewal in 2015;
- However, inclusion after 2015 was contested;
- Members of Congress and the Obama administration sought additional access to SA market for a range of agricultural and industrial products as price for continued access to AGOA preferences;
- Eventually negotiated down to a quota on poultry and concessions on pork and beef – these are linked to SA's continued participation in AGOA meaning they would be withdrawn if SA was excluded from AGOA;

Economic Value of AGOA for SA

- SA is the most prolific user of AGOA – due its to larger manufacturing base – but exports products under only 141 of the 1,835 lines theoretically open (an 8% utilisation rate);
- Of the 3,400 GSP lines- SA utilises 459 (14%) – this points to the reality that trade profile is shaped by real economy productive capacity, not theoretical market access;
- According to US figures quoted in a recent *Daily Maverick* article the value of South African exports entering the US under AGOA in 2022 was around R60 bn or 21,6% of the total exports of R 275 billion;
- Slightly over half of these (R 30,975) were transport equipment – mainly vehicles, followed by R 18,2 bn agricultural products – fruit and wine, R 8,8 bn minerals and metals, and R 6,9 bn chemicals, with R 86 mn textiles and clothing and R 19,5 mn footwear among remaining items

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- The value of AGOA to SA lies in the fact that it allows the duty-free entry (without reciprocation) of a number of value-added products – vehicles being the most significant – primary commodities are duty free anyway;
- A DTI study in the middle of the 2010s estimated the overall contribution of AGOA and GSP to total SA manufacturing GDP and employment in 2010 was 2.78% and 11%, respectively;
- However, US non-preference duties on manufactured products are not prohibitively high e.g 2,5% on passenger vehicles 4% on apparel – meaning withdrawal would not necessarily mean loss of all exports currently entering US under AGOA (although there would undoubtedly be some reduction);
- Moreover, AGOA preferences do not cover products that could compete with US agricultural and manufactured products e.g. includes entry of canned pears, but not canned peaches and SA not eligible for “third country fabric” provision allowing duty free entry of clothing using imported fabric;
- Also, Trump administration imposed “national security” justified surcharge on SA steel and aluminium products (these have not been removed by Biden administration);

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- Given that successful industrialising countries have sought to take advantage of any opportunities to export value-added products, whilst simultaneously protecting infant industries against competing imports, AGOA as a non-reciprocal arrangement has some value and is being used by some SA based industries;
- AGOA is then something we should not be reckless about, but it is also not something we have to hold on to at any cost;
- This suggests we need to support active lobbying to retain SA's access to an AGOA that maintains the cost-benefit balance within reasonable boundaries;
- This will also require smoking out and resisting its weaponization as a tool to promote conformity to imperialist agenda on global issues like proxy war in Ukraine or "containment" of China;

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- In this regard, important to note that eligibility criteria as written into AGOA could potentially intrude on policy space necessary to promote structural transformation and/or be used as a tool to press for neo-liberal “reforms”;
- Could also become tool to promote greater acquiescence to US security and foreign policy positions;
- But they have not been used in this way thus far, and have not been the reasons why countries have been wholly or partly excluded up to now;
- Important to try to lobby for these boundaries not to be crossed in future, but if they are must recognise then that the cost-benefit equation has shifted fundamentally and have courage to review options;

Current Processes – 1. SA Review

- On May 17 Process of Review of SA began with US interest groups invited to make submissions;
- SA government and interest groups will then be invited to comment and President will then report to Congress;
- Process expected to be completed by November, when SA hosts AGOA forum and assumes co-Chair;

2. Future of AGOA after 2025

- Current AGOA authorisation expires in 2025;
- Obama administration signalled intention to replace AGOA with Free Trade Agreements after 2025
- Preferred model based on Trans-Pacific Partnership and never concluded Trans-Atlantic Trade and Investment Partnership – high level of coverage, little differentiation (meaning African countries would need to open up their markets to same extent as US) and convergence with US regulations in Intellectual Property, Competition, Standards, digital commerce etc;
- Trump Administration began negotiations for such an FTA with Kenya – added objective that Kenya should “normalise” relations with Israel;
- Such an arrangement clearly not beneficial – either to individual countries or to AfCFTA;
- Biden administration focussing on recovering Industrial Policy to “catch up” with China on green technologies and contain China’s advances in digital technology – has less focus on pursuing free trade agreements

2. AGOA Renewal ctd

- Now looking likely that AGOA will be renewed (though not certain whether this will happen before 2024 Presidential and Congressional elections);
- Africa group headed by DRC and SA preparing to lobby for renewal and improvement of an inclusive AGOA – detailed positions still being worked on;
- Signals from within US that renewal likely to be for 10 years rather than 15 years Africa called for in 2015;
- Debate in US on whether it should be confined to LDCs – and whether SA should continue to participate;

