

# POLICY POINTER

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## Making AfCFTA Effective: What We Can Learn from AGOA

The African Continental Free Trade Area (AfCFTA), hailed as Africa's most ambitious trade initiative, promises to unlock intra-African trade, boost industrialization, and drive economic growth. Yet, as we gear up for full implementation, valuable lessons can be drawn from an earlier initiative—the African Growth and Opportunity Act (AGOA). Signed into law by the United States in 2000, AGOA aimed to increase U.S.-Africa trade by offering duty-free access to the U.S. market for certain African products. While AGOA's achievements have been noteworthy, it fell short in fully realizing its potential for many African countries. Ethiopia, for example, lost its eligibility under AGOA in 2022 due to human rights concerns in the context of the Tigray conflict, which caused a significant economic blow to industries like textiles that had benefited from the agreement. As we reflect on AGOA, we can shape AfCFTA into a more effective, dynamic, and sustainable trade framework.

### 1. Market Access vs. Utilization: AfCFTA Must Avoid AGOA's Pitfalls:

AGOA provided significant market access, with over 6,500 products qualifying for duty-free entry into the U.S. Yet, despite this, many African countries failed to fully utilize the opportunity.



In 2019, only 13 of 39 eligible countries made full use of AGOA's benefits, with the bulk of exports dominated by a few countries such as Nigeria and Angola, largely in oil. AfCFTA must address this challenge head-on. While it offers access to a market of 1.3 billion people and a combined GDP of over \$3 trillion, market access alone is not enough. African businesses need robust support to compete on the continental stage. This means AfCFTA should invest in building up industries like agriculture, textiles, and manufacturing, providing them with the capacity to grow and expand across borders.

## 2. Trade Diversification: AfCFTA Should Promote Industrialization

AGOA's trade profile was dominated by oil and raw materials, with little diversification into value-added products. In fact, petroleum products accounted for around 90% of AGOA exports between 2001 and 2014. This over-reliance on extractive industries limited AGOA's potential to drive long-term economic transformation. AfCFTA offers a fresh opportunity to reverse



this trend by encouraging the development of regional value chains, particularly in manufacturing and services. Promoting industries like agro-processing, textiles, and pharmaceuticals could reduce Africa's dependence on raw materials and foster industrialization. For instance, Kenya's success in expanding its apparel exports to the U.S. under AGOA highlights the importance of diversification efforts that benefit local industries.



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## 3. Regional Integration and Infrastructure: Learning from AGOA Success Stories

Countries like South Africa and Kenya benefitted more from AGOA due to their investments in regional infrastructure and integrated industries. For example, Kenya's well-organized textile sector capitalized on AGOA, while South Africa's sophisticated manufacturing base made it a leading exporter to the U.S. For AfCFTA to succeed, Africa must invest in its infrastructure, harmonize c

ustoms procedures, and build transport networks that connect the continent. Currently, intra-African trade represents only 15% of total trade, compared to over 58% in Asia. The East African railway network and the development of pan-African energy infrastructure, like the Inga Dam, are examples of regional projects that could drive economic integration.

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## 4. Reducing Non-Tariff Barriers (NTBs): AfCFTA Must Simplify Trade Rules:

one of AGOA's greatest obstacles was the difficulty African exporters faced in meeting U.S. regulatory standards. Many businesses lacked the capacity to comply with complex sanitary and phytosanitary standards for agricultural goods, which hindered market access.

AfCFTA must prioritize reducing non-tariff barriers (NTBs) within Africa, ensuring that businesses aren't burdened by excessive red tape. The World Bank estimates that eliminating NTBs could boost intra-African trade by 60%. Simplified trade rules, harmonized standards, and investment in trade facilitation will ensure that businesses across Africa can compete more effectively.

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## 5. The Role of the Private Sector: A Key to Success:

Private sector engagement was a key success factor for countries that maximized their gains under AGOA. In Ethiopia, for example, private-sector-driven industries like footwear and textiles flourished, although the recent AGOA suspension has impacted their growth. AfCFTA must actively involve the private sector in policy formulation.



SMEs, which account for 80% of employment and 50% of GDP in Africa, must have a seat at the table when it comes to trade negotiations. This will ensure that trade policies reflect the realities of African businesses and promote innovation, investment, and job creation.

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## 6. Empowering Women and Youth: Unleashing Africa's Economic Powerhouse

AGOA created jobs, particularly in sectors like textiles, where women formed the majority of the workforce. However, many women and youth were unable to access the full benefits due to barriers such as limited access to finance and business training.



AfCFTA can learn from this by making gender and youth empowerment central to its trade framework. Targeted programs that support women entrepreneurs, provide access to finance, and promote youth-led businesses will help ensure that Africa's burgeoning workforce benefits from the new trade landscape. The AfCFTA Protocol on Women and Youth, currently under negotiation, should play a key role in addressing these challenges and fostering inclusive growth across the continent.

