

## ***The African Growth and Opportunity Act***

The House of Representatives passed the African Growth and Opportunity Act (H.R. 1432) in March, which was introduced to the Senate for consideration as S.778 in May. Congress has moved to define and create conditions for enlarging U.S.-Africa trade and investment relationships, which is an important step forward. However, the legislation, as passed by the House, contains several provisions that could jeopardize sustainable and equitable development in Africa.

African ambassadors in Washington and some African government leaders have publicly endorsed this legislation, but other important African voices at government and community levels have greeted the Bill with concern, raising important questions about its intent and potential impact. President Nelson Mandela of South Africa, at a joint press conference with President Clinton, suggested that he had "serious reservations" about the Bill and more forcefully stated, "to us it is not acceptable."

Critics point out that lowering trade barriers for African goods entering the U.S. will produce no benefit for most African states, which are not in a position to export significant quantities of goods to the U.S. They point to a serious flaw in the current trend toward replacing aid with trade, stressing that opening markets alone will not produce sustainable economic growth or equitable development. They raise concerns about special conditions African countries will have to meet to qualify for expanded relationships. They stress that the legislation fails to adequately address Africa's debt problems, poverty and overall economic and environmental crises. As this legislation is now seen by the Administration as providing the main framework for a new Africa policy, such exclusions are particularly worrisome.

### **Features of the Bill**

The African Growth and Opportunity Act encourages African countries to develop "market economies" that are open to foreign investment and trade. In order to be eligible to participate in the following programs in the Bill, African countries must demonstrate their movement towards market economies by adhering to International Monetary Fund (IMF) prescriptions and joining the World Trade Organization (WTO). Highlights of the Bill are below. The Africa Fund has summarized some of the pros and cons cited in this ongoing debate beginning on page 2.

*U.S.-Africa Free Trade Area* - directs the President to develop a plan for trade agreements by establishing a U.S.-Sub-Saharan Africa Free Trade Area.

*Trade Initiative* - Eliminates quotas on textiles from Kenya and Mauritius after their adoption of a visa system to guard against transshipment; continues the existing no quota policy through 2005; and authorizes the President to grant duty-free treatment for certain products from Africa not already covered under the Generalized System of Preferences tariffs program.

*US-Africa Economic Forum* - establishes a U.S.-Africa Economic Forum to facilitate annual high level discussions on bilateral and multilateral trade and investment policies and initiatives.

*Equity and Infrastructure Funds* - directs the Overseas Private Investment Corporation (OPIC) to create a \$150 million equity fund and a \$500 million infrastructure fund for Africa to encourage joint ventures between African and American companies.

*Export/Import Bank and OPIC Initiative* - requires that one member of the board of directors of the EX-IM Bank and OPIC have extensive private sector experience in Africa and that EX-IM Bank and OPIC establish private sector advisory committees and report to Congress in six months on recommendations to expand loans, guarantees and insurance.



**The Africa Fund • 50 Broad Street, Suite 711, New York, New York 10004**  
**Phone: (212) 785-1024 • Fax: (212) 785-1078 • E-Mail: [africafund@igc.org](mailto:africafund@igc.org)**  
**Website: <http://www.prairienet.org/acas/afund.html>**  
**Tilden LeMelle, Chair • Jennifer Davis, Executive Director**

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### Some Positive Aspects of the Bill

**•Seeks to create a coherent U.S. policy on Africa.** Without Cold war imperatives to focus their attention, U.S. policymakers have paid Africa little attention.

This new initiative seeks to address the need for a broad policy. Though cast in terms described as a "partnership," the terms have all been designed in Washington, and many Africans question how any benefits will be distributed.

**•Acknowledges the need for poverty reduction.** Section 2 acknowledges the need to "promote stable and sustainable economic growth and development in Sub-Saharan Africa" which includes "focusing on countries committed to accountable government, economic reform, and the eradication of poverty."

Further, it recognizes the importance of the provision of basic health and education for poor citizens, increased market and credit facilities for small farmers and producers and improved economic opportunities for women as entrepreneurs and employees.

**•Supports regional integration.** The Bill supports regional economic integration efforts in Africa, an important step in creating larger and more viable regional markets on the continent.

**•Encourages more American-African trade and investment linkages.** The Bill attempts to encourage more American-African trade and investment linkages by creating equity funds for use by American businesses willing to invest in Africa and formalizing meetings between African and American government officials through the creation of the United States-Sub-Saharan Africa Trade and Economic Cooperation Forum.

This diversification of trade and investment linkages for both the United States and Africa is a potentially useful step for enhancing economic growth in both regions.

### Some Serious Problems with the Bill

**•Only involves a small number of countries.** The Bill offers an incentive to encourage African trade with the U.S. by giving the President authority to provide duty-free treatment for some African products under the Generalized System of Preferences (GSP) program, subject to "import sensitivity analysis" by the International Trade Commission.

Potential trade concessions are in actuality quite minor because most African countries do not presently have the capacity to export products and to take advantage of the GSP Program of tariff reduction. It remains to be seen whether the equity funds that may be created through this Bill will encourage the formation of such a capacity.

Another concern lies in the focus on exporting outside the continent. By encouraging those countries with some export capacity to trade with the U.S., this may generate regional competition to export a few, largely agricultural commodities rather than encourage regional diversification. This initiative potentially threatens regional trade initiatives.

**•Backs Structural Adjustment Programs that deepen poverty.** The Bill imposes stringent criteria for participation, some of which contradict the aim of alleviating poverty.

For example, the Bill requires adherence to International Monetary Fund (IMF) Structural Adjustment Programs (SAPs), which many critics believe have been responsible for major cutbacks in the provision of health and education to the poorest citizens.

