CUTS-ARC
Policy Briefs

कट्स CUTS
Consumer Unity
& Trust Society
AFRICA RESOURCE CENTRE

No.1/2001

US Politics and Free Trade: Trade Policy Options for Africa

On the heels of the Quebec Summit of the Americas and meeting of the Organisation of American States (OAS) to re-energise efforts to create the world's largest free trade area of the Americas (FTAA), America's trade focus has turned to Africa. May 23, 2001 marked the first anniversary of passage of the Africa Growth and Opportunity Act (AGOA). A number of receptions were held at the US Congress to celebrate the occasion, with several African ambassadors, American officials and business people attending in good numbers.

The AGOA itself is little more than a framework for shaping future US-Africa economic relations and serious implementation issues has already arisen. Even this fact did not slow down the public relations campaign from all quarters praising AGOA as the first step in the beginning of a new era.

In spite of the rash of AGOA seminars put on by US missions and private consultants around Africa and the announcement of the first high level US-Africa AGOA ministerial on October 3-4 2001, African policy makers must recognise that all is not well in the Bush Administration's world of global economic development through free trade.

In fact, careful analyses of other US bilateral free trade initiatives, US positions on WTO (World Trade Organisation) issues, and Republican and Democratic domestic political maneuvering on US trade policy offer insights into some of the dynamics African policy makers must contend with.

The following issues represent important policy and political contexts for African nations to consider, as they contemplate the role of trade and economic relations with America in relation to issues of peace, reconstruction, growth and development.

Policy Contexts

As African policy makers begin formulation of their national negotiation positions and hopefully regional consensus negotiation positions, they should include, in their analyses, the fact that America is in the middle of a policy debate process to re-create an American consensus on the principles and direction of US trade policy.

This debate is a product of the 1999 WTO Seattle ministerial meeting that moved the issues of international trade, labour and the environment into the public political domain.

US domestic policies on products such as steel, textiles and other processed agricultural goods that either subsidise or protect them from both real and alleged unfair trade practices and the volatility of global markets poke holes in the mantra that the US is the freest market in the world.

Some US officials even argue that US domestic subsidies and export supports in the area of agriculture, in response to even higher levels of subsidies and supports used by Europe, actually 'help' developing countries.

The Washington based think tank Economic Strategy Institute (ESI) also noted that a US government committee that reviews all potential foreign investments is considering blocking a foreign company from investing in a US company for "national security reasons".

African policy makers involved in trade negotiations and development assistance talks with multilateral institutions, know all too well that the existence of such a committee in their government would likely be considered "trade distorting" or a form of "crony capitalism".

Of course African policy makers know that America is not the only source of trouble for expanding global trade in ways that remove barriers to Africa's exports other then oil and minerals which have proven to be insufficient to support sustainable economic growth and socio-economic development.

It has been well documented that calls by the International Monetary Fund (IMF) and World Bank for all developed nations to remove their barriers to exports from least developed countries to support economic growth have repeatedly fallen on deaf ears in America, Japan, the European Union and Canada.

More recently, after pledging to launch a trade liberalisation programme for least developed countries entitled "Everything but arms" the EU had to backtrack on their initial pledge and impose exemptions on items of importance to developing countries because of political opposition by European special interest groups. African nations faced similar reactions from US special interests groups as AGOA was developed.

Given that interest groups in all countries that appear to share a fear of trade liberalisation when it comes to other, and especially, developing nations, it begs the question why do Africa's special interest groups, small businesses and domestic producers seem to have such little political voice in relation to exporters when it comes to liberalisation of their domestic markets?

Political Contexts

As noted above, the domestic consensus building policy discourse on US trade policy also has significant political dimension vis-à-vis Republican and Democrats. Now that trade issues are increasingly in the public domain, US politicians have more to gain and lose domestically from how US trade initiatives affect their local constituents.

One of the true ironies from this development is that US officials have claimed the mantra of "fair trade" that once was exclusively a part of the lexicon of developing countries. At the centre of the political debate between Republicans and Democrats are differences in certain principles that will shape US trade policy, and tactical issues related to political power relations between the Republican-controlled White House and House of Representatives and the Democrat-controlled Senate.

The debate between Republicans and Democrats on the principles of US trade policies primarily revolve around three issues:

- US import policies and unilateral trade measures;
- Trade Promotion Authority for President Bush; and
- Labour and environmental standards.