## Key Lessons from AGOA

- **Limited Utilization Despite Market Access:** While AGOA provided substantial market access, many African countries did not fully utilize the opportunities. By 2019, only 13 of 39 eligible African countries were making full use of AGOA, with oil and raw materials comprising the bulk of exports. Ethiopia, one of the key beneficiaries, saw its eligibility revoked in 2022 due to concerns related to human rights violations in the Tigray conflict, underscoring the vulnerability of unilateral trade agreements.
- **Narrow Export Base and Limited Diversification:** Under AGOA, Africa's exports were dominated by raw materials and petroleum, with little diversification into value-added sectors. This limited AGOA's potential to drive sustainable development and industrial growth.
- **Success Dependent on Infrastructure and Regional Integration:** Countries that benefitted most from AGOA, such as Kenya and South Africa, had invested in strong regional infrastructure and developed industries capable of meeting international standards
- **Non-Tariff Barriers (NTBs) as Obstacles:** Many African exporters struggled to comply with U.S. regulatory requirements, particularly in sectors like agriculture, where sanitary and phytosanitary standards were stringent.
- **Private Sector and Institutional Support Gaps:** AGOA's impact was muted in part because African countries did not fully engage their private sectors in trade policy discussions, nor did they leverage institutional support such as chambers of commerce and industry associations effectively.

## Recommendations for Enhancing AfCFTA's Effectiveness

### 1. Strengthening Institutional Support: Role of Chambers of Commerce and Industry Associations

- Recommendation: National and regional chambers of commerce, industry associations, and trade bodies should be central players in AfCFTA's implementation. These organizations can provide critical support in capacity building, advocacy, and promoting intra-African trade among SMEs.
  - Action: Establish a formal mechanism within AfCFTA's secretariat to regularly engage these institutions in trade policy formulation and implementation. Regional chambers can act as focal points for disseminating information about AfCFTA's opportunities and facilitating cross-border trade partnerships.
  - Expected Outcome: Increased participation of SMEs in intra-African trade, fostering business-to-business linkages across the continent.



### 2. Leveraging Aid for Trade Initiatives

- Recommendation: Donor agencies and development partners should prioritize Aid for Trade initiatives that focus on building the capacity of African firms to engage in regional value chains and take advantage of AfCFTA's benefits.
  - Action: Governments should partner with multilateral organizations to expand training programs on export readiness, standards compliance, and logistics. This should be coupled with financial support to upgrade infrastructure, especially in underdeveloped regions.
- Expected Outcome: Enhanced capacity of African firms to export diversified products and integrate into regional value chains, ultimately leading to reduced reliance on raw materials and extractives.

### 3. Climate Change Adaptation through Trade

- Recommendation: AfCFTA should be leveraged as a tool for climate change adaptation by encouraging trade in environmentally sustainable goods and services, such as renewable energy technology, climate-smart agriculture products, and eco-friendly manufacturing processes.
  - Action: AfCFTA policies should include climate-resilient trade provisions. For example, developing a pan-African green certification for products could help African businesses access international markets while promoting sustainability. Support for climate financing should also be a priority, ensuring that businesses can innovate and adapt to the changing climate.
  - Expected Outcome: Increased trade in green products and services, promoting both economic resilience and environmental sustainability. AfCFTA could become a global leader in driving climate-smart trade practices, supporting Africa's adaptation to climate challenges.



### 4. Reducing Non-Tariff Barriers and Facilitating Trade

- Recommendation: Simplifying and harmonizing customs procedures across African borders is key to reducing the cost of trade and boosting intra-African exports.
  - Action: Implement digital platforms for customs documentation, harmonize sanitary and phytosanitary standards, and promote trade facilitation measures that reduce border delays. In collaboration with the African Union, governments should commit to a phased elimination of NTBs under the AfCFTA framework.
  - Expected Outcome: Increased intra-African trade by reducing trade costs and delays. According to the World Bank, eliminating NTBs could increase intra-African trade by up to 60%.

## 5. Fostering Private Sector Engagement

- Recommendation: The private sector must be actively involved in AfCFTA's governance and trade policy processes to ensure that the agreement addresses real market challenges.
  - Action: AfCFTA's secretariat should institutionalize private sector participation through public-private dialogue forums, ensuring that businesses, particularly SMEs, have a say in shaping trade policies and removing obstacles to market access.
  - Expected Outcome: Private sector-driven growth, with businesses better equipped to navigate and capitalize on AfCFTA opportunities, ultimately leading to a higher rate of SME participation in trade.



## 6. Empowering Women and Youth in Trade

- Recommendation: AfCFTA should include specific provisions to empower women and youth in trade, capitalizing on Africa's demographic dividend and ensuring that trade benefits are equitably distributed.
  - Action: Governments should develop gender-responsive trade policies, provide access to finance for women- and youth-owned enterprises, and establish mentorship and networking programs targeting these groups.
  - Expected Outcome: Greater inclusion of women and youth in cross-border trade, enhancing economic participation, and fostering innovation and entrepreneurship.

## **Building on AGOA for AfCFTA's Success**

AGOA's experience has shown that market access alone is insufficient to drive sustained economic growth. AfCFTA must focus on addressing the challenges of non-tariff barriers, infrastructure deficits, and language inclusivity, while ensuring robust private sector involvement and leveraging trade for climate adaptation. Importantly, it must also prioritize the inclusion of women, youth, and SMEs in its trade agenda.

By building on the lessons of AGOA, AfCFTA can unlock unprecedented economic opportunities and position Africa as a global economic powerhouse. Success will depend on addressing the structural challenges that have long hindered Africa's trade potential, while ensuring that growth is inclusive, diversified, and sustainable.





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