Citing the example of introducing user fees for health care, James Wolfensohn, current President of the World Bank, recently admitted in his November 5, 1997 discussion with Cardinal Roger Mahoney, Archbishop of Los Angeles, that "some SAPs have hurt the poor."

Widespread criticism coming from religious, community and other

organizations, has led the World Bank itself to engage in a joint two-year study on the impact of these programs on four African countries.

In fact, SAPs have transferred the cost of adjusting the economy to the poorest - particularly women and children - and need to be rethought. This has been well documented by the United Nations Economic Commission for Africa (ECA). In its 1989 report, the ECA warned that "there is mounting evidence that stabilization and structural adjustment programs are rending the fabric of African society. Worse still, their severest impact is on the vulnerable groups in the society - children, women and the aged - who constitute two-thirds of the population."

**•Makes no firm commitment on debt reduction.** The Bill acknowledges that crippling debt is a serious hindrance to economic growth on the continent and recommends in non-binding language support for the Heavily Indebted Poor Countries Initiative (HIPC) of the IMF/World Bank as it currently stands, with extremely harsh conditions.

Even the few heavily indebted countries considered for debt relief will have to continue to commit to structural adjustment for three years before they will be considered for assistance in the HIPC Initiative. The cost of this wait in terms of lives lost to preventable diseases and children's missed education is immense.

For example, the debt service payments for Uganda in 1996 amounted to \$184 million - more than one third of government revenue. This sum represents twelve times as much per person spent on primary health, and nine times as much spent on primary and secondary education.

In the February 21, 1998 *Economist*, Gordon Brown, Britain's Chancellor of the Exchequer, made a striking plea for more flexibility in implementing the HIPC Initiative. He cited Mozambique, which recently negotiated a HIPC agreement, as a test case of the

international community's commitment to debt relief. While it is a country that has struggled to reform, it has been spending twice as much on servicing its debt as on basic services, while only managing to service one third of its obligations.

There is a growing international understanding that effective Africa policy will require complementary initiatives to reduce Africa's debt, which currently exceeds \$314 billion. Yet the Bill hardly deals with this situation. This is true even though efforts to promote private investment cannot be successful within the context of this persisting debt crisis.

The United States at present continues to use its influence to delay implementation of debt reduction under the HIPC Initiative. This initiative, while a move in the right direction, still fails to address the debt problem of the majority of African countries.

**•Ignores an unequal playing ground, especially in agriculture.** While free trade may be a good way of promoting growth, achieving greater equity requires a relatively level playing ground. As the Bill admits in Section 8, there is a "lack of competitiveness of sub-Saharan Africa in the global market, especially in the manufacturing sector." The playing ground between the United States and Africa is grossly unequal.

Nowhere is this problem more important than in the realm of agriculture. Many of the large-scale, transnational agribusinesses that will compete with African farmers get subsidies from their home country governments. Contrast this to the average African farmer, who is most likely to be a woman and who receives no subsidy.

The Kenya National Farmers Union (KNUT) recently released its analysis *Trade Liberalization on Agriculture and Food Security*, in which Kenya's shortage of some commodities, dependence on imports and relief food were linked to agricultural liberalization. "Whereas trade liberalization has led to an increase in prices of tea, coffee and horticultural produce, this has only

*The vague language in the Bill does not yet suggest that the U.S. is serious in its commitment to debt reduction.*

benefitted the large scale farmers and transnational companies who participate in international trade," said KNUT representative Thomas Barasa.

**•Provides no mechanism for ensuring adequate labor and environmental standards are maintained.** Adherence to acceptable environmental and labor standards are not part of the eligibility requirements for African countries to participate in this initiative.

As the AFL-CIO has pointed out, this Bill misses an opportunity to apply pressure to improve these standards in Africa. Whether African partner countries are deemed to uphold acceptable labor and environmental standards is arbitrarily decided by the President.

In addition, the Bill relies on the World Trade Organization as the dispute resolution mechanism for trade conflicts, including concerns relating to environmental or labor standards of foreign companies. To date, the WTO's rulings in disputes brought before it are based on narrow trade concerns excluding environmental and labor considerations.

Thus, the WTO is a wholly unacceptable forum for mediating trade disputes that necessarily bring in wider and important considerations.

In brief, there are mixed views concerning what is to be done about the African Growth and Opportunity Act.

At one end of the spectrum are the views of some of the original sponsors of the Bill, such as Representative Charles Rangel, that the legislation draws attention to Africa and could potentially encourage more badly needed foreign direct investment on the continent. At the other end are the views of activists such as Randall Robinson of TransAfrica, who has argued that "a bad bill on Africa is worse than no bill at all" and that amendments are necessary.

Possible amendments to the African Growth and Opportunity Act can be made in *Section 4: Eligibility Requirements* and *Sections 10 (a) and 10 (b): Debt Relief*: the elimination of eligibility requirements in Section 4 that are considered infringements on African sovereignty, such as compliance with IMF structural adjustment programs; the addition in Section 4 of enforceable provisions guaranteeing worker's rights, human rights, food security and environmental protection; and the addition of binding language in Sections 10 (a) and 10 (b) that commits the U.S. to debt relief.

**Sponsors of the Bill (House):** Congressmen Phil Crane, Jim McDermott and Charles Rangel.  
**Sponsors of the Bill (Senate):** Senators Spencer Abraham, Thad Cochran, Patrick J. Leahy, Joseph Lieberman and Richard G. Lugar.

*Prepared by Jackie Klopp, Program Associate, and Susie Johnson, Director of Programs. Edited and produced by Aisha Satterwhite, Director of Publications. Founded in 1966 by The American Committee on Africa, The Africa Fund works for a positive U.S. policy toward Africa and supports African human rights, democracy and development.*

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