On May 7th, a bi-partisan coalition of 61 Senators sent a letter to President Bush indicating that US trade laws should not be put on the bargaining table in future trade liberalisation negotiations. The Senators stated that US trade laws such as the antidumping law, countervailing duty law, Section 201 and Section 301 are critical for supporting global "fair trade".

In addition, they noted that these "fair trade" laws are useful in liberalising global trade (removing other nations' trade barriers) while maintaining American popular support for trade liberalisation (by keeping US barriers in place to protect Americans from unfair traders that would take advantage of US liberalisation).

Most African LDCs are not significantly threatened by the above measures in ways that India, China, Brazil, South Africa and Malaysia are, (Americans are not afraid of increased imports of Africa's minerals, oil and primary products). However, African policy makers should note this position for at least two reasons:

- if they seek to compete in higher valued processed\ manufactured export markets in the future; and
- the apparent contradiction between this position and the principle that most successful trade negotiations hinge on the degree of willingness of two or more parties involved to put their trade policies on the table if all sides seek greater levels of overall trade liberalisation.

Not surprisingly, the above US trade laws are considered by many other nations as the greatest barriers to enhancing global free trade. These measures can be unilaterally applied against foreign exporters if their success at competing in the US market is determined to be based on unfair trade practices and/or causing injuring to an American industry.

The provisions of AGOA also permit such measures to be applied against African exporters. It would seem that such thinking reflects a belief by some US politicians that the

Lobbying: In whose interest?

The European sugar industry expressed deep concern on a proposal to allow duty-free access for sugar from the world's poorest countries. They protested by saying that European Union's Trade Commissioner Pascal Lamy's 'Everything But Arms' plan would trigger a flood of cheap imports and destroy the EU sugar industry. The EU proposal extends duty-free access to all products, except weapons, from 48 (now 49) least developed countries.

Following intense industry lobbying, the European Commission proposed that free sugar access be phased in between 2006-08, five years later than originally envisaged.

"It's of marginal help but we can't concede the principle of allowing in sugar without assessing the damaging implications for the EU and UK sugar industries," said Chris Carter, Director of Agriculture at British Sugar Plc. The jobs of some 500,000 people in the EU sugar industry, including 23,000 in Britain, would be at risk, he said.

On the other hand, EU consumers are losing out on up to $5.7bn because of a competition-stifling support regime for the sugar industry, according to an analysis of the EU's finance watchdog. The EU's sugar regime has been largely unchanged for more than 30 years. Through production-limiting quotas and the provision of guaranteed 'intervention' buying, it keeps prices higher than world levels.

Source: The Hindu Business Line, India, 18.01.01 and Financial Times, London, 02.10.00.

US based industries in textiles and apparel sector are facing increased global competitive challenges from emerging competitive industries based in developing countries. The policy arena has become a source of challenge and opportunity for these industries as the US Government places greater weight on multilateral approaches (the WTO) to "open foreign markets" to US trade and investment in sectors where US companies are globally competitive.

However, such approaches also require the US to reciprocate and provide 'liberalising' concessions in other areas by opening the US market to foreign competitors. To counter this potential adverse impact, American textiles and apparel firms have lobbied for trade policies to either protect them from 'unfair' foreign competition and/or create new opportunities in higher value segments of global industries.

AGOA offers US based manufacturing firms another global business strategy option to create a new source of competitive advantage. AGOA's "Buy American" provisions governing US-Africa trade in textiles and apparel, gives US firms an opportunity to recreate the "US Components and Materials in Foreign Assembly Operations" business model, which is extensively utilised under the North American Free Trade Agreement and the Caribbean Basin Initiative, in African nations.

The political settlement which resulted in the "Buy American" provisions in AGOA as a condition for 'opening' the US textile market to African produced textiles and apparel was a product of lobbying by those segments of US business community which see AGOA as another element for supporting US global competitiveness in textiles and apparel manufacturing.

Source: Mealy, Marc P., United States Economic Relation with Africa under the African Growth and Opportunity Act, ACAS (Association of Concerned African Scholars) Bulletin, No. 59, Winter 2000.

mantra of free trade has a caveat, "free trade for America". Such thinking would suggest that a higher priority is given to global trade displacement that is domestically politically palatable, increases US global competitiveness and market share, rather than global trade creation that benefits global growth and welfare.