Conclusion on AGOA

- Clearly forces seeking to weaponize AGOA as a tool to cajole SA into acquiescing to key policy positions of western imperialism;
- Immediate focus is position on war in Ukraine, where a shift from non-alignment to some level of support for Nato proxy war is being sought;
- Broader context is diminished US hegemony and shift to a more multi-polar world order;
- Western imperialism seeking to “contain” China, both economically and in security and foreign policy terms – part of this is a new “scramble” for influence in the Global South and to weaken efforts to promote active non-alignment, groupings like BRICS or campaigns for a new inclusive and developmental multi-lateralism;
- Forces both in US and in SA seeking to weaponize AGOA as tool to advance these objectives;
- At this point, should support calls by African countries for renewal and improvement of AGOA – won’t achieve everything but must try to retain non-reciprocal benefits and keep conditionalities within acceptable boundaries;
- Must smoke out resist attempts to weaponize AGOA and add conditionalities;
- If, however, tipping point is reached, must call for sober reflection on costs-benefit of remaining in arrangement;

Part 2: AfCFTA: Basic Architecture

- AfCFTA signed by 54 of 55 AU member states, by February 2023 46 had deposited instruments of ratification;
- Agreement entered into force in May 2019, when required minimum had ratified;
- Phase 1 involves establishing FTA covering both Trade in Goods and Trade in Services;
- FTA on trade in goods to remove duties towards other members on 90% of trade in goods tariff lines – over 5 years for non-LDCs and over 10 years for LDCs;
- Of the remaining 10%, 7% may be designated “sensitive” with duties removed over 10 years (LDCs over 13 years), 3% may be excluded altogether;
- State parties to make offers and negotiate with each other – for some parties this process in Trade In Goods linked to ongoing negotiations on Rules of Origin (ROO);
- ROO on most lines agreed, but outstanding on sensitive areas like clotex, sugar, autos;
- Trade in Services liberalisation to take place in defined sectors (positive list) – Priority sectors already agreed are travel services, transport services, business services, telecommunications services, financial services;

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- Agreement includes protocols on other matters to be negotiated in phase 1 (Rules of Origin, Customs Cooperation, Trade Facilitation, Sanitary and Phytosanitary regulations, among them);
- Agreement provides for negotiations on Trade Related issues – Investment, Intellectual Property rights, Competition – to enter into force during phase 2;
- Declaration says AfCFTA will “contribute to” the movement of capital and natural persons, but latter left to other processes within the AU;
- Sets up institutions – overseen by Heads of State and Government, a Council of Ministers, negotiating fora and secretariat;
- Secretariat established 2020 – based in Ghana, first SG Wamkele Mene;

Size and Scale

- AfCFTA as a bloc will be world's 8th largest economy with combined GDP of \$2,5 trillion – behind US, China, Japan, Germany, UK, France and India;
- Combined population around 1,2 billion;
- Hoped to boost intra African trade by \$30-\$40 bn annually, and reduce continent's overall trade deficit by over 50%;

Contesting Paradigms

- *“Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist”* John Maynard Keynes
- Above quote pertinent to roll out of AfCFTA – underpinning “practical” discussions and debates about establishment and roll out of AfCFTA an underlying clash of competing paradigms;
- First, orthodox neo-classical trade integration theory – idea that ambitious trade liberalisation and rapid move up “ladder” to Customs Union, monetary union, Common market, Economic Union (following model of EU) will increase intra-regional trade and this will drive development;

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- Note neo-classical theory said this will work where there is a high level of complementarity – country x produces what country y needs etc. held to exist in developed regions but not in underdeveloped where trade profile is dominated by production and export of primary products outside region;
- Second paradigm, neo-liberal variation called “open regionalism”- evident in statements by outside third countries – support for AfCFTA based on idea that it should be stepping-stone to early and ambitious “opening up” of AfCFTA market to rest of world;’
- Third paradigm – developmental regionalism or development integration;

Developmental Regionalism

- Argues that biggest barriers to increasing intra-regional trade in underdeveloped regions not tariffs (or other regulatory “barriers”) but underdeveloped production structures and inadequate infrastructure;
- Trade integration arrangements need to be accompanied and shaped by programmes to promote cooperation on Industrial Policy measures and building infrastructure;
- This will lead to change in qualitative character of intra-regional trade not just quantitative increase;
- More countries will produce components assembled into value-added products in several countries before being sold across continent, will lead to more trade in intermediate products;

Potential Significance of AfCFTA for African Industrialisation

- In period following 2007/8 Great Recession, China faced with insipid growth in developed world and resistance by several developed countries to increasing imports from it, changed the focus of its development trajectory - from supply of finished manufactured goods to developed world to producing for its domestic market;
- Also targeted rising up further up the value chain – from basic manufactures to becoming a technological leader in ICT and Green Technologies among others;
- India too can be identified as marching in a similar direction;
- Both these countries have large populations and domestic markets that can be a significant, though not exclusive, driver of next phase of development;

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- *Individual* African countries lack either the population size or domestic market to be significant drivers of deep industrialisation;
- Even Regional Economic Communities are relatively modest in this regard – eg SADC has 345 million people (about the same as the USA), but its combined GDP of \$721 bn is only a bit more than Poland and slightly less than Switzerland;
- A bloc that would be the equivalent of the world's eighth largest economy with 1,2 billion people would, however, be on a scale that could potentially support greater diversification and deeper industrial development;

How would this be achieved?

