Africa hopes US will build on existing trade deal

By Andrew England in Maseru

The factory in Maseru, capital of Lesotho, is buzzing with activity.

On one side, men load box after box of ladies’ hooded sweatshirts destined for the US. Elsewhere, hundreds of workers cut and sew cloth, iron the finished products and place them on hangers. Even the hoodie’s $13.96 price tag and Walmart logo are included.

“When they get to America, they just have to hang them up and start to sell them,” says David Cheng, managing director of TZICC Clothing Manufactures, which runs the factory.

The scene is replicated at clothing plants across Lesotho – a small, landlocked country that has taken advantage of a US trade agreement to build one of Africa’s leading textile industries.

The growth of Lesotho’s US exports, worth about $321m last year, was made possible by the African Growth and Opportunity Act, or Agoa, a piece of legislation crafted originally under the presidency of Bill Clinton in 2000 and extended during the administration of George W Bush, his successor.

Aimed at boosting African trade by offering eligible countries duty-free access to lucrative US markets, Lesotho is one of the best examples of Agoa’s success: from a handful of factories operating in the 1990s, Lesotho now boasts 40 textile producers employing some 40,000 people – the largest private sector employer in the country.

John Kerry, US secretary of state, recently hailed Agoa as a key driver of trade and investment with Africa. “Whether it is cocoa and cashews from Ghana, textiles from Mauritius or petrochemical products from Angola, Agoa has served as a catalyst for greater trade and prosperity,” he said.

But the Agoa initiative is due to expire next year, threatening the cornerstone of a US-Africa economic relationship worth nearly $60bn for businesses on both sides of the Atlantic. The renewal of Agoa will be a key priority as President Barack Obama brings close to 50 African leaders to Washington this week for the first ever US-Africa summit.

Although a renewal of Agoa is expected, the White House is pushing for broader measures to boost African trade, acknowledging Agoa's limits. President Obama said this week that while tariff preferences provided by Agoa “were important, they alone are not sufficient to promote transformational growth in trade and investment”.

“For beneficiary countries to be able to utilise Agoa to its fullest, this programme must be linked to a comprehensive, co-ordinated trade and investment capacity-building approach with clearly stated goals and benchmarks.”

Despite its successes, Agoa has shown its limits. Although African apparel exports to the US have surged from $264m in 2001 to more than $900m last year, few other industries have taken advantage of the trade agreement to grow on such a scale.

Agoa-related trade is dominated by oil – last year $22bn of the $27bn of exports to the US under the deal came from oil and gas, along with petroleum products and coal.

With the exception of South Africa – the continent’s most industrialised country which exports high-end goods to the US, including cars – the main beneficiaries of Agoa are oil-producing nations, notably Nigeria, Angola, Chad and Gabon.

Indeed, total Agoa imports have slipped from a high of $67bn in 2008, partly because of slowdown in the US economy, but also because of a fall in the US's import of African oil and gas.
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US officials note that non-oil exports under Agoa have increased from less than $1bn in 2001 to about $5bn last year. But they cite constraints ranging from a dearth of infrastructure in many nations to productivity issues and a lack of skills that act as a brake on African trade.

"Is there room for improvement? Absolutely," says a US trade official.

Lesotho also offers a glimpse of where more could be achieved.

The creation of 40,000 jobs – about the same as the kingdom’s entire public sector employment – has been critical to the impoverished nation. But its garments industry has remained under the control of foreigners – mostly Taiwanese – who could pack up easily and move to another country if Washington does not renew the legislation.

Officials also believe Agoa has made Lesotho too dependent on the US – the country has largely failed to tap Europe, where it also enjoys duty-free access. “We are trying to look for a second buyer as well, but it is a bit difficult,” says Mr Cheng, who is also chairman of the Lesotho Textile Exporters Association. “We have tried Canada and Europe, but their orders are much smaller than the US.”

Uncertainty about the timeframe for renewing Agoa and key elements of the agreement has also hurt investment in new production facilities in Lesotho. That fear has continued to play on the minds of the industry, even though Agoa has enjoyed support from Democrat and Republican administrations since its inception.

Ricky Chang, a manager at Formosa Textile, a denim mill set up by Taiwan’s Nien Hsing Group as part of a $150m investment in Lesotho, says that while his company is committed to the country, “if the environment changes we would have to adjust to it”.

He added: “The exit strategy we have if Agoa terminates is that we might scale down or . . . we might just relocate our production capacity to some other area.”

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