African policy makers should seek clarity on whether under the guise of wanting "fair trade" is America pursuing a strategic trade expansion policy, or a global trade expansion policy?

The Bush Administration has stated that its top trade policy priority is to regain Trade Promotion Authority (fast track authority). It is well known that such an authority is critical for the US to effectively pursue its market access interests in more complex bilateral, regional (FTAA) and multilateral trade (WTO) arenas involving other developed and middle income countries.

Without such authority, many foreign competitor nations are not likely to risk putting all of their cards on the negotiating table with the Bush Administration only to have a potential deal reworked by the US Congress.

Will a TPA Hold Back Protectionism?

White House officials have been portraying their aggressive lobbying campaign for granting Trade Promotion Authority (TPA) to the US President. As economist Robert Litan put it, it is the centrepiece of a political and legislative battle whose outcome could determine whether the global economy would be 'slouching towards protectionism'.

According to the spin advanced by the Bush camp, denying the President with a new trade negotiating authority would erode the American leadership role in the post-Cold War world, and may even lead to the breakdown of the multilateral trading system.

"Through the vote on US Trade Promotion Authority, Americans will make a choice between two competing sets of ideas. Will we continue to help tear down the walls to economic and political freedom around the world? Or will we preserve the existing walls, erect new ones, and retreat as a nation?" said Robert Zoellick, US Trade Representative.

They are putting pressure on US lawmakers who will have to reach a compromise on a legislation that will satisfy the Democrats, most of whom want to include commitment to protection of workers' rights and environmental rules.

The middle ground could be attained in the form of a TPA that would urge the White House to press trade partners to protect labour and environmental standards, but would not force those commitments with sanctions.

"But TPA at what price?" asked Brink Lindsey, a trade analyst with the pro-free market Cato Institute. "By rewarding various interest groups, the Bush administration is taking steps to erect barriers to trade as part of a strategy to win TPA and it is sending the wrong message to its other trading partners. So, even if we get a TPA, it could end up being an agreement that no one wants to have," he added.

Source: The Hindu Business Line, India, 06.07.01.

In the absence of a deal between Republicans and Democrats, the Bush Administration has tactically decided to play politics with free trade by linking the bi-partisan supported US-Jordan Free Trade Area (FTA) and to a lesser extent the US-Vietnam FTA with their desire to obtain the trade promotion authority from the Congress.

Most Democrats insist that including labour and environmental standards and maintaining USA's import laws are pre-requisites for creating a national public consensus on trade liberalisation and to get their support for granting the Trade Promotion Authority to the President. Now that the Democrats have greater power in the Senate to force a Republican compromise, new initiatives are emerging.

African policy makers should explore whether this sentiment is also a motivation for AGOA, in relation to Africa's regional and continental integration efforts?

African Development and AGOA

Given these contexts, African policy makers must also be clear on the mode of thinking which forms the basis of AGOA. First, AGOA is a primary means to support a US policy objective of further integrating African nations into the global economy. The underlying premise is that Africa's poverty and marginalisation are the results of Africa being left out of globalisation.

As with most trade agreements between developed and developing nations where trade flows are relatively low, under AGOA the US agrees (with caveats) to lower tariffs on certain African commodity and manufactured exports. In return, eligible African nations must liberalise their trade and investment policy environments and maintain minimum labour standards.

A careful examination of the implications of AGOA reveals that it may have more of an impact on investment issues than actual trade flows.

This is important, because African policy makers must conceptualise the role of international trade and investment in relation to issues of peace, reconstruction, economic growth, and socio-economic development in the 21st century global economy. In the context of trade, two important issues are AGOA's impact on Africa's terms of trade and net resources for financing development.

On the international side, African societies need trade and capital flows to represent net resource transfers, if they are to be sources of finance for development. African policy makers know that debt service payments and other sources of resource outflows represent significant constraints on gross domestic capital formation and accumulation. This begs the question, will AGOA help reverse US-African trade, investment and other resource net outflows, so that US-Africa trade and investment relations serve as net resource transfers to African societies?

The point for African policy makers when considering AGOA's impact on net resource flows from liberalising trade and capital regimes, is that the current account cannot be in surplus and deficit at the same time. Hence total net resource flows, not simply individual net trade and/or net capital flows, should serve as one of several variables in a criteria for African policy makers to annually evaluate the impact of AGOA on domestic resources for development.