- A gathering view in AfCFTA Secretariat and Advisory Council is that the operationalisation of the AfCFTA (creation of the large continental market) cannot be seen as a trade arrangement alone;
- Must be accompanied by, and indeed allow itself to be shaped by establishment of *Regional Value Chains (RVCs)*;
- The term value chain refers to the full range of activities needed to create a product or service, encompassing everything from conception to final distribution. This would include the production and procurement of raw materials, the manufacturing of all components, the final assembly and packaging of products, their marketing and branding, transport and logistics and all other associated services;

Contrast to neo-liberal view of Global Value Chains

- The concept of Global Value Chains was advanced during the era of globalisation/hyperglobalisation to describe a reality that an increasing range of products could no longer readily be identified as products of particular countries but were rather “products of the world”.
- This meant that activities related to different parts of their value chains were being carried out in multiple locations in different countries, with trans-national corporations deploying digital technology to coordinate and manage such chains as well as re-arrange inclusion/exclusion of particular activities according to perceptions of opportunities to enhance profit;

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- Proponents of neo-liberalism argued that the key task of development was to work to “integrate” the economies of developing countries into emerging global value chains, and that the best, and indeed only, route to achieving this was trade liberalisation on the grounds that by allowing the seamless entry and exit of products and services, countries would make themselves attractive to trans-national corporations at the head of global value chains;
- Critics of this approach pointed out, among other things, that the fundamental issue for developing countries is not inclusion into value chains *per se* but rather their location in value chains. Almost all former colonies had been integrated into cross border value chains, but in the least lucrative place – as producers and exporters of unprocessed raw materials used in industrial production elsewhere. The addition in some cases of low waged basic assembly had not altered the fundamental reality that developing countries continued to be integrated into the lowest value-added parts of value chains;
- Also important to note that aftermath of Covid (vaccine apartheid and weakening of logistics arrangements) has led to greater “near shoring” and explicit building of more geographically diversified centres of production;

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Developmental approach argues that RVCs need to be built in a fundamentally different way – through active Industrial Policy measures;

Saul Levin and Neva Makgetla argue that construction of RVCs requires:

“... considerable capacity to identify appropriate measures and strengthen regional cooperation. Deepening regional specialisation and exchange [requires] an institutional framework able to identify realistic projects, manage trade offs between countries and secure alignment around regulatory frameworks, trade facilitation and infrastructure development and maintenance”.

(“Regional Value Chains and Industrialisation: The Southern African Experience” chapter in UNCTAD, *Transforming Southern Africa: Harnessing Regional Value Chains and Industrial Policy for Development*)

Unpacking above

- RVCs need some “institutional framework” to identify projects as well as all that is needed to bring these into effect;
- Alignment around “regulatory frameworks” – many important regulations now national competences, greater harmonisation important. This needs to be identified and agreed through stakeholder engagement and research – and it is not just or even mainly about de-regulation e.g. current *laissez faire* approach to import of second-hand goods real impediment to auto and clotex sectors; insisting on higher level processing of raw materials before export (beneficiation) could raise value addition in both minerals and agro-processing;
- Application of Industrial Policy tools- support for emerging industries (incentives, protection against competing imports, infrastructure development etc)
- Management of trade-offs – in absence of evident programme to include smaller less industrialised countries these will be tempted to attract investment in lower value-added activities (which in extreme cases could be just “screw driver” type industries that let extra-regional suppliers abuse preferences) in ways that undermine higher value-added producers. This means these issues will need to be managed by explicitly promoting greater inclusivity;
- Mobilising finance and investment – including by building dfis;

External orientation

- While focus of AfCFTA (as a FTA) is on arrangements between state parties, relationship of AfCFTA market to outside world will be critical in determining whether or not it becomes vehicle to drive RVCs;
- Must provide a significant margin of preference for products produced within AfCFTA over competing products from outside;
- AfCFTA and RVC roll out must inform greater coordination of positions towards third parties (who should be told that their nationals can benefit from AfCFTA by investing in productive activity, not by prising it open for their competing finished products) and also more coordinated approach to engaging with issues arising in multi-lateral bodies like the WTO;

Steps taken thus far

- Heads of State have agreed to prioritise roll out of four RVCs – pharmaceuticals and medical devices, agriculture and agro-processing, automotives, clothing and textiles – with consideration now being given to “green technologies”;
- Secretary General has committed to establishment of RVCs as priority;
- Focus of work by Advisory Council and ongoing research and informal consultations;
- Auto sector has established a forum that has identified several issues;
- Trade unions from a few countries have participated in some engagements eg on clothing and textiles;

Conclusion

- Roll out of AfCFTA making only slow progress and far from certain it will achieve its potential;
- In this regard worth noting that many earlier integration schemes on continent e.g. Lagos Plan of Action never came to fruition;
- Issues still far removed from consciousness of ordinary citizens or even priorities of governments;
- While there is some trade union participation working class influence far from becoming a major driver of processes;