Africa: Is Africa Ignoring the American Goose With the Golden Egg?

OPINION

By Lisa Templeton

In 2000 the Clinton administration came up with an initiative designed to bolster trade and investment between the US and Africa, one of the world’s fastest growing regions. It offered select sub-Saharan countries the opportunity to trade with the US, the world’s largest market, duty-free under the Africa Growth and Opportunity Act (AGOA).

And yet African business has undercapitalised on this golden opportunity. Experts agreed at a roundtable discussion, organised jointly by the University of Cape Town’s Graduate School of Business (UCT GSB) and the South African Institute of International Affairs (SAIIA) that the continent has remained hobbled by such issues as the limited diversity of goods it exports, infrastructure challenges, ignorance of commercial opportunities, investor insecurities over the longevity of AGOA, difficulties with intra-Africa trade and a failure to get to grips with sometimes complex US import requirements.

The seminar took place ahead of the first-of-its-kind US-Africa Leaders Summit. The theme of the summit was ‘investing in future generations’ and the event was aimed at boosting trade and investment between the US and Africa, enhancing co-operation on peace and security and encouraging progress towards inclusive and sustainable development in Africa.

SAIIA has compiled a series of materials related to the first-ever US Africa Summit Roundtable.

South African exports cover just under 2,000 of the 6,000 tariff codes available for duty-free export to the US, said Malose Letsoalo, Director for America’s Bilateral Trade Relations at the Department of Trade and Industry.

Not only that, but African exports to the US lean weightily towards oil, a product the continent would no doubt trade with or without AGOA, given the extremely low import duties. Consider that African trade with the US in 2013 totalled US$39.3 billion, with only US$4.8 billion in trade accounted for by non-oil products. South Africa leads the continent as the largest non-oil exporter, accounting for US$8.5 billion of Africa’s total exports to the US, and benefiting from a trade surplus of US$1.2 billion with the US in 2013.

‘We have a relationship that is heavily biased towards fuel,’ said Joshua Setipa, former Chief Executive Officer of the Lesotho National Development Corporation. ‘Some 85% of US-Africa trade, with the exception of South Africa, is fuel related. Were I at the summit in Washington, I would ask the administration, how do we address this? How do we look at diversifying and get other sectors involved and create jobs.’

While South Africa leads the continent as the largest non-oil trader (its exports include manufactured goods, including high-end automobiles, metals, diamonds, nuts and fruit, notably citrus, which generated US$1.7 billion last year, a market that did not exist 10 years ago), panelists agreed that the continent needs to industrialise and diversify, particularly as African countries attempt to move away from extractive and primarily resource-based exports and towards trade in higher value-added goods and services. But this raises other challenges such as infrastructure bottlenecks, as well as skills and technology deficiencies.

Another challenge is for African business to take far greater advantage of the AGOA opportunity than it has to date. The flip side of this is that people need to know that the opportunity exists and need assistance around complicated US import requirements.

Look at the textile industry, for example, said US Consul General, Erica J. Barks-Ruggles. Ordinarily there is a duty of over 20% on uniform imports in the US, but South Africa has the opportunity to take advantage of zero duty, and no one’s jumped at it. Lesotho has done so, but not South Africa. The same applies to baby clothes. ‘Small enterprises should be using this.’

Another major obstacle that Africa needs to address is the low level of intra-Africa trade. Most African countries’ biggest trading partner is Europe, a colonial legacy. ‘It’s crazy. This is the only continent in the world not trading with its neighbours’, says Barks-Ruggles. Thick borders, which can take 35 to 40 days to cross, a lack of adequate infrastructure, tariffs and regulatory inconsistencies all prohibit intra-Africa trade, and need to be addressed.

‘After 14 years with the AGOA administration it has become apparent that dropping duty is not sufficient to encourage trade,’ said Barks-Ruggles. ‘To achieve maximum potential we will have to tackle such challenges as infrastructure and intra-Africa trade. Growing intra-Africa trade is vital to Africa’s economic growth and development. But it is also critically important for the United States given our deep interest in a peaceful, prosperous and healthy Africa. It will create new markets for American goods, and more stable and democratic governance abroad. When it comes to enhanced trade, what is good for Africa is good for America. And what is good for America is good for Africa.’

Most people agree that AGOA is good for the continent. It is credited with boosting US-Africa trade by 53% since 2003. And with AGOA’s current arrangement up for expiry next year, on 15 September 2015, it was a burning topic at the Washington summit.

Chris Wood, researcher at SAIIA, said there were four potential outcomes for AGOA, which include renewing the programme for 5 to 10 years for all eligible countries, renewing the programme but 'graduating' South Africa out of it, switching it to a bilateral, two-way agreement to favour the US too, or extending it to include some Asian and South American countries.

‘However, this doesn’t mean that extending it doesn’t pose challenges,’ Wood said. ‘Talk of a five-year extension leaves little time for investors to make investment decisions. The ten-year term also being bandied about is far more realistic to investors, and 15 years would be ideal.’

‘This is all happening in the middle of exciting and tumultuous time globally,’ said Shibishi Maruatona, General Counsel, Ford Motors Southern Africa. ‘Africa is the last frontier of growth and we need trade links as the continent moves from extractive economies, such as mining and resources, toward manufacturing and emerging businesses. We have a rapidly growing market of opportunity.’

Consider this: ‘In 2002 we had 300 000 black households earning over R5 000 a month. Now we have up to four million middle class black people in South Africa. We
believe in a homogenised market with similar rules of engagement, we just have to work out how everyone can come to the party,' said Maruatona.

Lisa Templeton writes for the UCT GSB. This article is based on the US-Africa Leaders Summit Roundtable, convened jointly by the UCT GSB and SAIIA, which took place on 28 July 2014.

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