At the root of the criteria for conducting such an assessment is whether or not AGOA helps to improve Africa's terms of trade with US? The answer will likely depend upon the degree AGOA either stimulates increased African exports of goods and services suffering from declining terms of trade (primary commodities and low skilled manufactured goods) or increased African exports of higher valued products that don't suffer from declining terms of trade.

For those that want AGOA to help improve levels of domestic purchasing power, effective demand, and consumption by African peoples by increasing the domestic quantity and productivity of Africa's resources AGOA must be a catalyst for the later as opposed to former.

Many mistake higher levels of trade flows in both directions as necessary and sufficient for generating broad based benefits for both sides. However for increased trade to be a source of finance for development in Africa (increasing total domestic resources available for socio-economic development), the composition of the trade in addition to the quantity make up the necessary and sufficient conditions for trade expansion to support sustainable increases in standards of living and other socio-economic development indicators.

Those that remember Africa's historical difficulties in financially sustaining their import capacity due to the structural vulnerabilities of their economies and exports to external shocks and declining terms of trade, should explore whether AGOA helps to mitigate such factors today? After all, African societies cannot afford to pursue trade strategies to support development based on factors that may be inherently volatile or unsustainable.

As noted by Robert Zoellick, US Trade Representative, "AGOA opens the door for a larger economic strategy in Africa. Among the 'key elements' of such a strategy: Open markets for the US, building market infrastructure, secure property and legal rights, and increased local and foreign investment."

African policy makers must explore whether such property rights arrangements are consistent with the positions of the African Group in the WTO and the Organisation of African Unity on questions of patents on plants, animals, and medicines.

These issues are not only relevant to addressing the HIV-AIDS pandemic today. They will also have significant ramifications for how African societies will benefit from either the development or exploitation of Africa's vast traditional knowledge and the global economy's greatest source of biological resources.

It would seem that AGOA is expected to have more of a trade displacing versus trade expansion impact in America. African policy makers know that America's import quotas on textile and apparel products will be liberalised in 2005 under the WTO Agreement on Textiles and Clothing.

Hence, African policy makers should assess the strategic value and long term sustainability for African development of making concessions and investing resources in export strategies to take advantage of temporary relative advantages provided by AGOA. Ultimately, they will be forced to compete against super low cost producers (India and China) in the US market?

Conclusions

African policy makers must note that the Bush Administration appears to be struggling with the politics of these global trade policy challenges. It is not surprising that multilateral trade liberalisation in the WTO is stalled, bilateral and regional trade liberalisation has found a new life in America, and a new debate has been ignited on whether the latter is incompatible with the former.

From a development perspective, many economists acknowledge the enhanced volatility and perhaps un-sustainability of so many developing countries over-relying on the import demand growth of a few nations to sustain growth, yet alone generate adequate resources to support development via export-led growth models.

African policy makers must think strategically about this last point. After all, if sustainable national, regional and continental growth and development require greater African authority over the reproduction of labour, national resources, national markets, African sources of global competitive advantage, financial systems to channel accumulated capital to expand productive capacity and technology used to develop the factors of production, AGOA should support these processes.

In the upcoming AGOA Ministerial meeting (October 2001) the following questions should be addressed:

- will African policy makers pursue individual or Pan African interests at the AGOA ministerial?
- will differences between the US positions and positions of the African Group in the WTO on issues such as intellectual property rights be raised at the AGOA ministerial?
- how does AGOA impact regional and continental African integration initiatives including the united states of Africa?
- will US officials be willing to negotiate reductions in other tariff and non-tariff barriers to African exports? If so, will US officials in return seek additional African commitments to liberalise?
- will US officials deal with African policy makers differently then they did in the 1999 WTO Ministerial meeting?

The answers to these questions will go a long way in determining the qualitative nature of the desired 'improvements' being discussed by some members of the US Congress that want to create an AGOA-2.

To conclude, once we get beyond the public statements about AGOA and the wonders of free trade, the devil will be in the details. Put differently the impacts of AGOA on African societies will depend upon actual negotiations.

Everyone claims that AGOA is just a starting point for expanding US-Africa economic relations in mutually beneficial ways. African policy makers can accept that statement, but reserve their final judgement until the AGOA and WTO ministerial, which will take place in the last quarter of 2001.

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